

CONTRACT OF SALE Made this 26th day of November, 1986, by and between THE FEDERAL LAND BANK OF SPOKANE, a corporation, with its office and principal place of business at Spokane, Washington, as Seller, and ROBERT A. VALLADAO and ROBERTA E. VALLADAO, husband and wife, tenants by the entirety, as Purchaser;

W I T N E S S E T H:

Seller agrees to sell to Purchaser and Purchaser agrees to purchase from Seller, upon the terms and conditions hereinafter set forth, the following described Property situate in Klamath County, Oregon, to-wit:

A. Real Property: The following described Real Property:

Township 36 South, Range 14 East, Willamette Meridian

Section 28: All

EXCEPTING the following: Beginning at the Northeast corner of Section 28; thence West on the North line of said Section 28, 160 rods to the Northwest corner of the Northeast quarter of Section 28; thence South on the West line of said Northeast quarter of Section 28, 120 feet; thence in a Northeasterly direction in a straight line to a point on the East line of said Section 28, 86 feet South of the place of beginning; thence North on the East line of said Section 28 to the place of beginning.

AND EXCEPTING the N $\frac{1}{2}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$.

ALSO EXCEPTING that portion of the NW $\frac{1}{4}$ NW $\frac{1}{4}$ lying Northerly of Sprague River and Northwesterly of the DK Canal.

ALSO FURTHER EXCEPTING that portion described as follows: Beginning at a point where the Southerly right-of-way of the Klamath Falls-Lakeview Highway intersects the Westerly line of Section 28; thence South along said Section line 900 feet to a point; thence East 660 feet to a point; thence North 330 feet to a point; thence East to a point on the Southerly right-of-way of Klamath Falls-Lakeview Highway; thence Northwesterly along said highway to a point of beginning.

FURTHER EXCEPTING that portion of the N $\frac{1}{2}$ SW $\frac{1}{4}$ lying between the O.C.&E. Railroad and the Klamath Falls-Lakeview Highway.

Section 29: All lying Southerly of the Klamath Falls-Lakeview Highway, LESS the following: N $\frac{1}{2}$ S $\frac{1}{2}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$; N $\frac{1}{2}$ S $\frac{1}{2}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$; N $\frac{1}{2}$ N $\frac{1}{2}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$; N $\frac{1}{2}$ S $\frac{1}{2}$ NE $\frac{1}{4}$ SW $\frac{1}{4}$; SE $\frac{1}{4}$ SW $\frac{1}{4}$, and S $\frac{1}{2}$ SW $\frac{1}{4}$ SW.

Section 32: NE $\frac{1}{4}$ NE $\frac{1}{4}$

EXCEPT from the above any portion lying within the right-of-way for the O.C.&E. Railroad and the Klamath Falls-Lakeview Highway.

Together with all tenements, hereditaments, rights, easements, privileges, appurtenances thereunto belonging or any wise appertaining, improvements thereon, reversions, remainders, rents, issues and profits thereof, together with all of the rights of the use of water for irrigating the above-described real property, however evidenced, including, without limiting the generality of the foregoing, Permit No. G-7459 and Certificate Nos. G-4835, 5532, 5504, 5512, and 5513, issued by the Water Resources Department of the State of Oregon, and for domestic use thereon, to which Vendor is now entitled, or which are now used on said real property, however the same may be evidenced, and together with all shares of stock or shares of water in any ditch or irrigation company which, in any manner, entitles the use of water for irrigating or domestic purposes upon the real property within the metes and bounds of the above description.

Subject to any and all easements, rights of way, or restrictions of record, and the exceptions, provisions and reservations contained in patents or deeds from the United States of America, or the State of Oregon, or in any other deeds of record.

B. Personal Property: The following described Personal Property located upon the Real Property:

- 100 HP G.E. electric motor, w/turbine pump
- 40 HP U.S. electric motor, w/Cornell centrifugal pump
- 30 HP General Motors diesel motor, w/turbine pump
- 1206' Valley #4865 electric pivot

I. Purchase Price: The total purchase price shall be the sum of \$265,000.00 and shall be payable as follows:

A. Down Payment: The sum of \$125,000.00, including earnest money heretofore paid, upon the execution of this Contract, receipt of which is hereby acknowledged.

B. Deferred Balance: The balance of \$140,000.00 shall be payable in annual installments as follows:

1. First Five Installments: Five (5) annual payments of \$15,424.00 each, including interest at 10% per annum, beginning on the 1st day of January, 1988, and continuing on the 1st day of each and every January thereafter through and including January 1, 1992.

2. Balance of Installments: Twenty (20) equal annual payments of remaining unpaid principal and interest at the rate then in effect under Seller's variable new loan interest rate, beginning on the 1st day of January, 1993, and continuing on the 1st day of each and every January thereafter until all sums, both principal and interest, due hereunder are paid in full.

C. Rate of Interest For First Five Years: Commencing on January 1, 1987, and ending on December 31, 1991, the unpaid principal balances hereof shall bear interest at the rate of 10% per annum.

D. Rate of Interest For Balance of Contract: Commencing on January 1, 1992, the unpaid principal balance hereof shall bear interest at the rate then in effect under Seller's variable new loan interest rate, except as hereinafter provided, on declining principal balances. Interest rate provided in this subarticle shall increase or decrease whenever Seller establishes a higher or lower new loan rate applicable to its current variable rate loans. Increment of increase or decrease shall be the same increment applicable to such loans, but not in excess of maximum rate allowed by applicable state or preemptive federal law. Different variable loan rates are established by Seller in accordance with provisions of Farm Credit Act of 1971 and regulations of the Farm Credit Administration. As and when any different rate is established as provided above, amount of each subsequent installment shall be increased or decreased to reflect different rate of interest, but due date of any installment so increased or decreased shall remain the same.

E. Interest on Delinquent Installments: All installments not made when due shall thereafter bear interest until paid at a default rate which is the rate then in effect for this Contract, plus 2% per annum.

F. Commencement Date of Interest: Interest commences on January 1, 1987, regardless of the date this Contract is signed.

G. Billing Statements: All payments due hereunder shall be made in accordance with billing statements mailed periodically to Purchaser.

H. Application of Payments: Each payment shall be applied first to accrued interest and then to principal.

I. Prepayment: Purchaser may at any time pay the principal balance or any part thereof without penalty.

II. Taxes And Assessments: Purchaser assumes and agrees to pay before delinquency all taxes and assessments that may, as between Seller and Purchaser, become a lien on the real estate until the principal and interest on this Contract are paid in full. Should Purchaser fail to make any payments as provided in this paragraph, Seller may make such payment and any amount so paid by Seller, together with interest at the rate specified herein, with interest to be charged from the date of payment until paid, and said payment together with interest shall be repayable by Purchaser on Seller's demand, all without prejudice to any other right Seller may have by reason of such default.

III. Insurance: Purchaser assumes all risk of loss or damage to buildings or improvements on said real estate by fire, act of God, lawful condemnation, or any other cause and agrees to make the payments herein described as they severally become due, notwithstanding any loss that may occur. Purchaser agrees that at his own cost he will constantly keep all insurable improvements insured against loss or damage by fire to the extent of their full insurable value and in manner and form satisfactory to Seller. All insurance policies whatsoever affecting buildings or improvements on said premises shall be delivered to Seller and each shall have attached thereto a loss payable clause in favor of Seller as its interest may appear. Proceeds of any loss thereunder shall be paid to Seller for application toward purchase price or for rebuilding such building or improvements at option of Seller. Should Purchaser fail to pay any said premiums as provided in this paragraph, Seller may, at Seller's option, and without being obliged to do so, pay such premium and any amount so paid by Seller, together with interest at the rate specified herein, with interest to be charged from the date of payment until paid, and said payment, together with interest, shall be repayable by Purchaser on Seller's demand, all without prejudice to any other right Seller may have by reason of such default.

IV. Defense of Security: Seller may appear in or defend any action or proceeding at law, in equity, or in bankruptcy affecting, in any way, the security hereof and, in such event, Seller shall be allowed and paid, and Purchaser hereby agrees to pay, all costs, charges and expenses, including costs of evidence of title or validity and priority of the security and attorney fees in a reasonable sum, incurred in any such action or proceeding in which Seller may appear, which shall bear interest at the rate specified herein from date of demand therefor. Failure of Purchaser to pay Seller for such costs, charges and expenses within 30 days from the date of demand therefor shall constitute a breach of this Contract.

V. Eminent Domain: In case any of the premises are taken under eminent domain or through conveyance executed in lieu of condemnation, damages paid or consideration received therefore shall be paid to Seller for application on the purchase price.

VI. Use and Care of Premises: Purchaser agrees that he will neither use nor permit said premises to be used for any unlawful nor objectionable purpose; that he will at his own expense keep all buildings, fences, and other improvements upon said premises in good repair; that he will at all times care for the premises in a manner consistent with good management practices in the community; that he will not, without the written consent of

Seller, cut or remove any trees or remove any sand, gravel, or minerals of any nature, nor permit the same to be done; that he will not permit nor suffer waste to be committed on said premises. All farming operations upon the Property shall be in accordance with the practices of good husbandry and the best soil conservation practices, observing accepted methods of crop rotation. Purchaser will constantly take precautions to prevent undue depletion of the soil from erosion by wind or water and shall use all reasonable efforts to keep the Property free from noxious weeds or plants.

VII. Contract as Purchase Money Security Agreement For Collateral: Without limiting Seller's lien created by this Contract, Seller and Purchaser agree that this Contract constitutes a purchase money security agreement for the Collateral and creates, in Seller, a purchase money security interest in the Collateral as provided by the Uniform Commercial Code -- Secured Transactions. Parties agree that the rights of Seller are those of a secured party as defined in the Uniform Commercial Code -- Secured Transactions and this Contract and the rights of Seller are hereby declared those provided a secured party by the Uniform Commercial Code -- Secured Transactions and the provisions contained in this Contract. Without limiting the rights of Seller as a secured party, the parties also agree as follows:

A. Security Interests in the Collateral: The purchase money security interest in the Collateral hereby granted Seller by Purchaser constitutes security for the payment of the Indebtedness.

B. Use and Location of Collateral: The Collateral is bought and used primarily for agricultural purposes and will be kept upon the Real Property. Purchaser will not remove the Collateral from the Real Property or the State of Oregon without the written consent of Seller nor otherwise sell or dispose of the Collateral without the written consent of Seller.

C. Perfection of Purchase Money Security Interest: Purchaser agrees to execute and file financing statements and do whatever may be necessary under applicable law to perfect and continue Seller's purchase money security interest in the Collateral (including, without limiting the generality of the foregoing, the filing of a financing statement as a fixture filing); all at Purchaser's expense. In addition, without limiting the generality of the foregoing, Purchaser will do, execute, and deliver whatever further acts, documents, or instruments as Seller reasonably shall require for preserving, confirming, perfecting, continuing, and assuring to Seller, all and singular, the security rights in the Collateral.

VIII. Possession: Purchaser shall be entitled to Seller's right of possession of the main house from and after December 1, 1986, and the remainder of the Real Property and Personal Property from and after January 1, 1987. Such possession shall continue so long as the terms of this Contract are fully complied with.

IX. Default: Time is of the essence of this Contract. The following shall constitute a default of Purchaser:

- A. Failure to Make Payments: Failure of Purchaser to make payments as herein provided. The acceptance of any sum secured by this Contract after its due date shall not constitute a waiver of Seller's right either to require prompt payment when due of all other sums due under this Contract.
- B. Failure to Perform Covenants: Failure of Purchaser to perform any covenants or conditions of this Contract when performance is due.

X. Remedies: If Purchaser shall be in default as provided in this Contract, Seller shall have the following cumulative rights:

A. Remedies Relating to Real Property: If Purchaser should fail to make the payments or to keep and perform any of the covenants and agreements contained in this Contract, the same shall constitute a forfeiture of this Contract and thereupon Seller, at its option, may declare such forfeiture by written notice to Purchaser in accordance with Oregon statute, and at the expiration of the required notice, the terms of this Contract shall not having been complied with, Seller may enter into said premises and take possession of them, and this Contract shall be at an end and null and void, and Purchaser shall forfeit to Seller, as liquidated damages, all payments made hereunder and all improvements placed upon the premises, and immediately surrender possession of said premises. The failure of Seller to declare a forfeiture at any time upon violation of any of the terms of this Contract by Purchaser shall be deemed only an indulgence by Seller of that particular default and shall not be construed to be a waiver of any rights of Seller specified herein. The remedy provided for in this subarticle is not exclusive and Seller, at its option, may exercise any legal rights available to it.

B. Remedies Relating to Collateral: In the event of any default by Purchaser, Seller shall have all the rights and remedies of a secured party under the Uniform Commercial Code -- Secured Transactions, or other applicable law, and all rights and remedies provided for in this Contract, to enforce payment of all obligations secured by this Contract including, without limiting the generality of the foregoing, the following rights: the right to require Purchaser to assemble the Collateral and make it available to Seller at a place to be designated by Seller which shall be reasonably convenient to both parties; the right to take immediate possession of said Collateral wherever found (either directly by Seller or through Seller's agent, attorney, or sheriff in any county in which the Collateral, or any part thereof, may be located), with or without suit or process, and to sell the same at public or private sale, with or without notice, and to apply the proceeds of such sale to the discharge of the obligations secured hereby (both principal and interest) and expenses of protecting or realizing on the Collateral, including reasonable attorney fees (both at trial and on appeal); the right to a judgment for any deficiency; and the right to become the purchaser at any sale made hereunder. Any notice of sale, or other intended action by Seller, sent to Purchaser at least 5 days prior to such sale, or intended action, shall constitute reasonable notice to Purchaser. Seller shall have the right to enter upon any Real Property owned, leased, or occupied by Purchaser, upon which the Collateral, or any part thereof, shall be located, and to remain thereon for so long a period as may be necessary to perform and/or carry out the rights and remedies conferred by this Contract.

C. Exercise of Remedies: The remedies provided for in this article may be exercised by Seller singularly or concurrently, with reference to either the Real Property or the Collateral, or both, at the sole discretion and option of Seller.

XI. No Waiver: No waiver by Seller of any breach of any covenant of this Contract shall be construed as a continuing waiver of any subsequent breach of such covenant, nor as a waiver of any breach of any other covenant nor as a waiver of the covenant itself.

XII. Notice: Any notice, demand, or communication to be given by either party to this Contract to the other party shall be in writing and transmitted to the other party by registered or certified mail addressed to said party at their address shown below, provided that either party may change his place of address by notice to the other party as herein provided. The mailing and registering or certifying of any such notice, demand, or communication as herein provided shall be sufficient service thereof. In the event notice of default of any nature is sent by Seller after such default has existed for 15 days or

22207

more, Purchaser agrees to pay Seller the sum of \$75.00 in addition to all other demands in said notice, before said forfeiture is released, such amount being a reasonable attorney's fee and cost of said notice. Any payments coming due during time that notice of forfeiture is in effect shall be automatically included in said notice of forfeiture and Purchaser must pay said payment or payments in addition to the amounts called for in the notice.

Address of Purchaser
ROBERT A. VALLADAO
ROBERTA E. VALLADAO
26555 Chisholm Court
Hayward, CA 94544

Address of Seller
THE FEDERAL LAND BANK OF SPOKANE
W. 601 First Avenue
Spokane, Washington 99204

XIII. Attorney's Fees: In case suit or action is instituted for declaration of rights hereunder or to foreclose this Contract, or to enforce any of the provisions hereof, parties agree to pay costs of title reports and such sums as trial court may judge reasonable as attorney's fees and collection costs to be awarded prevailing party in that suit or action, and, if any appeal is taken from any judgment or decree, further attorney's fees and costs as may be adjudged reasonable by the court to be awarded prevailing party. In addition to all statutory costs and disbursements, and attorney fees provided in preceding portions of this article, costs and disbursements shall include any amounts Seller may incur or pay for any title report, title search, insurance of title, or other evidence of title subsequent to the date of this Contract on the Real Property.

XIV. Fulfillment Deed: When full payment has been made under the terms of this Contract, Seller agrees to execute and deliver to Purchaser a Special Warranty Deed, warranting only against encumbrances suffered or created by Seller, subject to the servitudes, exceptions, provisions and reservations hereinabove mentioned, free and clear of encumbrances, except all taxes, assessments, and charges revived or placed on said premises by or through or under any lien or encumbrances revived or placed on said premises by or through or under Purchaser, and except any other encumbrances or defects which Purchaser has assumed.

XV. Fulfillment Bill of Sale and Termination of Financing Statement: When full payment has been made under the terms of this Contract, Seller shall execute and deliver to Purchaser a Bill of Sale to the Personal Property free and clear of all liens and encumbrances as of the date of this Contract and shall execute and deliver such form of termination of financing statement as shall be necessary under the provisions of the Uniform Commercial Code -- Secured Transactions to terminate the purchase money security interest of Seller in the Collateral, and every part thereof.

XVI. Assignment: This Contract shall not be assigned nor the premises be transferred to the possession of any third party without the written consent of Seller. Seller agrees not to unreasonably withhold such consent.

XVII. Inspection: Purchaser acknowledges that he has made a personal inspection of the Property herein described and has otherwise informed himself concerning true conditions of said Property and its appurtenances, and that in executing this Contract he has relied solely on information and knowledge obtained from a personal inspection and investigation of said Property; parties also acknowledge that this Contract constitutes the only agreement between them and that no warranties, agreements, or representations have been made or shall be binding upon either of the parties unless set forth herein.

XVIII. Closing Costs: Purchaser agrees to pay the cost of recording this Contract and the costs of filing and/or recording any financing statements. Each party agrees to pay one-half of the escrow closing fee. Seller agrees to pay all other closing costs, including any taxes assessed upon this transaction, and the cost of title insurance.

22208

- XIX. Title Insurance: Seller agrees to furnish a standard form of Purchaser's Policy of Title Insurance issued by Klamath County Title Company showing title free of encumbrances or defects except those set forth in Article I, A.
- XX. Succession: This Contract shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors, and assigns of the parties hereto.
- XXI. Favorable Classification: Purchaser is liable for any deferred Real Property taxation resulting from change of favorable land classification.
- XXII. Duties and obligations of Purchaser Joint and Several: The duties and obligations of Purchaser shall be joint and several. Purchaser waives notice, presentment, and protest with respect to the indebtedness.
- XXIII. No Oral Modification Binding: This Contract contains the full understanding of parties with respect to subject hereof and no modification hereof shall be given effect unless same be in writing subscribed by parties hereto or their successors in interest.
- XXIV. Construction of Contract: In construing this Contract, the following shall control:

- A. Definitions: The following terms shall have the following meanings:
1. Seller: The term "Seller" shall mean the Seller of the Real Property subject to this Contract, or a secured party under the Uniform Commercial Code -- Secured Transactions of the Personal Property subject to this Contract, as the circumstances and context shall require.
 2. Purchaser: The term "Purchaser" shall mean the Purchaser of the Real Property subject to this Contract, the Personal Property subject to this Contract, or a debtor under the Uniform Commercial Code -- Secured Transactions, as the circumstances and context shall require with regard to the Personal Property subject to this Contract.
 3. Property: The term "Property" shall mean the Real Property and Personal Property described in this Contract, as the circumstances and context shall require.
 4. Real Property: The term "Real Property" shall mean the real property described in this Contract.
 5. Personal Property: The term "Personal Property" shall mean the personal property described in this Contract.
 6. Collateral: The term "Collateral" shall mean the Personal Property described in and subject to the terms of this Contract, together with any and all additions, attachments, and accessions thereto, substitutions and replacements therefore and/or thereof, and products and proceeds therefrom; all as the context and circumstances shall require. Without limiting the rights of Seller, said Personal Property is declared by the parties to be equipment and fixtures under the Uniform Commercial Code -- Secured Transactions.
 7. Uniform Commercial Code -- Secured Transactions: The term "Uniform Commercial Code -- Secured Transactions" shall mean the provisions of the Uniform Commercial Code -- Secured Transactions of the State of Oregon contained in Chapter 79 of the Oregon Revised Statutes, as the same now are or may be later amended.

22209
B. Severability: All covenants, terms and provisions of this Contract are severable, and in the event any of them shall be held to be invalid by any competent Court, this Contract shall be interpreted as though said invalid covenants, terms, and provisions were not contained herein.

C. Governing Law: This Contract shall be governed by the laws of the State of Oregon regardless of where signed.

D. Pronouns: Pronouns used in this Contract shall be construed in accordance with the appropriate gender or neuter, and as either singular or plural as the context requires.

E. Paragraph Headings For Convenience Only: Paragraph headings are for convenience only and shall not be used in construing the covenants, terms and provisions of this Contract.

THIS INSTRUMENT WILL NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES.

IN WITNESS WHEREOF, the parties hereto have executed this Contract the day and year hereinabove first written.

PURCHASER

Robert A. Valladao
ROBERT A. VALLADAO

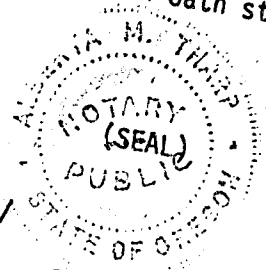
SELLER

THE FEDERAL LAND BANK OF SPOKANE

By: Greg Williams
Greg Williams, Manager

STATE OF OREGON }
County of Klamath } ss:

Personally appeared before me this 26th day of November, 19 86, GREG WILLIAMS, known to me to be the Manager of the corporation that executed the foregoing instrument and acknowledged said instrument to be the free and voluntary act of said corporation, for the uses and purposes therein mentioned, and that it executed the same, and on oath stated that he was authorized to execute said instrument.



M. Sharp
NOTARY PUBLIC FOR OREGON
My Commission Expires: Oct. 30, 1988

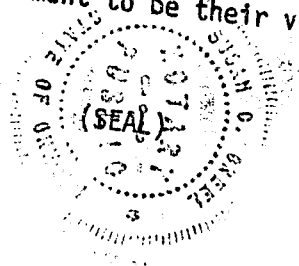
STATE OF OREGON

County of Klamath

} ss:

Personally appeared before me this 28TH day of November, 1986,
the above-named ROBERT A. VALLADAO and ROBERTA E. VALLADAO and acknowledged the foregoing
instrument to be their voluntary act and deed.

22210



Susan P. Creel
NOTARY PUBLIC FOR OREGON

My Commission Expires: 6-21-88

WHEN RECORDED MAIL TO:

The Federal Land Bank of Spokane
c/o Farm Credit Services
P.O. Box 148
Klamath Falls, Oregon 97601

MAIL TAX STATEMENTS TO:

Mr. & Mrs. Robert A. Valladao
P.O. Box 321
Bly, Oregon 97622

STATE OF OREGON

County of Klamath } ss:

I certify that the within
instrument was received for record
on the 3rd day of December,
1986, at 9:02 o'clock A.M., and
recorded in Book 22202 on Page
68357 or as filing fee number

Record of Deeds of said County.
Witness my hand and seal of
County affixed.

Evelyn Biehn,

Klamath County Clerk

BY: Ann Smith Title
Deputy

Fee: \$37.00