

LOAN AGREEMENT

1. **Parties.** The parties to this Agreement are as follows:

City of Ramsey, a Minnesota Municipal Corporation, 7550 Sunwood Drive NW, Ramsey, Minnesota 55303, (hereinafter referred to as “Lender”).

Koru Fitness, Inc., a Minnesota Corporation, 16158 Iodine Street NW, Ramsey, Minnesota 55303, (hereinafter referred to as “Borrower”).

Nicole Kutches whose address is 16158 Iodine Street NW, Ramsey, Minnesota 55303, (hereinafter referred to as “Guarantor”).

Gary Nereson whose address is 13415 NW Heather Street, Andover, Minnesota 55304, (hereinafter referred to as “Guarantor”).

2. **Date of Agreement:** The date of this Agreement is November 13, 2012.
3. **Term of this Agreement.** The term of this Agreement shall be from the date of this Agreement set forth above and continue thereafter until all indebtedness has been paid in full.
4. **Purpose of this Agreement.** Borrower has requested credit accommodations from Lender to which Lender has agreed. Lender has granted to Borrower the following credit accommodations, on the conditions set forth herein:

Term Loan of Thirty Four Thousand Five Hundred and 00/100 Dollars (\$34,500.00) to be used as working capital (hereinafter referred to as the “Loan”).
5. **Promissory Note.** In consideration of the receipt of the Loan, Borrower shall repay to the Lender the Loan pursuant to the terms of the Promissory Note of even date (the “Note”), the form of which is attached hereto as Exhibit A and which terms include the following: interest at a rate of 3.25% per annum; Principal and Interest payments of \$337.13 per month beginning January 1, 2013 and continuing on the first day of each month thereafter, until December 31, 2023, on which day the entire remaining principal balance plus accrued interest shall be due and payable in full; the Note may be prepaid in full at any time during the loan term with no prepayment penalty, subject only to the requirement that the Borrower provide Lender with at least 30 days written notice of the intent to prepay the obligation. Partial prepayments will not be allowed.
6. **Secured Collateral.** The Note shall be secured by a Security Interest in all business assets owned by Borrower (the “Collateral”). The Collateral shall be located at 16158 Iodine Street NW, Ramsey, MN.

7. **Personal Guarantee.** The Note shall be personally guaranteed by the principals of the Borrower, Nicole Kutches and Gary Nereson. The form of the said personal guaranties is attached hereto as Exhibit B.
8. **Covenants and Warranties.** Borrower covenants, represents and warrants to the Lender as follows:
 - a. Borrower is a Minnesota corporation in good standing and has the legal authority to undertake the obligations contemplated by this Loan Agreement.
 - b. Borrower will maintain policies of product liability and general liability insurance in such amounts and with such insurers as are reasonably satisfactory to Lender.
 - c. Borrower will locate its business operations and locate the Collateral at 16158 Iodine Street NW, Ramsey, MN 55303, so long as any balance is due and owing to Lender pursuant to the Note.
 - d. All financial statements and other information relating to the financial condition of Borrower which have been furnished to Lender prior to the date hereof are true and accurate as of the date of this Loan Agreement.
 - e. Borrower shall provide to Lender annually during the term of the Note as soon as available, and in any event within thirty (30) days after the deadline for filing, a copy of the Borrower's U.S. Income Tax Returns prepared by an independent certified public accountant acceptable to Lender. The said Tax Returns provided shall be inclusive of all schedules and statements.
 - f. A Breach of any of the covenants declared in this paragraph 6. shall be an Event of Default as defined in the Note.
9. **Costs.** In any proceeding to enforce the terms and conditions of the Note, the Lender shall be entitled to recover its costs and expenses including reasonable attorney fees from Borrower.
10. **Purpose of Loan:** The Loan is made pursuant to the Lender's Revolving Loan Fund (the "RLF"). The RLF is a City of Ramsey program administered by the City's Economic Development Authority ("EDA") and is designed to assist businesses in acquiring financing to expand business operations in the City of Ramsey, Minnesota. The Borrower agrees to utilize the Loan proceeds in furtherance of this purpose.
11. **Conflict of Interest Prohibition:** The Borrower acknowledges that none of its shareholders, directors, officers, or employees are related to Lender by way of being an employee, agent, consultant, officer, or elected or appointed official of Lender.
12. **Data Privacy:** The Borrower agrees that all data collected, created, received, maintained, or disseminated, or used in conjunction with the Loan is governed by the Minnesota Government Data Practices Act, Minnesota Statutes, Chapter 13 (the "Act") or any other applicable Minnesota statutes and any Minnesota administrative rule adopted to

implement the Act, as well as Minnesota statutes and Federal regulations on data privacy. The Borrower agrees to allow Lender to abide by these statutes, rules, and regulations, including any amendments thereto, as deemed necessary by Lender in servicing the Loan.

13. **Accuracy of Information:** Borrower acknowledges and certifies that the financial information provided by it to LENDER is accurate in all respects and fairly represents the financial condition of Borrower's business.
14. **Job Posting.** Borrower agrees to post all new positions it has for employment opportunities with the Anoka County Jobs and Training Center located at 3201 – 89th Avenue NE, Blaine, MN 55434, telephone no. (763) 783-4800, and to keep a written record of all persons interviewed and hired. The written record shall be reasonable available to Lender upon demand. The Borrower also agrees to consult with the Anoka Ramsey Community College and the Anoka County Jobs and Training Center to assist Borrower in developing its ongoing employee selection and training programs.
15. **Default defined.** Default under this Agreement shall consist of any one or more of the following events:
 - a. Failure to pay when due any amount required of Borrower or any Guarantor under this Agreement or under any promissory note, security agreement, or other loan instrument or document executed in connection with this Agreement.
 - b. Failure to perform any act or deed required of Borrower or any Guarantor or failure to refrain from any act prohibited, under this Agreement or under any related instrument or document executed in connection with this Agreement.
 - c. Any warranty, representation, or statement made or furnished to Lender by or on behalf of Borrower or any Guarantor which is false or misleading in any material respect, either now or at the time made or furnished.
 - d. The dissolution or termination of Borrower's existence as a going business, insolvency, appointment of a receiver for any part of Borrower's or any Guarantor'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 by or against any Guarantor.
 - e. Failure to discharge taxes or other liens, other mortgages or charges levied or assessed against the Collateral (other than the liens created under this Agreement by the parties).
 - f. Lender, in good faith, deems itself insecure.
 - g. Any other event defined as an event of default in any separate promissory note, security agreement, mortgage or other instrument or document executed in connection with this Agreement.

- h. Death of any Guarantor to the extent life insurance assigned or pledged to Lender, or other sources of funds or security are unavailable to reasonably substitute for the financial security which the deceased Guarantor had provided to the Lender with his/her Guaranty during his/her life.
 - i. Any attempt by Guarantor to revoke the guaranty or impair its enforceability.
16. **Remedies.** In the event default occurs, Lender may exercise anyone or more of the following rights and remedies.
- a. Declare the entire balance of the Loan referred to in this Agreement or any or all loans governed by this Agreement as immediately due and payable.
 - b. Take possession of the Collateral by self help or judicial action, foreclosure, or other procedures and dispose of the Collateral pursuant to the Uniform Commercial Code and/or other applicable laws of the State Government.
 - c. Commence and prosecute an action to collect the debt from Borrower or any Guarantor, or any or all of them.
 - d. Exercise such additional or alternative remedies as are available to Lender under the terms of this Agreement, under any instrument or document executed in connection with this Agreement, or under applicable law.

Dated: November _____, 2012

Koru Fitness, Inc.

The City of Ramsey

By: _____
Nicole Kutches, President

By: _____
Kurt Ulrich, its City Administrator

EXHIBIT A

TO LOAN AGREEMENT

NOTE

\$34,500.00

Ramsey, Minnesota
December 1, 2012

FOR VALUE RECEIVED, KORU FITNESS, INC. a Minnesota Corporation (“Borrower”), hereby promises to pay to the order of **THE CITY OF RAMSEY**, a Minnesota Municipal Corporation (“Lender”), the principal sum of **Thirty-Four Thousand Five Hundred and 00/100 Dollars (\$34,500.00)** and all other amounts advanced by Lender to or on behalf of Borrower pursuant to the Loan Agreement (as hereinafter defined) and interest thereon from the date hereof until the maturity hereof, at the rate of **three and one quarters percent (3.25%)** per annum, plus interest on any overdue principal, if any. All computations of interest shall be based upon a 365 day year.

Borrower shall pay to Lender monthly principal and interest payments on this Note on the first day of the first calendar month subsequent to the date on which the loan proceeds are received in connection with the closing of the loan and shall continue on the twenty-ninth day of each calendar month thereafter for a period of one hundred twenty (120) months through December 31, 2023 (the “Loan Maturity Date”). All monthly payments shall consist of a combined principal and interest installment of \$337.13 each, provided, however, that the payment due on the Loan Maturity Date shall be in the amount necessary to pay all remaining unpaid principal and unpaid accrued interest due on the Loan.

Borrower shall make all payments hereunder in lawful money of the United States and in same day or immediately available funds. All principal and interest payments shall be paid to Lender at **The City of Ramsey, 7550 Sunwood Drive NW, Ramsey, MN 55303** or at such other location as requested by Lender in writing.

This Note is the Note referred to in the Loan Agreement, dated November 13, 2012 between Borrower and Lender (together with all Exhibits, supplements and amendments thereto, the “Loan Agreement”) which is incorporated herein by reference. Terms used herein have the meanings assigned to those terms in the Loan Agreement, unless otherwise defined herein. Payment of this Note is secured by a Security Agreement and the Guaranties as defined in the Loan Agreement and hereafter collectively referred to as the “Loan Documents.”

Should the indebtedness represented by this Note or any part hereof be collected at law or in equity or in bankruptcy, receivership or other court proceedings, or should this Note be placed in the hands of attorneys for collection after default, the Borrower agrees to pay, in addition to the principal, if any, interest due and payable hereon and any other sums due and payable hereon, all costs of collecting or attempting to collect this note, including reasonable attorneys’ fees and expenses (including those incurred in connection with any appeal).

Borrower and all endorsers and guarantors of this Note hereby waive presentment, demand, notice, protest, stay of execution, and all other defenses to payment generally, assent to the terms hereof, and agree that any renewal, extension, or postponement of the time for payment or any other indulgence or any substitution, exchange, or release of collateral or the additional release of any person or entity primarily or secondarily liable, may be affected without notice to and without releasing Borrower, any endorser or any guarantor from any liability hereunder or under any related guaranty.

Neither this Note, the Loan Agreement nor any other loan document shall require the payment or permit the collection of interest or any late payment charge in excess of the maximum rate permitted by law. If herein or in the Loan Agreement or any other Loan Document any excess of interest or late payment charge in such respect is provided for or shall be adjudicated to be so provided for, neither the Borrower, nor its successors or assigns shall be obligated to pay such interest or late payment charge in excess of the maximum amount permitted by law, and the right to demand the payment of any such excess shall be and hereby is waived, and this provision shall control any other provision of this note or the Loan Agreement or any other Loan Documents.

This Note, the Loan Agreement and the other loan documents are not subject to any valid right of rescission, set-off, abatement, diminution, counterclaim or defense as against Lender, including the defense of usury, and, the operation of any of the terms of the loan, or the exercise of any right thereunder, will not render the Loan unenforceable, in whole or in part, or subject to any right of rescission, set-off, abatement, diminution, counterclaim or defense, including the defense of usury, and Lender has not taken any action which would give rise to the assertion of any of the foregoing and no such right of rescission, set-off, abatement, diminution, counterclaim or defense, including the defense of usury, has been asserted with respect thereto.

This Note is subject to the following additional terms and conditions:

1. Events of Default. The occurrence or existence of any one or more of the following shall constitute an “event of default” hereunder.
 - a. Monetary. Borrower’s failure to pay within five (5) calendar days after the due date thereof any principal, interest, or other payment required under the terms of this Note or the Loan Agreement; or Borrower shall fail to pay, when due (but subject to any applicable grace period) any other Indebtedness of Borrower to Lender or any third parties.
 - b. Performance of Obligations. (i) Borrower’s failure to perform or observe any term, covenant, condition or obligation contained in the Loan Agreement or in the other Loan Documents within ten (10) Business Days after receipt of written notice from Lender or such longer cure period as may be provided in the Loan Documents; provided, however, if such default cannot be cured within such period, Borrower shall have such longer period of time to cure such default provided, in Lender’s sole reasonable discretion, Borrower is proceeding with due diligence, but in no

event shall such period of time exceed thirty (30) Business Days; or (ii) Borrower's failure to perform or observe any term, covenant, condition or obligation owed to Lender contained in any loan agreement, credit agreement or other agreement, document or instrument (other than this Note and the other Loan Documents), subject to applicable grace periods;

- c. Representations and Warranties. Any representation, warranty, certificate, or other statement (financial or otherwise) made or furnished by or on behalf of Borrower or a guarantor, if any, to Lender in or in connection with the Loan or any of the Loan Documents, or as an inducement to Lender to make the Loan, shall be false, incorrect incomplete or misleading in any material respect when made or furnished.
- d. Liens, Attachment; Condemnation. (i) The sequestration or attachment of, or any levy or execution upon the assets of Borrower, which sequestration, attachment, levy or execution is not released, expunged or dismissed within thirty (30) days and before the sale of the assets affected thereby;
- e. Death; Withdrawal. The death, retirement, incapacity, withdrawal or dissolution, as applicable, of Nicole Kutches, principal of Borrower and guarantor;
- f. Transfer of Property or Interest in Borrower. Borrower shall not, without the prior written consent of Lender, sell, transfer, mortgage, pledge, hypothecate, assign, encumber or otherwise dispose of, whether voluntarily, involuntarily or by operation of law, all or any part of its business assets (except for equipment and inventory in the ordinary course of its business), or sell, transfer, mortgage, pledge, hypothecate, assign, encumber or otherwise dispose of, whether voluntarily, involuntarily or by operation of law any interest (whether general or limited partnership interest, limited liability company interest, stock or otherwise) in Borrower;
- g. Adverse Financial Condition. Any change in the financial condition of Borrower, or, guarantor, or any other person or entity from the condition shown on the financial statement(s) submitted to Lender and relied upon by Lender in making the Loan which change has a Material Adverse Effect;
- h. Termination or Revocation of Guaranty. Any guarantor shall terminate or revoke or attempt or purport to terminate or revoke its guaranty of Borrower's obligations to Lender;
- i. Voluntary Bankruptcy; Insolvency; Dissolution. (i) The filing of a petition by Borrower for relief under the Bankruptcy Reform Act of 1978 (11 USC §101-1330), or under any other present or future federal or state law regarding bankruptcy, reorganization or other debtor relief (the "Bankruptcy Code"); (ii) the filing of any pleading or an answer by Borrower in any involuntary proceeding under the Bankruptcy Code or

other debtor relief law which admits the jurisdiction of the court or the petition's material allegations regarding Borrower's insolvency; (iii) a general assignment by Borrower for the benefit of creditors; (iv) Borrower applying for, or the reappointment of, a receiver, trustee, custodian or liquidator of Borrower or any of its property; or (v) the filing by or against Borrower of a petition seeking the liquidation or dissolution of Borrower or the commencement of any other procedure to liquidate or dissolve Borrower and or any guarantor;

- j. Involuntary Bankruptcy. The failure of Borrower to effect a full dismissal of any involuntary petition under the Bankruptcy Code or any other debtor relief law that is filed against Borrower or in any way restrains or limits Borrower or Lender regarding the Loan, the Improvements or the Assets, prior to the earlier of the entry of any court order granting relief sought in such involuntary petition, or thirty (30) days after the date of filing of such involuntary petition; or
- k. Remedies. Upon the occurrence or existence of any Event of Default (other than an Event of Default referred to in (i) or (j), and at any time thereafter during the continuance of such Event of Default, Lender may, by written notice to Borrower, declare all outstanding obligations payable by Borrower hereunder, as well as all other obligations owed by Borrower to Lender under any other loan or credit agreement, to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the note to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in (i) or (j), immediately and without notice, all outstanding Obligations payable by Borrower hereunder, as well as all other obligations owed by Borrower to Lender under any other loan or credit agreement, shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Note to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Lender may exercise any other right, power or remedy granted to it by the Loan Documents or otherwise permitted to it by law, either by suit in equity or by action at law, or both.

Borrower shall pay fees and expenses of Lender as provided in the Loan Agreement. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota without reference to conflicts of law rules.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note as of the date and year first above written.

KORU FITNESS, INC
a Minnesota corporation

By: _____
Nicole Kutches, President

**EXHIBIT B
TO LOAN AGREEMENT
UNCONDITIONAL GUARANTEE**

| | |
|--------------------|--|
| Lender Loan Number | Tba |
| Loan Name | Koru Fitness, Inc. |
| Guarantors | Nicole Kutches Gary Nereson |
| Borrower | Koru Fitness, Inc., a Minnesota Corporation |
| Lender | The City of Ramsey, a Minnesota Municipal Corporation |
| Date | November 13, 2012 |
| Note Amount | \$34,500.00 |

1. GUARANTEE:

Guarantors unconditionally guarantee payment to Lender of all amounts owing under the Note/Loan Agreement. This guarantee shall be in effect until the Note is paid in full. Guarantors must pay all amounts due under the Note when Lender makes written demand upon Guarantors. Lender is not required to seek payment from any other source before demanding payment from Guarantors.

2. NOTE:

The "Note" is the promissory note dated December 1, 2012 in the principal amount of \$34,500.00 and no/100 Dollars, from Borrower to Lender. It includes any assumptions, renewal, substitution, or replacement of the Note, and multiple notes under a line of credit.

3. DEFINITIONS:

"Collateral" means any property taken as security for payment of the Note or any guarantee of the Note.

"Loan" means the loan evidenced by the Note.

"Loan Documents" and "Loan Agreement" means the documents related to the Loan signed by the Borrower, Guarantors or anyone who pledges collateral.

4. LENDER'S GENERAL POWERS:

Lender may take any of the following actions at any time, without notice, without Guarantor's consent, and without making demand upon Guarantor:

- A. Modify the terms of the Note or any other Loan Document except to increase the amounts due under the Note;
- B. Refrain from taking any action on the Note, the Collateral, or any guarantee;
- C. Release any Borrower or any guarantor of the Note;
- D. Compromise or settle with the Borrower or any guarantor of the Note;
- E. Substitute or release any of the Collateral, whether or not Lender receives anything in return;
- F. Foreclose upon or otherwise obtain, and dispose of, any Collateral at public or private sale, with or without advertisement;
- G. Bid or buy at any sale of Collateral by Lender or any other lienholder, at any price Lender chooses; and
- H. Exercise any rights it has, including those in the Note and other Loan Documents.

These actions will not release or reduce the obligations of Guarantor or create any rights or claims against Lender.

5. GOVERNING LAW

This guaranty shall be governed by the laws of the State of Minnesota.

6. RIGHTS, NOTICES, AND DEFENSES THAT GUARANTOR WAIVES:

To the extent permitted by law,

A. Guarantor waives all rights to:

- 1) Require presentment, protest, or demand upon Borrower;
- 2) Redeem any Collateral before or after Lender disposes of it;
- 3) Have any disposition of Collateral advertised; and
- 4) Require a valuation of Collateral before or after Lender disposes of it.

B. Guarantor waives any notice of:

- 1) Any default under the Note;
- 2) Presentment, dishonor, protest, or demand;
- 3) Execution of the Note;
- 4) Any action or inaction on the Note or Collateral, such as disbursements, payment, nonpayment, acceleration, intent to accelerate, assignment, collection activity, and incurring enforcement expenses;
- 5) Any change in the financial condition or business operations of Borrower or any guarantor;
- 6) Any changes in the terms of the Note or other Loan Documents, except increases in the amounts due under the Note; and
- 7) The time or place of any sale or other disposition of Collateral.

C. Guarantor waives defenses based upon any claim that:

- 1) Lender failed to obtain any guarantee;
- 2) Lender failed to obtain, perfect, or maintain a security interest in any property offered or taken as Collateral;
- 3) Lender or others improperly valued or inspected the Collateral;
- 4) The Collateral changed in value, or was neglected, lost, destroyed, or underinsured;

- 5) Lender impaired the Collateral;
- 6) Lender did not dispose of any of the Collateral;
- 7) Lender did not conduct a commercially reasonable sale;
- 8) Lender did not obtain the fair market value of the Collateral;
- 9) Lender did not make or perfect a claim upon the death or disability of Borrower or any guarantor of the Note;
- 10) The financial condition of Borrower or any guarantor was overstated or has adversely changed;
- 11) Lender made errors or omissions in Loan Documents or administration of the Loan;
- 12) Lender did not seek payment from the Borrower, any other guarantors, or any Collateral before demanding payment from Guarantor;
- 13) Lender impaired Guarantor's suretyship rights;
- 14) Lender modified the Note terms, other than to increase amounts due under the Note. If Lender modifies the Note to increase the amounts due under the Note without Guarantor's consent, Guarantor will not be liable for the increased amounts and related interest and expenses, but remains liable for all other amounts;
- 15) Borrower has avoided liability on the Note; or
- 16) Lender has taken an action allowed under the Note, this Guarantee, or other Loan Documents.

7. DUTIES AS TO COLLATERAL:

Guarantor will preserve the Collateral pledged by Guarantor to secure this Guarantee. Lender has no duty to preserve or dispose of any Collateral.

8. SUCCESSORS AND ASSIGNS:

Under this Guarantee, Guarantor includes heirs and successors, and Lender includes successors and assigns.

9. GENERAL PROVISIONS:

- A. ENFORCEMENT EXPENSES. Guarantor promises to pay all expenses Lender incurs to enforce this Guarantee, including, but not limited to, attorney's fees and costs.
- B. SUBROGATION RIGHTS. Guarantor has no subrogation rights as to the Note or the Collateral until the Note is paid in full.
- C. JOINT AND SEVERAL LIABILITY. All individuals and entities signing as Guarantor are jointly and severally liable.
- D. DOCUMENT SIGNING. Guarantor must sign all documents necessary at any time to comply with the Documents and to enable Lender to acquire, perfect, or maintain Lender's liens on Collateral.
- E. FINANCIAL STATEMENTS. Guarantor must give Lender financial statements as Lender requires.
- F. LENDER'S RIGHTS CUMULATIVE, NOT WAIVED. Lender may exercise any of its rights separately or together, as many times as it chooses. Lender may delay or forgo enforcing any of its rights without losing or impairing any of them.
- G. ORAL STATEMENTS NOT BINDING. Guarantor may not use an oral statement to contradict or alter written terms of the Note or this Guarantee, or to raise a defense to this Guarantee.
- H. SEVERABILITY. If any part of this Guarantee is found to be unenforceable, all other parts will remain in
- I. CONSIDERATION. The consideration for this Guarantee is the Loan or any accommodation by Lender as to the Loan.

10. GUARANTOR ACKNOWLEDGMENT OF TERMS.

Guarantor acknowledges that Guarantor has read and understands the significance of all terms of the Note and this Guarantee, including all waivers.

11. GUARANTOR NAME(S) AND SIGNATURE(S):

By signing below, the individual or entity becomes obligated as Guarantor under this Guarantee.

Nicole Kutches, Individually

Gary Nereson, Individually