

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Security Agreement"), dated as of \_\_\_\_, 2011 (the "Effective Date"), is made between RJ Broadcasting, LLC, a Utah limited liability company, and RJ Broadcasting LS, LLC, a Utah limited liability company (the "Borrower") and Pacific Empire Radio Corporation, an Idaho corporation ("Lender"), party to a Promissory Note (the "Note") and Trust Deed ("Trust Deed") of equal date herewith.

For good and valuable consideration, receipt of which is hereby acknowledged, Borrower and Lender hereby agree as follows:

1. **Definitions.** Except as otherwise provided herein, terms defined in the Note or Trust Deed shall have the same meanings when used herein. Terms defined in the singular shall have the same meaning when used in the plural and vice versa. Terms defined in the Uniform Commercial Code as adopted now or in the future in the State of Idaho which are used herein shall have the meanings set forth in the Idaho Uniform Commercial Code, except as expressly defined otherwise. However, if a term is defined in Article 9 of the Uniform Commercial Code of the State of Idaho differently than in another Article of the Uniform Commercial Code of the State of Idaho, the term has the meaning specified in Article 9. As used herein, the term:

"Collateral" means the collateral described in Section 2 below.

"Default Rate" means the default interest rate provided in the Note.

"Liquidation Costs" means the reasonable costs and out of pocket expenses incurred by Lender in obtaining possession of any Collateral, in storage and preparation for sale, lease or other disposition of any Collateral, in the sale, lease, or other disposition of any or all of the Collateral, and/or otherwise incurred in foreclosing on any of the Collateral, including, without limitation, (a) reasonable attorneys fees and legal expenses, (b) transportation and storage costs, (c) advertising costs, (d) sale commissions, (e) sales tax and license fees, (f) costs for improving or repairing any of the Collateral, and (g) costs for preservation and protection of any of the Collateral.

2. **Grant of Security Interest.** Borrower hereby grants to Lender a security interest in all personal property of Borrower, wherever located, now owned or hereafter acquired or created, including, without limitation, the following (collectively, the "Collateral"):

(a) All inventory as defined in the Uniform Commercial Code, wherever located, all goods, merchandise or other personal property held for sale or lease, names or marks affixed thereto for purposes of selling or identifying the same or the seller or manufacturer thereof and all related rights, title and interest, all raw materials, work or goods in process or materials or supplies of every nature used, consumed or to be used in Borrower's business, all packaging and shipping materials, and all other goods customarily or for accounting purposes classified as inventory, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease,

license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the “Inventory”).

(b) All accounts as defined in the Uniform Commercial Code (including health-care-insurance receivables), accounts receivable, amounts owing to Borrower under any rental agreement or lease, payments on construction contracts, promissory notes or on any other indebtedness, any rights to payment customarily or for accounting purposes classified as accounts receivable, and all rights to payment, proceeds or distributions under any contract, of Borrower, presently existing or hereafter created, and all proceeds thereof (collectively, the “Accounts”).

(c) All equipment and goods as defined in the Uniform Commercial Code, all motor vehicles, including all tires, accessories, spare and repair parts, and tools, wherever located, all furniture, furnishings and fixtures and all related right, title and interest, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the “Equipment”).

(d) All general intangibles as defined in the Uniform Commercial Code, choses in action, proceeds, contracts, distributions, dividends, refunds, security deposits, judgments, insurance claims, any right to payment of any nature, intellectual property rights or licenses, payment intangibles, licenses, tax refunds, any other rights or assets of Borrower customarily or for accounting purposes classified as general intangibles, and all documentation and supporting information related to any of the foregoing, all rents, profits and issues thereof, and all proceeds thereof.

(e) All of the following (collectively, “Financial Obligations Collateral”):

(i) Any and all promissory notes and instruments payable to or owing to Borrower or held by Borrower, whether now existing or hereafter created (collectively, the “Promissory Notes”);

(ii) Any and all leases under which Borrower is the lessor, whether now existing or hereafter created (collectively, the “Leases”);

(iii) Any and all chattel paper (as defined in the Uniform Commercial Code) (whether tangible or electronic) in favor of, owing to, or held by Borrower, including, without limitation, any and all conditional sale contracts or other sales agreements, whether Borrower is the original party or the assignee, whether now existing or hereafter created (collectively, the “Chattel Paper”);

(iv) Any and all security agreements, collateral and titles to motor vehicles which secure any of the foregoing obligations, whether now existing or hereafter created (collectively, the “Security Agreements Collateral”); and

(v) All amendments, modifications, renewals, extensions, replacements, additions, and accessions to the foregoing and all proceeds thereof.

(f) All deposit accounts (as defined in the Uniform Commercial Code), including without limitation, all deposit accounts, checking accounts, savings accounts, money market accounts, certificates of deposit, depository accounts, balances, reserves, deposits, debts or any other amounts or obligations of Lender owing to Borrower, including, without limitation, all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

(g) All investment property (as defined in the Uniform Commercial Code), all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

(h) All documents (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

(i) All letter of credit rights (as defined in the Uniform Commercial Code) (whether or not the letter of credit is evidenced by a writing), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

(j) All supporting obligations (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

(k) All of the following (collectively, "Intellectual Property"):

(i) All right, title and interest of Borrower in, to and under patent applications and patents, together with all inventions described and claimed therein, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements and other violations thereof, all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof, and all rights corresponding to any of the foregoing throughout the world (collectively, the "Patents");

(ii) All right, title and interest of Borrower in, to and under trademarks, service marks, trade names, slogans, logos, trade dress, and other source identifiers, whether registered or unregistered, together with all registrations, applications and renewals thereof, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, dilutions, and other violations thereof, all good will connected with the use thereof or symbolized thereby, and all rights corresponding to any of the foregoing throughout the world (collectively, the "Trademarks");

(iii) All right, title and interest of Borrower in, to and under copyrights and works protectible by copyright, whether registered or unregistered, together with all registrations, applications, renewals and extensions thereof, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future

infringements and other violations thereof, and all rights corresponding to any of the foregoing throughout the world (collectively, the “Copyrights”);

(iv) All right, title and interest of Borrower in, to and under trade secrets and other confidential and/or proprietary information and know-how together with all proceeds thereof (such as, by way of example, license royalties and proceeds of misappropriation suits), the right to sue for past, present and future misappropriations thereof, and all rights corresponding to any of the foregoing throughout the world (collectively, the “Trade Secrets”);

(v) All right, title, and interest of Borrower in, to and under license agreements and other contracts concerning Patents, Trademarks, Copyrights, and/or Trade Secrets, together with all amendments, modifications, and replacements thereof, all proceeds thereof (such as, by way of example, all royalties and other amounts owing thereunder and proceeds from suits for breaches thereunder), and the right to sue for past, present and future breaches and other violations thereof (collectively, the “Licenses”);

(vi) All right, title and interest of Borrower in, to and under internet domain names and IP addresses, together with all proceeds thereof (such as, by way of example, license fees and proceeds of suits), the rights to sue for past, present and future infringement or other violation thereof, and all rights corresponding to any of the foregoing throughout the world;

(l) Borrower's right to receive the proceeds from any sale, transfer, assignment or other disposition of any and all authorizations issued to Borrower by the FCC for the operation of Radio Stations KGTM (FIN: 12665) and KRXX (FIN: 12664), both licensed to Rexburg, Idaho, and KBJX (FIN: 73616), licensed to Shelley, Idaho (collectively the “Station”) (“FCC Licenses”); and

(m) All proceeds of all Loans including all undisbursed proceeds of the Loans.

Borrower and Lender acknowledge their mutual intent that all security interests contemplated herein are given as a contemporaneous exchange for new value to Borrower, regardless of when advances to Borrower are actually made or when the Collateral is acquired. Notwithstanding anything to the contrary hereunder, Collateral shall not include any United States trademark application filed on an intent-to-use basis, in each case, unless and until evidence of the use of such Trademark in interstate commerce is submitted to the United States Patent and Trademark Office (“PTO”) whereupon such Trademark application shall automatically be included in the Collateral without any further action required by any party.

3. **Indebtedness Secured.** The security interest granted by this Security Agreement shall secure all of the obligations of Borrower to Lender under the Note.

4. **Authorization to File Financing Statements.** Borrower hereby irrevocably authorizes Lender at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, or (ii) as being of an equal or lesser scope or with greater

detail, and (b) provide any other information required by Article 9 of the Uniform Commercial Code of the State of Utah, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment.

5. **Representations, Warranties and Covenants.** Borrower hereby represents, warrants and covenants that:

(a) The Collateral will not be misused or abused, wasted, or allowed to deteriorate except for ordinary wear and tear occasioned by its intended primary use.

(b) The Collateral will be used by Borrower only for the purpose of conducting the operations of the Stations.

(c) The Collateral will be insured until this Security Agreement is terminated against all standard risks to which it is exposed in such amounts (which need not exceed the outstanding balance under the Note from time to time), with such companies, under such policies, and in such form, all as shall be reasonably satisfactory to Lender, with benefits payable to Lender as its interests may appear. Duplicate policies or certificates thereof shall be deposited with Lender at Lender's request.

(d) Borrower will pay or cause to be paid when due all rents, royalties, or other amounts payable, and perform or cause to be performed each of its obligations when performable, under all agreements and other instruments affecting the Collateral or any part thereof, and will do all things necessary to keep unimpaired Borrower's rights thereunder.

(e) The Collateral may be inspected by Lender at any reasonable time during regular business hours upon reasonable advance notice to Borrower.

(f) The Collateral will be used in the business of the Stations and will remain in Borrower's possession or control at all times, provided that Borrower may sell, lease, transfer or otherwise dispose of portions of the Collateral in the ordinary course of business, provided, however, that if such Collateral is replaced, it will be replaced by assets of comparable value, which replacements shall be subject to this Security Agreement.

(g) Except as may be contested by Borrower in good faith, Borrower will pay all taxes on the Collateral promptly and when due, and should Borrower fail to do so and a tax lien attaches, Lender may pay such taxes and add the same to the Notes, and such monies so expended will bear simple interest at the rate of fifteen percent (15%) per annum until repaid.

(h) Borrower will operate the Stations in material compliance with the rules and regulations of the FCC and all federal, state and local laws applicable to the ownership and use of the Collateral and the operation of the business of the Stations, including health, zoning and police regulations.

6. **Right to Perform for Borrower.** Lender may, in its sole discretion and without any duty to do so, elect to discharge taxes, tax liens, security interests, or any other encumbrance upon the Collateral, perform any duty or obligation of Borrower, pay filing, recording, insurance and other charges payable by Borrower, or provide insurance as provided herein if Borrower

fails to do so after notice and reasonable opportunity to cure. Any such payments advanced by Lender shall be repaid by Borrower upon demand, together with interest thereon from the date of the advance until repaid, both before and after judgment, at the Default Rate.

7. **Default.** Time is of the essence of this Security Agreement. The occurrence of a default in the Note or Trust Deed after applicable notice and the expiration of any cure periods shall constitute a default under this Security Agreement. No course of dealing or any delay or failure to assert any default shall constitute a waiver of that default or of any prior or subsequent default.

8. **Remedies.** Upon the occurrence of any default and after applicable notice and the expiration of any cure periods, Lender shall have the following rights and remedies, in addition to all other rights and remedies existing at law, in equity, or by statute:

(a) Lender shall have all the rights and remedies available under the Uniform Commercial Code;

(b) Lender shall have the right to enter upon any premises leased (subject to the rights of third parties) or owned by Borrower where the Collateral or records relating thereto may be and take possession of the Collateral and such records;

(c) Upon request of Lender, Borrower shall, at the expense of Borrower, assemble the Collateral and records relating thereto at a place designated by Lender and tender the Collateral and such records to Lender;

(d) Without notice to Borrower, Lender may obtain the appointment of a receiver of the business, property and assets of Borrower and Borrower hereby consents to the appointment of Lender or such person as Lender may designate as such receiver; and

(e) Lender may sell, lease, license, convey or otherwise dispose of any or all of the Collateral and, after deducting the Liquidation Costs, apply the remainder to pay, or to hold as a reserve against, the obligations secured by this Security Agreement.

(f) Upon request of Lender, Borrower shall assign to Lender any and all Intellectual Property and shall execute and deliver to Lender such documents as are necessary or appropriate to carry out the intent and purpose hereof.

9. **Sale of Collateral.**

(a) Lender shall give the Borrower reasonable notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition thereof is to be made. The requirement of reasonable notice shall be met if notice of the sale or other intended disposition is mailed, as provided in Paragraph 12, at least ten (10) days prior to the time of such sale or other intended disposition. Upon any sale of Collateral by the Lender hereunder (whether by virtue of the power of sale herein granted, pursuant to judicial process, or otherwise), the receipt of the Lender or the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold, and such purchaser or purchasers shall not be obligated to see to the application of any part of the

purchase money paid over to the Lender or such officer, or be answerable in any way for the misapplication or nonapplication thereof.

(b) All notices of public or private sale shall specify that the assignment of the broadcast authorizations for the Stations is subject to the prior approval of the FCC, and such notice shall be given to all persons attending a public sale. Borrower agrees that it will join and cooperate fully with Lender and with the successful bidder or bidders at any public or private sale in the filing of an application or applications with the FCC requesting the FCC's consent to the assignment of the FCC authorizations for the Stations to Lender or the successful bidder or bidders, and Borrower will furnish any additional information that may be required in connection with such application(s). Borrower will diligently and in good faith take any further actions, or cause any further actions to be taken, that may be necessary or desirable to obtain such FCC consent, and will execute and deliver, or will cause the execution and delivery of, all applications, certificates, instruments and other documents that may be necessary or desirable in connection therewith. The parties agree that the Collateral and FCC authorizations shall not be sold and assigned to separate parties.

**10. FCC Consent to the Exercise of Certain Remedies; FCC Application.** Notwithstanding any provision herein to the contrary, Lender may not, in the event of a default or otherwise, exercise any control over the operation of the Stations or take possession of or exercise any rights with respect to the Stations' FCC licenses or other authorizations without first obtaining the prior written consent of the FCC as required by Section 310 of the Communications Act and the rules and regulations of the FCC.

**11. Notices.** All notices or demands by any party hereto shall be in writing and shall be sent as provided in the Note.

**12. Indemnification.** Borrower shall indemnify Lender for any and all claims and liabilities, and for damages which may be awarded or incurred by Lender, and for all reasonable attorney fees, legal expenses, and other out-of-pocket expenses incurred in defending such claims, arising from or related in any manner to the negotiation, execution, or performance by Lender of this Security Agreement, but excluding any such claims based upon breach or default by Lender or gross negligence or willful misconduct of Lender.

Lender shall have the sole and complete control of the defense of any such claims, and is hereby given the authority to settle or otherwise compromise any such claims as Lender in good faith determines shall be in its best interests taking into account any adverse effects any such settlement or compromise may have on Borrower.

**13. General.** This Security Agreement shall be governed by and construed in accordance with the laws of the State of Idaho.

Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction only, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

This Security Agreement, together with the Note and Trust Deed, constitute the entire agreement between Borrower and Lender as to the subject matter hereof and may not be altered or amended except by written agreement signed by Borrower and Lender. All other prior and contemporaneous agreements, arrangements, and understandings between the parties hereto as to the subject matter hereof are, except as otherwise expressly provided herein, rescinded.

**[Signature Page Follows]**

DATED this \_\_\_\_\_ day of \_\_\_\_\_ 2011.

**BORROWER:**

RJ Broadcasting, LLC

By: \_\_\_\_\_  
Richard O. Mecham, Manager

RJ Broadcasting LS, LLC

By: \_\_\_\_\_  
Richard O. Mecham, Manager

**LENDER:**

Pacific Empire Radio Corporation

By: \_\_\_\_\_  
John Taylor, Chief Executive Officer