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SKAMANIA CO. WASH
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Dec 20 3 48 PM '96

P. Olson
AUDITOR

GARY H. OLSON
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Set 20535

**SECURITY AGREEMENT IN TIMBER
TO BE CUT AND LOG PURCHASE AGREEMENT**
126983

EAGLE RIDGE DEVELOPMENT, hereinafter called "debtor", hereby grants to MERRILL & RING, L.L.C., a Washington Limited Liability Company, hereinafter called "secured party", a security interest in standing timber which is to be cut and removed, hereinafter called "property", together with all proceeds of such property, said timber located on the following described real property:

The land referred to is located in and described as follows:

See Exhibit "A".

Deed of Trust

This Security Agreement is first and subordinate to that Real Estate Contract dated December 20, 1996, in favor of Merrill & Ring. The debtors are the owners for above described property. The debtors agree to execute a UCC-2 form which will be recorded in the county where the timber is located.

This Security Agreement is given to secure the payment and performance of that certain indebtedness evidenced by a Promissory Note from debtors to secured party dated December 20, 1996, and any interest thereon. Regardless of the adequacy of any security which secured party may at any time hold hereunder and regardless of the adequacy of any other security the secured party may obtain from the debtors in connection with any other transactions, any deposits or other money owing from secured party to the debtors shall (as collateral in possession of secured party) constitute additional security for, and may be set off against all obligations secured hereby even though said obligations may not then be due.

This Agreement is also an agreement on the part of the debtors to log the timber on the real property above described and sell it to the secured party as further described in this Agreement and in the Note this Agreement secures.

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Filed ☒
Mailed ☒

The debtors hereby represent, covenant and agree with secured party as follows:

- A. **USE OF PROPERTY:** Debtors agree to comply with any and all governmental regulations affecting the use of the property including but not limited to any Washington State Forest Practice Act requirements and will not waste, injure nor destroy the property, nor will debtors use nor permit the use of the property in any unlawful manner. Debtors represent and agree that the primary use of the property is and will be business use.
- B. **OWNERSHIP OF LIENS:** Debtors are over eighteen (18) years of age and they own the property and the same is free and clear of all security interest and encumbrances of every nature, except:

Debtors will not create nor permit the existence of any lien or security interest other than that created hereby on the property without the written consent of secured party.

- C. **TAXES:** Debtors will pay before delinquency all taxes or other governmental charges that are or may become a lien or charge on the property and will pay any tax which may be levied on any obligation secured hereby and will pay all required harvest taxes.
- D. **INSPECTION:** Secured party may inspect the property at reasonable times and intervals and may for this purpose enter the premises upon which the property is located.
- E. **INSURANCE:** Debtors will keep the property continuously insured by an insurer approved by secured party against fire, theft and other hazards designated at any time by secured party, in an amount equal to the full insurable value thereof or to all sums secured hereby, with such form of loss payable clause as designated by and in favor of secured party. In the event of loss, secured party shall have full power to collect any and all insurance upon the property and to apply the same at its option to any obligations secured hereby, whether or not matured. Secured party shall have no liability whatsoever for any loss that may occur by reason of the omission or lack of coverage of any such insurance.
- F. **REMOVAL OR SALE:** Without the prior written consent of the secured party, the debtors will not remove the property from the State of Washington and debtors will not sell the property or any interest therein

except as provided in this Agreement and the Note this Agreement secures. The debtors agree by January 24, 1997, to have cut and removed all timber on the above described real property covered by this Security Agreement and to deliver all cut and removed timber to the secured party to debtors. Subject to the terms of the Note this Agreement secures, debtors shall be paid and/or credited for said logs delivered to secured party at the rates indicated as per the current price list in effect on dates of deliveries.

G. **EXPENSES INCURRED BY SECURED PARTY:** Secured party is not required to but may, at its option, pay any tax or other charge or expense payable by debtors and any filing or recording fees and any amounts so paid shall be repayable by debtors upon demand. Debtors will also repay upon demand all of secured party's expenses incurred in collecting, insuring, conserving or protecting the collateral or in any inventories, audits, inspections or other examination by secured party in respect of the collateral. Debtors will also repay upon demand all of secured party's expenses incurred in harvesting timber from the above described real property should debtors fail to complete logging operations by the date as described above. All such sums shall bear interest at the lesser of one percent (1%) per month or the maximum rate permitted by law from the date of payment by the secured party until repaid by debtors and such sums and interest thereon shall be secured hereby. The rights granted by this paragraph are not a waiver of any other rights of secured party arising from breach of any of debtor's covenants.

H. **WAIVERS:** This Agreement shall not be qualified or supplemented by course of dealing. No waiver or modification by secured party of any of the terms or conditions hereof shall be effective unless in writing signed by secured party. No waiver nor indulgence by secured party to any required performance by debtors shall constitute a waiver as to any subsequent required performance or other obligations of debtors hereunder. Debtors hereby waive any counter claims or defense hereunder against any assignee for value.

I. **DEFAULT:** Time is of the essence in this Security Agreement, and in any way of the following events, hereinafter called "Events of Default", to wit:

1. Any failure to pay when due the full amount to any payment of principle, interest, taxes, insurance premiums or other charges which are or may be secured hereby; or

2. Any failure to perform as required by any covenant or agreement herein or in the note this Agreement secures; or
3. The falsity of any representation by debtors herein or in any credit application or financial statement given by debtors to secured party as a basis for any extension of credit secured hereby; or
4. If the property should be seized or levied upon under any legal or governmental process against debtor or against the property; or
5. If debtors become insolvent or are the subject of a petition in bankruptcy, either voluntary or involuntary, or in any other proceeding under the federal bankruptcy laws; or make an assignment for the benefit of creditors; or if debtors are named in or the property is subjected to a suit for the appointment of a receiver; or
6. Loss, substantial damage to, or destruction of any portion of the property; or
7. Entry of any judgment against debtors; or
8. Dissolution or liquidation of debtors; or
9. If the property should be lienied by anyone not party to this Agreement; or
10. The secured party deems itself insecure; or
11. Any failure to perform as required by any covenant or agreement in the mortgage also securing the note.

Then and in any of such events of default, the entire amount of indebtedness secured hereby shall then or at any time thereafter, at the option of the secured party, become immediately due and payable without notice or demand, and secured party shall have an immediate right to pursue the remedies set forth in this Security Agreement.

J. **REMEDIES:** In the event of a default hereunder, secured party shall have all remedies provided by law; and without the limiting the generality of the foregoing, shall be entitled as follows:

1. Debtors agree to put secured party in possession of the property on demand; and
2. Secured party is authorized to enter any premises where the property is situated and take possession of said property without notice or demand and without legal proceedings, including the right to complete logging operations on the above described real property; and
3. At the request of secured party, debtors will assemble the property and make it available to secured party at a place designated by secured party which is reasonably convenient to both parties; and
4. Debtor agrees that a period of fifteen (15) days from the time notice is sent, by first class mail or otherwise, shall be a reasonable period of notification of a sale or other disposition of the property; and
5. Debtors agree that any notice or other communication by secured party to debtors shall be sent to the address of the debtors stated herein; and
6. Debtors agree to pay on demand the amount of all expenses reasonably incurred by secured party in protecting or realization on the property. In the event that this Security Agreement or any obligation secured by it is referred to an attorney for protecting or defending the priority of secured party's interest or for collection or realization procedures, debtors agree to pay a reasonable attorney's fee, including fees incurred in both trial and appellate courts, or fees incurred without suit, and expenses of title search and all costs and costs of public officials. The sums agree to be paid in this subparagraph shall be secured hereby; and

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7. If secured party disposes of the property, debtors agree to pay any deficiency remaining after application of the net proceeds to any indebtedness secured hereby.

K. **APPLICABLE LAW:** This Security Agreement shall be governed by the laws of the State of Washington. Venue for any action shall be in Skamania County, Washington.

SIGNED THIS

DEBTOR(S):


Eagle Ridge Development

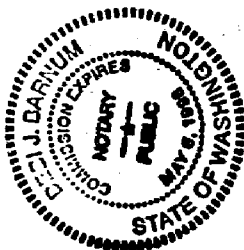
Address: PO Box 10, Woodland, WA 98674

STATE OF WASHINGTON }
County of SKAMANIA } ss.

On this 20th day of DECEMBER, A.D. 1996, before me, the undersigned, a Notary Public in and for the State of WASHINGTON, duly commissioned and sworn personally appeared RONALD

G. POWELL, to me known to be the individual(s) described in and who executed the foregoing instrument, and acknowledged to me that HE (he/she) signed and sealed the said instrument as HIS (his/her) free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year in this certificate above written.



Debi J. Barnum DEBI J. BARNUM
Notary Public in and for the State of Washington
residing at CAMAS
My commission expires: MAY 8, 1998

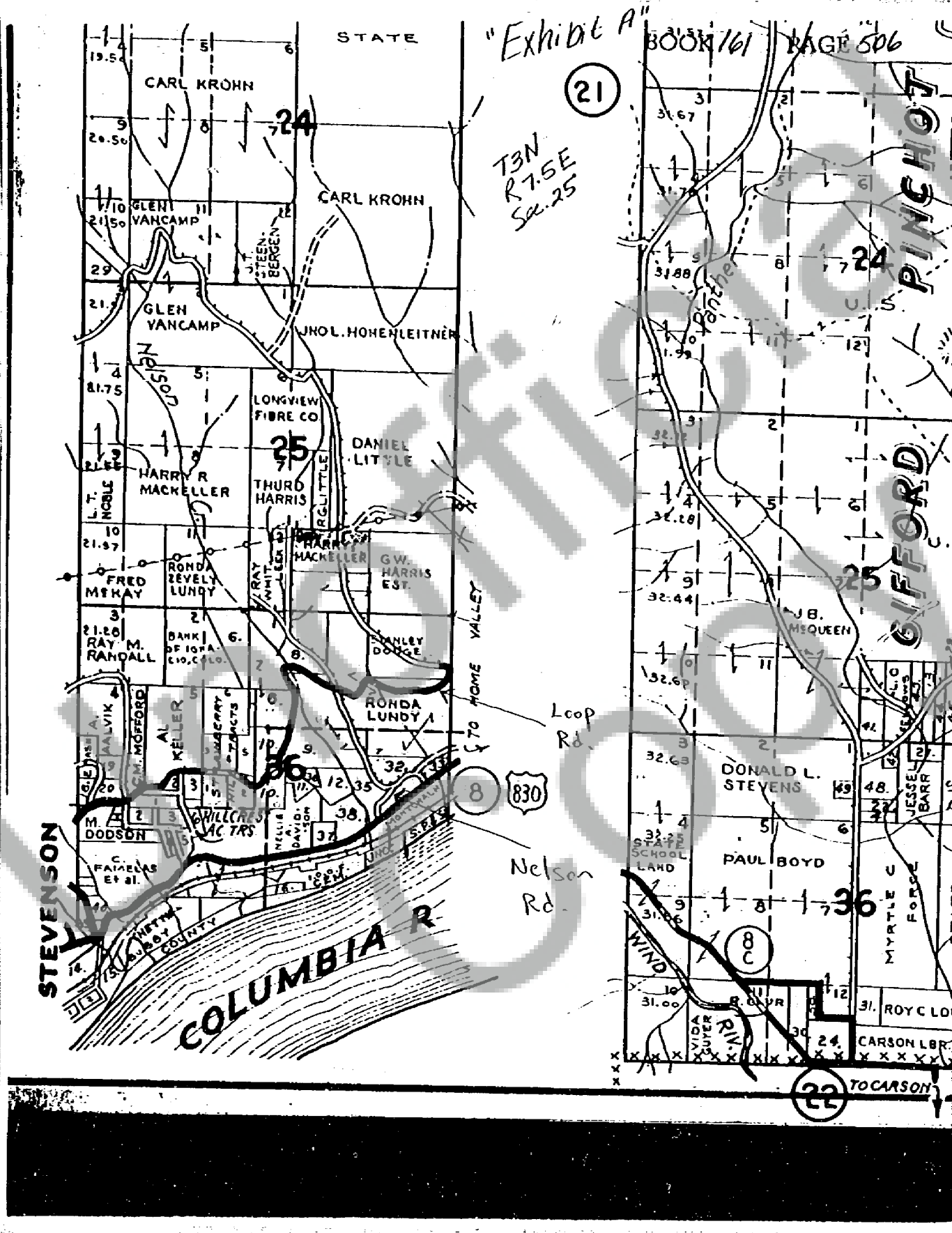


EXHIBIT "A"

A tract of land in the Southeast Quarter of Section 25, Township 3 North, Range 7 1/2 East of the Willamette Meridian, in the County of Skamania, State of Washington, described as follows:

Beginning at the Southeast Corner of the Southwest Quarter of the Southeast Quarter of said Section 25; thence North 36 Rods to the True Point of Beginning; thence West Parallel to the South line of said Section 25 to the West line of the Southwest Quarter of the Southeast of said Section 25; thence North to the Northwest corner of said Southwest Quarter of the Southeast Quarter of Section 25; thence East to the Northeast corner of the Southwest Quarter of the Southeast quarter of Section 25; thence South to the True point of Beginning.

EXCEPT a strip of land being 300 feet in width conveyed to United States of Bonneville Transmission Lines.