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SECURITY AGREEMENT

Vol. 77 Page 5269Vol. 77 Page 5159

(3)

Section 1.

LOAN #
111-0214-05-1-1CITATION AIR, INC. and DAVID L. CAVENER and
EDGAR L. VIETS, Individually

Klamath Falls, Klamath County, Oregon 97601, (hereinafter called the debtor), for a valuable consideration, receipt whereof hereby is acknowledged, hereby grants to Security Savings & Loan Association, an Oregon corporation, (hereinafter called the secured party), whose address is Klamath Falls, Oregon, a security interest in the following described property, now owned, leased or hereafter acquired by debtor, together with all accessories, substitutions, additions, replacements, parts and accessions affixed to or used in connection therewith, as well as the products and proceeds thereof (all hereinafter called "the Collateral"):

hanger building, office building, all fixtures and equipment upon or attached to the property hereinafter described,

to secure payment of the debtor's debt to the secured party as evidenced hereby and by debtor's note of even date herewith payable to the secured party in the amount of \$50,000.00 payable on the terms, at the times and with interest as set forth in said note; also to secure any and all other debts or liabilities, direct and indirect, absolute or contingent, now existing or hereafter arising from the debtor to the secured party, including such debts or liabilities arising from additional advances hereafter made by secured party to debtor. Said note and said liabilities hereinafter collectively are called "the obligations." Debtor agrees to pay said note and obligations, and if any portion thereof, principal or interest, is not paid when due and such default continues for more than 15 days, debtor agrees to pay, in addition to the foregoing, secured party's reasonable costs of collection, including reasonable attorneys' fees.

Section 2. The debtor hereby warrants and covenants that:

2.1 The Collateral is bought or used primarily for debtor's business; and if any part of the Collateral is being acquired, in whole or in part, with the proceeds of the said note, the secured party may disburse directly to the seller of the Collateral.

2.2 The foregoing Collateral is now and will be kept upon, or is to become attached to, the following described real estate situate in Klamath County, Oregon, to-wit:

Beginning at the Northwest corner of the property now leased by Klamath Aircraft, Inc.; Thence Easterly along the North line of said property leased by Klamath Aircraft, Inc., a distance of 440 feet more or less, to the Northeast corner of said property; Thence Northerly, along the Northerly prolongation of the Easterly line of said property a distance of 300 feet; Thence Westerly, along a line parallel with and 300 feet Northerly of the North line of said property leased by Klamath Aircraft, Inc., a distance of 440 feet more or less; Thence Southerly, along the Northerly prolongation of the Westerly line of said property, a distance of 300 feet to the point of beginning. Being a portion of NE $\frac{1}{4}$ of Section 22, Township 39 South, Range 9 East of the Willamette Meridian.

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Also described as Citation Air, Inc., Klamath Falls Municipal Airport, Klamath County, Oregon 97601, and shall not be removed from said location, in whole or in part, until such time as written consent to a change of location is obtained by debtor from the secured party.

2.3 If the Collateral is used or bought primarily for business use, the debtor's principal place of business in Oregon is Klamath Falls Municipal Airport.

2.4 If debtor is a corporation, it is organized and existing under the laws of the State of Oregon, and its principal office and place of business is located at Klamath Falls Municipal Airport.

2.5 If the Collateral is attached to real estate prior to the perfection of the security interest granted hereby, the debtor will on the demand of the secured party, furnish the latter with disclaimers or subordination agreements in form suitable to the secured party, signed by all persons having an interest in said real estate or any interest in the Collateral which is prior to the secured party's interest.

Section 3. The debtor hereby further warrants and covenants that:

3.1 No financing statement covering any of the Collateral or the products or proceeds thereof, is on file in any public office. The debtor is the owner of said Collateral and each and every part thereof free from any prior lien, security interest or encumbrance and will defend the Collateral against the claims and demands of all persons whomsoever.

3.2 The debtor will not sell, exchange, lease or otherwise dispose of the Collateral, or any part thereof, or suffer or permit any lien, levy or attachment thereon or security interest therein or financing statement to be filed with reference thereto, other than that of the secured party.

3.3 Debtor will maintain the Collateral in good condition and repair and preserve the same against waste, loss, damage or depreciation in value other than by reasonable wear. The debtor will not use any of the Collateral in violation of any law or public regulation. Secured party may examine and inspect the Collateral at any reasonable times, wherever located, and for that purpose hereby is authorized by debtor to enter any place or places where any part of the Collateral may be.

3.4 Debtor will keep the Collateral fully insured against loss or damage by fire, theft and such other hazards as secured party may from time to time require, with such deductible provisions, upon such terms, including loss payable and other endorsements, and in such company or companies as the secured party may approve; debtor immediately will deliver all policies to the secured party, to be retained by the latter in pledge to secure debtor's obligations hereunder, with irrevocable authority to adjust any loss, receive and receipt for any sum payable, surrender any policy, discharge and release any insurer, endorse in debtor's name any loss or refund check or draft and, in general, exercise in the name of the debtor or otherwise, any and all rights of the debtor in respect thereto or in respect to the proceeds thereof.

3.5 Debtor will pay, when due, all taxes, license fees and assessments relative to the Collateral or its use. Should debtor fail

in his performance of any of the foregoing, the secured party may pay any security interest having priority hereto, may order and pay for the repair, maintenance and preservation of the Collateral, or any part thereof, may place and pay for any such insurance and may pay any such taxes; the debtor agrees to pay to the secured party on demand all of the latter's disbursements for any of said purposes with interest at ten percent per annum on all sums so paid from the date of payment until repaid. Repayment of all sums shall be secured by this Security Agreement.

3.6 The debtor agrees to notify the secured party promptly in writing of any change in his business or residence address and in the location where the Collateral is kept.

3.7 In the event of any assignment by the secured party of this agreement or his rights hereunder, debtor will not assert as a defense, counter-claim, set-off or otherwise against secured party's assignee any claim, known or unknown, which debtor now has or claims to have or hereafter acquires against the secured party. However, notwithstanding any such assignment, secured party shall be liable to the debtor as if such assignment had not been made.

3.8 The debtor will join with the secured party in executing, filing and doing whatever may be necessary under applicable law to perfect and continue the secured party's security interest in the Collateral, all at debtor's expense.

3.9 Debtor hereby consents to any extension of time of payment and to any substitution, exchange or release of Collateral and to the addition to or release of any party or person primarily or secondarily liable for the obligations, or part thereof.

Section 4. General Provisions:

4.1 The note which this agreement secures is a separate instrument and may be negotiated, extended or renewed by the secured party without releasing the debtor, the Collateral or any guarantor or co-maker.

4.2 All of the terms herein and the rights, duties and remedies of the parties shall be governed by the laws of Oregon.

4.3 All of the benefits of this agreement shall inure to the secured party, his successors in interest and assigns and the obligations hereunder shall be binding upon the debtor, his legal representatives, successors and assigns.

4.4 If there be more than one debtor or a guarantor or co-maker of the note or this agreement, the obligation of each and all shall be primary and joint and several.

4.5 The secured party shall not be deemed to have waived any of his rights under this or any other agreement executed by the debtor unless the waiver is in writing signed by the secured party. No delay in exercising secured party's rights shall be a waiver nor shall a waiver on one occasion operate as a waiver of such right on a future occasion.

4.6 Each notice from one to the other party to this agreement shall be sufficient if served personally or given by U.S. registered or certified mail or by telegraph, addressed to the other party at his address as set forth above, or as said address may be changed by written

5272

5162

notice to the other given pursuant to this paragraph. Reasonable notice, when notice is required, shall be deemed to be five days.

4.7 In construing this security agreement, the masculine pronoun shall include the feminine and the neuter and the singular shall include the plural, as the circumstances may require.

Section 5. Time is of the essence hereof. The debtor shall be in default under this agreement upon the happening of any of the following events or conditions:

(a) Debtor's failure to pay, when due, the principal of or interest on said note or obligations:

(b) Debtor's failure to keep, observe or perform, or violation of, any provision or covenant of this agreement or any other agreement between him and the secured party, including the real property mortgage referred to below.

Section 6. Upon debtor's default, secured party shall have each and all of the rights and remedies granted to it by law by this agreement and may declare the note and obligation immediately due and payable and may require debtor to assemble the Collateral and make it available to the secured party at a place to be designated by the secured party which is reasonably convenient to both parties. The debtor agrees to pay the secured party reasonable attorney's fees and other expenses incurred by the latter in retaking, holding, preparing for sale and realizing on said Collateral, as well as the attorneys' fees and court costs provided in said note and all said sums shall be included in the obligations secured hereby.

Section 7. Debtor acknowledges receipt of a complete executed copy of this agreement.

EXECUTED AND DELIVERED in duplicate on this 25th day of March, 1977.

CITATION AIR, INC.

By David L. Cavener
President

By Edgar L. Viets
Secretary

ALSO AS INDIVIDUALS:

David L. Cavener
DAVID L. CAVENER

Edgar L. Viets
EDGAR L. VIETS

SECURITY SAVINGS & LOAN
ASSOCIATION

By Ronald E. Waite Executive Vice Pres
Secured Party

STATE OF OREGON,
County of Klamath
On this 28th day of March, 1977,
before me appeared Ronald E. Waite, who
being duly sworn, did say that he, the
said Secured Party is the Executive Vice-
President of Security Savings and Loan
Association the within named Corporation
and that the said instrument was signed
in behalf of said Corporation by authority
of its Board of Directors and he acknow-
ledged said instrument to be the free act
and deed of said Corporation.

In Testimony Whereof, I have here-
unto set my hand and seal.

William B. Dorn
Notary Public for Oregon.
my commission expires 7-17-78

State of Oregon,
County of Klamath } ss,
I hereby certify that the within instrument was
received and filed for record on the 28th
day of MARCH, 19 77, at 4:02
o'clock P.M. and recorded on Page 5159
in Book M 77 Records of DEEDS
of said County.

WM. D. MILNE, County Clerk
By Harold Drazil Deputy

STATE OF OREGON; COUNTY OF KLAMATH; ss.

I hereby certify that the within instrument was received and filed for record on the 30th day of MARCH A.D., 19 77 at 8:53 o'clock A.M., and duly recorded in Vol M 77 of MORTGAGES on Page 5269.

FEE NONE

WM. D. MILNE, County Clerk
By Harold Drazil Deputy