FORM 8-K

Current report filing

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FILER

SPARTA FOODS INC

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SIC: **2090** Miscellaneous food preparations & kindred products

Mailing Address
1565 FIRST AVENUE N.W.
NEW BRIGHTON MN 55112

Business Address
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ST PAUL MN 55108
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): October 13, 1999

Sparta Foods, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Minnesota
(State or Other Jurisdiction of Incorporation)

000-19318	41-1618240
(Commission File Number)	(I.R.S. Employer Identification Number)

1565 First Avenue N.W.
New Brighton, Minnesota 55112
(Address of Principal Executive Offices) (Zip Code)

(651) 697-5500
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Item 2. Acquisition or Disposition of Assets.

On October 13, 1999, Sparta Foods, Inc. (the "Registrant") acquired all

the assets and assumed certain liabilities of Food Products Corporation including a facilities lease and approximately $900,000 of debt which the Registrant paid off on the date of closing. The purchase price consisted of $5.9 million in cash, subject to post-closing adjustments, and a $3 million five-year subordinated promissory note bearing interest at 8% per annum. The Registrant funded the cash portion of the purchase price through internally generated cash and bank financing from Norwest Bank Minnesota, National Association. The bank financing consisted of a $3.3 million five-year term loan bearing interest at prime plus 0.25% and a $2 million draw on a $3 million revolving line of credit bearing interest at prime. Both the term note and the line of credit are secured by all of the Registrant's assets. The bank financing replaced the Registrant's then existing line of credit and $1 million term loan.

The facilities lease is for approximately 57,000 square feet of office/manufacturing space in Phoenix, Arizona. The lease expires on October 31, 2004, but the Registrant has an option to extend the lease through October 31, 2009. The lease calls for annual rental payments of $209,400 subject to increase based on the Consumer Price Index.

The acquired assets were used by Food Products Corporation to manufacture and distribute tortillas, tortilla chips and other snack products in Arizona, California, Nevada, New Mexico, Colorado, Utah and Texas principally under the Arizona Brand(R) and Spanish Bell(R) labels. The Registrant intends to continue such use.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired:

It is impracticable to provide, at the time this Report is being filed, the required financial statements for the business acquired. Such financial statements will be filed by amendment to this Report within 60 days of the due date of this Report.

(b) Pro Forma Financial Information:

It is impracticable to provide, at the time this Report is being filed, the required pro forma financial information of the business acquired. Such pro forma financial information will be filed by amendment to this Report within 60 days of the due date of this Report.

(c) Exhibits:

2.1 Asset Purchase Agreement dated as of September 27, 1999, by and among Sparta Foods, Inc., Food Products Corporation, Donald R. Charles, David J. Brennan, Kenneth E. Charbonneau and Michael J. DePinto.

Pursuant to Item 601(b)(2) of Regulation S-K, and subject to claims of confidentiality pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, upon the request of the Commission the Registrant undertakes to furnish supplementally to the Commission a copy of any schedule or exhibit to the Asset Purchase Agreement described as follows:

Exhibit 1.1(a)	Equipment
Exhibit 1.1(b)	Assumed Names
Exhibit 1.1(b)(ii)	Trademarks
Exhibit 1.1(b)(iii)	Technology
Exhibit 1.1(c)	Accounts Receivable
Exhibit 1.1(f)	Premises Lease
Exhibit 1.1(h)	Personal Property Leases
Exhibit 1.1(i)	Contracts
Exhibit 1.3(c)	Miscellaneous Personal Property
Exhibit 1.4(a)(i)	Inventory-Related Accounts Payable
Exhibit 1.4(a)(iii)	Capital Leases with Bank of the West
Exhibit 3.1(a)(i)	Earnest Money Escrow Agreement
Exhibit 3.1(b)	Post Closing Escrow Agreement
Exhibit 3.1(c)	Promissory Note
Exhibit 3.3	Allocation of Purchase Price
Exhibit 4.5	Subsidiaries
Exhibit 4.6(a)	Financial Statements
Exhibit 4.7(a)	Tax Reports and Returns
Exhibit 4.7(b)	Tax Payments
Exhibit 4.8	Title to Assets
Exhibit 4.9	Location of Assets
Exhibit 4.10	Tangible Personal Property
Exhibit 4.11	Trademarks
Exhibit 4.12	Technology
Exhibit 4.15	Licenses and Permits
Exhibit 4.19(d)	Employee Plans
Exhibit 4.19(e)	Employee Benefits
Exhibit 4.19(f)	Breach
Exhibit 4.20	Contracts with Related Parties
Exhibit 4.21(a)	Employee List
Exhibit 4.21(d)	Compliance with Employment Laws
Exhibit 4.22	Predominant Customers
Exhibit 4.23	Change in Customers
Exhibit 4.24	Product Liability Claims
Exhibit 4.25	Insurance
Exhibit 4.26(a)	Threatened Litigation
Exhibit 4.26(b)	Product Liability Actions
Exhibit 6.6	Litigation
Exhibit 6.8	Tax Reports, Returns and Payment
Exhibit 7.2	Restrictions

Exhibit 8.1(j)	Employment Contracts
Exhibit 8.1(m)	Non-Compete Agreements

10.1 Secured Subordinated Promissory Note dated October 13, 1999, by and between the Registrant and Food Products Corporation.

10.2 Assignment of Lease dated October 13, 1999, by and between the Registrant and Food Products Corporation and related Lease Agreement.

10.3 Term Loan and Credit Agreement dated October 13, 1999, by and between Sparta Foods, Inc. and Norwest Bank Minnesota, National Association.

10.4 Term Note dated October 13, 1999, issued by Sparta Foods, Inc. to Norwest Bank Minnesota, National Association.

10.5 Security Agreement dated October 13, 1999, by and between Sparta Foods, Inc. and Norwest Bank Minnesota, National Association.

20.1 Press Release dated September 28, 1999.

20.2 Press Release dated October 13, 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SPARTA FOODS, INC.

Date: October 26, 1999

By /s/ A. Merrill Ayers
A. Merrill Ayers, Chief Financial Officer

EXHIBIT INDEX

to

Exhibit Number	Exhibit Description
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20.1	Press Release dated September 28, 1999.
20.2	Press Release dated October 13, 1999.

Exhibit 2.1

ASSET PURCHASE AGREEMENT

DATE: September 27, 1999

PARTIES: Sparta Foods, Inc.
1565 First Avenue N.W.
New Brighton, MN 55112
("Buyer")

Food Products Corporation
d/b/a Arizona Brand
3121 East Washington Street
Phoenix, AZ 85034
("Seller")

Donald R. Charles
David J. Brennan
Kenneth E. Charbonneau
Michael J. DePinto
(collectively, "Seller's Shareholders")

RECITALS:

A. Seller has been engaged in the business of manufacturing, packaging and selling tortillas, tortilla chips and related snack products under the tradenames Arizona Brand, Spanish Bell, Blue Heaven, LaLa, and Wolds Popcorn (the "Business").

B. Seller leases certain real estate from which it conducts the Business (the "Premises").

C. Seller's Shareholders own one hundred percent (100%) of all issued and outstanding stock of the Seller.

D. The parties mutually desire that Seller shall sell to Buyer substantially all of the assets which Seller uses in the Business upon the terms and subject to the conditions set forth in this Agreement.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

ARTICLE 1.

PURCHASE OF ASSETS; ASSUMPTION OF CERTAIN LIABILITIES

1.1) Assets Purchased from Seller. Subject to the terms and conditions hereof, Seller agrees on the Closing Date to assign, sell, transfer, convey, and deliver to Buyer, and Buyer agrees on the Closing Date to purchase from Seller, all of the assets and personal property of Seller (excepting only the assets specifically identified as "Excluded Assets" in Section 1.2 herein) related to or used in the operation of the Business, wherever the same may be located (collectively referred to as the "Purchased Assets"), including, without limitation, the following:

(a) All furniture, equipment, machinery, tooling, trade fixtures and leasehold improvements reflected on Seller's books and records for the Business, including those items described in Exhibit 1.1(a) hereto ("Equipment");

(b) All intangible personal property, business records, customer lists and goodwill (together with all documents, records, files, computer tapes or discs, or other media on or in which the same may be evidenced or documented) ("Intangible Property"), including the following:

(i) The assumed name "Arizona Brand" and all other assumed names under which it conducts the Business, as identified on Exhibit 1.1 (b)(i) hereto;

(ii) All tradenames, trademarks or service mark registrations and applications, common law trademarks, copyrights and copyright registrations and applications as identified on Exhibit 1.1(b)(ii) hereto and all goodwill associated therewith ("Trademarks");

(iii) All technology, know-how, trade secrets, manufacturing processes, recipes, formulae, drawings, designs and computer programs related to or used or useful in the Business, and all documentary evidence thereof, including without limitation those items listed on Exhibit 1.1(b)(iii) hereto ("Technology");

(c) All accounts receivable as of the Closing Date including, without limitation, the accounts set forth on Exhibit 1.1(c) hereto ("Accounts Receivable");

(d) All inventory, including raw materials, supplies, work in process and finished inventory as of the Closing Date ("Inventory");

(e) All transferable licenses and permits including the transferable licenses and permits listed on Exhibit 4.15;

(f) All of Seller's contract rights and benefits under its lease of the Premises ("Premises Lease") as more particularly identified in Exhibit 1.1(f) hereto;

(g) All rent deposits for the Premises;

(h) All of Seller's contract rights and benefits under all of its personal property leases for tangible personal property used in the Business, including those leases identified in Exhibit 1.1(h) hereto, subject to the terms and conditions thereof ("Personal Property Leases"); and

(i) All other contract rights related to or useful in the Business, including the contract rights set forth in Exhibit 1.1(i), hereto ("Contracts").

1.2) "Purchased Assets" Defined. The term "Purchased Assets" as used throughout this Agreement shall mean all assets described in Section 1.1 above.

1.3) Excluded Assets. Notwithstanding anything herein to the contrary, Buyer does not purchase, and Seller does not sell, any of the following assets ("Excluded Assets"):

(a) All cash or cash equivalents on hand or on deposit at any bank as of the Closing Date; and

(b) Seller's corporate minute book and corporate records, including Seller's accounting records and tax files (provided that Seller will provide copies thereof to Buyer upon request by Buyer for reasonable business purposes).

(c) Miscellaneous personal property not material to the Business and listed on Exhibit 1.3(c) hereto.

1.4) Assumed Liabilities; Excluded Liabilities.

(a) Assumed Liabilities. Subject to the terms and conditions set forth herein, Buyer agrees that, at the Closing, it will assume and thereafter pay, perform or discharge, as the case may be, only the following obligations and liabilities (and no other obligations or liabilities) (the "Assumed Liabilities"):

(i) Seller's inventory-related accounts payable identified in Exhibit 1.4(a)(i) hereto which accounts payable shall include transportation charges for transport of raw materials and inventory to Seller's factory and for the transport of finished inventory from Seller's factory to

Seller's customers, limited to the extent that the invoices for the transported goods have not been collected by Seller from its customers by the Closing Date ("Accounts Payable");

(ii) Indebtedness to First Capital Bank of Arizona pursuant to the promissory note in the principal amount of $300,000 dated July 7, 1999 ("Indebtedness");

(iii) Amounts owed under the capital leases with Bank of the West identified in Exhibit 1.4(a)(iii) hereto (the "Capital Lease Obligations"); and

(iv) Amounts owed under the Personal Property Leases identified in Exhibit 1.1(h) hereto.

(b) Excluded Liabilities. Except for the Assumed Liabilities, Buyer shall not assume any liabilities, obligations or undertakings of Seller of any kind or nature whatsoever, whether fixed or contingent, known or unknown, determined or determinable, due or not yet due, now existing or hereafter arising. Without limiting the generality of the foregoing sentence, and except only for such matters as are encompassed within the Assumed Liabilities, Buyer specifically disclaims assumption of: (a) any liabilities or obligations with respect to negligence, strict liability, product liability, or breach of warranty claims asserted with regard to products sold prior to the Closing Date; (b) any liabilities and obligations growing out of or relating to relationships and dealings with manufacturer's representatives, distributors, licensees, competitors, customers, suppliers, employees, or any other action or inaction of Seller or its predecessors in interest; or (c) any liability for sales or use taxes arising out of sale of any of the Purchased Assets under this Agreement.

1.5) Sales and Use Tax. Seller and Seller's Shareholder shall be responsible for payment of any sales or use tax assessable with respect to the transactions herein.

ARTICLE 2.

PURCHASE PRICE

2.1) Purchase Price. The purchase price for the Purchased Assets ("Purchase Price") shall be $8,900,000 plus assumption of the Assumed Liabilities.

2.2) Post Closing Adjustments. The Purchase Price assumes that as of the Closing Date Accounts Receivable range from $1,025,000 to $1,075,000,

Inventory ranges from $350,000 to $400,000, and Accounts Payable are no greater than $250,000, as computed in accordance with generally accepted accounting principles and procedures (consistently applied with respect to the Business). Promptly following the Closing Date, the actual amounts of Accounts Receivable, Inventory and Accounts Payable shall be computed by Buyer's accountants in consultation with Seller's accountants. Thereafter, Seller and Buyer shall account to each other on the Post Closing Adjustment Date for amounts that fall outside of the ranges or exceed the ceiling as provided in Section 3.2.

ARTICLE 3.

PAYMENT OF PURCHASE PRICE

3.1) Payment of Purchase Price. The Purchase Price shall be paid as follows:

(a) Cash Payment. Buyer shall deliver the total cash sum of $5,650,000 as follows:

(i) Buyer shall wire to Resource Trust Bank ("Escrow Agent") the sum of $25,000 contemporaneously with the

execution hereof as earnest money (the "Earnest Money") to be held in escrow pursuant to the escrow agreement attached hereto as Exhibit 3.1(a)(i). Such sum shall only be released to Seller (i) at Closing, in which case the Earnest Money shall be credited toward the total Purchase Price and immediately wired to Seller; or (ii) in accordance with Section 8.5.

(ii) At the Closing Buyer shall wire to Seller $5,625,000.

(b) Payment into Escrow. At the Closing, Buyer shall wire $250,000 to Escrow Agent, to be held in escrow (the "Escrow Account") pursuant to an escrow agreement in the form attached hereto as Exhibit 3.1(b) (the "Escrow Agreement").

(c) Promissory Note. Buyer shall deliver to Seller at the Closing a promissory note duly executed by Buyer ("Note") in the form attached hereto as Exhibit 3.1(c), payable to Seller in the principal amount of $3,000,000, bearing interest at 8% with principal and interest payments amortized over five years and payable quarterly. Buyer shall grant Seller a security interest in the Purchased Assets to secure payment under the Note and shall execute at Closing a UCC-1 financing statement with respect to such security interest.

3.2) Post Closing Adjustment Date. The Post Closing Adjustment Date

shall be ninety (90) days following the Closing Date. On the Post Closing Adjustment Date, Buyer shall deliver a closing statement setting forth the actual amount of Accounts Receivable, Inventory and Accounts Payable as of the Closing Date as computed by Buyer's accountants pursuant to Section 2.2 and agreed to by Seller's accountants (each, a "Closing Amount"). Buyer shall be entitled to the dollar amount, if any, by which the Closing Amount of Inventory is less than $350,000, the Closing Amount of Accounts Receivable is less than $1,025,000 and the Closing Amount of Accounts Payable is greater than $250,000 plus expenses, if any, owed to Buyer by Seller pursuant to Section 9.5. Seller shall be entitled to the dollar amount, if any, by which the Closing Amount of Inventory is greater than $400,000 and the Closing Amount of Accounts Receivable is greater than $1,075,000 plus expenses, if any, owed to Seller by Buyer pursuant to Section 9.5. Such amounts, if any, owed to Buyer and Seller shall be netted, and the net amount shall be paid to the appropriate party. Any such payment to Buyer shall be paid by the Escrow Agent from the Escrow Account, and, if such net amount exceeds the balance of the Escrow Account, the remainder shall be paid by Seller in cash on the Post Closing Adjustment Date. Any such payment to Seller shall be paid by Buyer in cash on the Post Closing Adjustment Date. The balance, if any, of the Escrow Account shall be wired to Seller on the Post Closing Adjustment Date; provided, however, if Buyer has made a claim under the Escrow Agreement which has not been paid or resolved by such date, the amount of such claim shall be retained in the Escrow Account to be distributed according to the terms of the Escrow Agreement when the claim is resolved.

3.3) Allocation of Purchase Price. The Purchase Price is hereby allocated among the Purchased Assets as set forth in Exhibit 3.3. The parties agree to report this transaction for federal tax purposes in accordance with the allocations set forth in Exhibit 3.3.

ARTICLE 4.

REPRESENTATIONS AND WARRANTIES OF SELLER'S SHAREHOLDERS AND SELLER

Each of Seller's Shareholders and Seller, jointly and severally, make the following representations and warranties to Buyer with the intention that Buyer may rely upon the same and acknowledge that the same shall be true as of the Closing Date (as if made at the Closing) and shall survive the Closing of this transaction.

4.1) Organization. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Arizona, has all requisite power and authority, corporate and otherwise, to own its properties and assets and conduct.

4.2) Qualification. Seller is qualified to do business and in good standing as a foreign corporation in all states in which qualification is required by the nature of the Business.

4.3) Corporate Authority. Seller has all requisite power and authority to execute, perform and carry out the provisions of this Agreement. Seller has taken all requisite corporate action authorizing and empowering Seller to enter into this Agreement and to consummate the transactions contemplated herein.

4.4) Title to Shares of Stock of Seller. Seller's Shareholders own one hundred percent (100%) of all classes of all stock of Seller which is issued and outstanding, free and clear from all liens, claims and third party interests whatsoever. Seller's Shareholders have all requisite power and authority (without consent or approval of any other person) to enter into and carry out their obligations under this Agreement and to cause Seller to enter into and carry out its obligations under this Agreement.

4.5) Subsidiaries, Joint Ventures or Partnerships. Except as disclosed in Exhibit 4.5 hereto, Seller does not have any subsidiary, and Seller is not a shareholder, partner or joint venturer with any other person or legal entity. Any subsidiary disclosed in Exhibit 4.5 is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation as set forth in Exhibit 4.5.

4.6) Financial Statements.

(a) Financial Statements. Seller has furnished Buyer a true and complete copy of its balance sheets and statements of income for its fiscal year ended December 31, 1998, (copies of which are attached hereto as Exhibit 4.6(a)) and has furnished updates thereof as of and for the period ending July 17, 1999 (collectively the "Financial Statements"). Except as disclosed in Exhibit 4.6(a), the Financial Statements have been, and any financial statements delivered to Buyer for subsequent periods will be, prepared in conformance with generally accepted accounting principles and procedures applied on a basis consistent with prior periods, and fairly present and will fairly present in all material respects the financial condition of Seller as of the represented dates thereof and the results of Seller's operations for the periods covered thereby. For purposes of this Agreement, the Financial Statements shall be deemed to include any notes thereto.

(b) Accounting Practices and Completeness of Accounting Records. Seller has used no improper accounting practices which incorrectly reflect on Seller's financial statements or in Seller's books of account, or which do not reflect on the Financial Statements, any of Seller's properties, assets, liabilities, revenues, or expenses; and the books of account of Seller have been maintained and prepared in accordance with generally accepted accounting principles and the normal practices of Seller consistently applied except as disclosed in the Financial Statements or Seller's financial statements for prior years.

(c) No Adverse Changes. Since July 17, 1999, there has not occurred or arisen (whether or not in the ordinary course of business): (i) any material adverse change in the financial condition, prospects, or operations of the Business, (ii) any change in Seller's accounting methods or practices, (iii) any sale or transfer of any asset or any amendment of any agreement of Seller except in the ordinary course of business, (iv) any loss of or damage to the Purchased Assets due to abuse, misuse, fire or other casualty, (v) any labor trouble, (vi) any reasonably foreseeable increase in operating costs of the Business not commensurate with increased production, (vii) any warranty or product liability claims or losses, or (viii) any other event or condition known or suspected by Seller or any of Seller's Shareholders to have occurred or to exist which, singly or in the aggregate, materially and adversely affect or may affect the Purchased Assets or the Business.

4.7) Tax Reports, Returns and Payment.

(a) Tax Reports and Returns. Except as disclosed in Exhibit 4.7(a), Seller has timely filed all federal and applicable state, local, and foreign tax or assessment reports and returns of every kind required to be filed by Seller with relation to the Business, including, without limitation, income tax, sales and use tax, real estate tax, personal property tax and unemployment tax, and has duly paid all taxes and other charges (including interest and penalties) due to or claimed to be due by any taxing authorities. True and correct copies of the reports and returns filed by Seller during the last three tax years have been made available to Buyer. Where required, timely estimated payments or installment payments of tax liabilities have been made to all governmental agencies in amounts sufficient to avoid underpayment penalties or late payment penalties applicable thereto. From the date of inception of Seller to the Closing Date, such income tax returns have not been subjected to any examination or audit by governmental authorities except as disclosed on Exhibit 4.7(a) hereto.

(b) Tax Payments. Except as disclosed in Exhibit 4.7(b), the provisions for taxes shown in the Financial Statements are and will be adequate to cover the aggregate liability of Seller as of the Closing Date for all taxes, duties and charges based on the income, purchases, sales, business, real estate ownership, capital stock or surplus, or assets of Seller; and Seller has incurred or will incur no liability for any income taxes, with relation to the Business, for the period from July 17, 1999, through the Closing Date except those which arise in the ordinary course of the Business. No unexpired waivers executed by or with respect to the liability of Seller of the statute of limitations with respect to any taxes, duties or charges are in effect,

nor has Seller otherwise agreed to any extension of time with respect

to an assessment of deficiency with respect to such taxes, duties or charges. Seller is not a party to any pending action or proceeding by any governmental agency for assessment or collection of taxes relating to the Business, and no claim, proposed assessment or assessment for collection of taxes relating to the Business have been asserted or, to the knowledge of Seller and Seller's Shareholders, threatened. Seller confirms Seller's responsibility for, and agreement to pay when due, any and all taxes, duties or charges based on the Purchased Assets, Seller's income or sales, or otherwise, incurred or accrued on or prior to the Closing.

4.8) Title to Assets. The Purchased Assets constitute all property necessary for the conduct of the Business as now conducted. Seller is the owner of the assets described in Section 1.1. Seller holds title to such assets free and clear of all liens, charges, encumbrances or third party claims or interests of any kind whatsoever, except as disclosed in Exhibit 4.8 hereto. No repairs or improvements on any real estate owned or leased by Seller are presently in process, and no such repairs or improvements have been completed less than thirty (30) days prior to the Closing Date unless payment in full therefor has been made. All lienable utility payments on any real estate owned or leased by Seller have been and will be paid in full when due and payable.

4.9) Location of Assets. All Purchased Assets are located on the Premises of Seller, and no Purchased Assets are under consignment or are in storage outside of the Premises of Seller except as disclosed in Exhibit 4.9 hereto.

4.10) Tangible Personal Property. All assets described in Section 1.1(a) are in good repair and operating condition (except as stated in Exhibit 4.10 hereto) and will be maintained in good repair and operating condition, ordinary wear and tear excepted, from the date hereof until the Closing Date. Seller hereby assigns to Buyer as of the Closing Date any and all warranties covering such property existing as of the Closing Date.

4.11) Trademarks. Except as disclosed in Exhibit 4.11 hereto, Seller has good title to, and the full and unrestricted right to use, the assumed names and the Trademarks listed on Exhibits 1.1(b)(i) and 1.1(b)(ii), free and clear of all liens, charges, encumbrances, or third party claims or interests of any kind whatsoever. Except as disclosed in Exhibit 4.11 hereto, the use of such Trademarks does not infringe on any rights of any other person or entity; such Trademarks are not licensed to or licensed from any other person or entity; and there have been no claims of any infringement regarding such Trademarks or Seller's use thereof.

4.12) Technology. Section 1.1(b)(iii) and the exhibits therein referenced contain a true and complete description of all of the Technology related to or used or useful in connection with the Business. The Seller has good title thereto, and the full and unrestricted right to use the same. Such rights are free and clear of all liens, charges, encumbrances or third party claims or interests of any kind whatsoever. To the knowledge of Seller and Seller's Shareholders, the nature of the practice of the Technology do not

infringe on any rights of any other person or entity, and there have been no claims by any person of such infringement. None of such rights is licensed to or licensed from any other person or entity except as disclosed in Exhibit 4.12 hereto. None of Seller's Shareholders own or have any rights as an individual in or to any patents, inventions, ideas or technology, which relate materially to the Business.

4.13) Accounts Receivables. All accounts receivable of Seller have been collected or are substantially current and will be collected within 90 days after the Closing Date at the aggregate face amounts of such receivables recorded on Seller's books. All such accounts, notes or other receivables are valid, legal, and binding obligations owing to Seller, enforceable against the parties to be charged, and, in the case of any note, in accordance with its terms, not subject to any defenses or set-offs.

4.14) Inventory. The Inventory described in Exhibit 1.1(d) represents the normal supplies and stock in trade of Seller on hand as of the close of business on the Closing Date. The Inventory is and will be fresh, good, merchantable and saleable in the ordinary course of business and is and will be of a quality, quantity and mix consistent with Seller's past business practices and the demands of its customers.

4.15) Licenses and Permits. To the knowledge of Seller and Seller's Shareholders, Seller possesses all necessary permits, licenses and approvals ("Licenses and Permits'), governmental or otherwise, without which it could not conduct the Business in its present form and at its present location all of which are listed on Exhibit 4.15. To the knowledge of Seller and Seller's Shareholders, all of the Licenses and Permits are valid and in good standing and Seller has not received any notice that the Licenses and Permits will lapse or be terminated by action of any governmental authority or otherwise. Except as disclosed in Exhibit 4.15, all of the Licenses and Permits are freely assignable and transferable to Buyer at the Closing and will continue to be in full force and effect after such transfer.

4.16) Real Property. Exhibit 1.1(f) is an accurate and complete list of all real property owned, leased or subject to option, or beneficially owned by Seller, or otherwise used by Seller in conducting the Business, which list states the ownership status and a brief description of all buildings and structures located on such real property. Seller has not received any formal or informal notice of the initiation of any condemnation proceeding with respect to such real property, or offer of sale in lieu thereof.

4.17) Leases. Exhibit 1.1(h) contains an accurate and complete list of all leases of personal property related to or used in the operation of the Business. Seller has not breached, nor has it received in writing any claim or threat that it has breached, any of the terms or conditions of the Premises Lease or of any of the Personal Property Leases. The Premises Lease and each Personal Property Lease is in full force and effect and is not subject to any

material default thereunder by any party obligated to Seller pursuant thereto. Seller has not received any notice of default under any of such Leases and to the best of Seller's and Seller's Shareholders' knowledge there is no event existing which, with notice or lapse of time, or both, would constitute a default under any such lease. There are no provisions of, or developments materially affecting, any of such Leases which might prevent Seller from realizing the benefits thereof or which might prevent Buyer from realizing such benefits following completion of this transaction.

4.18) Environmental Compliance. To the knowledge of Seller and Seller's Shareholders, (i) Seller has operated all real property controlled by Seller in compliance with all applicable federal, state and local environmental laws, ordinances, rules and regulations, relating to the handling, storage and disposal of hazardous, toxic or contaminating wastes or substances, (ii) Seller has not used or stored hazardous, toxic or contaminating wastes or substances on

any real property nor has Seller discharged or released any such substances upon any real property, including, but not limited to, underground injection of such substances, in violation of any federal, state or local environmental law, ordinance, rule or regulation, (iii) Seller has received no notice that any other party has engaged in any such use, storage, discharge or release on real property owned or controlled by Seller, and (iv) all real property owned, operated or controlled by Seller is free of any (a) asbestos, petroleum products, or underground storage tanks which present an environmental hazard, (b) unused storage tanks, or (c) unused uncapped wells.

4.19) Agreements, Contracts and Commitments.

(a) Material Contracts. Except as disclosed on Exhibit 1.1(i), Seller is not a party to or bound by any written or oral:

(i) broker, dealer, agent, distributorship, sales agent or similar agreements or arrangements, excluding purchase orders for sales of products in the ordinary course of business (and in compliance with this Agreement);

(ii) advertising contracts;

(iii) contract commitments, or arrangements for capital expenditures having a remaining balance in excess of $10,000;

(iv) leases with respect to any property, real or personal, whether as lessor or lessee, except for any leases having a term of one year or less or aggregate rents payable of $5,000 or less;

(v) contracts, commitments, or arrangements

containing covenants by Seller not to compete in any lines of business or with any person or business entity;

(vi) franchise agreements, rights, or other similar arrangements;

(vii) loans, credits, financing agreements, promissory notes or other evidences of indebtedness, including all agreements for any commitments for future loans, credit, or financing;

(viii) guarantees;

(ix) agreements, contracts or commitments for the purchase of any services, raw materials, supplies or equipment, exclusive of purchase orders for the purchase of products or services required in the ordinary course of business (and in compliance with this Agreement), involving payments of more than $5,000 per annum or an aggregate of more than $10,000;

(x) agreements, contracts or commitments for the sale of assets, products or services, excluding purchase orders for the sale of products in the ordinary course of business (and in compliance with this Agreement), but including contracts for provision of service warranties, sales credits, product

returns, or discounts, advertising allowances or promotional services, which is in any way not yet performed, involving a value estimated at more than $5,000; or

(xi) any other material contracts, commitments, or arrangements of any kind. The provisions of any and all such contracts, commitments or arrangements comply in all materials respects with the laws of relevant jurisdictions.

Except as specifically set forth in Exhibit 1.1(i), each contract, commitment, or arrangement referred to in such Exhibit is terminable without penalty, cost, or liability (whether express, implied, or by operation of law) on notice not exceeding thirty (30) days. All such contracts, commitments or other arrangements are assignable without consent of any person other than as listed in Exhibit 1.1(i) and such consents, if any, as are required shall be obtained by Seller prior to the Closing.

(b) Customer Orders. All customer orders in existence as of the Closing Date are valid and binding upon the parties thereto in accordance with the terms thereof. No provision thereof prohibits assignment of the same to Buyer or Buyer's performance thereof and collection of payment with respect thereto.

(c) Distributor Contracts. Exhibit 1.1(i) hereto lists all distributor contracts in force as of the date hereof, together with the expiration dates thereof. All of such contracts shall be furnished to Buyer for review prior to the Closing Date.

(d) Employee Plans. Seller does not maintain any "Employee Plans" except as set forth in the employee policy manual attached as Exhibit 4.19(d) hereto. "Employee Plans" mean any pension, retirement, disability, medical, dental, or other health insurance plan, life insurance or other death benefit plan, profit sharing deferred compensation, stock option, bonus or other incentive plan, vacation benefit plan, severance plan, or other employee benefit plan or arrangement including, without limitation, any "pension plan" as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any "welfare plan" as defined in Section 3(l) of ERISA, whether or not any of the foregoing is funded, (i) to which Seller is a party or by which it is bound, or (ii) with respect to which Seller has made any payments or contributions may otherwise have any liability (including any such plan or other arrangement formerly maintained by Seller).

(e) Union and Employment Contracts and Other Employment Matters. Seller is not a party to any collective bargaining agreement or any other written employment agreement, nor is Seller a party to any other contract or understanding (oral or written) that contains any severance pay liabilities or obligations, except for accrued, unused vacation pay or accrued and unused sick leave pay. All of Seller's employee benefits are outlined in the employee manual attached as Exhibit 4.19(e).

(f) Breach. Except as disclosed in Exhibit 4.19(f) hereto, Seller has performed all obligations required to be performed by Seller to date under any material contract, commitment, or arrangement of any kind to which Seller is a party or by which Seller is bound; and

neither Seller nor any other party is in default under any material contract, commitment, or arrangement of any kind to which Seller is a party or by which Seller is bound. Except as disclosed in Exhibit 4.19(f) no event has occurred which after the giving of notice or the lapse of time or otherwise would constitute a default under, or result in a breach of by Seller or any other party, any contract, commitment, or arrangement to which Seller is a party or by which Seller is bound.

(g) Copies of Contracts; Terms and Binding Effect. True, complete and correct copies of all written contracts, commitments, understandings, and other documents referred to in the Exhibits have been delivered to Buyer or attached to the Schedules where required by

this Agreement; there are no amendments to or modifications of, or agreements of the parties relating to, any such contracts, commitments, and understandings which have not been delivered to Buyer; and each such contract, commitment, or understanding, as amended, is considered valid and binding on the parties to it in accordance with its respective terms, and the transaction contemplated by this Agreement will not result in the violation or breach of any such material contract, commitment, or understanding.

4.20) Contracts with Related Parties. Except as disclosed in Exhibit 4.20 hereto, there are no agreements or contracts between Seller and any of its employees, agents, officers, directors or shareholders.

4.21) Employee Information.

(a) Employee List. Exhibit 4.21(a) hereto is an accurate and complete list of the names of all directors and officers of Seller and the names, positions, titles, and salary rates for all employees of Seller whose annual compensation (including salary, commissions, bonus or other benefits) exceeded $50,000 during 1998, or is presently expected to exceed $50,000 in 1999 together with summary of the bonuses, additional compensation and other employee benefits, if any, paid or payable to such persons as of the date of this Agreement.

(b) Terminated Employees. No claims have been made or threatened against Seller by any former or present employee based on employment discrimination, wrongful discharge, or any other circumstance relating to or arising from the employment relationship with Seller.

(c) Employee Expenses. All amounts due to the employees of the Seller through the Closing Date for commissions, salary, wages, fringe benefits (other than vacation), and pension benefits, including cash bonuses accrued through the Closing Date and all employment taxes incurred thereon, will be paid in full as of the Closing.

(d) Compliance with Employment Laws. Except as disclosed in Exhibit 4.21(d):

(i) Proper and accurate amounts have been withheld by Seller from the compensation of all of Seller's employees for all periods in full and complete compliance with the tax withholding provisions of any applicable laws;

(ii) Proper and accurate returns have been filed by Seller for all periods for which returns were due with respect to employee income tax and social security withholding and FICA and unemployment taxes, and the amounts shown on such

returns to be due and payable have been paid in full or adequate provisions for payment of such amounts have been included in the Financial Statements;

(iii) Hours worked by, and payments made to, employees of Seller have not been in violation of the Fair Labor Standards Act or any applicable laws dealing with such matters;

(iv) All payments due from Seller on account of employee health and welfare insurance have been accrued as a liability in the Financial Statements; and

(v) All severance payments which are or were due under the terms of any agreement, oral or written, have been accrued as a liability in the Financial Statements.

4.22) Predominant Customers. Except as disclosed in Exhibit 4.22 hereto, no single customer of Seller accounted for over five percent (5%) of Seller's revenues during the fiscal year ending prior to the date of this Agreement.

4.23) Change In Customers. Except as disclosed in Exhibit 4.23 hereof, neither Seller nor any of Seller's Shareholders has any information indicating that any significant customers intend to cease doing business with Seller or materially alter the amount of business they do with Seller.

4.24) Product Liability Claims. All products which Seller has sold have been merchantable, free from material defects in material or workmanship, and suitable for the purpose for which they were sold. Since its inception, Seller has never received a claim based upon alleged breach of product warranty, strict liability in tort, negligent manufacture of product, or any other allegation of liability arising from Seller's manufacture or sale of its products (hereafter collectively referred to as "Product Liability Claims"), any of which Product Liability Claims exceeds $5,000. All liability from any actual and potential Product Liability Claims, whether or not asserted on or before the Closing Date, are fully covered including all costs of defense and investigation, by Seller's product liability insurance policies. During the two (2) years prior to the Closing Date there have been no Product Liability Claims whatsoever received by Seller except as set forth in Exhibit 4.24, which Exhibit describes such claims and the disposition thereof. Neither Seller nor Seller's Shareholders have any reasonable grounds to believe that future Product Liability Claims with respect to products of Seller sold prior to the Closing Date will be different from Seller's past experience with respect thereto as set forth herein.

4.25) Insurance. Seller has maintained and will continue to maintain until the Closing Date the insurance described in Exhibit 4.25, including insurance on Seller's tangible real and personal property and assets, whether

owned or leased, against loss or damage by fire or other casualty, in amounts equal to or in excess of one hundred percent (100%) of the replacement value thereof. All such insurance is in full force on the date of this Agreement and is carried with reputable insurers. Seller has promptly and adequately notified Seller's insurance carriers of any and all claims known to Seller with respect to the operations or products of Seller for which Seller is insured. At the Closing, Seller shall have in effect the product liability insurance policy described in Exhibit 4.24.

4.26) Litigation and Related Matters.

(a) Except as disclosed on Exhibit 4.26(a) hereto, there is no pending or, to the knowledge of Seller and Seller's Shareholders, threatened litigation, proceeding, or investigation (including any environmental, building or safety investigation) against Seller or Seller's Shareholders, or the Purchased Assets, nor is Seller or Seller's Shareholders subject to any existing judgment, order, decree, or other action affecting the operation of the Business or the Purchased Assets or which would prevent, impede, or make illegal the consummation of the transactions contemplated in this Agreement, or which would have a material adverse effect on Seller or Seller's Shareholders, or on the Business or any of the Purchased Assets.

(b) Exhibit 4.26(b) sets forth all legal actions commenced against Seller setting forth a Product Liability Claim as defined in Section 4.24 above.

4.27) Laws and Regulations. Seller has complied, and is in compliance, with applicable laws, statutes, orders, rules, regulations and requirements promulgated by governmental or other authorities relating to the Business, the Purchased Assets or the operation of the Business, including, without limitation, any relating to wages, hours, hiring, promotion, retirement, working conditions, air, water, solid or liquid waste pollution, nondiscrimination, health, safety, pensions, benefits, the production, processing, advertising or sale of products, trade regulation, antikickback, export licensing, antitrust, antiboycott, warranties, or control of foreign exchange; and Seller has not received any notice of any sort of alleged violation of any such statute, order, rule, regulation or requirement. The Purchased Assets and their uses conform in all material respects to all applicable zoning and building laws.

4.28) Breaches of Contracts; Required Consents. Neither the execution and delivery of this Agreement by Seller or Seller's Shareholders, nor compliance by Seller or Seller's Shareholders with the terms and provisions of this Agreement will:

(a) Conflict with or result in a breach of (i) any of the terms, conditions or provisions of the Articles of Incorporation, Bylaws or other governing instruments of Seller, (ii) any judgment, order, decree or ruling to which the Seller or any of Seller's Shareholders is a party, (iii) any injunction of any court or

governmental authority to which any of them is subject, or (iv) any agreement, contract or commitment which is material to the Business or to Seller's financial condition; or

(b) Except as disclosed in Exhibit 4.28(b) hereto, require the affirmative consent or approval of any third party.

4.29) Binding Obligation. This Agreement constitutes the legal, valid and binding obligation of Seller and Seller's Shareholders in accordance with

the terms hereof. Neither Seller nor any of Seller's Shareholders is subject to any charter, mortgage, lien, lease, agreement, contract, instrument, law, rule, regulation, order, judgment or decree, or any other restriction of any kind or character, which would prevent the consummation of the transactions contemplated in this Agreement.

4.30) Laws and Rules Concerning Safety and Occupational Hazards. All of Seller's manufacturing process and all materials which have been sold by Seller up to and including the Closing Date were in compliance (as of the time of such manufacture or sale) with applicable U.S. and state laws and rules concerning safety, environmental and occupational hazards.

4.31) Absence of Certain Payments. To the knowledge of Seller and Seller's Shareholders, neither Seller, any of Seller's Shareholders, nor any director, officer, agent, employee or other person associated with or acting on behalf of Seller, has used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, or made any direct or indirect unlawful payments to government officials or employees from corporate funds, or established or maintained any unlawful or unrecorded funds.

4.32) Business and Marketing Plans. Seller has made available to Buyer and will continue to make available to Buyer before and after the date of this Agreement, all material methods, plans or marketing programs employed by Seller in connection with the Business which Buyer may request.

4.33) Minute Books. The copies of the articles of incorporation of Seller and all amendments thereto, certified as of a recent date by the Secretary of State of Arizona, and of the Bylaws of Seller, certified by the Secretary or an Assistant Secretary of Seller, which have been, or will be delivered to Buyer at the Closing, are as of the date of this Agreement and will be on the Closing Date, complete and correct.

4.34) Copies of Documents. Seller will make available for inspection and copying by Buyer true and correct copies of all documents referred to in this Article 4 or in any exhibit delivered by Seller to Buyer in connection with this Agreement.

4.35) Completeness of Disclosures. To the knowledge of Seller and Seller's Shareholders, none of the representations or warranties made by Seller and Seller's Shareholders in this Agreement or the Exhibits, and no written statement, certificate or Exhibit furnished or to be furnished by or on behalf of Seller or Seller's Shareholders, to Buyer or its agents pursuant hereto, or in connection with the transaction contemplated by this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit any material fact the omission of which would be misleading. The Exhibits to this Agreement, where provided by or on behalf of Seller, completely and correctly present, in all material respects, the information required by this Agreement to be set forth in them.

ARTICLE 5.

COVENANTS AND AGREEMENTS OF SELLER AND SELLER'S SHAREHOLDERS

Seller and each of Seller's Shareholders, jointly and severally, covenant and agree as follows:

5.1) Consents. All consents necessary for the valid and effective consummation of the transactions contemplated in this Agreement will be obtained as of the Closing Date.

5.2) Insurance. All insurance policies in effect as of the date of this Agreement will be kept in full force and effect without any decrease or changes in coverage through the Closing Date.

5.3) Payment of Liabilities. Except for the Assumed Liabilities, Seller shall pay within 60 days of the Closing Date all liabilities and obligations whatsoever outstanding or accrued with respect to operations of the Business through the Closing Date, including sales taxes, employment and withholding taxes, payroll and employee expenses (excluding vacation obligations), rent and utilities, except as to amounts which Seller contests in good faith and for which it maintains an adequate reserve.

5.4) Release of Liens. At or prior to the Closing, Seller shall obtain a release from any person claiming a lien or security interest on any of the Purchased Assets other than with respect to the Assumed Liabilities.

ARTICLE 6.

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer makes the following representations and warranties to Seller and Seller's Shareholders, with the intention that Seller and Seller's Shareholders may rely upon the same, and acknowledges that the same shall be true as of the

Closing Date (as if made at the Closing) and shall survive the Closing of this transaction.

6.1) Organization. Buyer is a corporation, duly organized, validly existing in good standing under the laws of the State of Minnesota, and has all requisite power and authority, corporate and otherwise, to own its properties and conduct the business in which it is presently engaged.

6.2) Corporate Authority. Buyer has all requisite power and authority to execute, perform and carry out the provisions of this Agreement. Buyer has taken all requisite corporate action authorizing and empowering Buyer to enter into this Agreement and to consummate the transactions contemplated herein.

6.3) Breaches of Contracts; Required Consents. Neither the execution and delivery of this Agreement by Buyer, nor compliance by Buyer with the terms and provisions of this Agreement, will:

(a) Conflict with or result in a breach of: (i) any of the terms, conditions or provisions of the Articles of Incorporation, Bylaws or other governing instruments of Buyer, (ii) any judgment, order, decree or ruling to which the Buyer is a party, (iii) any injunction of any court or governmental authority to which it is subject, or (iv) any agreement, contract or commitment listed on any Exhibit hereto and which is material to the financial condition of Buyer; or

(b) Require the affirmative consent or approval of any third party.

6.4) Binding Obligation. This Agreement constitutes the legal, valid and binding obligation of Buyer in accordance with the terms hereof. Buyer is not subject to any charter, mortgage, lien, lease, agreement, contract, instrument, law, rule, regulation, order, judgment or decree, or any other restriction of any kind or character, which would prevent the consummation of the transactions contemplated in this Agreement.

6.5) Financial Statements. Buyer has delivered to Seller and Seller's Shareholders Buyer's Form 10-KSB for the fiscal year ended September 30, 1998 and Form 10-QSB for the fiscal quarter ended June 30, 1999 which include Buyer's balance sheets and statements of income as of and for its fiscal year ended September 30, 1998 and Buyer's balance sheets and statements of income as of and for its fiscal quarter ended June 30, 1999 (collectively, "Buyer's Financial Statements"). Buyer's Financial Statements have been prepared in conformance with generally accepted accounting principles and procedures applied on a basis consistent with prior periods, and fairly present in all material respects the financial condition of Buyer as of the represented dates thereof and the results of Buyer's operations for the periods covered thereby.

6.6) Litigation. Except as disclosed on Exhibit 6.6 hereto, there is no pending or threatened litigation, proceeding, or investigation (including any environmental, building or safety investigation) against Buyer, nor is Buyer subject to any existing judgment, order, decree, or other action affecting the operation of its business which would prevent, impede, or make illegal the consummation of the transactions contemplated in this Agreement, or which would have a material adverse effect on Buyer or on Buyer's business.

6.7) Laws and Regulations. Buyer has complied, and is in compliance, with applicable laws, statutes, orders, rules, regulations and requirements promulgated by governmental or other authorities relating to Buyer and the operation of Buyer's business, including, without limitation, any relating to wages, hours, hiring, promotion, retirement, working conditions, air, water, solid or liquid waste pollution, nondiscrimination, health, safety, pensions, benefits, the production, processing, advertising or sale of products, trade regulation, antikickback, export licensing, antitrust, antiboycott, warranties, or control of foreign exchange; and Buyer has not received any notice of any sort of alleged violation of any such statute, order, rule, regulation or requirement.

6.8) Tax Reports, Returns and Payment. Except as disclosed in Exhibit 6.8, to Buyer's knowledge, Buyer has timely filed all federal and applicable state, local, and foreign tax or assessment reports and returns of every kind required to be filed by Buyer with relation to its business including, without limitation, income tax, sales and use tax, real estate tax, personal property tax and unemployment tax, and has duly paid all taxes and other charges (including interest and penalties) due to or claimed to be due by any taxing authorities.

ARTICLE 7.

CONDUCT OF BUSINESS PRIOR TO CLOSING

7.1) Access to Information. During the period prior to the Closing, Seller shall give to Buyer and its attorneys, accountants or other authorized representatives, full access to all of the property, books, contracts, commitments and records of Seller and shall furnish to Buyer during such period all such information concerning the Business and the Purchased Assets as Buyer reasonably may request. Buyer shall be allowed to contact Seller's employees and others connected with the Purchased Assets and with past and present customers and suppliers of Seller.

7.2) Restrictions. Except as disclosed in Exhibit 7.2, Seller and each of Seller's Shareholders represent and warrant that since July 17, 1999, and during the period from the date of this Agreement to the Closing Date, they have not and will not have (except as Buyer otherwise has consented in writing):

(a) created or incurred any liability (absolute or contingent) except (i) unsecured current liabilities incurred for other than money borrowed, (ii) renewals of existing borrowings, and (iii) liabilities under insurance and other contracts entered into in the ordinary course of business (and in compliance with this Agreement);

(b) granted any new mortgage, pledge, or lien upon, or otherwise encumbered, any of the Purchased Assets, tangible or intangible, except pursuant to Seller's existing working capital line of credit in the ordinary course of business;

(c) waived or cancelled any rights or debt to Seller in excess of $1,000 in value in the aggregate;

(d) made any capital expenditures or capital additions or betterments, which individually exceeded $10,000 in value;

(e) sold or otherwise disposed of any of the Purchased Assets, tangible or intangible, except inventory in the ordinary course of business at regular prices;

(f) declared or paid any dividends or made any other distribution or payment on or in respect of, or directly or indirectly purchased, retired, redeemed, or otherwise acquired, any shares of its capital stock other than for cash;

(g) made or become a party to any contract, commitment, or other arrangement or renewed, extended, amended, or modified any

contract, commitment, or other arrangement which in any one case involved an amount in excess of $5,000, except in the ordinary course of business (and in compliance with this Agreement);

(h) paid or agreed to pay, conditionally or otherwise, any bonus, additional compensation, pension, or severance pay to any of its present or former directors or officers or to employees whose annual base compensation (including bonuses and commissions), whether under any existing profit sharing, pension, or other plan or otherwise;

(i) increased the rate of compensation (including salaries, fees, commission rates, bonuses, profit sharing, incentive, pension, retirement, or other similar payments) being paid at the date of this Agreement to any of Seller's present or former directors or officers or to employees;

(j) made or suffered any material change in the Purchased Assets;

(k) sold or otherwise disposed of any leases pertaining to the Purchased Assets, or entered into any renewals or extensions of existing leases or entered into any new leases other than in the ordinary course of business;

(l) permitted any amendment or termination of any material contract, license, franchise or other agreement;

(m) altered or revised its accounting principles, procedures, methods or practices;

(n) removed, or permitted to be removed, from any building, facility or real property, any machinery, equipment, fixture, vehicle, or other personal property or parts thereof, except in the ordinary course of business (and in compliance with this Agreement);

(o) changed its credit policy as to sales of inventories or collection of receivables;

(p) granted or committed to grant any options, warrants or other rights to subscribe for or purchase or otherwise acquire any shares of Seller's capital stock or other securities or other ownership interests in Seller;

(q) issued or sold or committed to issue or sell any shares of Seller's capital stock or other securities or other ownership interests in Seller; or

(r) received any communication from any customer which accounted for more than two percent (2%) of Seller's revenues for the Business during the last full fiscal year to the effect that such customer does not intend to continue to purchase merchandise from Seller.

7.3) Risk of Loss. Prior to completion of the Closing, the risk of loss or destruction to any of Seller's assets shall be that of Seller. In the event

of damage or destruction of any of the Purchased Assets, Seller shall replace such damaged or destroyed Purchased Assets with similar assets of equal value and shall use any insurance proceeds received for such damage to make such replacements.

7.4) Preserve Accuracy of Representations and Warranties. Seller and each of Seller's Shareholders shall refrain from taking any action, except with the prior written consent of Buyer, which would render any representation, warranty or agreement of Seller or any of Seller's Shareholders in this Agreement inaccurate or breached as of the Closing. At all times prior to the Closing, Seller and Seller's Shareholders will promptly inform Buyer in writing

with respect to any matters that arise after the date of this Agreement which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in the Exhibits. Seller and each of Seller's Shareholders promptly will notify Buyer in writing of all lawsuits, claims, proceedings and investigations that may be threatened, brought, asserted or commenced against Seller or Seller's officers or directors involving the transaction contemplated by this Agreement or which might have a material adverse impact on the Purchased Assets.

7.5) No Solicitation of Other Offers. Seller and Seller's Shareholders agree that, prior to Closing Date or the termination of this Agreement pursuant to Section 8.3 neither Seller nor any of Seller's representatives will solicit from any other person any offer, inquiry or proposal with respect to the sale, merger or other acquisition of Seller or of all or any portion of the Purchased Assets. Seller and Seller's Shareholders will promptly notify Buyer of any such offer, inquiry or proposal received by Seller or Seller's representatives.

ARTICLE 8.

CONDITIONS OF CLOSING; ABANDONMENT OF TRANSACTION

8.1) Conditions to Obligations of Buyer to Proceed on the Closing Date. The obligations of Buyer to proceed on the Closing Date shall be subject (at its discretion) to the satisfaction, on or prior to the Closing, of all of the following conditions:

(a) Truth of Representations and Warranties and Compliance with Obligations. The representations and warranties of Seller and each of Seller's Shareholders herein shall be true in all material respects on the Closing Date with the same effect as though made at such time. Seller and Seller's Shareholders shall have performed all material obligations and complied with all material covenants and conditions prior to or as of the Closing Date. Seller shall have delivered to Buyer a certificate of Seller in form and substance satisfactory to Buyer dated as of the Closing Date and executed by the President and Chief Executive Officer of Seller to all such effects.

(b) Opinion of Counsel. Buyer shall have received a duly executed opinion letter from Seller's legal counsel dated as of the Closing Date, in form and substance reasonably satisfactory to Buyer and its counsel, to the effect that:

(i) Seller is a corporation duly organized and validly existing and in good standing in the State of Arizona, has all necessary corporate power to own the property it now

owns and to operate its business as it is now operated; and is qualified to do business in all states in which qualification is required by the nature of the Business.

(ii) This Agreement and all collateral documents have been duly and validly authorized, executed and delivered by Seller and Seller's Shareholders, constitute the valid and binding obligations of Seller and each of Seller's Shareholders, and are enforceable in accordance with their terms, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally, and are sufficient to convey and vest in Buyer all right, title and interest in the Purchased Assets;

(iii) Seller's Shareholders own one hundred percent (100%) of the Common Stock of the Seller which is issued and outstanding; such Common Stock is the only capital stock authorized for issue by the Seller; and Seller's Shareholders have all requisite power and authority (without consent or approval of any other party) to cause Seller to execute and to carry out its obligations under this Agreement;

(iv) To the best of such counsel's actual knowledge, no suit, action, arbitration, legal or administrative proceeding, or any governmental investigation, is pending or threatened against Seller or any of Seller's Shareholders, or any of their businesses or properties;

(v) Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated in this Agreement, will constitute:

(1) A violation of Seller's Articles of Incorporation or Bylaws, or, to the best of such counsel's actual knowledge, a default (or an event which with notice or lapse of time or both will constitute a default) under, or violation or breach of, any material indenture, license, lease, mortgage, instrument, or other agreement to which Seller is a party, or by which its properties may be bound;

(2) Require the affirmative consent or approval of any third party except as disclosed in Exhibit 4.28(b); or

(3) An event which would result in the creation or imposition of any lien, charge, or encumbrance on any of the Purchased Assets; and

(vi) To the best of such counsel's actual knowledge, Seller has good and marketable title to the Purchased Assets free and clear of all liens, encumbrances, charges, and third-party claims or interests whatsoever;

(vii) Seller has corporate power and authority and, to the best of such counsel's actual knowledge, all necessary permits, licenses and other material authorizations, to operate the Business as presently operated; and

(viii) To the best of such counsel's actual knowledge, Seller's and Seller's Shareholders representations, warranties and agreements contained in Article 4 are true and correct and have not been breached.

In giving such opinion, such counsel may rely, as to matters of fact, upon certificates of officers of Seller or public officials, and as to matters of law upon opinions of other counsel satisfactory to Buyer and Buyer's counsel, provided that Seller's counsel shall state that such counsel believes that such counsel is justified in relying upon such certificates and opinions and shall deliver copies of them to Buyer prior to the Closing Date.

(c) Assignments. Seller shall have executed and delivered to Buyer documents assigning all of its right, title and interest in the Purchased Assets to Buyer, free and clear of all liens, encumbrances and third-party claims or interests of any kind whatsoever except those related to the Assumed Liabilities.

(d) Premises Lease. The Premises Lease shall have been extended through October 31, 2004 and shall have been amended to provide for extension at the option of Buyer through October 31, 2009 but with all other terms and conditions remaining unchanged.

(e) Escrow Agreement. The Escrow Agreement shall have been duly executed and delivered by Seller.

(f) Required Consents. Seller and each of Seller's Shareholders shall have obtained the consent or approval of each person whose consent or approval Buyer reasonably believes is required in connection with this Agreement; including, without limitation, consent of all parties required to assign the Premises Lease.

(g) Delivery of Documents. Seller and Seller's Shareholders shall have delivered all documents required to be delivered at Closing pursuant to Section 9.2 hereof.

(h) Litigation Affecting Closing. No suit, action or other proceeding shall be pending or threatened by or before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or the consummation of the transaction contemplated by this Agreement, and no

investigation that may result in any such suit, action or other proceeding shall be pending or threatened.

(i) Legislation. No statute, rule, regulation or order shall have been enacted, entered or deemed applicable by any domestic or foreign government or governmental or administrative agency or court which would make the transaction contemplated by this Agreement illegal or otherwise materially adversely affect the Purchased Assets or the use and operation of the Business in the hands of Buyer.

(j) Employment Contracts. Employment contracts shall have been entered into with Ken Charbonneau and Mike DePinto in the forms attached hereto as Exhibit 8.1(j).

(k) Review of Material Contracts. Buyer shall have had the opportunity prior to the Closing Date to review all contracts deemed by Buyer to be material in the continued operation of the Business. Buyer shall be satisfied after such review that the representations made by Seller and Seller's Shareholders with respect to such material contracts prior to the execution of this Agreement are true and correct and that such contracts have been performed in a business-like manner consistent with the specifications applicable to such contracts.

(l) Outstanding Indebtedness. The principal amount outstanding on the Indebtedness shall be no greater than $287,500.

(m) Non-Compete Agreements. Each of Seller's Shareholders shall have executed a five-year non-compete agreement in the form attached hereto as Exhibit 8.1(m) in exchange for $25,000 each.

8.2) Conditions to Obligation of Seller and Seller's Shareholders to Proceed on the Closing Date. The obligation of Seller and Seller's Shareholders to proceed on the Closing Date shall be subject (at its discretion) to the satisfaction, on or before the Closing, of the following conditions:

(a) Truth of Representations and Warranties and Compliance with Obligations. The representations and warranties of Buyer herein contained shall be true in all material respects on the Closing Date with the same effect as though made at such time. Buyer shall have performed all material obligations and complied with all material covenants and conditions prior to or as of the Closing Date.

(b) Opinion of Counsel. Seller shall have received a duly executed opinion letter from Buyer's legal counsel dated as of the Closing Date, in form and substance reasonably satisfactory to Seller and its counsel, to the effect that:

(i) Buyer is a corporation duly organized and validly existing and in good standing in the State of Minnesota;

(ii) This Agreement and all collateral documents have been duly and validly authorized, executed and delivered by Buyer, constitute the valid and binding obligations of Buyer, and are enforceable in accordance with their terms, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally; and

(iii) Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated in this Agreement, will, constitute a violation of Buyer's Articles of Incorporation or Bylaws.

In giving such opinion, such counsel may rely, as to matters of fact, upon certificates of officers of Buyer or public officials and, as to matters of law, upon the opinions of other counsel satisfactory to Seller's counsel, provided that Buyer's counsel shall state that such counsel believes that such counsel is justified in relying upon such certificates and opinions and deliver copies of them to Seller prior to the Closing Date.

(c) Delivery of Documents. Buyer shall have delivered all documents required to be delivered at Closing pursuant to Section 9.3 hereof.

(d) Litigation Affecting Closing. No suit, action or other proceeding shall be pending or threatened by or before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or the consummation of the transaction contemplated by this Agreement, and no investigation that might eventuate in any such suit, action or other proceeding shall be pending or threatened.

(e) Legislation. No statute, rule, regulation or other shall have been enacted, entered or deemed applicable by any domestic or foreign government or governmental or administrative agency or court which would make the transaction contemplated by this Agreement illegal.

(f) Release of Guarantees. Each of Donald R. Charles and David J. Brennan shall be released from his personal guarantee of the Indebtedness and the Capital Lease Obligations or Buyer shall pay-off the Indebtedness and Capital Lease Obligations at Closing.

8.3) Absence of Exhibits. The parties hereby acknowledge that as of the

date of execution of this Agreement certain exhibits required hereunder are not attached hereto. Seller acknowledges that Buyer, in executing this Agreement, is relying on the absence of any materially adverse information which may be disclosed upon completion and delivery of any of the required exhibits or any documents referenced therein. Seller shall complete and furnish all of such exhibits within seven (7) days of the execution hereof. Buyer reserves the right to cancel this Agreement if (i) such condition is not satisfied; or (ii) prior to the Closing Date Buyer reasonably determines that the exhibits or any documents referenced therein contain materially adverse information.

8.4 Termination of Agreement. This Agreement and the transactions contemplated herein may be terminated at or prior to the Closing, only as follows:

(a) By mutual written consent of all parties.

(b) By Buyer pursuant to written notice delivered at or prior to the Closing if all of the conditions to Closing set forth in Section 8.1 have not been satisfied.

(c) By Seller or Seller's Shareholders pursuant to written notice delivered at the Closing if all the conditions set forth in Section 8.2 have not been satisfied.

(d) By either party pursuant to written notice delivered at or prior to the Closing if the Closing shall have not occurred by November 1, 1999, for any reason other than the refusal or failure of the terminating party to meet its obligations under this Agreement.

8.5) Consequences of Termination. In the event Seller or Seller's Shareholders terminate this Agreement other than in compliance with Section 8.4(c) or if Buyer terminates this Agreement in compliance with Section 8.3(i), 8.4(b) (unless such termination is solely a result of a failure of a condition specified in Section 8.1(i) or 8.1(k)) or 8.4(d), Seller shall promptly pay Buyer $25,000 and Buyer may pursue any remedies available at law or equity. In the event this Agreement is terminated pursuant to 8.4(a) no party shall have any liability to any other party hereunder and Buyer shall be entitled to return of the Earnest Money. In the event that Buyer terminates this Agreement, Seller shall be entitled to the Earnest Money.

ARTICLE 9.

CLOSING

9.1) Closing. The closing of the transaction contemplated by this Agreement ("Closing") shall be held at the offices of Schmitt, Schneck, Fisher Smyth & Herrod, P.L.C. in Phoenix, Arizona on October 12, 1999, at 10:00 a.m., or at such other date or time as the parties may mutually agree upon in writing.

The Closing shall be deemed to have occurred at 12:00 midnight on October 9, 1999, or at such later date as the parties may mutually agree upon in writing. Such deemed date of closing shall be referred to herein as the Closing Date.

9.2) Documents to be Delivered by Seller and Seller's Shareholders. Seller and Seller's Shareholders agree to deliver the following documents, duly executed as appropriate, to Buyer at the Closing:

(a) All certificates, schedules, exhibits, and attachments in completed form and specifying the information required by the provisions of this Agreement.

(b) Articles of Incorporation of Seller certified by the Arizona Secretary of State.

(c) Bylaws of Seller certified by the Seller's Secretary.

(d) Certificate of Good Standing for Seller dated no earlier than five (5) days prior to the Closing Date.

(e) Certified copies of corporate resolutions of Seller authorizing it to enter into the transactions contemplated herein.

(f) A Bill of Sale and instruments of assignment and transfer for the sale of the Purchased Assets.

(g) Escrow Agreement as required under Section 3.1(b).

(h) Certificate of Seller's President regarding representations and warranties as required under Section 8.1(a).

(i) Opinion of Seller's Counsel as required under Section 8.1(b).

(j) Appropriate assignment documents, in form reasonably required by Buyer assigning Seller's title and interest in certain assets as required under Section 8.1(c).

(k) Documentation of receipts of all consents required in connection with this Agreement, as required under Section 8.1(f).

(l) Employment contracts as required under Section 8.1(j).

(m) Non-compete agreements as required under Section 8.1(n).

(n) Such other documents as Buyer may reasonably request for the purpose of assigning, transferring, granting, conveying, and confirming to Buyer or reducing to its possession, any and all assets, property and rights to be conveyed and transferred by this Agreement.

9.3) Documents Delivered by Buyer. Buyer agrees to provide the following, duly executed as appropriate, to Seller at the Closing:

(a) Articles of Incorporation of Buyer certified by the Minnesota Secretary of State.

(b) Bylaws of Buyer certified by Buyer's Secretary.

(c) Certificate of Good Standing of Buyer dated no earlier than five (5) days prior to the Closing Date.

(d) Certified copies of corporate resolutions of Buyer authorizing it to enter into the transactions contemplated herein.

(e) Wire transfer of funds to Seller in the amount of $5,650,000.

(f) Wire transfer of funds to Escrow Agent in the amount of $250,000.

(g) Wire transfer of funds to each of Seller's Shareholders in the amount of $25,000.

(h) Assumption Agreement pursuant to which Buyer assumes the Assumed Liabilities in accordance with Section 1.5(a).

(i) Escrow Agreement as specified in Section 3.1(b).

(j) Note in the amount of $3,000,000 as specified in Section 3.1(c).

(k) Opinion of Buyer's counsel as specified in Section 8.2(b).

(l) Such other documents as Seller or Seller's Shareholders reasonably may request to carry out the transactions contemplated under this Agreement.

9.4) Assignment and Assumption of Certain Contracts. Effective upon consummation of all transactions herein on the Closing Date, Seller hereby assigns to Buyer all of Seller's rights, title and benefit under the Premises Lease, the Personal Property Leases described in Exhibit 1.1(h), and the Contracts, and Buyer assumes all liabilities or obligations with respect thereto arising on and following the Closing Date. Seller and Seller's Shareholders shall indemnify and hold Buyer harmless under Article 12 below for all claims, obligations or liabilities with respect to such Leases and Contracts arising prior to the Closing Date and shall execute such forms of assignment and provide such other reasonable cooperation as may be necessary to effect the assignments

herein.

9.5) Prorations. At or before the Closing, Seller shall pay all employees of Seller for all wages, benefits (excluding unused vacation) or other sums earned or accrued through the Closing Date and shall pay Buyer the amount of any unpaid employment taxes relating to the period up to the Closing Date. The parties shall account to each other for all lease, utility, personal property tax (which shall be prorated for calendar 1999) and other continuing obligation and operating expenses to the end that Seller shall be responsible for all such expenses attributable to the period up to and including the Closing Date and Buyer shall be responsible for all such expenses following the Closing Date. Unused vacation of Seller's employees hired by Buyer in connection with this transaction shall be carried forward to Buyer. Buyer shall be compensated for such vacation carry forward and for expenses owed by Seller pursuant to this Section from the Escrow Account as provided in the Escrow Agreement.

ARTICLE 10.

POST CLOSING OBLIGATIONS

10.1) Further Documents and Assurances. At any time and from time to time after the Closing Date, each party shall, upon request of another party, execute, acknowledge and deliver all such further and other assurances and documents, and will take such action consistent with the terms of this Agreement, as may be reasonably requested to carry out the transactions contemplated herein and to permit each party to enjoy its rights and benefits hereunder.

10.2) Payment of Debts and Liabilities. Seller shall pay all of its liabilities and debts which have arisen on or prior to the Closing Date as they become due and payable, except for amounts which Seller contests in good faith and to which it maintains an adequate reserve.

10.3) Use of Office. Buyer shall provide each of Donald R. Charles and David J. Brennan access to and use of an office on the Premises at no charge until 90 days after the Closing Date.

10.4) Employees. Buyer shall hire substantially all employees of Seller related to the Business.

10.5) Vacation. Buyer shall either grant the vacation to Seller's employees or shall compensate Seller's employees for such vacation for which Buyer has been compensated for by Seller pursuant to Section 9.5.

ARTICLE 11.

BULK TRANSFER ACT

11.1) Waiver of Compliance. The parties hereby waive compliance with the provisions of the Bulk Transfer Act, Arizona Statutes Section 47-6101, et seq.

ARTICLE 12.

INDEMNIFICATION

12.1) Indemnification by Seller and Seller's Shareholders. Subject to the limitations set forth in Section 12.2, Seller and Seller's Shareholders, jointly and severally, shall indemnify and hold Buyer harmless at all times from and after the date of this Agreement, against and in respect of all damages, losses, costs and expenses (including reasonable attorney fees) which Buyer may suffer or incur in connection with any of the following matters:

(a) Any claim, demand, action or proceeding asserted by a creditor of Seller under the provisions of any applicable Bulk Transfer Act or asserted by any other person respecting any liabilities of Seller or Seller's Shareholders (including without limitation "Product Liability Claims" as defined in Section 4.24 hereof) which are not expressly assumed under this Agreement.

(b) The breach by Seller or Seller's Shareholders of any of their respective representations, warranties or covenants in this Agreement.

12.2) Indemnification by Buyer. Buyer shall indemnify and hold Seller and Seller's Shareholders harmless at all times from and after the date of this Agreement, against and in respect of all losses, damages, costs and expenses (including reasonable attorney fees) which Seller or Seller's Shareholders may suffer or incur in connection with breach by Buyer of any of its respective warranties or covenants in this Agreement.

ARTICLE 13.

GENERAL

13.1) Exhibits. Each Exhibit delivered pursuant to the terms of this Agreement shall be in writing, and shall constitute a part of the Agreement.

13.2) Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been given, when received, if personally delivered, and, when deposited, if placed in the U.S. mails for delivery by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

Seller Food Products Corporation

d/b/a Arizona Brand Inc.
3121 East Washington Street
Phoenix, AZ 85034
Attention: Donald R. Charles

Seller's Shareholders: Donald R. Charles
c/o Mark C. Schmitt
Schmitt, Schneck, Fisher Smyth & Herrod, P.L.C.
1221 East Osborn Road, Suite 105
Phoenix, AZ 85014

David J. Brennan
4430 East Sunset
Phoenix, AZ 85028

Kenneth E. Charbonneau
2712 East Saddle Mountain Road
Desert Hills, AZ 85086

Michael J. DePinto
c/o Dorothy DePinto
6702 East Lewis
Scottsdale, AZ 85257

with a copy to: Schmitt, Schneck, Fisher Smyth & Herrod, P.L.C.
1221 East Osborn Road, Suite 105
Phoenix, AZ 85014
Attention: Mark C. Schmitt

Buyer Sparta Foods, Inc.
1565 First Avenue N.W.
New Brighton, MN 55112
Attention: Chief Financial Officer

with a copy to: Fredrikson & Byron, P.A.
900 Second Avenue South
1100 International Centre
Minneapolis, MN 55402
Attention: Daniel A. Yarano

Addresses may be changed by written notice given pursuant to this Section, however any such notice shall not be effective, if mailed, until three (3) working days after depositing in the U.S. mails or when actually received, whichever occurs first.

13.3) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their successors or

assigns, provided that the rights of Seller under this Agreement may not be assigned and the rights of Buyer may only be assigned to its parent corporation or a subsidiary of its parent or to such other business organization which shall succeed to substantially all the assets and business of Buyer or its parent.

13.4) Headings. The descriptive headings of the several Articles and Sections of this Agreement and of the several Exhibits to this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

13.5) Expenses. Except as otherwise provided herein, each party hereto shall each bear and pay for its own costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereby, including, without limitation, all fees and disbursements of lawyers, accountants and financial consultants incurred through the Closing Date. All such expenses incurred by Seller at any time prior to the Closing Date shall be solely Seller's responsibility.

13.6) Brokers' Commissions. Seller and Buyer each represent and warrant to the other that it has not engaged any broker or finder in connection with the transaction described herein. Each party agrees to indemnify and hold the other party harmless for any breach of this representation and warranty.

13.7) Entire Agreement; Modification and Waiver. This Agreement, together with the Exhibits and the related written agreements specifically referred to herein, represents the only agreement among the parties concerning the subject matter hereof and supersedes all prior agreements whether written or oral, relating thereto. No purported amendment, modification or waiver of any provision hereof shall be binding unless set forth in a written document signed by all parties (in the case of amendments or modifications) or by the party to be charged thereby (in the case of waivers). Any waiver shall be limited to the provision hereof and the circumstance or event specifically made subject thereto and shall not be deemed a waiver of any other term hereof or of the same circumstance or event upon any recurrence thereof.

13.8) Counterparts. This Agreement may be executed in counterparts and by different parties on different counterparts with the same effect as if the signatures thereto were on the same instrument.

13.9) Publicity. Seller and Buyer each represent and warrant to the other that it will make no announcement to public officials or the press in any way relating to the transaction described herein or identifying Buyer without the prior written consent of the other party, which consent shall not be unreasonably withheld, and Seller's Shareholders will not do so without the consent of Buyer.

13.10) Jurisdiction. The parties agree that the forum for any controversy arising under this Agreement shall be in the State of Arizona.

13.11) Governing Law. This Agreement and the legal relations between the parties shall be governed by and construed in accordance with the laws of the State of Arizona without regard to its choice of law provisions.

13.12) Survival of Representations, Warranties and Agreements. The representations, warranties and agreements contained in this Agreement shall survive the Closing and remain in full force and effect.

13.13) Knowledge. Knowledge, as used in this Agreement or the instruments, certificates or other documents required under this Agreement, means actual knowledge of a fact or constructive knowledge if a reasonably prudent person in a like position would have known, or should have known, the fact.

13.14) Benefit. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties to this Agreement or their respective successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Asset Purchase Agreement to be executed in the manner appropriate to each, all as of the day and year first above written.

SPARTA FOODS, INC.

"Buyer"

By /s/ Joel P. Bachul
Its Chief Executive Officer

FOOD PRODUCTS CORPORATION
"Seller"

By /s/ Donald R. Charles
Its Secretary

/s/ Donald R. Charles
Donald R. Charles

/s/ David J. Brennan
David J. Brennan

/s/ Kenneth E. Charbonneau
Kenneth E. Charbonneau

/s/ Michael J. DePinto
Michael J. DePinto

Exhibit 10.1

SECURED SUBORDINATED PROMISSORY NOTE

$3,000,000.00 Dated: October 13, 1999
Phoenix, Arizona

FOR VALUE RECEIVED, the undersigned SPARTA FOODS, INC., a Minnesota corporation ("Maker"), promises to pay to FOOD PRODUCTS CORPORATION, an Arizona corporation ("Holder"), the principal sum of Three Million Dollars ($3,000,000.00), together with interest on the unpaid principal balance at an annual rate of interest of eight percent (8%) from October 10, 1999. This Note has been issued pursuant to an Asset Purchase Agreement dated September 27, 1999, by and among Maker, Holder and the shareholders of Holder (the "Asset Purchase Agreement"). Terms used in this Note, if not defined herein, have the meanings ascribed thereto in the Asset Purchase Agreement.

This Note shall be due and payable in 20 equal consecutive quarterly installments of principal and interest each in the amount of $183,470.15, such payments to commence January 10, 2000, and to continue thereafter until (and including) October 10, 2004. All payments hereunder shall be made in lawful money of the United States. Interest hereunder shall be computed on the basis of a 365 day year for the actual number of days in any period for which such computation is made. Maker may, at its option, at any time, prepay this Note without premium in whole or in part.

To secure the debt evidenced by this Note, Maker hereby grants Holder a security interest in all the assets of Maker, whether now owned or hereafter acquired (the "Security Interest"). Holder agrees that this Note is subordinated to all of Maker's indebtedness ("Bank Indebtedness") pursuant to that certain Term Loan and Credit Agreement of even date herewith by and between Maker and Norwest Bank Minnesota, N.A., as such agreement may be amended from time to time. Holder acknowledges that this Note is subject to the terms and conditions of that certain Subordination Agreement dated as of even date herewith, by and among Maker, Holder and Norwest, as such agreement may be amended from time to time (the "Subordination Agreement"). The Security Interest is hereby expressly subordinated to any security interest granted by Maker in connection with Bank Indebtedness.

The occurrence of any of the following events shall constitute an Event of Default under this Note: (i) the failure to make any payment of principal or interest when and as the same becomes due and payable hereunder and such failure continues for a period of ten (10) days after notice; (ii) the insolvency, dissolution, or liquidation of Maker; (iii) any appointment of a receiver, trustee or similar officer of any property of Maker; (iv) any assignment for the benefit of creditors of Maker; (v) any commencement of any proceeding under any bankruptcy, insolvency, receivership, dissolution, liquidation or similar law by

or against Maker; (vi) the sale of all or substantially all of the Purchased Assets; or (vii) the occurrence of an event of default under the Premises Lease.

Subject to the terms and conditions of the Subordination Agreement, upon the occurrence of an Event of Default and at any time thereafter, Holder may, at its option, declare this Note to be immediately due and payable and thereupon this Note shall become due and payable for the entire unpaid principal balance of this Note plus accrued interest and other charges, fees and expenses under this Note without any presentment, demand, protest or other notice of any kind. If an Event of Default under this Note shall occur and be continuing, and at the option of the Holder hereof, interest shall thereafter be payable on the whole of the unpaid principal sum at fifteen percent (15%) per year whether or not Holder has exercised its option to accelerate the maturity hereof and declare the entire unpaid principal indebtedness due and payable.

This Note may not be negotiated, transferred, pledged or assigned except to Seller's Shareholders without the express written consent of Maker.

SPARTA FOODS, INC.

By: /s/ Joel P. Bachul

Its: Chief Executive Officer

FOOD PRODUCTS CORPORATION

By: /s/ Donald R. Charles

Its: Secretary

Exhibit 10.2

LEASE ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS AGREEMENT is made as of October 13, 1999, by and between FOOD PRODUCTS CORPORATION, an Arizona corporation ("FPC") and SPARTA FOODS, INC., a Minnesota corporation ("Buyer").

WHEREAS, FPC is the tenant of certain facilities located at 3121 East Washington, Phoenix, Arizona and at 3046 E. Madison, Phoenix, Arizona pursuant to a certain Lease Agreement dated November 1, 1994 (the "Lease") the right, title and interest in of which was assigned to FPC pursuant to an Assignment of Lease dated May 9, 1997.

WHEREAS, FPC and Buyer have entered into an Asset Purchase Agreement dated September 27, 1999 (the "Asset Purchase Agreement") pursuant to which Buyer will purchase substantially all of the assets of FPC effective as of the Closing Date under the Asset Purchase Agreement.

WHEREAS, FPC desires to assign the Lease to Buyer and Buyer desires to receive an assignment of, and assume FPC's obligations pursuant to, the Lease.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Assignment. FPC hereby sells, assigns and transfers to Buyer all of FPC's right, title and interest in and to the Lease, effective as of the Closing Date.

2. Assumption. Buyer hereby assumes and agrees to perform all of the obligations of FPC pursuant to the Lease, from and after the Closing Date.

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

FOOD PRODUCTS, INC.	SPARTA FOODS, INC.
By: /s/ Donald R. Charles	By: /s/ Joel P. Bachul
Its: Secretary	Its: Chief Executive Officer

LEASE AGREEMENT
BETWEEN
BRENNAN & WHEELER LIMITED PARTNERSHIP
AND
SBL ACQUISITIONS CORP., a Delaware corporation
DATED
NOVEMBER 1, 1994

INDEX

Section

LEASE AGREEMENT

THIS LEASE AGREEMENT is made as of this 1st day of November, 1994, by and between, BRENNAN & WHEELER LIMITED PARTNERSHIP, an Arizona limited partnership, hereinafter called "Landlord," and SBL ACQUISITION CORP., a Delaware corporation, hereinafter called "Tenant."

RECITALS:

Landlord is the owner of certain real property in the County of

Maricopa, State of Arizona located at 3121 East Washington, Phoenix, Arizona (the "Washington Property") more particularly described in Exhibit A attached hereto and incorporated herein by this reference and located at 3046 E. Madison, Phoenix, Arizona (the "Madison Property") described on Exhibit B attached hereto and incorporated herein by this reference. The Washington Property and the Madison Property are collectively referred to as the "Property". Landlord has constructed certain improvements on both the Madison Property and the Washington Property (collectively, the "Improvements").

The parties hereto agree as follows:

AGREEMENTS:

1. PREMISES

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, for the Term, at the Rental and upon all of the conditions set forth herein, that portion of the Property which consists of 57,212 square feet of floor space in the Improvements (34,775 square feet of which are located in the portion of the Improvements located on the Washington Property, and 22,437 square feet of which are located in the portion of the Improvements located on the Madison Property), together with a non-exclusive right to use the Property parking lot for parking vehicles of Tenant's employees, customers and licensees in the ordinary course of Tenant's business (collectively, the "Demised Premises").

Landlord leases the Demised Premises, and Tenant takes the Demised Premises, subject to all covenants, conditions and restrictions, easements and rights-of-way, taxes, assessments and all zoning and building codes.

2. TERM

2.1 Original Term. The original term of this Lease shall commence on November 1, 1994, and shall end on October 31, 1999.

2.2 Extended Term. Provided that Tenant is not in default beyond any applicable cure period under the terms of this Lease at the time of giving of Tenant's notice to extend the term hereof or at the expiration of the then

expiring term, Tenant may extend the original term of this Lease for an extended term of five (5) years by giving Landlord written notice of its intention so to do at least one hundred eighty (180) days prior to the expiration of the original term. Such extended term shall be upon all of the terms and conditions hereof, except that after the expiration of the extended term, if any, there shall be no further options to extend. As used in this Lease, "original term" means the original term hereinabove in this Section 2 specified; "extended term" means the term of the extension of the original term of this Lease pursuant to this Section 2, and "term," "Lease term" and "term of this Lease" embrace both

the original term and the extended term.

2.3 Acceptance of the Premises. Tenant acknowledges it has examined the Property, the Improvements and the Demised Premises prior to its occupancy thereof and takes the same in an "as is" condition, subject to Landlord's obligations with respect to roof repair pursuant to Section 3.5 below. Tenant further acknowledges that Landlord has made no representations or warranties concerning the Demised Premises and Tenant shall not cancel this Lease, offset rent, assert a claim for damages or otherwise based on a claim for breach of express or implied warranty, failure to deliver possession in accordance with the terms of this Lease, or constructive eviction by Landlord or others.

2.4 Zoning, Permits and Access. Tenant acknowledges that it has determined to its own satisfaction that the Property is zoned for Tenant's intended purposes, that Tenant is able to obtain any permit or license necessary for it to carry on its business on the Demised Premises and that access adequate for Tenant's intended purposes exists in to and out of the Property.

3. RENT

3.1 Rent. Tenant agrees to pay to Landlord rent of One Hundred Sixty-five Thousand Eight Hundred and Forty-five Dollars ($165,845.00) per annum (as such annual rent may increase after each year during the term of this Lease as provided herein) for the Demised Premises during the term hereof. Such rent is to be paid in equal monthly installments, without demand, in advance on the first day of each and every calendar month of the term hereof. If the term commences on a day other than the first day of the month, the fixed rent for the initial fractional month shall be prorated and paid with the rent paid for the first full calendar month of the term. Rent is initially calculated at the rate of $.12 per square foot per month of floor area of the Improvements located on the Madison Property and $.32 per square foot per month of floor area of the Improvements located on the Washington Property.

3.2 CPI Rent Adjustment. The rent payable for each year of the term of this Lease after the initial year including the years applicable to any extension pursuant to Section 2.2 above, shall be increased based on increases in the Consumer Price Index as follows:

(a) Procedure for Adjustment. On November 1 of each year, rent for the succeeding year of the term of this Lease (November 1 through October 31) shall increase by the same percentage as the percentage increase in the United States Consumer Price Index - All Items - U.S. City Average, All Urban Consumers (the base year reference period is 1982-1984 = 100) ("CPI"), as published by the

Bureau of Labor Statistics of the U.S. Department of Labor, during the preceding year of the term hereof (or for the immediately preceding 12 months for which information is then available from the Bureau of Labor Statistics of the U.S. Department of Labor if such information is not then published). In no event

shall rent decrease because of any CPI calculation.

(b) Comparable Index. In the event of discontinuance of the CPI as currently reported, the most closely comparable index of price changes as compiled by the Bureau of Labor Statistics or comparable federal agency shall be substituted.

3.3 Where Paid. Payments of rental shall be made to Landlord at the first address specified in Section 13 hereof, or at such other place as Landlord may from time to time in writing direct.

3.4 Triple Net Lease. It is mutually intended and understood that the rent is net of all taxes, utilities, insurance, casualty, internal and external maintenance costs, including but not limited to HVAC, electrical, mechanical and structural maintenance costs, and other charges, assessments and expenses attributable to the Demised Premises and shall be paid by Tenant in addition to the rent. All monetary obligations of Tenant contained herein are additional rent.

3.5 Roof Repair. In connection with the execution of this Lease, as soon as is reasonably possible but in no event later than fifteen (15) days after Tenant has given Landlord notice of completion of Tenant's mechanical repairs to the Demised Premises, Landlord shall commence the process of repairing the roof of the Improvements located on the Washington Property, said repair to put the Washington Property roof into good working order (the "Roof Repair"). Tenant will reimburse Landlord as additional rent for costs associated with the Roof Repair by paying to Landlord, each month throughout the term of this Lease, $400.00, said amount to be paid on or before the first day of each and every calendar month, said payment to be in addition to any other amounts payable by Tenant hereunder.

3.6 Impoundments. Landlord may, at its option, require Tenant to pay to Landlord, in addition to any other payments required under this Lease, a monthly advance installment, payable at the same time as each monthly installment of rent, as reasonably estimated by Landlord, for real property taxes on the Demised Premises, in which event Landlord shall timely pay such real property taxes. Landlord shall provide Tenant with copies of the most recent tax bills which are the basis of such additional payment. Such fund shall be established to insure payment when due of any or all such real property taxes. If the amounts paid to Landlord by Tenant under the provisions of this paragraph are insufficient to discharge the obligations of Tenant to pay such real property taxes as the same become due, Tenant shall pay to Landlord such additional sums as additional rent. All moneys paid to Landlord under this paragraph shall be deposited in a separate interest bearing trust account and such interest shall accrue to the benefit of Tenant and be remitted annually to the Tenant.

3.7 Past-due Obligations. Any amount due to Landlord not paid when due shall bear interest at an annual rate of four percent (4%) in excess of the prime rate of interest as announced by Bank One, Arizona, NA (the "Bank"), as the same may change from time to time, from the date due until paid. In

addition, Tenant shall pay $50.00 per day as liquidated damages on any amount

due to Landlord not paid when due which shall accrue from the due date until paid. Payment of such interest and liquidated damages shall not excuse or cure any default by Tenant under this Lease.

4. FIXTURES

Tenant at its own expense shall provide, install and maintain all trade fixtures and equipment reasonably required (and may substitute for and alter the same) to enable it to conduct its business in the Demised Premises in a good and businesslike manner. Such fixtures and equipment shall remain the property of Tenant and Tenant may remove the same or any part thereof at any time prior to the expiration or earlier termination of this Lease. Tenant shall repair at its own expense any damage to the Demised Premises caused by the removal of said fixtures or equipment by the Tenant. Any furniture, fixtures and equipment remaining after termination of this Lease shall be deemed abandoned by Tenant and shall become the property of the Landlord.

5. USE OF PREMISES

Tenant shall use the Demised Premises solely for the purpose of storage and production of food products and such other materials used in food production, storage of related supplies and uses incidental thereto and with the prior written consent of Landlord which consent shall not be unreasonably withheld, such other uses as the parties hereto may agree. Tenant shall conduct its business on the Demised Premises in a lawful manner and in strict compliance with all covenants, conditions and restrictions now or hereafter recorded against the Demised Premises and all governmental laws, rules, regulations and orders applicable to the business of Tenant conducted in and upon the Demised Premises. Without limiting the foregoing, Tenant shall use and operate the Demised Premises in strict accordance with any and all applicable rules and regulations promulgated by the Occupational Safety and Health Administration and the Americans with Disabilities Act. Any costs and liabilities associated with compliance with this Section 5 shall be the sole responsibility of Tenant.

6. PAYMENT OF TAXES AND INSURANCE

6.1 Payment by Tenant. Tenant shall pay before delinquency all insurance premiums relating to insurance coverage required by this Lease and any and all taxes and assessments, and other governmental impositions or charges of every nature, levied or assessed upon the Demised Premises, Tenant's property located upon the Demised Premises, together with all interest and penalties thereon. Tenant shall, within ten (10) days of Landlord's written request, furnish Landlord with written evidence of such payment. Notwithstanding the foregoing, Landlord, at its option, shall have the right to estimate the amount of taxes next due and to collect and impound from Tenant on a monthly basis the amount of Tenant's estimated tax obligation as provided in Section 3.5. All

taxes and assessments for the year in which this Lease commences or terminates shall be apportioned and adjusted. The term "taxes and assessments" as used herein shall not include personal income taxes, personal property taxes, inheritance taxes or franchise taxes levied against Landlord.

6.2 Right to Contest Taxes or Assessments. Tenant shall have the right to contest in good faith any tax or assessment levied on or against the Demised Premises or Property if Tenant fully pays any such tax or assessment before delinquency and prior to contesting the same. Tenant, with respect to contesting any tax or assessment, shall indemnify and hold Landlord harmless for any loss or damage arising therefrom.

6.3 Charges and Fees. Tenant shall be responsible for obtaining all permits respecting Tenant's use and occupancy of the Demised Premises, and shall pay all privilege charges, occupancy permit fees, license fees or other charges or taxes which are imposed on or with respect to the Demised Premises or the use and occupancy thereof.

6.4 Rent Tax, Etc. Tenant shall pay to Landlord, in addition to and along with the rentals otherwise payable hereunder, a sum equal to the aggregate of any rental, occupancy, use or transaction privilege taxes or like taxes now or hereafter levied or imposed by any federal, state, county, municipal or other governmental authority, or any subdivision thereof, during the term hereof or any extension or renewal thereof, against or on account of any and all amounts payable hereunder by Tenant or the receipt thereof by landlord (excluding Landlord's income taxes) which shall be paid monthly together with the rent as provided in Section 3.

7. DAMAGE TO PREMISES

7.1 Damage and Rebuilding. In the event that the Demised Premises should be damaged or destroyed during the term of this Lease, from any cause whatsoever, Tenant shall, except as hereinafter provided, forthwith and diligently repair or rebuild the same on the same plans and design as existed immediately prior to such damage. During the period of restoration or repair, there shall be no reduction, abatement or termination of the rent or other charges due under this Lease. Tenant may use the insurance proceeds, if any, for restoration and repair of the Demised Premises. Tenant shall cooperate with Landlord in connection with the collection of any insurance monies and, in the event that Tenant shall fail or neglect so to cooperate or to execute, acknowledge and deliver any such instrument, Landlord may as the agent or attorney-in-fact of Tenant execute and deliver any proofs of loss or any other instruments as may seem appropriate to Landlord for the collection of such insurance monies, and Tenant hereby irrevocably nominates, constitutes and appoints Landlord as Tenant's proper and legal attorney-in-fact for such purposes. All insurance monies, if any, paid on account of such damage or destruction, less the actual costs, fees and expenses, if any, incurred in connection with adjustment of the loss, shall be adjusted by and paid to Tenant

if the loss amounts to less than One Hundred Fifty Thousand Dollars ($150,000), but shall be adjusted by Landlord and Tenant and shall be paid to Landlord as provided below if the loss amounts to One Hundred Fifty Thousand Dollars ($150,000) or more. If the Demised Premises shall be substantially damaged or destroyed during the last year of the original term or the extended term, Tenant may terminate this Lease by giving written notice of such election, in which event Landlord shall be entitled to receive any insurance monies payable on account of such damage or destruction.

7.2 Repairs Greater than $150,000. The insurance proceeds which are payable to Tenant shall be used by Tenant to repair or rebuild the Demised Premises as provided above. The insurance proceeds which are payable to Landlord

shall be held by Landlord to pay for the costs of the restoration. Prior to the making of any repairs that cost in excess of One Hundred Fifty Thousand Dollars ($150,000), Tenant shall furnish Landlord with an estimate of the cost of such work prepared by a licensed architect or registered professional engineer, whose selection shall be subject to prior written approval by Landlord, which approval shall not be unreasonably withheld or delayed. Upon repair or rebuilding of the Demised Premises by Tenant, the insurance proceeds held by or on behalf of Landlord shall be paid from time to time to Tenant in draws for reimbursement for the work and materials actually incorporated in the Demised Premises, less five percent (5%) of the installment to be paid, upon the presentment of an application and certificate for payment (AIA Form G702 or equivalent), a certificate for payment issued by the architect and lien waivers by Tenant and all subcontractors, materialmen and suppliers for all work for which Tenant is seeking payment. If any mechanics' or materialmen's lien is filed against or upon the Demised Premises, Tenant shall not be entitled to receive any further draws until such lien is satisfied, bonded or otherwise discharged. The term "labor and material," as used herein shall include the cost of architectural and supervisory services, insurance and all other costs which may be involved in the repair or rebuilding of the Demised Premises. A final payment representing the five percent (5%) withheld by Landlord, up to the full balance of the insurance proceeds received by Landlord, shall be paid to Tenant within thirty (30) days after its lien-free completion of the repair and issuance of a final Certificate of Occupancy. If the insurance proceeds shall be insufficient for the complete repair of the Demised Premises in a workmanlike manner, Tenant shall be responsible for the deficiency. If the amount of such insurance proceeds shall be in excess of the cost of such repairs, such excess shall be retained by Tenant.

7.3 Uninsured Damage. If such damage or destruction shall not have been covered by collectible insurance, or if the insurance proceeds are insufficient to cover the cost of the restoration, Tenant shall, prior to commencing the restoration, deposit with Landlord an amount equal to the estimated cost of the restoration, or the amount of the deficiency, as the case may be, and said sum shall be disbursed in the same manner as insurance proceeds are required to be disbursed under Section 7.2 above. If Landlord and Tenant cannot agree upon such

amount within fifteen (15) days following the damage or destruction, such amount shall be determined by arbitration.

7.4 No Surrender. Except as otherwise provided herein, no destruction of or damage to the Demised Premises or any part thereof by fire or any other casualty, irrespective of whether such destruction or damage may occur on or after the date of the commencement of the term of this Lease, shall permit Tenant to surrender this Lease or shall relieve Tenant from its liability to pay the full rent, and other charges payable under this Lease. Lessee waives the provisions of any statutes which relate to termination of leases when the thing leased is destroyed and agrees that such event shall be governed by the terms of this Lease.

8. INSURANCE AND INDEMNIFICATION

8.1 Insurance. During the term hereof, Tenant shall, at its own expense, carry the following insurance:

(a) Building Coverage (including the so-called "All Risks Endorsement") in an amount of 100% of full replacement value of the Improvements and appurtenances and naming Landlord as an additional named insured, as its interests may appear.

(b) Umbrella Liability Coverage in the amount of $3,000,000.00 and naming Landlord as an additional named insured, as its interests may appear.

(c) Statutory Workmen's Compensation (including employer's liability) in the amount required by law.

(d) Commercial General Liability Coverage (including premises liability, products and completed operations, premises medical, broad form drive other car auto coverage, personal injury (including employees acting within the scope of their employment), contractual liability, independent contractor's coverage and employee benefit (liability)) in the amount of $500,000.00 and naming Landlord as an additional named insured, as its interests may appear.

(e) Boiler and Machinery Coverage.

(f) Loss of Rents, Business Interruption and Gross Earnings Coverage in the amount of 100% coverage for a period of 12 months (special form, subject only to standard exclusions) and naming Landlord as an additional named insured, as its interests may appear.

All insurance to be obtained hereunder shall be in a company or companies licensed to do business in the State of Arizona and rated A or better in the latest Best's Insurance Guide of Property - Casualty Insurance Companies or highest available rating in the event no insurance carrier in this class will provide such insurance. All insurance proceeds payable to Tenant and/or Landlord

shall be paid as provided in this Lease, and, if applicable, made available to Tenant to repair or rebuild the demised premises as provided herein.

8.2 Indemnification. Tenant, with respect to its use and occupancy of the demised premises, agrees, at the option of Landlord to defend Landlord, its agents, servants and employees, against any, all and every demand, claim, assertion of liability, or action arising or alleged to have arisen out of any act or omission of Tenant, its agents, servants, employees, and occupants of the Demised Premises, whether such demand, claim, assertion of liability, obligation of payment or action be for damages, injury to person or property, including the property of Landlord, or death of any person, made by any person, group or organization, whether employed by either of the parties hereto, an occupant of the Demised Premises or otherwise, and agrees to assume legal liability for, indemnify and hold free and harmless Landlord, and its agents, servants and employees, from any and all loss, damages, liability, reasonable costs or expenses (including, but not limited to, reasonable attorneys' fees, reasonable investigative and discovery costs and court costs) and all other sums which Landlord, its agents, servants, employees and partners may reasonably pay or become obligated to pay on account of any, all and every demand, claim, assertion of liability or action arising or alleged to have arisen out of any act or omission of Tenant, its agents, servants, employees, or occupants of the Demised Premises, whether such claim, demand, assertion of liability or action be for damages, injury to person or property, including the property of

Landlord, or death of any person, made by any person, group or organization, whether employed by either of the parties hereto, an occupant of the Demised Premises or otherwise.

8.3 Notice and Right to Defend. Landlord agrees that, upon receipt of a claim in respect of which indemnity may be sought under Section 8.2 above, Landlord shall give written notice within 10 days of such claim (the "Notice of Claim") to Tenant. No indemnification under Section 8.2 shall be available to Landlord if it fails to give the required Notice of Claim within 10 days if Tenant was unaware of the claim and was prejudiced by failure to receive the Notice of Claim in a timely manner. Tenant shall be entitled at its own expense to participate in the defense of any claim or action against Landlord. Tenant shall have the right to assume the entire defense of such claim provided that (i) Tenant gives written notice of its desire to defend such claim (the "Notice of Defense") to Landlord within 15 days after Tenant's receipt of the Notice of Claim; (ii) Tenant's defense of such claim shall be without cost to Landlord or prejudice to Landlord's rights under Section 8.2; (iii) counsel chosen by Tenant to defend such claims shall be reasonably acceptable to Landlord; (iv) Tenant shall bear all costs and expenses in connection with the defense of such claim; and (v) Landlord shall have the right, at Landlord's expense, to have Landlord's counsel participate in the defense of such claim.

8.4 Certificates of Insurance. Tenant agrees to deliver to Landlord certificates of insurance evidencing the existence in force of the policies of

insurance hereinabove provided for. Each of such certificates shall provide that such insurance shall not be canceled or amended in any manner unless twenty (20) days' prior written notice of such cancellation or amendment is given to Landlord.

8.5 No Contributing Insurance. Tenant shall not carry separate insurance that is concurrent in coverage and contributing in the event of a loss to insurance to be carried under this Section, if the effect of such separate insurance would reduce the amount of insurance proceeds available to the parties hereto.

8.6 Exemption from Liability. Except for the intentional or negligent acts or omissions of Landlord, Landlord shall not be liable for (i) injury to Tenant's business or any loss of income therefrom or for damage to the furniture, fixtures and equipment, or other property of Tenant, Tenant's employees, occupants of the Demised Premises, invitees, customers, or any other person in or about the Demised Premises, (ii) injury to the person of Tenant, Tenant's employees, agents, contractors, or occupants of the Demised Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said damage or injury results from conditions arising upon the Demised Premises, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant.

9. EXERCISE OF EMINENT DOMAIN

9.1 Taking. An appropriation or taking under the power of eminent domain of all, or a portion, of the Demised Premises, or the sale by private

sale of all or a portion of the Demised Premises in lieu thereof, are sometimes hereinafter called a "taking." If fifty percent (50%) or more of the Improvements constituting a portion of the Demised Premises shall be taken, this Lease shall terminate and expire as of the date of taking of actual physical possession of the Improvements constituting a portion of the Demised Premises by the condemnor or purchaser, and the parties hereto shall thereupon be released from any and all further liability hereunder. Tenant shall have no right, title or interest in or to any amounts received by Landlord in connection with any taking. Nothing in this Section 9 shall be construed as a waiver by Landlord or Tenant of any rights vested in it by law to recover damages from a condemnor for the taking of its right, title, or interest in the Property.

9.2 Partial Taking. In the event of the taking of less than fifty percent (50%) of the Improvements or the Demised Premises, then, if in Tenant's reasonable judgment such taking renders the Demised Premises wholly unsuitable for the operation of its business, Tenant may terminate this Lease upon written notice to Landlord, and the parties hereto shall thereupon be released from any

and all further liability hereunder. In the event that the Tenant does not elect to terminate this Lease as provided in this Section 9.2, Landlord shall as soon as is reasonably possible, to the extent condemnation award proceeds are available, make all repairs and alterations to the Improvements constituting a portion of the Demised Premises necessitated by such taking or sale, and Tenant shall repair, alter, remove or replace its fixtures in the Improvements constituting a portion of the Demised Premises necessitated by such taking or sale. In such event, Tenant shall continue to utilize the Demised Premises for the operation of its business to the extent that it may be practicable to do so from the standpoint of good business. If Tenant continues doing business in the Demised Premises prior to the completion of repair and restoration work by Landlord, the rent payable by Tenant shall be equitably abated in the proportion that the unusable part of the Demised Premises bears to the whole thereof. Rent payable after the time Tenant resumes business in the Demised Premises as diminished by any taking or sale shall be equitably reduced in the proportion which the area taken or sold bears to the total area of the Demised Premises.

9.3 Claims by Tenant. Tenant shall have the right to claim and recover such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right on account of damage to Tenant's business or leasehold interest by reason of a complete or partial taking and for or on account of any cost or loss which Tenant might incur in removing Tenant's merchandise, personal property, trade fixtures, leasehold improvements and equipment.

10. UTILITIES

Tenant shall pay during the term hereof all electric, water, sewer, gas, telephone and other public utility charges in connection with its occupancy and use of the Demised Premises, including all costs of operating and maintaining all equipment therein, all business licenses and similar permit fees. Any such costs paid by Landlord on behalf of Tenant shall be reimbursed to Landlord within ten (10) days of presentation to Tenant of a statement showing in reasonable detail the amounts paid by Landlord. Landlord shall not be liable to Tenant for damages because of an interruption in utility services, and Tenant shall not be entitled to claim a constructive eviction due to such interruption.

11. COVENANTS AGAINST LIENS

Tenant covenants and agrees that it shall not, during the term hereof, suffer or permit any lien to be attached to or upon the Demised Premises or any part thereof by reason of any act or omission on the part of Tenant, and hereby agrees to save and hold harmless Landlord from or against any such lien or claim of lien. In the event that any such lien does so attach, and is not released within thirty (30) days after notice to Tenant thereof, or if Tenant has not indemnified Landlord against such lien within said thirty (30) day period, Landlord, in its sole discretion, may pay and discharge the same and relieve the Demised Premises therefrom, and Tenant agrees to repay and reimburse Landlord upon demand for the amount so paid by Landlord. Notwithstanding anything to the

contrary contained herein, Tenant shall be entitled to grant security interests in and to Tenant's personal property and equipment located in the Demised Premises, upon an instrument previously approved by Landlord, such approval shall not be unreasonably withheld or delayed.

12. ASSIGNMENT AND SUBLETTING

12.1 Restrictions on Assignment and Subletting. Tenant shall not assign this lease or sublease all or any part of the Demised Premises, including any assignment by operation of law, merger or reorganization, nor permit other persons to occupy or conduct business in said Demised Premises or any part thereof, nor grant any license, management contract or franchise for all or any part of the Demised Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Any assignment by operation of law, attachment or assignment for the benefit of creditors shall, at Landlord's option, be inoperative. Notwithstanding anything to the contrary contained in this Section 12.1 Tenant may assign this Lease as collateral security or grant a leasehold mortgage to Tenant's lenders upon an instrument previously approved by Landlord, such approval shall not be unreasonably withheld or delayed.

12.2 No Release of Tenant. Regardless of Landlord's consent, no assignment or subletting shall release Tenant of its obligations hereunder or alter the primary liability of Tenant to pay the rent and to perform all other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from a subtenant shall not be deemed to be a waiver by Landlord of any provision hereof.

12.3 No Waiver. If Landlord at any time consents in writing to any assignment or sublease pursuant to paragraph 12.1, Tenant and any such assignee or subtenant shall not make any further assignment or sublease contrary to the provisions of paragraph 12.1. The consent of Landlord to any assignment or sublease shall not be a waiver of Tenant's or a subtenant's duty to obtain Landlord's prior written consent for a subsequent assignment or sublease.

13. NOTICES

Any notices required to be given hereunder, or which either party hereto may desire to give to the other, shall be in writing. Such notice may be given by mailing the same by United States mail, registered or certified, return receipt requested, postage prepaid, addressed as follows:

If to Landlord: Brennan & Wheeler Limited Partnership
6211 East Huntress
Paradise Valley, Arizona 85253
Attention: David Brennan

With a required copy to:

Scott W. Ruby, Esq.
Gust Rosenfeld
201 North Central Avenue, Suite 3300
Phoenix, Arizona 85073

If to Tenant: SBL Acquisitions Corp.
3121 East Washington
Phoenix, Arizona 85034
Attention: Anthony Collura

With a required copy to:

Gary G. Keltner, Esq.
Jennings, Strouss & Salmon
Two North Central, Suite 1600
Phoenix, Arizona 85004

Signature Brands Limited
122 Cauricu Drive
Etobicoke, Ontario
Canada M9W 5Rl
Attention: Carl Pahapill

or to such other address as the respective parties may from time to time designate by notice given in the manner provided in this Section, and shall be deemed complete upon delivery if personally delivered or 7 days after mailing if mailed.

14. RIGHT TO GO UPON PREMISES

Landlord hereby reserves the right for itself or its duly authorized agents and representatives at all reasonable times during business hours of Tenant during the term hereof upon prior notice to Tenant (except in the event of an emergency no prior notice shall be required) to enter upon the Demised Premises for the purpose of inspecting the same and of showing the same to any prospective purchaser or encumbrancer.

15. MAINTENANCE

15.1 Maintenance. Subject to Section 3.5 above, Tenant shall, at its own expense, maintain the entire Demised Premises in good order, condition and repair, including, without limiting the generality of the foregoing, the roof and its supporting members, roof covering, foundations, interior and exterior walls, floor coverings, structural aspects of the floor, heating, ventilation, air conditioning systems ("HVAC systems"), plumbing, sewage lines, electrical and lighting facilities, fixtures, ceilings, windows, doors, plate glass, and all landscaping, driveways, sidewalks, parking areas, fences and signs located

on the Demised Premises.

15.2 Landlord's Right to Cure. If Tenant fails to maintain the Demised Premises pursuant to paragraph 15.1, Landlord may, at its option, enter upon the Demised Premises after ten (10) days' written notice (except in an emergency, in which event no notice is necessary), perform such obligations on Tenant's behalf and put the Demised Premises in good order, condition and repair, and the cost thereof, together with interest thereon, from the date of expenditure until paid, at an annual rate of four percent (4%) in excess of the Bank's prime rate of interest, as the same may change from time to time, shall be due and payable as additional rent with Tenant's next monthly rental payment.

15.3 Reconveyance to Landlord. At the end of the lease term or sooner termination of this Lease, whether by operation of law, or for failure to comply with the provisions hereof, or otherwise, Tenant shall deliver up the Demised Premises in the same order, condition and repair as when received by Tenant, depreciation caused by ordinary wear and tear excepted.

16. DEFAULT

16.1 Events of Default. The occurrence of any of the following events shall be deemed to constitute an event of default on the part of Tenant hereunder:

(a) In the event that a voluntary petition shall be filed by Tenant, under the United States or Canadian federal bankruptcy law or under the law of any state in the United States or province in Canada, to be adjudicated a bankrupt or for any arrangement or other debtor's relief; or any such petition shall be filed against Tenant by any other party and not dismissed within sixty (60) days after the filing thereof; or a permanent receiver, trustee or liquidator shall be appointed for Tenant, or any of the property of Tenant, and such receiver, trustee or liquidator is not discharged within sixty (60) days after the date of his appointment;

(b) In the event Tenant shall default in the payment of any monetary obligations required to be paid by Tenant hereunder and such default shall continue for more than five (5) days;

(c) In the event Tenant shall default in the performance of any other covenant or agreement herein (other than the payment of a monetary obligation) and such default shall continue for twenty (20) days after written notice thereof from Landlord to Tenant, or if such default is not of the type

which could reasonably be cured within twenty (20) days, if Tenant has not commenced to cure such default within said twenty (20) day period and does not thereafter diligently prosecute the curing of such default to completion;

(d) Except as provided in this Lease, if Tenant creates,

incurs, assumes or suffers to exist any mortgage, pledge, lien, charge, encumbrance, or security interest upon or in any of the Demised Premises; and

(e) Any default by Signature Brands Limited, a Canadian corporation ("Guarantor") under that certain Guaranty Agreement dated November 1, 1994, executed by Guarantor in favor of Landlord attached hereto as Exhibit C.

16.2 Remedies. In the event of the occurrence of any event of default specified above in Section 16.1 hereof, Landlord may, so long as such default continues:

(a) Terminate Tenant's right to possession and reenter the Demised Premises, or any part thereof, and expel or remove therefrom Tenant and any other persons occupying the same, using such force as may be necessary to do so. Such reentry shall not limit Tenant's obligations to pay any amounts due hereunder. Such reentry shall not act as an acceptance by the Landlord of Tenant's surrender of the Demised Premises or as a termination of the Lease, except if so agreed by Landlord in writing;

(b) Maintain Tenant's right to possession in which case this Lease shall continue in effect whether or not Tenant shall have abandoned the Demised Premises;

(c) Terminate this Lease and Tenant's right to possession;

(d) In all events Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default including, but not limited to, the cost of recovering possession of the Demised Premises, expense of reletting (including renovation of the Demised Premises reasonably necessary in connection with reletting the Demised Premises), reasonable attorneys' fees and costs, real estate commissions, repairs, advertising, costs of care, costs of removing and storing Tenant's property, the worth at the time of the award by the court having jurisdiction of the amount by which unpaid rent for the balance of the term exceeds the amount of such rental loss for the same time period that Tenant proves could be reasonably avoided; and

(e) Pursue any other rights or remedies available at law or equity.

16.3 Non-exclusion Remedies. The remedies of Landlord provided by this Section 16 are nonexclusive. No surrender of the Demised Premises by Tenant shall be effective unless such surrender is accepted in writing by the Landlord.

16.4 Landlord Default. Should Landlord default in the performance of any covenant or agreement herein, and such default continues for thirty (30) days after receipt by Landlord of written notice thereof from Tenant, or if the default of Landlord is of a type which is not reasonably possible to cure within

thirty (30) days, if Landlord has not commenced to cure said default within said thirty (30) day period and does not thereafter diligently prosecute the curing of said default to completion, Tenant may take such action reasonably necessary to cure such default, and Tenant shall be reimbursed by Landlord upon demand by Tenant for the reasonable costs actually incurred by Tenant in so performing or curing.

16.5 Landlord's Right to Cure. If Tenant fails to perform any covenant or agreement set forth herein or in any way defaults under or breaches any provision or term of this Lease and such failure, default or breach continues for five (5) days after written notice thereof, then in addition to any other right or remedy hereunder or under the laws of this State, Landlord may, but shall not be obligated to, perform such covenant or agreement or cure such default or breach and do all necessary work and make all necessary payments in connection therewith, including without limitation, attorneys' fees and disbursements, for the account, and at the expense of, Tenant. The amount of all cost and expense incurred or paid by Landlord in so performing or curing shall be paid by Tenant to Landlord upon demand, together with interest at the annual rate of four percent (4%) in excess of the Bank's prime rate of interest, as the same may change from time to time.

17. SIGNS

All of Tenant's signs visible from the exterior of the Demised Premises shall require the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Tenant shall not install, erect or maintain any sign in violation of any applicable law, ordinance or use permit of any governmental authority. Tenant may remove any such sign at any time during the term of this Lease, and shall remove the same upon the expiration thereof or sooner termination of this Lease, and Tenant at its own expense shall repair any damage caused by the removal thereof by the Tenant.

18. ATTORNEY'S FEES

If either party hereto incurs attorney's fees and related expenses in enforcing any provision of this Lease, the prevailing party shall be entitled to its reasonable attorneys' fees, expenses and costs, whether or not suit is brought.

19. SUBORDINATION AND ATTORNMENT

19.1 Subordination. Provided Tenant receives the non-disturbance agreements referred to in Section 19.2, Tenant agrees that: (a) this Lease is, and all of Tenant's rights hereunder are and shall always be, subject and subordinate to (1) any mortgages, deeds of trust or security instruments (sometimes hereinafter "Mortgage"), which now exist or may hereafter be placed upon the Demised Premises or any part thereof and to all advances made or to be made thereunder and to the interest thereon and all renewals, replacements, modifications, consolidations or extensions thereof, (2) all ground or underlying Leases or subleases, including without limitation, sale-leaseback or

lease-leaseback leases (sometimes hereinafter "Underlying Leases"), to which Landlord is or may become a party as tenant or subtenant thereunder, (3) the

right of any mortgagee under a mortgage to unilaterally subordinate the mortgage to this Lease by a written instrument recorded in the records of Maricopa County, Arizona Recorder's Office and specifically causing such subordination to occur; and (b) if the holder of any such Mortgage, or if the purchaser at any foreclosure sale or at any sale under a power of sale contained in any Mortgage, or the lessor under any Underlying Lease, at its sole option so requests, Tenant will attorn to and recognize such mortgagee, purchaser or lessor as Landlord under this Lease, subject to all of the terms of this Lease; and (c) the aforesaid provision shall be self-operative and no further instrument or document shall be necessary unless required by such mortgagee, purchaser or lessor. Tenant, upon written request, shall execute and deliver to Landlord, without charge, and in form satisfactory to Tenant and Landlord, all instruments and documents that may be requested to acknowledge such subordination.

19.2 Non-Disturbance. Notwithstanding such subordination, Tenant's right to quiet possession of the Demised Premises shall not be disturbed so long as Tenant is not in default beyond any applicable grace period and pays the rent and observes and performs all of the terms and conditions of this Lease, unless this Lease otherwise is terminated pursuant to its terms. Landlord shall obtain from each holder of a Mortgage and from each lessor of an Underlying Lease a non-disturbance agreement in such form that protects Tenant's rights of non-disturbance as set forth in the preceding sentence.

20. HOLDING OVER

If Tenant continues to occupy the Demised Premises after the expiration of the term of this Lease and Landlord accepts rent thereafter, a monthly tenancy terminable by either party on one month's notice shall be created, which shall be upon the same rental, terms and conditions as those herein specified, except that rent payable hereunder shall be increased to 125% of the rent payable hereunder for the last full calendar month of the Lease term or applicable renewal, and Tenant shall not have the option to extend the term hereof. Nothing contained herein shall be deemed the consent of Landlord to any such holding over.

21. ESTOPPEL CERTIFICATES

Each party hereto shall, at any time during the term of this Lease, within thirty (30) days after written notice from the other, execute and deliver to the other a statement in writing certifying that this Lease is unmodified and in full force and effect, or if modified, stating the nature of such modification. Such party's statement shall include other details reasonably requested by the other party hereto such as the date to which rent and other charges are paid, such party's knowledge concerning any uncured defaults with respect to the other party's hereto obligations under this Lease and the nature

of such defaults if they are claimed. Any such statement may be relied upon conclusively by any prospective purchaser or encumbrancer of the Property.

22. SUCCESSORS IN INTEREST

Each and all of the covenants, agreements, obligations, conditions and provisions of this Lease shall inure to the benefit of and shall bind the successors and assigns of the respective parties hereto. If Landlord sells the Property (or conveys its interest in the Property) (a) Landlord shall thereupon

be released and discharged from any and all further obligations at or after the sale as landlord under this Lease, except for such obligations, if any, as pertain to any portion of the Property as to which Landlord does not convey its interest concurrently with its conveyance of the Property or which relate to events or conditions occurring prior to the date of such transfer; and (b) the transferee shall assume all of the obligations of Landlord hereunder from and after the date of such transfer.

23. RECORDING INDENTURE

It is agreed that no indenture of this Lease shall be recorded. Tenant may record a memorandum of this Lease.

24. REMEDIES ARE CUMULATIVE

Remedies conferred by this Lease upon the respective parties are not intended to be exclusive, but are cumulative and in addition to remedies otherwise afforded by the law.

25. QUIET POSSESSION

Landlord covenants that Tenant shall have quiet and peaceful possession thereof as against any adverse claim of any party so long as Tenant is not in default beyond any applicable cure period under the terms, covenants and conditions hereof.

26. ALTERATIONS AND ADDITIONS

26.1 Alteration. Tenant shall not make any structural alterations, improvements or additions in, on or about the Demised Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Landlord may require Tenant to provide Landlord, at Tenant's own expense, a lien and completion bond in an amount equal to the estimated cost of such improvements, to insure Landlord against any liability for mechanics' and materialmen's liens and to insure completion of the work. Should Tenant make any alterations, improvements or additions without the prior written approval of Landlord, Landlord may require that Tenant remove any or all

of the same.

26.2 Plans. Any alterations, improvements or additions in, on or about the Demised Premises that Tenant shall desire to make shall be presented to Landlord in written form, together with detailed plans and specifications of Tenant's proposed work. If Landlord shall give its written consent, which consent shall not be unreasonably withheld or delayed, the consent shall be deemed conditioned upon Tenant acquiring all permits from all governmental agencies having jurisdiction over the Demised Premises or Tenant's use and occupancy thereof, the furnishing of a copy thereof to Landlord prior to the commencement of the work and the compliance by Tenant of all conditions of said permit.

26.3 Lien. Tenant shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use in the Demised Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Demised Premises or any interest therein. Tenant

shall give Landlord not less than twenty (20) days' notice prior to the commencement of any work in the premises, and Landlord shall have the right to post notices of nonresponsibility in or on the Demised Premises as provided by law.

26.4 End of Term. Except as otherwise set forth in Section 4 hereof, all alterations, improvements and additions which may be made on the Demised Premises, shall become the property of Landlord and remain upon and be surrendered with the Demised Premises at the expiration of the lease term.

26.5 Government Order. Any alterations, improvements or additions in, on or about the Demised Premises (collectively "Alterations"), that may be necessary or required by reason of any law, rule, regulation or order, now existing, promulgated by a governmental authority having jurisdiction over the Demised Premises or Tenant's use and occupancy thereof, including but not limited to those required pursuant to the Americans with Disability Act, shall be at the sole cost and expense of Tenant, and Tenant shall make the same in an expeditious fashion. In addition, Tenant, at Tenant's sole cost and expense, shall make any Alterations which are legally required pursuant to any law, rule, regulation or order, or amendment to the same, promulgated by a governmental authority, after the date hereof, having jurisdiction over the Demised Premises or Tenant's use or occupancy thereof, but only to the extent that such Alterations are required by such law, rule, regulation or order based upon Tenant's use of the Demised Premises or as a result of structural alterations, improvements or additions undertaken by Tenant pursuant to Section 26.1 above.

27. PARTIAL INVALIDITY

If any term, covenant or condition of this Lease or the application thereof to any party or circumstance shall, to any extent, be invalid or

unenforceable, the remainder of this Lease or the application of such term, covenant or condition to parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and every other term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

28. ENVIRONMENTAL MATTERS

Tenant hereby warrants and covenants that at no time shall it allow any Hazardous Material, as hereafter defined, to be used or stored upon the Demised Premises.

As used herein, "Hazardous Material" means and includes, without limitation: (i) "hazardous substances", or "toxic substances" as those terms are defined by the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 U.S.C. ss. 96001 et seq.; the Arizona Environmental Quality Act, A.R.S. ss.ss. 49-101 et seq.; or the Hazardous Materials Transportation Act, 49 U.S.C. ss. 1802, all as amended and hereafter amended; (ii) "hazardous wastes", as that term is defined by the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. ss. 6902 et seq., as amended and hereafter amended; (iii) any pollutant or contaminant or hazardous, dangerous or toxic chemicals, materials, or substances within the meaning of any other applicable federal,

state or local law, regulation, ordinance, or requirement (including consent decrees and administrative orders) relating to or imposing liability or standards of conduct concerning any hazardous, toxic or dangerous waste substance or material, all as amended or hereafter amended; (iv) petroleum products, including, but not limited to, crude oil or any fraction thereof which is liquid at standard conditions of temperature and pressure (60 degrees Fahrenheit and 14.7 pounds per square inch absolute) and substances containing hydrocarbons (other than petroleum products which are normally contained in motor vehicles, to the extent that said petroleum products are not released from said motor vehicles); (v) any radioactive material, including any source, special nuclear or by-product material as defined as 42 U.S.C. ss. 2001 et seq., as amended or hereafter amended (collectively, the "Statutes"); (vi) asbestos in any form or condition; and (vii) polychlorinated biphenyls ("PCB") or substances or compounds containing PCBs.

Tenant hereby agrees, unconditionally, absolutely and irrevocably to indemnify, defend and hold Landlord, its successors and assigns, partners and employees from and against any loss, liability, cost, injury, expense or damage of any and every kind whatsoever (including but not limited to court costs and attorneys' fees and expenses) which at any time or from time to time, during the Term of this Lease or Tenant's possession of the Demised Premises, may be suffered or incurred in connection with any inquiry, charge, claim, cause of action, demand or lien made or arising directly or indirectly or in connection with, with respect to, or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, invasion or release

from or onto the Demised Premises of any Hazardous Material, unless such condition is caused by Landlord, its partners, agents, servants or employees. The provisions of this Section 28 shall survive the termination of this Lease. The indemnification set forth herein shall be subject to the notice and right to defend provisions as set forth in Section 8.3 above.

29. VENUE

Tenant agrees that all actions or proceedings arising directly, indirectly or otherwise in connection with, out of, related to or from this Lease shall be litigated, at Landlord's sole discretion and election, only in courts having a situs within the County of Maricopa, State of Arizona. Tenant hereby consents and submits to the jurisdiction of any local, state or federal court located within said county and state. Tenant hereby irrevocably appoints and designates Gary G. Keltner, whose address is Two North Central, Suite 1600, Phoenix, Arizona 85004, as its duly authorized agent for service of legal process and agrees that service of such process upon such party shall constitute personal service of process upon Tenant. In the event service is undeliverable because such agent moves, Tenant shall, within ten (10) days after Landlord's request, appoint a substitute agent (in Phoenix, Arizona) on its behalf and within such period notify Landlord of such appointment. If such substitute agent is not timely appointed, Landlord shall, in its sole discretion, have the right to designate a substitute agent upon five (5) days notice to Tenant. Tenant hereby waives any right it may have to transfer or change the venue of any litigation brought against it by Landlord on this Lease in accordance with this paragraph.

30. GENERAL CONDITIONS

Time is of the essence of this Lease. All amounts payable by Tenant hereunder shall be deemed additional rental for the purposes of this Lease. This Lease has been executed and delivered in the State of Arizona, and shall be

governed and construed in accordance with Arizona law without regard to conflicts of law principles. No waiver of any breach of the covenants, agreements, obligations and conditions of this Lease to be kept or performed by either party hereto shall be effective unless in writing and signed by the waiving party, and no such waiver by either party shall be construed to be a waiver of any succeeding breach of the same or any other covenant, agreement, obligation, condition or provision hereof. The use herein of any gender or number shall not be deemed to make inapplicable the provision should the gender or number be inappropriate to the party referenced. Landlord and Tenant have negotiated this Lease, have had the opportunity to be advised respecting the provisions contained herein and have had the right to approve each and every provision hereof; therefore, this Lease shall not be construed against either Landlord or Tenant as a result of the preparation of this Lease by or on behalf of either party. Landlord shall in no event be construed, held or considered in any way or for any purpose to be a partner, associate or joint venturer of

Tenant or of any party associated with Tenant in the conduct of its business by virtue of the terms and provisions of this Lease or Landlord's execution hereof. This Lease is the entire agreement between the parties, and it supersedes and replaces all prior agreements and understandings, whether written or oral.

IN WITNESS WHEREOF, upon the day and year first hereinabove written, the respective parties hereto have executed this Lease Agreement, consisting of: Sections 1 through 30 and Exhibits A, B and C, personally or by officers or agents thereunto duly authorized.

BRENNAN & WHEELER LIMITED
PARTNERSHIP, an Arizona limited
partnership
Fed. Taxpayer I.D. # 86-0346635

By /s/ David J. Brennan
David J. Brennan
Its General Partner

[Landlord]

SBL ACQUISITIONS CORP., a Delaware
corporation
Fed. Taxpayer I.D. # 86-0772775

By /s/ Anthony J. Collura, Jr.
Its President

[Tenant]

State of Arizona

County of Maricopa

The foregoing instrument was acknowledged before me this 14th day of November, 1994, by David J. Brennan, as general partner of Brennan & Wheeler Limited Partnership, an Arizona limited partnership, on behalf of the partnership.

(Seal and Expiration Date)

/s/ Illegible
Notary Public

State of Arizona

County of Maricopa

The foregoing instrument was acknowledged before me this 8th day of November, 1994, by Anthony J. Collura, Jr., the President, of SBL Acquisitions Corp., a Delaware corporation, on behalf of the corporation.

(Seal and Expiration Date)

/s/ Illegible
Notary Public

EXHIBIT A

The North half of Lot 6, according to plat of the East half of the Northeast quarter of Section 11, Township 1 North, Range 3 East of the Gila and Salt River Base and Meridian, according to Book 1 of Maps, page 45, records of Maricopa County, Arizona.

EXHIBIT B

PARCEL I

The West one-fourth of the South 264 feet of Lot 6 of the Subdivision of the East half of the Northeast quarter of Section 11, Township 1 North, Range 3 East of the Gila and Salt River Base and Meridian, according to Book 1 of Maps, page 45, records of Maricopa County Recorder, Arizona;

EXCEPT that portion, if any, lying within the North 66 feet of the South half of said Lot 6.

PARCEL II

The South 132 feet of the East half of the East half of the West half of Lot 6, according to the plat of the East half of the Northeast quarter of Section 11, Township 1 North, Range 3 East of the Gila and Salt River Base and Meridian, in Book 1 of Maps, page 45, records of Maricopa County Recorder, Arizona.

PARCEL III

That portion of Lot 6, as shown on plat of the East half of the Northeast quarter of Section 11, Township 1 North, Range 3 East of the Gila and Salt River Base and Meridian, according to the plat of record in the office of the Maricopa County Recorder in Book 1 of Maps, page 45, described as follows:

BEGINNING at the Northwest corner of the South half of said Lot 6;

thence Easterly along the North line of the South half of said Lot 6 123.86 feet;

thence Southerly on a straight line to a point on a line 66 feet Southerly of and parallel with said North line of the South half of said Lot 6, said point being 123.90 feet Easterly along said parallel line from the West boundary line of Lot 6;

thence Westerly along said parallel line 123.90 feet to its intersection with the West boundary line of Lot 6;

thence Northerly along said West boundary line of Lot 6, a distance of 66 feet to the point of beginning.

PARCEL IV

The West half of the East half of the West half of the South half of Lot 6, as shown on plat of the East half of the Northeast quarter of

Section 11, Township 1 North, Range 3 East of the Gila and Salt River Base and Meridian, according to the plat of record in the office of the Maricopa County Recorder in Book 1 of Maps, page 45;

Except the North 66 feet thereof.

Together with all easements, improvements and appurtenances appertaining thereto.

EXHIBIT C

LEASE GUARANTY

1. FOR VALUE RECEIVED, and in consideration for, and as an inducement to Landlord, BRENNAN & WHEELER LIMITED PARTNERSHIP, an Arizona limited

partnership, to enter into that certain Lease Agreement dated November 1, 1994, by and between Landlord and SBL ACQUISITIONS CORP., a Delaware corporation, Tenant (the "Lease") incorporated herein by this reference, the undersigned, SIGNATURE BRANDS LIMITED, a Canadian corporation (hereinafter "Guarantor"), hereby absolutely and unconditionally guarantees the full performance and observance of all the covenants, duties and obligations (including, without limitation, the obligation to pay all rent and other sums and to perform under all indemnitees, environmental or otherwise) therein provided to be performed and observed by Tenant, Tenant's successors and assigns (the phrase "successors and assigns" not altering any of the provisions of said Lease Contract relating to assignment or subletting); and Guarantor hereby makes itself fully liable for such performance.

2. Guarantor expressly agrees that the validity of this Lease Guaranty and its obligations hereunder shall in no wise be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord by said Lease. Guarantor further covenants and agrees that this Lease Guaranty and the full liability of Guarantor hereunder shall remain and continue in full force and effect notwithstanding the occurrence of any one or more of the following types of transactions (whether or not Guarantor shall have received any notice of or consented to any such transaction): (i) any renewal, extension, modification or amendment of said Lease; (ii) any assignment or transfer by Landlord; (iii) any assignment or transfer or subletting by Tenant; (iv) any dissolution of Tenant; or (v) the fact that Tenant may be a party to any merger, consolidation or reorganization; provided however, if Tenant is a disappearing party in any such merger, consolidation or reorganization, then Guarantor shall thereupon automatically become primarily liable for the performance of all the covenants, duties and obligations (including, without limitation, the obligation to pay all rent and other sums and to perform under all indemnitees, environmental or otherwise) of Tenant under said Lease Agreement.

3. Failure of Landlord to insist upon strict performance or observance of any of the terms, provisions or covenants of said Lease or to exercise of any right therein contained shall not be construed as a waiver or relinquishment for the future of any such term, provision, covenant or right, but the same shall continue and remain in full force and effect. Receipt by Landlord of rent (or any other monetary sum or acceptance of performance of any obligation of Tenant under said Lease) with knowledge of the breach of any provision of said Lease shall not be deemed a waiver of such breach. Waiver by Landlord of any right of Landlord against Tenant under said Lease shall not constitute a waiver as against Guarantor or in any other way inure to the benefit of Guarantor (unless Landlord agrees in writing that the liability of Guarantor under this Lease Guaranty is thereby affected).

4. Guarantor further agrees to indemnify and hold harmless Landlord from all loss, damage, cost and expense (including, without limitation, costs of court and reasonable attorneys' fees incurred by Landlord) in the event of any default by Tenant under such Lease.

5. Guarantor further agrees that in any right of action which shall accrue to Landlord under said Lease, Landlord may, at its option, proceed against Tenant alone (without having made any prior demand upon Guarantor or having commenced any action against Guarantor or having obtained or having attempted to satisfy any judgment against Guarantor) or may proceed against Guarantor and Tenant, jointly or severally, or may proceed against Guarantor alone (without having made any prior demand upon Tenant or having commenced any action against Tenant or having obtained or having attempted to satisfy any judgment against Tenant). With the exception only of the defense of prior payment or prior performance by Tenant (of the obligation which Guarantor is called upon to pay or perform) or the defense that Landlord's claim against Guarantor hereunder is barred by the applicable statute of limitations, all defenses of the law of guaranty, indemnification and suretyship, including without limitation, substantive defenses and procedural defenses, are hereby waived and released by Guarantor. Except as provided in the preceding sentence, under no circumstances shall the liability of Guarantor under this Lease Guaranty be terminated either with respect to any period of time when the liability of Tenant under said Lease continues or with respect to any circumstances as to which the liability of Tenant has not been fully discharged by payment or performance.

6. All of the covenants, duties and obligations of Guarantor under this Lease Guaranty shall be performed in the State of Arizona; and all matters relating to this Lease Guaranty and the covenants, duties and obligations of Guarantor under this Lease Guaranty shall be governed by the laws of the State of Arizona, without regard to conflicts of law principles.

7. Guarantor agrees that all actions or proceedings arising directly, indirectly or otherwise in connection with, out of, related to or from this Lease Guaranty shall be litigated, at Landlord's sole discretion and election, only in courts having a situs within the County of Maricopa, State of Arizona. Guarantor hereby consents and submits to the jurisdiction of any local, state or federal court located within said county and state. Guarantor hereby irrevocably appoints and designates Gary G. Keltner, whose address is c/o Jennings, Strouss & Salmon, Two North Central, Phoenix, Arizona 85004, as its duly authorized agent for service of legal process and agrees that service of such process upon such party shall constitute personal service of process upon Guarantor. In the event service is undeliverable because such agent moves, Guarantor shall, within ten (10) days after Landlord's request, appoint a substitute agent (in Phoenix, Arizona) on its behalf and within such period notify Landlord of such appointment. if such substitute agent is not timely appointed, Landlord shall, in its sole discretion, have the right to designate a substitute agent upon five (5) days notice to Guarantor. Guarantor hereby waives any right it may have to transfer or change the venue of any litigation brought against it by Landlord on this Lease Guaranty in accordance with this paragraph.

8. Guarantor specifically waives any notice of acceptance of this Lease Guaranty by Landlord, and furthermore, Guarantor hereby waives the benefits of A.R.S., Section 12-1641 et seq., as may be amended.

9. If any obligation of Tenant under said Lease is secured, in whole or in part, by collateral of any type Landlord may, from time to time, at its discretion and with or without valuable consideration, allow substitution or withdrawal of all or any part of such collateral or subordinate or waive any of its lien rights with respect to all or any part of such collateral or release all or any part of such collateral, without notice to or consent of Guarantor and without in any wise impairing, diminishing or releasing the liability of Guarantor under this Lease Guaranty. Under no circumstances shall Landlord be required to first resort to any collateral for any obligation of Tenant as any nature of prerequisite or precondition to invoking or enforcing the liability of Guarantor under this Lease Guaranty.

10. Guarantor acknowledges and represents to Landlord that Tenant executed said Lease and Guarantor executed this Lease Guaranty prior to the time that Landlord executed said Lease; and Guarantor acknowledges and agrees that the execution and delivery of this Lease Guaranty by Guarantor to Landlord has served as a material inducement to Landlord to itself execute and deliver said Lease; and Guarantor further acknowledges and agrees that but for the execution and delivery of this Lease Guaranty by Guarantor, Landlord would not have executed and delivered said Lease.

11. Guarantor acknowledges and agrees that this Lease Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor. Guarantor warrants and represents that the execution and delivery of this Lease Guaranty by the undersigned officer acting for Guarantor has been duly authorized by Guarantor and that this Lease Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor. Guarantor further acknowledges and agrees that the making of this Lease Guaranty did not result from any fraud on the Guarantor. Guarantor further warrants and represents (and acknowledges that Landlord has relied upon such warranty and representation in entering into said Lease) that the execution and delivery of this Lease Guaranty is not in contravention of Guarantor's Articles of Incorporation or Charter or By-Laws or in contravention of any contractual or other legal limitation (statutory or otherwise) binding on Guarantor; and that execution and delivery of this Lease Guaranty has been properly authorized.

12. Guarantor agrees that in the event that Tenant shall become insolvent or shall be adjudicated a bankrupt, or shall file a petition for reorganization, arrangement or other relief under any present or future provisions of United States federal or state law or Canadian Federal or provincial law applicable to insolvency, or if a petition for bankruptcy/reorganization be filed by creditors of said Tenant, or if Tenant shall seek a judicial readjustment of the rights of its creditors under any present or future United States Federal or state law or Canadian Federal or provincial law or if a receiver of all or part of its property and assets is appointed by any United States state or Federal court or Canadian Federal or Provincial court, no such proceeding or action taken therein shall modify,

diminish or in any way affect the liability of Guarantor under this Lease Guaranty and the liability of Guarantor with respect to such Lease shall be of the same scope as if Guarantor had itself executed said Lease as the named tenant thereunder and no "rejection" and/or "termination" of such Lease in any of the proceedings referred to in this paragraph shall be effective to release and/or terminate the continuing liability of Guarantor to Landlord under this Lease Guaranty with respect to such Lease for the remainder of the lease term stated therein unaffected by any such "rejection" and/or "termination" in said proceedings.

13. In the event of the dissolution of Guarantor while this Lease Guaranty is in force, and without regard to whether Tenant shall be in default under said Lease, no distribution or disposition of the assets of Guarantor shall be made without first making provision acceptable to Landlord for the payment or satisfaction of Guarantor's obligations (and contingent obligations) hereunder.

14. All rights of Guarantor against Tenant arising by way of subrogation on account of Guarantor's having performed some covenant, duty or obligation of Tenant under said Lease shall be subject and subordinate to all of the rights of Landlord against Tenant with respect to such Lease; and Guarantor shall not exercise any such right of Guarantor against Tenant until all of the covenants, duties and obligations of Tenant under such Lease shall have been fully performed.

15. If enforcement of the rights of Landlord under this Lease Guaranty is placed in the hands of an attorney on account of any default of Guarantor under this Lease Guaranty, Landlord shall, in addition to the other rights of Landlord hereunder, be permitted to recover Landlord's attorney's fees from Guarantor.

16. The stated rights of Landlord under this Lease Guaranty shall be understood as not excluding any other legal or equitable rights of Landlord against Guarantor not expressly set forth herein, but shall be understood as being cumulative to all such other legal and equitable rights of Landlord not expressly stated herein.

17. Should any portion of this Lease Guaranty ever be held legally invalid or unenforceable, the balance of this Lease Guaranty shall not thereby be affected, but shall remain in full force and effect in accordance with its terms and provisions.

18. Notwithstanding anything to the contrary contained hereinabove, the obligations of Guarantor as stated in this Lease Guaranty shall be limited to those obligations of Tenant which accrue during the term provided, however, Guarantor's obligation applicable to indemnitees, environmental and otherwise, as stated in this Lease Guaranty shall survive the termination of the Lease.

19. All terms and provisions hereof shall inure to the benefit of the assigns and successors of Landlord and shall be binding upon the successors and assigns of Guarantor.

LEASE AMENDMENT AGREEMENT

THIS LEASE AMENDMENT AGREEMENT (the "Agreement") is entered into effective October 13, 1999 by and between BRENNAN & WHEELER LIMITED PARTNERSHIP, an Arizona limited partnership ("Landlord"), and Sparta Foods, Inc., a Minnesota corporation ("Tenant").

WHEREAS, Landlord is a party to a certain Lease Agreement dated November 1, 1994 with respect to certain facilities located at 3121 East Washington, Phoenix, Arizona and at 3046 E. Madison, Phoenix, Arizona (the "Lease");

WHEREAS, all right, title and interest in the Lease was assigned to Tenant on even date herewith which assignment was consented to by Landlord;

WHEREAS, Landlord and Tenant desire to amend the Lease pursuant to the terms of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledge, the parties hereby agree as follows:

1. Extension of Lease Term. Landlord and Tenant agree that Section 2.1 of the Lease is hereby amended in its entirety to read as follows: "The original term of this Lease shall commence on November 1, 1994, and shall end on October 31, 2004."

2. Other Lease Provisions. All other provisions of the Lease not specifically amended by this Agreement shall remain in full force and effect.

3. Entire Agreement. The Lease, as amended by this Agreement, constitutes the entire agreement of the parties as to the subject matter hereof. This Agreement shall not be modified, amended, rescinded, canceled or waived, in whole or in part, except by written amendment signed by an officer of each party.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the date first appearing above.

BRENNAN & WHEELER LIMITED PARTNERSHIP

By /s/ David J. Brennan

David J. Brennan, General Partner

SPARTA FOODS, INC.

By: /s/ Joel P. Bachul
Its: Chief Executive Officer

Exhibit 10.4

TERM LOAN AND CREDIT AGREEMENT

THIS TERM LOAN AND CREDIT AGREEMENT is made as of the 12th day of October, 1999, and is by and between SPARTA FOODS, INC., a Minnesota corporation with offices located in New Brighton, Minnesota (the "Borrower"), and NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association with offices located in St. Paul, Minnesota (the "Bank").

RECITALS:

WHEREAS, the Bank is the holder of that certain Promissory Note dated June 24, 1998 (the "Old Revolving Note") made by La Canasta of Minnesota, Inc. ("LCM") in the face amount of $1,200,000.00 payable to the Bank; and,

WHEREAS, the Old Revolving Note evidences indebtedness under a conditional revolving line of credit (the "LCM Credit") established by the Bank for the benefit of LCM in the amount of $1,200,000.00; and,

WHEREAS, the Bank is also the holder of that certain Promissory Note dated June 24, 1998 (the "Old Term Note") made by the LCM in the face amount of $1,400,000.00 evidencing a non-revolving term loan payable to the Bank; and,

WHEREAS, as of the date first written above, there is no outstanding indebtedness under the Old Revolving Note, and the outstanding principal balance of the Old Term Note is $1,035,418.00; and,

WHEREAS, the Borrower has requested the Bank (i) to establish a conditional revolving line of credit for the benefit of the Borrower in the amount of $3,000,000.00, which would replace the LCM Credit, and (ii) to make a non-revolving term loan to the Borrower in the amount of $3,300,000.00, portions of which would be used to refinance the indebtedness evidenced by the Old Term Note, to pay off indebtedness owed to third party lenders, and to acquire certain assets currently owned by Food Products Corporation ("FPC"); and,

WHEREAS, the Bank is willing to grant the Borrower's requests, subject to the provisions of this Term Loan And Credit Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein, the parties agree as follows:

SECTION 1 Definitions

In addition to those terms defined in the above Recitals, as used herein:

1.1 "Acceptable Accounts Receivable" shall mean the Borrower and LCM's accounts receivable which are: (i) less than 90 days past the invoice date; (ii) not subject to offset or dispute; (iii) not due from the U.S. Government, foreign entities, employees, officers, subsidiaries or affiliates of the Borrower or LCM; (iv) not due from an account debtor, 10% or more of whose accounts owed to Borrower or LCM are older than 90 days past the invoice date; (v) not representing booked but unfilled orders; and (vi) not due from an account debtor which is a debtor in a bankruptcy proceeding under the United States Bankruptcy Code.

1.2 "Acceptable Inventory" shall mean the net book value of the Borrower and LCM's non-obsolete raw materials, packaging materials and finished goods inventory located in the States of Minnesota and Arizona.

1.3 "Acquisition" shall mean the acquisition of personal property assets by the Borrower from FPC.

1.4 "Advances" shall mean direct borrowings made by the Borrower under the Credit.

1.5 "Agreement" shall mean this Term Loan And Credit Agreement, and all amendments and supplements hereto which may from time to time become effective hereafter.

1.6 "Base Rate" shall mean the "base" or "prime" rate of interest established by the Bank (or its successor) as in effect from time to time.

1.7 "Borrowed Money" shall mean funds obtained by incurring contractual indebtedness, but shall not include trade accounts payable or money borrowed from the Bank.

1.8 "Borrower's Security Agreement" shall mean a security agreement, duly executed by the Borrower and delivered to the Bank pursuant to Section 5.1(H) hereof.

1.9 "Borrowing Base" shall mean the sum of 80% of Acceptable Accounts Receivable, plus 50% of Acceptable Inventory.

1.10 "Borrowing Base Certificate" shall mean a schedule of Borrower's assets comprising the Borrowing Base, which certificate is substantially in the form of attached Exhibit A, is prepared and furnished to Bank pursuant to Sections 5.1(J) and 7.3(B) hereof, and which is executed by an authorized officer of Borrower.

1.11 "Cash Flow Coverage Ratio" shall mean the ratio of Traditional Cash Flow to current maturities of long-term debt and capital leases.

1.12 "Closing Date" shall mean the date on which this Agreement is executed by the Borrower and delivered to the Bank.

1.13 "Credit" shall mean a conditional revolving line of credit established by the Bank for the benefit of the Borrower in the amount of $3,000,000.00.

1.14 "Current Note" shall mean the promissory note of the Borrower in the face amount of $3,000,000.00, evidencing indebtedness under the Credit.

1.15 "Events of Default" shall mean any and all events of default described in Section 9 hereof.

1.16 "Guaranty" shall mean the secured guaranty by corporation, duly executed by LCM and delivered to the Bank pursuant to Section 5.1(U) hereof.

1.17 "LCM Security Agreement" shall mean that certain Security Agreement dated June 24, 1998 executed by LCM for the benefit of the Bank.

1.18 "Leverage Ratio" shall mean the ratio of Senior Debt to the sum of Tangible Net Worth plus Subordinated Debt.

1.19 "Notes" shall mean the Current Note and the Term Note.

1.20 "Permitted Liens" shall mean:

A. Liens in favor of the Bank;

B. Existing liens disclosed to the Bank in writing prior to the date of this Agreement; and,

C. Liens for taxes not delinquent or which Borrower is contesting in good faith.

1.21 "Security Documents" shall mean the Borrower's Security Agreement and the LCM Security Agreement.

1.22 "Senior Debt" shall mean the difference of Total Liabilities minus Subordinated Debt.

1.23 "Subordinated Debt" shall mean indebtedness now or hereafter owed by the Borrower to a third party creditor (including without limitation, FPC), which indebtedness is subject to a Subordination Agreement.

1.24 "Subordination Agreements" shall mean all debt subordination agreements now or hereafter executed by the Borrower and a third party creditor (including without limitation, FPC) for the benefit of the Bank.

1.25 "Tangible Net Worth" shall mean the sum of the par or stated value of all outstanding capital stock, surplus and undivided profits of the relevant corporation, less any amounts attributable to leasehold improvements, treasury stock, good will, patents, copyrights, amounts due from officers or affiliates of the relevant corporation, mailing lists, catalogues, trademarks, bond discount and underwriting expenses, organization expenses and other like intangibles (not including prepaid expenses classified as current assets or tangible assets offset by equal related liabilities), all as determined in accordance with Generally Accepted Accounting Principles.

1.26 "Term Loan" shall have the meaning ascribed to it in Section 3.1 hereof.

1.27 "Term Loan Borrowing Base" shall mean 60% of the fair market appraised value of equipment (other than equipment which is subject to a purchase money security interest in favor of a third party creditor) (i) owned by the Borrower prior to the Acquisition, and (ii) to be purchased by the Borrower via the Acquisition.

1.28 "Term Note" shall mean the promissory note of the Borrower in the face amount of $3,300,000.00, evidencing the Term Loan.

1.29 "Termination Date" shall mean September 30, 2000.

1.30 "Total Liabilities" shall mean all actual and contingent liabilities of the relevant corporation which, in accordance with Generally Accepted Accounting Principles, would be shown as liabilities on an audited financial statement of such corporation.

1.31 "Traditional Cash Flow" shall mean net income after taxes and dividends, plus depreciation, amortization and other non-cash charges.

SECTION 2 The Credit

2.1 Subject to the other provisions of this Agreement, the Bank may make Advances under the Credit to the Borrower from time to time from the effective date hereof until the Termination Date in an aggregate principal amount not exceeding the lesser of the Borrowing Base or THREE MILLION AND NO/100 DOLLARS ($3,000,000.00), at any one time outstanding. Each Advance will be requested in writing or in person by an authorized officer of the Borrower, or telephonically by any person reasonably believed by the Bank to be an authorized officer of the Borrower. Requests for Advances must be received by the Bank no later than 2:00 p.m. on the day of such Advance. Each request shall be deemed a representation and warranty by the Borrower that the representations and warranties set forth

in Section 6 hereof are true as of the date of such request. EACH ADVANCE WILL BE MADE AT THE SOLE DISCRETION OF THE BANK and, if made, will be evidenced by a notation on the Bank's records, which shall be conclusive evidence of such advance, and by the Current Note. The proceeds of the initial Advance shall be

used exclusively by the Borrower to pay a portion of the amount owed by the Borrower to FPC in connection with the Acquisition. Within the limits of the Credit and subject to the terms and conditions hereof, the Borrower may borrow, prepay pursuant to Section 2.5 hereof and reborrow pursuant to this Section 2.1.

2.2 Interest on the unpaid principal of the Current Note shall accrue at an annual rate equal to the Base Rate in effect from time to time, and shall change as and when the Base Rate changes. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days.

2.3 Accrued interest on the Current Note shall be payable ON DEMAND, but until such demand is made, interest shall be payable on the last day of each consecutive month, commencing October 31, 1999, and on the Termination Date.

2.4 The principal of the Current Note shall be repayable on the earlier of DEMAND or the Termination Date.

2.5 The Borrower may at any time prepay the Current Note in whole or from time to time in part without premium or penalty.

2.6 If, at any time and from time to time, the outstanding principal balance of the Current Note exceeds the Borrowing Base, the Borrower shall immediately make a prepayment of principal in an amount sufficient to eliminate such excess.

SECTION 3 The Term Loan

3.1 Subject to the other provisions of this Agreement, the Bank shall make a term loan ("Term Loan") to the Borrower in an amount not exceeding the lesser of the Term Loan Borrowing Base or $3,300,000.00, available in one or more draws on or before October 12, 1999. The proceeds of the Term Loan shall be used exclusively by the Borrower to pay a portion of the amount owed by the Borrower to FPC in connection with the Acquisition, to retire all indebtedness evidenced by the Old Term Note, and to pay off all indebtedness owed by FPC to Bank of the West and First Capital Bank. The Term Loan shall be non-revolving and evidenced by the Term Note.

3.2 Interest on the unpaid principal of the Term Note shall accrue at an annual rate equal to one-quarter of one percent (0.25%) in excess of the Base Rate in effect from time to time, and shall change as and when the Base Rate changes. Interest on the Term Note shall be calculated on the basis of the actual number of days elapsed in a year of 360 days.

3.3 Accrued interest on the Term Note shall be payable ON DEMAND, but until such demand is made, interest shall be payable on the last day of each consecutive month, commencing October 31, 1999, and upon maturity.

3.4 Principal of the Term Note shall be repaid as follows:

Fifty-nine (59) installments, each in the amount of $55,000.00, commencing October 31, 1999 and continuing on the last day of each consecutive month thereafter through and including August 31, 2004; plus, one (1) final payment in an amount equal to all then-remaining outstanding principal of the Term Note shall be due and payable on September 30, 2004.

3.5 All payments received in respect of the Term Note shall first be applied to accrued but unpaid interest, with the remainder applied to reduction of principal.

3.6 The Borrower may at any time prepay the Term Note in whole or from time to time in part, without premium or penalty. Prepayments shall be applied to scheduled installments of principal in inverse order of their maturities.

3.7 If, at any time and from time to time, the outstanding principal balance of the Term Note exceeds the Term Loan Borrowing Base, the Borrower shall immediately make a prepayment of principal in an amount sufficient to eliminate such excess.

SECTION 4 Security

4.1 The payment and performance of the Borrower's obligations under this Agreement and the Notes shall be secured by the Borrower's Security Agreement, pursuant to which the Borrower shall grant the Bank a first security interest in all personal property assets of the Borrower, whether now owned or hereafter acquired.

4.2 As additional security for the prompt satisfaction of all obligations of Borrower under this Agreement, the Notes and the Borrower's Security Agreement, the Borrower hereby assigns, transfers and sets over to the Bank all of its right, title and interest in and to, and grants the Bank a lien on and a security interest in, all amounts that may be owing from time to time by the Bank to the Borrower in any capacity, including without limitation any balance or share belonging to the Borrower of any deposit or other account with the Bank, which lien and security interest shall be independent of any right of set-off which the Bank may have.

4.3 The payment and performance of the Borrower's obligations under this Agreement, the Notes and the Borrower's Security Agreement shall be unconditionally guaranteed by LCM, pursuant to the provisions of the Guaranty.

4.4 The payment and performance of the obligations of LCM under the Guaranty shall be secured by the LCM Security Agreement, which remains in full force and

effect. Pursuant to the provisions of the LCM Security Agreement, LCM has granted the Bank a first security interest in all personal property assets of LCM, whether now owned or hereafter acquired.

4.5 At any time requested by the Bank, the Borrower shall execute and deliver, or cause to be executed and delivered, to the Bank such additional documents as the Bank may consider to be necessary or desirable to evidence or perfect the security interests referred to in the Security Documents.

SECTION 5 Conditions Precedent

5.1 On or before the Closing Date, the Borrower shall deliver the following to the Bank, in form and content acceptable to the Bank:

A. A copy of the Articles of Incorporation of the Borrower, and all amendments thereto, certified as of the most recent date practicable by the Secretary of State of Minnesota;

B. A copy of the By-laws of the Borrower, certified as true and complete by the corporate secretary of the Borrower;

C. A certificate, as of the most recent date practicable, of the Secretary of State of Minnesota as to the good standing of the Borrower;

D. A certificate, as of the most recent date practicable, of the Secretary of State of Arizona as to the authority of the Borrower to transact business in the State of Arizona;

E. A Norwest Corporate Certificate Of Authority, duly executed by the corporate secretary of the Borrower;

F. The Current Note, duly executed by the Borrower;

G. The Term Note, duly executed by the Borrower;

H. The Borrower's Security Agreement, duly executed by the Borrower;

I. UCC financing statements for Minnesota and Arizona, duly executed by the Borrower, and UCC termination statements, including but not limited to, UCC termination statements duly executed by Bank of the West, First Capital Bank of Arizona and Arizona Brand Food Corp. c/o Signature Brands Limited;

J. A Borrowing Base Certificate as of the Closing Date, duly executed by the Borrower;

K. A copy of the Purchase Agreement relating to the Acquisition, duly executed by the Borrower and FPC;

L. A copy of the Bill of Sale, duly executed by FPC, relative to the assets which are being purchased by the Borrower in connection with the Acquisition;

M. Copies of lease agreements for any premises not owned by the Borrower or LCM in which any of the Bank's collateral security is located;

N. Landlord's disclaimers, duly executed by the landlords of the premises referred to in Section 5.1(M) hereof;

O. Payoff certificates addressed to the Bank and duly executed by appropriate officers of Bank of the West and First Capital Bank, indicating indebtedness owed by FPC to said lenders;

P. A certificate of authority, duly executed by the corporate secretary of FPC, certifying the authority and incumbency of the officer of FPC who is signing the Subordination Agreement;

Q. A Subordination Agreement, duly executed by the Borrower and FPC;

R. A photocopy of the promissory note which is subject to the Subordination Agreement, and which note contains a legend indicating that it is subject to the Subordination Agreement;

S. A security interest subordination agreement, duly executed by FPC, subordinating its security interest in the assets being purchased by the Borrower via the Acquisition to the security interest of the Bank;

T. A Norwest Certificate Of Authority For Guaranty By Corporation, duly executed by the corporate secretary of LCM;

U. The Guaranty, duly executed by LCM;

V. Certificates of insurance indicating that Borrower and LCM are in compliance with the covenants contained in Section 7.5 hereof; and,

W. An origination and documentation fee in the amount of $15,000.00, which the Borrower acknowledges as having been fully earned

by the Bank as of the Closing Date. Said fee shall be deemed reimbursement to the Bank for fees and expenses incurred by the Bank only in calendar year 1999, including without limitation legal fees, collateral audits and equipment appraisals.

5.2 The Bank shall not consider any request for an Advance under Section 2.1 hereof, or for any funding of the Term Loan under Section 3.1 hereof, unless:

A. The representations and warranties contained in Section 6 hereof are true and accurate on and as of such date; and,

B. No Event of Default, and no event which might become an Event of Default after the lapse of time or the giving of notice and the lapse of time, has occurred and is continuing or will exist upon the disbursement of such Advance or the funding of the Term Loan, as the case may be.

SECTION 6 Representations and Warranties

To induce the Bank to enter into this Agreement, the Borrower represents and warrants to the Bank as follows:

6.1 The Borrower is a corporation duly organized, existing and in good standing under the laws of the State of Minnesota.

6.2 The Borrower is authorized to transact business in the State of Arizona.

6.3 The execution, delivery and performance by the Borrower of this Agreement and the other documents referred to herein are within the Borrower's corporate powers, have been duly authorized, and are not in contravention of law or the terms of Borrower's Articles of Incorporation or By-laws, or of any undertaking to which the Borrower is a party or by which it is bound.

6.4 The property of the Borrower is not subject to any lien except Permitted Liens.

6.5 No litigation or governmental proceeding is pending or, to the knowledge of the officers of the Borrower, threatened against the Borrower which could have a material adverse effect on the Borrower's financial condition or business.

6.6 All financial statements delivered to Bank by or on behalf of Borrower, including any schedules and notes pertaining thereto, have been prepared in accordance with Generally Accepted Accounting Principles consistently applied, and fully and fairly present in all material respects the financial condition of the Borrower at the dates thereof and the results of operations for the periods

covered thereby, and there have been no material adverse changes in the consolidated financial condition or business of the Borrower from August 31, 1999 to the date hereof.

6.7 As of the date of this Agreement, the Borrower owns 100% of all issued and outstanding shares of stock in LCM.

6.8 As of the date of this Agreement, the outstanding principal balances of the Old Revolving Note and the Old Term Note are $0.00 and $1,035,418.00, respectively, and accrued but unpaid interest thereon equals $0.00 and $3,026.83, respectively. Such indebtedness constitutes legal, valid and binding obligations owed by LCM to the Bank, subject to no defense, counterclaim, offset, abatement or recoupment.

6.9 As of date of this Agreement, (i) the aggregate outstanding indebtedness owed by FPC to Bank of the West is $547,534.08 including accrued but unpaid interest, and (ii) the aggregate outstanding principal indebtedness owed by FPC to First Capital Bank is $281,250.00, and accrued but unpaid interest thereon equals $1,115.75.

6.10 The attached Exhibit B is a true and complete listing of all locations on which the Bank's collateral security (pledged pursuant to the Security Documents) is located.

6.11 The Borrower has provided the Bank with a true and complete copy of the Asset Purchase Agreement and the Bill of Sale relating to the Acquisition.

SECTION 7 Affirmative Covenants

The Borrower covenants and agrees that, for so long as the Credit remains in existence, or any indebtedness remains outstanding under either of the Notes, unless the Bank shall otherwise consent in writing, it will:

7.1 Pay when due (and cause LCM to pay when due) all taxes assessed against it or its property, except to the extent and for so long as contested in good faith.

7.2 Maintain (and cause LCM to maintain) its corporate existence and comply with all laws and regulations applicable thereto.

7.3 Furnish to the Bank, in form and content acceptable to the Bank:

A. Within 120 days after the end of each fiscal year of the Borrower, (i) a detailed, consolidated report of audit of the Borrower and LCM, prepared on a consolidated and consolidating basis, for such fiscal year, including the consolidated balance sheet of the Borrower and LCM, as of the end of such fiscal year, and the consolidated statement of profit and loss and surplus of the Borrower and LCM for the fiscal year then ended, prepared by McGladrey & Pullen, LLP or other independent certified public accountants satisfactory to the Bank, (ii) a certificate of such accountants stating whether, in making their audit, they have become aware of any Event of Default or of any event which could

become an Event of Default after the giving of notice or the lapse

of time (or both), which has occurred and is then continuing, and if any such event has occurred and in continuing, specifying the nature and period of existence thereof, and (iii) insurance certificates indicating the Borrower's compliance with the covenants set forth in Section 7.5 hereof.

B. Within 30 days after the end of each month, (i) the consolidated balance sheet of the Borrower and LCM as of the end of such month, (ii) the consolidated statement of profit and loss and surplus of the Borrower and LCM from the beginning of such fiscal year to the end of such month, (iii) a Borrowing Base Certificate as of the end of such month, (iv) agings and listings of the accounts receivable of the Borrower and LCM as of the end of such month, and (v) a certificate of compliance as to the Borrower's compliance with certain covenants set forth in this Agreement. All of the foregoing shall be unaudited, but certified as correct (subject to year-end adjustments) by an appropriate officer of the Borrower.

C. Promptly upon knowledge thereof, notice to the Bank in writing of the occurrence of any event which has or might, after the lapse of time or the giving of notice and the lapse of time, become an Event of Default.

D. Promptly, such other information as the Bank may reasonably request.

7.4 Maintain (and cause LCM to maintain) its inventory, equipment, real estate and other properties in good condition and repair (normal wear and tear excepted), and will pay and discharge (and cause LCM to pay and discharge) when due, the cost of repairs to or maintenance of the same, and will pay (and cause LCM to pay) all rental or mortgage payments due on such real estate.

7.5 Cause its properties (and the properties of LCM) of an insurable nature to be adequately insured for amounts acceptable to the Bank, by reputable and solvent insurance companies against loss or damages customarily insured against by persons operating similar properties and similarly situated, and carry (and cause LCM to carry) such other insurance (including business interruption insurance) as usually carried by persons engaged in the same or similar businesses and similarly situated, with the Bank named as loss payee on all such policies of insurance with respect to the Bank's collateral security.

7.6 Keep (and cause LCM to keep) true, complete and accurate books, records and accounts in accordance with Generally Accepted Accounting Principles consistently applied.

7.7 Permit (and cause LCM to permit) any of Bank's duly authorized employees or agents the right, at any reasonable time and from time to time, to visit and

inspect the properties of the Borrower and LCM, and to examine and take abstracts from their books and records, with the expenses of all the foregoing to be borne by the Borrower; provided, however, that the expenses of all the foregoing incurred during calendar year 1999 shall be borne by the Bank.

7.8 Continue to conduct (and cause LCM to continue to conduct) the same general type of business as is now being carried on in compliance with all applicable statutes, laws, rules and regulations.

7.9 Maintain (and cause LCM to maintain) its primary depository accounts with the Bank.

SECTION 8 Negative Covenants

Without the Bank's prior written consent, for so long as the Credit remains in existence, or any indebtedness remains outstanding under either of the Notes, the Borrower will not:

8.1 Permit any lien, including without limitation any pledge, assignment, mortgage, title retaining contract or other type of security interest, to exist on any of its real or personal property, except Permitted Liens.

8.2 Subject to the provisions of Section 11.7 hereof, permit its consolidated net income after taxes (determined in accordance with Generally Accepted Accounting Principles) to be less than (i) $1.00 for the three-month period ending December 31, 1999, (ii) $100,000.00 for the six-month period ending March 31, 2000, (iii) $350,000.00 for the nine-month period ending June 30, 2000, and (iv) $600,000.00 for the fiscal year ending September 30, 2000, and for each fiscal year thereafter.

8.3 Subject to the provisions of Section 11.7 hereof, permit its consolidated sum of Tangible Net Worth plus Subordinated Debt to be less than (i) $3,500,000.00 as of October 1, 1999, (ii) $3,300,000.00 as of December 31, 1999, (iii) $3,300,000.00 as of March 31, 2000, (iv) $3,400,000.00 as of June 30, 2000, and (v) $3,500,000.00 as of September 30, 2000 and as of each fiscal year end thereafter.

8.4 Subject to the provisions of Section 11.7 hereof, permit its consolidated Leverage Ratio to be greater than 2.85 to 1.0 at any time.

8.5 Subject to the provisions of Section 11.7 hereof, permit its consolidated Cash Flow Coverage Ratio to be less than (i) 1.15 to 1.0 as of October 31, 1999, November 30, 1999, and December 31, 1999, (ii) 1.25 to 1.0 as of January 31, 2000, February 29, 2000, and March 31, 2000, (iii) 1.35 to 1.0 as of April 30,

2000, May 31, 2000, June 30, 2000, July 31, 2000 and August 31, 2000, and (iv) 1.50 to 1.0 for the fiscal year ending September 30, 2000 and as of the end of each month thereafter.

8.6 Subject to the provisions of said Section 11.7 hereof, permit the aggregate amount of its capital expenditures (excluding those which were a part of the Acquisition, but including both capital leases and operating leases) to be greater than (i) $500,000.00 for the fiscal year ending September 30, 2000, and (ii) $750,000.00 for the fiscal year ending September 30, 2001.

8.7 Permit its net income after taxes to be less than $1.00 for any month, commencing with the month ending January 31, 2000.

8.8 Create, incur, assume or suffer to exist, contingently or otherwise, indebtedness for Borrowed Money.

8.9 Become or remain a guarantor or surety, or pledge its credit or become liable in any manner (except by endorsement for deposit in the ordinary course of business) on the other undertakings of another.

8.10 Enter into any transaction of merger or consolidation, or sell, assign, lease or otherwise dispose of all or a substantial part of its properties or assets, or any of its notes or accounts receivable, or any stock or indebtedness of any subsidiary, or any assets or properties necessary or desirable for the proper conduct of its business, or change the nature of its business or its accounting procedures, or wind up, liquidate or dissolve, or agree to do any of the foregoing, or permit LCM to do any of the foregoing; provided, however, that the provisions of this Section 8.10 shall not prohibit the Borrower and LCM from selling assets in an aggregate amount not exceeding $250,000.00 per fiscal year.

8.11 Purchase or otherwise acquire all or substantially all of the assets of any entity, excluding the Acquisition.

8.12 Conduct business under any assumed or trade name other than "Arizona Brand".

8.13 Amend repayment schedule of Subordinated Debt.

SECTION 9 Events of Default

9.1 Upon the occurrence of any of the following Events of Default:

A. Default in any payment of interest or of principal on either of the Notes when due, and continuance thereof for 10 calendar days;

B. Default in the observance or performance of any one or more of the covenants set forth in Section 2.6 or in clause (iii) of Section 7.3(B) hereof, and continuance thereof for 5 calendar days;

C. Default in the observance or performance of any covenant

set forth in Section 8 hereof;

D. Default in the observance or performance of any other agreement of the Borrower set forth herein (i.e., other than those addressed in Sections 9.1(A), 9.1(B) or 9.1(C) hereof), and continuance thereof for 30 calendar days;

E. The occurrence of an event of default under any one or more of the Security Documents;

F. The breach of any covenant set forth in any Subordination Agreement;

G. Default by the Borrower in the payment of any other indebtedness for Borrowed Money or in the observance or performance of any term, covenant or agreement of the Borrower in any agreement relating to any indebtedness of the Borrower, the effect of which default is to permit the holder of such indebtedness to declare the same due prior to the date fixed for its payment under the terms thereof;

H. Any representation or warranty made by the Borrower herein, or in any statement or certificate furnished by the Borrower or LCM hereunder, is untrue in any material respect;

I. The recission of the Guaranty; or,

J. LCM becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors, or consents to the appointment of a custodian, trustee or receiver for itself or for the greater part of its properties; or a custodian, trustee or receiver is appointed for LCM or for the greater part of its properties without its consent, and is not discharged within 60 calendar days; or bankruptcy, reorganization or liquidation proceedings are instituted by or against LCM and, if instituted against it, are consented to by it or remain undismissed for 60 calendar days;

then, or at any time thereafter, unless such Event of Default is remedied, the Bank may, by notice in writing to the Borrower, terminate the Credit and declare the Notes to be due and payable, or any or all of the foregoing, whereupon the Credit shall terminate forthwith, and the Notes shall immediately become due and payable, or any or all of the foregoing, as the case may be.

9.2 Upon the occurrence of any of the following Events of Default:

The Borrower becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors, or consents to the appointment of a custodian, trustee or receiver for itself or for the greater part

of its properties; or a custodian, trustee or receiver is appointed for the Borrower or for the greater part of its properties without its consent, and is not discharged within 60 calendar days; or bankruptcy, reorganization or liquidation proceedings are instituted by or against the Borrower and, if instituted against it, are consented to by it or remain undismissed for 60 calendar days;

then the Credit shall automatically terminate and the Notes shall automatically become immediately due and payable, without notice or demand.

SECTION 10 Arbitration

10.1 Except for "Core Proceedings" under the United States Bankruptcy Code, the Bank and the Borrower agree to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), arising out of or relating to in any way (i) to a breach of the Credit, the Term Loan, the Notes, and related loan and security documents, including all negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination, or (ii) requests for additional credit. Any arbitration proceeding will (i) proceed in St. Paul, Minnesota, (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), and (iii) be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA").

The arbitration provisions contained in this Section 10 do not limit the right of either party (i) to foreclose against real or personal property collateral, (ii) to exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession, or (iii) to obtain provisional ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of either party to submit any dispute to arbitration, including those arising from the exercise of the actions detailed in clauses (i), (ii) and (iii) of this paragraph. Notwithstanding any provision to the contrary herein, any party may apply to any court having jurisdiction hereof and seek injunctive relief so as to maintain the status quo until such time as the arbitration award is rendered or the controversy is otherwise resolved.

Any arbitration proceeding will be before a single arbitrator selected according to the Commercial Arbitration Rules of the AAA. The arbitrator will be a neutral attorney or retired judge who has practiced in the area of commercial law for a

minimum of ten years. The arbitrator will determine whether or not an issue is arbitratable, and will give effect to the statutes of limitation in determining any claim. Judgment upon the award rendered by the arbitrator may be entered in

any court having jurisdiction.

10.2 In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication.

10.3 In any arbitration proceeding, discovery will be permitted and will be governed by the Minnesota Rules of Civil Procedure. All discovery must be completed no later than 20 days before the hearing date and within 180 days of the commencement of arbitration proceedings. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

10.4 The arbitrator shall award costs and expenses of the arbitration proceeding in accordance with the provisions of this Agreement.

SECTION 11 Miscellaneous

11.1 The provisions of this Agreement shall be in addition to those of any guaranty, pledge or security agreement, note or other evidence of liability held by the Bank, all of which shall be construed as complementary to each other. Nothing herein contained shall prevent the Bank from enforcing any or all of the rights and remedies available to it at law, in equity or by agreement.

11.2 From time to time, the Borrower will execute and deliver to the Bank such additional documents and will provide such additional information as the Bank may reasonably require to carry out the terms of this Agreement and be informed of the Borrower's status and affairs. All documentation executed in connection with this Agreement, whether before, on or after the Closing date, shall be in form and content acceptable to the Bank.

11.3 The Borrower will pay all expenses, including the reasonable fees and expenses of legal counsel for the Bank, incurred in connection with the administration, modification or enforcement of this Agreement and the other documents referred to herein.

11.4 All notices or consents required or permitted by this Agreement shall be in writing and shall be deemed delivered if delivered in person or if sent by United States mail, postage prepaid, or via facsimile, as follows, unless such address is changed by written notice hereunder:

A. If to the Borrower:

Sparta Foods, Inc.
1565 First Avenue NW

New Brighton, Minnesota 55112

Attention: A. Merrill Ayers

B. If to the Bank:

Norwest Bank Minnesota , National Association
St. Paul Office
MAC Code N9101-041
55 East Fifth Street
St. Paul, Minnesota 55101

Fax: (651) 205-8537

Attention: Paul G. Rebholz, Vice President

11.5 The Bank shall have the right at all times to enforce the provisions of this Agreement and the other documents referred to herein in strict accordance with the terms hereof and thereof, notwithstanding any conduct or custom on the part of the Bank in refraining from so doing at any time or times. The failure of the Bank at any time or times to enforce its rights under such provisions, strictly in accordance with the same, shall not be construed as having created a custom in any way or manner contrary to specific provisions of this Agreement or as having in any way or manner modified or waived the same. All rights and remedies of the Bank are cumulative and concurrent, and the exercise of one right or remedy shall not be deemed a waiver or release of any other right or remedy.

11.6 This Agreement shall inure to the benefit of, and shall be binding upon, the respective successors and permitted assigns of the parties hereto. The Borrower has no right to assign any of its rights or obligations hereunder without the prior written consent of the Bank. This Agreement, and the documents executed and delivered pursuant hereto or in connection herewith, constitute the entire agreement between the parties, and may be amended only by a writing signed on behalf of each party.

11.7 For purposes of calculating compliance with the covenants set forth in Sections 8.2 through 8.6 hereof, consolidated data of the Borrower and LCM shall be used.

11.8 Upon execution and delivery of this Agreement, the Current Note and the Term Note, the LCM Credit shall be deemed terminated and all outstanding indebtedness evidenced by the Old Term Note shall be retired.

11.9 If any provision of this Agreement shall be held invalid under any applicable law, such invalidity shall not affect any other provision of this Agreement that can be given effect without the invalid provision, and, to this end, the provisions hereof are severable.

11.10 NONE OF THE PROVISIONS OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION THE PROVISIONS OF SECTION 9, SHALL BE DEEMED TO DIMINISH OR ABROGATE THE BANK'S RIGHT TO DECLINE TO MAKE AN ADVANCE UNDER THE CREDIT AT ANY TIME.

11.11 NONE OF THE PROVISIONS OF THIS AGREEMENT SHALL BE DEEMED TO DIMINISH OR ABROGATE THE RIGHT OF THE BANK TO DEMAND IMMEDIATE PAYMENT OF ALL INDEBTEDNESS EVIDENCED BY THE CURRENT NOTE AT ANY TIME.

11.12 The substantive laws of the State of Minnesota shall govern the construction of this Agreement and the rights and remedies of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

SPARTA FOODS, INC.

By:_____

Its:_____

By:_____

Its:_____

NORWEST BANK MINNESOTA,
NATIONAL ASSOCIATION

By:_____
Paul G. Rebholz,
Vice President

Exhibit 10.4

PROMISSORY NOTE

$3,300,000.00 October 12, 1999

FOR VALUE RECEIVED, the undersigned, Sparta Foods, Inc., a Minnesota corporation with offices in New Brighton, Minnesota, promises to pay to the order of Norwest Bank Minnesota, National Association (the "Bank") at the Bank's St. Paul Office or at any other place designated at any time by the holder hereof, in lawful money of the United States of America, the principal sum of THREE MILLION THREE HUNDRED THOUSAND AND NO/100 DOLLARS ($3,300,000.00), together with interest on the unpaid balance hereof from the date hereof until this Note is fully paid at an annual rate equal to one-quarter of one percent (0.25%) in excess of the rate of interest established from time to time by the Bank (or its successor) as its Base Rate. The interest rate of this Note shall change simultaneously with each change in the Base Rate. Interest shall be calculated on the basis of actual number of days elapsed in a 360-day year.

Interest on this Note is payable ON DEMAND, but until such demand is made, interest shall be payable on the last day of each consecutive month, commencing October 31, 1999, and upon maturity.

Principal of this Note shall be repaid as follows:

Fifty-nine (59) installments, each in the amount of $55,000.00, commencing October 31, 1999 and continuing on the last day of each consecutive month thereafter through and including August 31, 2004; plus one (1) final payment in an amount equal to all then-remaining outstanding principal of this Note shall be due and payable on September 30, 2004.

This Note constitutes the Term Note issued pursuant to the provisions of that certain Term Loan And Credit Agreement of even date herewith (the "Credit Agreement") made between the undersigned and the Bank. Reference is hereby made to the Credit Agreement for statements of the terms pursuant to which the indebtedness evidenced hereby was created, is secured, may be prepaid voluntarily, and may be accelerated.

Unless prohibited by law, the undersigned agrees to pay all costs of collection, including reasonable attorneys' fees and legal expenses, incurred by the holder hereof in the event this Note is not duly paid. The holder hereof may change any terms of payment of this Note, including extensions of time and renewals, and release any security for, or any party to, this Note, without notifying or releasing any accommodation maker, endorser or guarantor from liability in connection with this Note. Presentment or other demand for payment, notice of dishonor and protest are hereby waived by the undersigned and each endorser or guarantor. This Note shall be governed by the substantive laws of the State of Minnesota.

SPARTA FOODS, INC.

By:_____

Its:_____

By:_____

Its:_____

Exhibit 10.5

SECURITY AGREEMENT

DATE: October 12, 1999

DEBTOR:
Sparta Foods, Inc.
1565 First Avenue NW
New Brighton, Minnesota 55112

SECURED PARTY:
Norwest Bank Minnesota,
National Association
55 East Fifth Street
St. Paul, Minnesota 55101

1. Security Interest and Collateral. To secure the payment and performance of each and every debt, liability and obligation of every type and description which Debtor may now or at any time hereafter owe to Secured Party (whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it is currently contemplated by the Debtor and Secured Party, whether any documents evidencing it refer to this Security Agreement, whether it arises with or without any documents (e.g. obligations to Secured Party created by checking overdrafts), and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"), Debtor hereby grants Secured Party a security interest (herein called the "Security Interest") in the following property (herein called the "Collateral") (check applicable boxes and complete information):

(a) INVENTORY:

|X| All inventory of Debtor, whether now owned or hereafter acquired and wherever located;

(b) EQUIPMENT, FARM PRODUCTS AND CONSUMER GOODS:

|X| All Equipment of Debtor, whether now owned or hereafter acquired, including but not limited to all present and future machinery, vehicles, furniture, appliances, fixtures, manufacturing and processing equipment, farm machinery and equipment, shop equipment, office and recordkeeping equipment, computer hardware and software, parts and tools, goods, and types of goods of every kind and description.

[ ] All farm products of Debtor, whether now owned or hereafter acquired, including but not limited to (i) all poultry and livestock and their young, products

thereof and produce thereof, all holding marks and brands and branding irons of Debtor that at any time cover any such livestock, and, if the livestock

includes sheep, all wool pulled, clipped or shorn therefrom, (ii) all crops, whether annual or perennial, and the products thereof, (iii) all feed, seed, fertilizer, medicines and other supplies used or produced by Debtor in farming operations, and (iv) all crop insurance payments and storage payments and all rights to payment and payments under any government agricultural diversion, assistance or support program, Farm Services Agency program and any other such government agricultural program including, without limitation, any diversion or deficiency payments. The real estate concerned with the above described crops growing or to be grown is: and the name of the record owner is:

| | The following goods or types of goods:

(c) ACCOUNTS AND OTHER RIGHTS TO PAYMENT:

|X| Accounts and each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) which Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor; all including but not limited to all present and future debt instruments, chattel papers, accounts, contract rights, loans and obligations receivable, tax refunds, unearned insurance premiums, rebates, and negotiable documents.

| | _____

_____

(d) GENERAL INTANGIBLES:

|X| All general intangibles of Debtor, whether now owned or hereafter acquired, including, but not limited to, certificates of deposit, applications for patents, patents, copyrights, trademarks, trade secrets, good will, tradenames, customers' lists, permits and franchises, and the right to use Debtor's name, together with all other intangible property rights such as the right to redeem or accept payment under an annuity contract or a non-negotiable certificate of deposit issued by a bank.

together with all substitutions and replacements for and products of any of the foregoing property not constituting consumer goods and together with proceeds of any and all of the foregoing property including without limitation insurance proceeds and any rights of subrogation resulting from the damage or destruction thereof, and, in the case of all tangible Collateral, together with all accessions and, except in the case of consumer goods, together with (i) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any such goods, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods.

2. Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor is | | an individual, | | a partnership, |X| a corporation | |_____.

(b) The Collateral will be used primarily for | | personal, family or household purposes; | | agricultural purposes; |X| business purposes.

(c) | | If any part or all of the tangible Collateral will become so related to particular real estate as to become a fixture, the real estate concerned is: _____
_____
_____
_____and the name of the record owner is:
_____
_____

(d) Debtor's chief executive office is located at:_____ _____or, if left blank, at the address of Debtor shown at the beginning of this Agreement. If Debtor is an individual, the Debtor's residence is at the address of Debtor shown at the beginning of this Agreement.

3. Additional Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest and any other security interest permitted under the terms of the Term Loan and Credit Agreement dated the date hereof, and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party, except that, until the occurrence of an Event of Default and the revocation by Secured Party of Debtor's right to do so, Debtor may sell any inventory constituting Collateral to buyers in the ordinary course of business and use and consume any farm products constituting Collateral in Debtor's farming operation. If Debtor is not an individual, this Agreement has been duly and validly authorized by all necessary action of the Debtor's governing body.

(b) Debtor will not permit any tangible Collateral to be located in any state (and, if county filing is required, in any county) in which a financing statement covering such Collateral is required to be, but has not in fact been, filed in order to perfect the Security Interest.

(c) Each account and right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in Debtor's records pertaining thereto as being obligated to pay such obligation. Debtor will neither agree to any material modification or amendment nor agree to any cancellation of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

(d) Debtor will (i) keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof; (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any

Collateral or upon or against the creation, perfection or continuance of the Security Interest; (iii) keep all Collateral free and clear of all security interests, liens and encumbrances except the Security Interest and any other security interest permitted under the terms of the Term Loan and Credit Agreement dated the date hereof; (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition and to discuss with account debtors and other obligors requests for verifications of amounts owed to Debtor; (v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and

financial condition as Secured Party may from time to time reasonably request; (vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper, or account constituting Collateral; (vii) if Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor; (viii) at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest and with the commitment of the issuer to notify Secured Party before cancellation; (ix) from time to time execute such financing statements and effective financing statements, and furnish lists of potential buyers of farm products as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of a motor vehicle, execute such documents as may be required to have the Security Interest properly noted on a certificate of title; (x) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorney's fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy, receivership or insolvency proceedings; (xi) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement; (xii) not use the Collateral for hire, use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute, ordinance, or insurance policy; (xiii) permit Secured Party at any time and from time to time to send request (both before and after the occurrence of an Event of Default) to account debtors or other obligors for verification of amounts

owed to Debtor; (xiv) not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein; (xv) upon Secured Party's request, obtain a waiver or consent from the owner and any mortgagee of any real property where the Collateral may be located that provides that the Security Interest will at all times be senior to any such interest or lien; and (xvi) if any Collateral consists of farm products, if applicable, sell, cosign or transfer the Collateral only to those persons whose names and addresses have been furnished to Secured Party as potential buyers of farm products. If Debtor at any time fails to perform or observe any agreement contained in this Section 3(d), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (viii) and (ix) of this Section 3(d), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or

otherwise illegal under any applicable law. Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreements or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3 and Section 4. Unless not permitted by applicable law, Debtor hereby irrevocably authorizes Secured Party to create, prepare, complete, execute and file, in the name and on behalf of Debtor, such financing statements as may be required to perfect the Security Interest.

4. Lock Box, Collateral Account. If Secured Party so requests at any time

(whether before or after the occurrence of an Event of Default), Debtor will direct each of its account debtors to make payments due under the relevant account or chattel paper directly to a special lock box to be under the control of Secured Party. Debtor hereby authorizes and directs Secured Party to deposit into a special collateral account to be established and maintained with Secured Party all checks, drafts and cash payments, received in said lock box. All deposits in said collateral account shall constitute proceeds of Collateral and shall not constitute payment of any Obligation. At its option, Secured Party may, at any time, apply finally collected funds on deposit in said collateral account to the payment of the Obligations in such order of application as Secured Party may determine, or permit Debtor to withdraw all or any part of the balance on deposit in said collateral account. If a collateral account is so established, Debtor agrees that it will promptly deliver to Secured Party, for deposit into said collateral account, all payments on accounts and chattel paper received by it. All such payments shall be delivered to Secured Party in the form received (except for Debtor's endorsement where necessary). Until so deposited, all payments on accounts and chattel paper received by Debtor shall be held in trust by Debtor for and as the property of Secured Party and shall not be commingled with any funds or property of Debtor.

5. Collection Rights of Secured Party. Notwithstanding Secured Party's rights under Section 4 with respect to any and all debt instruments, chattel papers, accounts, and other rights to payment constituting Collateral (including proceeds), Secured Party may, after the occurrence of an Event of Default notify any account debtor, or any other person obligated to pay any amount due, that such chattel paper, account, or other right to payment has been assigned or transferred to Secured Party for security and shall be paid directly to Secured Party. If Secured Party so requests at any time, Debtor will so notify such account debtors and other obligors in writing and will indicate on all invoices to such account debtors or other obligors that the amount due is payable directly to Secured Party. At any time after Secured Party or Debtor gives such notice to an account debtor or other obligor, Secured Party may (but need not),

in its own name or in Debtor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such chattel paper, account, or other right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor.

6. Assignment of Insurance. Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. Both before and after the occurrence of an Event of Default, Secured Party may (but need not), in its own name or in Debtor's name,

execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

7. Events of Default. Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (i) Debtor shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement binding on it; (ii) any representation or warranty by Debtor set forth in this Agreement or otherwise made to Secured Party, including without limitation in any financial statements or reports submitted to Secured Party, by or on behalf of Debtor, shall prove materially false or misleading; (iii) a garnishment, summons or a writ of attachment shall be issued against or served upon the Secured Party for the attachment of any property of the Debtor or any indebtedness owing to Debtor; or (iv) the occurrence of an event of default under the Term Loan and Credit Agreement dated on or about October 12, 1999 (as may be amended or replaced from time to time) made by and between the Debtor and the Secured Party.

8. Remedies upon Event of Default. Upon the occurrence of an Event of Default under Section 7 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies: (i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 10) at least 10 calendar days prior to the date of intended disposition or other action; (iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the

Collateral, against Debtor or against any other person or property. Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, trade secrets, franchises, copyrights and patents of Debtor that Secured Party deems necessary or appropriate to the disposition of any Collateral.

9. Other Personal Property. Unless at the time Secured Party takes possession of any tangible Collateral, or within seven days thereafter, Debtor gives written notice to Secured Party of the existence of any goods, papers or other property

of Debtor, not affixed to or constituting a part of such Collateral, but which are located or found upon or within such Collateral, describing such property. Secured Party shall not be responsible or liable to Debtor for any action taken or omitted by or on behalf of Secured Party with respect to such property without actual knowledge of the existence of any such property or without actual knowledge that it was located or to be found upon or within such Collateral.

10. Miscellaneous. This Agreement does not contemplate a sale of accounts, or chattel paper. Debtor agrees that each provision whose box is checked is part of this Agreement. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waives notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effects as the original for all purposes of a financing statement. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of the state named as part of Secured Party's address above. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this

Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All

representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. If this Agreement is signed by more than one person as Debtor, the term "Debtor" shall refer to each of them separately and to both or all of them jointly; all such persons shall be bound both severally and jointly with the other(s); and the Obligations shall include all debts, liabilities and obligations owed to Secured Party by any Debtor solely or by both or several or all Debtors jointly or jointly and severally, and all property described in Section 1 shall be included as part of the Collateral, whether it is owned jointly or by both or all Debtors or is owned in whole or in part by one (or more) of them.

NORWEST BANK MINNESOTA,
NATIONAL ASSOCIATION

By:_____
Paul Rebholz,
Vice President

SPARTA FOODS, INC.

By:_____

Title:_____

By:_____

Title:_____

Exhibit 20.1

Tuesday September 28, 3:28 pm Eastern Time

Sparta Foods buying Arizona tortilla firm

ST. PAUL, Sept 28 (Reuters) - Sparta Foods Inc. said Tuesday it has agreed to acquire substantially all of the assets of Food Products Corp., a tortilla manufacturer in Phoenix, Ariz., for cash and notes.

The exact terms were not disclosed.

Sparta said with the addition of new products under the name Arizona Brand and Spanish Bell, its sales should exceed $30 million for the fiscal year ending Sept. 30, 2000. Revenues in 1998 were about $9 million.

"This agreement marks another major step, and our first acquisition, toward achieving our strategic objective of becoming a national tortilla supplier," said Sparta president and chief executive officer Joel Bachul in a statement.

Food Products manufactures and distributes tortillas, tortilla chips and other snack products in Arizona, California, Nevada, New Mexico, Colorado, Utah and Texas.

Ken Charbonneau, former president and co-owner of Arizona Brand, will continue as president of the new division of Sparta Foods. Also remaining is Michael DePinto, former vice president of operations and co-owner of Arizona Brand.

Stock of Sparta Foods was halted on Nasdaq pending release of the news.

Wednesday October 13, 6:05 pm Eastern Time

Company Press Release

SOURCE: Sparta Foods, Inc.

Sparta Foods Completes Acquisition of Arizona Tortilla Manufacturer; Company Reports Net Sales in Its Fourth Quarter Increased 16 Percent

ST. PAUL, Minn., Oct. 13/PRNewswire/ -- Sparta Foods, Inc. (Nasdaq: SPFO - news), announced today that it has completed its previously disclosed acquisition of Food Products Corporation, Phoenix, Ariz. The $10 million acquisition was funded through $2.6 million cash paid by Sparta Foods, $3 million in a seller subordinated note and bank financing. Bank financing was provided by Norwest Bank Minnesota, N.A., consisting of a $3.3 million five-year term loan and $2 million of a $3 million revolving line of credit. This financing also replaces the Company's existing line of credit and $1 million term loan.

Sparta Foods also reported preliminary net sales of $4,550,000 for its fourth quarter ended Sept. 30, 1999, an increase of 16.2 percent over the fourth quarter of last year.

Joel P. Bachul, Sparta Foods' president and chief executive officer, said "We are pleased to complete the Arizona Brands acquisition and, as previously announced, are poised to exceed $30 million in sales during our fiscal year ending Sept. 30, 2000, on a combined basis.

"We are also very pleased with our fourth quarter sales increase which reflects the level of growth we expected as the result of additional sales expense incurred during the past year," Bachul said.

Sparta Foods expects to report complete results for the fourth quarter in November.

Sparta Foods, Inc., is a regional market leader in the production and distribution of tortillas and value-added tortilla products to the food service and retail foods industries. The Company's product lines include tortillas, tortilla chips, picante and other salsas. Sparta Foods distributes its food products to retail grocery chains principally under the Cruz(R), La Campana Paradiso(R), and La Canasta(R) labels. Foodservice customers include Perkins Family Restaurants, Friendly's Restaurants and other nationally-known restaurants and distributors. For more information about Sparta Foods, please visit http://www.spartafoods.com

Food Products Corporation, known as Arizona Brand, manufactures and distributes tortillas, tortilla chips and other snack products in Arizona, California,

Nevada, New Mexico, Colorado, Utah and Texas principally under the Arizona Brand(R) and Spanish Bell(R) labels. Retail distribution of Arizona Brand's products are through major regional supermarket chains, including Fry's, Safeway and Albertson's, and general merchandise retailers, including Costco and SAM's Club, in the southwest.

The Company's statement regarding Sparta's expectation of combined sales exceeding $30 million in fiscal year 2000 is a forward-looking statement. There are risks and uncertainties regarding this forward-looking statement that could cause actual results of Sparta to differ materially from this forward-looking statement. Such risks and uncertainties include, but are not limited to: (i) a loss of any of their significant customers and distributors; (ii) the failure of Sparta's and Arizona Brand's sales forces to achieve their annual sales targets; (iii) the failure of the Company to establish synergies with the Arizona Brand operation; and (iv) the inability of the Company or Arizona Brand to grow its tortilla business due to competitive forces.

For more information, please contact Doug Ewing of Swenson NHB Investor Relations, 612-371-0000, for Sparta Foods, Inc., or A. Merrill Ayers, CFO of Sparta Foods, Inc., 651-697-5500.