

AFTER RECORDING RETURN TO
PRESTON GATES & ELLIS LLP
5000 Columbia Center
701 Fifth Avenue
Seattle, WA 98104-7078
Attention: Diane R. Stokke, Esq.
P-84267
LAND TITLE COMPANY OF SKAGIT COUNTY

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SKAGIT KATHY HILL

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RECORDED _____ FILED _____
REQUEST OF _____

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DEED OF TRUST, SECURITY AGREEMENT,
ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING

GRANTOR:

WATSON PROPERTIES, A LIMITED
PARTNERSHIP

GRANTEES:

- (1) U.S. BANK NATIONAL ASSOCIATION
(Beneficiary)
- (2) WASHINGTON ADMINISTRATIVE
SERVICES, INC. (Trustee)

Legal Description:

Abbreviated legal: Parcel A: Lts 28 and 29, "Heritage Square"
Parcel B: Lt 2, "Mira Vista"
Additional legal on Exhibit A

Assessor's Tax Parcel ID No(s):

- (1) 4400-000-028-006
Property I.D. No.: R81470
- (2) 4400-000-029-0005
Property I.D. No.: R81471
- (3) 4479-000-002-0002
Property I.D. No.: R83258

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Exhibit A Legal Description

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**DEED OF TRUST, SECURITY AGREEMENT,
ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING**

THIS DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING ("Deed of Trust") is made as of the 9th day of March, 1998, by WATSON PROPERTIES, A LIMITED PARTNERSHIP, a Washington limited partnership as grantor and debtor ("Grantor"), whose address is 1810 E. Division, Mount Vernon, Washington 98274, Attention: Edward J. Watson III, to WASHINGTON ADMINISTRATIVE SERVICES, INC., as trustee ("Trustee"), whose address is 5000 Columbia Center, 701 Fifth Avenue, Seattle, Washington 98104, for the benefit of U.S. BANK NATIONAL ASSOCIATION, a national banking association, ("Bank" or "Beneficiary"), whose address is Northwest Washington Corporate Banking, 1420 Fifth Avenue, 11th Floor, Post Office Box 720 (98111-0720), Seattle, Washington 98101.

WITNESSETH

**GRANTOR HEREBY IRREVOCABLY GRANTS, BARGAINS, SELLS,
CONVEYS, TRANSFERS AND ASSIGNS:**

A. To Trustee, in trust, with power of sale and right of entry and possession, all of its present and future estate, right, title and interest in and to that certain real property located in the County of Skagit, State of Washington, as more particularly described in Exhibit A attached hereto and made a part hereof, including all easements and rights used in connection therewith or as a means of access thereto, together with all right, title and interest that Grantor now has or may hereafter acquire in:

1. All income, rents, royalties, revenue, issues, profits and proceeds from any and all of such real property, subject, however, to the right, power and authority hereinafter conferred upon Beneficiary or reserved to Grantor to collect and apply such income, rents, royalties, revenue, issues, profits and proceeds.

2. All deposits or other security or advance payments, including rental payments, made by or on behalf of Grantor to others with respect to (i) utility service for all or any part of said property or any improvements thereon, (ii) insurance policies relating to said property or any improvements thereon, and all claims or demands relating to insurance, (iii) cleaning, maintenance, repair or similar services for said property or any part thereof or any improvements thereon, and (iv) rental of equipment used in the operation of any part of said property or any improvements thereon.

3. All fixtures now or hereafter affixed to such real property, including all buildings, structures and improvements of every kind and description now or hereafter

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erected or placed thereon, and any and all machinery, motors, elevators, boilers, equipment (including, without limitation, all equipment for the generation or distribution of air, water, heat, electricity, light, fuel or refrigeration or for ventilating or air-conditioning purposes or for sanitary or drainage purposes or for the removal of dust, refuse or garbage), partitions, appliances, furniture, furnishings, building service equipment, building materials, supplies, kitchen equipment, dishwashers, microwave ovens, ranges, refrigerators, cabinets, washers, dryers and other laundry room equipment, radios, televisions, television and radio antenna systems, including satellite dish antennas, electronic audio/visual equipment, computers, software, awnings, window shades, venetian blinds, drapes and drapery rods and brackets, screens, carpeting and other floor coverings, lobby furnishings, games, athletic and recreational equipment, swimming pool equipment, sprinklers and sprinkler equipment, any and all trees, plants, shrubs and other landscaping, trash compactors, garbage dumpsters, incinerators and other property of every kind and description now or hereafter placed, attached, affixed or installed in such buildings, structures or improvements (but excluding personal property owned by tenants of such real property), and all replacements, repairs, additions, accessions or substitutions or proceeds thereto or therefor; all of such fixtures, whether now or hereafter placed thereon, being hereby declared to be real property and referred to hereinafter as the "Improvements."

4. All damages, royalties and revenue of every kind, nature and description whatsoever that Grantor may be entitled to receive from any person or entity owning or having or hereafter acquiring a right to the oil, gas or mineral rights and reservations of such real property, with the right in Beneficiary to receive and receipt therefor and apply the same to the indebtedness secured hereby either before or after any default hereunder, and Beneficiary may demand, sue for and recover any such payments but shall not be required so to do.

5. All proceeds and claims arising on account of any damage to or taking of any part thereof, and all causes of action and recoveries for any loss or diminution in the value of such real property or the Improvements.

6. All licenses (including but not limited to any operating licenses or similar matters) contracts, management contracts or agreements, franchise agreements, permits, authorizations or certificates required or used in connection with the ownership of, or the operation or maintenance of, the Improvements.

7. All governmental permits relating to construction, all names under or by which the Improvements or other real property may at any time be operated or known, and all rights to carry on business under any such names or any variant thereof.

8. All of Grantor's rights further to encumber said property for debt.

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All of the property conveyed or intended to be conveyed to Trustee in Paragraph A. above is hereinafter referred to as the "Real Property."

B. To Beneficiary, as secured party, a security interest in any portion of the Real Property owned by Grantor which may be construed to be personal property and in all other personal property of every kind and description, whether now existing or hereafter acquired and owned by Grantor, now or at any time hereafter attached to, erected upon, situated in or upon, forming a part of or appurtenant to and which is used or useful in the construction or operation of or in connection with, or arising from the use or enjoyment of all or any portion of, or from any lease or agreement pertaining to, the Real Property, including:

1. All water rights appurtenant to the Real Property, all water permits and applications together with all pumping and distribution equipment, plants, pipes and flumes, all shares of stock or other evidence of ownership of any part of the Real Property that is owned by Grantor in common with others, and all documents of membership in any owners' or members' association or similar group having responsibility for managing or operating any part of the Real Property.

2. All plans and specifications prepared for construction of the Improvements and all studies, data and drawings related thereto, and also all contracts and agreements of Grantor relating to the aforesaid plans and specifications or to the aforesaid studies, data and drawings, or to the construction of Improvements.

3. All furniture, furnishings, equipment, machinery, fixtures, inventory, household appliances, goods, accounts, investment property, as defined in the Washington Uniform Commercial Code, general intangibles, documents, instruments and chattel paper, and all other personal property of every kind and description.

4. All records and data related to any property herein described, whether in the form of a writing, photographs, 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 or electronic media.

5. All substitutions, accessions, additions and replacements to any of the foregoing.

6. All proceeds of any of the foregoing property, including, without limitation, proceeds of any voluntary or involuntary disposition or claim respecting any such property (pursuant to judgment, condemnation award or otherwise) and all goods, documents, general intangibles, chattel paper and accounts, wherever located, acquired with cash proceeds of any of the foregoing or proceeds thereof.

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All of the property assigned or transferred or intended to be assigned or transferred to Beneficiary in Paragraph B. above is hereinafter referred to as the "Personal Property."

All of the Real Property and the Personal Property is referred to herein collectively as the "Property."

TO HAVE AND TO HOLD said Property bargained and described, together with all and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all of the estate, right, title, claim and demands whatsoever of Grantor, either in law or in equity, of, in and to the above-bargained Property forever, as security for the faithful performance of the obligations under the Note secured hereby and as security for the faithful performance of each and all of the covenants, agreements, terms and conditions of this Deed of Trust,

FOR THE PURPOSE OF SECURING:

ONE: Payment of the indebtedness evidenced by that certain Promissory Note of even date herewith, and any renewals, extensions or modifications thereof in the original principal amount of Twelve Million Two Hundred Fifty Thousand and No/100 Dollars (\$12,250,000) executed by Grantor and delivered to Beneficiary (the "Note") together with the interest thereon, fees and late charges as provided by the Note, which is made a part hereof by reference.

TWO: Payment of such further sums as Grantor or any successor in ownership hereafter may borrow from Beneficiary when evidenced by another note or notes reciting it is secured by this Deed of Trust, payable to Beneficiary or order and made by Grantor or any successor in ownership together with all extensions, renewals, modifications, amendments and replacements thereto.

THREE: Payment of all other moneys herein or in the Note agreed or provided to be paid by Grantor and such further sums as may be advanced or loaned by Beneficiary to Grantor pursuant to the terms hereof.

FOUR: Performance of each agreement of Grantor herein contained or contained in any other agreement given by Grantor to Beneficiary, including, without limitation, that certain Loan Agreement of even date herewith (the "Loan Agreement") given by Grantor to Beneficiary and that certain Assignment of Leases executed by Grantor as Assignor in favor of Beneficiary as Assignee of even date herewith for the purpose of further securing any indebtedness; or

FIVE: Payment and performance of each agreement now or hereafter entered into by Grantor in connection with any interest rate swap or other contract entered into by Grantor in connection with the Note which is intended to limit Grantor's interest rate risk under the Note.

GRANTOR REPRESENTS, ALLEGES, WARRANTS, COVENANTS AND AGREES AS FOLLOWS:

ARTICLE I
COVENANTS

1.01. Performance of Note and Deed of Trust.

Grantor will pay the principal, interest, fees and other charges of every nature payable under the Note, according to its terms, and will perform and comply with each and every term, covenant and condition hereof, and of the Note and the Loan Agreement.

1.02. Warranty of Title.

Grantor represents and warrants that at the time of the delivery of this Deed of Trust, (i) Grantor is lawfully possessed and is the owner in fee simple of the Property; (ii) the Property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto prior to this Deed of Trust, and none will be created by Grantor during the term of this Deed of Trust except upon such terms and conditions as may be satisfactory to Beneficiary; (iii) Grantor has good right to make this Deed of Trust; (iv) Grantor has good and absolute title to all existing Personal Property, and has good right, full power and lawful authority to convey and encumber the same in the manner and form conveyed and encumbered hereby; that the same is free and clear of all liens, charges, and encumbrances whatsoever, including, as to the Personal Property and fixtures, security agreements, conditional sales contracts and anything of a similar nature and none superior to this Deed of Trust will be created or suffered to be created by Grantor; (v) there is no financing statement covering the Property, or any part thereof, on file in any public office; and (vi) Grantor will warrant and forever defend the title to the Property against the claims of all person whomsoever.

1.03. Tax Deposits.

Upon demand by Beneficiary, Grantor will pay to Beneficiary on the first day of each month, an amount for real and personal property taxes, assessments and other governmental or public charges affecting the Property, insurance premiums and other similar charges (including any amounts which may become payable by Grantor pursuant to Paragraph 1.05 hereof) as reasonably estimated by Beneficiary to be sufficient to allow the payment at least thirty (30) days before they become due, of all taxes, assessments,

insurance premiums and other similar charges against the Property. The arrangement provided for in this Paragraph 1.03 is solely for the added protection of Beneficiary and entails no responsibility on Beneficiary's part beyond the allowing of due credit, without payment of interest or income to Grantor, unless specifically required by law, for the sums actually received by it. Those sums received, but not immediately required for payment of the items set forth above, may be invested or otherwise used by Beneficiary without payment to or on behalf of Grantor until such time as payment of the items set forth above is required. Upon demand of Beneficiary, Grantor shall promptly deliver to Beneficiary such additional sums as are necessary to make up any deficiency in the amount necessary to pay such taxes, assessments, insurance premiums and other similar charges in a timely manner together with all interest on all such sums so expended by Beneficiary from date of expenditure at a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full. Upon assignment of this Deed of Trust by Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of the assignor with respect thereto shall terminate. Each transfer of the Real Property shall automatically transfer to the grantee all rights of the grantor with respect to any funds accumulated hereunder.

Beneficiary agrees that such payments need not include real and personal property taxes, assessments and other governmental or public charges affecting the Property or insurance premiums as provided in this paragraph 1.03 unless and until an Event of Default occurs under this Deed of Trust (whether or not such default is subsequently cured). If an Event of Default occurs under this Deed of Trust, Bank may apply all sums held by Bank under this Paragraph 1.03 to cure such defaults.

1.04. Taxes, Liens and Other Charges.

Grantor will pay when due:

(a) All taxes, assessments and other governmental or public charges affecting the Property, including assessments on appurtenant water stock, and any accrued interest, cost and/or penalty thereon and upon request by Beneficiary will submit receipts therefor to Beneficiary promptly following payment;

(b) All encumbrances (including any debt secured by deeds of trust), ground rents, liens and/or charges, with interest, on the Property or any part thereof which appear to be prior, superior or on a parity hereto, and all costs and fees related thereto;

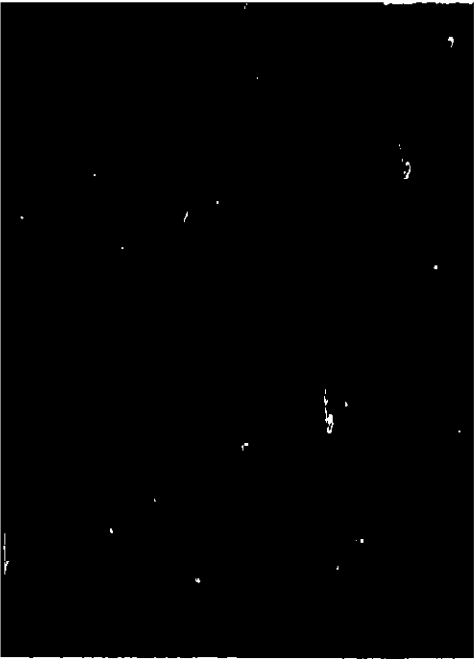
(c) All charges for utilities or services, including, but not limited to, electricity, gas, sewer and water;

(d) All costs, fees and expenses of this Deed of Trust, including cost of evidence of title, Trustee's fees and attorneys' fees in connection with sale pursuant to

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Paragraph 2.01 (whether completed or not) together with interest from and after ten (10) days following demand for repayment at a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full, and

(e) Grantor may, in good faith, contest, by proper legal proceedings, and at its own expense, the validity or amount of any such tax, assessment or governmental charge, provided that Grantor shall deposit with Beneficiary a sum which shall be at least ten percent (10%) greater than the amount so contested, (unless the contested amount has been paid in full or is not yet due) and also, from time to time, on demand of Beneficiary, such additional sums as may be reasonably required to cover interest or penalties accrued or to accrue on any such item or items, and Beneficiary may upon reasonable notice to Grantor pay such contested item or items out of any sums so deposited in case of undue delay in the prosecution of such proceedings, or if the protection of the Property or of Beneficiary's interest therein shall, in the reasonable judgment of Beneficiary, require such payment. On default under this Paragraph 1.04(e) Beneficiary may, at its option, pay, or pay out of reserves accumulated under Paragraph 1.03, any such sums, without waiver of any other right of Beneficiary by reason of such default of Grantor, and Beneficiary shall not be liable to Grantor for a failure to exercise any such option.

Grantor's obligations under subparagraph (a) above shall be deemed satisfied if Grantor has promptly and properly paid all of such amounts to Beneficiary pursuant to, and otherwise in compliance with, Paragraph 1.03 hereof.

1.05. Further Taxes.

In the event of the passage, after the date of this Deed of Trust, of any law deducting from the value of the Property for the purposes of taxation any lien thereon, or changing in any way the laws now in force for the taxation of deeds of trust or debts secured by deeds of trust, except for the imposition of any tax upon the gross or net income from such debts, or the manner of the collection of any such taxes, so as to adversely affect the Beneficiary's interest in this Deed of Trust, or imposing payment of the whole or any portion of any taxes, assessments or other similar charges against the Property upon Beneficiary, the indebtedness secured hereby shall immediately become due and payable at the option of Beneficiary; provided, however, that such election by Beneficiary shall be ineffective if such law either (a) shall not impose a tax upon Beneficiary nor increase any tax now payable by Beneficiary, or (b) shall impose a tax upon Beneficiary or increase any tax now payable by Beneficiary and prior to the due date of such tax: (i) Grantor is permitted by law and can become legally obligated to pay such tax or the increased portion thereof (in addition to all interest, and other charges payable hereunder and under the Note) without exceeding the limits imposed by applicable interest rate laws; (ii) Grantor does pay such tax or increased portion; and (iii) Grantor agrees with Beneficiary in writing to pay, or reimburse Beneficiary for the payment of, any such tax or increased portion thereof when

thereafter levied or assessed against the Property or any portion thereof. The obligations of Grantor under such agreement shall be secured hereby.

1.06. Insurance.

(a) Grantor will at all times provide, maintain and keep in force or cause to be provided, maintained or kept in force:

(i) Builder's risk insurance insuring against loss or damage from such causes of loss as are embraced by insurance policies of the type now known as "Builder's Risk" property insurance (written on an "all risk" or "open perils" basis), including, without limitation, fire and extended coverage, collapse of the improvements and earthquake coverage to agreed limits, all in form and substance acceptable to Beneficiary and (i) as to property then subject to Restoration (as defined in Section 1.07(b)) or any restoration accomplished in connection with a Condemnation, in an amount not less than the full replacement cost of such property, and (ii) as to any improvements then being constructed, in an amount not less than the completed value on a non reporting form, of the additional improvements then being constructed; provided, however, that such insurance shall be required only during any period of Restoration or any restoration accomplished in connection with a Condemnation, or any period of construction of any improvements;

(ii) Policies of insurance insuring the Property against loss or damage by fire and lightning; against loss or damage by other risks embraced by coverage of the type now known as the broad form of extended coverage, including, but not limited to, riot and civil commotion, vandalism and malicious mischief; and against such other risks or hazards as Beneficiary from time to time reasonably may designate in an amount sufficient to prevent Beneficiary or Grantor from becoming a co-insurer under the terms of the applicable policies, but in any event in an amount not less than 100% of the then full replacement cost of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) and Personal Property without deduction for physical depreciation;

(iii) Policies of insurance insuring the Property against the loss of "rental value" of any building which constitutes a part of the Improvements on a "rented or vacant basis" arising out of the perils insured against pursuant to subparagraph (a) above in an amount equal to twelve months' gross "rental value" of the Improvements with co-insurance in such percentage as may be acceptable to Beneficiary. "Rental value" as used herein is defined as the sum of (a) the total anticipated gross rental income from tenant occupancy of such buildings, and (b) the amount of all charges which are the legal obligation of tenants and which would otherwise be the obligation of the Grantor, and (c) the fair rental value of any portion of such buildings which are occupied by Grantor. The proceeds of such insurance shall be assigned to Beneficiary, to be applied in payment of the indebtedness evidenced by the Note secured by this Deed of Trust to each installment as

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they come due, insurance premiums, taxes, assessments and private impositions until such time as the buildings shall have been restored and placed in full operation, at which time, provided Grantor is not then in default under this Deed of Trust, the balance of such insurance proceeds, if any, held by Beneficiary shall be returned to Grantor;

(iv) Flood insurance upon the Property in the event that such insurance is available pursuant to the provisions of the Flood Disaster Protection Act of 1973 or other applicable legislation (Beneficiary reserves the right to require that Grantor secure flood insurance in excess of the amount provided by the Flood Disaster Protection Act of 1973 if such insurance is commercially available at a reasonable premium up to the amount provided in Paragraph 1.06(a)(i) hereof);

(v) Boiler and pressure vessel insurance, including air tanks, pressure piping and major air conditioning equipment, provided any building which constitutes a part of the Property contains equipment of the nature ordinarily covered by such insurance, in such an amount as Beneficiary may reasonably require;

(vi) Commercial general liability insurance (full form personal injury and broad form property damage) against claims for personal injury (including, without limitation, bodily injury or death) and property damage liability with a coverage limit acceptable to Beneficiary. Such insurance coverage shall be issued and maintained on an "occurrence" basis. Beneficiary shall be named as an additional insured thereunder, and Beneficiary shall have the right from time to time to require the coverage limits, thereunder to be increased upon not less than thirty (30) days prior notice to Grantor;

(vii) In the event Grantor or any partner of Grantor obtains an environmental property liability insurance policy, Beneficiary shall be named as an additional insured thereunder;

(viii) Such other insurance, and in such amounts, as may from time to time be reasonably required by Beneficiary against the same or other insurable hazards which at the time are commonly insured against in the case of premises similarly situated, due regard being given to the height and type of buildings thereon and their construction, use and occupancy.

(b) All policies of insurance required under this Paragraph 1.06 shall be issued by companies approved by Beneficiary, shall be subject to the approval of Beneficiary as to amount, content, form and expiration date, shall contain a Noncontributory Standard Mortgagee Clause and the Lender's Loss Payable Endorsement (Form 438 BFU NS), or their equivalents, in favor of Beneficiary, and shall provide that the proceeds thereof shall be payable to Beneficiary. Beneficiary shall be furnished with the original of each policy or certificates thereof required to be provided by Grantor hereunder, which policy shall provide that it shall not be modified or cancelled without thirty (30) days'

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written notice to Beneficiary. At least thirty (30) days prior to expiration of any policy required to be provided by Grantor hereunder, Grantor shall furnish Beneficiary appropriate proof of issuance of a policy continuing in force the insurance so expiring. Grantor shall furnish Beneficiary receipts for the payment of premiums on such insurance policies or other evidence of such payment reasonably satisfactory to Beneficiary in the event that such premiums have not been paid to Beneficiary pursuant to Paragraph 1.03 hereof. In the event that Grantor does not deposit with Beneficiary a new policy of insurance with evidence of payment of premium thereon at least thirty (30) days prior to the expiration of any expiring policy, then Beneficiary may, but shall not be obligated to, procure such insurance and pay the premiums therefor and Grantor agrees to repay to Beneficiary the premiums thereon promptly on demand, together with interest thereon at a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full.

(c) In the event of any loss or damage to the Property, all proceeds of insurance (the "Insurance Proceeds") shall be payable to Beneficiary, and Grantor hereby authorizes and directs any affected insurance company to make payment of the Insurance Proceeds directly to Beneficiary. The application or release by Beneficiary of any Insurance Proceeds shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

(d) In the event of the foreclosure of this Deed of Trust or other transfer of the title to the Property in extinguishment, in whole or in part, of the indebtedness secured hereby, all right, title and interest of Grantor in and to any insurance policy, or premiums or payments in satisfaction of claims or any other rights thereunder then in force, shall pass to the purchaser or grantee notwithstanding the amount of any bid at such foreclosure sale. Nothing contained herein shall prevent accrual of interest as provided in the Note or the Loan Agreement on any portion of the principal balance due under the Note or the Loan Agreement until such time as the Insurance Proceeds are actually received and applied to reduce the principal balance outstanding.

1.07. Restoration.

(a) After the happening of any casualty to the Property whether or not required to be insured against under the policies to be provided by Grantor hereunder, Grantor shall give prompt written notice thereof to Beneficiary generally describing the nature and cause of such casualty and the extent of the damage or destruction to the Property.

(b) Grantor hereby assigns to Beneficiary all Insurance Proceeds which Grantor may be entitled to receive. In the event of any damage to or destruction of the Improvements, then, provided there is not an Event of Default under the Note, the Deed of Trust, or any of the Loan Documents (as defined in the Note) and Beneficiary has

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determined that its security has not been impaired, Grantor shall commence and diligently pursue to completion in accordance with this Section 1.07 the repair, restoration and rebuilding of any portion of the Property that has been partially damaged or destroyed in full compliance with all legal requirements and to the same condition, character and at least equal value and general utility as nearly as possible to that existing prior to such damage or destruction (the "Restoration"), and Beneficiary shall hold and disburse the Insurance Proceeds (less the cost, if any, to Beneficiary of recovering and paying out such proceeds (including, without limitation, attorneys' fees and expenses, adjuster's fees, and fees incurred in Beneficiary's performance of its obligations hereunder)) (the "Net Insurance Proceeds") in the manner hereinafter provided (except as set forth in Paragraph 1.06(a)(iii)), to the Restoration. In the event that the Property is substantially destroyed or Beneficiary has determined that its security has been impaired, the Beneficiary may, at its option, apply the Net Insurance Proceeds to the reduction of the indebtedness evidenced by the Note and secured by this Deed of Trust in such order as Beneficiary may determine and, at Beneficiary's option and in its sole discretion, Beneficiary, may declare the entire indebtedness secured hereby immediately due and payable.

(c) In the event the Net Insurance Proceeds are to be used for the Restoration, Grantor shall, prior to disbursement of any Net Insurance Proceeds for any work in connection with the Restoration (the "Work"), deliver or furnish to Beneficiary (i) complete plans and specifications for the Work which (A) have been approved by all governmental authorities whose approval is required, (B) bear the signed approval of an architect satisfactory to Beneficiary (the "Architect") and (C) are accompanied by Architect's signed estimate of the total estimated cost of the Restoration. Such plans and specifications shall be subject to Beneficiary's approval, which approval shall not be unreasonably withheld (the "Approved Plans and Specifications"); (ii) the amount of money which, as determined by Beneficiary, will be sufficient when added to the Net Insurance Proceeds, if any, to pay the entire cost of the Restoration (all money as held by Beneficiary is referred to herein as the "Restoration Funds"); (iii) copies of all permits and approvals required by law in connection with the commencement and conduct of the Restoration; and (iv) a contract for construction executed by Grantor and a contractor satisfactory to Beneficiary (the "Contractor") in form, scope and substance satisfactory to Beneficiary (including the customary retention) for performance of the Work.

(d) After commencing the Work, Grantor shall perform or cause Contractor to perform the Work diligently and in good faith in accordance with the Approved Plans and Specifications approved by Beneficiary. So long as Grantor is not in default under any of the Loan Documents, Beneficiary shall disburse the Restoration Funds in increments to Grantor or as Grantor may direct, from time to time as the Work progresses, to pay (or reimburse Grantor for) the costs of the Restoration, but subject to the following conditions, any of which Beneficiary may waive in its sole discretion:

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(i) Beneficiary shall make such payments only upon not less than ten (10) days' prior written notice from Grantor to Beneficiary and Grantor's delivery to Beneficiary of (A) Grantor's written request for payment (a "Request for Payment") accompanied by a certificate by Architect in form, scope and substance satisfactory to Beneficiary which states that all of the Work completed to that date has been done in compliance with the Approved Plans and Specifications and in accordance with all provisions of law, that the amount requested has been paid or is then due and payable and is properly a part of the cost of the Restoration and that when added to all sums, if any, previously paid out by Beneficiary, the requested amount does not exceed the value of the Work done to the date of such certificate; (B) evidence satisfactory to Beneficiary that there are no construction or similar liens for labor or material supplied in connection with the Work to date or that any such liens have been adequately provided for to Beneficiary's satisfaction; and (C) evidence satisfactory to Beneficiary that the balance of the Restoration Funds remaining after making the payments shall be sufficient to pay the balance of the cost of the Restoration not completed to date (giving in such reasonable detail as Beneficiary may require an estimate of the cost of such completion). Each Request for Payment shall be accompanied by waivers of liens satisfactory to Beneficiary covering that part of the Work previously paid for, if any, and by a search prepared by a title company or by other evidence satisfactory to Beneficiary that no construction liens or other liens or instruments for the retention of title in respect of any part of the Work have been filed against the Property and not discharged of record and that no encumbrance exists on or affecting the Property other than encumbrances, if any, which are set forth in the title policy issued to Beneficiary insuring the lien of this Deed of Trust; and

(ii) Any Request for Payment after the Restoration has been completed shall be accompanied by a copy of any certificate or certificates required by law to render occupancy of the Improvements legal.

(e) Upon Beneficiary's receipt of the certificate of occupancy for the Improvements and other customary evidence requested by Beneficiary that the Restoration has been completed and the costs thereof paid in full, and satisfactory evidence that no mechanic's or similar liens for labor or material supplied in connection with the Restoration are outstanding against the Property and Beneficiary's disbursement under the final Request for Payment, and provided that Grantor is not then in default under any of the Loan Documents (as defined in the Note), Beneficiary shall pay any remaining Restoration Funds then held by Beneficiary to Grantor; provided, however, nothing contained herein shall prevent Beneficiary from applying at any time the whole or any part of the Restoration Funds to the curing of any Event of Default under the Loan Documents..

(f) If (i) within sixty (60) days after the occurrence of any damage or destruction to the Property requiring Restoration, Grantor fails to submit to Beneficiary and receive Beneficiary's approval of plans and specifications or fails to deposit with Beneficiary the additional amount necessary to accomplish the Restoration as provided in

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Paragraph 1.07(c), or (ii) after such plans and specifications are approved by all such governmental authorities and Beneficiary, Grantor fails to commence promptly or diligently continue to completion the Restoration, or (iii) Grantor becomes delinquent in payment to mechanics, materialmen or others for the costs incurred in connection with the Restoration, then, in addition to all of the rights herein set forth, Beneficiary may apply the Restoration Funds then or thereafter held by Beneficiary to reduce the unpaid indebtedness secured hereby in such order as Beneficiary may determine, and at Beneficiary's option and in its sole discretion, Beneficiary may declare the entire indebtedness secured hereby immediately due and payable.

(g) In the event that Beneficiary applies all or any portion of the Restoration Funds to reduce the unpaid indebtedness secured hereby as provided in this Paragraph 1.07, after payment in full of all sums secured hereby, any remaining Restoration Funds shall be paid to Grantor.

1.08. Condemnation.

Should the Property or any part thereof be taken or damaged by reason of any public improvement, condemnation proceeding, or conveyance in lieu thereof, or in any other manner, Beneficiary shall be entitled to all compensation, awards and other payments or relief therefor, and shall be entitled, at its option, to commence, appear in and prosecute in its own name any action or proceeding. Grantor shall have the right, with the prior written consent of the Beneficiary, to make a compromise or settlement in connection with such taking or damage. All such compensation, awards, damages, rights of action and proceeds (the "Condemnation Proceeds") are hereby assigned to Beneficiary, who shall, after deducting therefrom all its reasonable expenses, including attorneys' fees, apply or release the Condemnation Proceeds with the same effect as provided in Paragraph 1.07 above with respect to disposition of insurance proceeds other than rent insurance proceeds; provided, that if such Condemnation Proceeds are to be utilized for restoration of the Property and there are any excess Condemnation Proceeds after application thereof to the restoration of the Property, Beneficiary shall be entitled to apply such excess to the reduction of any indebtedness outstanding under the Note. Grantor agrees to execute such further assignments of the Condemnation Proceeds as Beneficiary may require.

Nothing contained herein shall prevent the accrual of interest as provided in the Note on any portion of the Condemnation Proceeds to be applied to the principal balance due under the Note until such Condemnation Proceeds are actually received and applied.

1.09. Care of the Property.

Grantor will:

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(a) Keep the Property in good condition and repair and not commit or permit any waste or deterioration of the Property;

(b) Not remove, demolish or substantially alter any portion of the Property, except as approved in writing by Beneficiary and except such alterations as may be required by laws, ordinances or regulations of governmental authorities;

(c) Comply with all laws, ordinances, rules, regulations and orders of governmental authorities now or hereafter affecting the Property or requiring any alterations or improvements to be made thereon, and perform all of its obligations under any covenant, condition, restriction or agreement of record affecting the Property;

(d) Complete promptly and in good and workmanlike manner any portion of the Property which may be constructed hereafter, and promptly restore in like manner as obligated in Paragraph 1.07, any portion of the Property which may be damaged or destroyed, and pay, when due, all costs incurred and claims for labor performed and materials furnished therefor;

(e) Not commit, suffer or permit any act to be done in, upon or to the Property in violation of any law or ordinance or any covenant, condition or restriction affecting the Property;

(f) Do any and all acts which, from the character or use of the Property, may be reasonably necessary to protect and preserve the security of Beneficiary, the specific enumerations herein not excluding the general;

(g) Not permit any construction liens against the Property;

(h) Not take or permit to be taken any actions that might invalidate any insurance carried on the Property;

(i) Maintain in full force and effect all licenses (including but not limited to any operating licenses or similar matters) required or permitted in the operation of the improvements on the Real Property.

1.10. Further Assurances.

If required by Beneficiary at any time during the term of this Deed of Trust, Grantor will execute, acknowledge and deliver to Beneficiary, in form satisfactory to Beneficiary, such chattel mortgages, security agreements or other similar security instruments, in form and substance satisfactory to Beneficiary, covering all property of any kind whatsoever owned by Grantor or in which Grantor has any interest which, in the sole opinion of Beneficiary, is required to perfect the security interests intended to be created in the real and

personal property described in this Deed of Trust or which is essential to the operation of the Real Property covered by this Deed of Trust. Grantor shall further, from time to time, within 15 days after request by Beneficiary, execute, acknowledge and deliver any financing statement, renewal, affidavit, certificate, continuation statement or other document as Beneficiary may request in order to perfect, preserve, continue, extend or maintain the security interest under, and the priority of, this Deed of Trust and the priority of such chattel mortgage or other security instrument as a first lien. Grantor farther agrees to pay to Beneficiary on demand all costs and expenses incurred by Beneficiary in connection with the preparation, execution, recording, filing and refiling of any such instrument or document including the charges for examining title and the attorney's fee for rendering an opinion as to the priority of this Deed of Trust and of such chattel mortgage or other security instrument as a valid first and subsisting lien. However, neither a request so made by Beneficiary nor the failure of Beneficiary to make such request shall be construed as a release of such Property, or any part thereof, from the conveyance of title by this Deed of Trust, it being understood and agreed that this covenant and any such chattel mortgage, security agreement or other similar security instrument, delivered to Beneficiary, are cumulative and given as additional security. Any breach of such security agreement shall constitute an Event of Default under this Deed of Trust.

1.11. Leases and Other Agreements Affecting the Property.

(a) Grantor will submit to Beneficiary for its written approval a standard form of residential lease to be used by Grantor in leasing apartments to persons who will be living in the Improvements located on the Real Property. After approval by Beneficiary Grantor will not modify such standard form of residential lease without the prior written consent of Bank except for non-material changes consistent with good business judgment for comparable retirement communities in Skagit County, Washington. All residential leases hereafter executed by Grantor with respect to space in the Improvements shall be executed on said standard lease form without modification or amendment except for non-material changes consistent with good business judgment for comparable retirement communities in Skagit County, Washington. Grantor shall not otherwise lease all or any portion of the Improvements without the prior written consent of Beneficiary. Grantor shall furnish to Beneficiary within thirty (30) days after the end of each quarter a schedule of pro forma rents and the rent roll for the Property for such quarter certified to as correct by Grantor.

(b) If requested by Beneficiary, each lease of any portion of the Improvements shall be assigned to Beneficiary by an assignment of same in recordable form and notice of such assignment given to the tenant or tenants thereunder as may be required by Beneficiary.

(c) Any agreement to pay leasing commissions shall be absolutely subordinate to this Deed of Trust and shall provide that the obligation to pay such

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commission will not be enforceable against any party other than the party who entered into such agreement.

(d) Grantor shall at no time file or record a Condominium Declaration against the Real Property or permit any part of the Real Property to be converted to, or operated as, a cooperative whereby the tenants or occupants thereof participate in the management or control of the Real Property, as tenants, stockholders or otherwise without the prior written consent of the Beneficiary.

(e) Unless otherwise approved in writing by Beneficiary, each lease of a portion of any building which constitutes a part of the Property shall be absolutely subordinate to the lien of this Deed of Trust.

(f) In addition to any other grant, transfer or assignment effected hereby, Grantor covenants and agrees to execute such further assignments to Beneficiary as security for the indebtedness secured hereby as may be necessary to fully assign Grantor's interests in all agreements, contracts, licenses and permits affecting the Property; such assignments shall be made by instruments in form satisfactory to Beneficiary, but no such assignment shall be construed as a consent by Beneficiary to any agreement, contract, license or permit so assigned, or impose upon Beneficiary any obligations with respect thereto.

(g) Grantor shall fully comply with all of the terms, conditions and provisions of all leases on the Real Property so that the same shall not become in default and shall do all that is needful and consistent with the exercise of reasonable business judgment to preserve all said leases in force.

(h) Grantor shall permit no assignment of any lease unless the right to assign or sublet is expressly reserved by the tenant under such lease.

(i) Save and except for taxes and assessments provided to be paid by Grantor as specified in Paragraphs 1.03 and 1.04 hereof, Grantor will not create or suffer or permit to be created, subsequent to the date of the execution and delivery of this Deed of Trust, any lien or encumbrance which may be or become superior to any lease affecting the Real Property except such as have been disclosed to and approved by Beneficiary in writing upon such terms and conditions as may be satisfactory to Beneficiary.

(j) If any part of the automobile parking areas included within the Real Property is taken by condemnation, or before said areas are otherwise reduced, Grantor will provide parking facilities in kind, size and location to comply with all leases and to ensure the continued operation of the Improvements in compliance with all applicable zoning regulations, and before making any contract for such substitute parking facilities, Grantor will furnish to Beneficiary satisfactory assurance of completion thereof free of liens and in conformity with all applicable zoning and land use laws, ordinances, rules and regulations.

1.12. Expenses.

(a) Upon election of either Beneficiary or Trustee so to do, employment of an attorney is hereby authorized and Grantor shall pay all attorneys' fees, costs and expenses, including expenses of retaking, holding, preparing for sale or selling (including cost of evidence or search of title) in connection with any action or actions which may be brought for the foreclosure of this Deed of Trust and/or for possession of the Property and/or for the protection of or the defense of the priority of the lien provided for by this Deed of Trust and/or for the appointment of a receiver and/or for the enforcement of any and all covenants or rights contained in or secured by this Deed of Trust and/or any case or proceeding under Chapters 7, 11, or 13 of the Bankruptcy Code or any successor statute thereto.

(b) Grantor will pay immediately following demand all sums expended or expenses incurred by Trustee and/or Bank, including, without limitation, attorneys' fees, under any of the terms of this Deed of Trust, with interest from date of expenditure at a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full.

1.13. Books, Records and Accounts.

Grantor will keep and maintain, or cause to be kept and maintained at its address set forth above or at such other location as Beneficiary may approve, proper and accurate books, records and accounts reflecting all items of income and expense in connection with the operation of the Property or in connection with any services, equipment or furnishings provided in connection with the operation of the Property, whether such income or expenses be realized by Grantor or by any other person or entity whatsoever, excepting persons unrelated to and unaffiliated with Grantor and who leased from Grantor portions of the Property for the purposes of occupying the same. Beneficiary or its designee shall have the right from time to time at all times during normal business hours and following reasonable notice to Grantor to examine such books, records and accounts at the office of Grantor or other person or entity maintaining such books, records and accounts and to make copies or extracts thereof as Beneficiary or its designee shall desire.

1.14. Subrogation.

Beneficiary shall be subrogated for further security to the lien, although released of record, of any and all encumbrances paid out of the proceeds of the loan secured by this Deed of Trust.

1.15. Late Charges.

In the event that any payment due hereunder or under the Note shall not be made within fifteen (15) days of the date when due, a late charge of five cents (\$.05) for each dollar (\$1.00) so overdue may be charged by Beneficiary for the purpose of defraying the expense incident to handling such delinquent payment (the "Late Charge Fee"). Such Late Charge Fee represents the reasonable estimate of Beneficiary and Grantor of a fair average compensation for the loss that will be sustained by Beneficiary due to the failure of Grantor to make timely payments. Such Late Charge Fee shall be paid without prejudice to the right of Beneficiary to collect any other amounts provided to be paid or to declare an Event of Default under the Note or this Deed of Trust. If an Event of Default (as hereunder defined) occurs, then the interest rate applicable in calculating any defaulted payments from the due date of the defaulted payments shall be a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full and the Late Charge Fee shall apply to any such payments.

1.16. Inspection of Property.


Beneficiary is authorized, by itself, its agents, employees or workmen, to enter at any reasonable time upon any part of the Property for the purpose of inspecting the same upon reasonable prior notice (except in the case of an emergency for which no prior notice need be given), and for the purpose of performing any of the acts it is authorized to perform under the terms of this Deed of Trust. Grantor agrees to cooperate with Beneficiary to facilitate such inspections.

1.17. Performance by Grantor.

Grantor will faithfully perform each and every covenant to be performed by Grantor under any lien or encumbrance, including, without limiting the generality hereof, mortgages, deeds of trust, leases, declarations or covenants, conditions and/or restrictions and other agreements which affect the Property, in law or in equity, which Beneficiary reasonably believes may be prior or superior to or on a parity with the lien or charge of this Deed of Trust. Grantor shall not, without first obtaining Beneficiary's prior written consent, change the general nature of the occupancy or initiate or acquiesce in any zoning reclassification or suffer any act or thing which would impair the security for said debt or Beneficiary's lien upon the Property. A breach of or a default under any such lien or encumbrance, or a breach of any requirement of this Paragraph 1.17 shall constitute an event of default under this Deed of Trust.

1.18. Limitation on Prepayment.

Except as hereinafter set forth, Grantor shall not have the right to prepay the Note in full or in part prior to the Maturity Date (as defined in the Note). Receipt by Beneficiary



of Insurance Proceeds pursuant to Paragraph 1.07 hereof or of an award in connection with a condemnation proceeding pursuant to Paragraph 1.08 hereof shall constitute a prepayment by Grantor under this Paragraph 1.18. Grantor and any endorser of the Note and each of them hereby waives any right to prepay the indebtedness secured hereby in whole or in part prior to the Maturity Date of the Note.

Grantor acknowledges that Grantor has no right to prepay the Note, in whole or in part, without the Beneficiary's consent, which the Beneficiary will not grant except upon the terms and subject to the conditions hereinafter provided. In order to induce the Beneficiary to agree to accept voluntary prepayments, Grantor agrees to pay the Beneficiary a prepayment premium as described in this Paragraph 1.18 upon any prepayment, voluntary or involuntary. Because there is not a readily available index of rates payable on loans such as that from the Beneficiary to Grantor, nor any assurance that the Beneficiary could replace the loan with a similar loan, Grantor and the Beneficiary agree that changes in the yields on U.S. government securities provide a reasonable approximation for changes in interest rates generally. For purposes of this Paragraph 1.18, the following terms shall have the meanings given below:

"Average Maturity Period." The weighted average time to scheduled maturity of all principal prepaid at any one time. Average Maturity Period shall be computed by multiplying the dollar amount of each installment of principal prepaid by the number of days until the scheduled maturity of that installment, adding together the resulting products and dividing the resulting sum by the total dollar amount of principal being prepaid.

"Government Yield." As of any date of determination, the yield (converted as necessary to the equivalent semi-annual compound rate) on U.S. Treasury securities having a maturity date closest to the Average Maturity Period, as published in The Wall Street Journal (or, if not so published, as determined by the Beneficiary using the average of quotes obtained by the Beneficiary from three primary dealers that market U.S. Treasury securities in the secondary market). "U.S. Treasury securities" means actively traded U.S. Treasury bonds, bills and notes and, if more than one issue of U.S. Treasury securities is scheduled to mature at or about the time of the scheduled maturity of the Note, then to the extent possible the U.S. Treasury security issued most recently prior to the date of determination will be chosen as the basis of the Government Yield.

"Interest Differential." As of the date of any full or partial prepayment, the Note Rate minus the sum of the Government Yield as of the date of prepayment and the Issuance Spread.

"Issuance Spread." One-half of one percent (.50%) per annum (approximately the amount by which Beneficiary's cost of funds exceeds the Government Yield as of the date of the Note).



"Note Rate": The rate of interest payable under the Note.

The Note may be prepaid in whole or in part at any time, with partial prepayments in the amount of \$100,000 or an integral multiple thereof. Any partial prepayments shall be applied to installments due under the Note in the inverse order of their maturity. If at the time of any prepayment (whether voluntary or involuntary, and specifically including, but not limited to, any payment prior to scheduled maturity following acceleration of the Note), the sum of the Government Yield as of the date of prepayment plus the Issuance Spread is less than the Note Rate, Grantor shall pay to Beneficiary a prepayment premium equal to the present value (determined in accordance with standard financial practice) of the product of the Interest Differential times the amount prepaid times the Average Maturity Period. The amount of the prepayment premium shall be calculated as follows. The amount prepaid shall be multiplied by (a) the Interest Differential, times (b) a fraction, the numerator of which is the number of days in the Average Maturity Period and the denominator of which is 360. The resulting product shall then be divided by the number of whole months (using a thirty-day month) in the Average Maturity Period, yielding a quotient (the "Quotient"). The amount of the prepayment premium shall be the present value (determined in accordance with standard financial practice) on the date of prepayment (using the Government Yield as of the date of such prepayment as the discount factor) of a stream of equal monthly payments in number equal to the number of whole months (using a thirty-day month) in the Average Maturity Period, with the amount of each hypothetical monthly payment equal to the Quotient and with the first payment payable thirty days after the date of prepayment. Such prepayment premium shall be paid without prejudice to the right of Beneficiary to collect any other amounts provided to be paid hereunder or under the Note or any of the Loan Documents.

If any of the indebtedness evidenced by the Note shall be paid prior to the Maturity Date (as defined in the Note) by reason of Grantor having defaulted under the Note, the Deed or Trust or other Loan Documents (including, without limitation, the right to accelerate the indebtedness evidenced by the Note upon transfer of ownership of the Property or transfers of partnership interests in Grantor or membership interests in the general partner or Grantor or further encumbrance of the Property in violation of the provisions sets forth in Paragraphs 3.12 and 3.13 hereof) Grantor agrees to pay a prepayment premium calculated as set forth in this Paragraph 1.18.

Grantor hereby expressly (a) waives any rights it may have under Washington law to prepay the Note, in whole or in part, without penalty, upon acceleration of the Maturity Date of the Note, and (b) agrees that if, for any reason, a prepayment of any or all of the Note is made, whether voluntarily or upon or following any acceleration of the Maturity Date of the Note by Beneficiary on account of any default by Grantor, including but not limited to any transfer or disposition of ownership of the Property or transfers of partnership interests in Grantor or membership interests in the general partner of Grantor or further encumbrances of the Property as prohibited or restricted by Paragraphs 3.12 or

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3.1.3 herein, then Grantor shall be obligated to pay, concurrently therewith, the prepayment premium set forth above. By initialing this provision in the space provided below, Grantor hereby declares that the Beneficiary's agreement to make the subject loan at the interest rate and for the term set forth in the Note constitutes adequate consideration, given individual weight by Grantor, for this waiver and agreement.

INITIALS: Grantor EJ~

1.19. Assignment of Rents.

Grantor hereby absolutely and unconditionally assigns and transfers to Beneficiary all the income, rents, royalties, revenue, issues, profits and proceeds of the Property, whether now due, past due or to become due, and hereby gives to and confers upon Beneficiary the right, power and authority to collect such income, rents, royalties, revenue, issues, profits and proceeds. Grantor irrevocably appoints Beneficiary its true and lawful attorney at the option of Beneficiary at any time to demand, receive and enforce payment, to give receipts, releases and satisfactions, and to sue, either in the name of Grantor or in the name of Beneficiary, for all such income, rents, royalties, revenue, issues, profits and proceeds. It is understood and agreed that neither the foregoing assignment of income, rents, royalties, revenue, issues, profits and proceeds to Beneficiary nor the exercise by Beneficiary of any of its rights or remedies under this Paragraph 1.19 or under Paragraph 2.04 hereof shall be deemed to make Beneficiary a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Property or the use, occupancy or enjoyment or operation of all or any portion thereof, unless and until Beneficiary, in person or by agent, assumes actual possession thereof; nor shall appointment of a receiver for the Property by any court at the request of Beneficiary or by agreement with Grantor or the entering into possession of the Property or any part thereof by such receiver be deemed to make Beneficiary a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the Property or the use, occupancy, enjoyment or operation of all or any portion thereof. The foregoing assignment is intended to be specific, perfected and choate upon the recording of this Deed of Trust as provided in RCW 7.28.230(3).

1.20. Collection of Rents.

Notwithstanding anything to the contrary contained herein or in the Note secured hereby, so long as there is no Event of Default by Grantor in the payment of any indebtedness secured hereby or in the performance of any obligation, covenant or agreement contained herein, in the Note, any Loan Document (as defined in the Note) or in any other agreement given as security for the indebtedness evidenced by the Note, Grantor shall have the right to collect all income, rents, royalties, revenue, issues, profits and proceeds from the Property and to retain, use and enjoy the same.

1.21. Collateral Security Instruments.

Grantor covenants and agrees that if Beneficiary at any time holds additional security for any obligations secured hereby, it may enforce the terms thereof or otherwise realize upon the same, at its option, either before or concurrently herewith or after a sale is made hereunder, and may apply the proceeds upon the indebtedness secured hereby without affecting the status of or waiving any right to exhaust all or any other security, including the security hereunder, and without waiving any breach or default or any right or power whether exercised hereunder or contained herein or in any such other security.

1.22. Suits to Protect Property.

Grantor covenants and agrees to appear in and defend any action or proceeding purporting to affect the security of this Deed of Trust, and/or any additional or other security for the obligations secured hereby, the interest of Beneficiary or the rights, powers and/or duties of Trustee hereunder; and to pay all costs and expenses, including cost of evidence of title and attorneys' fees in a reasonable sum, in any action or proceeding in which Beneficiary and/or Trustee may appear or be made a party, including, but not limited to, foreclosure or other proceeding commenced by those claiming a right to any part of the Property under subordinate liens, in any action to partition or condemn all or part of the Property, whether or not pursued to final judgment, and in any exercise of the power of sale contained herein, whether or not the sale is actually consummated.

1.23. Beneficiary's Right to Defend Action and Cure Certain Defaults.

Beneficiary may appear in and defend any action or proceeding at law or in equity or in bankruptcy purporting to affect the Property or the security hereof, and in such event (except where the purported defect affecting the security hereof arises or results from any act or omission of Beneficiary), Beneficiary shall be allowed and paid all Beneficiary's costs, charges and expenses, including cost of evidence of title and attorneys' fees incurred in such action or proceeding in which Beneficiary may appear.

Should Grantor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and upon reasonable prior notice to or demand upon Grantor (except for monetary defaults or defaults in the payment of taxes or insurance for which no prior written notice or demand shall be required) and without releasing Grantor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Real Property for such purposes; commence, appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; and, in exercising any such power, incur any liability, expend whatever amounts in

its absolute discretion it may deem necessary therefor, including cost of evidence of title, employ an attorney, and pay said attorneys' reasonable fees.

Grantor hereby agrees to pay immediately following demand, together with interest from and after ten (10) days following demand for payment at a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid in full, all of Beneficiary's costs, charges, expenses and accounts referred to above in this Paragraph 1.23, including cost of evidence of title and reasonable attorneys' fees incurred in such action or proceeding in which Beneficiary may appear. All costs, charges and expenses so incurred, together with interest thereon as aforesaid, shall be secured by the lien of this Deed of Trust.

ARTICLE II

DEFAULTS AND REMEDIES

2.01. Events of Default.

If any of the following events shall occur ("Event or Events of Default"):

(a) Failure of Grantor to pay any installment of interest, principal, or principal and interest under the Note or any other sums payable thereunder, under the Loan Agreement or hereunder when due; or

(b) Failure by Grantor to comply with any of the material covenants, conditions or restrictions now or hereafter affecting the Property, or any part thereof and the same is not fully cured within the period of time, if any, permitted for cure therein or herein, and, if no period for cure is otherwise provided therein or herein (except for defaults under subparagraphs (d), (f) and (h) which shall be deemed immediate defaults according to their terms), within ten (10) days after written notice from Beneficiary to Grantor thereof or in the case of defaults which by their nature cannot be cured within ten (10) days, if cure is not commenced within ten (10) days and prosecuted diligently to completion, provided, however, that said cure is in any event effected within thirty (30) days; or

(c) Failure by Grantor to comply with any of the covenants, terms, conditions, restrictions or agreements contained in the Note, any Loan Document (as defined in the Note) or in this Deed of Trust or any agreement relating to the Property or to the indebtedness secured hereby and the same is not fully cured within the period of time, if any, permitted for cure therein or herein, and, if no period for cure is otherwise provided therein or herein (except defaults under subparagraphs (d), (f) and (h) which shall be deemed immediate defaults according to their terms), within ten (10) days after written notice from Beneficiary to Grantor thereof or in the case of defaults which by their nature cannot be cured within ten (10) days, if cure is not commenced within ten (10) days and

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prosecuted diligently to completion, provided, however, that said cure is in any event effected within thirty (30) days; or

(d) Grantor or any Guarantor (as defined in the Loan Agreement) applies for or consents to the appointment of a receiver or trustee for it or any portion of its property, or if such receiver or trustee is appointed for Grantor or any Guarantor, or Grantor or any Guarantor admits in writing its inability to pay its debts as they become due, or Grantor or any Guarantor becomes insolvent, or a petition is filed by or against Grantor, pursuant to any of the provisions of the United States Bankruptcy Code, as amended; or

(e) A petition is filed against Grantor or any Guarantor pursuant to any of the provisions of the United States Bankruptcy Code, as amended, or there is an attachment or sequestration of any of the property of Grantor or any Guarantor and the same is not discharged or bonded within sixty (60) days; or

(f) Grantor shall cause or institute or there shall be instituted against Grantor any proceeding for the dissolution or termination of Grantor; or

(g) Any representation or disclosure made to Beneficiary by Grantor proves to be materially false or misleading on the date when such representation or disclosure was made, whether or not that representation or disclosure appears in this Deed of Trust; or

(h) The occurrence of any of the events described in Paragraphs 3.12 or 3.13 below; or

(i) Any judgment or decree in an amount in excess of \$10,000 against the Grantor or against the Property shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 30 days;

then and in any such event, the Beneficiary shall be entitled to exercise all rights, and shall have the benefit of all remedies provided by law or set forth in this Deed of Trust or in any other instrument given to secure the indebtedness evidenced by the Note, including the rights to declare all sums secured hereby immediately due and payable. No waiver of Beneficiary of any default on the part of Grantor shall be construed as a waiver of any subsequent default hereunder.

In the event of any such Event of Default and upon written request of Beneficiary, Trustee shall sell the Property in accordance with the Deed of Trust Act of the state of Washington (RCW Chapter 61.24 as existing now or hereafter amended) and the Uniform Commercial Code of the state of Washington, where applicable, at public auction to the highest bidder. Any person except Trustee may bid at Trustee's sale. Trustee shall apply the proceeds of the sale as follows: (i) to the expenses of sale, including a reasonable

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Trustee's fee and attorneys' fee; (ii) to all the indebtedness evidenced by the Note and all other indebtedness secured by this Deed of Trust or any other instrument; (iii) the surplus, if any, shall be distributed in accordance with said Deed of Trust Act. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the property which Grantor had or had the power to convey at the time of its execution of this Deed of Trust and such as it may have acquired thereafter. Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of the law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrances for value. The power of sale conferred by this Deed of Trust and by the Deed of Trust Act of the state of Washington is not an exclusive remedy, and when not exercised Beneficiary may foreclose this Deed of Trust as a mortgage.

Trustee is not obligated to notify any party hereto of pending sale under any other deed of trust or of any action or proceeding in which Grantor, Trustee or Beneficiary shall be a party, unless such action or proceeding is brought by Trustee.

Beneficiary may proceed as to the Personal Property in accordance with Beneficiary's rights and remedies in respect to the Property or sell the Personal Property separately and without regard to the remainder of the Property in accordance with Beneficiary's rights and remedies provided by the Washington Uniform Commercial Code as well as other rights and remedies available at law or in equity.

2.02. Discontinuance of Proceedings.

Beneficiary, from time to time before the Trustee's sale pursuant to Paragraph 2.01, may rescind any notice of default or notice of sale by executing and delivering to Trustee a written notice of discontinuance of Trustee's sale, which notice, when recorded, shall also constitute a cancellation of any prior notice of default and notice of sale. The exercise by Beneficiary of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring, or impair the right of Beneficiary to execute and deliver to Trustee, as above provided, other notices of default and notices of sale, nor otherwise affect any provision, covenant or condition of the Note, the Loan Agreement and/or of this Deed of Trust or any of the rights, obligations or remedies of the parties thereunder or hereunder.

2.03. Beneficiary Statement.

Trustee, upon presentation to it of an affidavit signed by or on behalf of Beneficiary setting forth any fact or facts showing a default by Grantor under any of the terms or conditions of this Deed of Trust, is authorized to accept as true and conclusive all facts and statements in such affidavit and to act hereunder in complete reliance thereon. Upon

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written request by Grantor, Beneficiary will confirm the balances outstanding under the Note, the Loan Agreement and/or the status of the indebtedness evidenced thereby.

2.04. Remedies Upon Default.

Grantor covenants and agrees that, should Grantor fail or refuse to make any payment or do any act which it is obligated hereunder to make or do at the time and in the manner herein provided, then Beneficiary, or Trustee upon written instructions from Beneficiary (the legality thereof to be determined solely by Beneficiary), may, without demand upon Grantor, without releasing Grantor from any obligation hereunder and without waiving its right to declare a default as herein provided, or impairing any declaration of default or election to cause the Property to be sold or any sale proceeding predicated thereon:

(a) Make or do the same in such manner and to such extent as either Beneficiary or Trustee may deem necessary to protect the security hereof, Beneficiary and Trustee being authorized to enter upon and take possession of the Property for such purposes, and any sums expended for such purposes shall become part of the indebtedness secured hereby;

(b) Commence, appear in and/or defend any action or proceedings purporting to affect the security hereof, and/or any additional or other security therefor, the interest, rights, powers and/or duties of Trustee and/or Beneficiary hereunder, whether brought by or against Grantor, Trustee or Beneficiary;

(c) Pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which, in the judgment of either, may affect or appear to affect the security of this Deed of Trust, the interest of Beneficiary or the rights, powers and/or duties of Trustee and/or Beneficiary hereunder, and any sums expended for such purposes shall become part of the indebtedness secured hereby; and

(d) Beneficiary is authorized, either by itself or by its agent to be appointed by it for that purpose or by a receiver appointed by a court of competent jurisdiction, to enter into and upon and take and hold possession of any portion or all of the Property, both real and personal, and exclude Grantor and all other persons therefrom, to operate and manage the Property and rent and lease the same; to perform such reasonable acts of repair or protection as may be reasonably necessary or proper to conserve the value thereof; and collect any and all income, rents, issues, profits and proceeds therefrom, the same being hereby assigned and transferred to Beneficiary, for the benefit and protection of Beneficiary, and from time to time apply and/or accumulate such income, rents, issues, profits and proceeds in such order and manner as Beneficiary or such receiver, in its sole discretion, shall consider advisable, to or upon the following: the expenses of receivership, if any; the proper costs of upkeep, maintenance, repair and/or operation of the Property; the

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repayment of any sums theretofore or thereafter advanced pursuant to the terms of this Deed of Trust, the interest then due or next to become due upon the indebtedness secured hereby, and the taxes and assessments upon the Property then due or next to become due, and/or upon the unpaid principal of such indebtedness. The collection and/or receipt of income, rents, issues, profits and/or proceeds from the Property by Beneficiary, its agent or receiver, after notice of default and notice of sale shall not affect or impair such default or notice of default or notice of sale or any sale proceedings predicated thereon, but such proceedings may be conducted and sale effected notwithstanding the receipt and/or collection of any such income, rents, issues, profits and/or proceeds. Any such income, rents, issues, profits and/or proceeds in the possession of Beneficiary, its agent or receiver, at the time of sale and not theretofore applied as herein provided, shall be applied in the same manner and for the same purposes as the proceeds of the sale.

Neither Trustee nor Beneficiary shall be under any obligation to make any of the payments or do any of the acts referred to in this Paragraph 2.04, and any of the actions referred to in this Paragraph 2.04 may be taken by Beneficiary after an Event of Default has occurred irrespective of whether any notice of default or notice of sale has been given hereunder and without regard to the adequacy of the security for the indebtedness evidenced by the Note.

2.05. Foreclosure Sale.

In the event that this Deed of Trust is foreclosed as a mortgage and the Real Property sold at a foreclosure sale, the purchaser may, during the statutory redemption period, make such repairs or alterations on the Real Property as may be reasonably necessary for the proper operation, care, preservation, protection and insuring thereof. Any sums so paid, together with interest thereon from the time of such expenditure at an interest rate equal to a floating interest rate equal to the Prime Rate (as defined in the Note) plus five percent (5%) per annum until paid, shall be added to and become a part of the amount required to be paid for redemption from such sale.

2.06. Right of Foreclosure.

Beneficiary shall have the right, at its option, to foreclose this Deed of Trust subject to the rights of any tenant or tenants of the Real Property, and the failure to make any such tenant or tenants a party defendant to any such suit or action or to foreclose their rights will not be asserted by the Grantor as a defense in any action or suit instituted to collect the indebtedness secured hereby or any part thereof or any deficiency remaining unpaid after foreclosure and sale of the Real Property, any statute or rule of law at any time existing to the contrary notwithstanding.

2.07. Sale of Property Pursuant to a Foreclosure.

In case of a sale pursuant to a foreclosure of this Deed of Trust, the Property, real, personal or mixed, may be sold as an entirety or in parcels, by one sale or by several sales held at one time or at different times, all as Trustee, in its unrestricted discretion, may elect, and Grantor, for and on behalf of itself and all persons claiming by, through or under Grantor, waives any and all right to have the property and estates comprising the Property marshalled upon any foreclosure sale and agrees that, upon foreclosure, the Property may be sold as an entirety and not in parcels.

2.08. Appointment of Receiver.

The holder of this Deed of Trust, separately or in any action to foreclose it, shall be entitled (without regard to the adequacy of any security for said debt) to the appointment of a receiver of the income, rents, issues, profits and proceeds of the Property who shall have, in addition to all the rights and powers customarily given to and exercised by such receiver, all the rights and powers granted to Beneficiary by the covenants contained in Paragraph 2.04 hereof.

ARTICLE III
GENERAL COVENANTS

3.01. No Waiver.

Grantor covenants and agrees that the acceptance by Beneficiary of any sum secured hereby after its due date, or in an amount less than the sum then due, shall not constitute a waiver by Beneficiary of its rights either to require prompt payment when due of all other sums so secured or to declare a default or exercise such other rights as herein provided for failure so to pay. No failure by Beneficiary to insist upon strict performance of any term, covenant or condition hereof, nor failure to exercise any right or remedy hereunder, shall constitute a waiver of any such breach of such term, covenant or condition or of the later exercise of such right or remedy. All waivers shall be in writing.

3.02. Remedies Cumulative.

No remedy herein conferred upon or reserved to Trustee or Beneficiary is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

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3.03. Plats, Easements and Other Agreements.

At any time upon written request of Beneficiary, payment of its fees and presentation of this Deed of Trust, (in case of full reconveyance, for cancellation and retention) without affecting the liability of any person for the payment of the indebtedness or the effect of the Deed of Trust upon the remainder of the Property, Trustee may (i) consent to the making of any map or plat of said Real Property; (ii) join in granting any easement or creating any restriction thereon; (iii) join in any subordination or other agreement affecting this Deed of Trust or the lien or charge thereof; or (iv) reconvey, without warranty, all or any part of the Real Property. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto", and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Grantor agrees to pay a reasonable Trustee's fee for full or partial reconveyance, together with a recording fee, if Trustee, at its option, elects to record said reconveyance.

3.04. Recordation.

Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law.

3.05. Substitution of Trustee.

Beneficiary may, from time to time, by a written instrument executed and acknowledged by Beneficiary and recorded in the county or counties where the Property is located, and by otherwise complying with appropriate statutory provisions, substitute a successor or successors for the trustee named herein or acting hereunder. Upon the recording of such appointment in the mortgage records of the county or counties in which the Property is situated, the successor trustee shall be vested with all the powers of the original trustee.

3.06. Notices.

(a) All notices hereunder shall be deemed to have been duly given if mailed by United States registered or certified mail, with return receipt requested, postage prepaid, to the parties at the following addresses (or at such other addresses as shall be given in writing by any party to the others), and shall be deemed complete upon receipt, refusal of delivery or attempted delivery:

To Grantor:

Watson Properties, a Limited Partnership
1810 E. Division
Mount Vernon, Washington 98274
Attention: Edward J. Watson, III

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To Beneficiary:

U.S. Bank National Association
Northwest Washington Corporate Banking
1420 Fifth Avenue, 11th Floor
Post Office Box 720
Seattle, Washington 98111-0720
Attention: Deborah S. Watson
Vice President

(b) In the event of any strike or occurrence of another similar event which interrupts mail service, notices may be served personally upon an individual, partner or an officer or director of a corporation which is or is part of the party being served hereunder.

(c) Grantor requests that a copy of any notice of default and of any notice of sale hereunder be mailed to Grantor at the address set forth above.

(d) Unless otherwise provided by applicable law, Trustee shall be under no obligation to notify any party hereto of any action or proceeding of any kind in which Grantor, Beneficiary and/or Trustee shall be a party, unless brought by Trustee, or of any pending sale under any other deed of trust.

3.07. Heirs and Assigns; Terminology.

(a) This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term "Grantor" shall mean both the original Grantor and any subsequent owner or owners of any of the Property. The term "Beneficiary" shall mean the owner and holder, including pledgees, of the Note, whether or not named as Beneficiary herein. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

(b) The term "and/or" as used herein means one or the other or both, or any one or all, or any combination of the things or persons in connection with which the words are used.

3.08. Severability.

If any provision hereof should be held unenforceable or void, then such provision shall be deemed separable from the remaining provisions and shall in no way affect the validity of this Deed of Trust, except that if such provision relates to the payment of any monetary sum then Beneficiary may, at its option, declare the indebtedness and all other sums secured hereby immediately due and payable.

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3.09. Time is of the Essence.

Time is of the essence hereof in connection with all obligations of Grantor herein or in the Note. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other sums so secured or to declare default for failure so to pay.

3.10. Captions.

The captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope or intent of this Deed of Trust nor in any way affect this Deed of Trust.

3.11. Irrevocable Trust.

The Trust created hereby is irrevocable by Grantor unless and until the Property is reconveyed to Grantor as provided herein.

3.12. Conveyance of Property; Change of Ownership.

In the event that (i) all or any part of or any interest in the Property shall be sold, transferred, leased, (other than space leases without options to purchase), further encumbered, conveyed, or a contract of sale or other conveyance entered into with respect thereto, or (ii) Mountain Glen Management LLC, a Washington limited liability company ("General Partner") ceases to be the sole general partner of Grantor, or (iii) Edward J. Watson III ceases to own at least 51% of the membership interest in General Partner; or (iv) Edward J. Watson III ceases to own at least 51% of the partnership interests in the Grantor (except for transfers by Edward J. Watson III of interest in Borrower or General Partner to Bradley W. Watson so long as Edward J. Watson III and Bradley W. Watson each own 50% of the partnership interests in Borrower and 50% of the membership interests in General Partner) without the prior written consent of Beneficiary, then, upon the occurrence of any one or more of the foregoing events, and regardless of whether or not Grantor shall be in default under the Note or this Deed of Trust or any Loan Document, Beneficiary may, at its option, declare the then outstanding principal balance evidenced by the Note plus accrued interest thereon immediately due and payable or, at its sole option, it may consent to said conveyance or transfer in writing and may increase the rate of the Note to the interest rate which Beneficiary would then commit to make a first mortgage loan to a borrower of comparable financial strength and managerial expertise, and secured by similar security of comparable value and character, and impose whatever other conditions it shall deem necessary to compensate it for such increased risk resulting from the breach of the foregoing covenants. Such increase in interest rate or imposition of additional terms shall entitle Beneficiary to increase monthly payments under the Note so that the increased monthly installments will fully amortize the outstanding balance of the indebtedness

evidenced thereby over the unexpired Amortization Term of the Note. The execution and delivery by the Grantor of any joint venture agreement, partnership agreement, declaration of trust or option agreement whereunder any other person or corporation may become entitled, directly or indirectly, to the possession or enjoyment of the Property, or the income or other benefits derived or to be derived therefrom shall in each case be deemed to be a conveyance or assignment of the Grantor's interest in the Property for the purposes of this section, and shall require the prior written consent of the Beneficiary.

3.13. Secondary Financing.

Grantor agrees that should the Property or any part thereof at any time be or become subject to the lien of any other mortgage or deed of trust or subject to any other encumbrance, pledge, hypothecation or security interest (except with the prior written consent of Beneficiary), the whole of the indebtedness evidenced by the Note and any other sums payable hereunder or secured hereby shall, at the option of Beneficiary, become immediately due and payable.

3.14. Effect of Security Agreement.

This Deed of Trust creates a lien on the Property, and to the extent the Property is not real property under applicable law this Deed of Trust constitutes a security agreement under the Washington Uniform Commercial Code and any other applicable law and is filed as a fixture filing. If required by Beneficiary, at any time during the term of this Deed of Trust, Grantor will execute and deliver to Beneficiary, in form satisfactory to Beneficiary, additional security agreements, financing statements and/or other instruments covering all Personal Property or fixtures of Grantor which may at any time be furnished, placed on, or annexed or made appurtenant to the Real Property or used, useful or held for use, in the operation of the Improvements.

Beneficiary may commingle any Personal Property which comes into its possession; repledge such Personal Property upon terms which impair Grantor's right to redeem such; and require Grantor to assemble the Personal Property and make it available to Beneficiary at a place to be designated by Beneficiary which is reasonably convenient to both parties. To the extent Beneficiary is required for any reason to provide commercially reasonable notice to Grantor, Grantor agrees that notice mailed by first class mail ten (10) days before the event of which notice is given, is commercially reasonable notice. Grantor shall notify Beneficiary in writing within 30 days of any change in name of Grantor or its legal structure. Nothing herein shall be construed as a consent by Beneficiary to a change in legal structure otherwise prohibited hereby.

If Grantor enters into a separate security agreement with Beneficiary relating to any of the Personal Property or fixtures, the terms of such security agreement shall govern the rights and remedies of Beneficiary in the event of default thereunder. Any breach of or

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default under any such security agreement shall constitute an event of default under this Deed of Trust.

It is understood and agreed that, in order to protect Beneficiary from the effect of RCW 62A.9-313, as amended from time to time, in the event that (i) Grantor intends to purchase any goods which may become fixtures attached to the Property, or any part thereof, and (ii) such goods will be subject to a purchase money security interest held by a seller or any other party:

(a) Grantor shall, before executing any security agreement or other document evidencing such security interest, obtain the prior written approval of Beneficiary, and all requests for such written approval shall be in writing and contain the following information:

(i) a description of the fixtures to be replaced, added to, installed or substituted;

(ii) the address at which the fixtures will be replaced, added to, installed or substituted; and

(iii) the name and address of the proposed holder and proposed amount of the security interest,

and any failure of Grantor to obtain such approval shall be a material breach of Grantor's covenant under this Deed of Trust, and shall, at the option of Beneficiary, entitle Beneficiary to all rights and remedies provided for herein upon default. No consent by Beneficiary pursuant to this subparagraph shall be deemed to constitute an agreement to subordinate the right of the Beneficiary in fixtures or other property covered by this Deed of Trust.

(b) If at any time Grantor fails to make any payment on an obligation secured by a purchase money security interest in the Personal Property or any fixtures, Beneficiary, at its option, may at any time pay the amount secured by such security interest and the amount so paid shall be (1) secured by this Deed of Trust and shall be a lien on the Property having the same priorities as the liens and security interests created by this Deed of Trust, and (2) payable on demand with interest at the default rate specified in the Note from the time of such payment. If Grantor shall fail to make such payment to Beneficiary within ten (10) days after demand, the entire principal sum secured hereby with all unpaid interest accrued thereon shall, at the option of Beneficiary, become due and payable immediately.

(c) Beneficiary shall have the right to acquire by assignment from the holder of such security interest any and all contract rights, accounts receivable, negotiable or non-negotiable instruments, or other evidence of Grantor's indebtedness for such

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Personal Property or fixtures, and, upon acquiring such interest by assignment, shall have the right to enforce the security interest as assignee thereof, in accordance with the terms and provisions of the Washington Uniform Commercial Code then in effect, and in accordance with any other provisions of law.

(d) Whether or not Beneficiary has paid the indebtedness secured by or taken an assignment of such security interest, Grantor covenants to pay all sums and perform all obligations secured thereby, and if Grantor at any time shall be in default for a period of ten (10) days under such security agreement, it shall be a material breach of Grantor's covenants under this Deed of Trust, and Beneficiary may, at its option, declare the principal sum secured hereby immediately due and payable, time being of the essence.

(e) The provisions of subparagraphs (b), (c) and (d) above shall not apply if the goods which may become fixtures are of at least equivalent value and quality as any property being replaced and if the rights of the party holding such security interest have been expressly subordinated, at no cost to Beneficiary, to the lien of this Deed of Trust in a manner satisfactory to Beneficiary, providing to Beneficiary a satisfactory opinion of counsel to the effect that this Deed of Trust constitutes a valid and subsisting first lien on such fixtures which is not subordinate to the lien of such security interest under any applicable law, including without limitation, the provisions of RCW 62A.9-313.

3.15. Covenants Regarding Environmental Compliance.

(a) Grantor hereby represents, warrants, covenants and agrees to and with Beneficiary that all operations or activities upon, or any use or occupancy of the Property, or any portion thereof, by Grantor and any tenant or occupant of the Property or any portion thereof, is presently and shall hereafter be in all respects in compliance with all state, federal and local laws and regulations governing or in any way relating to the generation, handling, manufacturing, treatment, storage, use, transportation, spillage, leakage, dumping, discharge or disposal (whether legal or illegal, accidental or intentional) of any Hazardous Substance; and that except as disclosed in writing to and approved by Bank neither Grantor nor (to the best of Grantor's knowledge, after due inquiry) any tenant or occupant of all or any portion of the Property, has at any time placed, suffered or permitted the presence of any such Hazardous Substances at, on, under, within or about the Property or any portion thereof in violation of applicable law. In no event shall Grantor install or maintain on the Property any underground storage tank or similar facility for the storage of any Hazardous Substances.

(b) Grantor shall keep and maintain the Real Property in compliance with, and shall not cause or permit the Real Property to be in violation of any Environmental Law (as defined herein).

(c) There is no claim, action, suit, proceeding, arbitration, investigation or inquiry pending or to the best of Grantor's knowledge, threatened against the Grantor before any federal, state or municipal court, or any governmental, administrative or self-regulatory body or agency, or any private arbitration tribunal, and Grantor has not received any written notice of any complaint, order, directive, claim, citation or notice of lien by or in favor of any governmental authority or private person with respect to (i) air emissions; (ii) spills, releases or discharges of Hazardous Substances on, in or to the Real Property or surface water or groundwater affected by the Real Property or the sewer, septic system or waste water treatment system servicing the Real Property; (iii) solid or liquid waste disposal; (iv) the use, storage, generation, treatment, transportation or disposal of Hazardous Substances; (v) exposure to airborne or friable asbestos; (iv) violation of any Environmental Law; or (vii) any other environmental, health or safety matters affecting or pertaining to the Grantor or the Real Property.

(d) Except as to circumstances, matters or things that have been disclosed in writing to the Beneficiary prior to the date hereof and as to which the Grantor previously has completed, or is proceeding diligently and in the ordinary course of the Grantor's activities to complete, cleanup, remove or remediate all effects of any Hazardous Substances, (i) the Grantor has no knowledge of any circumstance, matter or thing existing which might give rise to any of the claims, actions or proceedings discussed in paragraph (c) of this Paragraph 3.15; (ii) the Grantor has not stored, disposed or released in, on or about the Real Property any Hazardous Substances the removal or remediation of which is or could be required, or the maintenance of which is prohibited or penalized, by any applicable Environmental Law; (iii) the Grantor has not at any time disposed or caused to be disposed at any location any Hazardous Substances generated or existing as a result of the Grantor's ownership of the Real Property in a manner which, to the best of Grantor's knowledge under existing laws, will or could cause the Grantor to be or become liable for a fine or related to such disposal; (iv) to the best knowledge of the Grantor, the Grantor has no contingent liability in connection with the release of any Hazardous Substances from the Real Property into the environment.

(e) Grantor will use its best efforts to comply, and will use its best efforts to cause all tenants, subtenants, or other users or occupants of the Real Property to comply, with all Environmental Laws.

(f) Grantor shall give prompt written notice to Beneficiary of:

(i) any proceeding or inquiry by any governmental authority (including, without limitation, the Washington State Department of Ecology) with respect to the presence of any Hazardous Substance on the Real Property or the migration thereof from or to other property; and

(ii) all claims made or threatened by any third party against Grantor or the Real Property relating to any loss or injury resulting from any Hazardous Substance; and

(iii) Grantor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Real Property that could cause the Real Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Real Property under any Environmental Law; and

(iv) any use of the Property inconsistent with the provisions of this Paragraph 3.15.

(g) Beneficiary shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any Environmental Law which affect the Property and which could have an adverse impact upon Beneficiary's security and have its attorneys' fees in connection therewith paid by Grantor; provided, however, Beneficiary shall not engage counsel or otherwise participate in such proceedings so long as Grantor, at its sole cost and expense, is in good faith diligently defending such action with counsel satisfactory to Beneficiary.

(h) Grantor shall protect, indemnify and hold harmless Beneficiary, its directors, officers, employees, agents, successors and assigns from and against any and all loss, damage, cost, expense or liability (including reasonable attorneys' fees and costs) directly or indirectly arising out of or attributable to the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal, or presence of a Hazardous Substance on, under or about the Real Property including without limitation (i) all foreseeable consequential damages; and (ii) the costs of any required or necessary repair, cleanup or detoxification of the Real Property and the preparation and implementation of any closure, remedial or other required plans.

(i) In the event that any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (the "Remedial Work") is reasonably necessary or desirable under any applicable local, state or federal law or regulation, any judicial order, or by any governmental or nongovernmental entity or person because of, or in connection with, the current or future presence, suspected presence, release or suspected release of a Hazardous Substance in or into the air, soil, groundwater, surface water or soil vapor at, on, about, under or within the Real Property (or any portion thereof), Grantor shall within thirty (30) days after written demand for performance thereof by Beneficiary (or such shorter period of time as may be required under any applicable law, regulation, order or agreement), commence to perform or cause to be commenced, and thereafter diligently prosecuted to completion, all such Remedial Work. All Remedial Work shall be performed by one or more contractors, approved in advance in writing by the Beneficiary, and under the supervision of a consulting engineer

approved in advance in writing by Beneficiary. All costs and expenses of such Remedial Work shall be paid by Grantor including, without limitation, the charges of such contractor(s) and/or the consulting engineer, and Beneficiary's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event Grantor shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, Beneficiary may, but shall not be required to, cause such Remedial Work to be performed.

(j) In the event that Beneficiary reasonably believes that there may be a violation or threatened violation by Grantor of any Environmental Law or a violation or threatened violation by Grantor of any covenant under this Paragraph 3.15, Beneficiary is authorized by itself, its agents, employees or workmen to enter at any reasonable time upon reasonable prior notice (except in the case of an emergency for which no prior notice need be given) any part of the Property for the purposes of inspecting the same for Hazardous Substances and Grantor's compliance with this Paragraph 3.15 and such inspections may include, without limitation, soil borings. Grantor agrees to pay to Beneficiary, upon Beneficiary's demand, all expenses, costs or other amounts incurred by Beneficiary in performing any inspection for the purposes set forth in this subparagraph (j) Beneficiary is under no duty, however, to visit or observe the Property or to conduct tests, and any such acts by Beneficiary shall be for the sole purpose of protecting Beneficiary's security and preserving Beneficiary's rights under the Loan Documents (as defined in the Note). In no event shall any site visit, observation or testing by Beneficiary be a representation that Hazardous Substances are or are not present in, on, or under the Real Property or the Improvements, or that the construction of any of the Improvements is free from defective materials or workmanship, or that there has been or shall be compliance with any applicable governmental law. Neither Grantor nor any other party is entitled to rely on any site visit, observation or testing by Beneficiary.

"Environmental Laws" shall mean any federal, state or local law, statute, ordinance, or regulation pertaining to health, industrial hygiene or the environmental conditions on, under or about the Real Property, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), 42 U.S.C. Section 9601, et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986 (PL 99-499), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Toxic Substance Control Act, 15 U.S.C. Section 2601, et seq., and the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), 42 U.S.C. Section 6901, et seq.

The term "Hazardous Substance" shall include without limitation:

(a) Those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," or "solid waste" in CERCLA, RCRA, the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., and

the Toxic Substance Control Act, 15 U.S.C. Section 2601 et seq., and in the regulations promulgated pursuant to said laws;

(b) Those substances defined as "dangerous wastes," "hazardous wastes" or as "hazardous substances" under the Water Pollution Control Act, RCW 90.48.010 et seq., the Hazardous Waste Management Statute, RCW 70.105.010 et seq., the Washington Toxic Substance Control Act RCW 70.105B.010 et seq., the Washington Model Toxics Control Act, RCW 70.105D.010 et seq., and the Toxic Substance Control Act, 15 U.S.C. Section 2601 et seq., and in the regulations promulgated pursuant to said laws;

(c) Those substances listed in the United States Department of Transportation Table (49 C.F.R. 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 C.F.R. Part 302 and amendments thereto);

(d) Storm water discharge regulated under any federal, state or local law, ordinance or regulation relating to storm water drains, including, but not limited to, Section 402(p) of the Clean Water Act, 33 U.S.C. Section 1342 and the regulations promulgated thereunder.

(e) Such other substances, materials and wastes which are or become regulated under applicable local, state or federal law, or the United States government, or which are classified as hazardous or toxic under federal, state or local laws or regulations;

(f) Any material, waste or substance which is (A) petroleum, (B) asbestos, (C) polychlorinated biphenyls, (D) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Section 1251, et seq. (33 U.S.C. Section 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317) (E) flammable explosives; (F) radioactive materials; (G) lead-based paint; or (H) radon gas; and

(g) Medical Products.

The term "Medical Products" shall include, without limitation, all chemicals, drugs, blood, tissue, serums, waste and other materials and equipment and supplies related thereto in connection with the treatment, research and laboratory analysis of human medical phenomenon, which Medical Products may include, without limitation, regulated substances and hazardous substances.

3.16. Non-Agricultural Use.

The Real Property which is the subject of this Deed of Trust is not used principally for agricultural or farming purposes.

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3.17. Commercial Purposes.

The obligations and indebtedness evidenced by the Note and, the Loan Agreement were incurred primarily for commercial, investment or business purposes and not for personal, family or household purposes.

3.18. Americans With Disabilities Act.

Grantor shall cause the Property to continuously be in compliance with all applicable requirements of the Fair Housing Act of 1968 (as amended) and the Americans With Disabilities Act of 1990 (collectively, the "Acts") (as the same may be amended from time to time). Grantor agrees to protect, defend, indemnify and hold harmless from and against all liability threatened against or suffered by Beneficiary by reason of a breach by Grantor of the foregoing representations and warranties. The foregoing indemnity shall include the cost of all alterations to the Property (including architectural, engineering, legal and accounting costs), all fines, fees and penalties, and all legal and other expenses (including attorneys' fees), incurred in connection with the Property being in violation of the Acts and for the cost of collection of the sums due under the indemnity. The obligations of Grantor under this Paragraph 3.18 shall survive payment in full of all sums secured hereby and shall survive any foreclosure of this Deed of Trust or any transfer of the Property in lieu of foreclosure.

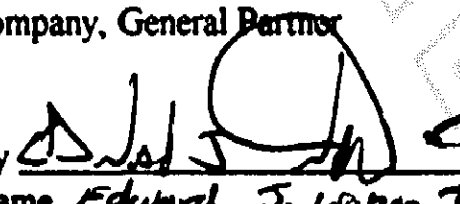
3.19. Washington State Law Governs.

This Deed of Trust is to be governed by and construed in accordance with the laws of the state of Washington. At the option of the Beneficiary, the venue of any action to enforce the provisions hereof may be laid in Skagit County, Washington.

IN WITNESS WHEREOF, Grantor has executed this Deed of Trust, Security Agreement, Assignment of Leases and Rents, and Fixture Filing as of the date first written above.

WATSON PROPERTIES, a Limited
Partnership, a Washington limited partnership

By: MOUNTAIN GLEN MANAGEMENT,
LLC, a Washington limited liability
company, General Partner

By 
Name Edward J. Watson, III
Title manager

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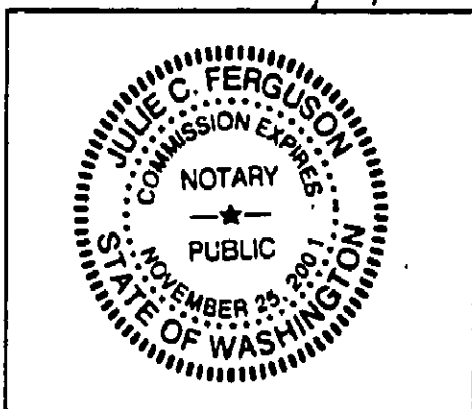
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STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Edward J. Watson III is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the authorized member of Mountain Glen Management, LLC, the General Partner of Watson Properties, a Limited Partnership to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: 3/9/98



(Use this space for notarial stamp/seal)

Julie C. Ferguson
Notary Public
Print Name Julie C. Ferguson
My commission expires 11/25/2001

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EXHIBIT A

LEGAL DESCRIPTION

Certain real property situated in Skagit County, Washington and more particularly described as follows:

PARCEL "A":

Lots 28 and 29, "HERITAGE SQUARE", as per plat recorded in Volume 12 of Plats, pages 65 and 66, records of Skagit County, Washington.

Situate in the City of Mount Vernon, County of Skagit, State of Washington.

PARCEL "B":

Lot 2, "MIRA VISTA, INC.", as per plat recorded in Volume 14 of Plats, page 16, records of Skagit County, Washington.

Situate in the City of Mount Vernon, County of Skagit, State of Washington.

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