



200411010180
Skagit County Auditor

11:1/2004 Page 1 of 18 3:23PM

**RECORDED AT THE REQUEST OF
AND AFTER RECORDING RETURN TO:**

Robert B. Fikso
McCullough Hill Fikso Kretschmer Smith PS
2025 First Avenue, Suite 1130
Seattle, WA 98121-2100

LAND TITLE OF SKAGIT COUNTY
113189-P

**DEED OF TRUST, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT WITH FIXTURE FILING**

| | |
|--------------------|---|
| Grantor: | Skagit Highlands, LLC, a Washington limited liability company |
| Grantee: | The Quadrant Corporation, a Washington corporation |
| Reference No.: | NA |
| Legal Description: | Lots 1, 2, and 4, Boundary Line Adjustment Survey, Auditor's File No. 200308180300; Ptn. Sec. 15 & 22, T34N, R4E, W.M. (See page 13 for complete legal description) |
| Tax Parcel Number: | 340422-1-004-0012, 340422-1-002-0006, 340422-1-002-0200 |

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT WITH FIXTURE FILING ("Deed of Trust") is made this 27th day of October, 2004, among **THE SKAGIT HIGHLANDS, LLC**, a Washington limited liability company ("Grantor"), **LAND TITLE COMPANY OF SKAGIT COUNTY** (the "Trustee"), whose address is P.O. Box 445, 111 East George Hopper Road, Burlington, Washington 98233; and **THE QUADRANT CORPORATION**, a Washington corporation, whose address is 1110 112th Avenue N.E., Suite 300, P.O. Box 130, Bellevue, WA 98009 ("Beneficiary").

Grantor is the owner in fee of certain property described in Exhibit A hereto, commonly referred to as Skagit Highlands, Division 1 (the "Premises") and the buildings, improvements and other structures now or hereafter located thereon (the "Improvements", collectively with the Premises, the "Property").

Beneficiary and Grantor have entered into: (i) a Real Estate Purchase and Sale Agreement dated as of July 30, 2004, as amended, for the Property and (ii) a Real Estate Purchase and Sale Agreement dated as of October 27, 2004, for the Property commonly referred to as Skagit Highlands, Division 2 (collectively referred as the "Purchase Agreements") pursuant to which Beneficiary has agreed to advance certain funds for the Property and Grantor has agreed to sell finished lots to Beneficiary. To secure Grantor's obligations under the Purchase Agreements including, without limitation, Grantor's obligation to return to Beneficiary, in accordance with the terms of the Purchase Agreements, any payments or deposits made by Beneficiary to Grantor and Beneficiary's Division 2 Development Expenses (as defined in the Purchase Agreements), Grantor has agreed to grant Beneficiary this Deed of Trust in the Property.

GRANTING CLAUSES

NOW, THEREFORE, to secure the payment of all sums due Beneficiary and obligations to be performed by Grantor under the Purchase Agreements and under any documents executed in connection with the Purchase Agreements, including without limitation this Deed of Trust (collectively, the "Purchase Documents") including the costs and expenses of enforcing any provision of any of the Purchase Documents and performance by Grantor of its obligations under the Purchase Documents, and in order to charge the Property and the revenue arising from the Property with the obligation to perform the obligations of the Purchase Documents, Grantor does hereby bargain, sell and convey to Trustee, in trust, with power of sale, all right, title and interest of Grantor now owned or hereafter acquired, in and to the Property;

The references to "Property" herein shall also include the following rights and interests:

- (a) all easements, rights-of-way, streets, alleys, sewer rights, water rights, and all right, title, and interest in any appurtenances of any nature, relating to the Property;
- (b) all machinery, equipment, fixtures, supplies and other property owned by Grantor, now or hereafter located on the Property and used in connection with the present or future operation of the Property and any additions or alterations of any portion of the Property (the "Equipment"). All Equipment is part and parcel of the real estate and shall be deemed conclusively to be real estate and conveyed hereby;
- (c) all awards which may be made with respect to all or any portion of the Property from the exercise of right of eminent domain (including any transfer made in lieu of condemnation) (collectively, the "Eminent Domain Awards");
- (d) all leases and other agreements for the use or occupancy of the Property, including, without limitation, management agreements and licenses (collectively, the "Leases"), and the rents, issues and profits of the Property ("Rents"), together with the right, upon the occurrence of a default, to collect the Rents and apply the Rents to the payment of any amounts due under the Purchase Documents;
- (e) all proceeds of any insurance policies covering any portion of the Property including, without limitation, the right to receive and apply the proceeds of any insurance for damage to all or any portion of the Property (the "Insurance Proceeds");
- (f) all general intangibles relating to the development or use of the Property, including, but not limited to, all governmental permits relating to operation of the Property.

AND, as additional security, Grantor hereby grants to Beneficiary a security interest in (collectively, the "Security Interest Property"): (1) the Equipment, (2) the Insurance Proceeds, (3) the Eminent Domain Awards, (4) the Leases, (5) the Rents, and (6) all proceeds of the foregoing, and this Deed of Trust shall be effective as a security agreement pursuant to the Uniform Commercial Code as in effect in the State of Washington (the "Code").

TO HAVE AND TO HOLD the Property, rights and privileges hereby conveyed or assigned, or intended so to be, unto Trustee, in trust, forever, with power of sale, for the uses and purposes herein set forth.

In order to induce Beneficiary to make the advances described in the Purchase Documents, Grantor further represents, warrants and covenants as follows:



200411010180

Skagit County Auditor

1. Purpose. The Property is not used principally for agricultural, timber, grazing or farming purposes. The obligations secured hereby were or will be incurred by Grantor solely for business purposes and not for personal, family or household purposes.

2. Warranty of Title. Grantor has good and marketable title to the Premises and the Improvements and owns or will own all of the fixtures and personal property which are subject to the lien of this Deed of Trust, free from liens and encumbrances of any kind other than installments of property taxes, and the permitted encumbrances (the "Permitted Encumbrances") set forth on Exhibit B attached to and made a part of this Deed of Trust.

3. Third Lien. This Deed of Trust is and will be maintained as a valid third lien on the Property, and shall be subordinate to that certain Deed of Trust dated December 15, 2003 (the "First Deed of Trust") in favor of Washington Federal Savings ("Primary Lender"), and that certain Deed of Trust dated December 8, 2003 (the "Second Deed of Trust") in favor of MW Housing Partners III, L.P ("Secondary Lender"). Grantor shall comply with all terms and conditions of the First Deed of Trust, the Second Deed of Trust, and any and all other documents evidencing or securing the same loans secured by the First Lien Deed of Trust and the Second Deed of Trust ("Loan Documents"). Grantor shall not permit any monetary liens against the Property other than the Permitted Encumbrances, property taxes and assessments not yet due and payable, matters in the ordinary course of Grantor's development of the Property as contemplated by the Purchase Agreement, and matters being contested in good faith and by appropriate proceedings. If any such lien is filed or recorded, Grantor will cause the same to be discharged promptly by payment, bonding or otherwise to the satisfaction of Beneficiary and will exhibit to Beneficiary, upon request, evidence of payment and discharge satisfactory to Beneficiary. If Beneficiary pays any amount on Grantor's behalf to cure any breach, default or event of default under any of the Loan Documents, Grantor shall reimburse Beneficiary on demand for the amount so paid by Beneficiary.

4. Authority. Grantor has full power and authority to encumber the Property, to carry on its business, and to execute, acknowledge, deliver, and perform the provisions of the Purchase Documents. All actions on Grantor's part required for the due authorization, execution, acknowledgment, delivery, and performance of the Purchase Documents have been taken.

5. No Breach. To the best of Grantor's knowledge, the execution, delivery and performance of the Purchase Documents do not contravene (a) any applicable law, or (b) any contract relating the Property; and the consents of all necessary entities to such execution, delivery and performance have been duly obtained.

6. Consents. No authorization or approval or other action by any governmental authority is required for the due execution, delivery and performance by Grantor of the Purchase Documents.

7. Lien. This Deed of Trust constitutes a valid third lien and there are no defenses or offsets to Grantor's obligations pursuant to the Purchase Documents.

8. No Violation. To the best of Grantor's knowledge, neither the Property nor the operation thereof is in violation of any law, ordinance, rule or regulation.

9. Litigation. There are no actions or proceedings of any nature pending before any court, arbitrator, administrative agency or other authority, or to the knowledge of Grantor, threatened against Grantor or affecting the Property or Grantor's other assets, which, if adversely determined, could adversely affect the ability of Grantor to perform its obligations under the Purchase Documents.

10. Tax Claims. There are no federal, state or local tax claims or liens assessed or filed against Grantor.



11. No Misrepresentations. Neither any of the representations or information contained herein or in any other statement or other instrument furnished to Beneficiary by or on behalf of Grantor contains, any untrue statement of a material fact, or omits, or will omit to state a material fact necessary to make the statements contained herein or therein not misleading.

12. Formation. Grantor is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Washington. Execution, delivery and performance of the Purchase Documents have been duly authorized by Grantor, no further action is necessary on the part of Grantor, or any member of Grantor, if applicable, to make the Purchase Documents fully and completely binding upon Grantor and no approval or other action of the partners of Grantor is required to make the Purchase Documents fully and completely binding upon Grantor.

13. Covenants of Grantor as to Payment and Performance.

(a) Grantor shall make all payments when and if due under the Purchase Documents.

(b) Grantor shall perform and comply with all agreements, covenants and conditions imposed by the provisions of the Purchase Documents or assumed by Grantor by virtue of the provisions of any agreement pursuant to which Grantor acquired the Property.

(c) Grantor shall comply with all requirements of any governmental authority or court applicable to Grantor or the Property or any part thereof.

(d) Grantor shall not assign, sell, transfer, convey, lease or otherwise dispose of, any development rights, "air" rights or other rights to erect or alter any structure on the Premises which are appurtenant to the Property, or otherwise permit or suffer any change of the zoning of the Property or the use which may be made thereof, or enter into any agreement contemplating any of the foregoing.

(e) Grantor, at its expense, shall warrant and defend its title to the Property and the security priority of this Deed of Trust against all claims and will maintain such security priority as long as any indebtedness secured by the Purchase Documents remains outstanding.

14. Transfer. Grantor acknowledges and agrees that the obligations secured by this Deed of Trust are personal to Grantor and that Grantor's personal responsibilities, financial condition, and control of the Property were material inducements on which Beneficiary relied. Grantor shall not sell or transfer all or any portion of Grantor's interest in the Property without the prior written approval of Beneficiary which Beneficiary may grant or withhold in its sole discretion. If Grantor sells or transfers any interest without such approval, then the change in title shall be deemed to increase the risk of Beneficiary and Beneficiary may declare the entire amount advanced by Beneficiary to Grantor under the Purchase Documents immediately due and payable. Grantor shall not, whether by operation of law or otherwise, assign, transfer, lease in its entirety, encumber or otherwise dispose of, all or any part of the Property except in connection with Grantor's ordinary development activities contemplated by the Purchase Agreement. Any transaction in which James E. Tosti ceases to be the direct or indirect controlling member of Grantor shall be deemed a transfer of the Property for purposes of this Section 14. Any transfer resulting from the death of James E. Tosti shall not be considered a violation of this Section 14.

15. Environmental Representations. Grantor shall not allow the Property to be used for any activities involving the use, generation, storage or disposal of any hazardous material, except as such material is stored and used in accordance with normal occupancy and use of this type of project. Grantor shall indemnify and hold Beneficiary and Trustee harmless from any



200411010180

Skagit County Auditor

damages, claims, and expenses, including, without limitation, reasonable attorneys' fees incurred by or asserted against Beneficiary and/or Trustee by reason of the failure of Grantor, its agents, employees, partners, officers, directors, or other representatives, to perform any of its obligations pursuant to any federal, state or local environmental protection laws and/or regulations. The provisions of this paragraph shall survive any transfer of the Property, including a transfer after a foreclosure of this Deed of Trust and delivery of the deed effecting such transfer.

16. Insurance. Grantor will obtain and maintain all insurance policies required by Primary Lender and Secondary Lender pursuant to the terms of the First Deed of Trust and the Second Deed of Trust, respectively.

17. Payment of Taxes, etc. Grantor shall pay, prior to delinquency, all taxes, assessments, and utilities, now or hereafter levied, assessed or imposed on any portion of the Property (collectively, the "Taxes").

18. Leases and Rents.

(a) Notwithstanding anything to the contrary contained in any of the Purchase Documents, all of the rents of the Property are hereby assigned to Beneficiary. Subject to the terms of this Paragraph, however, Beneficiary waives the right to collect the Rents, and grants Grantor the right to collect the Rents. Grantor shall hold the Rents in trust for use in performance of its obligations under the Purchase Documents. The right of Grantor to collect the Rents may be revoked by Beneficiary upon any default by Grantor under the terms of any Purchase Document by giving notice of such revocation to Grantor. Following such notice, Beneficiary may collect and apply the Rents toward payment of any amounts due Beneficiary under the Purchase Documents in such priority and proportions as Beneficiary, in its discretion, shall deem proper, or to the operation, maintenance and repair of the Property. Upon default in any such payment, Grantor will vacate and surrender possession of the Property to Beneficiary, or to such receiver and, in default thereof, Grantor may be evicted by summary proceedings or otherwise.

(b) Grantor shall at all times perform and comply with, or cause to be performed and complied with, all of the terms, covenants and conditions of the Leases to be performed or complied with by Grantor thereunder, maintain the Leases in full force and effect and enforce the Leases in accordance with their terms.

(c) At any time and from time to time, upon Beneficiary's request, Grantor shall deliver to Beneficiary a schedule of the Leases, which schedule shall set forth the following information with respect to each Lease, which information shall be correct and complete as of the date of such schedule: (i) the space demised thereunder; (ii) the present tenant thereunder; (iii) the annual rent, additional rents and other sums payable thereunder; (iv) security deposits; (v) the expiration date; (vi) the options to renew; (vii) whether or not any defaults exist thereunder.

19. Development of the Property; Alterations. Grantor agrees not to abandon all or any portion of the Property; to keep, or cause to be kept, the Property in good, safe and insurable condition; to develop the Property in compliance with the terms of the Purchase Agreement, subject to the provisions of Paragraph 16 hereof, to promptly repair or rebuild all portions of the Property which become damaged or destroyed, with materials and workmanship of as good quality as existed before such damage or destruction; to refrain from impairing or diminishing the value of the Property or the security value of this Deed of Trust; to make no structural alterations in or additions to the Improvements or nonstructural alterations which reduce the value of the Improvements, except with the prior written consent of Beneficiary; and not to remove any of the Equipment from the Property without the prior written consent of Beneficiary. Grantor further agrees to permit Beneficiary and the agents of Beneficiary to enter upon and inspect the Property at any time during normal business hours upon reasonable notice.



200411010180
Skagit County Auditor

20. Condemnation. Grantor shall give prompt written notice to Beneficiary of any condemnation, eminent domain, or similar proceeding with respect to the Property or any rights therein. If Primary Lender and/or Secondary Lender requires that the condemnation proceeds be applied to payment of its debt, then the balance of the proceeds shall be applied to the amounts owed to Beneficiary, subject to the Beneficiary's rights under the Purchase Agreement.

21. Compliance With Agreements, Laws, etc. Grantor shall comply with all covenants, agreements and restrictions affecting the Property and with all laws applicable to the Property.

22. Exercise of Remedies by Beneficiary. If Grantor fails to perform any obligation under the Purchase Documents, Beneficiary may pursue any or all of the remedies provided to it under the Purchase Documents and/or this Deed of Trust.

23. Indemnity. Grantor shall indemnify Beneficiary and Trustee and hold Beneficiary and Trustee harmless from and against any and all losses, liabilities, damages, costs, including, without limitation, reasonable attorneys' fees, which are incurred by or asserted against Beneficiary and/or Trustee by reason of the performance of, or negligence associated with, Grantor's obligations under the Purchase Agreements. This indemnification shall survive any transfer of the Property, including a transfer pursuant to foreclosure or a transfer to Beneficiary pursuant to the Purchase Documents. If any claim, action or proceeding is made or brought against Beneficiary and/or Trustee by reason of any event as to which Grantor is obligated to indemnify Beneficiary and/or Trustee, then, upon demand by Beneficiary, Grantor, at its sole cost and expense, shall resist or defend such claim, action or proceeding in Beneficiary's and/or Trustee's name, as the case may be, if necessary, by such attorneys as Beneficiary shall reasonably approve.

24. Events of Default. The following matters shall each be referred to herein as an "Event of Default":

(a) Any payment due to Beneficiary from Grantor under any Purchase Document is not made on the date such amount is due (or within any applicable cure period provided for under the Purchase Documents);

(b) Grantor fails to pay any amounts, including but not limited to insurance premiums, taxes, assessments, or other amounts due others in connection with the Property on the date such amount is due (or within any applicable cure period provided for under the Purchase Documents);

(c) Grantor fails to perform any term on its part to be performed under the Purchase Documents on the date such performance is due (or within any applicable cure period provided for under the Purchase Documents);

(d) Grantor fails to perform any term on its part to be performed under the First Loan Documents on the date such performance is due (or within any applicable cure period provided for under the First Loan Documents);

(e) Any representation or warranty of Grantor made in any Purchase Document shall prove to have been false or misleading in any material respect;

(f) Grantor: (a) files a voluntary petition seeking an order for relief under Title 11 of the United States Code or any similar bankruptcy law now or hereafter in effect, or (b) is adjudicated a bankrupt or insolvent, or (c) files any petition seeking to or acquiescing in any order for relief or reorganization under bankruptcy law, or (d) makes an assignment for the benefit of creditors, or (e) seeks appointment of a trustee, receiver or similar off



200411010180

Skagit County Auditor

or (f) if, within thirty (30) days after the commencement of any bankruptcy proceeding against Grantor (or any other period provided for under the Purchase Documents), such proceeding is not dismissed, or (g) if, within thirty (30) days after the appointment of any trustee or receiver for any portion of the Property (or within any other period provided for under the Purchase Documents), such appointment shall not have been vacated, or (h) if any execution or attachment shall be issued against Grantor or all or any portion of the Property; or

(g) Except for liens or junior encumbrances, filed or recorded in connection with Grantor's ordinary development activities contemplated by the Purchase Agreement, any liens or junior encumbrances are filed against the Property and such lien shall remain undischarged or unbonded for thirty (30) days (or such other period as provided for under the Purchase Documents) or any attachment is filed against the Property in arising from legal proceedings.

25. Remedies.

(a) General. If an Event of Default occurs, Beneficiary may declare all amounts due under the Purchase Documents immediately due and payable, the Trustee's power of sale shall be rendered operative, and Beneficiary may have the Property sold by Trustee pursuant to the provisions of the laws of the State of Washington with respect to trustee sales under deeds of trust, Beneficiary may also elect to have this Deed of Trust foreclosed as a mortgage and/or to pursue any right or remedy provided herein or at law or in equity. Beneficiary may pursue such remedies in such order and at such times as Beneficiary may elect.

(b) Power of Sale. If Beneficiary elects to have the Property sold by Trustee at a trustee's sale, then after any default and the lapse of such time period as may then be required by law and after the notice of default and of sale have been given as required by law, Trustee shall sell the Property at the time and place fixed by it in the notice of sale at public auction to the highest bidder for cash in lawful money of the United States, payable at the time of sale. Trustee shall apply the proceeds of the sale in the following order: (i) to the expenses of sale, including costs of title search, publication, postage, legal and all other expenses incurred by Beneficiary or Trustee; (ii) to the other obligations secured by this Deed of Trust; and (iii) the surplus, if any, shall be deposited with the clerk of the Superior Court of the county in which the sale took place for distribution to the persons entitled thereto. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the Property which Grantor had or had the power to convey at the time of its execution of this Deed of Trust, and such as it may have acquired thereafter. Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all of the requirements of law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of any bona fide purchaser or encumbrancer for value. The power of sale conferred by this Deed of Trust is not an exclusive remedy and Beneficiary, at its option, may foreclose this Deed of Trust as a mortgage.

(c) Costs and Expenses. In any suit to foreclose the lien of this Deed of Trust or to enforce any other remedy of the Beneficiary under the Purchase Documents, there shall be allowed and included, as additional indebtedness, all expenses incurred, including, but not limited to attorneys' fees, appraisers' fees, experts' fees, publication costs, and other costs. All such expenses, and the expenses incurred in protection of the Property and preservation of the lien of this Deed of Trust, shall be immediately due and payable by Grantor, with interest thereon at a per annum interest rate of ten percent (10%) per annum.

(d) Receiver. Upon the occurrence of an Event of Default hereunder, Beneficiary shall be entitled to have a court immediately appoint a receiver to manage the Property. Beneficiary or the receiver shall be entitled to receive a reasonable fee for so managing the Property. Beneficiary shall have the power to take possession, control, and care of the



200411010180

Skagit County Auditor

and profits of the Property and, in case of a sale and a deficiency, during the full statutory period of redemption.

(e) No Waiver. The failure of Beneficiary to exercise the option for acceleration of maturity and/or the power of sale in one or more instances, or the acceptance by Beneficiary of partial payments or late payments hereunder shall not constitute a waiver of any such default, nor extend or affect the grace period, if any, but such option shall remain continuously in force.

(f) Cumulative Remedies. All of Beneficiary's and Trustee's rights and remedies specified in the Purchase Documents are cumulative, not mutually exclusive and not in substitution for any rights or remedies available in law or in equity. In order to obtain performance of Grantor's obligations under the Purchase Documents, without waiving its rights in the collateral, Beneficiary may proceed in such order and manner as Beneficiary may elect.

(g) Exercise of Remedies. The Property may be sold separately or as a whole, at the option of Beneficiary. Beneficiary may also realize on the personal property collateral in accordance with the remedies available under the Code or at law. Written notice mailed to Grantor, as provided herein, ten (10) days prior to the date of public sale of any personal property or prior to the date after which private sale of any personal property will be made, shall constitute reasonable notice. Any sale made pursuant to the provisions of this Paragraph shall be deemed to have been a public sale conducted in a commercially reasonable manner, if held contemporaneously with the sale of such other property as provided in subparagraph (a) of this Paragraph. In the event of a foreclosure sale, Grantor and the holders of any subordinate liens or security interests waive any equitable, statutory or other right they may have to require marshaling of assets or foreclosure in the inverse order of alienation.

26. Uniform Commercial Code. This Deed of Trust constitutes a security agreement under the Code and a fixture filing for the purposes of the Code and a security interest shall attach to all personal property for the benefit of Beneficiary as additional security. Grantor hereby authorizes Beneficiary, at Grantor's expense, to file continuation statements without the signature of Grantor and, upon request, Grantor shall promptly execute financing and continuation statements. Upon the occurrence of any Event of Default, Beneficiary shall have all of the rights and remedies of a secured party under the Code or other applicable law, and all rights and remedies provided for herein and in the Purchase Documents, all of which rights and remedies are cumulative to those provided elsewhere in this Deed of Trust or otherwise available to Beneficiary. Following the occurrence of any Event of Default, Beneficiary shall have the option of proceeding as to both real and personal property in accordance with its rights and remedies in respect of the real property, in which event the default provisions of the Code shall not apply. All replacements, renewals and additions to the Equipment shall become and be immediately subject to the security interest herein of Beneficiary and be covered by this Deed of Trust as part of the Property.

27. Severability. All rights, powers and remedies provided herein are intended to be limited to the extent necessary so that they will not render this Deed of Trust invalid, unenforceable or not entitled to be recorded, registered or filed under any applicable law. If any term of this Deed of Trust shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the other terms hereof shall in no way be affected thereby.

28. Cumulative Remedies of Beneficiary; No Waiver. Except as limited by applicable law, no legal, equitable or contractual right, power or remedy of Beneficiary shall be exclusive of any other, but rather, each right, power or remedy shall be separate, cumulative and concurrent and shall be in addition to every right, power or remedy now or hereafter existing at law or in equity. No delay in the exercise of, or omission to exercise, any right, power or remedy accruing on any default shall impair any such right, power or remedy or be construed to be a waiver of any such default or to affect any subsequent default of the same or a different nature



200411010180
Skagit County Auditor

every such right, power or remedy may be exercised concurrently or independently, and when and as often as may be deemed expedient by Beneficiary. No act of Beneficiary shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision.

29. Discretion of Beneficiary. Except as expressly provided to the contrary herein, wherever Beneficiary exercises any right given to it to approve or disapprove, the decision of Beneficiary shall be in the reasonable discretion of Beneficiary.

30. No Oral Change. This Deed of Trust may only be modified or amended by an agreement in writing signed by Grantor and Beneficiary.

31. Notices. Notices to either party shall be in writing and effective: (a) upon actual receipt after being mailed by certified mail with return receipt requested; (b) the same day when personally delivered to such party; (c) one (1) business day after being sent by overnight delivery using a nationally recognized overnight courier service; or (d) the same day when sent by facsimile transmission with confirmed receipt to the fax number on a business day (unless sent after 5:00 p.m. PST, in which case the next business day). In each case, the notice shall be sent or delivered to the address or fax number set forth below for such party, directed to the attention of the person identified therein and with a copy sent or delivered to such party's attorney (if identified below) at the same time. A party may change its address for notices by written notice delivered to the other party in accordance with this section.

Grantor:

THE SKAGIT HIGHLANDS, LLC
7981 168TH Avenue NE
Redmond, WA 98052
Attn: Jim Tosti
TELEPHONE (425) 702-8422
FAX: (425) 497-9157

Copy to:

Schiffirin Olson Schlemlein & Hopkins, PLLC
1601 5th Ave., Suite 2500
Seattle, WA 98027
Attn: Garth A. Schlemlein
TELEPHONE: (206) 448-8100
FAX: (206) 448-8514

Beneficiary:

THE QUADRANT CORPORATION
1110 112th Avenue N.E., Suite 300
P.O. Box 130
Bellevue, WA 98009
Attn: Steve Orser
TELEPHONE: (425) 455-2900
FAX: (425) 646-8363

Copy to:

McCullough Hill Fikso Kretschmer Smith
2025 First Avenue, Suite 1130
Seattle, WA 98121-2100
Attn: Travis S. Thornton
TELEPHONE: (206) 448-1818
FAX: (206) 448-3444

32. Headings, etc. The headings and captions of the paragraphs of this Deed of Trust are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof.

33. Successors and Assigns. The provisions of this Deed of Trust shall be binding upon Grantor and its successors and assigns, and shall inure to the benefit of and be enforceable by Beneficiary and its successors and assigns.

34. Miscellaneous. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Deed of Trust shall be used interchangeably in singular or plural form. The word "Grantor" shall mean each Grantor and any subsequent owners of the Property or any part thereof or interest therein. The word "Beneficiary" shall



200411010180

Skagit County Auditor

assignee or successor of Beneficiary. The word "Trustee" shall mean Trustee and any successor trustees. The word "person" shall include an individual, corporation, partnership, trust, unincorporated association, government, governmental authority, or other entity. The terms "herein", "hereof" or "hereunder" or similar terms used in this Deed of Trust refer to this entire Deed of Trust and not to the particular provision in which the term is used.

35. Governing Law. This Deed of Trust is to be construed in accordance with and governed by the internal law of the State of Washington, without regard to principles of conflicts of law.

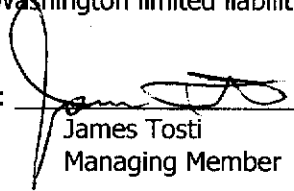
IN WITNESS WHEREOF, the parties have executed this Deed of Trust on the date first set forth above.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

GRANTOR:

THE SKAGIT HIGHLANDS, LLC,
a Washington limited liability company

By: _____


James Tosti
Managing Member

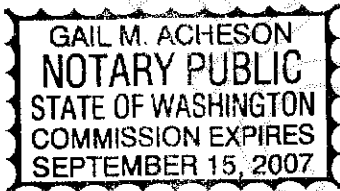


200411010180
Skagit County Auditor

STATE OF WASHINGTON)
) : ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that JAMES TOSTI is the person who appeared before me, and s/he acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Managing Member of THE SKAGIT HIGHLANDS, LLC, the limited liability company that executed the within and foregoing instrument, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this 2TH day of October, 2004.



Gail M. Acheson
[Signature of Notary]

GAIL M. ACHESON

[Print Name of Notary]

Notary Public in and for the State of Washington,
residing at KIRKLAND

My commission expires: 9/15/07



Skagit County Auditor

REQUEST FOR FULL RECONVEYANCE

The undersigned is the legal owner of all indebtedness secured by this Deed of Trust. The indebtedness secured by the Deed of Trust having been fully paid and satisfied, you are hereby requested and directed, upon payment to you of any sum owing to you under the terms of the Deed of Trust, to cancel any evidences of indebtedness secured by the Deed of Trust, together with the Deed of Trust, and to reconvey, without warranty, to the parties entitled thereto, all of the estate now held by you thereunder.

DATED this _____ day of _____, 20__.

BENEFICIARY:

The Quadrant Corporation,
a Washington corporation

By: _____
Name: _____
Title: _____



200411010180
Skagit County Auditor

EXHIBIT A
TO
DEED OF TRUST, ASSIGNMENT OF RENTS AND
SECURITY AGREEMENT WITH FIXTURE FILING

Description of the Premises

Lots 1, 2 and 4 of that certain Boundary Line Adjustment Survey approved August 18, 2003 and recorded August 18, 2003 under Auditor's File No. 200308180300, and being a portion of Sections 15 and 22, Township 34 North, Range 4 East, W.M.

Situate in the City of Mount Vernon, County of Skagit, State of Washington.



200411010180
Skagit County Auditor

EXHIBIT B
TO
DEED OF TRUST, ASSIGNMENT OF RENTS AND
SECURITY AGREEMENT WITH FIXTURE FILING

Permitted Encumbrances

- A. Defects, liens, encumbrances, adverse claims or other matters, if any created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed Insured acquires for value of record the estate or interest or mortgage thereon covered by this Commitment.
- B. GENERAL EXCEPTIONS:
1. Rights or claims of parties in possession not shown by the public records.
 2. Public or private easements, or claims of easements, not shown by the public records.
 3. Encroachments, overlaps, boundary line disputes, or other matters which would be disclosed by accurate survey or inspection of the premises.
 4. Any lien, or right to a lien, for services, labor or material heretofore or hereafter furnished imposed by law and not shown by the public records, or Liens under the Workmen's Compensation Act not shown by the public records.
 5. Rights of use, control or regulation by the United States of America, in the exercise of powers over navigation; any prohibition or limitation on the use, occupancy or improvement of the land resulting from the rights of the public or riparian owners to use any waters which may cover the land.
 6. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water.
 7. Any service, installation, connection, maintenance or construction charges for sewer, water, electricity or garbage removal.
 8. General taxes not now payable or matters relating to special assessments and special levies, if any, preceding the same becoming a lien.
 9. Indian tribal codes or regulations, Indian treaty or aboriginal rights, including, but not limited to, easements or equitable servitudes.

C. SPECIAL EXCEPTIONS:

1. Excise tax, if unpaid, said tax in the City of Mount Vernon being .0178.

The basic rate charged by the State of Washington is .0128, plus a surcharge of .0050 being levied by Skagit County. Therefore, the total excise tax due will be figured by multiplying the sales price times .0178.

NOTE: Under the provisions of Chapter 245, Laws of 1991 (SHB 1316), the Skagit County Treasurer will charge a \$2.00 processing fee on each excise tax affidavit processed where no excise tax is paid.

If there is excise tax due and paid, the \$2.00 fee will not be applicable.



200411010180
Skagit County Auditor

11/1/2004 Page

14 of 18 3:23PM

EXCEPTIONS CONTINUED:

2. General taxes, together with interest, penalty and statutory foreclosure costs, if any, first half delinquent May 1, 2004, if unpaid, second half delinquent November 1, 2004, if unpaid:

| <u>Account No.</u> | <u>Year</u> | <u>Amount Billed</u> | <u>Amount Paid</u> | <u>Balance Owing</u> |
|---|-------------|----------------------|--------------------|----------------------|
| 340422-1-004-0012 | 2004 | \$ 3,039.64 | \$ -0- | \$3,039.64 |
| Property I.D. No.: P27511 (Affects Lot 1) | | | | |
| 340422-1-002-0006 | 2004 | \$ 2,716.50 | \$ -0- | \$2,716.50 |
| Property I.D. No.: P27508 (Affects Lot 2) | | | | |
| 340422-1-002-0200 | 2004 | \$ 2,711.85 | \$ -0- | \$2,711.85 |
| Property I.D. No.: P121458 (Affects Lot 4) | | | | |

3. Municipal assessments and impact fees, if any, levied by the City of Mount Vernon.
4. DEED OF TRUST AND THE TERMS AND CONDITIONS THEREOF:

Grantor: Skagit Highlands LLC, a Washington limited liability company
Trustee: Washington Services, Inc., a Washington corporation
Beneficiary: Washington Federal Savings, a United States corporation
Amount: \$2,750,000.00
Dated: December 15, 2003
Recorded: January 8, 2004
Auditor's No.: 200401080046
(Includes other property)

Said Deed of Trust is a re-record of Deed of Trust recorded on December 23, 2003, under Auditor's File No. 200312230149.

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

Grantor: Skagit Highlands, LLC, a Washington limited liability company
Trustee: Land Title Company
Beneficiary: MW Housing Partners III, L.P., a California limited partnership
Amount: \$2,640,000.00
Dated: December 8, 2003
Recorded: January 8, 2004
Auditor's No.: 200401080047
(Includes other property)

Said Deed of Trust is a re-record of Deed of Trust recorded on December 23, 2003, under Auditor's File No. 200312230150.



200411010180

Skagit County Auditor

EXCEPTIONS CONTINUED:

5. (Continued):

SUBORDINATION AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

By Agreement Dated: December 8, 2003
Recorded: January 8, 2004
Auditor's No.: 200401080048

Said Subordination Agreement is a re-record of Subordination Agreement recorded on December 23, 2003, under Auditor's File No. 200312230151.

The above Deed of Trust was made subordinate to the Deed of Trust recorded under Auditor's No. 200401080046 shown in paragraph 4 herein.

6. The company is required under our Agency Contract with the underwriter to obtain approval for the issuance of the forthcoming policy. We hereby reserve the right to further commitment pending approval from the underwriter.



200411010180
Skagit County Auditor

EXCEPTIONS:

- A. Reservation of minerals and mineral rights, etc., contained in deeds from W.M. Lindsey and Emma S. Lindsey, husband and wife, recorded May 22, 1902, March 30, 1903 and August 22, 1905 in Volume 44 of Deeds, page 609, Volume 49 of Deeds, page 532 and Volume 159 of Deeds, page 183.
(Includes other property)
- B. Terms and conditions contained in City of Mount Vernon Ordinance Nos. 1837, 2483, 2532, 2546, and 2550 as recorded July 2, 1976, March 27, 1992, March 11, 1993, August 6, 1993, and September 21, 1993, respectively, under Auditor's File Nos. 838309, 9203270092, 9303110069, 9308060022, and 9309210028, respectively. (Includes other property)

C. PRE-ANNEXATION AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

Between: City of Mount Vernon
And: Mount Vernon Association, Inc.
Recorded: March 27, 1992
Auditor's No.: 9203270093
(Includes other property)

D. DEVELOPMENT AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

Between: The City of Mount Vernon
And: MVA, Inc., a Washington corporation
Recorded: June 21, 2001
Auditor's No.: 200106210002
(Includes other property)

E. STORM DRAINAGE RELEASE EASEMENT AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

Between: Georgia Schopf, as her separate estate
And: MVA, Inc., a Washington corporation
Dated: July 20, 2001
Recorded: July 27, 2001
Auditor's No.: 200107270065
(Includes other property)

F. MITIGATION AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

Between: Sedro-Woolley School District No. 101
And: MVA, Inc.
Dated: July 5, 2001
Recorded: July 27, 2001
Auditor's No.: 200107270077
(Includes other property)



200411010180
Skagit County Auditor

G. DEVELOPER EXTENSION AGREEMENT AND THE TERMS AND CONDITIONS THEREOF:

Between: M.V.A., Inc., a corporation
And: The City of Mount Vernon
Dated: June 27, 2001
Recorded: August 22, 2001
Auditor's No.: 200108220046
(Includes other property)

H. Shoreline Substantial Development Permit No. PL01-0560 and the terms and conditions thereof, as recorded May 23, 2002, under Auditor's File No. 200205230079 and as amended by instrument recorded June 3, 2002, under Auditor's File No. 200206030153.
(Includes other property)

I. MATTERS DISCLOSED BY RECORD OF SURVEY:

Filed: August 18, 2003
Volume/Page: N/A
Auditor's File No.: 200308180300

J. EASEMENT AND THE TERMS AND CONDITIONS THEREOF:

Grantee: Verizon Northwest, Inc., a Washington Corporation
Purpose: The perpetual right, privilege, and authority to install, inspect, and maintain all of the facilities necessary to provide communication service, power service and related services
Area Affected: A portion of Lot 1
Dated: --
Recorded: July 19, 2004
Auditor's No.: 200407190188



200411010180
Skagit County Auditor