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Kathy Hill, Skagit County Auditor  
8/12/1999 Page 1 of 37 11:48:43AM

Short Cressman & Burgess P.L.L.C.  
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3000 First Interstate Center  
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Seattle, WA 98104-4008

FIRST AMERICAN TITLE CO.  
859695 E-2

<b>Document Title</b>	Deed of Trust, Assignment of Rents and Leases, Security Agreement and Financing Statement
<b>Reference Number(s) of Related Documents</b>	N/A
<b>Grantor</b>	LIGO Construction Inc., a Washington corporation
<b>Grantee</b>	The Farmers Bank of China, Seattle Branch
<b>Legal Description (abbrev.)</b>	Unit B-1, Lot 5, "ALPINE FAIRWAY VILLA"
<b>Additional Legal Description is on Page</b>	Exhibit A
<b>Assessor's Property Tax Parcel Account Number(s)</b>	4723-000-005-0100 (R113821)

**DEED OF TRUST, ASSIGNMENT OF RENTS  
AND LEASES, SECURITY AGREEMENT and FINANCING STATEMENT**

This Deed of Trust, Assignment of Rents and Leases, Security Agreement and Financing Statement (the "Deed of Trust") is made as of July 26, 1999, by LIGO Construction Inc., a Washington corporation (the "Grantor"), whose address is 1630 Unison Place, Mount Vernon, Washington 98273, First American Title Company of Skagit County (the "Trustee"), whose address is P.O. Box 1667, Mount Vernon, Washington 98273, and The Farmers Bank of China, Seattle Branch (the "Beneficiary"), whose address is 1201 Third Avenue, Suite 2300, Seattle, Washington 98101.

## RECITALS

A. Note, Principal and Interest. Grantor has executed and delivered to Beneficiary a an Amended and Restated Promissory Note (Revolving) dated December 29, 1998, payable to the order of Beneficiary in the original principal amount of Nine Hundred Fifty Thousand Dollars (\$950,000) (the "Loan Amount"). The promissory note, together with any and all amendments or supplements thereto, extensions, renewals, or substitutions of it, are collectively referred to below as the "Note." The Note provides for a variable rate of interest using Beneficiary's prime rate as an index.

B. Loan Documents. Any and all loan agreements, pledge agreements, construction loan agreements (including but not limited to the Amended and Restated Construction Loan Agreement dated December 29, 1998, between Beneficiary and Grantor (the "Agreement")), indemnity agreements, assignments and all instruments of indebtedness or security including the Note, this Deed of Trust, and all other deeds of trust securing the Note now or hereafter executed by Grantor in connection with any of the Liabilities (as defined below), and any guaranties, as the same have been or may be amended or modified from time to time, are referred to below as the "Loan Documents." The loan transaction made by Beneficiary to Grantor for the construction of the Improvements on the Property, which is only a portion of the face amount of the Note, is referred to below as the "Loan."

C. The Liabilities. The term "Liabilities" shall include all of the following: the principal and interest on the Note; all indebtedness of any kind arising under, or owing to Beneficiary under, any of the Loan Documents; all of the covenants, obligations and agreements in (and the truth of all Grantor's representations and warranties to Beneficiary in, under or pursuant to) the Loan Documents; all advances, costs or expenses paid or incurred by Beneficiary to protect any or all of the Collateral (defined below), perform any obligation of Grantor hereunder or collect any amount owing to Beneficiary which is secured hereby; interest on all of the foregoing; and all costs of enforcement and collection of any of the foregoing.

D. The Collateral. For purposes of this Deed of Trust, the term "Collateral" means and includes all of Grantor's right, title and interest in the following, whether now owned or hereafter acquired, together with any and all additions, accessions, replacements and substitutions to the following, and all compensation, damages, claims, insurance recoveries or returns of premium, condemnation awards, refunds or rebates of taxes or assessments, rights of action, payments and products, and all proceeds thereof, regarding the following:



(i) Real Estate. All of the land described on Exhibit A attached hereto (the "Land"), together with the tenements, rights, easements, hereditaments, rights of way, privileges, liberties, appendages and appurtenances belonging or in any way appertaining to the Land (including, without limitation, all rights relating to storm and sanitary sewer, water, gas, electric, railway and telephone services); all development rights, air rights, water, water rights, water stock, gas, oil, minerals, coal and other substances of any kind or character underlying or relating to the Land; all streets, roads, highways or alleys (vacated or otherwise) adjoining the Land or any part

thereof; all strips and gores belonging, adjacent or pertaining to the Land (all of the foregoing is herein referred to collectively as the "Real Estate");

(ii) Improvements and Fixtures. All buildings, structures, replacements, furnishings, fixtures, fittings and other improvements and property of every kind and character now or hereafter located or erected on the Real Estate, together with all equipment, appliances, machinery, plant equipment, fittings, apparatus, fixtures and other articles of any kind or nature whatsoever now or hereafter found on, affixed to or attached to the Real Estate, including (without limitation) all motors, boilers, engines and devices for the operation of pumps, and all heating, electrical, lighting, power, plumbing, air conditioning, refrigeration and ventilation equipment (all of the foregoing is herein referred to collectively as the "Improvements");

(iii) Personal Property. All building materials, goods, construction materials, appliances (including stoves, refrigerators, water fountains and coolers, fans, heaters, incinerators, compactors, dishwashers, clothes washers and dryers, water heaters and similar equipment), supplies, blinds, window shades, carpeting, floor coverings, elevators, office equipment, growing plants, fire sprinklers and alarms, control devices, equipment (including motor vehicles and all window cleaning, building cleaning, swimming pool, recreational, monitoring, garbage, air conditioning, pest control and other equipment), tools, furnishings, furniture, light fixtures, non-structural additions to the Real Estate, and all other tangible property of any kind or character used or useful in connection with the Real Estate, any construction undertaken on the Real Estate, any trade, business or other activity (whether or not engaged in for profit) for which the Real Estate is used, or the maintenance of the Real Estate, all regardless of whether located on the Real Estate or located elsewhere, and regardless of whether in the possession of Grantor or any warehouseman, bailee, or other third party including (without limitation) all rights under any reserve and escrow accounts established and maintained with Beneficiary or its agent (all of the foregoing is herein referred to collectively as the "Goods");

(iv) Intangibles. All goodwill, trademarks, trade names, option rights, purchase contracts (including, but not limited to, any agreements for the purchase of building lots between Grantor and Sea-Van Investment Associates, a Washington general partnership or any successor thereto), books and records and general intangibles of Grantor relating to the Real Estate or the Improvements and all accounts, instruments, documents of title, chattel paper and other rights of Grantor for payment of money, for property sold or lent, for services rendered, for money lent, or for advances or deposits made, including any equity funds deposited with Beneficiary, and any other intangible property of Grantor related to the Real Estate or the Improvements (all of the foregoing is herein referred to collectively as the "Intangibles");

(v) Rents. All rents, revenues, issues, profits, royalties, avails, income and other benefits derived or owned by Grantor directly or indirectly from the Real Estate or the Improvements, including without limitation all cash and security deposits, and all advance rents and deposits and similar payments (all of the foregoing is herein collectively called the "Rents");

(vi) Leases. All leases, licenses, occupancy agreements, concessions or other arrangements, whether written or oral, whether now existing or entered into at any time hereafter, whereby any person agrees to pay money or any consideration for the use, possession or occupancy of, or any estate in, the Real Estate or the Improvements or any part thereof, and all claims against guarantors under any thereof (all of the foregoing is herein referred to collectively as the "Leases");

(vii) Permits and Plans. All government permits, licenses, franchises and approvals relating to the ownership, use, improvement, and maintenance of any of the Collateral, and all plans and specifications, site plans, designs, drawings, studies, surveys, tests, market surveys and other matters prepared for any construction or development on the Real Estate (all of the foregoing is herein referred to collectively as the "Plans");

(viii) Contracts for Construction or Services. Any contracts executed by the Grantor as owner with any provider of goods or services for or in connection with any construction undertaken on, or services performed or to be performed in connection with, the Real Estate or the Improvements, including any architect, engineering, consulting or management contract, and all Grantor's rights under any payment, performance, or other bonds in connection with the construction of the Improvements to the Premises, and any contracts, agreements, and reservations for shipping space on trucks, ships, barges, and rail cars (all of the foregoing is herein referred to collectively as the "Contracts for Construction");



(ix) Contracts for Sale or Financing. Any agreement, contract, understanding or arrangement pursuant to which Grantor has, with the consent of Beneficiary, obtained the agreement of any person to pay or disburse any money for Grantor's sale (or borrowing on the security) of the Collateral or any part thereof (all of the foregoing is herein referred to collectively as the "Contracts for Sale");

(x) Other Property. All other property or rights of Grantor of any kind or character related to the Real Estate or the Improvements. (The Real Estate and Improvements are sometimes referred to collectively below as the "Premises"); and

(xi) Proceeds. All proceeds of the foregoing.

## G R A N T

NOW, THEREFORE, for and in consideration of the various agreements contained in the Loan Documents, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Grantor,

GRANTOR HEREBY IRREVOCABLY GRANTS, BARGAINS, SELLS, CONVEYS, TRANSFERS AND ASSIGNS TO TRUSTEE, ITS SUCCESSORS AND ASSIGNS, IN TRUST, WITH POWER OF SALE AND RIGHT OF ENTRY AND POSSESSION, ALL OF GRANTOR'S RIGHT, TITLE AND INTEREST IN AND TO ALL OF THE COLLATERAL.

Grantor hereby covenants with and warrants to Beneficiary: that at the execution and delivery hereof it owns fee simple title to the Premises; that the Collateral is free from all encumbrances whatsoever (and any claim of any other person thereto) other than the encumbrances permitted by Beneficiary in writing and identified on attached Exhibit B (the "Permitted Exceptions"); that it has good and lawful right to encumber the Collateral; and that it will forever warrant and defend the Collateral against all claims and demands whatsoever.

To secure the payment and performance of the Liabilities, Grantor hereby covenants, warrants and agrees with Beneficiary as follows:

### ARTICLE I: COVENANTS AND AGREEMENTS OF GRANTOR

1.01 Payment of Liabilities. Grantor shall timely pay the principal of and interest on the Note and all other Liabilities (including fees and charges) without demand,



counterclaim, offset, deduction or defense. Grantor waives all rights now or hereafter conferred to any such demand, counterclaim, offset, deduction or defense.

#### 1.02 Escrow Payments.

(a) Grantor shall pay monthly escrow deposits to Beneficiary in an amount equal to one-twelfth (1/12th) of the annual hazard insurance premium, assessed real estate taxes and other assessments regarding the Collateral to permit payment of these obligations on or before their due dates. These escrow deposits shall be held in a reserve account, and no interest shall be paid on them. If the laws of the State of Washington are changed by statute or court decision to make payment of interest on said reserve account a requirement, then Beneficiary or its servicing agent at their option may charge a service fee for handling the tax and insurance account.

(b) As long as no Event of Default (as defined below) occurs under the Note or this Deed of Trust, Grantor shall not be required to establish the reserve required under subsection 1.02(a).

#### 1.03 Construction, Maintenance and Repair.

(a) Grantor will: not abandon the Premises; not do or suffer anything to be done which would depreciate or impair the value of the Collateral or the security of this Deed of Trust; not remove or demolish any of the Improvements; pay promptly for all labor and materials for all construction, repairs and improvements to or on the Premises; not make any changes, additions or alterations to the Premises or the Improvements except as required by any applicable governmental requirement or as otherwise previously approved in writing by Beneficiary; make all alterations, repairs, or remodeling required by any governmental authority or previously approved by Beneficiary in writing in compliance with all federal, state, or local statutes, regulations, ordinances, or orders, including without limitation WAC 296-65 regarding the release of asbestos fibers; maintain, preserve and keep the Goods and the Improvements in good, safe and insurable condition and repair and promptly make any needful and proper repairs, replacements, renewals, additions or substitutions; promptly restore and replace any of the Improvements or Goods which are destroyed or damaged; not commit, suffer or permit waste of any part of the Premises; and maintain all grounds and abutting streets and sidewalks in good and neat order and repair.

(b) Grantor will cause the Improvements and Goods: (1) to be constructed and equipped in a diligent and orderly manner and in accordance with (i) the Plans, which are subject to Beneficiary's prior approval, (ii) the Contracts for Construction, and (iii) all applicable ordinances, regulations, building codes, zoning laws, and statutes, including



without limitation, the Americans With Disabilities Act of 1990 and the Fair Housing Amendments Act of 1988; (2) to be constructed entirely on the Real Estate, and not to encroach upon or overhang any easement or right-of-way, or other property; (3) to be constructed wholly within any building restriction lines, however established; and (4) not to violate any applicable use or other restrictions contained in prior conveyances, zoning ordinances, or regulations. Grantor will strictly enforce the Contracts for Construction to assure that the general contractor, or, if none, all subcontractors promptly and diligently perform the obligations on their part to be performed thereunder in a manner preserving the Beneficiary's security in the Premises.

1.04 Access by Beneficiary. Grantor will upon written request from Beneficiary: deliver to Beneficiary either all of its executed originals (in the case of chattel paper or instruments) or true and complete copies (in all other cases) of all leases, agreements creating or evidencing Intangibles, Plans, Contracts for Construction, Contracts for Sale, and any other document which is part of, or which evidences, governs, or creates, the Collateral; permit access by Beneficiary during normal business hours to its books and records, construction progress reports, tenant registers, sales records, offices, insurance policies and other papers for examination and the making of copies and extracts; prepare such schedules, summaries, reports and progress schedules as Beneficiary may reasonably request; and permit Beneficiary and its agents and designees, at all reasonable times, to enter on and inspect the Premises.

1.05 Eminent Domain. If the Collateral, or any part thereof, is taken by condemnation, Beneficiary may collect and receive all compensation and awards of any kind (the "Condemnation Awards") which may be paid for any property taken or for damages to any property not taken. Grantor hereby assigns all Condemnation Awards to Beneficiary, and all Condemnation Awards so received shall be applied by Beneficiary pursuant to Section 1.06 below. Beneficiary may, in its absolute discretion, settle, compromise and adjust any and all claims or rights arising under any condemnation or eminent domain proceeding relating to all or part of the Collateral.

1.06 Application of Insurance and Condemnation Proceeds.

(a) All compensation, awards, proceeds, damages, claims, insurance recoveries, Condemnation Awards, rights of action and payments (hereinafter "Payments") which Grantor may receive or to which Grantor may become entitled with respect to the Collateral or any part thereof in the event of any damage or injury to or a partial condemnation of the Collateral are assigned to Beneficiary. All such payments shall be paid over to Beneficiary and shall be applied first toward reimbursement of all costs and expenses



of Beneficiary in connection with recovery of the same, and then shall be applied in the following order:

First, Beneficiary may, in its sole discretion, apply all or part of the Payments to the payment or prepayment of any indebtedness secured hereby in such order as Beneficiary may determine.

Second, Grantor shall next use any remaining proceeds from the Payments to repair, restore and rebuild the Collateral, so long as: (i) No Event of Default has occurred under the Loan Documents; (ii) Grantor is not in default under any of the terms, covenants or conditions of any of the Leases and the Leases continue in full force and effect by their terms following the condemnation or casualty loss; (iii) Grantor has in force rental continuation and business interruption insurance covering the longer of six (6) months or the time Beneficiary reasonably estimates will be necessary to complete such restoration and rebuilding; (iv) Beneficiary is satisfied that the Payments shall be sufficient to fully restore and rebuild the Collateral free and clear of all liens, except the lien of this Deed of Trust and the Permitted Exceptions; (v) Beneficiary determines in its reasonable discretion that the restoration of the Collateral would be economically feasible and that such restoration would be completed at least six (6) months prior to the maturity date of the Note; (vi) any excess of said Payments above the amount necessary to complete such restoration or rebuilding shall be applied, without prepayment premium, as a credit upon that portion of the Liabilities selected by Beneficiary; (vii) construction and completion of restoration and rebuilding of the Collateral shall be completed in accordance with plans and specifications and drawings submitted to and approved by Beneficiary, which plans, specifications and drawings shall not be substantially modified, changed or revised without Beneficiary's prior written consent and shall be in conformity with all applicable laws, regulations, and ordinances including without limitation building, zoning, land use and environmental regulations; and (viii) Beneficiary, in its reasonable discretion, determines that the value of the Collateral as restored will equal or exceed its value immediately prior to the loss or taking.

Finally, if less than all the conditions in the immediately preceding paragraph are satisfied or waived by Beneficiary, then the Payments shall be applied to the payment or prepayment of any indebtedness secured hereby in such order as Beneficiary may determine.

(b) All Payments which Grantor may receive or to which Grantor may become entitled with respect to the Collateral in the event of a total condemnation of the Collateral shall be paid over to Beneficiary and shall be applied first toward reimbursement of all costs and expenses of Beneficiary in connection with recovery of the same, and then to payment or prepayment of all the Liabilities in such order as Beneficiary may determine.





(c) If Payments are applied to repair, restoration or rebuilding of the Collateral pursuant to subsection 1.06(a), then that portion of all such Payments to be used to fund those efforts shall be deposited into an interest-bearing escrow account with Beneficiary, and shall be disbursed in accordance with Beneficiary's standard construction loan disbursement procedure. If Beneficiary at any time reasonably determines that the Payments deposited will not be sufficient to complete the repair, restoration or rebuilding of the Collateral pursuant to the plans, specifications and cost estimates, Beneficiary may withhold disbursements of funds in the account until Grantor has deposited such additional funds as Beneficiary deems reasonably necessary to complete the work.

(d) Any application of such amounts or any portion thereof to any indebtedness secured hereby shall not be construed to cure or waive any Event of Default hereunder or invalidate any act done pursuant to any such Event of Default.

(e) Notwithstanding anything to the contrary contained herein, if the zoning, building or other land use ordinances then in effect governing the Premises do not permit the repair, rebuilding or restoration of all of the Premises which has been damaged or destroyed, then Grantor hereby agrees that any Payments shall be applied to the payment or prepayment of any indebtedness secured hereby in such order as Beneficiary may determine in its sole discretion.

**1.07 Governmental Requirements.** Grantor will at all times and at its sole expense fully comply with, and cause the Collateral to fully comply with, all applicable governmental statutes, ordinances, requirements, regulations, rules, orders and decrees of any kind that apply or relate to Grantor or the Collateral or the use thereof, including without limitation the Americans with Disabilities Act of 1990, and the Fair Housing Amendments Act of 1988, as they may be amended, and will observe and comply with all conditions and requirements necessary to preserve and extend any and all rights, licenses, permits, privileges, franchises and concessions (including, without limitation, those relating to land use and development, landmark preservation, construction, access, utilities, water rights and use, noise and pollution) which are applicable to Grantor or have been granted for the Collateral or the use thereof. Unless required by applicable law or unless Beneficiary has otherwise first agreed in writing, Grantor shall not make or allow any changes to be made in the nature of the occupancy or use of the Premises or any portion thereof for which the Premises or such portion was intended at the time this Deed of Trust was delivered. Grantor shall not initiate or acquiesce in any change in any zoning or other land use classification affecting the Premises now or hereafter in effect without in each case obtaining Beneficiary's prior written consent thereto. Grantor shall not take or permit any action, the effect of which would be to decrease the amount of private parking available to serve the Premises, without obtaining Beneficiary's prior written consent.



1.08 Mechanics' Liens. The lien of this Deed of Trust shall extend to any and all Improvements and fixtures now or hereafter on the Premises, prior to any other lien thereon that may be claimed by any person.

1.09 Continuing Priority. Grantor will: pay such fees, taxes and charges; execute and file at its expense such documents; obtain such acknowledgments or consents; notify such obligors or providers of services and materials; and do all such other acts and things as Beneficiary may from time to time request to establish and maintain a valid and perfected first and prior lien on and security interest in the Collateral, and to provide for payment to Beneficiary directly of all cash proceeds thereof, with Beneficiary in possession of the Collateral to the extent it requests. Grantor will also: maintain its office and principal place of business at all times at the address shown above; keep all of its books and records relating to the Collateral on the Premises or at such address; keep all tangible Collateral on the Real Estate, except as Beneficiary may otherwise consent in writing; make notations on its books and records sufficient to enable Beneficiary, as well as third parties, to determine the interest of Beneficiary hereunder; and not collect any rents or the proceeds of any of the Leases or Intangibles more than thirty (30) days before the same shall be due and payable except as Beneficiary may otherwise consent in writing.

1.10 Utilities. Grantor will pay all utility charges incurred in connection with the Collateral promptly when due and maintain all utility services available for use at the Premises.

1.11 Contract Maintenance; Other Agreements; Leases. Grantor will, for the benefit of Beneficiary, fully and promptly keep, observe, perform and satisfy each obligation, condition, covenant and restriction affecting the Premises or imposed on it under any agreement between Grantor and a third party relating to the Collateral or the Liabilities including, without limitation, the Contracts for Sale, Contracts for Construction, and Intangibles (collectively the "Third Party Agreements"), and the Leases, so that there will be no default thereunder and so that the persons (other than Grantor) obligated thereon shall be and remain at all times obligated to perform for the benefit of Beneficiary. Grantor will not permit to exist any condition, event or fact which could allow or serve as a basis or justification for any such person to avoid such performance. Without the prior written consent of Beneficiary, Grantor shall not:

- (i) make or permit any termination or material amendment of any Third Party Agreement;
- (ii) accept prepayments of rent exceeding one month;



(iii) materially modify or amend any Leases or, except where the Lease is in default, cancel or terminate the same or accept a surrender of the leased premises, provided that Grantor may renew, modify or amend Leases or take other action in the ordinary course of business so long as such action does not decrease the monetary obligations of the tenant thereunder, or otherwise materially decrease the obligations of the tenant or the rights or remedies of the landlord;

(iv) Consent to the assignment or subletting of the whole or any portion of any tenant's interest under any Lease which has a term of more than one (1) year;

(v) create or permit any lien or encumbrance which, upon foreclosure, would be superior to any such Leases; or

(vi) in any other manner impair Beneficiary's rights and interests with respect to the Rents.

All security or other deposits received from tenants under the Leases shall be segregated and maintained in an account satisfactory to Beneficiary and in compliance with the laws of the State of Washington.

1.12 No Assignments; Future Leases. Grantor will not cause or permit any Rents, Leases, Third Party Agreements, or other contracts relating to the Premises to be assigned to any party other than Beneficiary without first obtaining the express written consent of Beneficiary. In addition, Grantor shall not cause or permit all or any portion of or interest in the Premises or the Improvements to be leased directly or indirectly to any person, except at rents which will equal or exceed the rents as of the date of this Deed of Trust, and otherwise pursuant to written leases in a form approved by Beneficiary. Each such lease shall contain a provision agreeing that no action taken by Beneficiary to enforce this Deed of Trust by foreclosure, or by accepting a deed in lieu of foreclosure, or by resorting to any other remedies available to Beneficiary, shall terminate the lease or invalidate any of the terms thereof and that tenant will attorn to Beneficiary, to the purchaser at a foreclosure sale, or to a grantee in a voluntary conveyance, and will recognize such entity as landlord for the balance of the term of the lease, and in return for this provision Beneficiary agrees with each such tenant that as long as such tenant is not in default under any of the terms of its lease, the tenant's possession will not be disturbed by Beneficiary. No proceeding by Beneficiary to foreclose this Deed of Trust, or action by way of its entry into possession after any Default hereunder, shall in or of itself operate to terminate such leases unless Beneficiary expressly requests such relief in writing, but the preceding provisions of this Section 1.12 shall never be construed as subordinating this Deed of Trust to any such leases or any other lease.



### 1.13 Assignment of Rents and Leases.

(a) All of Grantor's interest in and rights under all present and future Leases, and all of the Rents, whether now due, past due, or to become due, including all prepaid rents and security deposits, are hereby absolutely, presently and unconditionally assigned and conveyed to Beneficiary to be applied by Beneficiary in payment of all the Liabilities. Prior to the occurrence of any Event of Default, Grantor shall have a license to collect and receive all Rents, which license shall be terminated at the sole option of Beneficiary, without regard to the adequacy of its security hereunder and without notice to or demand upon Grantor, upon the occurrence of any Event of Default. It is understood and agreed that neither the foregoing assignment of Rents to Beneficiary nor the exercise by Beneficiary of any of its rights or remedies under Articles IV or VI hereof shall be deemed to make Beneficiary a "mortgagee-in-possession" or otherwise responsible for the Collateral or the use, occupancy, enjoyment or operation of any portion thereof, unless and until Beneficiary, in person or by agent, assumes actual possession thereof. It is further agreed that the appointment of a receiver for the Collateral at the request of Beneficiary or by agreement with Grantor, or the entering into possession of any part of the Collateral by such receiver, shall not be deemed to make Beneficiary a mortgagee-in-possession of or otherwise responsible for the Collateral or the use, occupancy, enjoyment or operation of any portion thereof. Upon the occurrence of any Event of Default, this section shall constitute a direction from Grantor and full authority to each tenant under any Lease, each guarantor of any Lease, and any managing agent employed by Grantor to collect Rents and to pay all Rents to Beneficiary without proof of the default relied upon. Grantor hereby irrevocably authorizes each tenant, guarantor, and managing agent to rely upon and comply with any notice or demand by Beneficiary for the payment to Beneficiary of any Rents due or to become due.

(b) Grantor shall apply the Rents to the payment of all necessary and reasonable operating costs and expenses of the Collateral, debt service on the indebtedness secured hereby, and a reasonable reserve for future expenses, repairs and replacements for the Collateral, before using the Rents for Grantor's personal use or any other purpose not for the direct benefit of the Collateral.

(c) Grantor shall at all times fully perform the obligations of landlord under all Leases. Grantor shall at any time or from time to time, upon request of Beneficiary, transfer and assign to Beneficiary in such form as may be satisfactory to Beneficiary, Grantor's interest in the Leases, subject to and upon the condition, however, that prior to the occurrence of any Event of Default hereunder Grantor shall have a license to collect and receive all Rents under such Leases upon accrual, but not prior thereto except as set forth in Section 1.11.



(d) Beneficiary shall have the right to assign Grantor's right, title and interest in any Leases to any subsequent holder of this Deed of Trust or any participating interest therein, or to any person acquiring title to all or any part of the Collateral through foreclosure or otherwise. Any subsequent assignee shall have all the rights and powers herein provided to Beneficiary. Upon the occurrence of any Event of Default, Beneficiary shall have the right to execute new leases of any part of the Collateral, including Leases that extend beyond the term of this Deed of Trust. Beneficiary shall have the authority, as Grantor's attorney-in-fact, such authority being coupled with an interest and irrevocable, to sign the name of Grantor and to bind Grantor on all papers and documents relating to the operation, leasing and maintenance of the Collateral.

1.14 Beneficiary's Performance. If Grantor fails to pay or perform any of its obligations herein contained (including payment of expenses of foreclosure and court costs), Beneficiary may, as agent or attorney-in-fact of Grantor, make any payment or perform any obligation of Grantor hereunder, in any form and manner deemed expedient by Beneficiary, and any amount so paid or expended (plus reasonable compensation to Beneficiary for its out-of-pocket and other expenses for each such matter), with interest thereon at the rate applicable after default as provided in the Note, shall be added to the principal debt hereby secured and shall be repaid to Beneficiary upon demand. By way of illustration and not in limitation of the foregoing, Beneficiary may do all or any of the following: make payments of principal or interest or other amounts on any lien, encumbrance or charge on any of the Collateral; complete construction; make repairs; collect rents; prosecute collection of the Collateral or proceeds thereof; purchase, discharge, compromise or settle any tax lien or any other lien, encumbrance, suit, proceeding, title or claim thereof; contest any tax or assessment; and redeem from any tax sale or forfeiture affecting the Premises. In making any payment or securing any performance relating to any obligation of Grantor hereunder, Beneficiary shall (as long as it acts in good faith) be the sole judge of the legality, validity and amount of any lien or encumbrance and of all other matters necessary to be determined in satisfaction thereof. No such action of Beneficiary shall ever be considered as a waiver of any right accruing to it on account of the occurrence of any matter which constitutes an Event of Default.

1.15 Subrogation. To the extent that Beneficiary pays any sum under any provision of law or any instrument or document creating any lien or other interest prior or superior to the lien of this Deed of Trust, or Grantor or any other person pays any such sum with the proceeds of the loan secured hereby, Beneficiary shall have and be entitled to a lien or other interest on the Collateral equal in priority to the lien or other interest discharged and Beneficiary shall be subrogated to, and receive and enjoy all rights and liens possessed, held or enjoyed by, the holder of such lien, which shall remain in existence and benefit Beneficiary in securing the Liabilities.



1.16 Management of Premises. Grantor shall manage the Premises through its own personnel or a third party approved by Beneficiary, and Grantor shall not contract with any other third party for property management services without the prior written approval by Beneficiary of such party and the terms of its contract for management services, which approval shall not be unreasonably withheld.

1.17 Sales Reports; Marketing Plan. At least three (3) months prior to completion of the construction of the Improvements on the Property but in no event later than nine (9) months after the recording of this Deed of Trust, Grantor shall prepare and deliver to Beneficiary a marketing plan for the sale of the housing unit(s) to be constructed on the Property. The marketing plan shall identify specific actions which Grantor shall undertake according to an identified time schedule which are designed to effectively market the housing unit(s) prior to the maturity date of the Note. The marketing plan shall be subject to Beneficiary's approval, which approval shall not be unreasonably withheld, conditioned, or delayed.

On or before the first business day of each month following completion of construction of the Improvements on the Property, Grantor shall report to Beneficiary regarding the status of sales efforts at the Property. These periodic reports shall contain such information reasonably requested by Beneficiary, including, but not limited to, the current listing price for the housing unit(s) and a summary of the material terms of all offers to purchase the housing unit(s) since the date of the last report.

1.18 Condominium Requirements.

(a) After the recording of this Deed of Trust, if the plans and specifications for the Improvements call for the construction of condominium units on the Property, Grantor shall submit the Property to the Washington Condominium Act (RCW Chapter 64.34). Grantor shall not record the condominium declaration, survey map and plans, and requisite certificates of completion until after the recording of this Deed of Trust and after receiving Beneficiary's written approval of all condominium organizational and constituent documents. When submitting the Property to the Washington Condominium Act, all condominium organizational and constituent documents must be established in form and content to conform to the guidelines and requirements established by FHA/VA and by the Federal National Mortgage Association ("FNMA"). The condominium organizational and constituent documents shall include, without limitation, articles of incorporation for the condominium association, a condominium declaration, survey map and plans, bylaws, condominium association budget, public offering statement, resale certificate (if applicable), form of warranty and all other documents which are or must be prepared, delivered or recorded pursuant to the terms of RCW Chapter 64.34, as it may be amended or replaced.



In addition, when the declaration and survey map and plans are recorded, Grantor shall at its expense provide to Lender a form 116.3 endorsement to Lender's title policy modified to include assurances from a form 115 endorsement that the condominium was legally created. The form of earnest money agreement and unit sales agreement for the sale of individual condominium units must conform to FHA/VA and FNMA guidelines and requirements. Promptly after recording the necessary organizational documents, Grantor shall give to Beneficiary recorded copies of the condominium declaration and survey map and plans, all requisite certificates of completion, and an opinion acceptable to FNMA and a certification satisfactory to FHA/VA regarding the condominium project.

(b) After the condominium declaration is recorded:

(i) So long as Grantor shall retain control over the condominium declaration, articles or bylaws (i.e., Grantor has not relinquished control pursuant to RCW 64.34.308), Grantor shall not materially amend the condominium declaration, or the articles of incorporation or bylaws of the owner's association, without the prior written consent of Beneficiary, which shall not be unreasonably withheld, conditioned or delayed;

(ii) Grantor shall not cause the status of the Property as a condominium under RCW Chapter 64.34 to be voluntarily or involuntarily terminated without the prior written consent of Beneficiary, which consent Beneficiary may grant or deny in its sole discretion; and

(iii) Grantor covenants that its sale of condominium units constructed on the Property and the operation of the Property shall at all times satisfy the requirements of RCW Chapter 64.34, as it may be amended or replaced from time to time, and the requirements and guidelines of the FHA/VA and FNMA, including, but not limited to, the requirement that a minimum percentage of the condominium units at the Property remain owner-occupied. Beneficiary shall place appropriate restrictions in its unit sales agreements and the condominium declaration to require the continued satisfaction of such owner-occupancy requirements through the Loan term.

(c) No more than sixty (60) days after the recording of this Deed of Trust, Grantor shall commence working with a lender to obtain either FHA/VA or FNMA approval of the condominium project being constructed on the Property, and shall submit an application for such approval with all supporting documentation (e.g., draft condominium documents, environmental report, preliminary appraisal, and attorney opinion letter or certification) within sixty (60) days after selecting the lender. Grantor shall immediately deliver to Beneficiary a copy of the application and, upon Beneficiary's request, any supporting or other documentation submitted to and correspondence to or from FNMA or



FHA/VA. Upon receiving a conditional approval or any other response from FNMA or FHA/VA, Grantor shall immediately provide a copy to Beneficiary and diligently work to satisfy all conditions and secure final FNMA or FHA/VA approval.

(d) Grantor shall obtain final FNMA or FHA/VA approval, furnish evidence to Beneficiary of the approval, and record all necessary condominium documents on or before the date which is ten (10) months after the recording of this Deed of Trust.

(e) Notwithstanding any other term of this Deed of Trust, Grantor shall not lease any residential condominium units in the Property during the term of the Loan without the prior written consent of Beneficiary. Except for restrictions ensuring the continued compliance of the Property with the owner-occupancy requirements of FHA/VA or FNMA, this restriction shall not apply to any third party who has taken fee title to a condominium unit at the Property by purchasing the unit from Grantor, provided Grantor has obtained a partial reconveyance of Beneficiary's lien for such unit.

(f) Unless otherwise prohibited by law, Beneficiary or Trustee, either prior to, contemporaneously or subsequent to the foreclosure of this Deed of Trust on the Collateral, may pay any unpaid common expenses payable with respect to the Collateral for which Beneficiary may become liable. Subsequent to such payments, Beneficiary shall have a lien, without merger, upon the Collateral for the amount paid of the same priority as the lien of this Deed of Trust; or if subsequent to sale upon execution, such lien shall be prior to any lien held by any redemptioner as defined by law. If Beneficiary is the successful bidder at any sale upon execution subsequent to a judicial foreclosure and obtains possession of the Collateral or any portion thereof subject to redemption by the judgment debtor as defined by law, any payments made by Beneficiary or its successor in interest to satisfy condominium assessments levied and payable during the redemption period, in the event of any such redemption, shall be recoverable by Beneficiary for the judgment debtor or its successor in interest, or any redemptioner, in the same manner as any other assessment or tax would be recovered pursuant to applicable law.

(g) Grantor shall promptly pay, when due, all assessments imposed by the condominium owners association or other governing body of the condominium created by Grantor pursuant to the provisions of the declaration, bylaws, and any other constituent documents of the condominium.





## ARTICLE II: REPRESENTATIONS AND WARRANTIES

To induce Beneficiary to make the loan secured hereby, Grantor represents and warrants to Beneficiary that as of the date hereof and until all obligations under the Loan Documents are performed:

**2.01 Power and Authority.** Grantor, and if Grantor is more than one party, each party constituting Grantor is duly organized and validly existing, is qualified to do business in the State of Washington and in good standing in the State of Washington, and has full power and due authority to execute, deliver and perform the Loan Documents in accordance with their terms. Such execution, delivery and performance has been duly authorized by all necessary corporate or partnership action and has been approved by each required governmental authority or other party, and the obligations of Grantor and every other party thereto under each are the legal, valid and binding obligations of each, enforceable by Beneficiary in accordance with their terms.

**2.02 No Default or Violations.** No Event of Default or event which, with notice or passage of time or both, would constitute an Event of Default has occurred and is continuing under any of the Loan Documents. Neither Grantor, nor any party constituting Grantor, nor any general partner or joint venturer in any such party, is in violation of any applicable law, regulation, order, decree or requirement or in default under any agreement to which it is bound, or which affects it or any of its property. Grantor's execution, delivery and performance of the Loan Documents in accordance with their terms, and Grantor's use and occupancy of the Premises, will not violate any applicable law, regulation, order, decree or requirement, or conflict with, be inconsistent with or result in any default under, any of the representations or warranties, covenants, or other provisions of any indenture, mortgage, deed of trust, contract, agreement or other instrument to which any of the foregoing is bound or which affects it or any of its property, except as identified in writing and approved by Beneficiary.

**2.03 No Litigation or Governmental Controls.** There are no proceedings of any kind pending, or, to the knowledge of Grantor, threatened against or affecting Grantor, the Collateral, any party constituting Grantor or any general partner or joint venturer in any such party, or involving the validity, enforceability or priority of the Loan Documents, or enjoining or preventing or threatening to enjoin or prevent the use and occupancy of the Premises or the performance by Beneficiary of its obligations hereunder, and there are no rent controls or governmental moratoria presently in existence, or, to the knowledge of Grantor, pending or threatened, which affect the Premises, except as identified in writing to, and approved by, Beneficiary.



2.04 Liens. Title to the Premises, or any part thereof, is not subject to any liens, encumbrances or defects of any nature whatsoever, whether or not of record, and whether or not customarily shown on title insurance policies, except the Permitted Exceptions.

2.05 Financial and Operating Statements. All financial and operating statements submitted to Beneficiary in connection with this Loan and all other loans made pursuant to the Agreement are true and correct in all respects, have been prepared in accordance with generally accepted accounting principles (applied, in the case of any unaudited statement, on a basis consistent with that of the preceding fiscal year) and fairly present the respective financial conditions of the subjects thereof and the results of their operations as of the respective dates shown thereon. No materially adverse changes have occurred in the financial conditions and operations reflected therein since their respective dates, and no additional borrowings or pledging of assets have been made since the date thereof other than the borrowing made under this Deed of Trust and any other borrowing or pledging approved in writing by Beneficiary.

2.06 Other Statements to Beneficiary. None of the Loan Documents, nor any document, agreement, report, schedule, notice or other writing furnished to the Beneficiary by or on behalf of any party constituting Grantor, or any general partner or joint venturer of any such party, contains any omission or misleading or untrue statement of any fact material to any of the foregoing.

2.07 Third Party Agreements. Each Third Party Agreement is unmodified and in full force and effect and free from default on the part of each party thereto, and all conditions required to be (or which by their nature can be) satisfied by any party to date have been satisfied. Grantor has not done or said or omitted to do or say anything which would give to any obligor on any Third Party Agreement any basis for any claims against Beneficiary or any counterclaim to any claim which might be made by Beneficiary against such obligor on the basis of any Third Party Agreement.

2.08 Leases. Grantor warrants as to each of the Leases now covering all or any part of the Premises:

- (i) that each of the Leases is in full force and effect;
- (ii) that to the best of Grantor's knowledge, no default exists on the part of either the lessee thereunder or Grantor;
- (iii) that no rent has been collected more than one (1) month in advance;



(iv) that none of the Leases or any interest therein has been previously assigned or pledged;

(v) that no tenant under any of the Leases has any defense, setoff or counterclaim against Grantor;

(vi) except as disclosed to and approved by Beneficiary in writing, that all rent due to date under each of the Leases has been collected and no concession has been granted to any tenant in the form of a waiver, release, reduction, discount or other alteration of rent due or to become due; and

(vii) that the interest of the tenant under each of the Leases is as tenant only, with no options to purchase or rights of first refusal.

2.09 Use of Property. The property that is the subject of this Deed of Trust is not used principally for agricultural or farming purposes.

### ARTICLE III: EVENTS OF DEFAULT

Each of the following shall constitute a default ("Event of Default") hereunder (including, if Grantor consists of more than one person or entity, the occurrence of any of such events with respect to any one or more of such persons or entities):

3.01 Payment; Performance. Failure to make any payment of principal or interest or any other amount under any of the Loan Documents within ten (10) days of the stated due date.

3.02 Representations and Warranties. Any representation, warranty, or disclosure made to Beneficiary by Grantor or any guarantor of any indebtedness secured hereby in connection with or as an inducement to the making of the Loan or any of the other loans made pursuant to the Agreement, proving to be false or misleading in any material respect as of the time the same was made, whether or not any such representation or disclosure appears as part of this Deed of Trust.

3.03 Bankruptcy Filing; Other Consents or Failures. If Grantor, or if Grantor is a partnership or joint venture any constituent general partner or joint venturer in Grantor, or if Grantor is a corporation any shareholder owning more than twenty percent (20%) of any class of voting stock in Grantor (any and all of Grantor, any such constituent general partner or joint venturer, and any such shareholder, being included within the term "Grantor" for the



purposes of this Section 3.03 and Section 3.04 hereof), shall file a voluntary case under any applicable bankruptcy, insolvency, debtor relief, or other similar law now or hereafter in effect, or shall consent to the appointment of or taking possession by a receiver, liquidator, trustee, or similar official of Grantor or for any part of the Collateral or any substantial part of Grantor's property, or shall make any general assignment for the benefit of Grantor's creditors, or shall fail generally to pay Grantor's debts as they become due or shall take any action in furtherance of any of the foregoing.

**3.04 Involuntary Bankruptcy Filing.** A court having jurisdiction shall enter a decree or order for relief in respect of Grantor, in any involuntary case brought under any bankruptcy, insolvency, debtor relief, or similar law now or hereafter in effect, or Grantor shall consent to or shall fail to oppose any such proceeding, or any such court shall enter a decree or order appointing a receiver, liquidator, trustee, or similar official of Grantor or for any part of the Collateral or any substantial part of Grantor's property, or ordering the winding up or liquidation of the affairs of Grantor, and such decree or order shall not be dismissed within sixty (60) days after the entry thereof.

**3.05 Other Obligations.** Default in (i) any other obligation owed to a third party which is secured by a deed of trust or mortgage encumbering the Premises, (ii) any other obligation owed by Grantor to Beneficiary distinct from the indebtedness owed under the Note, if such other obligation is secured by all or part of the Collateral, (iii) any obligation owed to Beneficiary by Sea-Van Investment Associates, a Washington general partnership, secured by that certain Deed of Trust, Assignment of Rents and Leases, Security Agreement and Financing Statement recorded in Skagit County under Recording No. 9306300073, or any of the "Loan Documents" referenced therein, or (iv) the other deeds of trust given by Grantor to Beneficiary to secure other loans made pursuant to the Agreement.

**3.06 Government Process.** Any attachment, execution or other judicial seizure of all or any substantial portion of Grantor's assets, which attachment, execution or seizure is not discharged within thirty (30) days.

**3.07 Other Defaults.** Any other event occurring which under any of the Loan Documents constitutes a default by Grantor thereunder or gives Beneficiary the right to accelerate the maturity of the Note, or any part thereof, secured hereby.

**3.08 Other Liens.** If all or any part of the Premises or any interest therein shall, whether by operation of law or otherwise, become subject to any lien or encumbrance (except for assessments and taxes levied but not yet due and payable), including but not limited to any additional mortgage or deed of trust, without Beneficiary's prior written consent, which consent Beneficiary may grant or deny in its sole discretion.



#### ARTICLE IV: DUE ON TRANSFER

4.01 Consent Required. The indebtedness evidenced by the Note is personal to Grantor, or any successor in interest to Grantor approved by Beneficiary, and Grantor's personal responsibility, financial capability, and control of the Premises are material inducements upon which Beneficiary has relied in accepting the Note from Grantor. Beneficiary shall have the right at its sole option to exercise any rights or remedies available to it under the Loan Documents and/or to accelerate the entire indebtedness secured hereby ("Call the Loan") if, without Beneficiary's prior written consent, which consent Beneficiary may grant or deny in its sole discretion:

(a) Grantor should sell, convey, transfer, or alienate the Premises, any part thereof, or any interest therein, including any present or future right to legal or equitable title to any part of the Premises, in any manner, whether voluntarily or involuntarily;

(b) If Grantor is a corporation and any one or more of its shareholders owning at least twenty percent (20%) of any class of voting stock in Grantor should sell, convey, transfer, encumber, pledge or alienate his/her/their shares in the corporation, either voluntarily or involuntarily; or

(c) If Grantor is a partnership or a joint venture, and one or more of its general partners or joint venturers should sell, convey, transfer, encumber, pledge or alienate his/her/their interest(s) in the partnership or joint venture, either voluntarily or involuntarily.

4.02 Review of Transfer. With respect to subparagraphs 4.01(a), (b) and (c), if Beneficiary does not Call the Loan but instead permits a transfer of the Premises or permits the transfer of an interest in Grantor, Grantor shall pay Beneficiary a fee equal to one percent (1%) of the outstanding Loan balance on the date of the transfer. When Grantor requests Beneficiary's consent to a transfer of the Premises or an interest in Grantor, Grantor shall remit a One Thousand Dollar (\$1,000) nonrefundable transfer review fee to Beneficiary. If Beneficiary approves Grantor's request, Beneficiary will credit the amount of this fee to the 1% fee set forth above.

4.03 Conditions. Notwithstanding the foregoing, Beneficiary may condition its consent to such transfer upon the execution of such documentation as Beneficiary may deem necessary to evidence:

(a) The continuing obligation of any guarantor to repay the Loan in the event of the transferee's default under the Loan Documents;



(b) Grantor's continuing obligation to comply with the terms and conditions of the Loan Documents; and

(c) The transferee's assumption of the Loan concurrently with the transfer.

Upon the date of the transfer, whether or not the transferee assumes the Loan, the transferee shall execute such other documentation as Beneficiary may require to evidence the transferee's agreement to perform the obligations set forth in the Loan Documents. Grantor also shall pay for such endorsements to Beneficiary's policy of title insurance as Beneficiary may deem necessary to evidence the continuing priority of Beneficiary's lien upon the Premises and any legal expenses resulting from the preparation and implementation of the transfer or assumption agreement, as the case may be, by Beneficiary's legal counsel.

4.04 Reconveyance. Notwithstanding the due on transfer provisions set forth in Section 4.01 above and that the Note may not yet be paid in full, Beneficiary shall execute and deliver to Grantor or Trustee under this Deed of Trust a request for reconveyance (or a partial reconveyance if there is more than one housing unit on the Land), with instructions that a reconveyance (or partial reconveyance) of the lien of this Deed of Trust may be recorded upon satisfaction of the following conditions:

(a) Beneficiary's receipt of a request from Grantor at least ten (10) days before the delivery of the request for reconveyance, and such request shall identify the specific housing unit to be sold, the sales price for such unit, all closing and sales costs to be paid by Grantor with respect to the sale of the unit, and the net sale proceeds to be realized by Grantor from the sale of such unit;

(b) No event shall occur or be continuing under any of the Loan Documents which constitutes an Event of Default under any such Loan Document, either directly or but for the requirement that notice be given or time elapse or both;

(c) If there is more than one housing unit on the Land and the request is for a partial reconveyance, Grantor causes to be provided to Beneficiary at Grantor's expense a Form 111 endorsement to Beneficiary's title insurance policy insuring the continuing first priority lien of this Deed of Trust on the portion of the Collateral that remains subject to this Deed of Trust, and a subdivision/legal lot endorsement ensuring Beneficiary that the remaining portion of the Collateral constitutes a legal lot;

(d) Grantor pays on demand all costs and expenses incurred by Beneficiary in connection with the preparation, execution, delivery, and recordation of any partial



reconveyance, and/or request for partial reconveyance, including without limitation, attorneys' fees and costs;

(e) Grantor pays to Beneficiary, simultaneous with the closing of the sale of any housing unit for which a partial reconveyance is requested, a sum equal to the outstanding balance of principal and interest for the Loan. If the Loan is for the construction of more than one housing unit and Grantor is requesting a partial reconveyance, then the amount payable to Beneficiary shall be that portion of the outstanding balance of the Loan equal to the relative value of the housing unit and those other housing units which have not yet been released from the Deed of Trust. The values of the housing units shall be those shown in the appraisals delivered to Beneficiary for the Loan or any new or updated appraisals required by Beneficiary; and

(f) The City of Mount Vernon has issued a certificate of occupancy covering the housing unit to be released subject to no conditions other than the completion of punch list items for the Improvements.

#### ARTICLE V: HAZARDOUS SUBSTANCES

5.01 Definition. As used in this Deed of Trust, the term "Hazardous Substance" means asbestos, or any chemical, substance, material or waste defined, listed or designated as a hazardous, toxic, pollutant or radioactive waste, material, substance, or similar term, by any federal, state or local statute, regulation, or ordinance now or hereafter in effect, including without limitation the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq., the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601 et seq., the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq., the Washington Hazardous Waste Management Act, RCW Chapter 70.105, the Hazardous Waste Cleanup Act - Model Toxic Control Act, RCW Chapter 70.105D, and the Washington Radioactive Waste Storage and Transportation Act, RCW Chapter 70.99, as all such statutes may be amended or replaced from time to time.

5.02 Representation and Warranties. Grantor represents and warrants to Beneficiary, after due and diligent investigation, that:

- (a) No Hazardous Substance is present in, on or under the Premises;
- (b) There are no underground storage tanks located in, on or under the Premises;



(c) No Hazardous Substance has been released or allowed to migrate from the Premises to any adjacent property; and

(d) Grantor is unaware of any failure of any past or present owner or operator of the Premises to comply with any applicable federal, state, or local statute, regulation or ordinance, or any administrative or judicial order, relating to the generation, storage, use, handling, transportation, disposal, or recycling of any Hazardous Substance by any person on the Premises.

5.03 Grantor's Covenants. Grantor shall:

(a) Not cause or permit any activities on the Premises which directly or indirectly could result in the Premises or any other property becoming contaminated with any Hazardous Substance;

(b) Immediately notify Beneficiary in writing of the presence of any Hazardous Substance in, on or under the Premises, or any release or migration of any Hazardous Substance in, on or under the Premises, or from the Premises to any adjacent property;

(c) Immediately notify Beneficiary in writing of any lien, action, or notice received by Grantor or affecting the Premises that results from the violation or suspected violation of any federal, state, or local statute, regulation, ordinance or order;

(d) Promptly comply with all federal, state and local statutes, regulations, ordinances and orders applicable to Grantor, the Premises, or Grantor's use of the Premises relation to the generation, storage, use, handling, transportation, disposal or removal of Hazardous Substances;

(e) Take all actions which are necessary or desirable to clean up any Hazardous Substance affecting the Premises, including removal, containment or any other remedial action required by any government authority;

(f) Prevent the release or waiver of the liability of any other party who may be potentially liable or responsible for the presence on, in or under, or the removal from, the Premises of any Hazardous Substance; and

(g) Make all alterations, repairs, or remodeling of the Improvements required or permitted hereunder in compliance with all federal, state, or local statutes,





regulations, ordinances, or orders, including without limitation WAC 296-65 regarding the release of asbestos fibers.

5.04 Beneficiary's Right to Inspect. Grantor agrees that Beneficiary may at any time, after reasonable notice, enter the Premises for purposes of making examinations and tests, including test borings and excavations, to determine whether Grantor has (or Beneficiary would have) any liability under any federal, state or local statute, regulation, ordinance or order concerning any Hazardous Substance. Grantor agrees that Beneficiary's rights under this section are specifically enforceable by Beneficiary. Beneficiary agrees to conduct any inspections or tests in a manner that minimizes unreasonable interference with any business operations on the Premises.

5.05 Beneficiary's Right to Perform. If any Hazardous Substance is found on, in or under the Premises, or on, in or under any other property which becomes contaminated with such Hazardous Substance as a result of activities on or the presence of the Hazardous Substance on the Premises, Beneficiary may incur and pay all costs and expenses necessary to completely clean up any such Hazardous Substance, whether or not the clean-up is required by any governmental authority, and any costs and expenses paid or incurred by Beneficiary in such clean-up shall be secured by this Deed of Trust and shall be repayable to Beneficiary as provided elsewhere herein, together with interest at the rate provided for under the Note.

5.06 Nature of Grantor's Obligations. Grantor's obligations under this Article V are personal and unconditional, and shall not be limited by any nonrecourse or other limitations of liability provided for in any of the Loan Documents. All terms of this Article V shall continue in effect after any transfer of the Premises, including without limitation transfers pursuant to foreclosure proceedings (whether judicial or nonjudicial), or by any transfer in lieu of foreclosure.

## ARTICLE VI: REMEDIES

6.01 Acceleration. Upon the occurrence of any Event of Default, the entire indebtedness evidenced by the Note and all other Liabilities, together with interest thereon at the rate applicable after default as provided in the Note, shall, at the option of Beneficiary become and be immediately due and payable.

6.02 Entry. Irrespective of whether Beneficiary exercises the option provided in Section 6.01 above, Beneficiary may either in person, by agent, or by court-appointed receiver enter upon, take possession of, manage and operate the Premises or any part thereof



to protect Beneficiary's security therein, and do all things necessary or appropriate in Beneficiary's sole discretion in connection therewith, including without limitation making, enforcing, modifying or canceling Leases upon such terms or conditions as Beneficiary deems proper, obtaining and evicting tenants, and contracting for and making repairs and alterations. Beneficiary may also, either with or without so taking possession, in its own name or in the name of Grantor, sue for or otherwise collect and receive the Rents, including those past due and unpaid, and apply the same less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Beneficiary may determine. Upon request of Beneficiary, Grantor shall assemble and make available to Beneficiary at the Premises any of the Collateral that has been removed therefrom. The entering upon and taking possession of the Premises, or any part thereof, and the collection and application of Rents shall not cure or waive any Event of Default, affect any notice or default hereunder or invalidate any act done pursuant to any such Event of Default or notice. Notwithstanding continuance in possession of the Premises or any part thereof by Beneficiary, Grantor or receiver, and the collection, receipt and application of the Rents, Beneficiary shall be entitled to exercise every right provided for in this Deed of Trust or by law or in equity upon or after the occurrence of an Event of Default, including without limitation the right to exercise the power of sale. Any of the actions referred to in this Section may be taken by Beneficiary irrespective of whether any notice of default or election to sell has been given hereunder and without regard to the adequacy of the security for the indebtedness hereby secured.

**6.03 Power of Sale.** After an Event of Default and upon written request from Beneficiary, Trustee shall sell the Premises, in accordance with the Deed of Trust Act of the State of Washington (RCW Ch. 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. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the Premises which Grantor had or had the power to convey at the time of his execution of this Deed of Trust, and such as Grantor may have acquired thereafter. The Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of 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 encumbrancers 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 the 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.



6.04 Waiver of Marshaling. Grantor, for itself and for all persons hereafter claiming through or under it or who may at any time hereafter become holders of liens junior to the lien of this Deed of Trust, hereby expressly waives and releases all rights to direct the order in which any of the Collateral shall be sold in the event of any sale or sales pursuant hereto and to have any of the Collateral and/or any other property now or hereafter constituting security for any of the indebtedness secured hereby marshaled upon any foreclosure of this Deed of Trust or of any other security for any of said indebtedness.

6.05 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, 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. No delay or omission of Trustee or Beneficiary to exercise any right or power accruing upon any Event of Default shall impair any right or power or shall be construed to be a waiver of any Event of Default or any acquiescence therein; and every power and remedy given by this Deed of Trust to Trustee or Beneficiary may be exercised from time to time as often as may be deemed expedient by Trustee or Beneficiary. If there exists additional security for the performance of the obligations secured hereby, the holder of the Note, at its sole option, and without limiting or affecting any of its rights or remedies hereunder, may exercise any of the rights and remedies to which it may be entitled hereunder either concurrently with whatever rights and remedies it may have in connection with such other security or in such order as it may determine. Any application of any amounts or any portion thereof held by Beneficiary at any time as additional security hereunder to any indebtedness secured hereby shall not extend or postpone the due dates of any payments due from Grantor to Beneficiary hereunder or under the Note or any of the Loan Documents, or change the amounts of any such payments or otherwise be construed to cure or waive any Event of Default or notice of default hereunder or invalidate any act done pursuant to any such Event of Default or notice.

6.06 Prepayment Charge. If the Note provides for any charge for prepayment of any indebtedness secured hereby, Grantor agrees to pay said charge if for any reason any of said indebtedness shall be paid prior to the stated maturity date thereof, even if and notwithstanding that an Event of Default shall have occurred and Beneficiary, by reason thereof, shall have declared said indebtedness or all sums secured hereby immediately due and payable, and whether or not said payment is made prior to or at any sale held under or by virtue of this Article VI.



## ARTICLE VII: MISCELLANEOUS

7.01 Permitted Acts. Grantor agrees that without affecting or diminishing in any way the liability of Grantor or any other person for the payment or performance of any of the Liabilities, Beneficiary may at any time, without notice to or the consent of any person, release any person liable for the payment or performance of any of the Liabilities; extend the time for, or agree to alter the terms of payment of, any indebtedness under the Note or any of the Liabilities; modify or waive any obligation; subordinate, modify or otherwise deal with the lien hereof; accept additional security of any kind; release any Collateral or other property securing any or all of the Liabilities; make releases of any portion of the Collateral; consent to the making of any map or plat of the Premises; consent to the creation of a condominium on all or any part of the Premises or the submission of all or any part of the Premises to the provisions of any condominium act or any similar provisions of law of the state where the Premises are located, or to the creation of any easements on the Premises or of any covenants restricting the use or occupancy thereof; or exercise or refrain from exercising, or waive, any right Beneficiary may have.

7.02 Legal Expenses. Grantor agrees to indemnify Beneficiary from all loss, damage and expense, including without limitation attorneys' fees, incurred in connection with any suit or proceeding in or to which Beneficiary may be made or become a party for the purpose of protecting the lien or priority of this Deed of Trust or enforcing or defending any of its rights under the Loan Documents.

7.03 Security Agreement; Fixture Filing. This Deed of Trust, to the extent that it conveys or otherwise deals with personal property or with items of personal property which are or may become fixtures, shall also be construed as a security agreement under the Uniform Commercial Code as in effect in the State of Washington. This Deed of Trust constitutes a financing statement filed as a fixture filing in the Official Records of the County Recorder of the County in which the Premises are located with respect to any and all fixtures included within the term "Collateral" as used herein and with respect to any Goods or other personal property that may now be or hereafter become fixtures.

7.04 Reconveyance. Upon the payment in full of all sums secured by this Deed of Trust, Beneficiary shall request Trustee to reconvey the Premises and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Upon payment of its fees and any other sums owing to it under this Deed of Trust, Trustee shall reconvey the Premises without warranty to the person or persons legally entitled thereto. Such person or persons shall pay all costs of reconveyance and recordation, if any. The recitals in such conveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person



or persons legally entitled thereto." Five years after issuance of such full reconveyance, Trustee may destroy the Note and this Deed of Trust unless otherwise directed by Beneficiary.

**7.05 Notices.** Each notice, demand or other communication in connection with this Deed of Trust shall be in writing and shall be deemed to be given to and served upon the addressee thereof (i) upon actual delivery to such addressee, or (ii) on the second day after the deposit thereof in the United States mail by registered or certified mail, first-class postage prepaid, addressed to such addressee at its address set out above. By notice complying with this Section, any party may from time to time designate a different address as its address for the purpose of the receipt of notices hereunder, which new address shall be effective ten (10) days after giving such notice.

**7.06 Successors; The Grantor; Gender.** All provisions hereof shall inure to and bind the parties and their respective successors and assigns. The word "Grantor" shall include all persons claiming under or through Grantor and all persons liable for the payment or performance of any of the Liabilities, whether or not such persons shall have executed the Note or this Deed of Trust. Wherever used, the singular number shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders.

**7.07 Care by the Beneficiary.** Beneficiary shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as Grantor requests in writing, but failure of Beneficiary to comply with any such request shall not be deemed evidence of a failure to exercise reasonable care. No failure of Beneficiary to preserve or protect any rights with respect to such Collateral against prior parties, or to do any act with respect to the preservation of such Collateral not so requested by Grantor, shall be deemed a failure to exercise reasonable care in the custody or preservation of such Collateral.

**7.08 No Obligation on Beneficiary.** This Deed of Trust is intended only as security for the Liabilities. Anything herein to the contrary notwithstanding: (i) Grantor shall be and remain liable under and with respect to the Collateral to perform all of the obligations assumed by it under or with respect to each portion thereof; (ii) Beneficiary shall have no obligation or liability under or with respect to the Collateral by reason or arising out of this Deed of Trust; and (iii) Beneficiary shall not be required or obligated in any manner to perform or fulfill any of the obligations of Grantor under, pursuant to or with respect to any of the Collateral.

**7.09 No Waiver; Writing.** No delay on the part of Beneficiary in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by



Beneficiary of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy. The granting or withholding of consent by Beneficiary to any transaction as required by the terms hereof shall not be deemed a waiver of the right to require consent to future or successive transactions.

7.10 Governing Law; Severability. This Deed of Trust shall be construed in accordance with and governed by the laws of the State of Washington. Whenever possible, each provision of this Deed of Trust shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Deed of Trust shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Deed of Trust.

7.11 Waiver. Grantor, on behalf of itself and all persons now or hereafter interested in the Premises or the Collateral, to the fullest extent permitted by applicable law hereby waives all rights under all appraisal, homestead, moratorium, valuation, exemption, stay, extension and redemption statutes, laws or equities now or hereafter existing, and hereby further waives the pleading of any statute of limitations as a defense to any and all Liabilities, and Grantor agrees that no defense, claim or right based on any thereof will be asserted, or may be enforced, in any action enforcing or relating to this Deed of Trust or any of this Collateral. Without limiting the generality of the preceding sentence, Grantor irrevocably waives any and all rights of redemption from sale under any order or decree of foreclosure of this Deed of Trust or under any power contained herein or under any sale pursuant to any statute, order, decree or judgment of any court.

7.12 No Merger. If Beneficiary acquires an additional or other interests in or to the Premises or the ownership thereof, then, unless a contrary intent is manifested by Beneficiary as evidenced by an express statement to that effect in an appropriate document duly recorded, this Deed of Trust and the lien hereof shall not merge in the fee simple title, or Beneficiary may foreclose the Deed of Trust as if the Premises were owned by a stranger to the fee simple title.

7.13 Beneficiary Not a Joint Venturer or Partner. Grantor and Beneficiary acknowledge and agree that in no event shall Beneficiary be deemed to be a partner or joint venturer with Grantor.

7.14 Time of Essence. Time is of the essence in the Loan Documents.

7.15 No Third Party Benefits. All the Loan Documents are made for the sole benefit of Grantor and Beneficiary and their successors and assigns, and no other party shall have



any legal interest of any kind under or by reason of any of the foregoing. Whether or not Beneficiary elects to employ any or all the rights, powers or remedies available to it under any of the foregoing, Beneficiary shall have no obligation or liability of any kind to any third party by reason of any of the foregoing or any of Beneficiary's actions or omissions pursuant thereto or otherwise in connection with this transaction.

**7.16 Annual Operating Statements.** Until the Loan is paid in full, Grantor shall submit to Beneficiary annual operating statements certified by Grantor, setting out in reasonable detail the income and expenditures from the operation of the Premises for the previous fiscal year, within sixty (60) days of the end of its fiscal year. If the statements are not received within said period, Beneficiary shall have the right to have independent auditors of Beneficiary's choice inspect the books and other records of Grantor in order to obtain and verify the necessary information, with the cost of such inspection paid by Grantor.

**7.17 Assignment of Beneficiary's Interest.** Beneficiary has reserved the right to sell or assign all or any part of the Note, this Deed of Trust and the Loan Documents to another lender or private investor. Grantor agrees to cooperate fully with Beneficiary's efforts to complete such a sale and to execute any further agreements and/or documents as may be reasonably required in connection with such sale, provided that such sale or assignment shall result in no additional cost to Grantor.

**7.18 Commercial, Investment or Business Purpose.** The proceeds of the Note secured hereby shall be used by Grantor exclusively for commercial, investment or business purposes, and not for personal, family, or household purposes. Grantor and Beneficiary intend that the Note bear a lawful rate of interest. If any court determines that the interest rate provided in the Note exceeds that which is statutorily permitted for the type of transaction evidenced by the Note, the interest rate shall be reduced to the highest rate permitted by applicable law, and any excess interest previously collected shall be applied against the Note principal or, if such principal has been fully repaid, returned to Grantor on demand.

**7.19 Maintenance of Insurance.** Grantor shall have the ongoing obligation during the Loan term to continuously maintain the types and amounts of insurance set forth below:

- Builders' All-Risk Insurance, issued on a completed value basis.
- Worker's Compensation Insurance for full coverage as required by the local jurisdiction.



- Earthquake insurance if the Collateral lies within the active fault area as determined by Lender in its sole discretion.
- All-risk insurance, including vandalism and malicious mischief and inflation protection endorsement, fire and extended coverage insurance for the full insurable replacement value of the Improvements and the Goods, with a deductible of not more than One Thousand Dollars (\$1,000). If such policy contains a co-insurance clause, such policy shall also incorporate an agreed amount endorsement satisfactory to Lender.
- Public liability insurance in such amounts as Beneficiary shall require.
- Flood insurance if the Premises lies within an area in which flood insurance is required to be maintained under the Flood Disaster Protection Act of 1973.
- Other insurance as circumstances may dictate and Beneficiary may reasonably require.

All policies shall be maintained with companies that are authorized to write insurance in the State of Washington and rated A(VI) or better in the most recent edition of the A.M. Best Key Rating Guide (or the equivalent, if this rating system changes after the date of this Deed of Trust) at all times during which the particular policy is in force. Each casualty and liability policy shall provide that such insurance may not be canceled without thirty (30) days' prior written notice to Beneficiary, and provide that no act or default of Grantor or any other person shall affect Beneficiary's right to recover under such insurance in case of loss or damage. Each casualty insurance policy shall contain a lender's loss payable endorsement in favor of Beneficiary and any participating lender, if applicable, and in form satisfactory to Beneficiary. Each liability insurance policy shall name Beneficiary as an additional insured. Copies of all such policies, or certificates of insurance which show the requirements of this Section satisfied, shall be promptly delivered to Beneficiary. Grantor shall also promptly deliver to Beneficiary renewal policies or certificates for all such policies or certificates at least thirty (30) days prior to each policy's expiration.

If any insurer that Grantor has selected fails to adhere to the standards set forth above, Grantor fails to upgrade its coverage and Beneficiary in its sole discretion determines that such failure could result in a material impairment of Beneficiary's security, Beneficiary at its option may procure appropriate insurance that meets such standards and advance funds under this Deed of Trust to pay for such coverage or, if insurance is unavailable that meets the foregoing standards, Beneficiary may Call the Loan. Upon the foreclosure of this Deed of Trust or other transfer of title to the Premises in partial or full satisfaction of the





indebtedness secured hereby, all right, title and interest of Grantor in 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.

**7.20 Repayment of Advances.** If Grantor fails to pay any tax, assessment, or insurance premium called for herein within ten days of Beneficiary's delivery of written notice to Grantor, Beneficiary may, at its option (and without thereby waiving any default by Grantor), pay the same. If Grantor fails to perform any of Grantor's covenants or agreements herein, Beneficiary may, at its option (and without thereby waiving any default by Grantor), correct or cause to be corrected the default and pay such sums in connection therewith as Beneficiary shall determine to be necessary or advisable. All taxes, assessments, charges, insurance premiums and sums paid by Beneficiary in connection with such matters shall be immediately repayable by Grantor to Beneficiary, together with interest on each such amount at the rate of five percent (5%) above the interest rate which would have prevailed under the terms of the Note in the absence of an Event of Default from the date the sum is paid by Beneficiary, until the same is refunded to Beneficiary, and all such amounts, and the interest thereon, shall be secured hereby. Failure to repay such expenditure or advance and interest thereon within ten (10) days of the mailing of such notice will, at Beneficiary's option, constitute an Event of Default hereunder, or Beneficiary may, at its option, commence an action against Grantor for the recovery of such expenditure or advance as well as interest thereon, and in such event Grantor agrees to pay, in addition to the amount of such expenditure or advance, all costs and expenses incurred in such action, together with Beneficiary's attorneys' fees.

**7.21 Default Interest and Late Charges.**

(a) The term "Default Rate" means an annual interest rate equal to the interest rate described in the Note plus five percent (5%). The unpaid balance under the Note and the Loan Documents shall, at the option of Beneficiary, bear interest at the Default Rate after the occurrence and during the continuance of an Event of Default.

(b) In the event that payment of principal and/or interest on said Note shall not be made within ten (10) days of the stated due date, a late charge of Two Hundred Dollars (\$200) be charged by Beneficiary for the purpose of defraying the expense incident to handling such delinquent payments. Such late charge represents the reasonable estimate of the Beneficiary and Grantor of a fair, average compensation for the loss that may be sustained by Beneficiary due to the failure of the undersigned to make timely payments. Such late charge shall be paid without prejudice to the right of Beneficiary to collect any



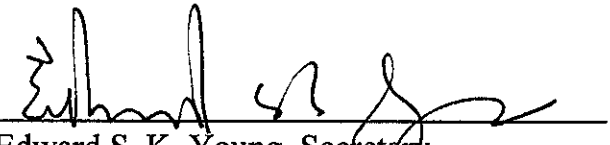
other amounts provided to be paid or to declare a default under said Note or under one or more of the Loan Documents.

7.22 Conflict. In the event of any conflict between the terms of this Deed of Trust and the Agreement (as defined in Recital B above), the Agreement shall control.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Deed of Trust on the day and year first above written.

GRANTOR:

LIGO Construction Inc., a Washington corporation

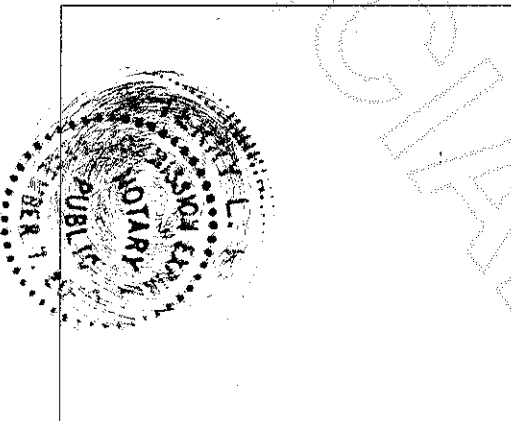
By:   
Edward S. K. Young, Secretary



STATE OF WASHINGTON )  
 )  
COUNTY OF KING Skagit ) SS:

I certify that I know or have satisfactory evidence that Edward S. K. Young 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 this instrument and acknowledged it as the Secretary of LIGO Construction Inc., to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

DATED: July 26<sup>th</sup>, 1999.



(Use this space for notarial stamp/seal)

Terry L. White  
Print Name: Terry L. White  
NOTARY PUBLIC in and for the State of  
Washington, residing at Mount Vernon  
My Appointment expires: 12/07/00



EXHIBIT A  
SCHEDULE "C"

The land referred to herein is situated in the County of Skagit, State of Washington, and is described as follows:

Lot 5, "ALPINE FAIRWAY VILLA", as per plat recorded in Volume 17 of Plats, pages 32 and 33, records of Skagit County, Washington;

Said Lot 5 is restated on "SURVEY MAP AND PLANS FOR ALPINE FAIRWAY VILLA CONDOMINIUMS, PHASE I", recorded in Volume 17 of Plats, pages 67 to 71, inclusive, records of Skagit County Washington according to the declaration thereof recorded under Skagit County Auditor's File No. 9905260007;

TOGETHER WITH a non-exclusive easement over, across and under Alpine View Place, (a private road) as delineated on the face of said plat.



199908120055

Kathy Hill, Skagit County Auditor

## EXHIBIT B

### Permitted Exceptions

1. Real property taxes, assessments, and charges which are not delinquent.
2. Those matters referenced in First American Title Company of Skagit County's Title Report dated effective May 6, 1999, Title Order No. B59038, at Schedule B,. Paragraphs 1, 3, and 4 and items A through P on Schedule B-1.

