

LEASE, Dated as of the last date set opposite the signatures of the parties hereto, between THE FEDERAL LAND BANK OF SPOKANE, a corporation, c/o Farm Credit Services, P.O. Box 148, Klamath Falls, OR 97601 (Lessor), and ROBERT M. GALLUP AND KELLY A. GALLUP, whose address is HC BOX 813 MALIN, OR 97632, (Lessee);

W I T N E S S E T H:

A. RECITALS: The parties recite as follows:

1. Desires of Lessor: Lessor is the owner of the Property hereafter described and desires to lease the Property to Lessee.
2. Desires of Lessee: Lessee desires to lease the Property from Lessor.
3. Independent Determination: Lessee is not acting under any representation or promise of Lessor not contained in this Lease and has entered into this Lease on his own volition after making his independent determination of the facts and circumstances concerning the acreage leased, the condition and quality of the Property, and the suitability of the Property for the crop intended to be grown pursuant to this Lease.

B. AGREEMENT: For, and in consideration of, the covenants, agreements, and stipulations herein contained, the parties agree as follows:

1. Lease of Property: Lessor leases to Lessee, and Lessee rents from Lessor, the Property described in Exhibit "A", situate in Klamath County, State of Oregon, for agricultural and related purposes only.
2. Term: The term of this Lease is from effective date hereof to December 31, 1988, at Midnight.
3. Rent: Lessee shall pay Lessor, without demand, the sum of PM16 \$2486.00 as rent for the entire term of the Lease in the following increments: \$1243.00 contemporaneously with the execution of this Lease and \$1243.00 on November 15, 1988.

4. Not Included In Lease: Unless set forth in Exhibit "A", the following are not included in this Lease: any dwelling, garage, pump or well house, shop, hay shed, or contiguous yard or area, together with access to and from the same.

5. Lessor's Obligations: Lessor shall have the following obligations and duties:

- a. Taxes And/Or Assessments on Property: To pay all ad valorem taxes and assessments levied or assessed against the Property by any county, governmental body or political subdivision of the State of Oregon having the power to levy and/or assess and collect any such tax or assessment.

- b. Irrigation and Drainage Charges: To pay all assessments or charges of any duly constituted irrigation, drainage, or improvement

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district pertaining to the providing of irrigation water and/or drainage, or related items, services, or maintenance for the benefit of the Property.

c. Lessor's Cooperation in Governmental Agricultural Programs: Where the Governmental Entity administering any governmental agricultural program available for the Property in which Lessee desires to participate requires the cooperation of Lessor with Lessee, Lessor shall do all acts necessary to cooperate with Lessee's participation in such governmental agricultural program.

6. Lessee's Obligations: Lessee shall have, in addition to other obligations of Lessee, the following obligations and duties:

a. Use of Property: To use the Property for agricultural purposes only; to occupy, till, and in all respects, cultivate the Property during the Lease term in a farmer-like manner according to the usual course of farming practice in the county; to operate, manage, conserve, and maintain the Property in a high state of husbandry; to comply with all applicable laws, ordinances, regulations, and rulings of any Governmental Entity; not to permit the Property to be used for illegal purposes; not to commit any waste or damage to the Property; and to operate, manage, conserve, and maintain the Property; all at Lessee's sole cost and expense. This covenant shall include, but not be limited to, the following: Not to plow out existing irrigation ditches, if any; to construct and maintain all necessary irrigation ditches, if any, and/or provide and maintain all necessary equipment, if any, for any other type of irrigation system used; to maintain necessary crossings for any existing irrigation ditches; to use all reasonable means to control weeds, and to control injurious insect pests and rodent infestations; not to use an excess of water in the irrigation of the Property to prevent an excessive build-up of salt content, water-logging and other similar conditions; to furnish all farming implements, tools, work, seed, tractors, trucks, labor and everything necessary to perform Lessee's covenants pertaining to the use of the Property; not to plow any permanent planting, pasture or meadowland; not to remove sand, gravel, minerals, geothermal energy, or any subsurface material of any kind; not to erect, or permit to be erected, on the Property any non-removable structures or buildings; to add improvements to any structure or building; and not to raze or remove any permanent improvement.

b. Irrigation Equipment: To the extent Lessor has included any irrigation equipment as part of the Property, not to remove the same, keep the same in good repair and working order, including all parts, material, and labor, and to return it to Lessor in good condition and working order, reasonable wear and tear alone excepted. Without limiting the generality of the foregoing, all replacement parts, additions, repairs and accessories to any of the irrigation equipment included in this Lease is an accretion.

c. Utility Charges: To pay all utility charges for the operation of any irrigation or drainage pumps upon the Property.



d. Maintain Irrigation System: To construct and maintain any necessary gravity irrigation ditches and/or maintain any other type of irrigation equipment or system provided in its present condition, normal wear and tear and damage beyond Lessee's control alone excepted.

e. Avoid Liens: To, at all times, protect Lessor and save Lessor harmless from and against any and all liens and/or claims of liens upon or against the Property, improvements or equipment, or any part thereof, arising or created by, under or through Lessee, or any persons employed by Lessee, or any persons under contract with Lessee.

f. Field-Burning Permits: Lessee shall obtain any necessary field-burning permits for the Property.

h. Indemnify Lessor: To save and hold Lessor harmless from, and to indemnify Lessor against, any of the following that may result by, from, or in any manner grow out of, any condition or present or future lack of repair of all, or any part of, the Property (or improvements thereon), the past, present, or future condition or use of all, or any part of, the Property (or improvements thereon), or any act, omission, neglect, or conduct of any person upon said Property: liability to any person on the Property, for or on account of any death or injury to such person or liability for any damage to property in or about the Property. This covenant shall extend to (without limiting the generality of the foregoing) claims, demands, judgments, court costs, and attorney fees (both at trial or on appeal). This covenant shall not extend to any death or injury to any person on the Property with the permission of Lessor or to any damage to property in or about the Property by any person on the Property with the permission of Lessor. As part performance of this covenant, Lessee shall maintain the comprehensive liability insurance required of Lessee by this Lease.

i. Maintain Insurance: To, at Lessee's own expense, maintain in full force and effect a policy or policies of comprehensive liability insurance, including property damage, written by one or more responsible insurance companies licensed to do business in the State of Oregon, that will insure Lessee and Lessor against liability for injury to persons and property and for death of any person or persons occurring in or about the premises. The liability under such insurance shall not be less than \$500,000.00 for any one accident or \$50,000.00 for property damage. Lessee shall provide Lessor with copies or certificates of all policies.

j. No Assignment: Not to assign or hypothecate this Lease, nor any interest herein, nor let or underlet the said Property, or any part thereof, without the consent in writing of Lessor first had and obtained, and that neither this Lease, nor any interest herein of Lessee, shall be assignable or transferable in proceedings by or against Lessee in execution, or in any manner by operation of law; and that any assignment, transfer or sublease, voluntary or involuntary, which shall be made in contravention of the provisions hereof, shall constitute a breach of this Lease, and shall give Lessor the right or rights for breach of any covenant herein provided.

k. Permit Lessor Entry: To allow Lessor, or anyone designated by Lessor, to enter the premises at any reasonable time to inspect the Property, to work and make improvements as Lessor shall deem expedient, provided such entry and work by Lessor does not injure crops already growing on the Property.

l. Return of Property: To, upon the expiration or sooner termination of this Lease, quietly yield possession of the Property unto Lessor or Lessor's agents or assigns in as good order and condition as reasonable use and wear thereof permit, damage by the elements excepted.

m. Not To Hold Over: Not to retain possession of the Property after termination of this Lease and, if such possession is retained, to retain the same not as new rental, but only at will of Lessor.

n. Waiver of Notice: Lessee expressly waives any notice required by ORS 105.105 through 105.165, including, without limiting the generality of the foregoing, specifically waives the notice provided for in ORS 105.120.

7. Acceptance of Property: Lessee hereby acknowledges that: Lessee is familiar with the quality of the soil and all soil conditions of the Property; is familiar with any irrigation accessories or improvements upon the Property; has been afforded the opportunity to inspect the Property; has made an independent determination of acreage of the Property; has made an independent determination of suitability of the Property for any crop to be grown; accepts the Property without any warranty or guaranty on the part of Lessor as to said Property, or any part thereof; and accepts the Property as it now is. Prior to the execution of this Lease, Lessee apprised Lessee of sufficient relative data, either through experts or other sources of Lessee's own selection, in order Lessee might intelligently exercise Lessee's own judgment in deciding upon whether to enter into this Lease. Lessee's decisions are not based on or influenced by any declarations or representations of Lessor, or its agents, employees, or attorneys. Lessor does not make any warranty either express or implied. By way of expansion of the foregoing sentence, and not by limitation of the same, Lessor does not warrant acreage of any parcel, the quality of the soil, or the suitability of the Property for any crop intended to be grown by Lessee.

8. Arbitration: In the event of any dispute concerning any term, covenant, or provision of this Lease, either party may submit such controversy to binding arbitration in accordance with the rules and regulations of the American Arbitration Association, and the parties shall be bound by the arbitration results. The findings of an arbitrator as provided in this paragraph shall be final and binding on the parties. The arbitrators shall decide, in addition, whether any party is entitled to recover costs, including, but not limited to, accounting and appraisal fees and the fees of other experts. Venue for arbitration under this paragraph shall be proper only in Klamath Falls, Oregon. The parties intend to make the submission to arbitration provided for in this paragraph an express condition precedent to any court action except for the breach of Lessee's covenants to pay or perform the obligations set forth in this Lease under the category of "Rent" or for any action to recover possession of the



Property. The provisions of Oregon Revised Statutes pertaining to arbitration are specifically incorporated into this Lease; provided, however, said provisions shall not be deemed to impair or limit the provisions of this paragraph but shall be deemed to apply only to the extent necessary to implement and further the arbitration proceedings provided for in this paragraph.

9. Default of Lessee and Remedies of Lessor: Time is agreed to be the essence of this Lease. The following provisions shall govern what constitutes Lessee's default and the Lessor's remedies therefor:

a. Events Of Default: Lessee shall be in default under this Lease upon the happening of any of the following events or conditions:

(1) Failure To Pay Rent: Lessee's failure to pay or perform (within 10 days of the date specified for such performance) the covenants pertaining to rent.

(2) Insolvency, Etc.: Insolvency of Lessee, business failure of Lessee, appointment of a receiver for Lessee by a State court, assignment by Lessee for benefit of Lessee's creditors, transfer of Lessee's interest herein by operation of law, levy or execution upon Lessee's interest herein by a creditor of Lessee, or the commencement of any proceeding under any state bankruptcy or insolvency law by or against Lessee, or any one or more of the foregoing.

(3) Assignment: Assignment, hypothecation, or sublease in contravention of Paragraph 6,j of Part B of this Lease.

(4) Failure of Lessee to Perform After Notice: Failure of Lessee to perform any of Lessee's covenants after 10 days' written notice by Lessor to Lessee of such non-performance and failure.

b. Remedies For Default: In the event of Lessee's default as aforesaid, Lessor shall have the following cumulative rights, which Lessor may, at Lessor's election, exercise sequentially or contemporaneously:

(1) Recover For Breach: Pursue any remedy provided by law to recover for the breach and continue the Lease in force.

(2) Re-Enter Property: Re-enter the Property and take full possession of the Property.

(3) Declare Lease Forfeited: Declare the Lease forfeited and re-enter Property and take possession of Property and remove Lessee, Lessee's property, and all persons claiming by or through Lessee, therefrom, and recover all damages provided by law.

(4) Obtain Receiver: Obtain, ex parte from a court of competent jurisdiction, the appointment of a receiver to take possession of the Property.

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For the purposes of this paragraph, damages shall include the worth at the time of the award of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss for the same period that Lessee can prove could be reasonably avoided. Nothing herein contained shall be deemed to prevent or prohibit Lessor from reletting the Property in an effort to mitigate damages, from the implementation of all remedies now or hereafter provided by law, nor preventing Lessor from electing any part of the remedies available to Lessor.

10. Nonwaiver: Lessor's waiver of a breach of a covenant or condition of this Lease is not a waiver of the covenant or condition itself, or any subsequent breach of it, or of any other covenant or condition herein.

11. Attorney Fees: In the event either party institutes any suit or action against the other to recover for any breach of any agreement or condition herein contained, or if any summary action be brought by Lessor for forfeiture of this Lease or to recover possession of said premises, the prevailing party shall recover from the other reasonable attorney fees to be fixed by the court for both trial and on appeal.

12. Notices: Any notice by any party to the other required by this Lease shall be deemed to have been fully given when written and deposited in a sealed envelope with the United States Postal Service as certified mail with postage prepaid and addressed to the party to receive the same at the address shown at the beginning of this Lease.

C. DEFINITIONS: The following terms shall have the following meanings:

1. Lease: The term "Lease" shall mean this instrument.

2. Property: The term "Property" shall mean the real property and/or the irrigation equipment, if any, set forth in the attached Exhibit "A".

3. Governmental Entity: The term "Governmental Entity" shall mean United States of America, the State of Oregon, County of Klamath, Oregon, and any political subdivision, municipal corporation, quasi-governmental entity, or agency thereof.

D. GENERAL PROVISIONS: This Lease shall be subject to the following provisions which shall apply to each portion of it as the circumstances and context may require:

1. Governing Law: This Lease shall be construed by the law of the State of Oregon, regardless of where signed.

2. Severability: All provisions contained in this Lease are severable, and in the event any provision shall be held to be invalid by any court of competent jurisdiction this Lease shall be interpreted as though the invalid provision was not contained in it.

3. Obligations Joint and Several: All obligations created by this Lease shall be joint and several.

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4. Headings: The headings contained in this Lease are for convenience only and are not to be construed as part of this Lease.

5. Mutuality of Preparation: This Lease shall be construed as prepared by both Lessor and Lessee.

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

7. Independent Counsel: Lessor and Lessee have each had the opportunity to be represented by independent counsel of their own choice, which counsel has not been compensated directly or indirectly by the other party.

8. No Partnership And Lessee Independent Contractor: Notwithstanding anything else provided herein, nothing contained herein shall be construed as creating a general partnership between Lessor and Lessee. Lessee shall, at all times, be an independent contractor and the manner and means of Lessee's performance of Lessee's covenants shall be Lessee's responsibility. Lessee shall be entirely and solely responsible for Lessee's own acts, and the acts of Lessee's agents, employees, and subcontractors, engaged in Lessee's undertaking specified in this Lease.

9. Binding Effect: Subject to the provisions hereinabove contained against the transfer, assignment and sublease, this Lease shall bind and inure to the benefit of the heirs, executors, administrators, successors and assigns of the respective parties hereto.

10. Entire Agreement: This Lease embodies the entire agreement of the parties. It may not be modified or terminated except as provided herein, or by other written agreement.

SIGNED on the date set opposite the signatures of the parties.

DATE

SIGNATURE

April 12 1988

Robert M. Gallup, Lessee

April-12, 1988

Kelly A. Gallup, Lessee

THE FEDERAL LAND BANK OF SPOKANE, Lessor

4-12-88

By: Don J. Hall  
SR. CREDIT OFFICER  
(Name & Title)

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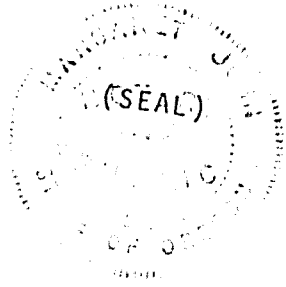
STATE OF OREGON, County of Klamath) ss:

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Personally appeared before me the above-named Robert M. Gallup  
and Kelly A. Gallup  
instrument to be their voluntary act and deed.

April 12

, 1988



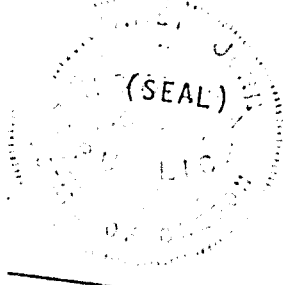
Margaret John  
NOTARY PUBLIC FOR OREGON  
My Commission Expires: 9-12-90

STATE OF OREGON, County of Klamath) ss:

Personally appeared before me, Ann L. Hilton, known to me to  
be the Senior Credit Officer 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.

April 12

, 1988



Margaret John  
NOTARY PUBLIC FOR OREGON  
My Commission Expires: 9-12-90

WHEN RECORDED MAIL TO:

MAIL TAX STATEMENTS TO:

STATE OF OREGON

County of \_\_\_\_\_ } ss:  
I certify that the within  
instrument was received for record  
on the \_\_\_\_\_ day of \_\_\_\_\_  
19\_\_\_\_, at \_\_\_\_\_ o'clock \_\_\_\_\_ M., and  
recorded in Book \_\_\_\_\_ on Page \_\_\_\_\_  
or as filing fee number \_\_\_\_\_

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

BY: \_\_\_\_\_ Title \_\_\_\_\_  
Deputy

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PROPERTY NO. 3

5807

EXHIBIT "A"

The following described real property located in Klamath County, Oregon,  
to-wit:

Township 41 South, Range 12 East of the Willamette Meridian:

Section 5: NW1/4NW1/4: EXCEPTING therefrom the parcel conveyed by deed from Marion E. Monfore, et ux, to Shasta View Irrigation District dated June 9, 1950, recorded June 12, 1950, in Deed Volume 239, Page 398, Records of Klamath County, Oregon, which excepted parcel is more particularly described as follows: Beginning at the Northeast corner of the NW1/4NW1/4 of Section 5, Township 41 South, Range 12 East of the Willamette Meridian, and running thence South along the East line of the said NW1/4NW1/4 of Section 5, 379.1 feet to the true point of beginning; as above described and continuing thence South along the said East line of the NW1/4NW1/4 of Section 5, 594.1 feet to a point; thence North 67°06' West 100 feet to a point; thence North 1°48' West 541.3 feet to a point; thence North 76°34' East to the true point of beginning.

SUBJECT TO: Any and all easements and rights-of-way of record and apparent thereon.

IRRIGATION EQUIPMENT:

20	pcs. Handline
1	1,320'x4" Wheeline
1	Big Gun Sprinkler
870'	8" Mainline without Valves
1320'	6" Mainline with Valves

INITIALS:

DMC  
RAJ  
dh

STATE OF OREGON, ss.  
County of Klamath

Filed for record at request of:

Farm Credit Services  
on this 15th day of April A.D., 19 88  
at 12:07 o'clock P M. and duly recorded  
in Vol. M88 of Deeds Page 5799

By Bernetha A. Deloch County Clerk  
Deputy.

**Farm Credit Services**  
Klamath Falls

900 Klamath Avenue  
P.O. Box 148  
Klamath Falls, Oregon 97601  
503/882-5551

Fee \$50.00

EXHIBIT "A"