

FINANCE APPLICATION

**Date: December 18, 2006**

**Avion Water Company, Inc.  
60813 Parrell Road  
Bend, OR 97702**

Vikie Bailey-Goggins  
Oregon Public Utility Commission  
PO Box 2148  
Salem, OR 97308-2148

RE: **Avion Water Company, Inc.** Application to Issue Stock, Bonds, Notes, or Other Securities

Dear Ms. Bailey-Goggins:

This financing application is submitted in the manner and form indicated by OAR 860-036-0720.

**INFORMATION REQUIREMENTS**

The application shall be in letter form and contain the following information:

**(a) The applicant's exact name and the address of its principal business office;**

Avion Water Company, Inc.  
60813 Parrell Road  
Bend, OR 97702

**(b). The state in which incorporated, the date of incorporation, and the other states in which authorized to transact water utility business, if any;**

Avion Water Company, Inc. was incorporated in the State of Oregon on January 1, 1976.

**(c). The name and address of the person authorized, on behalf of applicant, to receive notices and communications in respect to the application;**

Jan M. Wick, President  
60813 Parrell Road  
Bend, OR 97702

Jason Wick, Vice President  
60813 Parrell Road  
Bend, OR 97702

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Richard Bailey, Secretary-Treasurer  
60813 Parrell Road  
Bend, OR 97702

**(d). The names, titles, and addresses of the principal officers of the applicant;**

Jan M. Wick, President  
60813 Parrell Road  
Bend, OR 97702

Jason Wick, Vice President  
60813 Parrell Road  
Bend, OR 97702

Richard Bailey, Secretary-Treasurer  
60813 Parrell Road  
Bend, OR 97702

**(e). A description of the general character of the business done and to be done, and a designation of the territories served. A map showing the territories served is desirable;**

Avion Water Company, Inc. (the Company) is a water utility that provides water to 9,539 residential customers, 884 commercial customers and 806 irrigation customers. The water utility service territory includes areas from near the Deschutes-Jefferson County line , south to La Pine and east into Crook County in the Powell Butte/Alfalfa area. Please see the included map of Avion Water Company's service territory.

**(f). A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of capital stock, (if applicable):**

Avion Water Company is authorized to issue 100,000 shares of common stock, at no par value. Currently there are 100,000 shares issued and outstanding.

- Issued stock has an amount outstanding of \$47,668.
- Treasury stock has a value of \$75,000.
- All stock is pledged as loan collateral to the Bank of the Cascades.
- Jan and Christine Wick, both affiliated interests, owns 94.250% of the Company's stock.  
David Nelsen, an affiliated interest, owns 5.000% of the Company's stock.
- No Company stock is held in funds.

**(g). A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of long-term debt or notes (if applicable):**

The Company has the following long term debt:

**Oregon Department of Energy bond.**

Face amount: \$3,093,142.19

Interest rate: 4.62%

Issuance date: Dec. 20, 1988

Maturity date: July, 2014

Balance at 10/31/06: \$1,744,579

No part of this bond is held as reacquired securities, it is not pledged nor is any part of it held by an affiliated interest.

The bond does require a reserve amount \$157,500 to be set aside. At Oct. 31, 2006, the reserve was fully funded and had a balance of \$183,162.

**Bank of the Cascades loan**

Face value: \$5,500,000.00

Interest rate: 7.5%

Issuance date: 01/21/03

Maturity date: 01/10/14

Balance at 10/31/06: \$4,370,810

No part of this loan is held as reacquired securities, nor does it require a sinking or other fund.

Jan Wick and Christine Wick, both affiliated interests, have pledged their stock as collateral for this loan, but neither of them hold any of the loan.

**Bend-LaPine School District #1.**

Face value: \$364,000.59

Interest rate: 0%

Issuance date: 1992 & 1993

Maturity date: 2007 & 2008

Balance at 10/31/06:\$92,439

No part of this loan is held as reacquired securities, nor does it require anything to be pledged.

No affiliated interests hold any part of this loan.

This loan does not require any sinking or other funds.

**(h). A full description of the securities proposed to be issued, showing: kind and nature of securities or liabilities; amount (face value and number of shares); interest or dividend rate, if any; date of issue and date of maturity; and voting privileges, if any;**

The Company proposes to borrow from the Bank of the Cascades the sum of \$2,600,00. The term of the loan will be as follows: one year interest only construction loan at 9.25% interest (prime plus one per cent), said loan to be converted to a 10 year loan at a fixed rate of 9.25% with principal and interest payments to commence in January of 2008.

**(i). A reasonably detailed and precise description of the proposed transaction, including a statement of the reasons why it is desired to consummate the transaction and the anticipated effect thereof. If the transaction is part of a general program, describe the program and its relation to the proposed transaction. Such description shall include, but is not limited to, the following:**

(A) The proceeds of the loan will be used to acquire property for a new reservoir site, construct a new 2.2 million gallon reservoir, a new well, and new transmission mains, in order to continue to provide service to Avion's customers at level to which they have become accustomed.

(B) The loan will be a direct loan from the Bank of the Cascades to Avion Water Company, Inc. Personal guarantees from Jan M. and Christine M. Wick will be required.

(C) No request for an exemption from the competitive bidding requirements of any federal or state regulatory body has been requested as no exemptions are needed.

**(j). The name and address of any person receiving or entitled to a fee for service (other than attorneys, accountants, and similar technical services) in connection with the negotiation or consummation of the issuance or sale of securities, or for services in securing underwriters, sellers, or purchasers of securities, other than fees included in any competitive bid; the amount of each such fee, and facts showing the necessity for the services and that the fee does not exceed the customary fee for such services in arm's-length transactions and is reasonable in the light of the cost of rendering the service and any other relevant factors;**

No person other than the Company's attorneys and accountants, and the Bank of the Cascades will receive a fee for the proposed loan.

**(k) A statement showing both in total amount and per unit the price to the public, underwriting commissions and net proceeds to the applicant. Supply also the information (estimated if necessary) required in section (4) of this rule.**

N/A

**(l) The purposes for which the securities are to be issued. Specific information will be submitted with each filing for the issuance of bonds, stocks, or securities:**

A) The Company's expansion plans, costing about \$2,600,000 are for a reservoir site and pipe installation. The reservoir site includes: a large reservoir, well and pump station. The Company also plans on constructing 2000 ft. of 12 in. pipe.

B) N/A

C) N/A

**(m) A statement as to whether or not any application, registration statement, etc., with respect to the transaction or any part thereof, is required to be filed with any federal or other state regulatory body;**

The Company is not required to file an application, registration statement, etc. with any federal or other state regulatory body with respect to this transaction or any part thereof.

**(o) A brief statement of**

- The Company is incorporated under the laws of the State of Oregon. There are no franchises, permits or contracts for consolidation, mergers, or leases that would be included in the assets of the Company. Accordingly, the Company has not and will not pay consideration related to these activities.

**(p). Required Exhibits. There shall be filed with the application, as part thereof, the following exhibits:**

a) **EXHIBIT A.** A copy of the applicant's charter or articles of incorporation with amendments to date;

See attached

(b) **EXHIBIT B.** A copy of the bylaws with amendments to date;

See attached

(c) **EXHIBIT C.** A copy of each resolution of directors authorizing the borrowing of \$2,600,000 from the Bank of the Cascades is attached.

(d) **EXHIBIT D.** A copy of the mortgage, indenture, or other agreement under which it is proposed to issue the securities, and a copy of any mortgage, indenture, or other agreement securing other funded obligations of the applicant.

See attached: the loan will be practically identical to the Attached existing loan with the Bank of the Cascades, except the principal balance will be \$2,600,000 and the interest rate will be fixed at 9.25%.

(e) **EXHIBIT E.** Copies of balance sheets showing booked amounts, adjustments to record the proposed transaction and pro forma, with supporting fixed capital or plant schedules in conformity with the form in the annual report that the applicant is required to file with the Commission;

Please see attached copy of the Balance Sheet as of October 31, 2006 as reported in the form of the annual report and the proforma of that Balance Sheet based on attached proposed changes.

(f) **EXHIBIT F.** A statement of all known contingent liabilities, except minor items such as damage claims and similar items involving relatively small amounts, as of the date of the application;

There are no known contingent liabilities.

(g) **EXHIBIT G.** Copies of comparative income statements showing recorded results of operations, adjustments to record the proposed transaction and pro forma in conformity with the form in the annual report that the applicant is required to file with the Commission;

Please see attached copy of the Income Statement for the ten months ended October 31, 2006 in the form of the annual report and proforma based on the proposed changes listed in E above.

(h) **EXHIBIT H.** A copy of an analysis of surplus for the period covered by the income statements referred to in Exhibit G;

N/A

(i) **EXHIBIT I.** A copy of the registration statement proper, if any, and financial exhibits made a part thereof, filed with the Securities and Exchange Commission;

N/A

(j) **EXHIBIT J.** A copy of the proposed and of the published invitation of proposals for the purchase of underwriting of the securities to be issued; of each proposal received; and of each contract, underwriting, and other arrangement entered into for the sale or marketing of the securities. When a contract or underwriting is not in final form so as to permit filing, a preliminary draft or a summary identifying parties thereto and setting forth the principal terms thereof, may be filed pending filing of the conformed copy in the form executed by final amendment to the application;

N/A

(k) **EXHIBIT K.** Copies of the stock certificates, notes, or other evidences of indebtedness proposed to be issued;

(l) An application for a water utility to loan its funds to an affiliated interest, in addition to Exhibits A through K, shall also include the following:

(A) **EXHIBIT L.** Copies of all proposed or existing contracts or agreements entered into by the parties to the transaction;

N/A

(B) **EXHIBIT M.** The amount of money the applicant desires to loan to the affiliated interest, terms of said loan, rate of interest, method of repayment, security given, if any, and if said loan is to be an open account or evidenced by a promissory note; and

N/A

(C) **EXHIBIT N.** The use to which funds derived from this loan are to be put by the affiliated interest; and

N/A

(m) An application

for a water utility to give credit on its books or otherwise by:

(A) Advancing cash through an open or loan account, in addition to **EXHIBITS A** through **K**, shall also include the following:

(i) **EXHIBIT L.** Copies of all proposed or existing contracts or agreements entered into by the parties to the transaction;

N/A

(ii) **EXHIBIT M.** The amount of cash the applicant proposes to receive, the rate of interest it will pay, and the date and method of repayment; and

N/A

(iii) **EXHIBIT N.** A definite statement of purpose for which the advance will be used.

N/A

(B) Payments by the affiliated interest of amounts owed, in addition to **EXHIBITS A** through **K**, shall include the following:

(i) **EXHIBIT L.** Copies of all proposed or existing contracts or agreements entered into by the parties to the transaction; and

N/A

(ii) **EXHIBIT M.** The amount that the affiliated interest proposes to pay on the water utility's behalf, with a description of the obligation, how the funds will be used, and how incurred.

N/A

(C) Credits or open accounts a water utility proposes to give to an affiliated interest, in addition to **EXHIBITS A** through **K**, shall include the following:

(i) **EXHIBIT L.** Copies of all proposed or existing contracts or agreements entered into by the parties to the transaction; and

N/A

(ii) **EXHIBIT M.** The amount and a description of each item for which the water utility proposes to give credit through its loan or open account.

N/A

For the reasons set forth above, Avion Water Company, Inc.  
**NAME OF COMPANY**

respectfully requests that the Commission issue an order approving the financing application, pursuant to the provisions of ORS 757.440 and OAR 860-036-0725.

DATE: \_\_\_\_\_

Avion Water Company, Inc.  
NAME OF COMPANY

\_\_\_\_\_  
(SIGNATURE OF AUTHORIZED PERSON)

\_\_\_\_\_  
(PLEASE PRINT NAME)

\_\_\_\_\_  
(TITLE)



N/A

(ii) **EXHIBIT M.** The amount that the affiliated interest proposes to pay on the water utility's behalf, with a description of the obligation, how the funds will be used, and how incurred.

N/A

(C) Credits or open accounts a water utility proposes to give to an affiliated interest, in addition to **EXHIBITS A** through **K**, shall include the following:

(i) **EXHIBIT L.** Copies of all proposed or existing contracts or agreements entered into by the parties to the transaction; and

N/A

(ii) **EXHIBIT M.** The amount and a description of each item for which the water utility proposes to give credit through its loan or open account.

For the reasons set forth above, Avion Water Company, Inc.  
**NAME OF COMPANY**

respectfully requests that the Commission issue an order approving the financing application, pursuant to the provisions of ORS 757.440 and OAR 860-036-0725.

DATE: Dec 18, 2006

Avion Water Company, Inc.  
**NAME OF COMPANY**

  
(SIGNATURE OF AUTHORIZED PERSON)

Jan M. Wick  
(PLEASE PRINT NAME)

President  
(TITLE)

**AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
AVION WATER COMPANY, INC.  
An Oregon Corporation**

**ARTICLE I**

The name of the corporation is Avion Water Company, Inc. (the "Corporation").

**ARTICLE II**

The purpose of the Corporation is to engage in any lawful business.

**ARTICLE III**

The Corporation is authorized to issue 1,000,000 shares of Common Stock.

**ARTICLE IV**


Any action required or permitted by the Oregon Business Corporation Act to be taken at a shareholders' meeting may be taken without a meeting if the action is taken, in accordance with the Oregon Business Corporation Act, by shareholders having not less than the minimum number of votes that would be necessary to take such action at a meeting at which all shareholders entitled to vote on the action were present and voted.

**ARTICLE V**

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director, provided that this Article shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission which occurs prior to the effective date of the amendment.

**ARTICLE VI**

The Corporation may indemnify to the fullest extent not prohibited by law any person who is made, or threatened to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative, investigative or other (including an action, suit or proceeding by or in the right of the Corporation), by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the Corporation, or serves or served at the request of the Corporation as a director, officer, employee



or agent, or as a fiduciary of an employee benefit plan, of another corporation, partnership, joint venture, trust or other enterprise. This Article shall not be deemed exclusive of any other provisions for indemnification or advancement of expenses of directors, officers, employees, agents and fiduciaries included in any statute, bylaw, agreement, general or specific action of the board of directors, vote of shareholders or other document or arrangement.

**AMENDED AND RESTATED  
BYLAWS  
OF  
AVION WATER COMPANY, INC.**

**ARTICLE I  
SHAREHOLDERS MEETINGS**

1.1 **Annual Meeting.** The annual meeting of the shareholders shall be held on the second Tuesday in April of each year at 10:00 a.m., unless a different date or time is fixed by the Board of Directors and stated in the notice of the meeting.

1.2 **Special Meetings.** Special meetings of the shareholders, for any purposes, unless otherwise prescribed by statute, may be called by the President or the Board of Directors.

1.3 **Place of Meetings.** Meetings of the shareholders shall be held at any place in or out of Oregon designated by the Board of Directors.

1.4 **Meeting by Telephone Conference.** Shareholders may participate in an annual or special meeting by, or conduct the meeting through, use of any means of communications by which all shareholders participating may simultaneously hear each other during the meeting, except that no meeting for which a written notice is sent to shareholders may be conducted by this means unless the notice states that participation in this manner is permitted and describes how any shareholder desiring to participate in this manner may notify the Corporation.

**ARTICLE II  
BOARD OF DIRECTORS**

2.1 **Number and Term.** The number of directors of the Corporation shall be at least three and no more than seven. Within this range, the initial number of directors shall be five, and the number of directors shall otherwise be determined from time to time by the Board of Directors.

2.2 **Regular Meetings.** A regular meeting of the Board of Directors shall be held without notice other than this Bylaw immediately after, and at the same place as, the annual meeting of shareholders.

2.3 **Special Meetings.** Special meetings of the Board of Directors may be called by the President or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place in or out of Oregon as the place for holding any special meeting of the Board of Directors called by them.

2.4 **Notice.** Notice of the date, time and place of any special meeting of the Board of Directors shall be given at least 24 hours prior to the meeting by notice communicated in person, by telephone, telegraph, teletype, other form of wire or wireless communication, mail or private carrier. If written, notice shall be effective at the earliest of (a) when received, (b) three days

**ARTICLE IV  
ISSUANCE OF SHARES**

**4.1 Adequacy of Consideration.** The authorization by the Board of Directors of the issuance of shares for stated consideration shall evidence a determination by the Board that such consideration is adequate.

**4.2 Certificates for Shares.** Certificates representing shares of the Corporation shall be signed, either manually or in facsimile, by two officers of the Corporation, at least one of whom shall be the President or a Vice President.

**ARTICLE V  
AMENDMENTS**

These Bylaws may be amended or repealed and new Bylaws may be adopted by the Board of Directors or the shareholders of the Corporation.


Adopted: November 7, 2006



**AVION WATER CO INC.**

60813 Parrell Road • Bend, OR 97702

Ph: (541) 382-5342 • fax: 541-382-5390 • Email: avion@avionwater.com

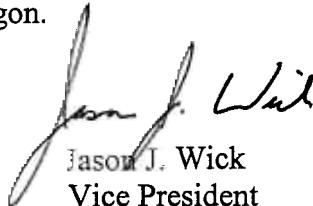


December 13, 2006

The Board of Directors of Avion Water Company, Inc, has in special meeting, December 13, 2006 authorized Avion Water Company to borrow \$2,600,000 from the Bank of the Cascades, Bend, Oregon.



Jan M. Wick  
President



Jason J. Wick  
Vice President



David L. Nelsen  
Board Member

*Christine M. Wick* Absent

Christine M. Wick  
Board Member

Jordan D. Wick  
Board Member

Exhibit C

## COMMERCIAL PLEDGE AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,500,000.00	01-21-2003	01-10-2014	20035960	4A / 60	A1122000	JMH	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "\*\*\*\*" has been omitted due to text length limitations.

**Borrower:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

**Grantor:** JAN M WICK  
60813 PARRELL RD  
BEND, OR 97702

**COPY**

THIS COMMERCIAL PLEDGE AGREEMENT dated January 21, 2003, is made and executed among JAN M WICK ("Grantor"); AVION WATER COMPANY INC ("Borrower"); and Bank of the Cascades ("Lender").

**GRANT OF SECURITY INTEREST.** For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

**COLLATERAL DESCRIPTION.** The word "Collateral" as used in this Agreement means all of Grantor's property (however owned if more than one), in the possession of Lender (or in the possession of a third party subject to the control of Lender), whether existing now or later and whether tangible or intangible in character, including without limitation each and all of the following:

**95,000 Shares of AVION WATER COMPANY Stock**

In addition, the word "Collateral" includes all of Grantor's property (however owned), in the possession of Lender (or in the possession of a third party subject to the control of Lender), whether now or hereafter existing and whether tangible or intangible in character, including without limitation each of the following:

- (A) All property to which Lender acquires title or documents of title.
- (B) All property assigned to Lender.
- (C) All promissory notes, bills of exchange, stock certificates, bonds, savings passbooks, time certificates of deposit, insurance policies, and all other instruments and evidences of an obligation.
- (D) All records relating to any of the property described in this Collateral section, whether in the form of a writing, microfilm, microfiche, or electronic media.
- (E) All Income and Proceeds from the Collateral as defined herein.

**CROSS-COLLATERALIZATION.** In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated whether Borrower or Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable.

**BORROWER'S WAIVERS AND RESPONSIBILITIES.** Except as otherwise required under this Agreement or by applicable law, (A) Borrower agrees that Lender need not tell Borrower about any action or inaction Lender takes in connection with this Agreement; (B) Borrower assumes the responsibility for being and keeping informed about the Collateral; and (C) Borrower waives any defenses that may arise because of any action or inaction of Lender, including without limitation any failure of Lender to realize upon the Collateral or any delay by Lender in realizing upon the Collateral; and Borrower agrees to remain liable under the Note no matter what action Lender takes or fails to take under this Agreement.

**GRANTOR'S REPRESENTATIONS AND WARRANTIES.** Grantor warrants that: (A) this Agreement is executed at Borrower's request and not at the request of Lender; (B) Grantor has the full right, power and authority to enter into this Agreement and to pledge the Collateral to Lender; (C) Grantor has established adequate means of obtaining from Borrower on a continuing basis information about Borrower's financial condition; and (D) Lender has made no representation to Grantor about Borrower or Borrower's creditworthiness.

**GRANTOR'S WAIVERS.** Grantor waives all requirements of presentment, protest, demand, and notice of dishonor or non-payment to Borrower or Grantor, or any other party to the Indebtedness or the Collateral. Lender may do any of the following with respect to any obligation of any Borrower, without first obtaining the consent of Grantor: (A) grant any extension of time for any payment, (B) grant any renewal, (C) permit any modification of payment terms or other terms, or (D) exchange or release any Collateral or other security. No such act or failure to act shall affect Lender's rights against Grantor or the Collateral.

**RIGHT OF SETOFF.** To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts.

**REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL.** Grantor represents and warrants to Lender that:

**Ownership.** Grantor is the lawful owner of the Collateral free and clear of all security interests, liens, encumbrances and claims of others except as disclosed to and accepted by Lender in writing prior to execution of this Agreement.

*Exhibit D*

## COMMERCIAL PLEDGE AGREEMENT (Continued)

Loan No: 20035960

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**Right to Pledge.** Grantor has the full right, power and authority to enter into this Agreement and to pledge the Collateral.

**Authority; Binding Effect.** Grantor has the full right, power and authority to enter into this Agreement and to grant a security interest in the Collateral to Lender. This Agreement is binding upon Grantor as well as Grantor's successors and assigns, and is legally enforceable in accordance with its terms. The foregoing representations and warranties, and all other representations and warranties contained in this Agreement are and shall be continuing in nature and shall remain in full force and effect until such time as this Agreement is terminated or cancelled as provided herein.

**No Further Assignment.** Grantor has not, and shall not, sell, assign, transfer, encumber or otherwise dispose of any of Grantor's rights in the Collateral except as provided in this Agreement.

**No Defaults.** There are no defaults existing under the Collateral, and there are no offsets or counterclaims to the same. Grantor will strictly and promptly perform each of the terms, conditions, covenants and agreements, if any, contained in the Collateral which are to be performed by Grantor.

**No Violation.** The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party.

**Financing Statements.** Grantor authorizes Lender to file a UCC-1 financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. This includes making sure Lender is shown as the first and only security interest holder on the title covering the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute financing statements and documents of title in Grantor's name and to execute all documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement. If Grantor changes Grantor's name or address, or the name or address of any person granting a security interest under this Agreement changes, Grantor will promptly notify the Lender of such change.

**LENDER'S RIGHTS AND OBLIGATIONS WITH RESPECT TO THE COLLATERAL.** Lender may hold the Collateral until all Indebtedness has been paid and satisfied. Thereafter Lender may deliver the Collateral to Grantor or to any other owner of the Collateral. Lender shall have the following rights in addition to all other rights Lender may have by law:

**Maintenance and Protection of Collateral.** Lender may, but shall not be obligated to, take such steps as it deems necessary or desirable to protect, maintain, insure, store, or care for the Collateral, including paying of any liens or claims against the Collateral. This may include such things as hiring other people, such as attorneys, appraisers or other experts. Lender may charge Grantor for any cost incurred in so doing. When applicable law provides more than one method of perfection of Lender's security interest, Lender may choose the method(s) to be used. If the Collateral consists of stock, bonds or other investment property for which no certificate has been issued, Grantor agrees, at Lender's request, either to request issuance of an appropriate certificate or to give instructions on Lender's forms to the issuer, transfer agent, mutual fund company, or broker, as the case may be, to record on its books or records Lender's security interest in the Collateral.

**Income and Proceeds from the Collateral.** Lender may receive all Income and Proceeds and add it to the Collateral. Grantor agrees to deliver to Lender immediately upon receipt, in the exact form received and without commingling with other property, all Income and Proceeds from the Collateral which may be received by, paid, or delivered to Grantor or for Grantor's account, whether as an addition to, in discharge of, in substitution of, or in exchange for any of the Collateral.

**Application of Cash.** At Lender's option, Lender may apply any cash, whether included in the Collateral or received as Income and Proceeds or through liquidation, sale, or retirement, of the Collateral, to the satisfaction of the Indebtedness or such portion thereof as Lender shall choose, whether or not matured.

**Transactions with Others.** Lender may (1) extend time for payment or other performance, (2) grant a renewal or change in terms or conditions, or (3) compromise, compound or release any obligation, with any one or more Obligors, endorsers, or Guarantors of the Indebtedness as Lender deems advisable, without obtaining the prior written consent of Grantor, and no such act or failure to act shall affect Lender's rights against Grantor or the Collateral.

**All Collateral Secures Indebtedness.** All Collateral shall be security for the Indebtedness, whether the Collateral is located at one or more offices or branches of Lender. This will be the case whether or not the office or branch where Grantor obtained Grantor's loan knows about the Collateral or relies upon the Collateral as security.

**Collection of Collateral.** Lender at Lender's option may, but need not, collect the Income and Proceeds directly from the Obligors. Grantor authorizes and directs the Obligors, if Lender decides to collect the Income and Proceeds, to pay and deliver to Lender all Income and Proceeds from the Collateral and to accept Lender's receipt for the payments.

**Power of Attorney.** Grantor irrevocably appoints Lender as Grantor's attorney-in-fact, with full power of substitution, (a) to demand, collect, receive, receipt for, sue and recover all Income and Proceeds and other sums of money and other property which may now or hereafter become due, owing or payable from the Obligors in accordance with the terms of the Collateral; (b) to execute, sign and endorse any and all instruments, receipts, checks, drafts and warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and in the place and stead of Grantor, execute and deliver Grantor's release and acquittance for Grantor; (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in Lender's own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable; and (e) to execute in Grantor's name and to deliver to the Obligors on Grantor's behalf, at the time and in the manner specified by the Collateral, any necessary instruments or documents.

**Perfection of Security Interest.** Upon Lender's request, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral. When applicable law provides more than one method of perfection of Lender's security interest, Lender may choose the method(s) to be used. Upon Lender's request, Grantor will sign and deliver any writings necessary to perfect Lender's security interest. If any of the Collateral consists of securities for which no certificate has been issued, Grantor agrees, at Lender's option, either to request issuance of an appropriate certificate or to execute appropriate instructions on Lender's forms instructing the issuer, transfer agent, mutual fund company, or broker, as the case may be, to record on its books or records, by book-entry or otherwise, Lender's security interest in the Collateral. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. **This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Borrower may not be indebted to Lender.**



**COMMERCIAL PLEDGE AGREEMENT  
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**LENDER'S EXPENDITURES.** If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

**LIMITATIONS ON OBLIGATIONS OF LENDER.** Lender shall use ordinary reasonable care in the physical preservation and custody of the Collateral in Lender's possession, but shall have no other obligation to protect the Collateral or its value. In particular, but without limitation, Lender shall have no responsibility for (A) any depreciation in value of the Collateral or for the collection or protection of any Income and Proceeds from the Collateral, (B) preservation of rights against parties to the Collateral or against third persons, (C) ascertaining any maturities, calls, conversions, exchanges, offers, tenders, or similar matters relating to any of the Collateral, or (D) informing Grantor about any of the above, whether or not Lender has or is deemed to have knowledge of such matters. Except as provided above, Lender shall have no liability for depreciation or deterioration of the Collateral.

**DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**Payment Default.** Borrower fails to make any payment when due under the Indebtedness.

**Other Defaults.** Borrower or Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower or Grantor.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Borrower or Grantor or on Borrower's or Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

**Death or Insolvency.** The death of Borrower or Grantor or the dissolution or termination of Borrower's or Grantor's existence as a going business, the insolvency of Borrower or Grantor, the appointment of a receiver for any part of Borrower's or Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower or Grantor.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Borrower's or Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower or Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower or Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to Guarantor or any of the Indebtedness or Guarantor dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**Adverse Change.** A material adverse change occurs in Borrower's or Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**RIGHTS AND REMEDIES ON DEFAULT.** If an Event of Default occurs under this Agreement, at any time thereafter, Lender may exercise any one or more of the following rights and remedies:

**Accelerate Indebtedness.** Declare all Indebtedness, including any prepayment penalty which Borrower would be required to pay, immediately due and payable, without notice of any kind to Borrower or Grantor.

**Collect the Collateral.** Collect any of the Collateral and, at Lender's option and to the extent permitted by applicable law, retain possession of the Collateral while suing on the Indebtedness.

**Sell the Collateral.** Sell the Collateral, at Lender's discretion, as a unit or in parcels, at one or more public or private sales. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender shall give or mail to Grantor, and other persons as required by law, notice at least ten (10) days in advance of the time and place of any public sale, or of the time after which any private sale may be made. However, no notice need be provided to any person who, after an Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. Grantor agrees that any requirement of reasonable notice as to Grantor is satisfied if Lender mails notice by ordinary mail addressed to Grantor at the last address Grantor has given Lender in writing. If a public sale is held, there shall be sufficient compliance with all requirements of notice to the public by a single publication in any newspaper of general circulation in the county where the Collateral is located, setting forth the time and place of sale and a brief description of the property to be sold. Lender may be a purchaser at any public sale.

**Sell Securities.** Sell any securities included in the Collateral in a manner consistent with applicable federal and state securities laws. If, because of restrictions under such laws, Lender is unable, or believes Lender is unable, to sell the securities in an open market transaction, Grantor agrees that Lender will have no obligation to delay sale until the securities can be registered. Then Lender may make a private sale to one or more persons or to a restricted group of persons, even though such sale may result in a price that is less favorable than might be obtained in an open market transaction. Such a sale will be considered commercially reasonable. If any securities held as Collateral are "restricted securities" as defined in the Rules of the Securities and Exchange Commission (such as Regulation D or Rule 144) or the rules of state securities departments under state "Blue Sky" laws, or if Grantor or any other owner of the Collateral is an affiliate of the issuer of

**COMMERCIAL PLEDGE AGREEMENT  
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the securities, Grantor agrees that neither Grantor, nor any member of Grantor's family, nor any other person signing this Agreement will sell or dispose of any securities of such issuer without obtaining Lender's prior written consent.

**Rights and Remedies with Respect to Investment Property, Financial Assets and Related Collateral.** In addition to other rights and remedies granted under this Agreement and under applicable law, Lender may exercise any or all of the following rights and remedies: (1) register with any issuer or broker or other securities intermediary any of the Collateral consisting of investment property or financial assets (collectively herein, "investment property") in Lender's sole name or in the name of Lender's broker, agent or nominee; (2) cause any issuer, broker or other securities intermediary to deliver to Lender any of the Collateral consisting of securities, or investment property capable of being delivered; (3) enter into a control agreement or power of attorney with any issuer or securities intermediary with respect to any Collateral consisting of investment property, on such terms as Lender may deem appropriate, in its sole discretion, including without limitation, an agreement granting to Lender any of the rights provided hereunder without further notice to or consent by Grantor; (4) execute any such control agreement on Grantor's behalf and in Grantor's name, and hereby irrevocably appoints Lender as agent and attorney-in-fact, coupled with an interest, for the purpose of executing such control agreement on Grantor's behalf; (5) exercise any and all rights of Lender under any such control agreement or power of attorney; (6) exercise any voting, conversion, registration, purchase, option, or other rights with respect to any Collateral; (7) collect, with or without legal action, and issue receipts concerning any notes, checks, drafts, remittances or distributions that are paid or payable with respect to any Collateral consisting of investment property. Any control agreement entered with respect to any investment property shall contain the following provisions, at Lender's discretion. Lender shall be authorized to instruct the issuer, broker or other securities intermediary to take or to refrain from taking such actions with respect to the investment property as Lender may instruct, without further notice to or consent by Grantor. Such actions may include without limitation the issuance of entitlement orders, account instructions, general trading or buy or sell orders, transfer and redemption orders, and stop loss orders. Lender shall be further entitled to instruct the issuer, broker or securities intermediary to sell or to liquidate any investment property, or to pay the cash surrender or account termination value with respect to any and all investment property, and to deliver all such payments and liquidation proceeds to Lender. Any such control agreement shall contain such authorizations as are necessary to place Lender in "control" of such investment collateral, as contemplated under the provisions of the Uniform Commercial Code, and shall fully authorize Lender to issue "entitlement orders" concerning the transfer, redemption, liquidation or disposition of investment collateral, in conformance with the provisions of the Uniform Commercial Code.

**Foreclosure.** Maintain a judicial suit for foreclosure and sale of the Collateral.

**Transfer Title.** Effect transfer of title upon sale of all or part of the Collateral. For this purpose, Grantor irrevocably appoints Lender as Grantor's attorney-in-fact to execute endorsements, assignments and instruments in the name of Grantor and each of them (if more than one) as shall be necessary or reasonable.

**Other Rights and Remedies.** Have and exercise any or all of the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, at law, in equity, or otherwise.

**Application of Proceeds.** Apply any cash which is part of the Collateral, or which is received from the collection or sale of the Collateral, to reimbursement of any expenses, including any costs for registration of securities, commissions incurred in connection with a sale, attorneys' fees and court costs, whether or not there is a lawsuit and including any fees on appeal, incurred by Lender in connection with the collection and sale of such Collateral and to the payment of the Indebtedness of Borrower to Lender, with any excess funds to be paid to Grantor as the interests of Grantor may appear. Borrower agrees, to the extent permitted by law, to pay any deficiency after application of the proceeds of the Collateral to the Indebtedness.

**Election of Remedies.** Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**Amendments.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**Governing Law.** This Agreement will be governed by, construed and enforced in accordance with federal law and the laws of the State of Oregon. This Agreement has been accepted by Lender in the State of Oregon.

**Choice of Venue.** If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Deschutes County, State of Oregon.

**Joint and Several Liability.** All obligations of Borrower and Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor, and all references to Borrower shall mean each and every Borrower. This means that each Borrower and Grantor signing below is responsible for all obligations in this Agreement.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be

**COMMERCIAL PLEDGE AGREEMENT  
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granted or withheld in the sole discretion of Lender.

**Preference Payments.** Any monies Lender pays because of an asserted preference claim in Borrower's or Grantor's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Borrower and Grantor as provided in this Agreement.

**Notices.** Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

**Waiver of Co-Obligor's Rights.** If more than one person is obligated for the Indebtedness, Grantor irrevocably waives, disclaims and relinquishes all claims against such other person which Grantor has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

**Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

**Successors and Assigns.** Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

**Time is of the Essence.** Time is of the essence in the performance of this Agreement.

**Waive Jury.** All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

**Agreement.** The word "Agreement" means this Commercial Pledge Agreement, as this Commercial Pledge Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Pledge Agreement from time to time.

**Borrower.** The word "Borrower" means AVION WATER COMPANY INC, and all other persons and entities signing the Note in whatever capacity.

**Collateral.** The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

**Default.** The word "Default" means the Default set forth in this Agreement in the section titled "Default".

**Event of Default.** The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

**Grantor.** The word "Grantor" means JAN M WICK.

**Guarantor.** The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Indebtedness.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Income and Proceeds.** The words "Income and Proceeds" mean all present and future income, proceeds, earnings, increases, and substitutions from or for the Collateral of every kind and nature, including without limitation all payments, interest, profits, distributions, benefits, rights, options, warrants, dividends, stock dividends, stock splits, stock rights, regulatory dividends, subscriptions, monies, claims for money due and to become due, proceeds of any insurance on the Collateral, shares of stock of different par value or no par value issued in substitution or exchange for shares included in the Collateral, and all other property Grantor is entitled to receive on account of such Collateral, including accounts, documents, instruments, chattel paper, and general intangibles.

**Indebtedness.** The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

**Lender.** The word "Lender" means Bank of the Cascades, its successors and assigns.

**Note.** The word "Note" means the Note executed by AVION WATER COMPANY INC in the principal amount of \$5,500,000.00 dated January 21, 2003, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

**Obligor.** The word "Obligor" means without limitation any and all persons obligated to pay money or to perform some other act under the Collateral.

**Property.** The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

COMMERCIAL PLEDGE AGREEMENT  
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BORROWER AND GRANTOR HAVE READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL PLEDGE AGREEMENT AND AGREE TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 21, 2003.

GRANTOR:

X \_\_\_\_\_  
JAN M WICK, Individually

BORROWER:

AVION WATER COMPANY INC

By: \_\_\_\_\_  
JAN M WICK, President of AVION WATER  
COMPANY INC

By: \_\_\_\_\_  
CHRISTINE M WICK, Vice President of AVION  
WATER COMPANY INC

By: \_\_\_\_\_  
CHARLOTTE M WILLIAMSON, Secretary/Treasurer  
of AVION WATER COMPANY INC



## COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 4A / 60	Account W1014000	Officer JMH	Initials
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Borrower:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

**Guarantor:** JAN M WICK  
60813 PARRELL RD  
BEND, OR 97702

**AMOUNT OF GUARANTY.** The principal amount of this Guaranty is Five Million Eight Hundred Ten Thousand & 00/100 Dollars (\$5,810,000.00).

**CONTINUING GUARANTY.** For good and valuable consideration, JAN M WICK ("Guarantor") absolutely and unconditionally guarantees and promises to pay to Bank of the Cascades ("Lender") or its order, on demand, in legal tender of the United States of America, the Indebtedness (as that term is defined below) of AVION WATER COMPANY INC ("Borrower") to Lender on the terms and conditions set forth in this Guaranty. The obligations of Guarantor under this Guaranty are continuing.

**MAXIMUM LIABILITY.** The maximum liability of Guarantor under this Guaranty shall not exceed at any one time the sum of the principal amount of \$5,810,000.00, plus all interest thereon, plus all of Lender's costs, expenses, and attorneys' fees incurred in connection with or relating to (A) the collection of the Indebtedness, (B) the collection and sale of any collateral for the Indebtedness or this Guaranty, or (C) the enforcement of this Guaranty. Attorneys' fees include, without limitation, attorneys' fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals.

The above limitation on liability is not a restriction on the amount of the Indebtedness of Borrower to Lender either in the aggregate or at any one time. If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other unterminted guaranties.

**INDEBTEDNESS GUARANTEED.** The Indebtedness guaranteed by this Guaranty includes any and all of Borrower's indebtedness to Lender and is used in the most comprehensive sense and means and includes any and all of Borrower's liabilities, obligations and debts to Lender, now existing or hereinafter incurred or created, including, without limitation, all loans, advances, interest, costs, debts, overdraft indebtedness, credit card indebtedness, lease obligations, other obligations, and liabilities of Borrower, or any of them, and any present or future judgments against Borrower, or any of them; and whether any such Indebtedness is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether Borrower may be liable individually or jointly with others, or primarily or secondarily, or as guarantor or surety; whether recovery on the Indebtedness may be or may become barred or unenforceable against Borrower for any reason whatsoever; and whether the Indebtedness arises from transactions which may be voidable on account of infancy, insanity, ultra vires, or otherwise.

**DURATION OF GUARANTY.** This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all Indebtedness incurred or contracted before receipt by Lender of any notice of revocation shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. If Guarantor elects to revoke this Guaranty, Guarantor may only do so in writing. Guarantor's written notice of revocation must be mailed to Lender, by certified mail, at Lender's address listed above or such other place as Lender may designate in writing. Written revocation of this Guaranty will apply only to advances or new Indebtedness created after actual receipt by Lender of Guarantor's written revocation. For this purpose and without limitation, the term "new Indebtedness" does not include Indebtedness which at the time of notice of revocation is contingent, unliquidated, undetermined or not due and which later becomes absolute, liquidated, determined or due. This Guaranty will continue to bind Guarantor for all Indebtedness incurred by Borrower or committed by Lender prior to receipt of Guarantor's written notice of revocation, including any extensions, renewals, substitutions or modifications of the Indebtedness. All renewals, extensions, substitutions, and modifications of the Indebtedness granted after Guarantor's revocation, are contemplated under this Guaranty and, specifically will not be considered to be new Indebtedness. This Guaranty shall bind Guarantor's estate as to Indebtedness created both before and after Guarantor's death or incapacity, regardless of Lender's actual notice of Guarantor's death. Subject to the foregoing, Guarantor's executor or administrator or other legal representative may terminate this Guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty. It is anticipated that fluctuations may occur in the aggregate amount of Indebtedness covered by this Guaranty, and Guarantor specifically acknowledges and agrees that reductions in the amount of Indebtedness, even to zero dollars (\$0.00), prior to Guarantor's written revocation of this Guaranty shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's heirs, successors and assigns so long as any of the guaranteed Indebtedness remains unpaid and even though the Indebtedness guaranteed may from time to time be zero dollars (\$0.00).

**GUARANTOR'S AUTHORIZATION TO LENDER.** Guarantor authorizes Lender, either before or after any revocation hereof, **without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time:** (A) prior to revocation as set forth above, to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness (F) to apply such security and direct the order or manner of sale thereof, including

**COMMERCIAL GUARANTY  
(Continued)**

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without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

**GUARANTOR'S REPRESENTATIONS AND WARRANTIES.** Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

**GUARANTOR'S WAIVERS.** Except as prohibited by applicable law, Guarantor waives any right to require Lender (A) to continue lending money or to extend other credit to Borrower; (B) to make any presentment, protest, demand, or notice of any kind, including notice of any nonpayment of the Indebtedness or of any nonpayment related to any collateral, or notice of any action or nonaction on the part of Borrower, Lender, any surety, endorser, or other guarantor in connection with the Indebtedness or in connection with the creation of new or additional loans or obligations; (C) to resort for payment or to proceed directly or at once against any person, including Borrower or any other guarantor; (D) to proceed directly against or exhaust any collateral held by Lender from Borrower, any other guarantor, or any other person; (E) to give notice of the terms, time, and place of any public or private sale of personal property security held by Lender from Borrower or to comply with any other applicable provisions of the Uniform Commercial Code; (F) to pursue any other remedy within Lender's power; or (G) to commit any act or omission of any kind, or at any time, with respect to any matter whatsoever.

In addition to the waivers set forth herein, if now or hereafter Borrower is or shall become insolvent and the Indebtedness shall not at all times until paid be fully secured by collateral pledged by Borrower, Guarantor hereby forever waives and gives up in favor of Lender and Borrower, and Lender's and Borrower's respective successors, any claim or right to payment Guarantor may now have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Guarantor be or become a "creditor" of Borrower within the meaning of 11 U.S.C. section 547(b), or any successor provision of the Federal bankruptcy laws.

Guarantor also waives any and all rights or defenses arising by reason of (A) any "one action" or "anti-deficiency" law or any other law which may prevent Lender from bringing any action, including a claim for deficiency, against Guarantor, before or after Lender's commencement or completion of any foreclosure action, either judicially or by exercise of a power of sale; (B) any election of remedies by Lender which destroys or otherwise adversely affects Guarantor's subrogation rights or Guarantor's rights to proceed against Borrower for reimbursement, including without limitation, any loss of rights Guarantor may suffer by reason of any law limiting, qualifying, or discharging the Indebtedness; (C) any disability or other defense of Borrower, of any other guarantor, or of any other person, or by reason of the cessation of Borrower's liability from any cause whatsoever, other than payment in full in legal tender, of the Indebtedness; (D) any right to claim discharge of the Indebtedness on the basis of unjustified impairment of any collateral for the Indebtedness; (E) any statute of limitations, if at any time any action or suit brought by Lender against Guarantor is commenced, there is outstanding Indebtedness of Borrower to Lender which is not barred by any applicable statute of limitations; or (F) any defenses given to guarantors at law or in equity other than actual payment and performance of the Indebtedness. If payment is made by Borrower, whether voluntarily or otherwise, or by any third party, on the Indebtedness and thereafter Lender is forced to remit the amount of that payment to Borrower's trustee in bankruptcy or to any similar person under any federal or state bankruptcy law or law for the relief of debtors, the Indebtedness shall be considered unpaid for the purpose of the enforcement of this Guaranty.

Guarantor further waives and agrees not to assert or claim at any time any deductions to the amount guaranteed under this Guaranty for any claim of setoff, counterclaim, counter demand, recoupment or similar right, whether such claim, demand or right may be asserted by the Borrower, the Guarantor, or both.

**GUARANTOR'S UNDERSTANDING WITH RESPECT TO WAIVERS.** Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

**SUBORDINATION OF BORROWER'S DEBTS TO GUARANTOR.** Guarantor agrees that the Indebtedness of Borrower to Lender, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness of Borrower to Lender. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to execute and file financing statements and continuation statements and to execute such other documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Guaranty:

**Amendments.** This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help

enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

**Governing Law.** This Guaranty will be governed by, construed and enforced in accordance with federal law and the laws of the State of Oregon. This Guaranty has been accepted by Lender in the State of Oregon.

**Choice of Venue.** If there is a lawsuit, Guarantor agrees upon Lender's request to submit to the jurisdiction of the courts of Deschutes County, State of Oregon.

**Integration.** Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

**Interpretation.** In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any Loan indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

**Notices.** Any notice required to be given under this Guaranty shall be given in writing, and, except for revocation notices by Guarantor, shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. All revocation notices by Guarantor shall be in writing and shall be effective upon delivery to Lender as provided in the section of this Guaranty entitled "DURATION OF GUARANTY." Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Successors and Assigns.** Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

**Waive Jury.** Lender and Guarantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

**Borrower.** The word "Borrower" means AVION WATER COMPANY INC, and all other persons and entities signing the Note in whatever capacity.

**Guarantor.** The word "Guarantor" means each and every person or entity signing this Guaranty, including without limitation JAN M WICK.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Indebtedness.** The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

**Lender.** The word "Lender" means Bank of the Cascades, its successors and assigns.

**Note.** The word "Note" means the promissory note dated January 21, 2003, in the original principal amount of \$5,500,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED JANUARY 21, 2003.

GUARANTOR:

X \_\_\_\_\_  
JAN M WICK, Individually

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## COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 4A / 60	Account W1011000	Officer JMH	Initials
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Borrower:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

**Guarantor:** CHRISTINE M WICK  
60100 STIRLING DRIVE  
BEND, OR 97702

**AMOUNT OF GUARANTY.** The principal amount of this Guaranty is Five Million Eight Hundred Ten Thousand & 00/100 Dollars (\$5,810,000.00).

**CONTINUING GUARANTY.** For good and valuable consideration, CHRISTINE M WICK ("Guarantor") absolutely and unconditionally guarantees and promises to pay to Bank of the Cascades ("Lender") or its order, on demand, in legal tender of the United States of America, the Indebtedness (as that term is defined below) of AVION WATER COMPANY INC ("Borrower") to Lender on the terms and conditions set forth in this Guaranty. The obligations of Guarantor under this Guaranty are continuing.

**MAXIMUM LIABILITY.** The maximum liability of Guarantor under this Guaranty shall not exceed at any one time the sum of the principal amount of \$5,810,000.00, plus all interest thereon, plus all of Lender's costs, expenses, and attorneys' fees incurred in connection with or relating to (A) the collection of the Indebtedness, (B) the collection and sale of any collateral for the Indebtedness or this Guaranty, or (C) the enforcement of this Guaranty. Attorneys' fees include, without limitation, attorneys' fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals.

The above limitation on liability is not a restriction on the amount of the Indebtedness of Borrower to Lender either in the aggregate or at any one time. If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other untermiated guaranties.

**INDEBTEDNESS GUARANTEED.** The Indebtedness guaranteed by this Guaranty includes any and all of Borrower's indebtedness to Lender and is used in the most comprehensive sense and means and includes any and all of Borrower's liabilities, obligations and debts to Lender, now existing or hereinafter incurred or created, including, without limitation, all loans, advances, interest, costs, debts, overdraft indebtedness, credit card indebtedness, lease obligations, other obligations, and liabilities of Borrower, or any of them, and any present or future judgments against Borrower, or any of them; and whether any such Indebtedness is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether Borrower may be liable individually or jointly with others, or primarily or secondarily, or as guarantor or surety; whether recovery on the Indebtedness may be or may become barred or unenforceable against Borrower for any reason whatsoever; and whether the Indebtedness arises from transactions which may be voidable on account of infancy, insanity, ultra vires, or otherwise.

**DURATION OF GUARANTY.** This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all Indebtedness incurred or contracted before receipt by Lender of any notice of revocation shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. If Guarantor elects to revoke this Guaranty, Guarantor may only do so in writing. Guarantor's written notice of revocation must be mailed to Lender, by certified mail, at Lender's address listed above or such other place as Lender may designate in writing. Written revocation of this Guaranty will apply only to advances or new Indebtedness created after actual receipt by Lender of Guarantor's written revocation. For this purpose and without limitation, the term "new Indebtedness" does not include Indebtedness which at the time of notice of revocation is contingent, unliquidated, undetermined or not due and which later becomes absolute, liquidated, determined or due. This Guaranty will continue to bind Guarantor for all Indebtedness incurred by Borrower or committed by Lender prior to receipt of Guarantor's written notice of revocation, including any extensions, renewals, substitutions or modifications of the Indebtedness. All renewals, extensions, substitutions, and modifications of the Indebtedness granted after Guarantor's revocation, are contemplated under this Guaranty and, specifically will not be considered to be new Indebtedness. This Guaranty shall bind Guarantor's estate as to Indebtedness created both before and after Guarantor's death or incapacity, regardless of Lender's actual notice of Guarantor's death. Subject to the foregoing, Guarantor's executor or administrator or other legal representative may terminate this Guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty. It is anticipated that fluctuations may occur in the aggregate amount of Indebtedness covered by this Guaranty, and Guarantor specifically acknowledges and agrees that reductions in the amount of Indebtedness, even to zero dollars (\$0.00), prior to Guarantor's written revocation of this Guaranty shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's heirs, successors and assigns so long as any of the guaranteed Indebtedness remains unpaid and even though the Indebtedness guaranteed may from time to time be zero dollars (\$0.00).

**GUARANTOR'S AUTHORIZATION TO LENDER.** Guarantor authorizes Lender, either before or after any revocation hereof, without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time: (A) prior to revocation as set forth above, to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness (F) to apply such security and direct the order or manner of sale thereof, including

**COMMERCIAL GUARANTY  
(Continued)**

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without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

**GUARANTOR'S REPRESENTATIONS AND WARRANTIES.** Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

**GUARANTOR'S WAIVERS.** Except as prohibited by applicable law, Guarantor waives any right to require Lender (A) to continue lending money or to extend other credit to Borrower; (B) to make any presentment, protest, demand, or notice of any kind, including notice of any nonpayment of the Indebtedness or of any nonpayment related to any collateral, or notice of any action or nonaction on the part of Borrower, Lender, any surety, endorser, or other guarantor in connection with the Indebtedness or in connection with the creation of new or additional loans or obligations; (C) to resort for payment or to proceed directly or at once against any person, including Borrower or any other guarantor; (D) to proceed directly against or exhaust any collateral held by Lender from Borrower, any other guarantor, or any other person; (E) to give notice of the terms, time, and place of any public or private sale of personal property security held by Lender from Borrower or to comply with any other applicable provisions of the Uniform Commercial Code; (F) to pursue any other remedy within Lender's power; or (G) to commit any act or omission of any kind, or at any time, with respect to any matter whatsoever.

In addition to the waivers set forth herein, if now or hereafter Borrower is or shall become insolvent and the Indebtedness shall not at all times until paid be fully secured by collateral pledged by Borrower, Guarantor hereby forever waives and gives up in favor of Lender and Borrower, and Lender's and Borrower's respective successors, any claim or right to payment Guarantor may now have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Guarantor be or become a "creditor" of Borrower within the meaning of 11 U.S.C. section 547(b), or any successor provision of the Federal bankruptcy laws.

Guarantor also waives any and all rights or defenses arising by reason of (A) any "one action" or "anti-deficiency" law or any other law which may prevent Lender from bringing any action, including a claim for deficiency, against Guarantor, before or after Lender's commencement or completion of any foreclosure action, either judicially or by exercise of a power of sale; (B) any election of remedies by Lender which destroys or otherwise adversely affects Guarantor's subrogation rights or Guarantor's rights to proceed against Borrower for reimbursement, including without limitation, any loss of rights Guarantor may suffer by reason of any law limiting, qualifying, or discharging the Indebtedness; (C) any disability or other defense of Borrower, of any other guarantor, or of any other person, or by reason of the cessation of Borrower's liability from any cause whatsoever, other than payment in full in legal tender, of the Indebtedness; (D) any right to claim discharge of the Indebtedness on the basis of unjustified impairment of any collateral for the Indebtedness; (E) any statute of limitations, if at any time any action or suit brought by Lender against Guarantor is commenced, there is outstanding Indebtedness of Borrower to Lender which is not barred by any applicable statute of limitations; or (F) any defenses given to guarantors at law or in equity other than actual payment and performance of the Indebtedness. If payment is made by Borrower, whether voluntarily or otherwise, or by any third party, on the Indebtedness and thereafter Lender is forced to remit the amount of that payment to Borrower's trustee in bankruptcy or to any similar person under any federal or state bankruptcy law or law for the relief of debtors, the Indebtedness shall be considered unpaid for the purpose of the enforcement of this Guaranty.

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**GUARANTOR'S UNDERSTANDING WITH RESPECT TO WAIVERS.** Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

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**Attorneys' Fees; Expenses.** Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help

**COMMERCIAL GUARANTY  
(Continued)**

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enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

**Governing Law.** This Guaranty will be governed by, construed and enforced in accordance with federal law and the laws of the State of Oregon. This Guaranty has been accepted by Lender in the State of Oregon.

**Choice of Venue.** If there is a lawsuit, Guarantor agrees upon Lender's request to submit to the jurisdiction of the courts of Deschutes County, State of Oregon.

**Integration.** Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

**Interpretation.** In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any Loan indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

**Notices.** Any notice required to be given under this Guaranty shall be given in writing, and, except for revocation notices by Guarantor, shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. All revocation notices by Guarantor shall be in writing and shall be effective upon delivery to Lender as provided in the section of this Guaranty entitled "DURATION OF GUARANTY." Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Successors and Assigns.** Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

**Waive Jury.** Lender and Guarantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

**Borrower.** The word "Borrower" means AVION WATER COMPANY INC, and all other persons and entities signing the Note in whatever capacity.

**Guarantor.** The word "Guarantor" means each and every person or entity signing this Guaranty, including without limitation CHRISTINE M WICK.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Indebtedness.** The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

**Lender.** The word "Lender" means Bank of the Cascades, its successors and assigns.

**Note.** The word "Note" means the promissory note dated January 21, 2003, in the original principal amount of \$5,500,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

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EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED JANUARY 21, 2003.

GUARANTOR:

X \_\_\_\_\_  
CHRISTINE M WICK, Individually



## COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,500,000.00	01-21-2003	01-10-2014	20035960	4A / 60	A1122000	JMH	
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Grantor:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

THIS COMMERCIAL SECURITY AGREEMENT dated January 21, 2003, is made and executed between AVION WATER COMPANY INC ("Grantor") and Bank of the Cascades ("Lender").

**GRANT OF SECURITY INTEREST.** For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

**COLLATERAL DESCRIPTION.** The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the indebtedness and performance of all other obligations under the Note and this Agreement:

All Chattel Paper, Accounts, Contract Rights, Equipment, Pipelines, Water Rights, and all revenues of Debtor derived from whatever source including but not limited to the distribution and sale of water under Debtor's authority with the Oregon Public Utility Commission; whether any of the foregoing is owned now or acquired later; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and accounts proceeds).

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Despite any other provision of this Agreement, Lender is not granted, and will not have, a nonpurchase money security interest in household goods, to the extent such a security interest would be prohibited by applicable law. In addition, if because of the type of any Property, Lender is required to give a notice of the right to cancel under Truth in Lending for the indebtedness, then Lender will not have a security interest in such Collateral unless and until such a notice is given.

**CROSS-COLLATERALIZATION.** In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Grantor to Lender, or any one or more of them, as well as all claims by Lender against Grantor or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated whether Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable.

**RIGHT OF SETOFF.** To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

**GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL.** With respect to the Collateral, Grantor represents and promises to Lender that:

**Perfection of Security Interest.** Grantor agrees to execute financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

**Notices to Lender.** Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management of the Corporation Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name

**COMMERCIAL SECURITY AGREEMENT  
(Continued)**

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or state of organization will take effect until after Lender has received notice

**No Violation.** The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

**Enforceability of Collateral.** To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

**Location of the Collateral.** Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

**Removal of the Collateral.** Except in the ordinary course of Grantor's business, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

**Transactions Involving Collateral.** Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

**Title.** Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

**Repairs and Maintenance.** Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

**Inspection of Collateral.** Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

**Taxes, Assessments and Liens.** Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

**Compliance with Governmental Requirements.** Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

**Hazardous Substances.** Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

**Maintenance of Casualty Insurance.** Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

**Application of Insurance Proceeds.** Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued

**COMMERCIAL SECURITY AGREEMENT  
(Continued)**

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proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

**Insurance Reserves.** Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

**Insurance Reports.** Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

**Financing Statements.** Grantor authorizes Lender to file a UCC-1 financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. This includes making sure Lender is shown as the first and only security interest holder on the title covering the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute financing statements and documents of title in Grantor's name and to execute all documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement. If Grantor changes Grantor's name or address, or the name or address of any person granting a security interest under this Agreement changes, Grantor will promptly notify the Lender of such change.

**GRANTOR'S RIGHT TO POSSESSION.** Until default, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

**LENDER'S EXPENDITURES.** If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

**DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**Payment Default.** Grantor fails to make any payment when due under the Indebtedness.

**Other Defaults.** Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

**Insolvency.** The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to Guarantor or any of the Indebtedness or Guarantor dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**COMMERCIAL SECURITY AGREEMENT  
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**Adverse Change.** A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**RIGHTS AND REMEDIES ON DEFAULT.** If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Oregon Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

**Accelerate Indebtedness.** Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

**Assemble Collateral.** Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

**Sell the Collateral.** Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

**Appoint Receiver.** Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the Rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

**Collect Revenues, Apply Accounts.** Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

**Obtain Deficiency.** If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

**Other Rights and Remedies.** Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

**Election of Remedies.** Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**Amendments.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**Governing Law.** This Agreement will be governed by, construed and enforced in accordance with federal law and the laws of the State of Oregon. This Agreement has been accepted by Lender in the State of Oregon.

**Choice of Venue.** If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Deschutes County, State of Oregon.

**Preference Payments.** Any monies Lender pays because of an asserted preference claim in Grantor's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Grantor as provided in this Agreement.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any



**COMMERCIAL SECURITY AGREEMENT  
(Continued)**

Loan No: 20035960

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other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Notices.** Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

**Power of Attorney.** Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

**Waiver of Co-Obligor's Rights.** If more than one person is obligated for the Indebtedness, Grantor irrevocably waives, disclaims and relinquishes all claims against such other person which Grantor has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

**Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

**Successors and Assigns.** Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

**Survival of Representations and Warranties.** All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

**Time is of the Essence.** Time is of the essence in the performance of this Agreement.

**Waive Jury.** All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

**Agreement.** The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

**Borrower.** The word "Borrower" means AVION WATER COMPANY INC, and all other persons and entities signing the Note in whatever capacity.

**Collateral.** The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

**Default.** The word "Default" means the Default set forth in this Agreement in the section titled "Default".

**Environmental Laws.** The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto or intended to protect human health or the environment.

**Event of Default.** The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

**Grantor.** The word "Grantor" means AVION WATER COMPANY INC.

**Guarantor.** The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Indebtedness.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Hazardous Substances.** The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum, including crude oil and any fraction thereof and asbestos.

**Indebtedness.** The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under

**COMMERCIAL SECURITY AGREEMENT  
(Continued)**

Loan No: 20035960

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any of the Related Documents.

**Lender.** The word "Lender" means Bank of the Cascades, its successors and assigns.

**Note.** The word "Note" means the Note executed by AVION WATER COMPANY INC in the principal amount of \$5,500,000.00 dated January 21, 2003, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

**Property.** The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

**GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 21, 2003.**

GRANTOR:

AVION WATER COMPANY INC

By: JAN M WICK, President of AVION WATER  
COMPANY INC

By: Authorized Signer for AVION WATER COMPANY  
INC

**RECORDATION REQUESTED BY:**

Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708

**WHEN RECORDED MAIL TO:**

Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

**MODIFICATION OF DEED OF TRUST**

**THIS MODIFICATION OF DEED OF TRUST** dated January 21, 2003, is made and executed between **AVION WATER COMPANY INC**, whose address is 60813 PARRELL RD, BEND, OR 97702 ("Grantor") and Bank of the Cascades, South Bend Branch, 61250 S Hwy 97/PO Box 9099, Bend, OR 97708 ("Lender").

**DEED OF TRUST.** Lender and Grantor have entered into a Deed of Trust dated November 13, 1998 (the "Deed of Trust") which has been recorded in DESCHUTES County, State of Oregon, as follows:

**RECORDED NOVEMBER 16, 1998 IN BOOK 521, PAGE 2823 DESCHUTES COUNTY OFFICIAL RECORDS.**

**REAL PROPERTY DESCRIPTION.** The Deed of Trust covers the following described real property located in DESCHUTES County, State of Oregon:

**AS SHOWN ON ORIGINAL DEED OF TRUST**

The Real Property or its address is commonly known as 60813 PARRELL RD, BEND, OR 97702. The Real Property tax identification number is 18 12 70 02214

**MODIFICATION.** Lender and Grantor hereby modify the Deed of Trust as follows:

**EXTEND MATURITY DATE TO JANUARY 10, 2014.**

**CONTINUING VALIDITY.** Except as expressly modified above, the terms of the original Deed of Trust shall remain unchanged and in full force and effect. Consent by Lender to this Modification does not waive Lender's right to require strict performance of the Deed of Trust as changed above nor obligate Lender to make any future modifications. Nothing in this Modification shall constitute a satisfaction of the promissory note or other credit agreement secured by the Deed of Trust (the "Note"). It is the intention of Lender to retain as liable all parties to the Deed of Trust and all parties, makers and endorsers to the Note, including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, shall not be released by virtue of this Modification. If any person who signed the original Deed of Trust does not sign this Modification, then all persons signing below acknowledge that this Modification is given conditionally, based on the representation to Lender that the non-signing person consents to the changes and provisions of this Modification or otherwise will not be released by it. This waiver applies not only to any initial extension or modification, but also to all such subsequent actions.

**GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS MODIFICATION OF DEED OF TRUST AND GRANTOR AGREES TO ITS TERMS. THIS MODIFICATION OF DEED OF TRUST IS DATED JANUARY 21, 2003.**

**GRANTOR:**

**AVION WATER COMPANY INC**

By: JAN M WICK, President of AVION WATER COMPANY INC

By: Authorized Signer for AVION WATER COMPANY INC

**LENDER:**

X Authorized Officer

# AGREEMENT TO PROVIDE INSURANCE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,500,000.00	01-21-2003	01-10-2014	20035960	4A / 60	A1122000	JMH	
References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Grantor:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

**INSURANCE REQUIREMENTS.** Grantor, AVION WATER COMPANY INC ("Grantor"), understands that insurance coverage is required in connection with the extending of a loan or the providing of other financial accommodations to Grantor by Lender. These requirements are set forth in the security documents for the loan. The following minimum insurance coverages must be provided on the following described collateral (the "Collateral"):

**Collateral:** All Chattel Paper, Accounts, Contract Rights, Equipment, Pipelines, Water Rights, and all revenues of Debtor derived from whatever source including but not limited to the distribution and sale of water under Debtor's authority with the Oregon Public Utility Commission; whether any of the foregoing is owned now or acquired later; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and accounts proceeds)..

**Type:** All risks, including fire, theft and liability.

**Amount:** Full Insurable Value.

**Basis:** Replacement value.

**Endorsements:** Lender loss payable clause with stipulation that coverage will not be cancelled or diminished without a minimum of 10 days prior written notice to Lender.

**Latest Delivery Date:** By the loan closing date.

**Collateral:** 60813 PARRELL RD, BEND, OR 97702.

**Type:** Fire and extended coverage.

**Amount:** Full Insurable Value.

**Basis:** Replacement value.

**Endorsements:** Standard mortgagee's clause with stipulation that coverage will not be cancelled or diminished without a minimum of 10 days prior written notice to Lender, and without disclaimer of the insurer's liability for failure to give such notice.

**Latest Delivery Date:** By the loan closing date.

**INSURANCE COMPANY.** Grantor may obtain insurance from any insurance company Grantor may choose that is reasonably acceptable to Lender.

**FLOOD INSURANCE.** Flood Insurance for the Collateral securing this loan is described as follows:

**Real Estate at 60813 PARRELL RD, BEND, OR 97702.**

The Collateral securing this loan is not currently located in an area identified as having special flood hazards. Therefore, no special flood hazard insurance is necessary at this time. Should the Collateral at any time be deemed to be located in an area designated by the Director of the Federal Emergency Management Agency as a special flood hazard area, Grantor agrees to obtain and maintain Federal Flood Insurance, if available, within 45 days after notice is given by Lender that the Collateral is located in a special flood hazard area, for the full unpaid balance of the loan and any prior liens on the property securing the loan, up to the maximum policy limits set under the National Flood Insurance Program, or as otherwise required by Lender, and to maintain such insurance for the term of the loan. Flood insurance may be purchased under the National Flood Insurance Program or from private insurers.

**PROVISION OF INSURANCE.** Grantor agrees to deliver to Lender, on the latest delivery date stated above, proof of the required insurance as provided above, with an effective date of January 21, 2003, or earlier.

## WARNING

Unless GRANTOR provides Lender with evidence of the insurance coverage as required by Grantor's security documents, Lender may purchase insurance at Grantor's expense to protect Lender's interest. This insurance may, but need not, also protect Grantor's interest. If the collateral becomes damaged, the coverage Lender purchases may not pay any claim Grantor makes or any claim made against Grantor. Grantor may later cancel this coverage by providing evidence that Grantor has obtained property coverage elsewhere. Grantor will be responsible for the cost of any insurance purchased by Lender. The cost of this insurance may be added to Grantor's Indebtedness. If the cost is added to Grantor's Indebtedness, the interest rate on the underlying Indebtedness will apply to this added amount. The effective date of coverage may be the date Grantor's prior coverage lapsed or the date Grantor failed to provide proof of coverage. The coverage Lender purchases may be considerably more expensive than insurance Grantor can obtain on Grantor's own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

IN ADDITION, THE INSURANCE MAY NOT PROVIDE ANY PUBLIC LIABILITY OR PROPERTY DAMAGE INDEMNIFICATION AND MAY NOT MEET THE REQUIREMENTS OF ANY FINANCIAL RESPONSIBILITY LAWS.

**AUTHORIZATION.** For purposes of insurance coverage on the Collateral, Grantor authorizes Lender to provide to any person (including any insurance agent or company) all information Lender deems appropriate, whether regarding the Collateral, the loan or other financial accommodations, or both.

**AGREEMENT TO PROVIDE INSURANCE  
(Continued)**

Loan No: 20035960

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GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGREEMENT TO PROVIDE INSURANCE AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 21, 2003.

GRANTOR:

AVION WATER COMPANY INC

By: JAN M WICK, President of AVION WATER  
COMPANY INC

By: Authorized Signer for AVION WATER COMPANY  
INC

	<b>FOR LENDER USE ONLY INSURANCE VERIFICATION</b>	
DATE: _____		PHONE _____
AGENT'S NAME: _____		
AGENCY: _____		
INSURANCE COMPANY: _____		
POLICY NUMBER: _____		
EFFECTIVE DATES: _____		
COMMENTS: _____		

	<b>FOR LENDER USE ONLY INSURANCE VERIFICATION</b>	
DATE: _____		PHONE _____
AGENT'S NAME: _____		
AGENCY: _____		
INSURANCE COMPANY: _____		
POLICY NUMBER: _____		
EFFECTIVE DATES: _____		
COMMENTS: _____		



## DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$5,500,000.00	01-21-2003	01-10-2014	20035960	4A / 60	A1122000	JMH	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "\*\*\*\*" has been omitted due to text length limitations.

**Borrower:** AVION WATER COMPANY INC  
60813 PARRELL RD  
BEND, OR 97702

**Lender:** Bank of the Cascades  
South Bend Branch  
61250 S Hwy 97/PO Box 9099  
Bend, OR 97708  
(541) 388-1040

**LOAN TYPE.** This is a Variable Rate Nondisclosable Loan to a Corporation for \$5,500,000.00 due on January 10, 2014. This is a secured renewal loan.

**PRIMARY PURPOSE OF LOAN.** The primary purpose of this loan is for:

- Personal, Family, or Household Purposes or Personal Investment.
- Business (Including Real Estate Investment).

**SPECIFIC PURPOSE.** The specific purpose of this loan is: RENEWAL TO INCREASE AMOUNT FOR CONSTRUCTION PROJECTS.

**FLOOD INSURANCE.** As reflected on Flood Map No. 41017C0215C dated 08-16-1988, for the community of DESCHUTES COUNTY, some of the property that will secure the loan is not located in an area that has been identified by the Director of the Federal Emergency Management Agency as an area having special flood hazards. Therefore, although flood insurance may be available for the property, no special flood hazard insurance is required by law for this loan.

**DISBURSEMENT INSTRUCTIONS.** Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$5,500,000.00 as follows:

<b>Amount paid on Borrower's account:</b>	\$220,000.00
\$220,000.00 Payment on Loan # 20047721	
<b>Other Disbursements:</b>	\$5,280,000.00
\$3,482,438.43 Renewal Balance	
\$1,797,561.57 Undisbursed	
<b>Note Principal:</b>	\$5,500,000.00

**CHARGES PAID IN CASH.** Borrower has paid or will pay in cash as agreed the following charges:

<b>Prepaid Finance Charges Paid in Cash:</b>	\$19,000.00
\$19,000.00 Loan Origination Fee (\$)	
<b>Other Charges Paid in Cash:</b>	\$10,532.57
\$46.00 Recording	
\$10.00 Flood Hazard Determination	
\$9,970.27 Interest to date on Loan #20035960	
\$506.30 Interest to date on Loan #20047721	
<b>Total Charges Paid in Cash:</b>	\$29,532.57

**FINANCIAL CONDITION.** BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED JANUARY 21, 2003.

**BORROWER:**

AVION WATER COMPANY INC

By: JAN M WICK, President of AVION WATER COMPANY INC

By: Authorized Signer for AVION WATER COMPANY INC

NAME OF COMPANY: Avion Water Co., Inc			REPORTING -Oct 31, 2006		
<b>COMPARATIVE BALANCE SHEET - ASSETS AND OTHER DEBITS</b>					
LINE NO.	ACCT. NO.	ACCOUNT NAME	REF. PG.	BALANCE BEGINNING OF YEAR	BALANCE END OF YEAR
(A)	(B)	(C)	(D)	(E)	(F)
<b>UTILITY PLANT</b>					
1		NET UTILITY PLANT (SEE NET UTILITY PLANT IN YEAR END RATE BASE SCHEDULE)	9 LINE 25		25,442,260
<b>NONUTILITY PROPERTY &amp; INVESTMENT</b>					
2	121	NONUTILITY PROPERTY			-
3	122	LESS: ACCUMULATED DEPRECIATION & AMORTIZATION OF NONUTILITY PLANT			-
4		NET NONUTILITY PROPERTY			-
5	123	INVESTMENT IN ASSOCIATED COMPANIES			-
6	124 125	OTHER NONUTILITY INVESTMENT			-
7		TOTAL NONUTILITY PROPERTY & INVESTMENT			-
<b>CURRENT &amp; ACCRUED ASSETS</b>					
8	131	CASH			394,251
9	132	SPECIAL DEPOSITS	19		183,162
10	141	CUSTOMER ACCOUNT RECEIVABLES			450,202
	142	OTHER ACCOUNTS RECEIVABLE,	20		-
	143	ACCUMULATED PROVISIONS FOR UNCOLLECTIBLE A			-
	144	NOTES RECEIVABLE			-
11	145 146	ACCOUNTS & NOTES RECEIVABLE FROM ASSOCIATE	20		-
12	151	INVENTORY: PLANT MATERIAL & SUPPLIES			119,371
13	162	PREPAYMENTS	20		90,497
14	171	ACCRUED INTEREST & DIVIDENDS RECEIVABLE			-
15	172	RENTS RECEIVABLE & ACCRUED			-
16	174	MISCELLANEOUS CURRENT & ACCRUED ASSETS			-
17		TOTAL CURRENT & ACCRUED ASSETS			1,237,483
<b>DEFERRED DEBITS</b>					
18	181	UNAMORTIZED DEBT DISCOUNT & EXPENSE			-
19	182	EXTRAORDINARY PROPERTY LOSSES			-
20	186	MISCELLANEOUS DEFERRED DEBITS	21		-
21	190	ACCUMULATED DEFERRED INCOME TAXES (ASSET)	21		-
22		TOTAL DEFERRED DEBITS			-
23		TOTAL ASSETS AND OTHER DEBITS			26,679,743

*Exhibit E*

.NAME OF COMPANY: Avion Water Co., Inc.				REPORTING- Oct. 31, 2006	
<b>COMPARATIVE BALANCE SHEET / EQUITY CAPITAL AND LIABILITIES</b>					
LINE NO.	ACCT. NO.	ACCOUNT NAME	REF. PG.	BALANCE BEGINNING OF YEAR	BALANCE END OF YEAR
(A)	(B)	(C)	(D)	(E)	(F)
<b>EQUITY CAPITAL</b>					
1	201	COMMON STOCK ISSUED	22		47,668
2	204	PREFERRED STOCK ISSUED	22		-
3	207	PREMIUM ON CAPITAL STOCK			191,670
4	211	OTHER PAID-IN CAPITAL			-
5	212	DISCOUNT ON CAPITAL STOCK			-
6	213	CAPITAL STOCK EXPENSE			-
7	214	APPROPRIATED RETAINED EARNINGS	12		-
8	215	UNAPPROPRIATED RETAINED EARNINGS	12		5,630,562
9	216	REACQUIRED CAPITAL STOCK			(75,000)
10	218	PROPRIETARY CAPITAL (PROPRIETORSHIP & PARTNERSHIP ONLY)			
11		TOTAL EQUITY CAPITAL			5,794,900
<b>CURRENT AND ACCRUED LIABILITIES</b>					
12	224	LONG-TERM DEBT	22		6,207,828
13	231	ACCOUNTS PAYABLE	22		116,334
14	232	NOTES PAYABLE	23		-
15	233	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	23		-
16	234	NOTES PAYABLE TO ASSOCIATED COMPANIES	23		-
17	235	CUSTOMER DEPOSITS			7,600
18	236	ACCRUED TAXES	24		70,861
19	237	ACCRUED INTEREST	24		23,083
20	238	ACCRUED DIVIDENDS			-
21	241	MISCELLANEOUS CURRENT AND ACCRUED LIABILIT	24		141,193
22		TOTAL CURRENT AND ACCRUED LIABILITIES			6,566,899
<b>DEFERRED CREDITS</b>					
23	251	PREMIUM ON UNAMORTIZED DEBT			-
24	252	ADVANCES FOR CONSTRUCTION	25		571,439
25	253	OTHER DEFERRED CREDIT			-
26		TOTAL DEFERRED CREDITS			571,439
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION - CIAC</b>					
27	271	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	25		15,040,116
28	272	DEDUCT: ACCUMULATED AMORTIZATION OF CIAC	25		(1,607,700)
29		TOTAL NET CIAC			13,432,416
<b>ACCUMULATED DEFERRED INCOME TAXES</b>					
30	281	ACCUMULATED DEFERRED INCOME TAXES-ACCELER	26		-
31	282	ACCUMULATED DEFERRED INCOME TAXES-LIBERAL	26		314,089
32	283	ACCUMULATED DEFERRED INCOME TAXES-OTHER	26		-
33		TOTAL ACCUMULATED DEFERRED INCOME TAXES			314,089
34		TOTAL EQUITY CAPITAL AND LIABILITIES			26,679,743



**STATEMENT OF RETAINED EARNINGS**

DIVIDENDS SHOULD BE SHOWN FOR EACH CLASS AND SERIES OF CAPITAL STOCK. SHOW AMOUNTS OF DIVIDENDS PER SHARE. SHOW SEPARATELY THE STATE AND FEDERAL INCOME TAX EFFECT OF ITEMS SHOWN IN ACCOUNT 439.

LINE NO. (A)	ACCT. NO. (B)	ACCOUNT NAME (C)	AMOUNTS (D)
1	215	UNAPPROPRIATED RETAINED EARNINGS (BALANCE @ BEGINNING OF YEAR)	4,812,658
2		CREDITS: To correct accounts payable balances	49,393
3		DEBITS: To Correct insurance payable	(35,132)
4	435	BALANCE TRANSFERRED FROM INCOME (LINE 12, PAGE 7)	1,328,643
5	436	APPROPRIATIONS OF RETAINED EARNINGS	-
6		SUBTOTAL (ADD LINES 1, 2, 3, 4, & 5)	6,155,562
7		DIVIDENDS DECLARED:	-
8	437	PREFERRED STOCK DIVIDENDS DECLARED	-
9	438	COMMON STOCK DIVIDENDS DECLARED	525,000
10	439	CHANGES TO ACCOUNT: ADJUSTMENTS TO RETAINED EARNINGS (REQUIRES COMMISSION APPROVAL PRIOR TO USE)	-
11		TOTAL DIVIDENDS DECLARED (ADD LINES 7, 8, 9, & 10)	525,000
12		BALANCE @ 1/31/06 (LINE 6 MINUS LINE 12)	5,630,562
13	214	APPROPRIATED RETAINED EARNINGS	-
		STATE BALANCE & PURPOSE OF EACH APPROPRIATED AMOUNT AT YEAR END	
14			
15			
16			
17			
18			
19			
20			
21			
22		<b>TOTAL APPROPRIATED RETAINED EARNINGS</b>	-
23		<b>TOTAL RETAINED EARNINGS (TOTAL LINES 12 &amp; 22)</b>	5,630,562

Adjustments for proforma:	DR	CR
Cash	2,600,000	
Long Term Debt		2,600,000
to record cash receipt of loan proceeds		
Land & Land Rights	600,000	
Wells & Springs	380,237	
Pumping Equipment	252,248	
Distribution Reservoirs	1,167,515	
Transmission & Distribution Ma	200,000	
Cash		2,600,000
to record construction of new plant		
Depreciation Expense	58,948	
Accumulated Depreciation		58,948
to record 10 months of depreciation expense		
Interest expense	200,417	
Cash		200,417
to record 10 months of interest expense		
	<u>5,459,365</u>	<u>5,459,365</u>

NAME OF COMPANY: Avion Water Co., Inc				REPORTING -Proforma	
<b>COMPARATIVE BALANCE SHEET - ASSETS AND OTHER DEBITS</b>					
LINE NO.	ACCT. NO.	ACCOUNT NAME	REF. PG.	Actual BEGINNING 10/31/2006	Proforma BALANCE
(A)	(B)	(C)	(D)	(E)	(F)
<b>UTILITY PLANT</b>					
1		NET UTILITY PLANT (SEE NET UTILITY PLANT IN YEAR END RATE BASE SCHEDULE)	9 LINE 25	25,442,260	27,983,312
<b>NONUTILITY PROPERTY &amp; INVESTMENT</b>					
2	121	NONUTILITY PROPERTY		-	-
3	122	LESS: ACCUMULATED DEPRECIATION & AMORTIZATION OF NONUTILITY PLANT			
4		NET NONUTILITY PROPERTY		-	-
5	123	INVESTMENT IN ASSOCIATED COMPANIES		-	-
6	124 125	OTHER NONUTILITY INVESTMENT		- -	- -
7		TOTAL NONUTILITY PROPERTY & INVESTMENT		-	-
<b>CURRENT &amp; ACCRUED ASSETS</b>					
8	131	CASH		394,251	193,834
9	132	SPECIAL DEPOSITS	19	183,162	183,162
10	141	CUSTOMER ACCOUNT RECEIVABLES		450,202	
	142	OTHER ACCOUNTS RECEIVABLE,	20	-	-
	143	ACCUMULATED PROVISIONS FOR UNCOLLECTIBLE A		-	-
	144	NOTES RECEIVABLE		-	-
11	145 146	ACCOUNTS & NOTES RECEIVABLE FROM ASSOCIATE	20	-	-
12	151	INVENTORY: PLANT MATERIAL & SUPPLIES		119,371	119,371
13	162	PREPAYMENTS	20	90,497	90,497
14	171	ACCRUED INTEREST & DIVIDENDS RECEIVABLE		-	-
15	172	RENTS RECEIVABLE & ACCRUED		-	-
16	174	MISCELLANEOUS CURRENT & ACCRUED ASSETS		-	-
17		TOTAL CURRENT & ACCRUED ASSETS		1,237,483	1,037,066
<b>DEFERRED DEBITS</b>					
18	181	UNAMORTIZED DEBT DISCOUNT & EXPENSE		-	-
19	182	EXTRAORDINARY PROPERTY LOSSES		-	-
20	186	MISCELLANEOUS DEFERRED DEBITS	21	-	-
21	190	ACCUMULATED DEFERRED INCOME TAXES (ASSET)	21	-	-
22		TOTAL DEFERRED DEBITS		-	-
23		TOTAL ASSETS AND OTHER DEBITS		26,679,743	29,020,378

NAME OF COMPANY: Avion Water Co., Inc.				REPORTING Proforma	
<b>COMPARATIVE BALANCE SHEET / EQUITY CAPITAL AND LIABILITIES</b>					
LINE NO.	ACCT. NO.	ACCOUNT NAME	REF. PG.	Actual BEGINNING 10/31/2006	Proforma BALANCE
(A)	(B)	(C)	(D)	(E)	(F)
<b>EQUITY CAPITAL</b>					
1	201	COMMON STOCK ISSUED	22	47,668	47,668
2	204	PREFERRED STOCK ISSUED	22	-	-
3	207	PREMIUM ON CAPITAL STOCK		191,670	191,670
4	211	OTHER PAID-IN CAPITAL		-	-
5	212	DISCOUNT ON CAPITAL STOCK		-	-
6	213	CAPITAL STOCK EXPENSE		-	-
7	214	APPROPRIATED RETAINED EARNINGS	12	-	-
8	215	UNAPPROPRIATED RETAINED EARNINGS	12	5,630,562	5,371,197
9	216	REACQUIRED CAPITAL STOCK		(75,000)	(75,000)
10	218	PROPRIETARY CAPITAL (PROPRIETORSHIP & PARTNERSHIP ONLY)			
11		TOTAL EQUITY CAPITAL		5,794,900	5,535,535
<b>CURRENT AND ACCRUED LIABILITIES</b>					
12	224	LONG-TERM DEBT	22	6,207,828	8,807,828
13	231	ACCOUNTS PAYABLE	22	116,334	116,334
14	232	NOTES PAYABLE	23	-	-
15	233	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	23	-	-
16	234	NOTES PAYABLE TO ASSOCIATED COMPANIES	23	-	-
17	235	CUSTOMER DEPOSITS		7,600	7,600
18	236	ACCRUED TAXES	24	70,861	70,861
19	237	ACCRUED INTEREST	24	23,083	23,083
20	238	ACCRUED DIVIDENDS		-	-
21	241	MISCELLANEOUS CURRENT AND ACCRUED LIABILITY	24	141,193	141,193
22		TOTAL CURRENT AND ACCRUED LIABILITIES		6,566,899	9,166,899
<b>DEFERRED CREDITS</b>					
23	251	PREMIUM ON UNAMORTIZED DEBT		-	-
24	252	ADVANCES FOR CONSTRUCTION	25	571,439	571,439
25	253	OTHER DEFERRED CREDIT		-	-
26		TOTAL DEFERRED CREDITS		571,439	571,439
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION - CIAC</b>					
27	271	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	25	15,040,116	15,040,116
28	272	DEDUCT: ACCUMULATED AMORTIZATION OF CIAC	25	(1,607,700)	(1,607,700)
29		TOTAL NET CIAC		13,432,416	13,432,416
<b>ACCUMULATED DEFERRED INCOME TAXES</b>					
30	281	ACCUMULATED DEFERRED INCOME TAXES-ACCELERATED	26	-	-
31	282	ACCUMULATED DEFERRED INCOME TAXES-LIBERAL	26	314,089	314,089
32	283	ACCUMULATED DEFERRED INCOME TAXES-OTHER	26	-	-
33		TOTAL ACCUMULATED DEFERRED INCOME TAXES	26	314,089	314,089
34		TOTAL EQUITY CAPITAL AND LIABILITIES		26,679,743	29,020,378

**STATEMENT OF RETAINED EARNINGS**

DIVIDENDS SHOULD BE SHOWN FOR EACH CLASS AND SERIES OF CAPITAL STOCK. SHOW AMOUNTS OF DIVIDENDS PER SHARE. SHOW SEPARATELY THE STATE AND FEDERAL INCOME TAX EFFECT OF ITEMS SHOWN IN ACCOUNT 439.

LINE NO. (A)	ACCT. NO. (B)	ACCOUNT NAME (C)	AMOUNTS (D)
1	215	UNAPPROPRIATED RETAINED EARNINGS (BALANCE @ BEGINNING OF MONTH)	4,812,658
2		CREDITS: Correct accounts payable balances	49,393
3		DEBITS: to correct insurance payable	(35,132)
4	435	BALANCE TRANSFERRED FROM INCOME (LINE 12, PAGE 7)	1,069,278
5	436	APPROPRIATIONS OF RETAINED EARNINGS	-
6		SUBTOTAL (ADD LINES 1, 2, 3, 4, & 5)	5,896,197
7		DIVIDENDS DECLARED:	-
8	437	PREFERRED STOCK DIVIDENDS DECLARED	-
9	438	COMMON STOCK DIVIDENDS DECLARED	525,000
10	439	CHANGES TO ACCOUNT: ADJUSTMENTS TO RETAINED EARNINGS (REQUIRES COMMISSION APPROVAL PRIOR TO USE)	-
11		TOTAL DIVIDENDS DECLARED (ADD LINES 7, 8, 9, & 10)	525,000
12		BALANCE @ 1/31/06 (LINE 6 MINUS LINE 12)	5,371,197
13	214	APPROPRIATED RETAINED EARNINGS	-
		STATE BALANCE & PURPOSE OF EACH APPROPRIATED AMOUNT AT YEAR END	
14			
15			
16			
17			
18			
19			
20			
21			
22		TOTAL APPROPRIATED RETAINED EARNINGS	-
23		TOTAL RETAINED EARNINGS (TOTAL LINES 12 & 22)	5,371,197

ACCOUNTING METHOD  ACCRUAL  CASH (PLEASE CHECK ONE)**COMPARATIVE OPERATING STATEMENT**

LINE NO. (A)	ACCT. NO. (B)	ACCOUNT NAME (C)	REF. PG. (D)	REPORTING YEAR (E)	PREVIOUS YEAR (F)
<b>UTILITY OPERATING INCOME &amp; DEDUCTIONS</b>					
1	400	TOTAL GROSS OPERATING UTILITY REVENUE	7	4,921,603	
2	401	TOTAL OPERATING EXPENSES	8	2,793,821	
3	403	ANNUAL DEPRECIATION EXPENSE	15	239,067	
4	406	AMORTIZATION OF UTILITY PLANT ACQUISITION ADJUSTMENT ACQUISITION A	18	-	
5	407	AMORTIZATION EXPENSE	26	-	
6	408	TAXES OTHER THAN INCOME TAXES (TOTAL)	27	297,699	
7	409	INCOME TAXES	27	10	
8	410.10	PROVISION FOR DEFERRED INCOME TAXES (UTILITY OPERATIONS)	27	-	
9	411.10	PROVISION FOR DEFERRED INCOME TAXES (UTILITY CREDIT)	27	-	
10		TOTAL EXPENSES		3,330,597	
11		UTILITY OPERATING INCOME		1,591,006	
12	413	INCOME FROM UTILITY PLANT LEASED TO OTHERS			
13	414	GAINS/(LOSSES) FROM UTILITY PROPERTY DISPOSITION (N	27	158,563	
14		TOTAL NET UTILITY OPERATING INCOME		1,749,569	
<b>NONUTILITY INCOME AND DEDUCTIONS</b>					
15	415	REVENUE FROM MERCHANDISING, JOBBING, & CONTRACTS		132,143	
16	416	COST & EXPENSE OF MERCHANDISING, JOBBING, CONTRACTS		(171,339)	
17	419	INTEREST & DIVIDEND INCOME		11,735	
18	421	NONUTILITY INCOME		100	
19	426	NONUTILITY EXPENSE		(35,269)	
20		TOTAL OTHER INCOME & DEDUCTIONS		(62,630)	
<b>NONUTILITY INCOME TAXES &amp; DEDUCTIONS</b>					
21	408.2	TAXES OTHER THAN INCOME TAX	27	-	
22	409.2	INCOME TAXES	27	-	
23	410.2	DEFERRED INCOME TAXES (NONUTILITY)	27	-	
24	411.2	PROVISION FOR DEFERRED INCOME TAXES (NONUTILITY) CREDIT	26	-	
25		TOTAL TAXES		-	
26	427	INTEREST EXPENSE		(358,296)	
27	433 434	EXTRAORDINARY INCOME AND DEDUCTIONS (NET)	28	-	
28		TOTAL INTEREST & EXTRAORDINARY INCOME & DEDUCTIONS		(358,296)	
29		<b>NONUTILITY NET INCOME /(LOSS)</b>		1,328,643	

Exhibit G

**WATER UTILITY EXPENSE ACCOUNTS**

LINE NO. (A)	ACCT NO. (B)	ACCOUNT NAME (C)	AMOUNT FOR YEAR (D)	PRECEDING YEAR (E)
1	601	SALARIES AND WAGES - EMPLOYEES	717,623	
2	603	SALARIES AND WAGES - OFFICERS, DIRECTORS, AND MAJORITY STOCKHOLDERS	152,880	
3	604	EMPLOYEE PENSIONS & BENEFITS	275,290	
4	610	PURCHASED WATER	102,517	
	611	TELEPHONE/COMMUNICATIONS	19,952	
5	615	PURCHASED POWER	388,303	
	617	UTILITIES - OTHER	1,476	
8	619	OFFICE SUPPLIES	26,418	
		(619.1 POSTAGE)	6,544	
9	620	MATERIALS & SUPPLIES (O&M)	216,219	
10	621	REPAIRS TO WATER PLANT	56,971	
11	631	CONTRACTUAL SERVICES - ENGINEERING	9,846	
12	632	CONTRACTUAL SERVICES - ACCOUNTING	4,410	
13	633	CONTRACTUAL SERVICES - LEGAL	29,135	
14	634	CONTRACTUAL SERVICES - MANAGEMENT	-	
15	635	CONTRACTUAL SERVICES - TESTING / SAMPLING	13,351	
16	636	CONTRACTUAL SERVICES - LABOR	33,002	
	637	CONTRACTUAL SERVICES - BILLING/COLLECTION	61,412	
	638	CONTRACTUAL SERVICE - METER READING	66,565	
	639	CONTRACTUAL SERVICES - OTHER	94,747	
17	641	RENTAL OF BUILDING / REAL PROPERTY	12,501	
18	642	RENTAL OF EQUIPMENT	9,107	
	643	SMALL TOOLS	6,038	
	648	COMPUTER EXPENSES	27,825	
19	650	TRANSPORTATION EXPENSES	94,302	
20	656	INSURANCE - VEHICLE	22,464	
21	657	INSURANCE - GENERAL LIABILITY	67,853	
22	658	INSURANCE - WORKMAN'S COMPENSATION	24,525	
23	659	INSURANCE - OTHER	59,225	
24	660	PUBLIC RELATION / ADVERTISING EXPENSE	572	
25	666	AMORTIZATION OF RATE CASE EXPENSE	-	
26	667	REGULATORY COMMISSION FEE (GROSS REV FEE)	11,609	
27	668	WATER RESOURCE CONSERVATION EXPENSE	5,092	
28	670	BAD DEBT EXPENSE	9,989	
29	671.1	CROSS CONNECTION CONTROL PROGRAM EXPENSE	34,542	
30	671.2	CROSS CONNECTION TESTING & MAINT SERVICES	105,841	
31	672	SYSTEM CAPACITY DEVELOPMENT PROGRAM EXP	-	
32	673	TRAINING & CERTIFICATION EXPENSE	20,690	
	674	CONSUMER CONFIDENCE REPORT	3,498	
33	675	MISCELLANEOUS EXPENSE	1,487	
		<b>TOTAL OPERATING EXPENSE</b>	<b>2,793,821</b>	

NAME OF COMPANY: Avion Water Co., Inc. REPORTING Proforma

ACCOUNTING METHOD  ACCRUAL  CASH (PLEASE CHECK ONE)

**COMPARATIVE OPERATING STATEMENT**

LINE NO. (A)	ACCT. NO. (B)	ACCOUNT NAME (C)	REF. PG. (D)	Proforma YEAR (E)	PREVIOUS YEAR (10 mo. Actual) (F)
<b>UTILITY OPERATING INCOME &amp; DEDUCTIONS</b>					
1	400	TOTAL GROSS OPERATING UTILITY REVENUE	7	4,921,603	4,921,603
2	401	TOTAL OPERATING EXPENSES	8	2,793,821	2,793,821
3	403	ANNUAL DEPRECIATION EXPENSE	15	298,015	239,067
4	406	AMORTIZATION OF UTILITY PLANT ACQUISITION ADJUSTMENT ACQUISITION AD	18	-	-
5	407	AMORTIZATION EXPENSE	26	-	-
6	408	TAXES OTHER THAN INCOME TAXES (TOTAL)	27	297,699	297,699
7	409	INCOME TAXES	27	10	10
8	410.10	PROVISION FOR DEFERRED INCOME TAXES (UTILITY OPERATIONS)	27	-	-
9	411.10	PROVISION FOR DEFERRED INCOME TAXES (UTILITY CREDIT)	27	-	-
10		TOTAL EXPENSES		3,389,545	3,330,597
11		UTILITY OPERATING INCOME		1,532,058	1,591,006
12	413	INCOME FROM UTILITY PLANT LEASED TO OTHERS		-	-
13	414	GAINS/(LOSSES) FROM UTILITY PROPERTY DISPOSITION (N	27	158,563	158,563
14		TOTAL NET UTILITY OPERATING INCOME		1,690,621	1,749,569
<b>NONUTILITY INCOME AND DEDUCTIONS</b>					
15	415	REVENUE FROM MERCHANDISING, JOBBING, & CONTRACTS		132,143	132,143
16	416	COST & EXPENSE OF MERCHANDISING, JOBBING, CONTRACTS		(171,339)	(171,339)
17	419	INTEREST & DIVIDEND INCOME		11,735	11,735
18	421	NONUTILITY INCOME		100	100
19	426	NONUTILITY EXPENSE		(35,269)	(35,269)
20		TOTAL OTHER INCOME & DEDUCTIONS		(62,630)	(62,630)
<b>NONUTILITY INCOME TAXES &amp; DEDUCTIONS</b>					
21	408.2	TAXES OTHER THAN INCOME TAX	27	-	-
22	409.2	INCOME TAXES	27	-	-
23	410.2	DEFERRED INCOME TAXES (NONUTILITY)	27	-	-
24	411.2	PROVISION FOR DEFERRED INCOME TAXES (NONUTILITY) CREDIT	26	-	-
25		TOTAL TAXES		-	-
26	427	INTEREST EXPENSE		(558,713)	(358,296)
27	433 434	EXTRAORDINARY INCOME AND DEDUCTIONS (NET)	28	-	-
28		TOTAL INTEREST & EXTRAORDINARY INCOME & DEDUCTIONS		(558,713)	(358,296)
29		<b>NONUTILITY NET INCOME /(LOSS)</b>		1,069,278	1,328,643



**WATER UTILITY EXPENSE ACCOUNTS**

LINE NO. (A)	ACCT NO. (B)	ACCOUNT NAME (C)	AMOUNT FOR Proforma (D)	PRECEDING YEAR (10 mo. Actual) (E)
1	601	SALARIES AND WAGES - EMPLOYEES	717,623	717,623
2	603	SALARIES AND WAGES - OFFICERS, DIRECTORS, AND MAJORITY STOCKHOLDERS	152,880	152,880
3	604	EMPLOYEE PENSIONS & BENEFITS	275,290	275,290
4	610	PURCHASED WATER	102,517	102,517
	611	TELEPHONE/COMMUNICATIONS	19,952	19,952
5	615	PURCHASED POWER	388,303	388,303
	617	UTILITIES - OTHER	1,476	1,476
8	619	OFFICE SUPPLIES	26,418	26,418
		(619.1 POSTAGE)	6,544	6,544
9	620	MATERIALS & SUPPLIES (O&M)	216,219	216,219
10	621	REPAIRS TO WATER PLANT	56,971	56,971
11	631	CONTRACTUAL SERVICES - ENGINEERING	9,846	9,846
12	632	CONTRACTUAL SERVICES - ACCOUNTING	4,410	4,410
13	633	CONTRACTUAL SERVICES - LEGAL	29,135	29,135
14	634	CONTRACTUAL SERVICES - MANAGEMENT	-	-
15	635	CONTRACTUAL SERVICES - TESTING / SAMPLING	13,351	13,351
16	636	CONTRACTUAL SERVICES - LABOR	33,002	33,002
	637	CONTRACTUAL SERVICES - BILLING/COLLECTION	61,412	61,412
	638	CONTRACTUAL SERVICE - METER READING	66,565	66,565
	639	CONTRACTUAL SERVICES - OTHER	94,747	94,747
17	641	RENTAL OF BUILDING / REAL PROPERTY	12,501	12,501
18	642	RENTAL OF EQUIPMENT	9,107	9,107
	643	SMALL TOOLS	6,038	6,038
	648	COMPUTER EXPENSES	27,825	27,825
19	650	TRANSPORTATION EXPENSES	94,302	94,302
20	656	INSURANCE - VEHICLE	22,464	22,464
21	657	INSURANCE - GENERAL LIABILITY	67,853	67,853
22	658	INSURANCE - WORKMAN'S COMPENSATION	24,525	24,525
23	659	INSURANCE - OTHER	59,225	59,225
24	660	PUBLIC RELATION / ADVERTISING EXPENSE	572	572
25	666	AMORTIZATION OF RATE CASE EXPENSE	-	-
26	667	REGULATORY COMMISSION FEE (GROSS REV FEE)	11,609	11,609
27	668	WATER RESOURCE CONSERVATION EXPENSE	5,092	5,092
28	670	BAD DEBT EXPENSE	9,989	9,989
29	671.1	CROSS CONNECTION CONTROL PROGRAM EXPENSE	34,542	34,542
30	671.2	CROSS CONNECTION TESTING & MAINT SERVICES	105,841	105,841
31	672	SYSTEM CAPACITY DEVELOPMENT PROGRAM EXP	-	-
32	673	TRAINING & CERTIFICATION EXPENSE	20,690	20,690
	674	CONSUMER CONFIDENCE REPORT	3,498	3,498
33	675	MISCELLANEOUS EXPENSE	1,487	1,487
		<b>TOTAL OPERATING EXPENSE</b>	<b>2,793,821</b>	<b>2,793,821</b>

NAME OF COMPANY: Avion Water Company, Inc.  
REPORTING YEAR - Proforma year

Acct. No.	ACCOUNT NAME	BALANCE BEGINNING OF YEAR	PROFORMA ADDITIONS	RETIREMENTS	ADJUSTMENTS	PROFORMA BALANCE END OF YEAR
(A)	(B)	(C)	(D)	(E)	(F)	(G)
301	Organization	211				211
302	Franchises	-				-
303	Land & Land Rights	77,414	600,000			677,414
304	Structures & Improvements	1,299,868				1,299,868
305	Collecting & Impounding Reservoirs	4,769				4,769
306	Lake, River & Other Intakes	33,478				
		755,053	380,237			
		106				
309	Suply mains	1,820				1,820
310	Power Generation Equipment	1,203				1,203
311	Pumping Equipment Water Treatment Equipm	1,143,574	252,248			1,395,822
320	Water Treatment Equipment	648				648
330	Distribution Reservoirs & Standpipes	2,426,188	1,167,515			3,593,703
331	Transmission & Distribution Mains	21,983,599	200,000			22,183,599
333	Services	989,235				989,235
334	Meters & Meter Installations	531,524				
335	Hydrants	93,146				93,146
336	Backflow Prevention Devices (Utility Owned)	-				-
339	Other Plant & Miscellaneous Equipment (Spec	209,878				209,878
340	Office Furniture & Equipment	144,637				144,637
		356,805				
		82,085				
344	Laboratroy Equipment	-				-
345	Power Operated Equipment	102,492				
346	Communication Equipment	86,062				
347	electronic & Computer Equipment	-				-
348	Miscellaneous Equipment	3,228				3,228
	TOTAL WATER PLANT	30,327,023	2,600,000	-	-	32,927,023