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NTC 42131-LVN  
SECURITY AGREEMENT

After Recording  
Return to: Klamath Medical Assoc.  
c/o Glenn Miller M.D.  
1610 Shasta Way  
Klamath Falls, OR 97601

Vol. m92 Page 27235

THIS SECURITY AGREEMENT between Klamath Medical Associates, a partnership, ("Secured Party"), and Leslie E. Northcutt and Norma V. Northcutt ("Debtor"), is as follows:

**SECTION 1. DEFINITIONS**

1.1. Whenever the following terms are used in this Agreement, they are defined as follows:

(1) Code means the Uniform Commercial Code of the state of Oregon as amended from time to time.

(2) Collateral means (a) all of the equipment described in Exhibit "1" and fixtures; (b) the mobile home described as follows:

One 1973 WESTMINSTER MOBILE HOME, PLATE #X094408, VIN #2073260S753.

(c) all proceeds thereof.

(3) Disclosure Schedule means the attached Disclosure Schedule as amended from time to time with Secured Party's consent.

(4) Event of Default means any of the events listed in Section 6 of this Agreement.

(5) Lien means any mortgage, pledge, lien, claim, charge, encumbrance, security interest, conditional sale agreement, capital lease, or other title-retention agreement against or with respect to any of Debtor's property or interest in property.

(6) Material Adverse Effect means a material adverse effect on (a) Debtor's financial condition, business, assets, or ability to pay the Obligations, or (b) Secured Party's rights in the collateral or the priority of such rights.

(7) Obligations means the Promissory Note dated August 18, 1997 and all of Debtor's obligations under this Agreement.

(8) Permitted Liens means (a) Liens granted to Secured Party; (b) Liens arising by operation of law for taxes, assessments, or governmental charges not yet due; (c) statutory Liens of mechanics, materialmen, shippers, warehousemen, carriers, and other similar Persons for services or materials arising in the ordinary course of business for which payment is not yet due; and (d) nonconsensual Liens incurred or deposits made in the ordinary course of business in connection with

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workers' compensation, unemployment insurance, and other types of social security.

(9) *Person* means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party, or government or political subdivision or agency thereof.

1.2 All terms in this Agreement that are not defined in it will, unless the context indicates otherwise, have the meanings provided for by the Code to the extent such terms are defined in the Code.

## SECTION 2. GRANT OF SECURITY

As security for the full and prompt payment, in cash, and performance of all the Obligations, Debtor hereby grants to Secured Party a security interest in all of the Collateral.

## SECTION 3. PERFECTION OF SECURITY INTEREST; DUTY OF CARE

Debtor will perform all steps requested by Secured Party to perfect, maintain, and protect Secured Party's security interest in the Collateral. Secured Party has no duty of care with respect to the Collateral, except that Secured Party will exercise reasonable care with respect to the Collateral in Secured Party's custody, but will be deemed to have exercised reasonable care if such property is accorded treatment substantially equal to that which Secured Party accords its own property, or if Secured Party takes such action with respect to the Collateral as the Debtor requests in writing, provided that no failure to comply with any such request nor any omission to do any such act requested by the Debtor will be deemed a failure to exercise reasonable care. Secured Party's failure to take steps to preserve rights against any parties or property will not be deemed to be a failure to exercise reasonable care with respect to the Collateral in Secured Party's custody.

## SECTION 4. WARRANTIES AND REPRESENTATIONS

Except as set forth on the Disclosure Schedule, Debtor warrants and represents as follows:

4.1 This Agreement is the legal, valid, and binding obligation of Debtor enforceable against Debtor in accordance with its terms;



4.2 Debtor is not and has not during the preceding five years been known as or used any other corporate or fictitious name and has not acquired any of its assets in a bulk transfer;

4.3 Debtor has good, indefeasible, and merchantable title to and ownership of the Collateral, free and clear of all Liens, except Permitted Liens; and

#### SECTION 5. COVENANTS

Until the Obligations are fully paid (in cash), performed, and satisfied and this Agreement is terminated, Debtor covenants that, at its expense, it will:

5.1 Maintain property insurance on all Collateral that is tangible property, insuring against loss or damage by fire, theft, burglary, pilferage, loss in transit, and such other hazards as Secured Party specifies in an amount equal to the full insurable value of the Collateral with reasonable deductible amounts. Such insurance will contain a lender's loss-payable endorsement acceptable to Secured Party, will be evidenced by policies containing other terms reasonably acceptable to Secured Party, and will be provided by insurers acceptable to Secured Party. The policies or a certificate thereof signed by the insurer will be delivered to Secured Party within five business days after the issuance of the policies to Debtor. Each policy will provide that it may not be amended or canceled without 30 days' prior written notice to Secured Party. At least 15 days before the expiration of a policy, Debtor will deliver to Secured Party a binder (or other evidence reasonably acceptable to Secured Party) indicating that such policy has been renewed or that a substitute for such policy will be issued effective on the expiration of such policy;

5.2 Maintain complete books of account, records, and files with respect to its business in accordance with generally accepted accounting principles consistently applied and accurately and completely record all transactions therein;

5.3 At all reasonable times provide Secured Party with access to and the right to examine and inspect the Collateral and access to and the right to inspect, audit, and make copies and extracts from all of Debtor's records, files, and books of account. At Secured Party's request, Debtor will execute and deliver such instruments as may be necessary for Secured Party to obtain such information concerning the Collateral as Secured Party may require from accountants, service bureaus, or others having custody of or maintaining records or assets of Debtor;

5.4 Keep the Collateral free and clear of all Liens, except Permitted Liens, and pay when due all taxes, assessments, and governmental charges levied, assessed, or imposed on or with respect to the Collateral or any part of it;

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5.5 Maintain all tangible-assets Collateral in good operating condition and repair, and make all necessary replacements thereof so that the value and operating efficiency thereof will at all times be maintained and preserved;

5.6 Promptly upon learning of it, notify Secured Party of (1) any violation of any law applicable to Debtor which in any respect may reasonably be expected to have a Material Adverse Effect and (2) any cancellation, material alteration in coverage, or material increase in premium of any insurance required to be maintained by Debtor under this Agreement;

5.7 Conduct its business in material compliance with all applicable laws;

5.8 Not enter into any transaction that may reasonably be expected to have a Material Adverse Effect, nor permit or agree to any change or modification of any kind or nature with respect to any account, other than in the ordinary course of business at a time when no Event of Default is continuing;

5.9 Except for (1) the incidental disposition in the ordinary course of business of equipment no longer used or useful in Debtor's business, and (2) Permitted Liens, not permit any Lien to exist on any of its assets nor encumber, pledge, mortgage, grant a security interest in, assign, sell, lease, or otherwise dispose of or transfer, whether by sale, merger, consolidation, liquidation, dissolution, or otherwise, any of the Collateral;

5.10 Not remove any Collateral (except for dispositions of equipment permitted above) or keep any of the Collateral at any other office or location, unless Debtor gives Secured Party at least 30 days' prior notice and such location is within the continental United States of America; and

5.11 Not use any other name, unless Debtor has given Secured Party not less than 30 days' prior notice of such proposed use.

#### SECTION 6. EVENTS OF DEFAULT

6.1 Each of the following events, whether or not caused by or within the control of Debtor, will constitute an Event of Default under this Agreement:

- (1) Debtor fails to pay when due any of the Obligations;
- (2) Debtor commits any breach of any of its obligations under this Agreement, except for the type of breach described in item (1) above, and such breach is not cured within five (5) days



of the earlier of Debtor's knowledge of it or notice of it from Secured Party to Debtor;

(3) Any representation or warranty made by Debtor in this Agreement is, or becomes, untrue or misleading in any material respect;

(4) Debtor fails to pay, becomes insolvent or unable to pay, or admits in writing its inability to pay, its debts as they become due, calls a meeting of creditors for the composition of debts, or makes any assignment for the benefit of creditors;

(5) A case or proceeding with respect to Debtor is commenced under any applicable bankruptcy, insolvency, reorganization, receivership, or readjustment of debt law or other similar law; or an order for the appointment of a receiver, liquidator, sequestrator, trustee, custodian, or other officer having similar powers over Debtor, any of the Collateral, or a substantial part of Debtor's property is entered; or a warrant of attachment, execution, or similar process against any of the Collateral or any substantial part of Debtor's property is issued;

(6) The occurrence of any seizure, vesting, or intervention by or under the authority of a government by which Debtor's management is displaced or its authority in the conduct of its business is materially curtailed;

(7) Any judgment, order, or writ in excess of \$50,000 is rendered or entered against Debtor and not paid, satisfied, or otherwise discharged within ten (10) days of the date such judgment, order, or writ becomes final and nonappealable, except any judgment for which Debtor is fully insured and with respect to which the insurer has admitted in writing its liability for the full amount or except if the enforcement of such judgment, order, or writ has been stayed or Debtor's liability on it has been bonded in a manner and on terms reasonably satisfactory to Secured Party;

(8) A notice of lien, levy, or assessment is filed or recorded with respect to any of the Collateral by any governmental agency, or any taxes or debts owing at any time hereafter to any government agency becomes a Lien on any Collateral, except any Permitted Liens;

(9) Debtor voluntarily dissolves or ceases to exist, or any final and nonappealable order or judgment is entered against Debtor decreeing its dissolution;

(10) There occurs, or can reasonably be expected to occur with the passage of time, any circumstance that may reasonably be expected to have a Material Adverse Effect;

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(11) A material breach under any agreement, document, or instrument material to Debtor's business or condition occurs and such breach continues for more than five (5) days; or

(12) A material casualty loss occurs with respect to the Collateral which is not covered by insurance, other than a loss that is not intended to be covered by virtue of deductible provisions in such insurance which Secured Party deems reasonable.

6.2 Each Event of Default under this Agreement will be deemed continuing until it is waived in writing by, or cured to the written satisfaction of, Secured Party.

## SECTION 7. SECURED PARTY'S RIGHTS AND REMEDIES

7.1 On the occurrence of an Event of Default, Secured Party (1) may declare the Obligations, or from time to time any part of the Obligations, due and payable; and (2) in addition to any other rights and remedies contained in this Agreement, has all of the rights and remedies of a secured party under the Code and all other applicable law, all of which rights and remedies will be cumulative and nonexclusive to the extent permitted by law.

7.2 Following the occurrence of any Event of Default, Secured Party may, in its discretion and without affecting or impairing its right to take any other further action with respect to any Collateral, exchange, enforce, waive, or release any of the Collateral. Secured Party may cause the Collateral to remain on Debtor's premises, at Debtor's expense, pending sale or other disposition of it. Secured Party will have the right to conduct such sales on Debtor's premises or elsewhere, at Debtor's expense, on such occasions as Secured Party may see fit, and Debtor, at Secured Party's request, will, at Debtor's expense, assemble the Collateral and make it available to Secured Party at such places as Secured Party may reasonably designate from time to time. Any sale, lease, or other disposition by Secured Party of the Collateral, or any part of it, may be for cash or other value. Debtor will execute and deliver, or cause to be executed and delivered, such instruments, documents, assignments, deeds, waivers, certificates, and affidavits and take such further action as Secured Party reasonably requires in connection with such sale, and Debtor hereby constitutes Secured Party as its attorney in fact to execute any such instrument, document, assignment, deed, waiver, certificate, or affidavit on behalf of Debtor and in its name.

7.3 Secured Party is hereby granted a license and right to use, without charge, on the occurrence and during the continuance of an Event of Default and until the Obligations are fully and finally paid in cash, Debtor's labels, patents, copyrights,



rights of use of any name, trade secrets, trade names, trademarks, service marks, advertising material, or any property of a similar nature in completing the production, advertising for sale and sale of any Collateral.

7.4 Any notice given by Secured Party pursuant to Section 10.6 and deemed received by Debtor pursuant to Section 10.6 at least five days before a sale, lease, disposition, or other intended action by Secured Party with respect to any of the Collateral will constitute fair and reasonable notice to Debtor of any such action. A public sale in the following fashion will be conclusively presumed to be reasonable: (1) the sale is held in a county where any part of the Collateral is located or in which Debtor has a place of business; (2) the sale is conducted by auction, but it need not be by a professional auctioneer; and (3) any Collateral is sold as is and without any preparation for sale.

7.5 Secured Party will have no obligation to (1) preserve any rights to the Collateral against any Person, (2) make any demand on or pursue or exhaust any rights or remedies against Debtor or others with respect to payment of the Obligations, (3) pursue or exhaust any rights or remedies with respect to any of the Collateral or any other security for the Obligations, or (4) marshal any assets in favor of Debtor or any other Person against or in payment of any or all of the Obligations. To the extent that Debtor makes a payment to Secured Party or Secured Party enforces any security interest and such payment or the proceeds of such enforcement or any part of it are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under any law or equitable cause, then, to the extent of such recovery, the Obligations or part of them originally intended to be satisfied will be revived and continued in full force and effect with all Collateral as security for it, as if such payment had not been made or such enforcement or setoff had not occurred.

7.6 Secured Party may discharge any Lien that is not a Permitted Lien or bond the same, pay for any insurance that Debtor has failed to maintain as required by this Agreement, maintain guards, pay any service bureau, or obtain any record and pay any taxes, assessments, and governmental charges levied or assessed or imposed on or with respect to the Collateral that Debtor fails to pay. Debtor will reimburse Secured Party for all costs and expenses incurred by Secured Party in exercising its rights or remedies under this Agreement, including court costs and costs of sale.

#### SECTION 8. WAIVERS

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All of Secured Party's rights with respect to the Collateral will continue unimpaired, and Debtor will be and will remain obligated in accordance with the terms of this Agreement, notwithstanding (1) any release or substitution of Collateral or other security for the Obligations (2) any failure to perfect Secured Party's interest in the Collateral or other security, or (3) any delay, extension of time, renewal, compromise, or other indulgence granted by Secured Party in reference to any Obligations. Debtor waives all notice of any such delay, extension, release, substitution, renewal, compromise, or other indulgence, and consents to be bound by it as fully and effectively as if Debtor had expressly agreed to it in advance. Secured Party's failure to exercise, or delay in exercising, any right, remedy, or option under this Agreement will not operate as a waiver by Secured Party of its right to exercise any such right, remedy, or option. No waiver by Secured Party will be effective unless it is in writing and then only to the extent specifically stated. Secured Party's rights and remedies under the Loan Documents will be cumulative and not exclusive of any other right or remedy that Secured Party may have.

#### SECTION 9. APPLICABLE LAW

This Agreement will be interpreted and the rights and liabilities of the parties to it determined in accordance with the local law of the state of Oregon, excluding any conflicts of law rule or principle (other than ORS 79.1030) that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

#### SECTION 10. MISCELLANEOUS

10.1 This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and will be binding on both parties.

10.2 All of Debtor's representations and warranties contained in this Agreement are true at this time, will survive the execution and delivery of this Agreement, and will remain true until the Obligations are fully performed, paid, and satisfied.

10.3 This Agreement will inure to the benefit of and be binding on the successors and assigns of each of the parties to it.

10.4 Debtor will pay Secured Party on demand, together with interest at a per annum rate equal to 9.0 all amounts payable by Debtor under this Agreement, including, without limitation, the amounts described in Sections 7.6 and 10.5.



10.5 Debtor will indemnify and hold Secured Party and its employees, partners, agents, and attorneys ("Indemnitees") harmless from, and reimburse Indemnitees for, (1) all Attorney Fees and (2) all costs, fees, expenses, and liabilities incurred by Indemnitees or for which Indemnitees become obligated, without limit and without regard to cause (including preexisting conditions) or the negligence of any party, including, but not limited to, any negligent act or omission of Secured Party, but expressly excluding Secured Party's gross negligence or willful misconduct, in connection with or arising out of the exercise by Secured Party of any of its rights with respect to the Collateral and the Obligations, including, without limitation, protecting its interests in any bankruptcy proceeding involving Debtor. The foregoing indemnity will remain operative and in full force and effect regardless of the expiration of this Agreement, the repayment of the other Obligations, or any investigation made by or on behalf of Secured Party or the Debtor. As used herein, "Attorney Fees" means the reasonable fees (and related costs and expenses) for the services of the attorneys (and all paralegals and other staff employed by such attorneys) employed by Secured Party from time to time (1) in connection with or arising out of any bankruptcy proceeding, receivership proceeding, or similar proceeding involving Debtor; (2) to commence, defend, participate in, or intervene in any court proceeding (whether at the trial or appellate level) or arbitration proceeding relating to this Agreement, the Collateral, the Obligations, or the relationship between Debtor and Secured Party; and (3) to protect, collect, lease, sell, take possession of, or liquidate any of the Collateral, to enforce or to attempt to enforce any of Secured Party's rights under this Agreement and to give any advice with respect to such enforcement; however, this definition does not include any attorney fees incurred by Secured Party in any court proceeding (other than a proceeding under or related to 11 USC §101 et seq.) if (a) such fees were incurred in an action by either Secured Party or Debtor against the other and (b) Debtor is the prevailing party in the action.

10.6 Any notice or notification required, permitted, or contemplated under this Agreement must be in writing, must be addressed to the party to be notified at the address set forth below or at such other address as each party may designate for itself from time to time by notice hereunder, and will be deemed to have been validly served, given, or delivered (1) five business days after deposit in the United States mails, with first-class postage prepaid, (2) the next business day after such notice was delivered to a regularly scheduled overnight delivery carrier with either delivery fees prepaid or an arrangement, satisfactory with such carrier, made for the payment of delivery fees, or (3) on receipt of notice given by telecopy, mailgram, telegram, telex, or personal delivery:



To Secured Party: KLAMATH MEDICAL ASSOCIATES, a  
partnership  
c/o Glenn Miller  
1610 Shasta Way  
Klamath Falls, Oregon 97603

To Debtor: LESLIE E. NORTHCUTT  
NORMA V. NORTHCUTT  
P.O. Box 479  
Malin, Oregon 97632

10.7 Wherever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, that provision will be ineffective to the extent of the prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

10.8 This Agreement cannot be changed orally or by the conduct of the parties. Any amendment, modification, or change may be made only by a writing signed by the party against whom enforcement is sought.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of August 19, 1997.

Leslie E. Northcutt  
LESLIE E. NORTHCUTT

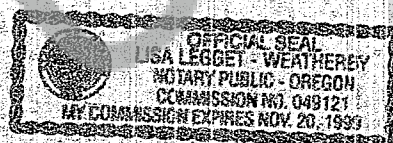
Norma V. Northcutt  
NORMA V. NORTHCUTT

STATE OF OREGON

COUNTY OF KLAMATH

SS. August 19, 1997

Personally appeared the above named LESLIE E. NORTHCUTT AND NORMA V. NORTHCUTT and acknowledged the foregoing instrument to be a voluntary act.



Before me:

Lisa Leggett Weatherly  
NOTARY PUBLIC FOR OREGON  
MY COMMISSION EXPIRES 11/20/99

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### EXHIBIT "A" LEGAL DESCRIPTION

Lots 6, 7, 8, 9, 10, 11 and 12, Block A, RAILROAD ADDITION TO MALIN, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon.

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of \_\_\_\_\_ American title \_\_\_\_\_  
of August A.D. 19 97 at 3:46 o'clock \_\_\_\_\_ the 19th day  
of Mortgages on Page 27235 P. M., and duly recorded in Vol. M97

FEE \$55.00

By Kathleen Ryan Bernetha G. Letsch, County Clerk