



201107140048
Skagit County Auditor

7/14/2011 Page 1 of 8 2:50PM

WHEN RECORDED RETURN TO:

Name: A .Duane Pearson
Address: 9329 62nd Place West
City, State, Zip: Mukilteo, WA 98275

Chicago Title Insurance Company

701 5th Avenue, Suite 1700, Seattle, Washington 98104

LPB No. 44

ANY OPTIONAL PROVISION NOT INITIALED BY ALL PERSONS SIGNING THIS CONTRACT -- WHETHER INDIVIDUALLY OR AS AN OFFICER OR AGENT -- IS NOT A PART OF THIS CONTRACT.

**REAL ESTATE CONTRACT
(RESIDENTIAL SHORT FORM)**

1. PARTIES AND DATE. This Contract is entered into on July 1, 2011
between A. Duane Pearson and Lianne J. Pearson, h/w as "Seller" and
Malmquist Family Revocable Living Trust, David A. Malmquist, Trustee as "Buyer".

2. SALE AND LEGAL DESCRIPTION. Seller agrees to sell to Buyer and Buyer agrees to purchase from Seller the following described real estate in Skagit County, State of Washington.

All rights, title and interest in an undivided 25% interest in the following legally described property including all improvements and appurtenances located thereon and subject to all easements and restrictions of record:

Lots 14 and 15, DRIFTWOOD TRACTS OF GUEMES ISLAND, according to the plat thereof recorded in Volume 6 of Plats, page 15, records of Skagit County, Washington:

Except the Southerly 10 feet of Lot 15

TOGETHER WITH tidelands of the second class, as conveyed by the State of Washington, under Auditors File No. 106584, situate lying within said Lots; Situated in Skagit County, Washington.

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX
2103
JUL 14 2011

Tax Account Number: 3905-000-015-0003

3. PERSONAL PROPERTY. Personal property, if any, included in the sale is as follows:

Amount Paid \$ 4455.00
Skagit Co. Treasurer
By mem Deputy

No part of the purchase price is attributed to personal property.

4. (a)	PRICE.	Buyer agrees to pay:		Total Price
		\$ <u>250,000</u>		
	Less	(\$ <u>125,000</u>)	Down Payment	
	Less	(\$ <u>N/A</u>)	Assumed Obligation(s)	
	Results in	\$ <u>125,000</u>	Amount Financed by Seller.	

(b) ASSUMED OBLIGATIONS. Buyer agrees to pay the above Assumed Obligation(s) by assuming and agreeing to pay that certain None dated _____
(Mortgage, Deed of Trust, Contract)
recorded as Recording Number _____, Seller warrants the
unpaid balance of said obligation is \$ _____ which is payable \$ _____
on or before the _____ day of _____, _____
(including/plus)
interest at the rate of _____ % per annum on the declining balance thereof; and a
like amount on or before the _____ day of each and every _____
(month/year)

(c)

PAYMENT OF AMOUNT FINANCED BY SELLER.

Buyer agrees to pay the sum of \$125,000 as follows:

\$125,000 or more at buyer's option on or before the 16th day of January, 2012.

NOTWITHSTANDING THE ABOVE, THE ENTIRE BALANCE OF PRINCIPAL AND INTEREST IS DUE IN FULL NOT LATER THAN _____.

Payments are applied first to interest and then to principal. Payments shall be made at 9329 62nd Place West, Mukilteo, WA 98275 or such other place as the Seller may hereafter indicate in writing.

5. FAILURE TO MAKE PAYMENTS ON ASSUMED OBLIGATIONS. If Buyer fails to make any payments on assumed obligation(s), Seller may give written notice to Buyer that unless Buyer makes the delinquent payment(s) within fifteen (15) days, Seller will make the payment(s), together with any late charge, additional interest, penalties, and costs assessed by the Holder of the assumed obligation(s). The 15-day period may be shortened to avoid the exercise of any remedy by the holder of the assumed obligation. Buyer shall immediately after such payment by Seller reimburse Seller for the amount of such payment plus a late charge equal to five percent (5%) of the amount so paid plus all costs and attorneys' fees incurred by Seller in connection with making such payment.

6. (a) OBLIGATIONS TO BE PAID BY SELLER. The Seller agrees to continue to pay from payments received hereunder the following obligation, which obligation must be paid in full when Buyer pays the purchase price in full: That certain N/A dated _____, recorded as Recording (Mortgage, Deed of Trust, Contract)

Number: _____

ANY ADDITIONAL OBLIGATIONS TO BE PAID BY SELLER ARE INCLUDED IN ADDENDUM.

(b) EQUITY OF SELLER PAID IN FULL. If the balance owed the Seller on the purchase price herein becomes equal to the balances owed on prior encumbrances being paid by Seller, Buyer will be deemed to have assumed said encumbrances as of that date. Buyer shall thereafter make payments direct to the holders of said encumbrances and make no further payments to Seller. Seller shall at that time deliver to Buyer a fulfillment deed in accordance with the provisions of Paragraph 8.

(c) FAILURE OF SELLER TO MAKE PAYMENTS ON PRIOR ENCUMBRANCES. If Seller fails to make any payments on any prior encumbrance, Buyer may give written notice to Seller that unless Seller makes the delinquent payments within 15 days, Buyer will make the payments together with any late charge, additional interest, penalties, and costs assessed by the holder of the prior encumbrances. The 15-day period may be shortened to avoid the exercise of any remedy by the holder of the prior encumbrances. Buyer may deduct the amounts so paid plus a late charge of 5% of the amount so paid and any attorneys' fees and costs incurred by Buyer in connection with the delinquency from payments next becoming due Seller on the purchase price. In the event Buyer makes such delinquent payments on three occasions, Buyer shall have the right to make all payments due thereafter direct to the holder of such prior encumbrance and deduct the then balance owing on such prior encumbrance from the then balance owing on the purchase price and reduce periodic payments on the balance due Seller by the payments called for in such prior encumbrance as such payments become due.

7. OTHER ENCUMBRANCES AGAINST THE PROPERTY. The property is subject to encumbrances including the following listed tenancies, easements, restrictions and reservations in addition to the obligations assumed by Buyer and the obligations being paid by Seller: None

ANY ADDITIONAL NON-MONETARY ENCUMBRANCES ARE INCLUDED IN ADDENDUM.

8. FULFILLMENT DEED. Upon payment of all amounts due Seller, Seller agrees to deliver to Buyer a Statutory Warranty Deed in fulfillment of this Contract. The covenants of warranty in said deed shall not apply to any encumbrances assumed by Buyer or to defects in title arising subsequent to the date of this Contract by, through or under persons other than the Seller herein. Any personal property included in the sale shall be included in the fulfillment deed.

9. LATE CHARGES. If any payment on the purchase price is not made within ten (10) days after the date it is due, Buyer agrees to pay a late charge equal to 5% of the amount of such payment. Such late payment charge shall be in addition to all other remedies available to Seller and the first amounts received from Buyer after such late charges are due shall be applied to the late charges.

10. NO ADVERSE EFFECT ON PRIOR ENCUMBRANCES. Seller warrants that entry into this Contract will not cause any prior encumbrance (a) a breach, (b) accelerated payments, or (c) an increased interest rate; unless (a), (b) or (c) has been consented to by Buyer in writing.

11. POSSESSION. Buyer is entitled to possession of the property from and after the date of this Contract.



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12. **TAXES, ASSESSMENTS AND UTILITY LIENS.** Buyer agrees to pay by the date due all taxes and assessments becoming a lien against the property after the date of this Contract. Buyer may in good faith contest any such taxes or assessments so long as no forfeiture or sale of the property is threatened as the result of such contest. Buyer agrees to pay when due any utility charges which may become liens superior to Seller's interest under this Contract. If real estate taxes and penalties are assessed against the property subsequent to date of this Contract because of a change in use prior to the date of this Contract for Open Space, Farm, Agricultural, or Timber classifications approved by the County or because of a Senior Citizen's Declaration to Defer Property Taxes filed prior to the date of this Contract, Buyer may demand in writing payment of such taxes and penalties within 30 days. If payment is not made, Buyer may pay and deduct the amount thereof plus 5% penalty from the payments next becoming due Seller under the Contract.

13. **INSURANCE.** Buyer agrees to keep all buildings now or hereafter erected on the property described herein continuously insured under fire and extended coverage policies in an amount not less than the balances owed on obligations assumed by Buyer plus the balance due Seller, or full insurable value, whichever is lower. All policies shall be held by the Seller and be in such companies as the Seller may approve and have loss payable first to any holders of underlying encumbrances, then to Seller as their interests may appear and then to Buyer. Buyer may within 30 days after loss negotiate a contract to substantially restore the premises to their condition before the loss. If the insurance proceeds are sufficient to pay the contract price for restoration or if the Buyer deposits in escrow any deficiency with instructions to apply the funds on the restoration contract, the property shall be restored unless the underlying encumbrances provide otherwise. Otherwise the amount collected under any insurance policy shall be applied upon any amounts due hereunder in such order as the Seller shall determine. In the event of forfeiture, all rights of Buyer in insurance policies then in force shall pass to Seller.

14. **NONPAYMENT OF TAXES, INSURANCE AND UTILITIES CONSTITUTING LIENS.** If Buyer fails to pay taxes or assessments, insurance premiums or utility charges constituting liens prior to Seller's interest under this Contract, Seller may pay such items and Buyer shall forthwith pay Seller the amount thereof plus a late charge of 5% of the amount thereof plus any costs and attorney's fees incurred in connection with making such payment.

15. **CONDITION OF PROPERTY.** Buyer accepts the property in its present condition and acknowledges that Seller, his agents and subagents have made no representation or warranty concerning the physical condition of the property or the uses to which it may be put other than as set forth herein. Buyer agrees to maintain the property in such condition as complies with all applicable laws.

16. **RISK OF LOSS.** Buyer shall bear the risk of loss for destruction or condemnation of the property. Any such loss shall not relieve Buyer from any of Buyer's obligations pursuant to this Contract.

17. **WASTE.** Buyer shall keep the property in good repair and shall not commit or suffer waste or willful damage to or destruction of the property. Buyer shall not remove commercial timber without the written consent of Seller.

18. **AGRICULTURAL USE.** If this property is to be used principally for agricultural purposes, Buyer agrees to conduct farm and livestock operations in accordance with good husbandry practices. In the event a forfeiture action is instituted, Buyer consents to Seller's entry on the premises to take any reasonable action to conserve soil, crops, trees and livestock.

19. **CONDEMNATION.** Seller and buyer may each appear as owners of an interest in the property in any action concerning condemnation of any part of the property. Buyer may within 30 days after condemnation and removal of improvements, negotiate a contract to substantially restore the premises to their condition before the removal. If the condemnation proceeds are sufficient to pay the contract price for restoration or if the Buyer deposits in escrow any deficiency with instructions to apply the funds on the restoration contract, the property shall be restored unless underlying encumbrances provide otherwise. Otherwise, proceeds of the award shall be applied in payment of the balance due on the purchase price, as Seller may direct.

20. **DEFAULT.** If the Buyer fails to observe or perform any term, covenant or condition of this Contract, Seller may:

(a) **Suit for Installments.** Sue for any delinquent periodic payment; or

(b) **Specific Performance.** Sue for specific performance of any of Buyer's obligations pursuant to this Contract; or

(c) **Forfeit Buyer's Interest.** Forfeit this Contract pursuant to Ch. 61.30 RCW, as it is presently enacted and may hereafter be amended. The effect of such forfeiture includes: (i) all right, title and interest in the property of the Buyer and all persons claiming through the Buyer shall be terminated; (ii) the Buyer's rights under the Contract shall be cancelled; (iii) all sums previously paid under the Contract shall belong to and be retained by the Seller or other person to whom paid and entitled thereto; (iv) all improvements made to and unharvested crops on the property shall belong to the Seller; and (v) Buyer shall be required to surrender possession of the property, improvements and unharvested crops to the Seller 10 days after the forfeiture.

(d) **Acceleration of Balance Due.** Given Buyer written notice demanding payment of said delinquencies and payment of a late charge of 5% of the amount of such delinquent payments and payment of Seller's reasonable attorney's fees and costs incurred for services in preparing and sending such Notice and stating that if payment pursuant to said Notice is not received within thirty (30) days after the date said Notice is either deposited in the mail addressed to the Buyer or personally delivered to the Buyer, the entire balance owing, including interest, will become immediately due and payable. Seller may thereupon institute suit for payment of such balance, interest, late charge and reasonable attorneys' fees and costs.



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(e) **Judicial Foreclosure.** Sue to foreclose this contract as a mortgage, in which event Buyer may be liable for a deficiency.

21. **RECEIVER.** If Seller has instituted any proceedings specified in Paragraph 20 and Buyer is receiving rental or other income from the property, Buyer agrees that the appointment of a receiver for the property is necessary to protect Seller's interest.

22. **BUYER'S REMEDY FOR SELLER'S DEFAULT.** If Seller fails to observe or perform any term, covenant or condition of this Contract, Buyer may, after 30 days' written notice to Seller, institute suit for damages or specific performance unless the breaches designated in said notice are cured.

23. **NON-WAIVER.** Failure of either party to insist upon strict performance of the other party's obligations hereunder shall not be construed as a waiver of strict performance thereafter of all of the other party's obligations hereunder and shall not prejudice any remedies as provided herein.

24. **ATTORNEYS' FEES AND COSTS.** In the event of any breach of this Contract, the party responsible for the breach agrees to pay reasonable attorneys' fees and costs, including costs of service of notices and title searches, incurred by the other party. The prevailing party in any suit instituted arising out of this Contract and in any forfeiture proceedings arising out of this Contract shall be entitled to receive reasonable attorneys' fees and costs incurred in such suit or proceedings.

25. **NOTICES.** Notices shall be either personally served or shall be sent certified mail, return receipt requested and by regular first class mail to Buyer at 624 S. 291st Federal Way, WA 98002, and to Seller at 9329 62nd Place West, Mukilteo, WA 98275.

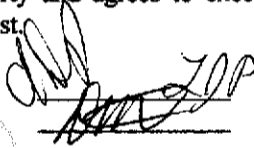
or such other addresses as either party may specify in writing to the other party. Notices shall be deemed given when served or mailed. Notice to Seller shall also be sent to any institution receiving payments on the Contract.

26. **TIME FOR PERFORMANCE.** Time is of the essence in performance of any obligations pursuant to this Contract.

27. **SUCCESSORS AND ASSIGNS.** Subject to any restrictions against assignment, the provisions of this Contract shall be binding on the heirs, successors and assigns of the Seller and the Buyer.

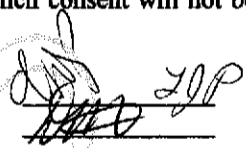
28. **OPTIONAL PROVISION -- SUBSTITUTION AND SECURITY ON PERSONAL PROPERTY.** Buyer may substitute for any personal property specified in Paragraph 3 herein other personal property of like nature which Buyer owns free and clear of any encumbrances. Buyer hereby grants Seller a security interest in all personal property specified in Paragraph 3 and future substitutions for such property and agrees to execute a financing statement under the Uniform Commercial Code reflecting such security interest.

INITIALS: SELLER N/A
BUYER N/A



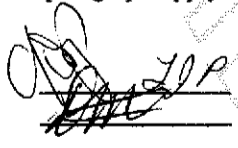
29. **OPTIONAL PROVISION -- ALTERATIONS.** Buyer shall not make any substantial alteration to the improvements on the property without the prior written consent of Seller, which consent will not be unreasonably withheld.

INITIALS: SELLER N/A
BUYER N/A



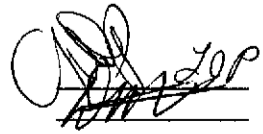
30. **OPTIONAL PROVISION -- DUE ON SALE.** If Buyer, without written consent of Seller, (a) conveys, (b) sells, (c) leases, (d) assigns, (e) contracts to convey, sell, lease or assign, (f) grants an option to buy the property, (g) permits a forfeiture or foreclosure or trustee or sheriff's sale of any of the Buyer's interest in the property or this Contract, Seller may at any time thereafter either raise the interest rate on the balance of the purchase price or declare the entire balance of the purchase price due and payable. If one or more of the entities comprising the Buyer is a corporation, any transfer or successive transfers in the nature of items (a) through (g) above of 49% or more of the outstanding capital stock shall enable Seller to take the above action. A lease of less than 3 years (including options for renewals), a transfer to a spouse or child of Buyer, a transfer incident to a marriage dissolution or condemnation, and a transfer by inheritance will not enable Seller to take any action pursuant to this Paragraph; provided the transferee other than a condemnor agrees in writing that the provisions of this paragraph apply to any subsequent transaction involving the property entered into by the transferee.

INITIALS: SELLER N/A
BUYER N/A



31. **OPTIONAL PROVISION -- PRE-PAYMENT PENALTIES ON PRIOR ENCUMBRANCES.** If Buyer elects to make payments in excess of the minimum required payments on the purchase price herein, and Seller, because of such prepayments, incurs prepayment penalties on prior encumbrances, Buyer agrees to forthwith pay Seller the amount of such penalties in addition to payments on the purchase price.

INITIALS: SELLER N/A
BUYER N/A




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32. OPTIONAL PROVISION -- PERIODIC PAYMENTS ON TAXES AND INSURANCE. In addition to the periodic payments on the purchase price, Buyer agrees to pay Seller such portion of the real estate taxes and assessments and fire insurance premium as will approximately total the amount due during the current year based on Seller's reasonable estimate.

INITIALS: SELLER
BUYER

[Handwritten initials]

33. ADDENDA. Any addenda attached hereto are a part of this Contract. (See Attached ADDENUM "A" TO REAL ESTATE CONTRACT)

34. ENTIRE AGREEMENT. This Contract constitutes the entire agreement of the parties and supersedes all prior agreements and understandings, written or oral. This Contract may be amended only in writing executed by Seller and Buyer.

IN WITNESS WHEREOF the parties have signed and sealed this Contract the day and year first above written.

SELLER
[Signature]
Lianne J. Pearson

BUYER
[Signature]
Trustee

STATE OF WASHINGTON)
COUNTY OF Chelan)

Notary Public in and for the State of Washington
Residing at _____
My appointment expires _____

On this 8th day of July, 2011 before me, the undersigned, a notary public in and for the State of Washington, duly commissioned and sworn, personally appeared A Duane Pearson Lianne J Pearson & David A. Malmquist, Trustee known to me to be the individual(s) described in and who executed the within instrument and acknowledged that they signed and sealed the same as their free and voluntary act and deed, for the uses and purposes herein mentioned.

[Signature]
Printed Name: Cynthia H. Smith
Notary Public in and for the State of Washington
Residing at Manson
My appointment expires 9-2-11



STATE OF WASHINGTON)
COUNTY OF _____)

I certify that I know or have satisfactory evidence that

_____ is the person who appeared before me, and said person acknowledged that _____ signed this instrument, on oath stated that _____ was authorized to execute the instrument and acknowledged _____ it as _____ of _____

_____ to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.
Dated: _____

Printed _____ Name: _____



ADENDUM "A" TO REAL ESTATE CONTRACT

This Addendum "A" is attached and is made a part of the Real Estate Contract ("Contract") dated July 8th 2011 between A. Duane Pearson and Lianne J. Pearson, ("Seller") and Malmquist Family Revocable Living Trust, David A. Malmquist, Trustee, ("Buyer"):

RECITALS

Whereas, Buyer and Seller acknowledge that they each currently own an undivided one half interest in the subject property described in the Contract including all improvements and appurtenances located thereon, and

Whereas, Seller agrees to sell to Buyer and Buyer agrees to purchase from Seller one half of Seller's ownership in said property (i.e.25%) for a total price of \$250,000 per the terms and conditions outlined in said Contract, and

Whereas, Seller and Buyer agree to share equally in all closing costs related to this transaction except for the proration of real property taxes and insurance applicable to the subject property which shall be apportion on the basis of ownership, and

Whereas, Seller and Buyer agree to share equally in the cost of all general maintenance of the property following closing except that the cost of any major repair or replacement item shall be apportioned on the basis of ownership, and

Whereas, Seller and Buyer hereby agree that Buyer shall have the exclusive right to purchase Seller's remaining ownership and said right shall extend for a period not to exceed ten years from the closing date of this transaction. Determination of said price for Sellers remaining 25% shall be based upon an appraisal by a qualified real estate appraiser approved by both parties the cost of which shall be shared equally. The appraisal shall reflect the then current market value ("Appraised Value") of the entire real property (100%) described



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in the Contract. The price to be paid by Buyer for Seller's remaining 25% ownership shall be determined by subtracting \$250,000 from the Appraised Value and dividing the remainder by three. Two examples:

Appraised Value =	\$1,000,000
Initial Purchase Price	<u>(250,000)</u>
	\$ 750,000 divided by 3= \$250,000
Appraised Value=	\$ 800,000
Initial Purchase Price	<u>(250,000)</u>
	\$550,000 divided by 3= \$183,333

And,

WHEREAS, should Buyer choose not to purchase Seller's remaining 25% ownership but shall choose to sell Buyers entire 75% to a third party, then Buyer must notify Seller in writing and request that Sellers remaining 25% be included in any such sale to a third party and such approval shall not be unreasonable withheld. As a condition of Sellers approval of such sale, the sale price to said third party shall be based upon the then appraised value of 100% of the subject property. Disbursement of the sale proceeds to Seller shall be based upon the method shown above subtracting reasonable selling costs apportioned on the basis of ownership. I.e. Seller pays 25%, and

WHEREAS, Seller and Buyer acknowledge that no personal or private property, furnishings or equipment is included in this transaction and Seller and Buyer shall prepare a separate agreement outside of escrow to allocate such items, and

WHEREAS , Seller and Buyer agree that should there be any conflict between the terms of this Addendum "A" and the attached Contract, the terms of the Addendum "A" shall prevail, and



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WHEREAS , these Recitals are part of the Contract and are hereby incorporated here in.

NOW THEREFORE SELLER AND BUYER AGREE:

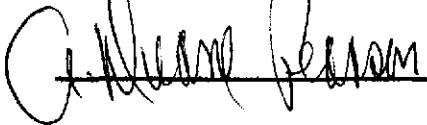
The provisions of this Addendum "A" including the above Recitals shall inure to the benefit and be binding upon Seller and Buyer's respective heirs, successors and assigns including any purchase of either parties share of ownership.

IN WITNESS WHEREOF, Seller and Buyer have executed this Addendum "A" as of the date shown on the attached Contract.

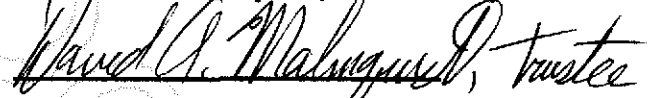
SELLER:

BUYER:

A. Duane Pearson

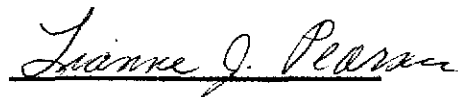


David A. Malmquist, Trustee



**Malmquist Family Revocable
Living Trust**

Lianne J. Pearson



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