

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:
U. S. Bank of Washington,
National Association
1420 Fifth Avenue, Eleventh Floor
Seattle, Washington 98101
Attention: Sean P. Brennan

LAND TITLE COMPANY OF SKAGIT COUNTY
T-76154

**DEED OF TRUST
(SECURITY AGREEMENT)**

This deed of trust (security agreement) (hereinafter called "Deed of Trust") is made this 25th day of April, 1995, among **LaCONNER COUNTRY INN, LTD. A WASHINGTON LIMITED PARTNERSHIP**, a Washington limited partnership, whose address is 107 South Second Street, LaConner, Washington 98257 (hereinafter called "Grantor"); **LAND TITLE COMPANY OF SKAGIT COUNTY**, whose address is P.O. Drawer 1225, 601 Second Street, Mount Vernon, Washington 98273 (hereinafter called "Trustee"); and **U. S. BANK OF WASHINGTON, NATIONAL ASSOCIATION**, whose address is 1420 Fifth Avenue, Eleventh Floor, Seattle, Washington 98101 (hereinafter called "Beneficiary").

WITNESSETH:

That Grantor does hereby irrevocably **GRANT, BARGAIN, SELL, and CONVEY TO TRUSTEE IN TRUST, WITH POWER OF SALE**, that property in the County of Skagit, State of Washington, described in Exhibit A attached hereto and by this reference incorporated herein, together with any and all buildings and improvements now or hereafter erected thereon, including, but not limited to, the fixtures, attachments, appliances, equipment, machinery, and other articles attached to such buildings and improvements, which are herein collectively called the "Property";

Together With all interests, estate or other claims, both in law and in equity, which Grantor now has or may hereafter acquire in the Property;

Together With all easements, rights-of-way and rights used in connection therewith or as a means of access thereto, and all tenements, hereditaments and appurtenances thereof and thereto, and all water rights and shares of stock evidencing the same;

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Together With all right, title and interest of Grantor, now owned or hereafter acquired, in and to any land lying within the right-of-way of any street, open or proposed, adjoining the Property; and any and all sidewalks, alleys, and strips and gores of land adjacent to or used in connection with the Property;

Together With all right, title and interest of Grantor in and to all tangible personal property (the "Personal Property") now or hereafter owned by Grantor and now or at any time hereafter located on or at the Property or used in connection therewith, including, but not limited to, all goods, machinery, tools, insurance proceeds, equipment (including fire sprinklers and alarm systems, office air conditioning, heating, refrigerating, electronic monitoring, window or structural cleaning rigs, maintenance, and all other equipment of every kind), lobby and all other indoor and outdoor furniture, rugs, carpets, and other floor coverings, all inventory related to the operation of the Property and any business operated thereon by Grantor, draperies, drapery rods and brackets, awnings, window shades, venetian blinds, curtains, lamps, chandeliers and other lighting fixtures, and office maintenance and other supplies and all proceeds thereof;

Together With all right, title, and interest of Grantor in the funds deposited pursuant to Section 1.6 or Section 1.7;

Together With all the estate, interest, right, title, other claim or demand, including claims or demands with respect to the proceeds of insurance in effect with respect thereto, which Grantor now has or may hereafter acquire in the Property, and any and all awards made for the taking by eminent domain or by any proceeding or purchase in lieu thereof of the whole or any part of the Property, including, without limitation, any awards resulting from a change of grade of streets and awards for severance damages;

Together With any and all existing and future leases (including subleases thereof), whether written or oral, rental agreements and all future agreements for use and occupancy, and any and all extensions, renewals and replacements thereof, upon all or relating to any part of the Property (hereinafter collectively referred to as the "Leases");

Together With any and all guaranties of tenant's performance under any and all of the Leases;

Together With the immediate and continuing right to collect and receive all of the rents, income, receipts, revenues, issues, profits and other income of any nature now due or which may become due or to which Grantor may now or shall hereafter (including any income of any nature coming due during any redemption period) become entitled to or may make demand or claim for, arising or issuing from or out of the Leases or from or out of the Property or any part thereof, including but not limited to, minimum rents, additional rents, percentage rents, parking or common area maintenance contributions, tax and insurance contributions, deficiency rents and liquidated damages following default in any Lease, all accounts receivable, instruments, and general intangibles related to the operation

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of the Property and any business operated thereon by Grantor and all proceeds thereof, and all proceeds payable under any policy of insurance covering loss of rents resulting from untenability caused by destruction or damage to the Property, together with any and all rights and claims of any kind which Grantor may have against any tenant under the Leases or any subtenants or occupants of the Property (all such monies, rights and claims described in this paragraph being hereinafter called "Cash Collateral"), excepting therefrom, any sums which by the express provisions of any of the Leases are payable directly to any governmental authority or to any other person, firm or corporation other than the landlord under the Leases;

Together With all additions, accessions, replacements, substitutions, proceeds and products of the property described herein.

Subject, However, to a license hereby granted by Beneficiary to Grantor, but limited as hereinafter provided, to collect and receive all of the Cash Collateral.

The entire estate, property, and interest hereby conveyed to Trustee may hereafter be referred to as the "Trust Estate."

FOR THE PURPOSE OF SECURING:

1. Payment of indebtedness in the principal amount of \$785,000 with interest thereon, evidenced by that certain promissory note of even date herewith ("Term Note II") executed by Grantor, which has been delivered to, and is payable to, the order of Beneficiary and which, by this reference, is made a part hereof, and any and all modifications, extensions and renewals thereof. The interest rate payment terms or the balance due on Term Note II and the indebtedness evidenced thereby may be indexed, adjusted, renewed, or renegotiated without affecting the priority of this Deed of Trust.
2. Payment of all sums which may become due from Grantor or advances by Beneficiary or its successor, with interest thereon at the rate set forth herein, which include but are not limited to, fire and other hazard insurance and taxes upon the real property herein described, according to the terms of this Deed of Trust; payment by the Grantor of all attorney fees and costs incurred by Trustee or Beneficiary in foreclosing this Deed of Trust or realizing upon any of the collateral for the obligations which this Deed of Trust secures; payment by Grantor of all attorneys' fees and costs incurred by Trustee or Beneficiary in defending the priority or validity of this Deed of Trust or the title to the Property; payment by Grantor of all sums advanced by Beneficiary to or on behalf of Grantor for the purpose of clearing encumbrances or defects from the title to the Property described in this Deed of Trust where Beneficiary, in good faith, believes such encumbrances to be superior to the lien of the Deed of Trust, including, without limitation, payment of ad valorem taxes and mechanics' or materialmen's liens which may have gained priority over the lien of this Deed of Trust; payment by Grantor of all attorney fees and costs incurred by Trustee or Beneficiary in any bankruptcy proceedings or any reorganization or arrangement proceeding under the United States Bankruptcy Code affecting Grantor or this Deed of Trust,

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and payment of all other sums advanced by Beneficiary to protect the Trust Estate, with interest thereon at the rate set forth herein.

3. Payment of all other sums, with interest thereon, which may hereafter be loaned to Grantor, its successors, or assigns, by Beneficiary, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust.

4. Payments of all of the obligations of Grantor under the loan agreement between Grantor and Beneficiary of even date herewith related to the loan evidenced by Term Note II (together with all modifications, amendments, supplements, and exhibits thereto, the "Loan Agreement"); provided that this Deed of Trust shall not secure payment of Grantor's obligations under the loan evidenced by Term Note I (as defined in the Loan Agreement).

This Deed of Trust, Term Note II, the Loan Agreement, and any other instrument given to evidence or further secure the payment and performance of any obligation secured hereby may hereafter be referred to as the "Loan Documents."

ARTICLE I COVENANTS AND AGREEMENTS OF GRANTOR

Grantor hereby covenants and agrees:

1.1 Maintenance of the Property. The Property shall be maintained in good condition at all times. Grantor shall promptly make all necessary repairs, replacements, and renewals so that the value of the Property shall be maintained. Grantor shall not commit or permit any waste on the Property. Grantor shall comply with all laws, ordinances, regulations, and private restrictions affecting the Property. To the extent that the Property constitutes commercial property, Grantor shall operate the Property in such manner as to prevent deterioration of the land and improvements including fences, except for reasonable wear and tear from proper use. Grantor shall not demolish or remove any improvements from the Property without the written consent of Beneficiary.

1.2 Required Insurance. Grantor shall at all times provide, maintain, and keep in force, or cause to be provided, maintained, and kept in force, the following policies of insurance:

(a) Insurance against loss or damage to the building and improvements situated on the Property (the "Improvements") by fire and any of the risks covered by insurance of the type now known as "broad form of extended coverage," in an amount not less than the greater of (i) 100 percent of the full replacement cost of the Improvements (exclusive of the cost of excavations, foundations, and footings below the lowest basement floor), or (ii) an amount sufficient to prevent Grantor and/or Beneficiary from becoming

a co-insurer within the terms of the applicable policies; and with not more than \$1,000.00 deductible from the loss payable for any casualty. The policies of insurance carried in accordance with this subparagraph a. shall contain the "Replacement Cost Endorsement";

(b) Insurance against loss or damage to the Personal Property by fire and other risks covered by insurance of the type now known as "broad form of extended coverage";

(c) Such other insurance and in such amounts as may, from time to time, be required by Beneficiary against the same or other hazards, including, without limitation, business interruption insurance or insurance covering loss of rents and flood insurance where applicable; and

(d) All policies of insurance required by the terms of this Deed of Trust shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act or negligence of Grantor which might otherwise result in forfeiture of said insurance and the further agreement of the insurer waiving all rights of set-off, counterclaim, or deductions against Grantor (Non-Contributory Standard Mortgage Clause and Lender's Loss Payable Endorsement - Form 438 BFU NS or CP 12- or their equivalent).

1.3 Delivery of Policies; Payment of Premiums Proceeds.

(a) All policies of insurance shall be issued by companies and in amounts in each company satisfactory to Beneficiary. All policies of insurance shall have attached thereto a lender's loss payable endorsement for the benefit of Beneficiary in form satisfactory to Beneficiary. Grantor shall furnish Beneficiary with an original policy of all policies of required insurance. If Beneficiary consents to Grantor providing any of the required insurance through blanket policies carried by Grantor and covering more than one location, then Grantor shall furnish Beneficiary with a certificate of insurance for each such policy setting forth the coverage, the limits of liability, the name of the carrier, the policy number, and the expiration date.

(b) At least 30 days prior to the expiration of each such policy, Grantor shall furnish Beneficiary with evidence satisfactory to Beneficiary of the payment of premium and the reissuance of a policy continuing insurance in force as required by this Deed of Trust. All such policies shall contain a provision that such policies will not be canceled or materially amended, which term shall include any reduction in the scope or limits of coverage without at least 30 days' prior written notice to Beneficiary. In the event Grantor fails to provide, maintain, keep in force, or deliver and furnish to Beneficiary the policies of insurance required by this section, Beneficiary may procure such

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insurance or single-interest insurance for such risks covering Beneficiary's interest, and Grantor will pay all premiums thereon promptly upon demand by Beneficiary and, until such payment is made by Grantor, the amount of all such premiums shall be secured by this Deed of Trust.

(c) In the event of loss, Grantor shall immediately notify Beneficiary, who may make proof of loss if it is not made promptly by Grantor. Proceeds shall be paid directly to Beneficiary who may compromise with any insurance company and make a final settlement which shall be binding upon Grantor. Beneficiary may, at its election, apply the proceeds to the reduction of the indebtedness secured hereby or to the restoration or repair of the Property.

1.4 Assignment of Policies Upon Foreclosure. In the event of foreclosure of this Deed of Trust or other transfer of title or assignment of the Trust Estate in extinguishment, in whole or in part, of the debt secured hereby, all right, title, and interest of Grantor in and to all policies of insurance required by Section 1.2 shall inure to the benefit of and pass to the successor in interest to Grantor or the purchaser or grantee of the Trust Estate.

1.5 Indemnification; Subrogation; Waiver of Offset.

(a) If Beneficiary is made a party defendant to any litigation concerning this Deed of Trust or the Trust Estate or any part thereof or interest therein, or the occupancy thereof by Grantor, then Grantor shall indemnify, defend, and hold Beneficiary harmless from all liability, loss, cost, or damage, by reason of said litigation, including reasonable attorney fees and expenses incurred by Beneficiary in any such litigation, whether or not any such litigation is prosecuted to judgment.

(b) Grantor waives any and all right to claim or recover against Beneficiary, its officers, employees, agents, and representatives, for loss of or damage to Grantor, the Trust Estate, Grantor's property, or the property of others under Grantor's control from any cause insured against or required to be insured against by the provisions of this Deed of Trust.

(c) All sums payable by Grantor hereunder shall be paid without notice, demand, counterclaim, setoff, deduction, or defense and without abatement, suspension, deferment, diminution, or reduction; and the obligations and liabilities of Grantor hereunder shall in no way be released, discharged, or otherwise affected (except as expressly provided herein) by reason of (i) any damage to or destruction of or any condemnation or similar taking of the Trust Estate or any part thereof; (ii) any restriction or prevention of or interference with any use of the Trust Estate or any part thereof; (iii) any title defect or encumbrance or any eviction from the Property or the

Improvements or any part thereof by title paramount or otherwise; (iv) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation, or other like proceeding relating to Beneficiary, or any action taken with respect to this Deed of Trust by any trustee or receiver of Beneficiary, or by any court, in any such proceeding; (v) any claim which Grantor has or might have against Beneficiary; (vi) any default or failure on the part of Beneficiary to perform or comply with any of the terms hereof or of any other agreement with Grantor; or (vii) any other occurrence whatsoever, whether similar or dissimilar to the foregoing and whether or not Grantor shall have notice or knowledge of any of the foregoing. Except as expressly provided herein, Grantor waives all rights now or hereafter conferred by statute or otherwise to any abatement, suspension, deferment, diminution, or reduction of any sum secured hereby and payable by Grantor.

1.6 Taxes and Liens. Grantor shall pay before they become delinquent all taxes and assessments levied against or on account of the Trust Estate and shall pay as due all claims for work done on or for services rendered or material furnished to the Property. Special assessments shall be paid currently, without deferral, unless the lien for deferred assessments is subordinate to the interest of Beneficiary under this Deed of Trust, or Beneficiary gives its prior written consent to the deferral. Grantor shall maintain the Trust Estate free of any liens having priority over or equal to the interest of Beneficiary under this Deed of Trust except for "Permitted Encumbrances" as defined in Section 1.10, the lien of taxes and assessments not delinquent, and except as hereinafter otherwise provided. Grantor may withhold payment of any tax, assessment, or claim in connection with a good faith dispute over the obligation to pay, so long as Beneficiary's interest in the Trust Estate is not jeopardized. If a lien arises or is filed as a result of nonpayment, Grantor shall within 15 days after the lien arises or, if a lien is filed, within 15 days after Grantor has notice of the filing, secure the discharge of the lien or deposit with Beneficiary cash or a sufficient corporate surety bond or other security satisfactory to Beneficiary in an amount sufficient to discharge the lien plus any costs, attorney fees, or other charges that could accrue as a result of a foreclosure or sale under the lien. The assessor or tax collector of the county in which the Property is located is authorized to deliver to Beneficiary a written statement of the property taxes assessed or owing at any time.

1.7 Reserves. If Grantor and Beneficiary do not otherwise expressly agree in writing, Beneficiary may require Grantor to maintain reserves for payment of taxes (including special assessments and other charges against the Trust Estate by governmental or quasi-governmental bodies) or premiums on property insurance or both. The reserves shall be created by payment each month to Beneficiary of an amount determined by Beneficiary to be sufficient to produce by the date they are due amounts equal to the estimated taxes and insurance premiums to be paid. If at the time that payments are to be made the reserve for either taxes or insurance premiums is insufficient, Grantor shall upon demand pay such additional sum as Beneficiary shall determine to be necessary to cover the required payment. If Grantor desires to carry a package plan of insurance that includes coverage in addition to that required under this Deed of Trust, Beneficiary, if allowed by law, may at its option

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establish and administer a reserve for that purpose. In such event the premium attributable to the required insurance coverage shall be quoted separately, and Beneficiary may permit Grantor to furnish a certificate of insurance rather than deposit the policy as required above. If at any time Beneficiary holds an insufficient amount in the insurance reserve to cover the premium for the entire package policy, Beneficiary may, at its discretion, pay only that portion of the premium attributable to the required insurance coverage. If the blanket policy does not permit such partial payment, Beneficiary may use the reserve funds for the premium on a new, separate policy providing the required insurance coverage and allow the package policy to lapse. Beneficiary shall not charge a service charge for collecting reserves and paying taxes and insurance premiums. The reserves shall not constitute a trust. Grantor agrees that Beneficiary may commingle reserve funds with other funds of Beneficiary and need not invest them for the benefit of Grantor. Grantor agrees that Beneficiary need not pay Grantor interest on reserves, unless applicable statutes require payment of interest notwithstanding any contrary agreement.

1.8 Expenditures by Beneficiary. If Grantor shall fail to comply with any provision of this Deed of Trust, Beneficiary may, at its option, on Grantor's behalf take the required action and any amount that it expends in so doing shall be added to the indebtedness secured hereby. Amounts so added shall be payable on demand with interest at the rate specified in Term Note II, or if more than one interest rate is applicable, to portions of the unpaid balance at the highest rate applicable to any portion of the principal balance of Term Note II (the "Note Rate") from the date of expenditure. The rights provided for in this section shall be in addition to any other rights or any remedies to which Beneficiary may be entitled on account of the default, and Beneficiary shall not by taking the required action cure the default so as to bar it from any remedy that it otherwise would have had.

1.9 Utilities. Grantor shall pay or cause to be paid when due all utility charges which are incurred by Grantor for the benefit of the Trust Estate or which may become a charge or lien against the Trust Estate for gas, electricity, water or sewer services furnished to the Trust Estate and all other assessments or charges of a similar nature, whether public or private, affecting the Trust Estate or any portion thereof, whether or not such assessments or charges are liens thereon.

1.10 Warranty; Defense of Title. Grantor warrants that Grantor holds merchantable title to the Property in fee simple, free of all encumbrances other than the encumbrances described on Exhibit B attached hereto (hereinafter referred to as "Permitted Encumbrances"). Grantor warrants and will forever defend the title against the claims, other than Permitted Encumbrances, of all persons. In the event any action or proceeding is commenced that questions Grantor's title or the interest of Beneficiary under this Deed of Trust, Grantor shall defend the action at Grantor's expense. If any Permitted Encumbrance is a lien, Grantor shall pay any sums and do any other acts necessary to prevent a default or prevent any action or condition which with the lapse of time, the giving of notice, or any other action of a creditor, would be a default or enable any creditor to declare a default or foreclose any Permitted Encumbrance which is a lien.

1.11 Condemnation. If all or any part of the Trust Estate is condemned, Beneficiary may at its election require that all or any portion of the net proceeds of the award be applied on the indebtedness secured hereby. The net proceeds of the award shall mean the award after payment of all reasonable costs, expenses, and attorney fees necessarily paid or incurred by Grantor and Beneficiary in connection with the condemnation. If any proceeding in condemnation is filed, Grantor shall promptly take such steps as may be necessary to defend the action and obtain the award. Grantor hereby assigns to Beneficiary the net proceeds of any condemnation award.

1.12 Imposition of Tax. The following shall constitute taxes to which this paragraph applies:

- (a) A specific tax upon deeds of trust or upon all or any part of the indebtedness secured by a deed of trust.
- (b) A specific tax on the owner of property covered by a deed of trust which the taxpayer is authorized or required to deduct from payments on the deed of trust.
- (c) A tax on premises covered by a deed of trust chargeable against Beneficiary under the deed of trust or the holder of the note secured.
- (d) A specific tax on all or any portion of the indebtedness secured hereby or on payments of principal and interest made by a Grantor under a deed of trust.

If any federal, state, or local tax to which this paragraph applies is enacted subsequent to the date of this Deed of Trust, this shall have the same effect as a default and Beneficiary may exercise any or all of the remedies available to it in the event of a default unless the following conditions are met:

- (a) Grantor may lawfully pay the tax or charge imposed; and
- (b) Grantor pays the tax or charge within 30 days after notice from Beneficiary that the tax law has been enacted.

1.13 Inspections. That Beneficiary, or its agents, representatives or workmen, are authorized to enter at any reasonable time upon or in any part of the Property for the purpose of inspecting the same and for the purpose of performing any of the acts it is authorized to perform under the terms of any of the Loan Documents.

1.14 No Waiver. By accepting payment of any obligation herein mentioned after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other obligations herein mentioned or to declare default for failure so to pay.

1.15 Accounting. Grantor will keep and maintain or will cause to be kept and maintained in accordance with sound accounting practice accurate and proper books of record and account relating to the Property. Grantor shall permit Beneficiary to examine the books of account and other records of Grantor, to discuss the affairs, finances and accounts of Grantor and to be informed as to the same by Grantor, all at such reasonable times and intervals as Beneficiary may desire. At the request of Beneficiary, Grantor will, at its own cost and expense, furnish to Beneficiary within 90 days after the end of each fiscal year, annual financial statements of Grantor and copies of the balance sheet and operating statements relating to the Property for such year, in reasonable detail and in form and substance satisfactory to Beneficiary. In the event Grantor fails to furnish any of the financial statements hereinabove required, Beneficiary may cause an audit to be made of Grantor's books and records, at Grantor's sole cost and expense.

1.16 Repayment of Advances. Upon receipt of notice, the Grantor shall repay immediately all sums expended or advanced hereunder by or on behalf of Beneficiary or Trustee, with interest from the date of such advance or expenditure at Term Note II Rate, and the repayment thereof shall be secured hereby. Failure to repay such expenditure or advance and interest thereon within 10 days 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 and 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 a reasonable attorney's fee at trial and on appeal.

1.17 Use of Property. The Property is not used principally for farming or agricultural purposes.

ARTICLE II SECURITY AGREEMENT

2.1 Creation of Security Interest. Grantor hereby grants to Beneficiary a security interest in (a) the Personal Property located on or at the Property, including without limitation any and all property of similar type or kind hereafter located on or at the Property for the purpose of securing all obligations of Grantor contained in any of the Loan Documents, (b) the Cash Collateral, and (c) all other Property in which a security interest may be granted under the Uniform Commercial Code of Washington (collectively, the "Secured Property").

2.2 Warranties, Representations, and Covenants of Grantor. Grantor hereby warrants, represents and covenants as follows:

(a) Except for the security interest granted hereby or permitted by the Loan Agreement, Grantor is, and as to portions of the Secured Property to

be acquired after the date hereof will be, the sole owner of the Secured Property, free from any adverse lien, security interest, encumbrance or adverse claims thereon of any kind whatsoever. Grantor will notify Beneficiary of, and will defend the Secured Property against, all claims and demands of all persons at any time claiming the same or any interest therein.

(b) Grantor will not lease, sell, convey or in any manner transfer the Secured Property without the prior written consent of Beneficiary.

(c) The Secured Property is not used or bought for personal, family or household purposes.

(d) The Personal Property will be kept on or at the Property and Grantor will not remove the Personal Property from the Property without the prior written consent of Beneficiary, except such portions or items of Personal Property which are consumed or worn out in ordinary usage, all of which shall be promptly replaced by Grantor with an article of equal suitability owned by Grantor free and clear of any lien or security interest except such as may be approved in writing by Beneficiary.

(e) Grantor maintains a place of business in the State of Washington, and Grantor will immediately notify Beneficiary in writing of any change in its place of business.

(f) At the request of Beneficiary, Grantor will join Beneficiary in executing one or more financing statements and renewals and amendments thereof pursuant to the Uniform Commercial Code of Washington in form satisfactory to Beneficiary, and will pay the cost of filing the same in all public offices wherever filing is deemed by Beneficiary to be necessary or desirable.

(g) All covenants and obligations of Grantor contained herein relating to the Trust Estate shall be deemed to apply to the Secured Property whether or not expressly referred to herein.

(h) This Deed of Trust constitutes a security agreement as that term is used in the Uniform Commercial Code of Washington.

ARTICLE III ASSIGNMENT OF LEASES AND RENTS

3.1 **Assignment.** Grantor hereby assigns to Beneficiary and grants to Beneficiary a security interest in all Leases as security for performance of all obligations secured by this Deed of Trust.

3.2 Representations and Warranties. Grantor represents and warrants as follows:

- (a) Grantor has good right, title and interest in and to the Leases and Cash Collateral and good right to assign the same, and, except as permitted by the Loan Agreement, no other person has any right, title or interest therein.
- (b) Grantor has duly and punctually performed all and singular the terms, covenants, conditions and warranties of the Leases on Grantor's part to be kept, observed and performed.
- (c) The existing Leases, if any, are valid and unmodified and are in full force and effect.
- (d) Except as permitted by the Loan Agreement, Grantor has not previously sold, assigned, transferred, mortgaged, pledged or granted a security interest in the Cash Collateral, whether now due or hereafter to become due.
- (e) None of the Cash Collateral due and issuing from the Property or from any part thereof has been collected for any period in excess of one month from the date hereof, and payment of any of same has not otherwise been anticipated, waived, released, discounted, set off or otherwise discharged or compromised.
- (f) Grantor has not received any funds or deposits from any tenant for which credit has not already been made on account of accrued Cash Collateral.
- (g) None of the tenants under any existing Leases is in default of any of the terms thereof.

3.3 Covenants of Performance. Grantor covenants and agrees as follows:

- (a) Grantor shall observe, perform, and discharge, duly and punctually, all of the obligations of the Leases on the part of Grantor to be kept, observed, and performed; and shall give prompt notice to Beneficiary of any failure on the part of Grantor to observe, perform, and discharge same.
- (b) Grantor shall notify and direct in writing each and every present or future tenant or occupant of the Property or any part thereof that any security deposit or other deposits heretofore delivered to Grantor have been

retained by Grantor or assigned and delivered to Beneficiary as the case may be.

(c) Grantor shall enforce the performance of each and every obligation, term, covenant, condition, and agreement in the Leases by any tenant to be performed, and shall notify Beneficiary of the occurrence of any material default under the Leases.

(d) Grantor shall appear in and defend any action or proceeding arising under, occurring out of, or in any manner connected with the Leases or the obligations, duties, or liabilities of Grantor or any tenant thereunder at the expense of Grantor.

3.4 Prior Approval for Actions Affecting Leases. Grantor, without the prior written consent of Beneficiary, further covenants and agrees as follows:

(a) Grantor shall not receive or collect any Cash Collateral from any present or future tenant of the Property or any part thereof for a period of more than one month in advance (whether in cash or by promissory note) nor pledge, transfer, mortgage, grant a security interest in, or otherwise encumber or assign future payments of Cash Collateral.

(b) Grantor shall not waive, forgive, excuse, condone, discount, set off, compromise, or in any manner release or discharge any tenant under any Leases having a term in excess of one year or from any obligations, covenants, conditions, and agreements by such tenant to be kept, observed, and performed, including the obligation to pay the Cash Collateral thereunder in the manner and at the place and time specified therein.

(c) Grantor shall not cancel, terminate, or consent to any surrender of any of the Leases having a term in excess of one year, nor commence any action of ejectment or any summary proceedings for dispossession of the tenant under any such Leases, nor exercise any right of recapture of the Property provided in any such Leases, nor modify or in any way alter the terms thereof.

(d) Grantor shall not lease any part of the Property for a term in excess of one year, nor renew or extend the term of any Leases of the Property other than month-to-month rental agreements unless an option therefor was originally so reserved by tenants in the Leases.

(e) Grantor shall not relocate any commercial tenant within the Property nor consent to any modification of the express purposes for which the Property has been leased, nor consent to any subletting of the Property or any part thereof, or to any assignment of the Leases by any commercial tenant thereunder or to any assignment or further subletting of any sublease.

3.5 Rejection of Leases. Grantor further covenants and agrees as follows:

(a) In the event any tenant under the Leases should become the subject of any proceeding under the United States Bankruptcy Code or any other federal, state or local statute which provides for the possible termination or rejection of the Leases assigned hereby, Grantor covenants and agrees that in the event any of the Leases are so rejected, no damage settlement shall be made without the prior written consent of Beneficiary.

(b) Grantor will request that any check in payment of damages for rejection or termination of any such Lease will be made payable both to the Grantor and Beneficiary.

(c) Grantor hereby assigns any such payment to Beneficiary and further covenants and agrees that upon request of Beneficiary, it will duly endorse to the order of Beneficiary any such check, the proceeds of which will be applied to any portion of the indebtedness secured by this Deed of Trust in such manner as Beneficiary may elect.

3.6 License to Collect Cash Collateral. As long as there shall exist no default by Grantor hereunder, Grantor shall have the right under a license granted hereby (but limited as provided herein) to collect, but not prior to accrual, all of the Cash Collateral arising from or out of said Leases or any renewals, extensions and replacements thereof, or from or out of the Property or any part thereof. Grantor shall receive such Cash Collateral and hold the Cash Collateral, together with the right and license herein granted as a trust fund to be applied, and Grantor hereby covenants to so apply them, as required by Beneficiary, firstly to the payment of taxes and assessments upon the Property before penalty or interest is due thereon; secondly to the costs of insurance, maintenance and repairs required by the terms of this Deed of Trust; thirdly to satisfaction of all obligations under the Leases; and fourthly to the payment of interest, principal and any other sums becoming due under Term Note II and Deed of Trust, before using any part of the same for any other purposes. Upon the conveyance by Grantor and its successors and assigns of Grantor's interest in the Property, all right, title, interest and powers granted under the license aforesaid shall automatically pass to and may be exercised by each subsequent owner.

**ARTICLE IV
REMEDIES UPON DEFAULT**

4.1 Events of Default. Any of the following events shall be deemed an event of default hereunder:

(a) Default shall be made in the payment of any installment of principal or interest on Term Note I (as defined in the Loan Agreement) or

Term Note II or any other sum secured hereby when due and any applicable grace period shall have expired; or

(b) Grantor or any guarantor of the indebtedness secured hereby as applicable shall file a voluntary petition in bankruptcy or such a petition shall be filed against Grantor or any guarantor and is not dismissed within 60 days after filing; or if Grantor or any guarantor shall file any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other statute, law or regulation relating to bankruptcy, insolvency or other relief for debtors; or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Grantor or of all or any part of the Trust Estate, or of any or all of the royalties, revenues, rents, issues or profits thereof, or shall make any general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

(c) A court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against Grantor or any guarantor seeking any reorganization, dissolution or similar relief under any present or future federal, state or other statute, law or regulation relating to bankruptcy, insolvency or other relief for debtors, and such order, judgment or decree shall remain unvacated and unstayed for an aggregate of 60 days (whether or not consecutive) from the first date of entry thereof; or any trustee, receiver or liquidator of Grantor or any guarantor or of all or any part of the Trust Estate, or of any or all of the royalties, revenues, rents, issues or profits thereof, shall be appointed without the consent or acquiescence of Grantor or any affected guarantor and such appointment shall remain unvacated and unstayed for an aggregate of 60 days (whether or not consecutive); or

(d) A writ of execution or attachment or any similar process shall be issued or levied against all or any part of or interest in the Trust Estate, or any judgment involving monetary damages shall be entered against Grantor which shall become a lien on the Trust Estate or any portion thereof or interest therein and such execution, attachment or similar process or judgment is not released, bonded, satisfied, vacated or stayed within 60 days after its entry or levy; or

(e) There has occurred a breach of or default under any term, covenant, agreement, condition, provision, representation, or warranty contained in any of the Loan Documents or any part thereof, not referred to in this Section 4.1 subject to any applicable cure period specified in the Loan Documents.

(f) Any guaranty of the loan secured hereby ceases to be in full force and effect or any guarantor asserts that any guaranty is not in full force and effect.

4.2 Rights and Remedies on Default. Upon the occurrence of any event of default and at any time thereafter, Beneficiary may exercise any one or more of the following rights and remedies:

(a) The right at its option by notice to Grantor to declare the entire indebtedness secured hereby immediately due and payable.

(b) With respect to all or any part of the Property, the right to foreclose by judicial foreclosure in accordance with applicable law.

(c) The right to have the Trustee sell the Trust Estate in accordance with the Deed of Trust Act of Washington and the Uniform Commercial Code of Washington where applicable, at public auction to the highest bidder. Any person except Trustee may bid at the Trustee's sale. The power of sale conferred by this Deed of Trust and the law is not an exclusive remedy and when not exercised, Beneficiary may foreclose this Deed of Trust as a mortgage. The Trustee is not obligated to notify any party hereto of a 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.

(d) With respect to all or any part of the Trust Estate that constitutes personalty, the rights and remedies of a secured party under the Uniform Commercial Code of Washington.

(e) The right, without notice to Grantor, to terminate the license granted to Grantor to collect the Cash Collateral without taking possession, and to demand, collect, receive, sue for, attach and levy against the Cash Collateral in Beneficiary's name; to give proper receipts, releases and acquittances therefor; and after deducting all necessary and proper costs and expenses of operation and collection as determined by Beneficiary, including reasonable attorneys' fees, to apply the net proceeds thereof, together with any funds of Grantor deposited with Beneficiary, upon any indebtedness secured hereby and in such order as Beneficiary may determine. In furtherance of this right, Beneficiary may require any tenant or other user to make payments of rent or use fees directly to Beneficiary, and payments by such tenant or user to Beneficiary in response to its demand shall satisfy the obligation for which the payments are made, whether or not any proper grounds for the demand existed.

(f) The right to have a receiver appointed to take possession of any or all of the Trust Estate, with the power to protect and preserve the Trust Estate and to operate the Trust Estate preceding foreclosure or sale and apply the proceeds, over and above cost of the receivership, against the indebtedness secured hereby. The receiver may serve without bond if permitted by law. Beneficiary's right to the appointment of a receiver shall exist whether or not apparent value of the Trust Estate exceeds the indebtedness by a substantial amount. Grantor hereby irrevocably consents to the appointment of a receiver on the terms set forth herein. Employment by Beneficiary shall not disqualify a person from serving as receiver. Upon taking possession of all or any part of the Trust Estate, the receiver may:

(1) Use, operate, manage, control, and conduct business on the Trust Estate;

(2) Make expenditure for all maintenance, renewals, replacements, alterations, additions, and improvements to the Trust Estate as in its judgment are proper;

(3) Insure and reinsure the Trust Estate and all risks incidental to its possession, operation, and management of the Trust Estate;

(4) Collect the Cash Collateral and any other revenues and income from the Trust Estate and apply such sums to the expenses of use, operation, and management in such priority as the receiver deems appropriate. Grantor shall promptly turn over to the receiver all documents, books, records, papers, and accounts, together with the amount of any deposits, rentals, and use fees from any tenant or other user. The receiver may appear in any proceeding or bring suit on Grantor's behalf, as necessary to enforce obligations of any tenant or other user, including actions for the recovery of rent and actions in forcible detainer;

(5) Cancel or terminate any Lease or agreement for any cause for which Grantor would be entitled to cancel the same;

(6) Extend or modify any Lease and make any new Lease on any portion of the Trust Estate. Any such instruments shall be binding upon Grantor and all persons whose interests in the Trust Estate are subordinate to this Deed of Trust, and upon the purchaser or purchasers at any foreclosure sale, notwithstanding any redemption from sale, discharge, or indebtedness, satisfaction of the foreclosure decree or issuance of any certificate of sale or deed to any purchaser;

(7) Complete any construction in progress on the Property, and in that connection, pay bills, borrow funds, employ contractors, and make any changes in plans or specifications as the receiver deems appropriate; or

(8) If the revenues and income are insufficient to pay expenses, the receiver may borrow such sums as the receiver deems necessary for the purposes stated in this paragraph. The amounts borrowed shall bear interest from the date of expenditure until repaid at the same rate per annum as is accruing on Term Note II. Such sums shall become a part of the balance secured by this Deed of Trust and shall be payable by Grantor on demand.

(g) Subject to any limitations imposed by law, the right to obtain a deficiency judgment in the event the net sale proceeds of any foreclosure sale are insufficient to pay the entire unpaid indebtedness secured hereby.

(h) Any other right or remedy provided in this Deed of Trust, Term Note II, any other Loan Documents, or under law.

4.3 Foreclosure by Power of Sale. Should Beneficiary elect to foreclose by exercise of the power of sale herein contained, Beneficiary shall notify Trustee and shall deposit with Trustee this Deed of Trust and Term Note II and such receipts and evidence of expenditures made and secured hereby as Trustee may require.

(a) Upon receipt of such notice from Beneficiary, Trustee shall cause to be given such Notice of Default as then required by law. Trustee shall, without demand on Grantor, after lapse of such time as may then be required by law and after Notice of Sale and Notice of Foreclosure having been given as required by law, sell the Trust Estate at the time and place of sale fixed by it in such Notice of Sale and Notice of Foreclosure, either as a whole, or in separate lots or parcels or items as Trustee shall deem expedient, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to such purchaser or purchasers thereof its good and sufficient deed or deeds conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof.

(b) After deducting all costs, fees and expenses of Trustee and of this Trust, including costs of evidence of title and reasonable counsel fees in connection with sale, Trustee shall apply the proceeds of sale to payment of all sums expended under the terms hereof, not then repaid, with accrued interest, all other sums then secured hereby and the remainder, if any, shall be paid into court in the manner provided by law.

4.4 Sale of Personal Property. Beneficiary shall give Grantor reasonable notice of the time and place of any public sale of any Personal Property or of the time after which any private sale or other intended disposition of the Personal Property is to be made. Reasonable notice shall mean notice given at least ten days before the time of the sale or disposition.

4.5 Due on Sale or Increase in Interest Rate on Sale. Grantor agrees and acknowledges that the indebtedness evidenced by Term Note II is personal to Grantor, and that Grantor's personal responsibility and/or control of the Property is a material inducement to Beneficiary to agree to enter into this transaction. Any conveyance of the whole or any part of the Property, whether by deed, contract, further encumbrance, or otherwise, lease of the same (other than a lease of any portion of the space in the improvements on the Property in the ordinary course of business without an option to purchase) without Beneficiary's prior written consent, or any transfer of capital stock or partnership interests in Grantor without Beneficiary's prior written consent shall be deemed to increase the risk of Beneficiary, and Beneficiary or other holder may declare the entire unpaid balance immediately due and payable, or, at its sole option, it may consent to such conveyance, or transfer of capital stock or partnership interest in writing and may increase the interest rate on Term Note II, change the maturity date of Term Note II, modify the loan terms, or impose whatever other conditions it shall deem necessary to compensate it for such increased risk. Any increase in interest shall entitle the holder to increase monthly payments on the loan evidenced by Term Note II so as to retire the obligation within the original stipulated time. In the event Grantor shall request the consent of Beneficiary in accordance with the provisions of this Section 4.5, Grantor shall deliver a written request to Beneficiary, together with such information as Beneficiary may reasonably request regarding such conveyance, further encumbrance, lease or transfer of capital stock or partnership interest and shall allow Beneficiary 30 days to evaluate such request. In the event Beneficiary approves such conveyance, encumbrance, lease, or transfer of capital stock or partnership interest, Grantor shall pay Beneficiary a processing fee in an amount to be determined by Beneficiary but in no event less than \$500.00 to compensate Beneficiary for its costs in processing such request. Consent as to any one transaction shall not be deemed to be a waiver of the right to require consent to any further or successive transaction. The execution and delivery by the Grantor of any joint venture agreement, partnership agreement, declaration of trust, option agreement, or other instrument whereunder any other person or corporation may become entitled, directly or indirectly, to the possession or enjoyment of the Property, or the income or other benefits derived or to be derived therefrom, shall in each case be deemed to be a conveyance or assignment of Grantor's interest in the Property for the purposes of this section, and shall require the prior written consent of Beneficiary.

In the event ownership of the Property or any portion thereof becomes vested in a person other than Grantor herein named, Beneficiary may, without notice to Grantor herein named, whether or not Beneficiary has given written consent to such change in ownership, deal with such successor or successors in interest with reference to this Deed of Trust and the obligations secured hereby, in the same manner as with Grantor herein named,

without in any way vitiating or discharging Grantor's liability hereunder or the obligations hereby secured.

4.6 Attorney Fees. In the event suit, action, or arbitration proceeding is instituted to enforce any of the terms of this Deed of Trust, Beneficiary shall be entitled to recover from Grantor such sum as the court or arbitrator may adjudge reasonable as attorney fees at trial, on any appeal, and in any bankruptcy proceeding. All reasonable expenses incurred by Beneficiary that are necessary at any time in Beneficiary's opinion for the protection of its interest or the enforcement of its rights, including without limitation, the cost of searching records, obtaining title reports, surveyors' reports, demanding payment, attorneys' opinions, or title insurance, whether or not any court action is involved, shall become a part of the indebtedness secured hereby, payable on demand, and shall bear interest at Term Note II Rate from the date of expenditure until paid.

ARTICLE V MISCELLANEOUS

5.1 Governing Law. This Deed of Trust shall be governed by the laws of the State of Washington. In the event that any provision or clause of any of the Loan Documents conflicts with applicable laws, such conflicts shall not affect other provisions of such Loan Documents which can be given effect without the conflicting provision, and to this end the provisions of the Loan Documents are declared to be severable.

5.2 Modification. This instrument cannot be waived, changed, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

5.3 Inspections and Appraisals. Beneficiary or its agents may enter upon the Property at any reasonable times to inspect or appraise it, whether or not any default exists hereunder. If Grantor refuses to permit such inspection or appraisal, Beneficiary may specifically enforce performance of this provision. Grantor agrees to pay the cost of all appraisals required by Beneficiary in its sole discretion (a) to comply with (i) any applicable statute or regulation, or (ii) the request or directive (whether or not having the force of law) of any regulatory authority with jurisdiction over Beneficiary, (b) to comply with Beneficiary's policies concerning appraisals, or (c) at any time after the occurrence of an event of default. All such appraisal costs shall become a part of the indebtedness secured hereby and shall be payable on demand, together with interest thereon at the highest rate applicable to any such indebtedness.

5.4 Reconveyance by Trustee. Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of Term Note II to Trustee for cancellation and retention and upon payment by Grantor of Trustee's fees, Trustee shall reconvey to Grantor, or the person or persons legally entitled thereto, without

warranty, any portion of the Trust Estate then held hereunder. The recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The grantee in any reconveyance may be described as "the person or persons legally entitled thereto."

5.5 Notices. Whenever Beneficiary, Grantor or Trustee shall desire to give or serve any notice, demand, request or other communication with respect to this Deed of Trust, each such notice, demand, request or other communication shall be in writing and shall be effective only if the same is delivered by personal service or mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the address set forth at the beginning of this Deed of Trust. Any communication which is mailed as provided above shall be deemed delivered 72 hours after mailing. Any party may at any time change its address for such notices by delivering or mailing to the other parties hereto, as aforesaid, a notice of such change.

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

5.7 Captions. The captions or headings at the beginning of each section hereof are for the convenience of the parties and are not a part of this Deed of Trust.

5.8 Invalidity of Certain Provisions. If the lien of this Deed of Trust is invalid or unenforceable as to any part of the debt, or if the lien is invalid or unenforceable as to any part of the Trust Estate, the unsecured or partially secured portion of the debt shall be completely paid prior to the payment of the remaining and secured or partially secured portion of the debt, and all payments made on the debt, whether voluntary or under foreclosure or other enforcement action or procedure, shall be considered to have been first paid on and applied to the full payment of that portion of the debt which is not secured or fully secured by the lien of this Deed of Trust. Further, the invalidity or unenforceability of any portion or provision of this Deed of Trust shall in no way affect the validity or enforceability of the remainder hereof.

5.9 Subrogation. To the extent that proceeds of Term Note II are used to pay any outstanding lien, charge or prior encumbrance against the Trust Estate, such proceeds have been or will be advanced by Beneficiary at Grantor's request and Beneficiary shall be subrogated to any and all rights and liens owned by any owner or holder of such outstanding liens, charges and prior encumbrances, irrespective of whether such liens, charges or encumbrances are released.

5.10 No Merger. If both the lessor's and lessee's estates under any lease or portion thereof which constitutes a part of the Trust Estate shall at any time become vested in one owner, this Deed of Trust and the lien created hereby shall not be destroyed or terminated by application of the doctrine of merger and, in such event, Beneficiary shall continue to have and enjoy all of the rights and privileges of Beneficiary as to the separate estates. In addition, upon the foreclosure of the lien created by this Deed of Trust on the

Trust Estate pursuant to the provisions hereof, any leases or subleases then existing and created by Grantor shall not be destroyed or terminated by application of the law of merger or as a matter of law or as a result of such foreclosure unless Beneficiary or any purchaser at any such foreclosure sale shall so elect. No act by or on behalf of Beneficiary or any such purchaser shall constitute a termination of any lease or sublease unless Beneficiary or such purchaser shall give written notice thereof to such tenant or subtenant.

5.11 Late Charge. Grantor recognizes that default by Grantor in making the payments under Term Note II and/or in any of the other Loan Documents when due will result in Beneficiary incurring additional expense servicing the loan, loss to Beneficiary of the use of the money due, and frustration to Beneficiary in meeting its other loan commitments. In the event that any payment or portion thereof is not paid within 15 days after the date it is due, Beneficiary may collect, and Grantor agrees to pay with such payment, a "late charge" of the greater of \$5 or 5 percent of any overdue amount as liquidated damages for the additional expense of handling such delinquent payments. Such late charge represents the reasonable estimate of Beneficiary and the Grantor of a fair, average compensation due to the failure of the Grantor 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 hereunder.

5.12 Hazardous Substances.

(a) Grantor represents and warrants to Beneficiary that to the best of Grantor's knowledge after due and diligent inquiry, no hazardous or toxic waste or substances are being stored on the Property or any adjacent property nor have any such waste or substances been stored or used on the Property or any adjacent property prior to Grantor's ownership, possession or control of the Property. Grantor agrees to provide written notice to Beneficiary immediately upon Grantor becoming aware that the Property or any adjacent property is being or has been contaminated with hazardous or toxic waste or substances. Grantor will not cause nor permit any activities on the Property which directly or indirectly could result in the Property or any other property becoming contaminated with hazardous or toxic waste or substances. For purposes of this Deed of Trust, the term "hazardous or toxic waste or substances" means any substance or material defined or designated as hazardous or toxic wastes, hazardous or toxic material, a hazardous, toxic or radioactive substance or other similar term by any applicable federal, state or local statute, regulation or ordinance now or hereafter in effect, including without limitation the statutes listed below:

Federal Resource Conservation and Recovery Act of 1976, 42.
U.S.C. Section 6901 et seq.

Federal Comprehensive Environmental Response,
Compensation, and Liability Act of 1980, 42 U.S.C. Section
9601 et seq.

Federal Clean Air Act, 42 U.S.C. Sections 7401-7626.

Federal Water Pollution Control Act, Federal Clean Water Act
of 1977, 33 U.S.C. Section 1251 et seq.

Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C.
Section 136 et seq.

Federal Toxic Substances Control Act, 15 U.S.C. Section 2601
et seq.

Federal Safe Drinking Water Act, 42 U.S.C. Section 300(f)
et seq.

Washington Water Pollution Control Act, RCW Chapter 90.48.

Washington Clean Air Act, RCW Chapter 70.94.

Washington Solid Waste Management--Recovery and Recycling
Act, RCW Chapter 70.95.

Washington Hazardous Waste Management Act, RCW
Chapter 70.105.

Washington Hazardous Waste Fees Act, RCW
Chapter 70.105A.

Washington Nuclear Energy and Radiation Act, RCW
Chapter 70.98.

Washington Radioactive Waste Storage and Transportation Act,
RCW Chapter 70.99.

(b) Grantor will indemnify and hold Beneficiary harmless from and
against any and all claims, demands, damages, costs, expenses, losses, liens,
liabilities, penalties, fines and lawsuits and other proceedings, (including
attorneys' fees), arising directly or indirectly from or out of, or in any way
connected with (i) the inaccuracy of the certifications contained herein or in
any other document executed by Grantor in connection with the loan evidenced
by Term Note II, (ii) any activities on the Property during Grantor's
ownership, possession or control of the Property which directly or indirectly

result in the Property or any other property becoming contaminated with hazardous or toxic waste or substances, (iii) the discovery of hazardous or toxic waste or substances on the Property, or the discovery of hazardous or toxic waste or substances on any other property caused by activities on the Property, or (iv) the cleanup of hazardous or toxic waste or substances from the Property or the cleanup of hazardous or toxic waste or substances from any other property caused by activities on the Property. Grantor acknowledges that it will be solely responsible for all costs and expenses relating to the cleanup of hazardous or toxic waste or substances from the Property or from any other properties which become contaminated with hazardous or toxic waste or substances as a result of the contamination of or activities on the Property.

(c) Beneficiary and its representatives may enter the Property at any time for the purpose of conducting an environmental audit, committing only such injury to the Property as may be necessary to conduct the environmental audit. Beneficiary shall not be required to remedy any such injury or compensate Grantor therefor. Grantor shall cooperate in all respects in the performance of the audit. Grantor shall pay the costs of any environmental audit if either a default exists under this Deed of Trust at the time Beneficiary arranges to have the audit performed or the audit reveals a default pertaining to hazardous substances. If Grantor refuses to permit Beneficiary or its representatives to conduct an environmental audit on the Property, Beneficiary may specifically enforce performance of this provision.

5.13 Handicapped Access.

(a) Grantor agrees that the Property shall at all times strictly comply to the extent applicable with the requirements of the Americans with Disabilities Act of 1990, the Fair Housing Amendments Act of 1988, all state and local laws and ordinances related to handicapped access, and all rules, regulations, and orders issued pursuant thereto including, without limitation, the Americans with Disabilities Act Accessibility Guidelines for Buildings and Facilities (collectively "Access Laws"). As a condition precedent to the obligation of Beneficiary to disburse any funds with respect to the loan secured hereby, Beneficiary may require a certificate of Access Law compliance and indemnification in a form reasonably acceptable to Beneficiary. Beneficiary may also require a certificate of Access Law compliance from an architect, engineer, or other third party acceptable to Beneficiary.

(b) Notwithstanding any limits set forth herein or in any other document on Grantor's obligation to obtain Beneficiary's approval of alterations of the Property, Grantor shall not alter the Property in any manner which would increase Grantor's responsibilities for compliance with the applicable Access Laws without the prior written approval of Beneficiary. The foregoing shall apply to tenant improvements constructed by Grantor or by any

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of its tenants. Beneficiary may condition any such approval upon receipt of a certificate of Access Law compliance from an architect, engineer, or other person acceptable to Beneficiary.

(c) Grantor agrees to give prompt notice to Beneficiary of the receipt by Grantor of any complaints related to violation of any Access Laws and of the commencement of any proceedings or investigations which relate to compliance with applicable Access Laws.

(d) Grantor shall indemnify, defend, and hold harmless Beneficiary from and against any and all claims, demands, damages, costs, expenses, losses, liabilities, penalties, fines, and other proceedings including without limitation reasonable attorneys fees and expenses arising directly or indirectly from or out of or in any way connected with any failure of the Property to comply with applicable Access Laws. The obligations and liabilities of Grantor under this section shall survive any termination, satisfaction, assignment, entry of a judgment of foreclosure, delivery of trustee's deed in a nonjudicial foreclosure proceeding, or delivery of a deed in lieu of foreclosure.

IN WITNESS WHEREOF, Grantor has executed this Deed of Trust as of the day and year first above written.

GRANTOR:

LaCONNER COUNTRY INN, LTD. A WASHINGTON LIMITED PARTNERSHIP, a Washington limited partnership

By: M.T.W. Management, Inc., its general partner

By James MacLean

Title President

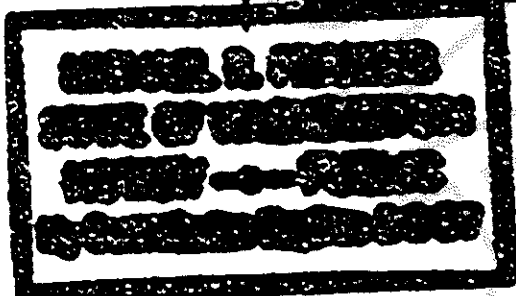
State of Washington)
County of KING) ss.

I certify that I know or have satisfactory evidence that James MacLean is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument, and acknowledged it as the President of M.T.W. Management, Inc., a Washington

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corporation, acting in its capacity of general partner of LaConner Country Inn Limited Partnership, a Washington limited partnership to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: April 25, 1995.



Michael R. Francis

Notary Public for Washington

Michael R. Francis

(Printed or Stamped Name of Notary)

Residing at Issaquah

My appointment expires: 2/9/97

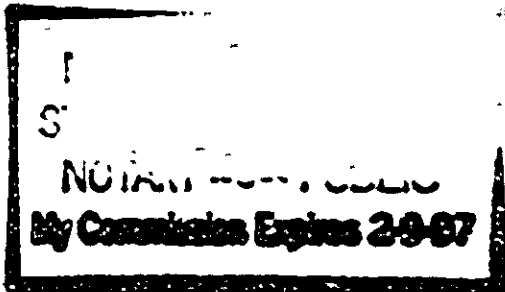


EXHIBIT A
to Deed of Trust

DESCRIPTION:

PARCEL "A":

Lots 8, 9, 10, 11, 12 and 13, Block 1, "CALHOUN ADDITION TO THE TOWN OF LA CONNER", as per plat recorded in Volume 1 of Plats, page 14, records of Skagit County, Washington.

Situate in the Town of LaConner, County of Skagit, State of Washington.

PARCEL "B":

That portion of Tract 2, Plate No. 18, Tide and Shorelands of Section 36, Township 34, Range 2 East, W.M., LACONNER HARBOR, Skagit County, State of Washington, according to plat thereof on record in the office of the Commissioner of Public Lands at Olympia, Washington, lying Southerly of the plat of "JOHANSON'S FIRST ADDITION TO THE TOWN OF LACONNER", according to the plat recorded in Volume 3 of Plats, page 56, records of Skagit County, Washington.

Situate in the Town of LaConner, County of Skagit, State of Washington.

PARCEL "C":

That portion of Tract 3 of Corrected Plate No. 18, Tide and Shorelands of Section 36, Township 34 North, Range 2 East, W.M., "LACONNER HARBOR, SKAGIT COUNTY, WASHINGTON", according to plat thereof on record in the office of the Commissioner of Public Lands at Olympia, Washington, lying Northerly of the Westerly extension of the South line of Lot 9, Block 1, "CALHOUN ADDITION TO THE TOWN OF LACONNER", as per plat recorded in Volume 1 of Plats, page 14, records of Skagit County, Washington.

Situate in the Town of LaConner, County of Skagit, State of Washington.

- Continued -

DESCRIPTION CONTINUED:

PARCEL "D":

Lot 1, Block 7, "CALHOUN ADDITION TO THE TOWN OF LA CONNER", as per plat recorded in Volume 1 of Plats, page 14, records of Skagit County, Washington.

ALSO, Lots 6, 7, 8, 9, 10, 11 and 12, Block M, "MAP OF LACONNER, WHATCOM COUNTY, WASHN. TERRY., 1872", as per plat recorded in Volume 2 of Plats, page 49, records of Skagit County, Washington,

EXCEPT that portion of Lot 12 conveyed to the Town of LaConner by Deed recorded under Auditor's File No. 85530, records of Skagit County, Washington, described as follows:

Beginning at the Southwest corner of said Lot 12, Block M, "Map of LaConner;
thence North 30°56'00" East along the West line of said Lot 12, a distance of 15.00 feet;
thence South 78°38'06" East a distance of 63.53 feet to a point on the South line of said Lot 12, which point bears North 89°43'00" East a distance of 70.00 feet from the said Southwest corner of Lot 12;
thence South 89°43'00" West along the South line of said Lot 12, a distance of 70.00 feet to the point of beginning.

Situate in the Town of LaConner, County of Skagit, State of Washington.

PARCEL "E":

That portion of the vacated alley located in Block M, of the plat of the "MAP OF LACONNER, WHATCOM COUNTY, WASHN. TERRY., 1872", as per plat recorded in Volume 2 of Plats, page 49, records of Skagit County, Washington, described as follows:

The West $\frac{1}{2}$ of the alley in Block M running North-South consisting of an area 225 feet along and 11.69 feet wide; and

That portion of the vacated alley lying between Block 7 of Calhoun Addition to the Town of LaConner and Block M of the plat of the Map of LaConner consisting of an area commencing on the Southwest corner of Lot 1, Block 7, Calhoun Addition to the Town of LaConner and thence East a distance of 98 feet, more or less, to the

- Continued -

9504260118

BK 1434 PG 0300

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DESCRIPTION CONTINUED:

PARCEL "E" continued:

Southeast corner of Lot 2 of Block 7 and thence Southerly in a line that is an extension of the common boundary between Lots 2 and 3 of Block 7, a distance of approximately 29 feet, more or less, to the North boundary of Lot 6 of Block M above described, and thence Westerly along the North line of Lot 6 a distance of 98 feet, more or less, to the Northwest corner of Block 6, and thence North to the Southwest corner of Lot 1, Block 7, Calhoun Addition, which is the true point of beginning.

Situate in the Town of LaConner, County of Skagit, State of Washington.

9504260118

BK | 434 PG 0301

EXHIBIT B

Permitted Encumbrances

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9504260118

BK | 434 PG0302

80327-385/042495/ZSS0314F

EXHIBIT B
to Deed of Trust
(\$785,000)

Exceptions

1. TAXES:

General taxes, as follows, together with interest, penalty and statutory foreclosure costs, if any, after delinquency:

<u>Account Number</u>	<u>Amount Year</u>	<u>Amount Billed</u>	<u>Balance Paid</u>	<u>Owing</u>
4124-001-008-0003 Property I.D. No.:	1995 P74111	\$29,426.78	\$ -0-	\$29,426.78
4124-001-011-0008 Property I.D. No.:	1995 P74112	1,933.79	-0-	1,933.79
4124-001-012-0007 Property I.D. No.:	1995 P74113	644.18	-0-	644.18
4124-001-013-0006 Property I.D. No.:	1995 P74114	644.18	-0-	644.18
4129-018-002-0008 Property I.D. No.:	1995 P74452	139.55	-0-	139.55
4129-018-900-0308 Property I.D. No.:	1995 P74481	31.15	-0-	31.15
4129-018-900-0407 Property I.D. No.:	1995 P74482	78.50	-0-	78.50
4129-018-900-2601 Property I.D. No.:	1995 P74504	139.55	-0-	139.55
4124-007-001-0007 Property I.D. No.:	1995 P74136	701.50	-0-	701.50
4123-013-012-0102 Property I.D. No.:	1995 P74009	18,055.79	-0-	18,055.79
4129-018-900-2700 Property I.D. No.:	1995 P74505	88.47	-0-	88.47

2. Municipal assessments and impact fees, if any, levied by the Town of LaConner.

3. DEED OF TRUST AND THE TERMS AND CONDITIONS THEREOF:

Grantor: LaConner Country Inn Limited Partnership
Trustee: David F. Stobaugh
Beneficiary: Evergreen Community Development Association
Amount: \$750,000.00
Dated: July 23, 1991
Recorded: August 15, 1991
Auditor's No.: 9108150053

ASSIGNMENT OF SAID DEED OF TRUST:

Assignee: United States Small Business Administration
Dated: August 12, 1991
Recorded: August 15, 1991
Auditor's No.: 9108150054

4. For easements, restrictions, and other exceptions, see Schedule B-1, attached.

A. COVENANTS NOT TO COMPETE INCLUDING THE TERMS, COVENANTS, CONDITIONS, PROVISIONS AND RESTRICTIONS CONTAINED THEREIN AS CONTAINED IN INSTRUMENT:

Recorded: October 23, 1987
Auditor's No.: 8710230093, records of Skagit County, Washington
Affects: Lot 8

B. Rights in the general public to the unrestricted use of all the waters of a navigable body of water not only for the primary purpose of navigation, but also for corollary purposes; including (but not limited to) fishing, boating, bathing, swimming, water skiing and other related recreational purposes, as those waters may affect the tidelands, shorelands, or adjoining uplands and whether the level of the water has been raised naturally or artificially to a maintained or fluctuating level, all as further defined by the decisional law of this state.

(Affects all of the premises subject to such submergence.)

C. Terms, provisions and reservations under the Submerged Land Act (43) U.S.C.A. §§ 1301 through 1311) and the rights of the United States of America to regulate commerce, navigation, flood control, fishing and production of power.

**D. COVENANTS, CONDITIONS AND RESTRICTIONS CONTAINED IN
DECLARATION OF PROTECTIVE RESTRICTIONS, AS HERETO ATTACHED.**

Declaration Dated: June 21, 1991
Recorded: June 24, 1991
Auditor's No.: 9106240043
Executed By: LaConner Country Inn Limited Partnership, a
Washington limited partnership

E. EASEMENT AND THE TERMS AND CONDITIONS THEREOF:

Grantee: Town of LaConner, a municipal corporation
Purpose: To construct, maintain, repair, operate, and
patrol and replace bank protection
Area Affected: The South 10 feet of Lot 8, Block 1, "Calhoun
Addition to the Town of LaConner"
Recorded: August 3, 1994
Auditor's No.: 9408030078