

183/21
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

SKAGIT COUNTY
98 MAR 10 P12:26
RECORDED _____ FILED _____
REQUEST OF _____

9803100097

ASSIGNMENT OF LEASES AND CASH COLLATERAL

GRANTOR/ASSIGNOR: WATSON PROPERTIES, A LIMITED PARTNERSHIP, a
Washington limited partnership

GRANTEE/ASSIGNEE: U.S. BANK NATIONAL ASSOCIATION

Legal Description:

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

Assessor's Property Tax Parcel Account Numbers: (1) 4400-000-028-006
Property I.D. No.: R81470
SKAGIT COUNTY WASHINGTON
Real Estate Excise Tax
PAID
MAR 10 1998
Amount Paid \$ 10
By: Skagit County Treasurer Deputy

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

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ASSIGNMENT OF LEASES AND CASH COLLATERAL

THIS ASSIGNMENT OF LEASES AND CASH COLLATERAL ("Assignment") is made by WATSON PROPERTIES, a Limited Partnership, a Washington limited partnership ("Assignor"), whose mailing address is 1810 E. Division, Mount Vernon, Washington 98274, Attention: Edward J. Watson, III, in favor of U.S. Bank National Association, with a mailing address of Northwest Washington Corporate Banking, 1420 Fifth Avenue, 11th Floor, P.O. Box 720 (98111-0720), Seattle, Washington 98111-0720, Attention: Deborah S. Watson, Vice President ("Assignee").

WITNESSETH:

FOR VALUE RECEIVED, Assignor does hereby ABSOLUTELY AND IMMEDIATELY SELL, ASSIGN, TRANSFER, CONVEY, SET OVER and DELIVER unto Assignee any and all existing and future leases (including subleases thereof), whether written or oral, and all future agreements for use and occupancy, and any and all extensions, renewals and replacements thereof, upon all or relating to any part of the premises described more particularly in "Exhibit A" (the "Premises"), together with all buildings and improvements thereon. All such leases, subleases, tenancies, agreements, extensions, renewals and replacements are hereinafter collectively referred to as the "Leases."

TOGETHER with any and all guaranties of tenants' performance under any and all of the Leases.

TOGETHER with the immediate and continuing right to collect and receive all of the rents, income, receipts, revenues, issues, profits and other income of any nature now due or which may become due (including any income of any nature coming due during any redemption period) or to which Assignor may now or shall hereafter become entitled to or may make demand or claim for, arising or issuing from or out of the Leases or from or out of the Premises or any part thereof, including but not limited to, minimum rents, additional rents, percentage rents, parking or common area maintenance contributions, non-refundable deposits, tax and insurance contributions, deficiency rents and liquidated damages following default in any Lease, and all proceeds payable under any policy of insurance covering loss of rents resulting from untenability caused by destruction or damage to the Premises, together with any and all rights and claims of any kind which Assignor may have against any tenant under the Leases or any subtenants or occupants of the Premises (all such monies, rights and claims described in this paragraph being hereinafter called "Cash Collateral"), EXCEPTING THEREFROM, any sums which by the express provisions of any of the Leases are payable directly to any governmental authority or to any other person, firm or corporation other than the landlord under the Leases.

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TO HAVE AND TO HOLD the same unto the Assignee, its successors and assigns forever, or for such shorter period as hereinafter may be indicated.

SUBJECT, however, to a license hereby granted by Assignee to Assignor, but limited as hereinafter provided, to collect and receive all of the Cash Collateral.

FOR THE PURPOSE OF SECURING (i) the payment of all indebtedness of Assignor to Assignee under that certain Promissory Note of even date herewith (the "Note"), all future advances thereunder and any renewals, extensions or modifications thereof which evidences the indebtedness of Assignor to Assignee in the amount of Twelve Million Two Hundred Fifty Thousand and No/100 Dollars (\$12,250,000), together with interest thereon as the same may be adjusted from time to time in accordance with the provisions of the Note, fees and late charges as provided in the Note; and (ii) the payment, observance, performance and discharge of all other obligations, covenants, conditions and warranties contained therein and in Loan Agreement of even date herewith between Assignor and Assignee (the "Loan Agreement") and in a Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing of even date herewith (hereinafter called "Deed of Trust") made by Assignor, recorded in the real property records of Skagit County, Washington, and any extensions, modifications, supplements and consolidations thereof, if any, encumbering the Premises and securing the Note.

TO PROTECT THE SECURITY OF THIS ASSIGNMENT IT IS COVENANTED AND AGREED AS FOLLOWS:

1. Assignor's Warranties re Leases and Cash Collateral. Assignor represents and warrants that:

(a) it has good right, title and interest in and to the Leases and Cash Collateral hereby assigned and good right to assign the same, and that no other person, partnership entity or corporation has any right, title or interest therein;

(b) Assignor has and will duly and punctually perform all and singular the terms, covenants, conditions and warranties of the Leases on Assignor's part to be kept, observed and performed;

(c) the Leases are valid and unmodified except as indicated herein and are in full force and effect;

(d) there is not now any sale, assignment, transfer, mortgage, pledge or security interest in the Cash Collateral from the Premises, whether now due or hereafter to become due;

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(e) none of the Cash Collateral due and issuing from the Premises or from any part thereof has been collected for any period in excess of one (1) month from the date hereof, and that payment of any of same has not otherwise been anticipated, waived, released, discounted, set off, or otherwise discharged or compromised;

(f) Assignor has not received any funds or deposits from any tenant for which credit has not already been made on account of accrued Cash Collateral; and

(g) to the best of Assignor's knowledge the tenants under the identified Leases, if any, are not in default of any of the terms thereof.

2. Assignor's Covenants of Performance. Assignor covenants and agrees to:

(a) observe, perform and discharge, duly and punctually, all and singular, the obligations, terms, covenants, conditions and warranties set forth in the Note and Deed of Trust, of the identified Leases, if any, and of all future Leases affecting the Premises on the part of Assignor to be kept, observed and performed; and to give prompt notice to Assignee of any failure on the part of Assignor to observe, perform and discharge same;

(b) notify and direct in writing each and every present or future tenant or occupant of the Premises or of any part thereof that any security deposit or other deposits heretofore delivered to Assignor have been retained by Assignor or assigned and delivered to Assignee as the case may be;

(c) enforce or secure the performance of each and every material obligation, term, covenant, condition and agreement in the Leases by any tenant to be performed consistent with good business judgment;

(d) appear in and defend any action or proceeding arising under, occurring out of, or in any manner connected with the Leases or the obligations, duties or liabilities of Assignor or any tenant thereunder, and upon request by Assignee, will do so in the name and on behalf of Assignee, but at the expense of Assignor;

(e) pay all costs and expenses of Assignee, including attorneys' fees in a reasonable sum in any action or proceeding in which Assignee may appear in connection herewith provided, however, that if litigation is commenced and the court determines that Assignor is the prevailing party then Assignor shall recover a reasonable attorney's fee and all costs incurred;

(f) neither create nor permit any lien, charge or encumbrance upon its interest as lessor of the Leases except the lien of the Deed of Trust or as provided in the Deed of Trust;

Assignor further covenants and agrees that this Assignment creates and constitutes an equitable and specific lien upon the aforesaid Cash Collateral, and that this Assignment does not create or constitute a pledge of or conditional security interest in such Cash Collateral. This Assignment is intended to be specific, perfected and choate upon the recording of this Assignment as provided in RCW 7.28.230(3).

3. Prior Approval for Actions Affecting Leases. Assignor further covenants and agrees that it will not, without the prior written consent of Assignee which consent shall not be unreasonably withheld:

(a) receive or collect any Cash Collateral (other than security deposits) from any present or future tenant of the Premises or any part thereof for a period of more than one (1) month in advance (whether in cash or by promissory note), nor pledge, transfer, mortgage, grant a security interest in, or otherwise encumber or assign future payments of Cash Collateral;

(b) waive, forgive, excuse, condone, discount, set off, compromise, or in any manner release or discharge any tenant under any Leases of the Premises of and from any obligations, covenants, conditions and agreements by the tenant to be kept, observed and performed, including the obligation to pay the Cash Collateral thereunder in the manner and at the place and time specified therein except in the ordinary course of Assignor's business and consistent with good business judgment for comparable projects in the community in which the Premises are located;

(c) cancel, terminate or consent to any surrender of any of the Leases, nor commence any action or ejectment or any summary proceedings for dispossession of the tenant under any of the Leases, nor exercise any right of recapture of the Premises provided in any Leases (except in the ordinary course of Assignor's business as a result of monetary defaults under the Leases or defaults which endanger persons or property), nor modify or in any way alter the terms thereof except for non-material charges consistent with good business judgment for comparable projects in the community in which the Premises are located.

4. Rejection of Leases. Assignor further covenants and agrees as follows:

(a) that in the event any tenant under the Leases should become the subject of any proceeding under the Federal Bankruptcy Act or any other federal, state or local statute which provides for the possible termination or rejection of the Leases assigned hereby, Assignor covenants and agrees that in the event any of the Leases are so rejected, no damages settlement shall be made without the prior written consent of the Assignee;

(b) Assignor hereby assigns any such payment to Assignee and further covenants and agrees that upon request by Assignee after the occurrence of any "Event of

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Default" as defined in the Deed of Trust it will duly endorse to the order of Assignee any such check, the proceeds of which will be applied to any portion of the indebtedness secured by this Assignment in such manner as Assignee may elect.

5. Default Deemed Default Under Deed of Trust. In the event any representation or warranty made herein by Assignor shall be found to be untrue, or if Assignor shall default in the observance or performance of any obligation, term, covenant, condition or warranty herein, the same shall constitute and be deemed to be a default under the Note and Deed of Trust, thereby entitling Assignee to declare all sums secured thereby and hereby immediately due and payable and to exercise any and all of the rights and remedies provided thereunder and herein, as well as those provided by law.

6. License to Collect Cash Collateral. As long as there shall exist no default by Assignor in the payment of any indebtedness secured hereby or in the observance and performance of any other obligation, term, covenant or condition or warranty herein or in the Note or the Deed of Trust or contained in the Leases, Assignor shall have the right under a license granted hereby (but limited as provided in the following paragraph) to collect, but not prior to accrual, all of the Cash Collateral arising from or out of said Leases, or any renewals, extensions and replacements thereof, or from or out of the Premises or any part thereof; and Assignor shall receive such Cash Collateral and hold the Cash Collateral, together with the right and license herein granted, as a trust fund to be applied, and Assignor hereby covenants to so apply them, as required by Assignee, first to the payment of taxes and assessments upon said Premises before penalty or interest is due thereon; second to the costs of insurance, maintenance and repairs required by the terms of said Deed of Trust; third to satisfaction of all obligations under the Leases; and fourth to the payment of the indebtedness evidenced by the Note and Deed of Trust, before using any part of the same for any other purposes.

7. Performance and Termination of License. Upon the conveyance by Assignor and its successors and assigns of the fee title of the Premises, all right, title, interest and powers granted under the license aforesaid shall automatically pass to and may be exercised by each subsequent owner; and upon or at any time after the occurrence of an "Event of Default" as defined in the Note, the Loan Agreement or the Deed of Trust, Assignee, at its option and without notice, shall have the complete right, power and authority hereunder to exercise and enforce any or all of the following rights and remedies at any time:

(a) to terminate the license granted to Assignor to collect the Cash Collateral without taking possession, and to demand, collect, receive, sue for, attach and levy against the Cash Collateral in Assignee's name; to give proper receipts, releases and acquittances therefor; and after deducting all necessary and proper costs and expenses of operation and collection as determined by Assignee, including reasonable attorneys' fees, to apply the net proceeds thereof, together with any funds of Assignor deposited with

Assignee, upon any indebtedness secured hereby and in such order as Assignee may determine;

(b) to declare all sums secured hereby due and payable and, at its option, exercise all or any of the rights and remedies contained in the Note and Deed of Trust or other instrument given to secure the indebtedness secured hereby;

(c) without regard to the adequacy of the security or the solvency of Assignor, with or without any action or proceeding through any person, agent, trustee or receiver under the Deed of Trust, or by a receiver to be appointed by court, and without regard to Assignor's possession, to enter upon, take possession of, manage and operate the Premises or any part thereof; make, modify, enforce, cancel or accept surrender of any Leases now or hereafter in effect on said Premises or any part thereof; remove and evict any tenant; increase or decrease rents; decorate, clean and repair; and otherwise do any act or incur any costs or expenses as Assignee shall deem proper to protect the security hereof, as fully and to the same extent as Assignee could do if in possession; and in such event, to apply the Cash Collateral so collected in such order as Assignee shall deem proper to the operation and management of said Premises, including the payment of reasonable management, brokerage and attorneys' fees; payment of the indebtedness under the Note and Deed of Trust and payment to a reserve fund for replacements;

(d) require Assignor to transfer all security deposits to Assignee, together with all records evidencing such deposits.

Assignor further agrees and covenants that for the purposes hereinbefore enumerated in this paragraph, Assignee shall have constructive possession, whether or not it is in actual possession, in order to effectuate such purposes, and in no event shall Assignee accrue any liability by reason of such constructive possession. Assignee shall not be required to give notice, or make demand, to Assignor or any tenants under then existing Leases, of its actions to effectuate such purposes.

Provided, however, that the acceptance by Assignee of this Assignment, with all of the rights, powers, privileges and authority so created shall not, prior to entry upon or taking possession of said Premises by Assignee, be deemed or construed to constitute Assignee a "Mortgagee-in-Possession", nor thereafter or at any time or in any event obligate Assignee to appear in or defend any action or proceeding relating to the Leases or the Premises, or to take any action hereunder, or to expend any money or incur any expenses or perform or discharge any obligation, duty or liability under the Leases, or to assume any obligation or responsibility for any security deposits or other deposits delivered to Assignor by any tenant thereunder and not assigned and delivered to Assignee; nor shall Assignee be liable in any way for any injury or damage to person or property sustained by any person or persons, firm or corporation in or about the Premises; and

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Provided further that the collection of the Cash Collateral and application as aforesaid and/or the entry upon and taking possession of the Premises shall not cure or waive any default; waive, modify or affect any notice of default required under the Note and Deed of Trust; or invalidate any act done pursuant to such notice. The enforcement of any right or remedy by Assignee, once exercised, shall continue until Assignee shall have collected and applied such Cash Collateral as may be necessary to cure the then existing default. Although the original default be cured and the exercise of any such right or remedy be discontinued, the same or any other right or remedy hereunder shall not be exhausted and may be reasserted at any time and from time to time following any subsequent default. The rights and powers conferred upon Assignee hereunder are cumulative of and not in lieu of any other rights and powers otherwise granted Assignee.

8. Appointment of Attorney. Assignor hereby constitutes and appoints Assignee its true and lawful attorney, coupled with an interest; and in the name, place and stead of Assignor, during any period when Assignor is in default under the Note or the Deed of Trust, to subordinate at any time and from time to time, any Leases affecting the Premises or any part thereof to the lien of the hereinbefore described Deed of Trust; and to request or require such subordination where such option or authority was reserved to Assignor under any such Leases, or in any case where Assignor otherwise would have the right, power or privilege so to do. This appointment is to be irrevocable and continuing and these rights, powers and privileges shall be exclusive in Assignee, its successors and assigns, as long as any part of the indebtedness secured hereby shall remain unpaid. Assignor hereby warrants that it has not, at any time prior to the date hereof, exercised any right to subordinate any such Lease to the Deed of Trust or to any other mortgage of any kind, or ground lease, and further covenants not to exercise any such right.

9. Indemnification. Assignor hereby agrees to indemnify and hold Assignee harmless from any and all liability, loss, damage or expense which Assignee may incur under or by reason of this Assignment; or for any action taken by Assignee hereunder; or by reason or in defense of any and all claims and demands whatsoever which may be asserted against Assignee arising out of the Leases, including but not limited to, any claims by any tenants of credit for rental for any period under any Leases more than one (1) month in advance of the due date thereof and security deposits paid to and received by Assignor, but not delivered to Assignee. Should Assignee incur any such liability, loss, damage or expense, the amount thereof (including reasonable attorneys' fees) with interest thereon from and after ten (10) days following demand for payment at the default rate set forth in the Note shall be payable by Assignor immediately upon demand, and shall be secured as a lien hereby and by said Deed of Trust.

10. Records. Until the indebtedness secured hereby shall have been paid in full, Assignor shall deliver to Assignee upon request executed copies of any and all renewals of existing Leases and future Leases upon all or any part of the Premises, and will transfer and assign such Leases upon the same terms and conditions as herein contained. Assignor

hereby covenants and agrees to make, execute and deliver unto Assignee, upon demand and at any time, any and all assignments and other records and instruments, including but not limited to, rent rolls, tenant financial statements and books of account sufficient for the purpose that Assignee may deem to be advisable for carrying out the purposes and intent of this Assignment.

11. No Waiver. The failure of Assignee to avail itself of any of the terms, covenants and conditions of this Assignment for any period of time or at any time shall not be construed or deemed to be a waiver of any such right, and nothing herein contained nor anything done or omitted to be done by Assignee pursuant hereto shall be deemed a waiver by Assignee of any of its rights and remedies under the Note and Deed of Trust or of the benefit of the laws of the State in which the said Premises are situated. The rights of Assignee to collect the said indebtedness, to enforce any other security therefor, or to enforce any other right or remedy hereunder may be exercised by Assignee, either prior to, simultaneously with, or subsequent to, any such other action hereinbefore described, and shall not be deemed an election of remedies.

12. Primary Security. This Assignment of Leases and Cash Collateral is absolute, unconditional and primary in nature to the obligation evidenced by the Note and secured by the Deed of Trust and any other document given to secure and collateralize the indebtedness secured hereby. Assignor further agrees that Assignee may enforce this Assignment without first resorting to or exhausting any other security or collateral; however, nothing herein contained shall prevent Assignee from suing under the Note, foreclosing the Deed of Trust, or exercising any other right or remedy under any other document evidencing or collateralizing the indebtedness secured hereby.

13. Merger. Neither (i) the fact the Leases or the leasehold estate created thereby may be held directly or indirectly, by or for the account of any person or entity which shall have an interest in the fee estate of the Premises, (ii) the operation of law, nor (iii) any other event, shall merge any Leases or the leasehold estates created thereby with the fee estate in the Premises as long as any of the indebtedness evidenced by the Note secured hereby and by the Deed of Trust shall remain unpaid, unless Assignee shall consent in writing to such merger.

14. Termination of Assignment. Upon payment in full of all of the indebtedness evidenced by the Note and secured by the Deed of Trust and payment of all sums payable hereunder, this Assignment shall be void and of no effect; and no judgment or decree entered as to said indebtedness shall operate to abrogate or lessen the effect of this Assignment until such indebtedness has actually been paid; but the affidavit, certificate, letter or statement of any officer of Assignee showing that any portion of said indebtedness or sums remains unpaid, shall be and constitutes conclusive evidence of the validity, effectiveness and continuing force of this Assignment. Any person, firm or corporation may and is hereby authorized by Assignor to rely on such affidavit, certificate, letter or

statement. A demand by Assignee of any tenant for payment of Cash Collateral by reason of any default claimed by Assignee shall be sufficient direction to said tenant to make future payments of Cash Collateral to Assignee without the necessity for further consent by or notice to Assignor.

15. Notices. All notices, demands, requests, consents, approvals and other instruments required or permitted to be given pursuant of the terms of this Assignment shall be in writing and shall be deemed to have been properly given when (a) personally delivered, (b) given by a telex or machine-confirmed facsimile, or (c) after placement in the United States mail if sent by registered or certified mail, postage prepaid, return receipt requested, to the address set forth below or such other address as may be given in writing:

The Assignee at:

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

The Assignor at:

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

Provided, however, that such address may be changed upon five (5) days written notice thereof, similarly given to the other parties.

16. Assignment Binds Successor. The terms, covenants, conditions and warranties contained herein and the powers granted hereby shall run with the land and shall inure to the benefit of, and bind all parties hereto and their respective heirs, successors and assigns; all tenants and their subtenants and assigns; and all subsequent owners of the Premises and subsequent holders of the Note and beneficiaries under the Deed of Trust.

17. Additional Rights and Remedies. In addition to, but not in lieu of, any other rights hereunder, Assignee shall have the right to institute suit and obtain a protective or mandatory injunction to prevent a breach or default of, or to enforce the observation by such Assignor of the agreements, covenants, terms and conditions contained herein, and

shall have the right to attorneys' fees, costs, expenses, and damages occasioned by any such breach or default by Assignor.

18. Location of Performance. Assignor expressly agrees that this Assignment is performable at Skagit County, Washington; waives the right to be sued elsewhere; and agrees and consents to the jurisdiction of any court of competent jurisdiction located in Skagit County, Washington.

19. Severability. If any provision of this Assignment or the application hereof to any entity, person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Assignment and the application of such provisions to other entities, persons or circumstances shall not be affected thereby, and shall be enforced to the greatest extent permitted by law.

20. No Third Party Beneficiaries. It is expressly agreed by Assignor that this Assignment shall not be construed or deemed made for the benefit of any third party or parties.

21. Entire Agreement. This Assignment contains the entire agreement concerning the Assignment of Leases and Cash Collateral between the parties hereto. No variations, modifications or changes herein or hereof shall be binding upon any party hereto unless set forth in a document duly executed by or on behalf of such party.

22. Construction. Whenever used herein whenever the context so requires, the singular number shall include the plural, the plural the singular, and the use of any gender shall include all genders. The word, "Deed of Trust", as used herein shall mean, Deed of Trust, Trust Deed, Security Deed or Deed to Secure Debt. All obligations of each Assignor hereunder shall be joint and several.

23. Multiple Counterparts. This instrument may be executed in multiple counterparts, all of which shall be deemed originals and with the same effect as if all parties hereto had signed the same document. All of such counterparts shall be construed together and shall constitute one instrument, but in making proof, it shall only be necessary to produce one such counterpart.

24. Governing Law. The parties agree that the laws of the state of Washington shall govern the performance and enforcement of this Assignment.

[REDACTED]

IN WITNESS WHEREOF, the undersigned has executed this Assignment as of the
9th day of March, 1998.

WATSON PROPERTIES, a Limited
Partnership, a Washington limited partnership

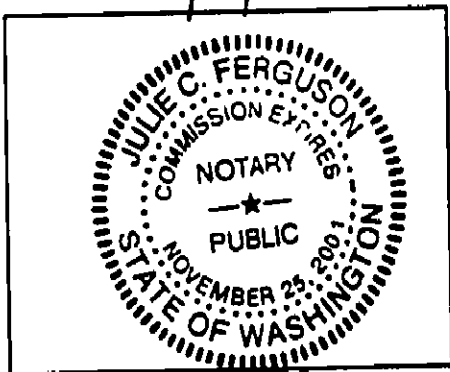
By MOUNTAIN GLEN
MANAGEMENT, L.L.C., a
Washington limited liability company,
General Partner

By [Signature]
Name Edward J. Watson, III
Title Manager

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, 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)

[Signature]
Notary Public
Print Name Julie C. Ferguson
My appointment expires 11/23/2001

EXHIBIT A

Real property located in Skagit County, Washington 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.