

MTT-1396-7173

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SECURITY AGREEMENT

M05-69516

Klamath County, Oregon

11/21/2005 02:49:09 PM

Pages 9 Fee: \$61.00

DATE: November 17, 2005

PARTIES: DAVID KISSINGER and SYDNEY KISSINGER
P.O. Box 2224
Jasper, Oregon 97438

[Debtor]

- and -

ROBERT KINGZETT
1225 Pacific Terrace
Klamath Falls, Oregon 97601

[Secured Party]

RECITALS:

A. Under the terms of a Residential Real Estate Sale Agreement dated October 3, 2005 (Agreement), Debtor has agreed to purchase certain assets of Secured Party. Pursuant to the terms of the Residential Real Estate Sale Agreement, Debtor has delivered to Secured Party a promissory note (Note) setting forth the terms of payment from Debtor to Secured Party.

B. NOW THEREFORE, in order to secure payment under the Note and the performance by Debtor of the covenants and conditions contained in the Agreement, the parties hereby agree as follows:

SECTION 1. CREATION OF SECURITY INTEREST

Debtor hereby grants to Secured Party a security interest in the property described in §2 on the terms and conditions set forth in this Agreement.

SECTION 2. PROPERTY

The property subject to the security interest (Collateral) is as follows:

2.1 Description of Property. That certain cabin more particularly described as Tract G1, Lot 17, USFS Term Special Use Permit, Holder No. 5527/01, Odell Lake, Klamath County, Oregon, together with the personal property located in such cabin as of the date of closing of the sale of such cabin, and the boat dock associated with such cabin located on Odell Lake.

2.2 After-Acquired Property. All property of the types described in §2.1 or similar thereto, that at any time hereafter may be acquired by Debtor, including, but not limited to, all accessions, parts, additions, and replacements.

2.3 Proceeds. All proceeds of the sale or other disposition of any of the Collateral described or referred to in §2.1. Sale or disposition of Collateral is prohibited except as provided in §4.4.

SECTION 3. SECURED OBLIGATION

This Agreement is given to secure (1) payment of the principal and interest now or hereafter owed by Debtor to Secured Party, evidenced by the Note, (2) performance by Debtor of all of the covenants and conditions contained in the Note and the Agreement, and (3) performance by Debtor of all covenants and conditions here contained.

SECTION 4. WARRANTIES AND COVENANTS OF DEBTOR

Debtor warrants and covenants as follows:

4.1 Ownership of Collateral. Debtor is the sole owner of the Collateral. Debtor will defend the Collateral against the claims and demands of all other persons at any time claiming the same or any interest therein.

4.2 Removal of Collateral Prohibited. Debtor shall not remove the Collateral from any location without the written consent of the Secured Party.

4.3 Perfection of Security Interest. Debtor agrees to execute and file financing statements, and do whatever may be necessary under the applicable Uniform Commercial Code in the state where the Collateral is located, to perfect and continue the Secured Party's interest in the Collateral, all at Debtor's expense.

4.4 Sale Prohibited. Debtor will not sell or otherwise transfer or dispose of any interest in the Collateral without the written consent of Secured Party, which shall not be unreasonably withheld.

4.5 Insurance

4.5.1 Debtor shall have and maintain, or cause to be maintained, all risk insurance at all times with respect to all Collateral in such form, for such periods, and written by such companies as may be satisfactory to Secured Party. All policies of insurance shall have endorsed a loss payable clause acceptable to Secured Party and/or such other endorsements as Secured Party may from time to time request, and Debtor will promptly provide Secured Party with the original policies or certificates of such insurance. Debtor shall promptly notify Secured Party of any loss or damage that may occur to the Collateral. Secured Party is hereby authorized to make proof of loss if it is not made promptly by Debtor.

4.5.2 All proceeds of any insurance on the Collateral shall be held by Secured Party as a part of the Collateral. Such proceeds shall be paid out from time to time upon

order of the Debtor for the purpose of paying the reasonable cost of repairing or restoring the property damaged. Any proceeds that have not been so paid out within 360 days following their receipt by Secured Party shall be applied to the prepayment of principal on the Note. In the event of failure to provide insurance as herein provided, Secured Party may, at Secured Party's option, provide such insurance at Debtor's expense.

4.6 Adverse Liens and Use. Debtor shall keep the Collateral free from any adverse liens, security interests or encumbrances, and in good order and repair, and shall not commit or permit waste or destruction of the Collateral or any portion of it. Debtor will not use or permit anyone to use the Collateral in violation of any statute, ordinance, or state or federal regulation, and Secured Party may examine and inspect the Collateral at any reasonable time, wherever located. This section will not apply in the event of a good faith dispute by Debtor as to the reasonableness or validity of any adverse lien, security interest, or encumbrance, except that if Secured Party reasonably determines that the adverse claim substantially impairs its security, Secured Party may require Debtor to either pay the claim or deposit with Secured Party cash, a sufficient corporate surety bond, or other security satisfactory to Secured Party to provide for the discharge of the claim plus any costs, attorney fees, or other charges that could accrue as a result of foreclosure or sale under the claim.

4.7 Taxes and Assessments. Debtor will pay or cause to be paid promptly when due, all taxes and assessments on the Collateral, this Agreement, or the Note. Debtor, however, may withhold payment of any tax assessment or claim if a good faith dispute exists as to the obligation to pay, provided that if a lien arises as a result of such nonpayment Debtor shall treat such lien as an adverse claim under §4.6.

SECTION 5. DEBTOR'S RIGHT TO POSSESSION; SECURED PARTY'S RIGHT TO PAY CERTAIN OBLIGATIONS

5.1 Until default, Debtor may have possession of the Collateral and use it in any lawful manner not inconsistent with this Agreement and not inconsistent with any policy of insurance thereon.

5.2 At any time if Debtor is in default, Secured Party, at its option, may discharge taxes, liens, or security interests or other encumbrances at any time levied or placed on the Collateral, may pay for insurance on the Collateral, and may pay for the maintenance and preservation of the Collateral, and all such payments shall become a part of Debtor's obligation secured hereby, payable on demand, with interest at the rate described in §8.5. Such right shall be in addition to any other rights or any remedies to which Secured Party may be entitled on account of Debtor's default.

SECTION 6. EVENTS OF DEFAULT

Debtor shall be in default under this Agreement when any of the following events or conditions occurs:

6.1 Debtor shall be in default under the Note.

6.2 Failure of Debtor to comply with any term, obligation, covenant, or condition contained in this Agreement or in the Agreement for Sale and Purchase of Business Assets, within TEN (10) days after receipt of written notice from Secured Party demanding such compliance.

6.3 Any warranty, representation, or statement made or furnished to Secured Party by or on behalf of Debtor under this Agreement, or the Agreement for Sale and Purchase of Business Assets proves to have been false in any material respect when made or furnished.

6.4 Any levy, seizure, attachment, lien, or encumbrance of or on the Collateral which is not discharged by Debtor within TWENTY (20) days or, with the exception of inventory, any sale, transfer, or disposition of any interest in the Collateral other than a liquidating distribution to Debtor, without the consent of the Secured Party pursuant to Section 4.6.

6.5 Loss, theft, damage, or destruction of any Collateral carried on Debtor's books at a value more than \$20,000.00 which is not covered by insurance proceeds.

6.6 Insolvency, appointment of a receiver of any part of the property of, assignment for the benefit of creditors by, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Debtor, or entry of any judgment that in the opinion of Secured Party would reasonably jeopardize the security interest given by this Agreement.

6.7 Commencement of any suit or action by any creditor of Debtor against any of the Collateral. This section shall not apply in the event of a good faith dispute by Debtor as to the validity or reasonableness of the claim which is the basis of the foreclosure suit, except that if Secured Party reasonably determines that the claim substantially impairs its security, Secured Party may require Debtor to either pay the claim or provide Secured Party with sufficient replacement security as set forth in §4.6.

SECTION 7. RIGHTS OF SECURED PARTY

7.1 Upon default and at any time after default, Secured Party may declare the entire amount secured immediately due and payable and, in addition to the remedies described in §7.1 - §7.3, shall have all the rights and remedies of a secured creditor under the Uniform Commercial Code, at law, in equity, or otherwise.

7.2 In exercising its rights under this Security Agreement, Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at the place to be designated by Secured Party which is reasonably convenient to both parties. Secured Party may sell all or any part of the Collateral as a whole or in parcels either by public auction, private sale, or other method of disposition. Secured Party may bid at any

public sale on all or any portion of the Collateral. Unless the Collateral is perishable or threatens to decline speedily in value or is of the type customarily sold on a recognized market, Secured Party shall give Debtor reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition of the Collateral is to be made, and notice given at least TEN (10) days before the time of the sale or other disposition shall be conclusively presumed to be reasonable. A public sale in the following fashion shall be conclusively presumed to be reasonable:

7.2.1 Notice shall be given at least TEN (10) days before the date of sale by publication once in a newspaper of general circulation published in Klamath County, Oregon.

7.2.2 The sale shall be held in Klamath County, Oregon.

7.2.3 Payment shall be in cash or by certified check immediately following the close of the sale.

7.2.4 The sale shall be by auction, but it need not be by a professional auctioneer.

7.2.5 The Collateral shall be sold as is and without any preparation for sale. Secured Party may bid at any sale.

7.3 Notwithstanding §7.2, Secured Party shall be under no obligation to offer to sell the Collateral. In the event Secured Party offers to sell the Collateral, Secured Party will be under no obligation to consummate a sale of the Collateral if, in its reasonable business judgment, none of the offers received by it reasonably approximates the fair value of the Collateral.

7.4 In the event Secured Party elects not to sell the Collateral, Secured Party may elect to follow the procedures set forth in the Uniform Commercial Code for retaining the Collateral in satisfaction of Debtor's obligation, subject to Debtor's rights under such procedures.

7.5 In addition to the rights under §7.1 - §7.4, in the event of a default by Debtor, Secured Party shall be entitled to the appointment of a receiver for the Collateral as a matter of right whether or not the apparent value of the Collateral exceeds the outstanding principal amount of the Note and any receiver appointed may serve without bond. Employment by Secured Party shall not disqualify a person from serving as receiver.

7.6 Expenses of retaking, holding preparing for sale, selling, or the like shall include Secured Party's reasonable attorney fees and legal expenses, whether or not litigation is commenced, and also such fees and expenses on appeal.

SECTION 8. GENERAL

8.1 Secured Party shall not be deemed to have waived any rights under this Agreement or any other writing signed by Debtor unless such waiver is in writing and signed by Secured Party. No delay or omission on the part of Secured Party shall operate as a waiver of such right or any other right. A waiver by any party of a breach of a provision of this Agreement shall not constitute a waiver of or prejudice the party's right otherwise to demand strict compliance with that provision or any other provision. Election by Secured Party to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform an obligation of Debtor under this Security Agreement after failure of Debtor to perform shall not affect Secured Party's right to declare a default and exercise its remedies under §7.

8.2 All Secured Party's rights and remedies, whether evidenced here or by any other writing, shall be cumulative and may be exercised singularly or concurrently.

8.3 Any demand on or notice to Debtor that Secured Party may give shall be effective when deposited as registered or certified mail directed to Debtor's address stated in this Agreement. Either party may change the address for notices by written notice to the other party.

8.4 This Agreement and all rights and liabilities under it and in and to any and all obligations secured here and in and to its successors and assigns, and shall be binding on Debtor and its successors and assigns. At such time as the promissory note executed by Debtor in favor of Secured Party referenced herein has been paid in full, the parties hereto shall cooperate with each other in promptly terminating this security interest. Before termination, this agreement shall constitute a continuing agreement.

8.5 Debtor shall pay to Secured Party on demand, together with interest at a rate equal to the announced prime rate of U.S. Bank any and all expenses (including legal expenses and reasonable attorney fees whether or not litigation is commenced and also such fees and expenses on appeal) reasonably incurred and extended by Secured Party in insuring, discharging encumbrances as provided by §5.2, protecting, storing, maintaining, and liquidating the Collateral and in collecting or attempting to collect proceeds thereof and in protecting and enforcing the covenants and other rights of Secured Party under this Agreement.

8.6 Secured Party may, at any time and at its option without further authorization from Debtor, file copies of this Agreement as a financing statement.

8.7 Should any one or more provisions of this Agreement be determined to be illegal or unenforceable, all other provisions nevertheless shall be effective.

SECTION 9. APPLICABLE LAW

This Security Agreement has been executed and delivered to Secured Party in the state of Oregon, and all transactions here contemplated are to be consummated in the state of Oregon. Except for filing requirements, Debtor agrees that the law of the state of Oregon shall apply for the purpose of construing this instrument, determining its validity, and, to the fullest extent permitted by applicable law of any state in which any of the Collateral is located, the rights and remedies of Secured Party in the event of default under this Agreement.

IN WITNESS WHEREOF, the parties have executed this instrument as of the date first mentioned above.

SECURED PARTY:

Robert Kingzett

DEBTOR:

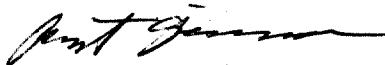
David Kissinger

Sydney Kissinger

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SECURED PARTY:**DEBTOR:**

Robert Kingzett

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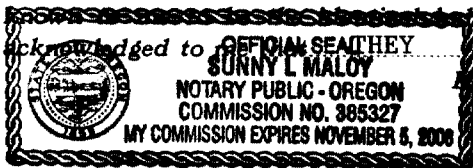
Sydney Kissinger

STATE OF OREGON,

County of LANE

ss.

BE IT REMEMBERED, That on this 17th day of OCTOBER, ~~XX~~ 2005
before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within
named DAVID KISSINGER & SIDNEY KISSINGER



individual S described in and who executed the within instrument and
acknowledged to me that HE executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed
my official seal the day and year last above written.

Sunny L. Maloy
Notary Public for Oregon.

My Commission expires 11/5/08

STATE OF OREGON,

County of Klamath

ss.

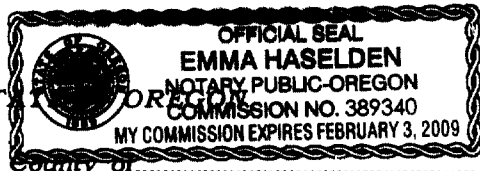
BE IT REMEMBERED, That on this 27th day of OCTOBER, ~~XX~~ 2005
before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within
named ROBERT KINGZETT

known to me to be the identical individual..... described in and who executed the within instrument and
acknowledged to me that..... HE..... executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed
my official seal the day and year last above written.

Emma Haselden
Notary Public for Oregon.

My Commission expires Feb. 3, 2009



STATE OF OREGON,

County of LANE

ss.

BE IT REMEMBERED, That on this 27 day of October, ~~19~~ 2005
before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within
named

known to me to be the identical individual..... described in and who executed the within instrument and
acknowledged to me that..... executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed
my official seal the day and year last above written.

STATE OF OREGON,

County of

ss.

BE IT REMEMBERED, That on this..... day of....., 19.....,
before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within
named

known to me to be the identical individual..... described in and who executed the within instrument and
acknowledged to me that..... executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed
my official seal the day and year last above written.

Notary Public for Oregon.