

WHEN RECORDED RETURN TO:

Name: William R. Allen
Address: 504 East Fairhaven, Suite 201
City, State, Zip Burlington, WA 98233



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Abbrev. Leg. Lots 1-3, Block 9, and Lots 16-20, Block 20, City of Anacortes, Vol 2 of Plats, p. 4-7
Tract 33, Plate No. 9, Tidelands and Shorelands, Sec.18, T35N, R2E, WM
Tax Account No. 3772-019-003-0007; 3772-020-020-0004; 3772-020-018-0008; 3772-020-017-0009;
350218-0-024-0108

FIRST AMERICAN TITLE CO.

A64536 E-3

**Deed of Trust, Assignment of Rents,
and Security Agreement**

THIS DEED OF TRUST, ASSIGNMENT OF RENTS, AND SECURITY AGREEMENT, is made this 27 day of APRIL, 2001 between BLK Properties, L.L.C., a Washington limited liability company, GRANTOR, whose address is 906 9th Street, Anacortes, WA 98221, First American Title Company of Skagit County, TRUSTEE, whose address is 1419 Commercial Avenue, Anacortes, WA 98221, and Leonard B. Walthew, as trustee of the Walthew Family Tax Exempt Trust B, established September 27, 1993, as BENEFICIARY, whose address is 906 9th Street, Anacortes, WA 98221.

WITNESSETH: Grantor hereby bargains, sells and conveys to Trustee in Trust, with power of sale, the following described real property in Skagit County, Washington, which is commonly known as 906 9th Street, Anacortes, WA 98221:

For full legal description, see EXHIBIT A which is attached hereto and by this reference incorporated herein.

which real property is not used principally for agricultural or farming purposes, together with all the tenements, hereditaments, and appurtenances now or hereafter thereunto belonging or in any wise appertaining, and the rents, issues and profits thereof.

This deed is for the purpose of securing performance of each agreement of grantor herein contained, and payment of the sum of THREE HUNDRED NINE THOUSAND, SIX HUNDRED SEVENTY-ONE DOLLARS (\$309,671.00), with interest, in accordance with the terms of a promissory note of even date herewith, payable to Beneficiary or

order, and made by Grantor, and all renewals, modifications and extensions thereof, and also such further sums as may be advanced or loaned by Beneficiary to Grantor, or any of their successors or assigns, together with interest thereon at such rate as shall be agreed upon.

To protect the security of this Deed of Trust, Grantor covenants and agrees:

1. To keep the property in good condition and repair; to permit no waste thereof; to complete any building, structure or improvement being built or about to be built thereon; to restore promptly any building, structure or improvement thereon which may be damaged or destroyed; and to comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the property.

2. To pay before delinquent all lawful taxes and assessments upon the property; to keep the property free and clear of all other charges, liens or encumbrances impairing the security of this Deed of Trust.

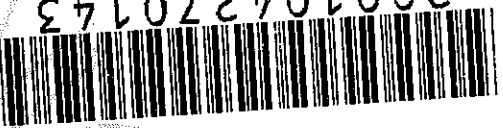
3. To keep all buildings now or hereafter erected on the property described herein continuously insured against loss by fire or other hazards in an amount not less than the total debt secured by this Deed of Trust. All policies shall be held by the Beneficiary, and be in such companies as the Beneficiary may approve and have loss payable first to the Beneficiary, as its interest may appear, and then to the Grantor. The amount collected under any insurance policy may be applied upon any indebtedness hereby secured in such order as the Beneficiary shall determine. Such application by the Beneficiary shall not cause discontinuance of any proceedings to foreclose this Deed of Trust. In the event of foreclosure, all rights of the Grantor in insurance policies then in force shall pass to the purchaser at the foreclosure sale.

4. To defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee, and to pay all costs and expenses, including cost of title search and attorney's fees in a reasonable amount, in any such action or proceeding, and in any suit brought by Beneficiary to foreclose this Deed of Trust.

5. To pay all costs, fees and expenses in connection with this Deed of Trust, including the expenses of the Trustee incurred in enforcing the obligation secured hereby and Trustee's and attorney's fees actually incurred, as provided by statute.

6. Should Grantor fail to pay when due any taxes, assessments, insurance premiums, liens, encumbrances or other charges against the property hereinabove described, Beneficiary may pay the same, and the amount so paid, with interest at the rate set forth in the note secured hereby, shall be added to and become a part of the debt secured in this Deed of Trust.

IT IS MUTUALLY AGREED THAT:



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1. In the event any portion of the property is taken or damaged in an eminent domain proceeding, the entire amount of the award or such portion as may be necessary to fully satisfy the obligation secured hereby, shall be paid to Beneficiary to be applied to said obligation.

2. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right to require prompt payment when due of all other sums so secured or to declare default for failure to so pay.

3. The Trustee shall reconvey all or any part of the property covered by this Deed of Trust to the person entitled thereto on written request of the Grantor and the Beneficiary, or upon satisfaction of the obligation secured and written request for reconveyance made by the Beneficiary or the person entitled thereto.

4. Upon default by Grantor in the payment of any indebtedness secured hereby or in the performance of any agreement contained herein, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary. In such event and upon written request of Beneficiary, Trustee shall sell the trust property, in accordance with the Deed of Trust Act of the State of Washington, at public auction to the highest bidder. Any person except Trustee may bid at Trustee's sale. Trustee shall apply the proceeds of the sale as follows: (1) to the expense of the sale, including a reasonable Trustee's fee and attorney's fee; (2) to the obligation secured by this Deed of Trust; (3) the surplus, if any, shall be distributed to the persons entitled thereto.

5. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the property which Grantor had or had the power to convey at the time of his execution of this Deed of Trust, and such as he may have acquired thereafter. 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 purchaser and encumbrances for value.

6. 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; Beneficiary may cause this Deed of Trust to be foreclosed as a mortgage.

7. Beneficiary may appoint in writing a successor trustee, and upon the recording of such appointment in the mortgage records of the county in which this Deed of Trust is recorded, the successor trustee shall be vested with all powers of the original trustee. The 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 the Trustee.

8. This Deed of Trust inures to the benefit of, and is binding not only on the parties hereto, but on their heirs, devisees, legatees, administrators, executors and assigns. The



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term Beneficiary shall mean the holder and owner of the note secured hereby, whether or not named as Beneficiary herein.

ADDITIONAL TERMS AND PROVISIONS

The Grantor and Beneficiary agree to the following additional terms and conditions to the Deed of Trust:

1. This Deed of Trust is subject and subordinate to the Deed of Trust in favor of Horizon Bank, in the amount of \$700,000. The above referenced Deed of Trust and Note will be referred to below as "Underlying Deed of Trust" and "Note."

2. Grantor agrees to comply with all of the terms and conditions of the underlying Deed of Trust and Note, and shall immediately comply with any notice sent to it by the holder of the underlying Note without regard to any grace period, if any, and Grantor's failure to do so shall constitute a default under this Deed of Trust. Any default under this Deed of Trust shall entitle the Beneficiary to exercise, at its option, any other remedy provided herein:

- a) To declare the Note secured hereby immediately due and payable in full upon demand.
- b) To judicially or nonjudicially foreclose this Deed of Trust.
- c) To perform such terms and conditions as are in default.
- d) To make full or partial payments of principal or interest on the underlying Note.
- e) To purchase, discharge, compromise, or settle the underlying Note and/or Deed of Trust or any other lien or encumbrance, including liens for taxes and assessments.

In the event that the Beneficiary elects to make any payment as set out above, or to perform any act on which the Grantor has defaulted, then, at the option of the Beneficiary, any money so paid and all costs and expenses incurred thereby, including reasonable attorney's fee and any court costs, shall be added to the principal balance of the present Note and Deed of Trust. Such monies may then, at the option of the Beneficiary, be declared immediately due and payable (including interest and penalties specified in the present Note) and failure to immediately pay the same shall constitute a default on the present Note and Deed of Trust and shall allow Beneficiary to judicially or nonjudicially foreclose this present Deed of Trust.

3. Grantor and Beneficiary agree to send promptly to the other copies of any notices of default received by them from the holder of the underlying Note and Deed of Trust.
4. Grantor will furnish to Beneficiary, upon demand, proof of payment of all items (including, without limitation, real estate taxes and insurance premiums) which are



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required to be paid by Grantor pursuant to the underlying Deed of Trust and any other proof of payment which is required to be given under the underlying Deed of Trust.

5. Grantor will execute and deliver, upon request, to the Beneficiary, such instruments deemed useful or necessary to permit Beneficiary to cure any default under the underlying Note or Deed of Trust or to preserve the interest of the Beneficiary thereunder.

6. Grantor covenants and agrees that this Deed of Trust shall be deemed to include, without the necessity of full repetition herein, all of the terms, provisions and conditions of the underlying Deed of Trust. In the event of a conflict between the terms, provisions and conditions of this Deed of Trust, the terms, provisions and conditions of this Deed of Trust shall control.

7. Grantor shall maintain insurance in an amount equal to the full replacement value of all improvements, furnishings and fixtures. The Beneficiary shall be named as an additional insured and the Beneficiary shall be provided with a certificate of insurance.

8. NEW FINANCING. In the event the Grantor obtains new financing to pay the underlying note, any excess amount above that required to pay the amounts then owing on the underlying note shall then be applied against any indebtedness then owing on the note secured by this deed of trust.

9. PERSONAL PROPERTY ENCUMBERED AND SECURITY AGREEMENT. All personal property and fixtures used in connection with operating, possessing and/or enjoying the premises, whether attached or unattached thereto including all personal property hereinafter acquired by Grantor or any subsequent owner of the premises in addition to, substitution for, or replacement of any personal property now in, or used in connection with the premises. This instrument shall constitute a security agreement with respect to any and all of the above included personal property. At the request of the beneficiary, the Grantor shall join in executing one or more financing statements pursuant to the Uniform Commercial Code, in a form satisfactory to the Beneficiary, and will pay for filing the same in the proper public office or offices.

10. HAZARDOUS SUBSTANCES. Grantor shall not cause or permit the presence, use, disposal, storage or release of any hazardous substance on or in the premises. Grantor shall not do, nor allow anyone else to do anything, or anything affecting the property, that is in violation of any environmental law. The preceding two sentences shall not apply to the presence, use, or storage on the property of small quantities of hazardous substances that are generally recognized as appropriate for the normal maintenance of the property. The Grantor shall promptly give Beneficiary written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the property and any hazardous substance or environmental law of which the Grantor has actual knowledge. If the Grantor learns or is



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notified by any governmental or regulatory authority, that any removal or other remediation of any hazardous substance affecting the property is necessary, the Grantor shall promptly take all necessary remedial actions in accordance with environmental law.

11. ASSIGNMENT OF RENTS AND PROFITS. As additional security under this deed of trust, Grantor hereby absolutely and unconditionally assigns and transfers to

Beneficiary all the income, rents, royalties, revenue, issues, profits, and proceeds of the property, hereafter called "the rents," whether now due, past due, or to become due, and hereby confers upon and gives to Beneficiary the right, power, and authority during the continuance of the interest created by this deed of trust to do any or all of the following: (a) To collect the issues, rents, and profits of the premises, reserving to Grantor the right, prior to any default by the Grantor in payment of any indebtedness secured by this deed of trust, to collect and retain all rents, issues and profits as they become due and payable.

(b) On any such default, the Beneficiary may at any time without notice, either in person, by agent, or by court appointed receiver, and without regard to the adequacy of any security for the indebtedness secured, enter on and take possession of the premises, or any part of the premises, in its own name sue for or otherwise collect the rents, issues and profits less costs and expenses of operation and collection, including reasonable attorney's fees, on any indebtedness secured by this deed of trust, and in such order as the Beneficiary may determine. Grantor agrees that on any such default, upon demand by the Beneficiary, Beneficiary's agent, or receiver to immediately deliver possession of the premises to Beneficiary, agent, or receiver and provide said Beneficiary, agent, or receiver with all books, accounting records, and other records maintained in the operation of any business on the premises.

(c) The entering and taking possession of the premises, the collection of rents, issues and profits, and the application of rents, issues, and profits as stated herein, shall not cure or waive any default or notice of default under the provisions of this deed of trust or invalidate any act done pursuant to such notice.

(d) It is agreed that neither the assignment of rents to the Beneficiary, nor the exercise by the Beneficiary of any of its rights or remedies under the covenants of this Deed of Trust, nor the appointment of a receiver or possession of the property by a receiver shall make the Beneficiary a "mortgagee-in-possession" or otherwise responsible or liable in any manner with respect to the property or the use, occupancy or enjoyment or operation of all or any portion thereof.

(e) This assignment of rents is intended to be perfected, absolute, and choate upon the recording.

12. APPOINTMENT OF RECEIVER. During any default under this deed of trust or the note it secures, the Beneficiary shall be entitled to appointment of a receiver, either separately or in an action to foreclose this deed of trust. Grantor stipulates that the Beneficiary shall have the the absolute right to the appointment of a receiver of the premises covered by this deed of trust, including all the income, profits, issues, and revenues from whatever source derived, without notice and without regard to the adequacy of any security for the indebtedness secured, any waste or deterioration of the



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property. If in default, Grantor agrees that it will, upon demand by Beneficiary, immediately provide to the Beneficiary, agent or receiver, all books, accounting records and any other records kept in the operation of any business operated on the property and shall immediately deliver possession of the property to Beneficiary, Beneficiary's agent or receiver so that Beneficiary, Beneficiary's agent, or receiver may thereafter operate any business on the premises and collect all income, profits, issues and revenues from whatever source derived. The receiver shall have the full rights to operate any business on said premises and incur such costs and expenses of operation and collection therefor, including reasonable fees for the receiver and reasonable attorney's fees. In addition to all the rights customarily given to and exercised by such a receiver, the receiver shall have the all rights and powers granted to the Beneficiary by the covenants herein. Once appointed, at the Beneficiary's option, such receiver may remain in place until all amounts secured hereby are paid in full.

13. DUE ON SALE. If all or any part of the property described in this Deed of Trust, or any interest therein, is sold or transferred without the prior written consent of the Beneficiary, which consent shall not be unreasonably withheld, then the Beneficiary, its successors or assigns, at its sole option, may declare immediately due and payable the entire balance then due on the present Note secured by this Deed of Trust.

DATED this 27th day of April, ~~1998~~ 2001 ^{will}

BLK Properties, L.L.C., a Washington Limited Liability Company, by:

William A. Kuhn, Member

Linda D. Kuhn, Member



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STATE OF WASHINGTON
COUNTY OF SKAGIT

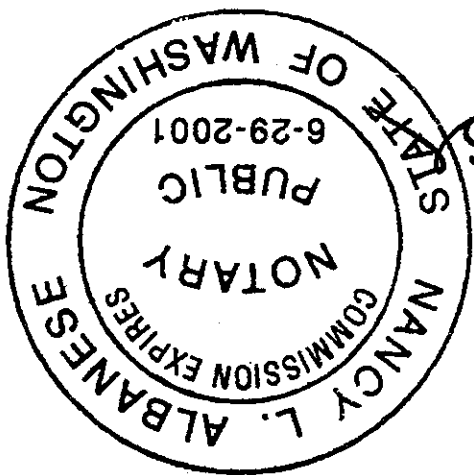
I certify that I know or have satisfactory evidence that William A. Kuhn and Linda D. Kuhn are the persons who appeared before me, and said persons acknowledged that they signed this instrument, on oath stated that they were authorized to execute the instrument and acknowledged it as Managing Members of BLK Properties, LLC, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED: 4/27/01

[Signature]
Notary Public

Typed/printed notary name: Nancy L. Albanese
Residing at: Anacortes

My appointment expires: 6-29-2001



REQUEST FOR FULL RECONVEYANCE

Do not record. To be used only when note has been paid.

TO: TRUSTEE,

The undersigned is the legal owner and holder of the note and all other indebtedness secured by the within Deed of Trust. Said note, together with all other indebtedness secured by said Deed of Trust, has been fully paid and satisfied, and you are hereby requested and directed, on payment to you of any sums owing to you under the terms of said Deed of Trust, to cancel said note above mentioned, and all other evidences of indebtedness secured by said Deed of Trust delivered to you herewith, together with the said Deed of Trust, and to reconvey, without warranty, to the parties designated by the terms of said Deed of Trust, all the estate now held by you thereunder.

Dated _____, 20__

Name/Title



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EXHIBIT A

Parcel "A":

Lots 1, 2 and 3, Block 19, "MAP OF THE CITY OF ANACORTES," according to the plat thereof recorded in Volume 2 of Plats, Pages 4 through 7, records of Skagit County, Washington.

Parcel "B":

Lots 16 through 20, Block 20, "MAP OF THE CITY OF ANACORTES," according to the plat thereof recorded in Volume 2 of Plats, Pages 4 through 7, records of Skagit County, Washington.

Parcel "C":

All that portion of Tract 33, Plate No. 9, Tide and Shore Lands of Section 18, Township 35 North, Range 2 East, W.M., according to the plat thereof recorded in the office of the Commissioner of Public Lands at Olympia, Washington, described as follows:

Commencing at the Northeast corner of Block 19, "MAP OF THE CITY OF ANACORTES," according to the plat thereof recorded in Volume 2 of Plats, Pages 4 through 7, records of Skagit County, Washington; thence South along the East line of said Block to an intersection with the Northwesterly line of said Tract 33, said point being the true point of beginning; thence continuing South along the East line of said Block 19, extended Southerly to an intersection with the North line of the alley located within said Block 19, extended Easterly; thence Westerly along said North line of the alley, to an intersection with the Northwesterly line of said Tract 33; thence Northeasterly along said Northwesterly line to the true point of beginning.

Situate in Skagit County, Washington.

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