

[Loan No. 0010139946-109]

AFTER RECORDING RETURN TO:

Washington Mutual Bank
 Bend Commercial Banking Center
 P.O. Box 1226
 Bend, Oregon 97701

State of Oregon, County of Klamath
 Recorded 08/14/2003 3:24 p m
 Vol M03 Pg 59263-69
 Linda Smith, County Clerk
 Fee \$ 51.00 # of Pgs 7

Attention: Commercial Loan Department

603-132
MEMORANDUM OF

FIRST AMENDMENT TO LOAN MODIFICATION, CONSOLIDATION AND EXTENSION AGREEMENT

Grantor/Borrower:
Grantee/Lender:

SCOTT L. RUNELS and MARGIE B. RUNELS
WASHINGTON MUTUAL BANK, a Washington corporation

THIS MEMORANDUM OF FIRST AMENDMENT TO LOAN MODIFICATION, CONSOLIDATION AND EXTENSION AGREEMENT (this "First Amendment") is made as of the 6th day of August, 2003, between SCOTT L. RUNELS and MARGIE B. RUNELS ("Borrowers") and WASHINGTON MUTUAL BANK, a Washington corporation ("Lender").

RECITALS

A. On October 18, 2002, Borrowers and Lender entered into an agreement providing for the consolidation and extension of seven outstanding promissory notes, identified under Loan Nos. 0010139946-34, -42, -59, -67, -75, -83 and -91 (the "Loan Modification, Consolidation and Extension Agreement" or "LMCE Agreement"). In connection with this consolidation, the LMCE Agreement:

- i. identified all of the security which had been granted Lender to secure the repayment of the seven identified loans;
- ii. provided for Borrowers to execute and deliver a new, consolidated promissory note ("Note No. 0010139946-109");
- iii. specified additional security to be given by Borrowers for Note No. 0010139946-109, including a deed of trust covering the real property described in Exhibit A hereto and incorporated herein;
- iv. reaffirmed the indebtedness represented by Note No. 0010139946-109;
- v. and modified the various Deeds of Trust covering the real property more particularly described in Exhibit B attached hereto and incorporated herein, and the Assignments of Rents, Commercial Security Agreements and Agricultural Security Agreements constituting the security for Borrowers' indebtedness to Lender (together, the security documents for the original seven promissory notes and the new security documents given in connection with Note No. 0010139946-109 are referred to as the "Security Documents").

B. The LMCE Agreement established a maturity date for Note No. 0010139946-109 on July 15, 2003, and provided for each of the Security Documents to reflect that modified maturity date.

C. For mutual consideration, the receipt and sufficiency of which are hereby acknowledged, Borrowers and Lender agree in the form of this Memorandum of First Amendment to Loan Modification, Consolidation and Extension Agreement to further amend the LMCE Agreement, Note No. 0010139946-109, and each of the Security Documents as set forth herein, and to provide for a release of claims by Borrowers.

D. As of the date hereof, the total outstanding principal balance on Note No. 0010139946-109 equals One Million One Hundred Sixty-Two Thousand Five Hundred Fifty-Seven and 24/100ths Dollars (\$1,162,557.24) (the "Indebtedness").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants, conditions and promises on the part of each party to be kept and performed, the parties hereby agree as follows:

1. Affirmation of Indebtedness and Security.

Borrowers hereby acknowledge the indebtedness and affirm that the Security Documents identified in LMCE Agreement, have been duly executed, delivered and (as applicable) recorded, and remain in full force and effect.

2. Modifications to Note No. 0010139946-109.

Note No. 0010139946-109 is hereby modified to extend the maturity date thereof to July 15, 2004. The next regularly scheduled payment thereunder, in the amount of \$145,000.00, is due July 5, 2004.

3. Modifications to the Deeds of Trust.

Each of the deeds of trust identified in the LMCE Agreement is hereby modified so as to extend the maturity date thereof to July 15, 2004.

4. Modifications to the Assignment of Rents, the Commercial Security Agreements and the Agricultural Security Agreements.

Each of the Commercial Security Agreements, Agricultural Security Agreements, and Assignments of Rents identified in the LMCE Agreement, is hereby modified so as to extend the maturity date thereof to July 15, 2004.

5. Release of Claims.

As additional consideration to Lender for entering into this First Amendment, Borrowers do for themselves, and on behalf of their successors and assigns, hereby release, acquit and forever discharge Lender, all of Lender's predecessors in interest, and all of Lender's past and present officers, directors, attorneys, affiliates, employees and agents, of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or of any relationship, acts, omissions, misfeasance, malfeasance, causes of action, defenses, offsets, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses, of every type, kind, nature, description or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length (each, a "Released Claim" and collectively, the "Released Claims"), that Borrowers now have or may acquire as of the later of: (i) the date this First Amendment becomes effective; or (ii) the date that this First Amendment has been fully executed and delivered to Lender (hereafter, the "Release Date"), including without limitation, those Released Claims in any way arising out of, connected with or related to any and all prior credit accommodations, if any, provided by Lender, or any of the Bank's predecessors in interest, to Borrowers, and any agreements, notes or documents of any kind related thereto, or the transactions contemplated thereby or hereby, or any other agreement or document referred to herein or therein.

Borrowers hereby acknowledge, represent and warrant to Lender that Borrowers agree to assume the risk of any and all unknown, unanticipated or misunderstood defenses and Released Claims which are released by the provisions hereof in favor of Lender, and waive and release all rights and benefits which Borrowers might otherwise have under any state or local laws or statutes with regard to the release of such unknown, unanticipated or misunderstood defenses and Released Claims.

Borrowers acknowledge that Borrowers have read each of the provisions of this Agreement and this Section 5, and have had the opportunity to review the same with legal counsel. Borrowers fully understand that this Section 5 constitutes a general release, and that it has important legal consequences. Borrowers specifically acknowledge and agree that: (1) none of the provisions of this Section shall be construed as or constitute an admission of any liability on the part of Lender; (ii) the provisions of this Section shall constitute an absolute bar to any Released Claim of any kind, whether any such Released Claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable; and (iii) any attempt to assert a Released Claim barred by the provisions of this Section shall subject the asserting party to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

6. Obligation to Diligently Pursue Its Sale.

Borrowers shall take all actions reasonably necessary to promptly market and sell the real property identified in the LMCE Agreement at its fair market value.

7. Expenses.

All fees, charges and expenses associated with the transactions contemplated by this First Amendment, including but not limited to recording fees, title insurance premiums, escrow fees, appraisal and inspection costs and attorneys' fees shall be paid for in their entirety by Borrowers. Lender shall incur no expense in connection with the transactions contemplated by this First Amendment.

8. Attorneys' Fees and Legal Expenses.

In the event of any default under this First Amendment, the LMCE Agreement, Note No. 0010139946-109, or any of the Security Documents, Lender shall be entitled to collect from Borrowers on demand all fees and expenses incurred in connection therewith, including but not limited to the fees of its attorneys,

accountants, appraisers, environmental inspectors, consultants, expert witnesses, arbitrators, mediators and court reporters. Without limiting the generality of the foregoing, Borrowers shall pay all such costs and expenses incurred in connection with: (a) arbitration or other alternative dispute resolution proceedings, trial court actions and appeals; (b) bankruptcy or other insolvency proceedings of Borrowers, any guarantor or other party liable for any of the obligations herein described or any party having any interest in any security for any of those obligations; (c) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any property securing Note No. 0010139946-109; (d) post-judgment collection proceedings; (e) all claims, counterclaims, cross-claims and defenses asserted in any of the foregoing whether or not they arise out of or are related to Note No. 0010139946-109, or any security therefor; (f) all preparation for any of the foregoing; and (g) all settlement negotiations with respect to any of the foregoing.

9. Final and Complete Expression.

This First Amendment, and the various other documents executed in connection herewith, constitutes the final and complete expression of the parties with respect to the transactions contemplated herein and may not be modified, amended, altered or superseded except by an agreement in writing signed by all parties hereto.

10. Captions.

The headings to the various sections of this First Amendment have been inserted for convenience of reference only and do not modify, amend, alter or supersede the express provisions hereof.

11. No Joint Venture.

Nothing contained herein or in any of the documents identified herein shall be construed as creating a partnership or joint venture between or among Borrowers and Lender or between Lender and any other party, or cause Lender to be responsible in any way for the debts or obligations of Borrowers or any other party, it being the express intent of the parties that the relationship between Borrowers and Lender is, and at all times shall remain, that of borrowers and lender.

12. Third-Party Beneficiaries.

Nothing contained herein or in any of the documents identified herein shall be construed as creating a third-party beneficiary relationship between Borrowers, Lender and any other party.

13. Severability.

If any provision of this First Amendment or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this First Amendment or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby and each provision of this First Amendment shall be valid and be enforced to the fullest extent permitted by law.

14. Further Assurances.

Borrowers agree to execute such other instruments and provide Lender with such further assurances as Lender, in its reasonable discretion, deems necessary to protect its security or to more fully carry out the intents and purposes of this First Amendment.

15. Conflicts Between Documents.

In the event of a conflict in the terms and conditions of any of the documents identified in this First Amendment and this First Amendment, the terms and conditions of this First Amendment shall prevail.

16. Counterparts.

This First Amendment may be executed in a number of identical counterparts. If so executed, each of such counterparts shall collectively constitute one agreement.

17. Time of Essence.

Time is of the essence under this First Amendment and in the performance of every term, covenant and obligation contained herein.

18. Binding Effect.

All agreements, covenants, conditions and provisions of this First Amendment shall be binding upon and inure to the benefit of the successors and assigns of each of the parties hereto.

19. Governing Law.

This First Amendment is made with reference to and is to be construed in accordance with the laws of the state of Oregon.

20. Miscellaneous.

Except as hereby modified, all of the terms, covenants and conditions of the LMCE Agreement, Note No. 0010139946-109, and the Security Documents remain in full force and effect and unmodified. Nothing herein shall be deemed to affect or modify the priority of any of the Deeds of Trust identified in the LMCE Agreement. All references to the Note and the Deeds of Trust in any document shall be deemed to mean such notes and deeds of trust as hereby modified.

DATED as of the day and year first above written.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY WASHINGTON MUTUAL BANK AFTER OCTOBER 3, 1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY WASHINGTON MUTUAL BANK TO BE ENFORCEABLE.

BORROWER:

SCOTT L. RUNELS



BORROWER:

MARGIE B. RUNELS



LENDER:

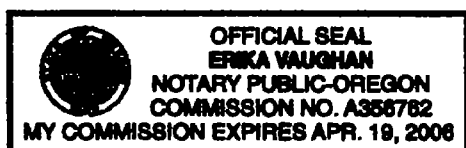
WASHINGTON MUTUAL BANK, a Washington corporation

By 
John G. Clark, Vice President

STATE OF OREGON

COUNTY OF Deschutes

ss.

This instrument was acknowledged before me on 6th August, 03 by SCOTT L. RUNELS.Dated this 6th day of August, 2003.
Erika Vaughan
 (Signature of Notary)

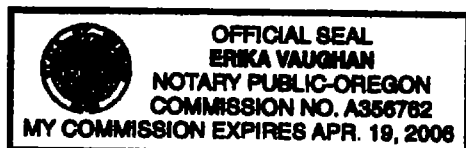
Erika Vaughan
 (Legibly Print or Stamp Name of Notary)

 Notary public in and for the state of Oregon, residing at _____
 My appointment expires April 19, 2006

STATE OF OREGON

COUNTY OF Deschutes

ss.

This instrument was acknowledged before me on August 6th, 03 by MARGIE B. RUNELS.Dated this 6th day of August, 2003.
Erika Vaughan
 (Signature of Notary)

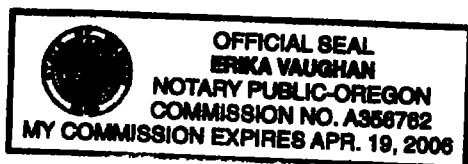
Erika Vaughan
 (Legibly Print or Stamp Name of Notary)

 Notary public in and for the state of Oregon, residing at _____
 My appointment expires April 19, 2006

STATE OF OREGON

COUNTY OF Deschutes

ss.

This instrument was acknowledged before me on August 6th, 03 by JOHN G. CLARK as Vice President of WASHINGTON MUTUAL BANK.Dated this 6th day of August, 2003.
Erika Vaughan
 (Signature of Notary)

Erika Vaughan
 (Legibly Print or Stamp Name of Notary)

 Notary public in and for the state of Oregon, residing at _____
 My appointment expires April 19, 2006

My appointment expires _____

EXHIBIT A

This EXHIBIT "A" is attached to and by this reference is made a part of the Trust Deed, Security Agreement, Assignment of Leases and Rents, and Fixture Filing, dated October 18, 2002, and executed in connection with a loan or other accommodations between WASHINGTON MUTUAL BANK and Scott L. Runels and Margie B. Runels.

PARCEL 1:

Government Lots 1, 6, 7 and 8 of Section 32, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, and the NE ¼ of Section 5, and the N ½ of Section 6, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

PARCEL 2:

The SE ¼ and the E ½ SW ¼, and Government Lots 3 and 4, in Section 7, Township 31 South, Range 8 East of the Willamette Meridian EXCEPT that part lying in the Railroad right of way, in Klamath County, Oregon.

PARCEL 3:

The W ½ of the NE ¼ of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

The E ½ of the NE ¼ of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

The SE ¼ of Section 9, and the SW ¼ of Section 10, all in Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

PARCEL 4:

Township 31 South, Range 7 East of the Willamette Meridian, in Klamath County, Oregon.

Section 13: N ½ SE ¼

Township 31 South, Range 8 East of the Willamette Meridian, in Klamath County, Oregon.

Section 6: S ½

Section 8: All

Section 9: W ½

Section 10: SE ¼

Section 15: N ½

Section 16: All, EXCEPT that portion of the S ½ SE ¼ of Section 16, lying Southerly of the Silver Lake Road

Section 17: SE ¼

Section 18: All

Section 19: All, EXCEPT that portion of the S ½ of Section 19 lying Southerly of the Silver Lake Road

Section 21: N ½ N ½, EXCEPT that portion lying Southerly of the Silver Lake Road


SAVING AND EXCEPTING from the above described parcels any portion thereof lying within the right of way of the Southern Pacific Railroad.

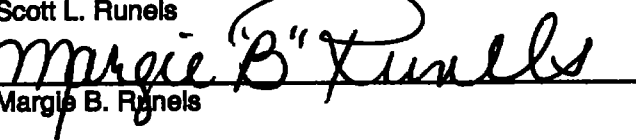
ALSO EXCEPTING that portion conveyed to Klamath County by Deed recorded June 19, 1987 in Volume M87, page 10661, Microfilm Records of Klamath County, Oregon

An easement for vehicular and foot traffic as recorded in Agreement recorded July 2, 1985 in Volume M85, page 10178; recorded July 2, 1985 in Volume M85, page 10181 and recorded July 18, 1985 in Volume M85, page 11391, Microfilm Records of Klamath County, Oregon. An easement for road as recorded July 1, 1985 in Volume M85, page 10184, Microfilm Records of Klamath County.

THIS EXHIBIT "A" IS EXECUTED AS OF OCTOBER 18, 2002.

GRANTOR:

x 
 Scott L. Runels

x 
 Margie B. Runels

LEGAL DISCRIPTIONS

Loan 0010139946-59

Line of Credit Deed of Trust dated March 24, 2000, as modified by that certain Modification of Deed of Trust dated March 12, 2002; the said line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 14366, and in Lake County, Oregon at Book 119, Page 365; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-34

Deed of Trust dated November 29, 2000, recorded in Lake County, Oregon at Book 121, Page 531; (the real property covered by said Deed of Trust is described hereinafter under LAKE COUNTY: PARCEL 4.)

Loan 0010139946-42

Deed of Trust dated June 12, 2000, and recorded in Klamath County, Oregon at Volume M00, Page 22130, and in Lake County, Oregon at Book 120, Page 71; (the real property covered by the said Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-67

Line of Credit Deed of Trust dated April 12, 2001, as modified by that certain Modification of Deed of Trust dated March 14, 2002; which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M01, Page 17484, and in Lake County, Oregon at Book 123, Page 149; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-75

Line of Credit Deed of Trust dated June 12, 2000, as modified by that certain Modification of Deed of Trust dated March 14, 2002, which line of credit deed of trust was recorded in Klamath County, Oregon at Volume M00, Page 22123, and in Lake County, Oregon at Book 120, Page 64; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under KLAMATH COUNTY: PARCELS 1 through 6 and LAKE COUNTY: PARCELS 1 through 3.)

Loan 0010139946-91

Deed of Trust dated March 14, 2002, recorded Lake County, Oregon at Book 127, Page 712; (the real property covered by the said Line of Credit Deed of Trust is described hereinafter under LAKE COUNTY: PARCELS 1 through 4.)

LAKE COUNTY:

PARCEL 1: The SE ¼ and the E1/2 of the SW ¼ of Section 32 in Township 27 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 2: Government Lots 1, 2 and 3 and the S ½ of the NE ¼ and the N ½ of the SE ¼ and the SW ¼ of the SE ¼ of Section 5 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 3: The SE ¼ of the NW ¼ and the SW ¼ of Section 5 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

PARCEL 4: The SE ¼ of the NE ¼ and the E ½ of the SW ¼ of the NE ¼ and the SE ¼ of the NW ¼ and the S ½ all in Section 3 in Township 28 South, Range 16 East of the Willamette Meridian in Lake County, Oregon.

KLAMATH COUNTY:

PARCEL 1: The S ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, lying Easterly of the Southern Pacific Railroad right of way.

PARCEL 2: The S ½ N ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, lying Easterly of the Southern Pacific Railroad right of way.

PARCEL 3: All that portion of the E ½ SW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, lying Easterly of the Southern Pacific Railroad, Klamath County, Oregon.

PARCEL 4: All that portion of the N ½ N ½ SE ¼ NW ¼ of Section 31, Township 30 South, Range 8 East of the Willamette Meridian, lying Easterly of the Southern Pacific Railroad right of way, Klamath County, Oregon.

PARCEL 5: NW ¼ of the SE ¼ and government Lots 5, 6, 7 and 8 in Section 31, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 6: That portion of the S ½ of Section 19, lying Southerly of the Silver Lake Road, and EXCEPTING THEREFROM that portion lying within the railroad right of way, in Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.