



200609270121
Skagit County Auditor

9/27/2006 Page 1 of 31 11:33AM

After Recording Mail To:

First Horizon Home Loan Corporation
Attn: Construction Lending
Mail Code 7565
5808 Lake Washington Boulevard, Suite 400
Kirkland, WA 98033

CHICAGO TITLE IC39828

Loan No. 9654190201

**DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES,
SECURITY AGREEMENT AND FIXTURE FILING**
(Security for Construction Loan)

GRANTOR:	J&J SKAGIT LLC, a Washington limited liability company
GRANTEE:	FIRST HORIZON HOME LOAN CORPORATION, a Kansas Corporation
GRANTEE (trustee)	HILLIS CLARK MARTIN AND PETERSON, P.S.
LEGAL DESCRIPTION	Ptn NE, Sec 27 T35N, R4EWM the full legal description is on the attached Exhibit A
PROPERTY TAX ACCOUNT NOS.	350427-1-002-0102; 350427-1-003-0100; and 350427-1-020-0008
RECORDING NUMBER OF REFERENCED DOCUMENTS	<u>200609270116</u>

This DEED OF TRUST, ASSIGNMENT OF RENTS AND LEASES, AND SECURITY AGREEMENT ("**Deed of Trust**") dated September 25, 2006, is made by Grantor, J&J SKAGIT LLC, a Washington limited liability company ("**Borrower**") whose mailing

address is 2001 Western Avenue, Suite 330, Seattle, WA 98121. The Trustee is HILLIS CLARK MARTIN AND PETERSON, P.S., whose mailing address is 500 Galland Building, 1221 Second Avenue, Seattle, Washington 98101. The Beneficiary is FIRST HORIZON HOME LOAN CORPORATION, a Kansas Corporation ("**Beneficiary**" or "**Lender**") whose address is Attn: Construction Loan Administration, Mail Code 7565, 5808 Lake Washington Blvd., Suite 400, Kirkland, WA 98033.

For purposes of Article 9 of the Uniform Commercial Code (RCW 62A.9A), this Deed of Trust constitutes a Security Agreement with the Borrower being the Debtor and the Lender being the Secured Party. This Deed of Trust also constitutes a Financing Statement filed as a fixture filing pursuant to Article 9 of the Uniform Commercial Code, RCW 62A.9A-502(c). Borrower's Organizational Identification Number is 602-557-340.

In consideration of the loan ("**Loan**") evidenced by the Note described below, Borrower hereby irrevocably GRANTS, TRANSFERS, CONVEYS and ASSIGNS to Trustee, IN TRUST, WITH POWER OF SALE, all of Borrower's present and future estate, right, title, claim, and interest, either in law or in equity, in and to the following property ("**Property**"):

(a) All right, title and interest of Borrower as lessee under that certain Ground Lease ("**Ground Lease**") between Borrower and SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #304 (d/b/a/ United General Hospital), a Washington municipal corporation ("**Ground Lessor**") with respect to the Land described on Exhibit A attached hereto, a Memorandum of which Ground Lease is recorded under Skagit County Recording No. 200609270118. Such rights shall include the right of Borrower to receive payment from Ground Lessor for the cost of Parking Lot Improvements pursuant to Section 1.7.2 of the Ground Lease ("**Cost Reimbursement**").

(b) The real property described on Exhibit A, all rights to the alleys, streets and roads adjoining or abutting the real property, all easements, access, air and development rights, minerals and oil, gas and other hydrocarbon substances, water, water rights and water stock, and all other rights, hereditaments, privileges, and appurtenances now or hereafter belonging or in any way appertaining to such real property ("**Land**").

(c) All buildings, improvements and tenements now or hereafter located on the Land ("**Improvements**"), including without limitation all fixtures and articles of property attached to, or used or adapted for use in the ownership, development, operation or maintenance of the Land and Improvements (whether such items are leased, owned, or subject to any title-retaining or security instrument); all heating, cooling, air-conditioning, ventilating, refrigerating, plumbing, generating, power, lighting, laundry, maintenance, incinerating, lifting, cleaning, fire prevention and extinguishing, security and access control, cooking, gas, electric and communication fixtures, equipment and apparatus; all engines, motors, conduits, pipes, pumps, tanks, ducts, compressors, boilers, water heaters and furnaces; all ranges, stoves, disposals, refrigerators and other appliances; all escalators and elevators, baths, sinks, all cabinets, partitions, mantels, built-in mirrors, window shades, blinds, screens, awnings, storm doors, windows and sash; all carpeting, underpadding, floor covering, paneling, and draperies; all furnishings of public spaces,



halls and lobbies; and all shrubbery and plants. All such items shall be deemed part of the Land and not severable wholly or in part without material injury to the freehold.

(d) All of the present and future rents, revenues, issues, profits and income of the Land and Improvements, and all present and future leases and other agreements for the occupancy or use of all or any part of the Land and Improvements, including without limitation all cash or security deposits, advance rentals and deposits or payments of similar nature, and all guarantees of tenants' or occupants' performance under such leases and agreements.

(e) All tangible and intangible personal property now or hereafter used or acquired in connection with the ownership, development, operation or maintenance of the Land and Improvements, including without limitation all furniture, furnishings, equipment, supplies, and other goods, wherever located, whether in the possession of Borrower, warehousemen, bailee, or any other person; all site plans, plats, architectural plans, specifications, work drawings, surveys, engineering reports, test borings, market surveys, and other similar work products; all permits, licenses, franchises, and trade names; all contract rights (including without limitation all architectural, construction, engineering, consulting, and management contracts, all insurance policies, and all performance, payment, completion and other surety bonds); and all claims, causes of action, warranties, accounts receivable, escrow accounts, insurance policies, deposits (including tax, insurance and other reserves), instruments, documents of title, general intangibles, and business records.

(f) All present and future monetary deposits given to any public or private utility with respect to utility services furnished to the Land or the Improvements.

(g) All proceeds (including claims and demands therefor) of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including without limitation the insurance proceeds and condemnation awards.

(h) All Borrower's right, title and interest in and to any Swap Transaction now or hereafter entered into between Borrower and Lender with respect to the Loan, including, without limitation, any and all amounts payable to Borrower, any deposit account or accounts with Lender in the name of Borrower for deposit of payments to Borrower in connection with any Swap Transaction, and any and all funds now or hereafter on deposit therein.

(i) All proceeds of the foregoing.

TO SECURE THE FOLLOWING ("**Secured Obligations**"):

(1) Payment of the sum of SIX MILLION TWO HUNDRED THOUSAND and NO/100 DOLLARS (\$6,200,000.00), with interest thereon, according to the terms and provisions of a promissory note ("**Note**") of even date, made by Borrower and payable to Beneficiary.



(2) Payment of all other sums which are or may become owing under the Loan Documents.

(3) Performance of all other obligations under the Loan Documents.

(4) Any and all obligations of Borrower to Lender under or related to any Swap Transaction entered into between Lender and Borrower, including without limitation any Cash Settlement Amount or any payments on Early Termination payable by Borrower under any Swap Transaction or Confirmation. Capitalized terms used in this subsection (4) are defined in the 1991 ISDA Definitions published by the International Swap Dealers Association, Inc.

As used herein, the term "**Loan Documents**" means the Note, this Deed of Trust, the Loan Agreement ("**Loan Agreement**") between Beneficiary and Borrower of even date herewith, all related documents and instruments (except the "**Indemnity Agreement**" dated the same as this Deed of Trust and executed by Borrower and any guarantor in favor of Beneficiary), and any and all modifications, extensions, renewals and replacements thereof. The Secured Obligations may be indexed, adjusted, renewed or renegotiated. Borrower's obligations under the Indemnity Agreement are not secured by this Deed of Trust.

BORROWER HEREBY REPRESENTS, WARRANTS, COVENANTS AND AGREES AS FOLLOWS:

ARTICLE I
TITLE AND USE

1.1. **Warranty of Title.** Borrower warrants, represents, covenants and agrees as follows: (a) Borrower holds the Lesses's interest in the Ground Lease with the full right and power to grant, convey and assign the Ground Lease. (b) The Property is free from liens, encumbrances, exceptions and other charges of any kind whatsoever, except for the Permitted Exceptions. (c) No other lien or encumbrance, whether superior or inferior to this Deed of Trust, shall be created or suffered to be created by Borrower without the prior written consent of Beneficiary. (d) No default on the part of Borrower or any other person exists under any of the Permitted Exceptions and all of the Permitted Exceptions are in full force and effect and in good standing, without modification. (e) Complete and current copies of the Permitted Exceptions have been furnished to Beneficiary, and none of them have been or will be modified by Borrower without Beneficiary's prior written consent. (f) Borrower shall fully comply with all the terms of the Permitted Exceptions and shall deliver to Beneficiary a copy of all notices delivered in connection with the Permitted Exceptions. (g) Beneficiary has the right to contact the other parties to the Permitted Exceptions to confirm the status thereof, and Borrower shall, from time to time, at the request of Beneficiary, request of such parties a certificate confirming such information regarding the Permitted Exceptions as Beneficiary may request. (h) Borrower shall forever warrant and defend the Property unto Beneficiary against all claims and demands of any other person whatsoever, subject only to non-delinquent taxes and assessments



and the Permitted Exceptions. As used in this Deed of Trust, "**Permitted Exceptions**" means the exceptions to title to the Property set out in Schedule B of the policy of title insurance issued to Beneficiary with respect to this Deed of Trust.

1.2. **Non-Agricultural Use; Commercial Loan.** Borrower represents and warrants to Beneficiary that (a) the Property is not used principally for agricultural purposes, and (b) the loan secured by this Deed of Trust was not made primarily for personal, family or household purposes.

1.3. **Hazardous Substances.** Borrower represents and warrants to Beneficiary, to the best of its knowledge after due inquiry and inspection, and except as otherwise disclosed the Phase I Environmental Site Assessment dated August 22, 2006, prepared by Sound Environmental Strategies Corporation, that (i) no asbestos has ever been used in the construction, repair or maintenance of any Improvements; (ii) no Hazardous Substance is currently being generated, processed, stored, transported, handled or disposed of, on, under or in the Property, except in accordance with all applicable laws, (iii) neither Borrower nor any other person or entity has ever caused or permitted any Hazardous Substance to be generated, processed, stored, transported, handled or disposed of on or under the Property, except in compliance with all applicable laws, (iv) there is no actual or alleged violation with respect to the Property of any federal, state or local statute, ordinance, rule, regulation or other law relating to Hazardous Substances, and (v) there is no action or proceeding pending or threatened before or appealable from any court, quasi-judicial body or administrative agency relating to Hazardous Substances affecting or alleged to be affecting the Property. "**Hazardous Substance**" means any substance or material which may be hazardous to the health or safety of any person; including without limitation any substance or material which is now or hereafter becomes regulated under any federal, state, or local statute, ordinance, rule, regulation, or other law relating to environmental protection, contamination or cleanup.

1.4. **Ground Lease.** The Ground Lease is in full force and effect and in good standing, it has not been amended in any respect and there is no default by either Borrower or the Lessor thereunder. Borrower will enter into no agreement amending or modifying the Ground Lease, will pay all rents and other amounts when due under the Ground Lease and will permit no default thereunder and will timely perform all of its obligations thereunder and do all that is necessary to keep the Ground Lease in full force and effect and in good standing, will not exercise any right to terminate the Ground Lease without Lender's prior written consent and will not exercise any other right or remedy under the Ground Lease without Lender's prior written consent. Borrower's liability under the Secured Obligations shall not be discharged, released or in any way diminished and shall remain direct and primary notwithstanding any and all actions taken by the Lessor or by Lender following any default by Borrower under the Ground Lease or the Loan Documents.

Page 5 of 31

DOT FHCL J&J Skagit 092006.doc

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX

SEP 27 2006

Amount Paid \$
By Skagit Co. Treasurer Deputy



200609270121

Skagit County Auditor

ARTICLE II
BORROWER'S COVENANTS

2.1 **Payment and Performance of Secured Obligations.** Borrower shall pay when due all sums which are now or which may become owing under the Note, and shall pay and perform all other Secured Obligations in accordance with their terms.

2.2 **Payment of Taxes, Utilities, Liens and Charges.**

(a) **Taxes and Assessments.** Except as the same may otherwise be paid under Article III, Borrower shall pay when due directly to the payee thereof all taxes and assessments (including without limitation, non-governmental levies or assessments such as maintenance charges, owner association dues or charges, or fees, levies or charges resulting from covenants, conditions or restrictions) levied, assessed or charged against or with respect to the Property or this Deed of Trust. Upon request, Borrower shall promptly furnish to Beneficiary all notices of amounts due under this subsection and all receipts evidencing such payments.

(b) **Utilities.** Borrower shall pay when due all utility charges and assessments for services furnished the Property.

(c) **Labor and Materials.** Borrower shall pay when due the claims of all persons supplying labor or materials to or in connection with the Property, subject to Borrower's right to contest such claims pursuant to Section 2.2(d) below.

(d) **Liens and Charges.** Borrower shall promptly discharge any lien, encumbrance, or other charge, whether superior or inferior to this Deed of Trust, which may be claimed against the Property; provided that Borrower shall have the right to contest the amount or validity in whole or in part of any lien, encumbrance or other charge against the Property by appropriate proceedings conducted in good faith and with due diligence, in which event Borrower, upon prior written notice to Beneficiary, may postpone or defer payment of such lien, encumbrance or other charge so long as (i) such proceedings shall operate to prevent the collection of the lien, encumbrance or other charge; (ii) neither the Property nor any part thereof will, by reason of such postponement or deferment, be in danger of being forfeited or lost; and (iii) Borrower, before the date such lien, encumbrance or other charge becomes delinquent, gives such reasonable security as may be requested by Beneficiary to ensure payment thereof and prevent any forfeiture or loss of the Property or any part thereof.

2.3 **Insurance.**

(a) **Coverage Required.** Borrower shall keep the following insurance coverage in effect with respect to the Property:

(1) Insurance against loss by fire and other hazards with coverage for such perils as are set forth the Causes of Loss-Special Form, with coverage



extended to the perils of flood and earthquake, if required by Beneficiary, in an amount equal to the full insurable replacement cost of the Improvements. Such insurance shall have an agreed value provision in lieu of any co-insurance clause, debris removal coverage and such endorsements or other insurance policies as may be necessary to insure all perils required to be insured by Beneficiary. All endorsements shall be in form and substance satisfactory to Beneficiary. Each policy shall be issued by a company acceptable to Beneficiary. During construction, the policy shall be in "builder's risk" form and shall include a "soft cost" endorsement. The policy shall not be subject to cancellation without thirty (30) days' prior written notice to Beneficiary.

(2) A commercial general liability insurance policy with respect to the Property including contractual liability coverage in such amounts as Beneficiary may require and from an insurance company acceptable to Beneficiary. Such policy shall be endorsed to provide that the insurance is primary to and not contributory to any similar insurance carried by Borrower and shall contain a severability of interest clause.

(3) A flood insurance policy providing full replacement cost coverage if the Land is located in an area designated by the Department of Housing and Urban Development as a special flood hazard area.

(4) Business Income Insurance (covering rental and/or business interruption) for a period of not less than twelve months in amounts and otherwise on terms satisfactory to Beneficiary.

(5) Insurance against such similar or other hazards, casualties, liabilities and contingencies, in such forms and amounts, as Beneficiary may from time to time reasonably require.

(b) **Policies.** Each insurance policy shall be with a company and in a form acceptable to Beneficiary. Each hazard insurance policy shall include a mortgagee endorsement in favor of Beneficiary. Each liability insurance policy shall name Beneficiary as an additional insured. All required policies will provide for at least thirty (30) days' written notice to Beneficiary prior to the effective date of any cancellation or material amendment, which term shall include any reduction in the scope or limits of coverage. Upon request by Beneficiary, Borrower shall furnish to Beneficiary a copy of the original insurance policy, together with a certificate of insurance setting forth the coverage, the limits of liability, the carrier, the policy number and the expiration date. As security for the Secured Obligations, Borrower hereby assigns to Beneficiary all required hazard insurance policies covering the Property, together with all proceeds thereof, rights thereto and all unearned premiums returnable upon cancellation.

(c) **Payment; Renewals.** Borrower shall promptly furnish to Beneficiary all renewal notices relating to insurance policies. Except as the same may otherwise be paid under Article III, Borrower shall pay all premiums on insurance policies directly to the carrier. At least thirty (30) days prior to the expiration date of each such policy, Borrower shall furnish to Beneficiary a copy of the renewal policy in a form



acceptable to Beneficiary, together with evidence that the renewal premium has been paid.

(d) **Application of Insurance Proceeds.** In the event of any loss, Borrower shall give prompt written notice thereof to the insurance carrier and Beneficiary. Borrower hereby authorizes Beneficiary as Borrower's attorney-in-fact to make proof of loss, to adjust and compromise any claim, to commence, appear in and prosecute, in Beneficiary's or Borrower's name, any action relating to any claim, and to collect and receive insurance proceeds; provided, however, that Beneficiary shall have no obligation to do so. Beneficiary shall apply any insurance proceeds received by it hereunder first to the payment of the costs and expenses incurred in the collection of the proceeds and then, in its absolute discretion and without regard to the adequacy of its security, to:

(1) The payment of the Secured Obligations, whether then due and payable or not. Any such application of proceeds to principal on the Note shall be without the imposition of any prepayment fee otherwise payable under the Note, but shall not extend or postpone the due dates of the installment payments under the Note, or change the amounts thereof; or

(2) The reimbursement of Borrower, under Beneficiary's prescribed disbursement control procedures, for the cost of restoration or repair of the Property. Beneficiary may, at its option, condition the reimbursement on Beneficiary's approval of the plans and specifications of the reconstruction, contractor's cost estimates, architect's certificates, waivers of liens, sworn statements of mechanics and materialmen, and such other evidence of costs, percentage completion of construction, application of payments and satisfaction of liens as Beneficiary may reasonably require.

Except to the extent that insurance proceeds are applied to payment of the Secured Obligations, nothing herein contained shall be deemed to excuse Borrower from restoring, repairing or maintaining the Property as provided in section 2.4, regardless of whether or not there are insurance proceeds available or whether any such proceeds are sufficient in amount.

(e) **Transfer of Title.** If the Property is sold pursuant to Article IX or if Beneficiary otherwise acquires title to the Property, Beneficiary shall have all of the right, title and interest of Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

(f) **Condominium Provisions.** At such time that a condominium declaration has been recorded for the Property in accordance with the Loan Agreement, and the first condominium unit has been transferred to a buyer, then the following shall apply:

(i) Borrower shall retain the builder's risk coverage on the Property as required by Section 2.3(a)(1) above until final completion of the Improvements



in accordance with the Loan Agreement. Thereafter, insurance coverage for the Property shall be as specified in the Condominium Declaration, except as provided in this Section 2.3(f).

(ii) With respect to any condominium units that are owned by the Borrower, Borrower shall maintain liability insurance coverage as required by Section 2.3(a)(2) above.

(iii) The provisions in the Condominium Declaration regarding the use of insurance proceeds for the restoration of the Property after casualty shall govern over any conflicting provisions in this Deed of Trust.

2.4 **Preservation and Maintenance of Property; Right of Entry.**

(a) **Preservation and Maintenance.** Borrower represents and warrants that the Improvements are free from damage caused by fire or other casualty. Borrower shall (i) not commit or suffer any waste or permit any impairment or deterioration of the Property, (ii) not abandon the Property, (iii) restore or repair promptly and in a good and workmanlike manner all or any part of the Property to the equivalent of its original condition, or such other condition as Beneficiary may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (iv) keep the Property, including improvements, fixtures, equipment, machinery and appliances thereon, in good condition and repair and shall replace fixtures, equipment, machinery and appliances of the Property when necessary to keep such items in good condition and repair, and (v) generally operate and maintain the Property in a commercially reasonable manner.

(b) **Alterations.** Except as provided in the Loan Agreement, or any approved Leases, none of the Improvements shall be structurally altered, removed or demolished, in whole or in part, without Beneficiary's prior written consent, nor shall any fixture or chattel covered by this Deed of Trust and adapted to the use and enjoyment of the Property be removed at any time without like consent unless actually replaced by an article of equal suitability which is owned by Borrower free and clear of any lien or security interest.

(c) **Right of Entry.** Subject to the rights of tenants, Beneficiary is hereby authorized to enter the Property, including the interior of any structures, at reasonable times and after reasonable notice, for the purpose of inspecting the Property to determine Borrower's compliance with this section.

2.5 **Parking.** If any part of the automobile parking areas included within the Property is taken by condemnation, and before the parking areas are diminished for any other reason, Borrower shall take all actions as are necessary to provide parking facilities in kind, size and location to comply with all governmental zoning and other regulations and all leases. Before making any contract for substitute parking facilities, Borrower shall



furnish to Beneficiary satisfactory assurance of completion thereof free of liens and in conformity with all government zoning and other regulations.

2.6 Use of Property. Borrower represents and warrants to Beneficiary that the Land, the Improvements, and their intended use by Borrower comply with all applicable restrictive covenants, zoning and subdivision laws, ordinances, regulations and legal requirements, building codes, flood disaster laws, applicable health and environmental laws and regulations and all other laws, ordinances, regulations, orders and legal requirements issued by any state, federal or municipal authority having or claiming jurisdiction over the Property. Borrower shall comply with all laws, ordinances, regulations and requirements of any governmental body, and all other covenants, conditions and restrictions applicable to the Property and its intended use, and pay all fees and charges in connection therewith. Unless required by applicable law or unless Beneficiary has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Deed of Trust was executed. Borrower shall not initiate or acquiesce in a change in the zoning classification of the Property without Beneficiary's prior written consent.

2.7 Condemnation.

(a) **Proceedings.** Borrower shall promptly notify Beneficiary of any action or proceeding relating to any condemnation or other taking (including without limitation any change in the grade of the Property), whether direct or indirect, of the Property or part thereof or interest therein, and Borrower shall appear in and prosecute any such action or proceeding unless otherwise directed by Beneficiary in writing. Borrower authorizes Beneficiary, at Beneficiary's option, as attorney-in-fact for Borrower, to commence, appear in and prosecute, in Beneficiary's or Borrower's name, any action or proceeding relating to any such condemnation or other taking, and to settle or compromise any claim in connection with such condemnation or other taking. All awards, payments, damages, direct, consequential and otherwise, claims, and proceeds thereof, in connection with any such condemnation or other taking, or for conveyances in lieu of condemnation, are hereby assigned to Beneficiary, and all proceeds of any such awards, payments, damages or claims shall be paid to Beneficiary.

(b) **Application of Condemnation Proceeds.** Beneficiary shall apply any such proceeds in the manner and upon the terms and conditions set forth in section 2.3(d) relating to the application of insurance proceeds.

2.8 Protection of Beneficiary's Security. Borrower shall give notice to Beneficiary of and shall appear in and defend any action or proceeding that may affect the Property, the interests of Beneficiary or Trustee therein, or the rights or remedies of Beneficiary or Trustee under the Loan Documents. If any such action or proceeding is commenced, or Borrower fails to perform any of the Secured Obligations, Beneficiary or Trustee may, at their option, make any appearances, disburse any sums, make any entries upon the Property, and take any actions as may be necessary or desirable to (i) protect or enforce the security of this Deed of Trust, (ii) remedy Borrower's failure to perform the Secured



Obligations (without waiving such default by Borrower), or (iii) otherwise protect Beneficiary's or Trustee's interests. Borrower shall pay all losses, damages, fees, costs, and expenses incurred by Beneficiary and Trustee in taking such actions; including without limitation reasonable legal fees.

2.9 **Reimbursement of Beneficiary's and Trustee's Expenses.** All amounts disbursed by Beneficiary and Trustee pursuant to section 2.8 or any other provision of this Deed of Trust or the other Loan Documents, with interest thereon at the default rate provided in the Note from the date of disbursement until repaid, shall constitute a Secured Obligation. All such amounts shall be immediately due and payable and bear interest from the date of disbursement at the lesser of the default rate under the Note, or the maximum rate permitted by law.

2.10 **Books and Records on Property.** Borrower shall keep and maintain at Borrower's address stated above, or such other place as Beneficiary may approve in writing, books of account and records adequate to reflect correctly the results of operation of the Property and copies of all written contracts, leases and other documents affecting the Property. Such books, records, contracts, leases and other documents shall be subject to examination, inspection and copying at any reasonable time by Beneficiary. Borrower shall furnish to Beneficiary, within twenty (20) days after Beneficiary's request therefor, the following documents, each certified to Beneficiary by Borrower as being true, correct and complete: (a) copies of all leases and other agreements for occupancy or use of all or any portion of the Property, (b) a rent roll for the Property, showing the name of each tenant, and for each tenant, the suite occupied, the number of square feet rented, the lease expiration date, the rent payable, the date through which rent has been paid, the amount of any security deposit, and the number and term of any renewal options, (c) copies of the most recent real and personal property tax statements for the Property, and (d) copies of the most recent statements for the insurance coverage maintained pursuant to this Deed of Trust.

ARTICLE III **RESERVES**

3.1 **Deposits.** If required by Beneficiary, Borrower shall, at the time of making each monthly installment payment under the Note, deposit with Beneficiary a sum, as estimated by Beneficiary, equal to (i) the taxes and special assessments next due on the Property, and (ii) the premiums that will next become due on insurance policies as may be required under this Deed of Trust, less all sums already deposited therefor, divided by the number of months to elapse before two (2) months prior to the date when such taxes, special assessments and premiums will become delinquent. Beneficiary may require Borrower to deposit with Beneficiary, in advance, such other sums for other taxes, assessments, premiums, charges and impositions in connection with Borrower or the Property as Beneficiary reasonably deems necessary to protect Beneficiary's interests ("***Other Impositions***"). Such sums for Other Impositions shall be deposited in a lump sum or in periodic installments, at Beneficiary's option. If required by Beneficiary, Borrower shall promptly deliver to Beneficiary all bills and notices with respect to any taxes,



assessments, premiums and Other Impositions. Unless Borrower and Beneficiary otherwise agree in writing, Beneficiary shall not be required to pay Borrower any interest, earnings or profits on any sums deposited with Beneficiary. All sums deposited with Beneficiary under this section 3.1 are hereby pledged as security for the Secured Obligations.

3.2 Application of Deposits. All such deposited sums shall be held by Beneficiary and applied in such order as Beneficiary elects to pay such taxes, assessments, premiums and Other Impositions or, upon any Event of Default, may be applied in whole or in part, to the Secured Obligations. The arrangement provided for in this Article III is solely for the added protection of Beneficiary and entails no responsibility on Beneficiary's part beyond the allowing of due credit, without interest, for the sums actually received by it. Upon any assignment of this Deed of Trust by Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of Beneficiary with respect thereto shall terminate. Each transfer of the Property in accordance with Article IV below shall automatically transfer to the transferee all rights of Borrower with respect to any funds deposited hereunder. Upon payment in full of the Secured Obligations, Beneficiary shall promptly refund to Borrower the remaining balance of any deposits then held by Beneficiary.

3.3 Adjustments to Deposits. If the total deposits held by Beneficiary exceed the amount deemed necessary by Beneficiary to provide for the payment of such taxes, assessments, premiums and Other Impositions, such excess shall, provided there is no Event of Default or any event which would constitute an Event of Default if not cured within the time allowed, be credited by Beneficiary on the next due installment or installments of such deposits. If at any time the total deposits held by Beneficiary are less than the amount deemed necessary by Beneficiary to provide for the payment of such taxes, assessments, premiums and Other Impositions, Borrower shall promptly deposit the deficiency with Beneficiary after receipt of written demand from Beneficiary.

3.4 Conditional Waiver. Notwithstanding the foregoing, Beneficiary shall not require the payment of reserves as provided in this Article until a delinquency occurs in the payment of such taxes, assessments, premium and Other Impositions, or until the occurrence of an Event of Default.

ARTICLE IV
RESTRICTIONS ON TRANSFER OR ENCUMBRANCE

4.1 Restrictions. Except for Permitted Transfers (as defined in the Loan Agreement), neither the Property nor any part thereof or interest therein shall be encumbered, sold (by contract or otherwise), conveyed, leased (except as provided in Article VI), or otherwise transferred by Borrower; nor shall there be any change in (i) the ownership or control of any of Borrower's stock if Borrower is a corporation, (ii) the ownership or control of any membership interest in Borrower if Borrower is a limited liability company, (iii) the ownership or control of any general partnership interest in Borrower if Borrower is a partnership, (iv) the ownership or control of any beneficial interests in Borrower if



Borrower is not otherwise a natural person or persons, or (v) the ownership or control of any stock, membership, any general partnership interest, or any other beneficial interest in any corporation, partnership or other entity that has an ownership interest in Borrower. Any such action without Beneficiary's prior written consent shall be deemed to increase the risk of Beneficiary, and shall constitute an Event of Default if not corrected within five (5) days after Beneficiary's delivery of written demand to Borrower. Beneficiary may, in its sole discretion, consent to any such action subject to such terms and conditions as Beneficiary may require, including without limitation the payment of a transfer review fee, an assumption fee of one percent (1%) of the principal balance of the Note, and an increase in the interest rate of the Note; provided however, no assumption fee or interest rate increase shall apply to transfers allowed with notice to (but not prior authorization from) the Beneficiary, as such transfers are described under Section 7.7 of the Loan Agreement executed contemporaneously herewith.

ARTICLE V
UNIFORM COMMERCIAL CODE SECURITY AGREEMENT

5.1 **Grant to Beneficiary.** This Deed of Trust constitutes a security agreement pursuant to the Uniform Commercial Code with respect to:

(a) Any of the Property which, under applicable law, is not real property or effectively made part of the real property by the provisions of this Deed of Trust; and

(b) Any and all other property now or hereafter described on any Uniform Commercial Code Financing Statement naming Borrower as Debtor and Beneficiary as Secured Party and affecting property in any way connected with the use and enjoyment of the Property (any and all such other property constituting "Property" for purposes of this Deed of Trust);

and Borrower hereby grants Beneficiary a security interest in all property described in clauses (a) and (b) above as security for the Secured Obligations. Borrower and Beneficiary agree, however, that neither the foregoing grant of a security interest nor the filing of any such financing statement shall be construed as limiting the parties' stated intention that everything used in connection with the production of income from the Property, or adapted for use therein, or which is described or reflected in this Deed of Trust, is and at all times shall be regarded as part of the Land.

5.2 **Beneficiary's Rights and Remedies.** With respect to the Property subject to the foregoing security interest, Beneficiary shall have all of the rights and remedies (i) of a secured party under the Uniform Commercial Code, (ii) provided herein, including without limitation the right to cause such Property to be sold by Trustee under the power of sale granted by this Deed of Trust, and (iii) provided by law. In exercising its remedies, Beneficiary may proceed against the items of real property and any items of personal property separately or together and in any order whatsoever, without in any way affecting the availability of Beneficiary's remedies. Upon demand by Beneficiary following an Event of Default hereunder, Borrower shall assemble any items of personal property and make



them available to Beneficiary at the Land. Beneficiary shall give Borrower at least five (5) days' prior written notice of the time and place of any public sale or other disposition of such Property or of the time of or after which any private sale or any other intended disposition is to be made. Any person permitted by law to purchase at any such sale may do so. Such Property may be sold at any one or more public or private sales as permitted by applicable law.

5.3 Filing of Financing Statement. Borrower warrants and represents to Beneficiary that the name and address of Borrower set out on the first page of this Deed of Trust are complete and accurate and Borrower authorizes Beneficiary to file a financing statement describing all personal property collateral included within the Property.

ARTICLE VI
ASSIGNMENT OF RENTS AND LEASES

6.1 Assignment of Rents and Leases. As security for the Secured Obligations, Borrower assigns and transfers to Beneficiary and grants Beneficiary a security interest in and to all right, title and interest of Borrower in and to: (a) any and all present and future leases, subleases, and other agreements for the occupancy or use of all or any part of the Property, and any and all extensions, renewals and replacements thereof ("**Leases**"); (b) all cash or security deposits, advance rentals and deposits of a similar nature under the Leases; (c) any and all guarantees of tenants' or occupants' performances under any and all Leases; and (d) all rents, issues, profits and revenues ("**Rents**") now due or which may become due or to which Borrower may now or shall hereafter become entitled or may demand or claim (including Rents coming due during any redemption period), arising or issuing from or out of any and all Leases, including without limitation minimum, additional, percentage and deficiency rents and liquidated damages. This assignment of Leases includes an assignment of the right and interest of Borrower under Options to Purchase Real Property granted by Borrower (including but not limited to any rights to receive the purchase price as well as any deposits due thereunder) as follows:

(a) To SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT #304 d/b/a United General Hospital, a Washington municipal corporation ("**UGH**") in connection with the Ground Lease.

(b) To Physician's Care Family Medicine, Inc., P.S. ("**PCFM**") in connection with a Lease of a portion of the Property.

(c) To Skagit Valley Medical Center, Inc., P.S. ("**SVMC**") in connection with a Lease of a portion of the Property.

6.2 Collection of Rents. Prior to any Event of Default hereunder, Borrower shall have a license to, and shall, collect and receive all Rents of the Property as trustee for the benefit of Beneficiary and Borrower, apply the Rents so collected first to the payment of taxes, assessments and other charges on the Property prior to delinquency, second to the cost of insurance, maintenance and repairs required by the terms of this Deed of Trust,



third to the costs of discharging any obligation or liability of Borrower under the Leases, and fourth to the Secured Obligations, with the balance, if any, to the account of Borrower provided there is no Event of Default. Upon delivery of written notice by Beneficiary to Borrower of an Event of Default hereunder and stating that Beneficiary exercises its rights to the Rents, and without the necessity of Beneficiary entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Beneficiary shall immediately be entitled to possession of all Rents from the Property as the same become due and payable, including without limitation Rents then due and unpaid, and all such Rents shall immediately upon delivery of such notice be held by Borrower as trustee for the benefit of Beneficiary only. Upon delivery of such written notice by Beneficiary, Borrower hereby agrees to direct each tenant or occupant of the Property to pay all Rents to Beneficiary on Beneficiary's written demand therefor, without any liability on the part of said tenant or occupant to inquire further as to the existence of an Event of Default by Borrower. Borrower hereby authorizes Beneficiary as Borrower's attorney-in-fact to make such direction to tenants and occupants upon Borrower's failure to do so as required herein. Payments made to Beneficiary by tenants or occupants shall, as to such tenants and occupants, be in discharge of the payors' obligations to Borrower. Beneficiary may exercise, in Beneficiary's or Borrower's name, all rights and remedies available to Borrower with respect to collection of Rents. Nothing herein contained shall be construed as obligating Beneficiary to perform any of Borrower's obligations under any of the Leases.

6.3 Borrower's Representations and Warranties. Borrower hereby represents and warrants to Beneficiary that Borrower has not executed and will not execute any other assignment of said Leases or Rents, that Borrower has not performed and will not perform any acts and has not executed and will not execute any instrument which would prevent Beneficiary from exercising its rights under this Article VI, and that at the time of execution of this Deed of Trust there has been no anticipation or prepayment of any of the Rents of the Property for more than two (2) months prior to the due dates thereof. Borrower further represents and warrants to Beneficiary that all existing Leases are in good standing and there is no default thereunder, whether by Borrower or lessee, and that, to Borrower's knowledge, there is no event or condition which, with notice or the passage of time or both, would be a default thereunder. Borrower shall execute and deliver to Beneficiary such further assignments of Rents and Leases of the Property as Beneficiary may from time to time request.

6.4 Leases of the Property. Borrower shall comply with and observe Borrower's obligations as landlord under all Leases and will do all that is necessary to preserve all Leases in force and free from any right of counterclaim, defense or setoff. At Beneficiary's request, Borrower shall furnish Beneficiary with executed copies of all Leases now existing or hereafter made and all Leases hereafter entered into shall use a form previously approved by Beneficiary. All non-residential Leases and tenants shall require the tenant to carry Contractual Liability Insurance. All non-residential Leases and tenants shall require the tenant to carry Contractual Liability Insurance. All non-residential Leases and tenants shall be subject to Beneficiary's prior written approval (which shall not be unreasonably withheld and shall be deemed given if Beneficiary fails to respond within



ten (10) days of Borrower's written request (containing such information as reasonably required by Beneficiary) for approval), and shall specifically provide that the tenant attorns to any person succeeding to the interest of Borrower upon any foreclosure of this Deed of Trust or conveyance in lieu thereof. Such attornment shall be in such form as Beneficiary may approve and shall provide that Tenant shall not have the right of set off or defense to payment of rents for any event or act that occurred prior to such successor obtaining title to Borrower's interest except to the extent such event or act is continuing at the time such successor obtains such title. Tenant shall also agree to execute such further evidences of attornment as Beneficiary may from time to time request. Without Beneficiary's written consent, Borrower shall not: (a) collect or accept payment of any Rents more than two months prior to the due dates thereof; (b) modify, surrender or terminate any non-residential Lease; (c) waive, discharge, release or modify the obligations of any tenant or other occupant of the Property under any non-residential Lease; or (d) request or consent to the subordination of any non-residential Lease to any lien subordinate to this Deed of Trust. Any attempted action in violation of this section 6.4 shall be null and void. Without in any way limiting the requirement of Beneficiary's consent hereunder, any sums received by Borrower in consideration of any termination (or the release or discharge of any lessee), modification or amendment of any Lease shall be applied to reduce the outstanding Secured Obligations and any such sums received by Borrower shall be held in trust by Borrower for such purpose.

6.5 Beneficiary in Possession; Appointment of Receiver. Upon any Event of Default, Beneficiary may, in person, by agent or by a court-appointed receiver, regardless of the adequacy of Beneficiary's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof in the same manner and to the same extent as Borrower could do the same, including without limitation the execution, enforcement, cancellation and modification of Leases, the collection of all Rents of the Property, the removal and eviction of tenants and other occupants, the making of alterations and repairs to the Property, and the execution and termination of contracts providing for management or maintenance of the Property, all on such terms as are deemed best by Beneficiary to protect the security of this Deed of Trust. From and after any Event of Default, if any owner of the Property shall occupy the Property or part thereof such owner shall pay to Beneficiary in advance on the first day of each month a reasonable rental for the space so occupied, and upon failure so to do Beneficiary shall be entitled to remove such owner from the Property by any appropriate action or proceedings. Following an Event of Default, Beneficiary shall be entitled (regardless of the adequacy of Beneficiary's security) to the appointment of a receiver, Borrower hereby consenting to the appointment of such receiver. Said receiver may serve without bond and may be Beneficiary or an employee of Beneficiary. The receiver shall have, in addition to all the rights and powers customarily given to and exercised by such receivers, all the rights and powers granted to Beneficiary in this Article VI. Beneficiary or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

6.6 Application of Rents. All Rents collected subsequent to delivery of written notice by Beneficiary to Borrower of an Event of Default shall be applied first to the costs, if any,



of taking control of and managing the Property and collecting the Rents, including without limitation attorneys' fees, receiver's fees, premiums on receiver's bonds, costs of maintenance and repairs to the Property, premiums on insurance policies, taxes, assessments and other charges on the Property, and the costs of discharging any obligation or liability of Borrower under the Leases, and then to other Secured Obligations. Beneficiary or the receiver shall be liable to account only for those Rents actually received. Beneficiary shall not be liable to Borrower, anyone claiming under or through Borrower or anyone having an interest in the Property by reason of anything done or left undone by Beneficiary under this Article.

6.7 **Deficiencies.** To the extent, if any, that the costs of taking control of and managing the Property, collecting the Rents, and discharging obligations and liabilities of Borrower under the Leases, exceed the Rents of the Property, the excess sums expended for such purposes, plus interest, shall constitute a Secured Obligation. Such excess sums shall be payable upon demand by Beneficiary and shall bear interest from the date of disbursement at the lesser of the default rate under the Note, or the maximum rate permitted by law.

6.8 **Beneficiary Not Mortgagee in Possession.** Nothing herein shall constitute Beneficiary a "mortgagee in possession" prior to its actual entry upon and taking possession of the Property. Entry upon and taking possession by a receiver shall not constitute possession by Beneficiary.

6.9 **Enforcement.** Beneficiary may enforce this assignment without first resorting to or exhausting any security or collateral for the Secured Obligations.

ARTICLE VII **LOAN AGREEMENT**

7.1 **Advances.** Borrower agrees to comply with the covenants and conditions of the Loan Agreement. The Loan Agreement provides for the disbursement of loan funds with respect to the construction of Improvements on the Land and for other matters described therein. The Loan Agreement is hereby incorporated herein and made a part of this Deed of Trust. All advances made by Beneficiary pursuant to the Loan Agreement shall constitute a Secured Obligation, and such advances shall be deemed to be obligatory. Any sums advanced by Beneficiary for the purpose of financing tenant improvements for the benefit of Borrower shall be treated as advances pursuant to the Loan Agreement and shall constitute a Secured Obligation. All such sums shall bear interest from the date of disbursement at the rate stated in the Note.

7.2. **Assignment of Claims.** From time to time as Beneficiary deems necessary to protect Beneficiary's interest, Borrower shall, upon request of Beneficiary, execute and deliver to Beneficiary in such form as Beneficiary shall direct, assignments of any and all rights or claims which relate to the construction of the Improvements, and which Borrower may have against any party supplying or who has supplied labor, materials or services in connection with the construction of the Improvements.

Page 17 of 31

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7.3. **Default Under the Loan Agreement.** Upon an Event of Default, Beneficiary may, at its option, with or without entry upon the Property, exercise any of the rights or remedies provided in the Loan Agreement, exercise any of the rights or remedies provided in this Deed of Trust, or do both.

ARTICLE VIII
EVENTS OF DEFAULT

8.1 **Events of Default.** Any one or more of the following is an "**Event of Default**":

- (a) There is an Event of Default under the Note.
- (b) There is a default under any of the Permitted Exceptions, if not cured within any cure period given in the applicable Permitted Exception.
- (c) There is an Event of Default as defined in any of the other Loan Documents.
- (d) Borrower fails to perform any other covenant, agreement or obligation under this Deed of Trust or any of the other Loan Documents, if not cured within the time allowed. If no cure period is otherwise specified for such default, the cure period shall be within thirty (30) days after Beneficiary's delivery of written demand to Borrower, or if such cure cannot in Beneficiary's opinion be completed within such thirty (30) day period, and Borrower commences the required cure within such thirty (30) day period and thereafter continues to cure with diligence, the cure period shall be ninety (90) days after Beneficiary's delivery of such written demand.
- (e) There is a default under the Indemnity Agreement which is not cured within any applicable cure period.
- (f) Borrower or any guarantor files a petition in bankruptcy or for an arrangement, reorganization or any other form of debtor relief; or the petition is filed against Borrower or any guarantor or any trustee of Borrower or any guarantor, and the petition is not dismissed within forty-five (45) days after filing.
- (g) A decree or order is entered for the appointment of a trustee, receiver or liquidator for Borrower or any guarantor or the property of Borrower or any guarantor, and such decree or order is not vacated within forty-five (45) days after the date of entry.
- (h) Borrower or any guarantor commences any proceeding for dissolution or liquidation; or any such proceeding is commenced against Borrower or any guarantor and the proceeding is not dismissed within forty-five (45) days after the date of commencement.



(i) Borrower or any guarantor makes an assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due.

(j) There is an attachment, execution or other judicial seizure of any property of Borrower or any guarantor and such seizure is not discharged within ten (10) days.

(k) Any representation or disclosure made to Beneficiary by Borrower or any guarantor in connection with the Loan proves to be materially false or misleading when made, whether or not that representation or disclosure is expressly set forth in the Loan Documents.

(l) There is any default under the Ground Lease which is not cured within any applicable cure period thereunder.

(m) A default occurs under any other indebtedness now or hereafter owing to Beneficiary on which Borrower or any guarantor is a maker or a guarantor, and such default is not cured within the applicable cure period, if any, under the instruments evidencing and securing such indebtedness.

8.2 **Inapplicability of Cure Periods.** All cure periods provided in this Deed of Trust or the other Loan Documents shall be inapplicable if, in Beneficiary's reasonable judgment, the default is not capable of being cured within the time allowed, or a delay in Beneficiary's enforcement of its rights and remedies may result in a material impairment of its security.

8.3 **Form of Notice.** At Beneficiary's option, any written notice of default given to Borrower under Section 8.1 may be given in the form of a statutory notice of default under the Washington Deed of Trust Act (RCW Chapter 61.24, as now existing or hereafter amended) or any other form as Beneficiary may elect.

ARTICLE IX **REMEDIES**

9.1 **Acceleration Upon Default; Additional Remedies.** Upon any Event of Default, Beneficiary may, at its option and without notice to or demand upon Borrower, exercise any one or more of the following actions:

- (a) Declare all the Secured Obligations immediately due and payable.
- (b) Bring a court action to enforce the provisions of this Deed of Trust or any of the other Loan Documents.
- (c) Foreclose this Deed of Trust as a mortgage.



(d) Cause any or all of the Property to be sold under the power of sale granted by this Deed of Trust in any manner permitted by applicable law.

(e) Elect to exercise its rights with respect to the Leases and the Rents.

(f) Exercise any or all of the other rights and remedies under this Deed of Trust and the other Loan Documents.

(g) Exercise any other right or remedy available under law or in equity.

9.2 **Prepayment Premium.** If the Note provides for payment of a prepayment premium, such prepayment premium shall be payable by Borrower with respect to any voluntary or involuntary payment of principal under the Note before the maturity date stated in the Note, except as otherwise specifically provided in the Loan Documents. Borrower expressly agrees that any such principal payment made after an Event of Default shall require payment of the prepayment premium notwithstanding any acceleration of the Note by Beneficiary.

9.3 **Exercise of Power of Sale.** For any sale under the power of sale granted by this Deed of Trust, Beneficiary or Trustee shall record and give all notices required by law and then, upon the expiration of such time as is required by law, Trustee may sell the Property upon any terms and conditions specified by Beneficiary and permitted by applicable law. Trustee may postpone any sale by public announcement at the time and place noticed for the sale. If the Property includes several lots or parcels, Beneficiary in its discretion may designate their order of sale or may elect to sell all of them as an entirety. The Property, real, personal and mixed, may be sold in one parcel. To the extent any of the Property sold by the Trustee is personal property, then Trustee shall be acting as the agent of the Beneficiary in selling such Property. Any person permitted by law to do so may purchase at any sale. Upon any sale, Trustee will execute and deliver to the purchaser or purchasers a deed or deeds conveying the Property sold, but without any covenant or warranty, express or implied, and the recitals in the Trustee's deed showing that the sale was conducted in compliance with all the requirements of law shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrancers for value.

9.4 **Application of Sale Proceeds.** Except as may otherwise be required by law, the proceeds of any sale under this Deed of Trust shall be applied in the following priority:

(a) Payment of the costs and expenses of the sale; including without limitation Trustee's fees, legal fees and disbursements, title charges and transfer taxes, and payment of all expenses, liabilities and advances of Trustee, together with interest on all advances made by Trustee from date of disbursement at the lesser of the default rate under the Note, or the maximum rate permitted by law.

(b) Payment of all sums expended by Beneficiary under the terms of this Deed of Trust and not yet repaid, together with interest on such sums from date of



disbursement at the lesser of the default rate under the Note, or the maximum rate permitted by law.

(c) Payment of all other Secured Obligations in any order that the Beneficiary chooses.

(d) The remainder, if any, to the person or persons legally entitled to it.

9.5 **Waiver of Order of Sale and Marshalling.** Beneficiary shall have the right to determine the order in which any or all portions of the Secured Obligations are satisfied from the proceeds realized upon the exercise of any remedies provided herein. To the fullest extent permitted by law, Borrower, any party who consents to this Deed of Trust and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof, hereby waives any and all right to require marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein, or to direct the order in which any of the Property will be sold in the event of any sale under this Deed of Trust.

9.6 **Non-Waiver of Defaults.** The entering upon and taking possession of the Property, the collection of Rents or the proceeds of fire and other insurance policies or compensation or awards for any taking or damage of the Property, and the application or release thereof as herein provided, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

9.7 **Expenses During Redemption Period.** If this Deed of Trust is foreclosed as a mortgage and the Property sold at a foreclosure sale, the purchaser may during any redemption period allowed, make such repairs or alterations on the Property as may be reasonably necessary for the proper operation, care, preservation, protection and insuring thereof. Any sums so paid together with interest thereon from the time of such expenditure at the lesser of the default rate under the Note, or the maximum rate permitted by law, shall be added to and become a part of the amount required to be paid for redemption from such sale.

9.8 **Foreclosure Subject to Tenancies.** Beneficiary shall have the right at its option to foreclose this Deed of Trust subject to the rights of any tenant or tenants of the Property.

9.9 **Remedies Cumulative.** To the extent permitted by law, every right and remedy provided in this Deed of Trust is distinct and cumulative to all other rights or remedies under this Deed of Trust or afforded by law or equity or any other agreement between Beneficiary and Borrower, and may be exercised concurrently, independently or successively, in any order whatsoever. Beneficiary may exercise any of its rights and remedies at its option without regard to the adequacy of its security.

9.10 **Beneficiary's and Trustee's Expenses.** Borrower shall pay all of Beneficiary's and Trustee's expenses incurred in any efforts to enforce any term of this Deed of Trust,



whether or not any suit is filed, including without limitation legal fees and disbursements, foreclosure costs, title charges, post-judgment collection expenses, and expenses incurred in any bankruptcy, reorganization, liquidation, receivership or similar proceeding. All such sums, with interest thereon, shall be additional indebtedness of Borrower secured by this Deed of Trust. Such sums shall be immediately due and payable and shall bear interest from the date of disbursement at the lesser of the default rate under the Note, or the maximum rate permitted by law.

9.11 **Fair Market Value.** To the extent the Washington Deed of Trust Act, as now existing or hereafter amended, or other statute requires that the "fair market value" or "fair value" of the Property be determined as of the foreclosure date in order to enforce a deficiency against Borrower or any other party liable for repayment of the Secured Obligations, the term "fair market value" or "fair value" shall include those matters required by law and the additional factors set forth below:

(a) The Property shall be valued "as is" and "with all faults" and there shall be no assumption of restoration or refurbishment of Improvements, if any, after the date of the foreclosure.

(b) An offset to the fair market value or fair value of the Property, as determined hereunder, shall be made by deducting from such value the reasonable estimated closing costs related to the sale of the Property, including but not limited to brokerage commissions, title policy expenses, tax pro-rations, escrow fees, and other common charges that are incurred by the seller of real property.

Borrower shall pay the costs of any appraisals and other expenses incurred in connection with any such determination of fair market value or fair value.

ARTICLE X **GENERAL**

10.1 **No Offset.** Borrower's obligation to timely pay and perform all obligations under the Note, this Deed of Trust, and the other Loan Documents shall be absolute and unconditional and shall not be affected by any event or circumstance; including without limitation any setoff, counterclaim, abatement, suspension, recoupment, deduction, defense or any other right that Borrower or any guarantor may have or claim against Beneficiary or any other person or entity. The foregoing shall not constitute a waiver of any claim or demand which Borrower or any guarantor may have in damages or otherwise against Beneficiary or any other person or entity; provided that Borrower shall maintain a separate action thereon.

10.2 **Application of Payments.** Except as applicable law or this Deed of Trust may otherwise provide, all payments received by Beneficiary under the Note or this Deed of Trust shall be applied by Beneficiary in the following order of priority: (a) Beneficiary's and Trustee's expenses incurred in any efforts to enforce any terms of this Deed of Trust; (b) interest payable on advances made to protect the security of this Deed of Trust;



(c) principal of such advances; (d) amounts payable to Beneficiary by Borrower under Article III for reserves; (e) interest and late charges payable on the Note; (f) principal of the Note; and (g) any other Secured Obligations in such order as Beneficiary, at its option, may determine; provided, however, that Beneficiary may, at its option, apply any such payments received to interest on or principal of the Note prior to applying such payments to interest on and principal of advances made to protect the security of this Deed of Trust.

10.3 Appraisal Costs. If at any time Beneficiary reasonably determines that a reappraisal of the Property is necessary, or if a reappraisal is required by any regulatory authority, or if the Financial Institutions Reform, Recovery, and Enforcement Act, as amended, or any regulatory agency, requires Beneficiary to obtain a reappraisal of the Property, Beneficiary shall have the right to cause the Property to be reappraised and Borrower shall reimburse Beneficiary on demand for payment of the costs of such appraisal.

10.4 Imposition of Tax. For purposes of this Section, "Tax" shall mean: (a) a specific tax on deeds of trust or on all or any part of the indebtedness secured by a deed of trust; or (b) a specific tax on the owner of the Property covered by a deed of trust which the taxpayer is authorized or required to deduct from payments on the deed of trust; or (c) a tax on property covered by a deed of trust chargeable against a beneficiary or trustee under the deed of trust or the holder of the note secured by the deed of trust; or (d) a specific tax (other than an income tax or a gross receipts tax) on all or any portion of the obligations secured hereby or on payments of principal and interest made by a grantor under a deed of trust. If any Tax is enacted subsequent to the date of this Deed of Trust, enactment of the Tax shall constitute an Event of Default, and Beneficiary may exercise any or all of the remedies available to it upon the occurrence of any Event of Default, unless the following conditions are met: (i) Borrower may lawfully pay the Tax without causing any resulting economic disadvantage or increase of tax to Beneficiary or Trustee; and (ii) Borrower pays the Tax (including any tax on the payment made) within thirty (30) days after notice from Beneficiary that the tax law has been enacted.

10.5 Reconveyance. Upon payment of all Secured Obligations, Beneficiary shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing the Secured Obligations to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

10.6 Successor Trustee. In accordance with applicable law, Beneficiary may from time to time appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.



10.7 **Beneficiary's Powers.** Without affecting the liability of any person for payment or performance of the Secured Obligations or any of Beneficiary's rights or remedies, Beneficiary, at its option, may extend the time for payment of the Secured Obligations or any part thereof, reduce payment thereon, release anyone liable thereon, accept a renewal note or notes therefor, modify the terms and time of payment thereof, release the lien of this Deed of Trust on any part of the Property, take or release other or additional security, release or reconvey or cause to be released or reconveyed all or any part of the Property, or consent and/or cause Trustee to consent to the making of any map or plat of the Property, consent or cause Trustee to consent to the granting of any easement or creating any restriction on the Property, or join or cause Trustee to join in any subordination or other agreement affecting this Deed of Trust or the lien or charge hereof. Borrower shall pay Beneficiary a reasonable service charge, together with such title insurance premiums and attorneys' fees as may be incurred at Beneficiary's option, for any such action if taken at Borrower's request.

10.8 **Subdivision.** Borrower hereby consents to a subdivision of the Property, if Beneficiary, in its sole discretion, determines that a subdivision of the Property is necessary or desirable to preserve the lien of this Deed of Trust, or to permit Beneficiary to foreclose on only a portion of the Property.

10.9 **Subrogation.** Beneficiary shall be subrogated for further security to the lien, although released of record, of any and all encumbrances discharged, in whole or in part, by the proceeds of the Note or any other indebtedness secured hereby.

10.10 **Limitation on Interest and Charges.** The interest, fees and charges under the Loan Documents shall not exceed the maximum amounts permitted by any applicable law. If any such interest, fee or charge exceeds the maximum, the interest, fee or charge shall be reduced by the excess and any excess amounts already collected from Borrower shall be refunded. Beneficiary may refund such excess either by treating the excess as a prepayment of principal under the Note or by making a direct payment to Borrower. If Beneficiary elects to treat the excess as a prepayment of principal, Borrower shall not be obligated to pay any prepayment premium required under the Note. The provisions of this section shall control over any inconsistent provision in the Loan Documents.

10.11 **Additional Documents; Power of Attorney.** Borrower, from time to time, shall execute, acknowledge and deliver to Beneficiary upon request, and hereby irrevocably appoints Beneficiary its attorney-in-fact to execute, acknowledge, deliver and if appropriate file and record, such security agreements, assignments for security purposes, assignments absolute, financing statements, affidavits, certificates and other documents, in form and substance satisfactory to Beneficiary, as Beneficiary may request in order to perfect, preserve, continue, extend in time or maintain the assignments herein contained, the lien and security interest under this Deed of Trust, and the priority thereof. Borrower shall pay to Beneficiary upon request therefor all costs and expenses incurred in connection with the preparation, execution, recording and filing of any such document.



10.12 **Waiver of Statute of Limitations.** To the full extent Borrower may do so, Borrower hereby waives the right to assert any statute of limitations as a defense to the enforcement of the lien of this Deed of Trust or to any action brought to enforce the Note or any other obligation secured by this Deed of Trust.

10.13 **Forbearance by Beneficiary Not a Waiver.** Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy, and no waiver by Beneficiary of any particular default shall constitute a waiver of any other default or of any similar default in the future. Without limiting the generality of the foregoing, the acceptance by Beneficiary of payment of any of the Secured Obligations after the due date thereof shall not be a waiver of Beneficiary's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Beneficiary shall not be a waiver of Beneficiary's right to accelerate the maturity of the indebtedness secured by this Deed of Trust, nor shall Beneficiary's receipt of any awards, proceeds or damages under sections 2.3 and 2.7 hereof operate to cure or waive Borrower's default in payment of the Secured Obligations.

10.14 **Entire Agreement; Modifications and Waivers.** This Deed of Trust together with the other Loan Documents constitute the entire understanding and agreement of Borrower and Beneficiary with respect to the Loan. The Loan Documents supercede all prior negotiations, discussions, and agreements with respect to the Loan, may not be contradicted by evidence of any alleged oral agreement, and may not be waived, changed, discharged or terminated except by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

10.15 **Notice.** Any notice to Borrower under this Deed of Trust shall be given as provided in the Loan Agreement.

10.16 **Governing Law.** This Deed of Trust shall be governed by the laws of the State of Washington.

10.17 **Severability; Captions.** If any provision or clause of this Deed of Trust conflicts with applicable law, such conflicts shall not affect other provisions or clauses hereof which can be given effect without the conflicting provision, and to this end the provisions hereof are declared to be severable. The captions and headings of the sections and articles of this Deed of Trust are for convenience only and are not to be used to interpret or define the provisions hereof.

10.18 **Definitions.** As used herein: the term "Borrower" means the Borrower herein named, together with any subsequent owner of the Property or any part thereof or interest therein; the term "Trustee" means the Trustee herein named, together with any successor Trustee; and the term "Beneficiary" means the Beneficiary herein named, together with any subsequent owner or holder of the Note or any interest therein, including pledgees, assignees and participants.



10.19 **Successors and Assigns; Joint and Several Liability; Agents.** This Deed of Trust shall bind and inure to the benefit of the parties hereto and their respective heirs, devisees, legatees, administrators, executors, successors and assigns, subject to the provisions of Article IV hereof. Each person executing this Deed of Trust as Borrower shall be jointly and severally liable for all obligations of Borrower hereunder. In exercising any rights hereunder or taking actions provided for herein, Beneficiary and Trustee may act through their respective employees, agents or independent contractors as authorized by Beneficiary and Trustee.

10.20 **Number, Gender.** This Deed of Trust shall be construed so that wherever applicable the use of the singular number shall include the plural number, and vice versa, and the use of any gender shall be applicable to all genders.

10.21 **Time.** Time is of the essence in connection with all obligations of Borrower herein.

10.22 **Request for Notice.** Borrower hereby requests that a copy of any notice of default and notice of sale hereunder be mailed to it at its address set forth at the beginning of this Deed of Trust.

10.23 **Assignment of Loan Documents.** Beneficiary may assign the Loan Documents in whole or in part. Beneficiary may make available to any proposed assignee or participant all credit and financial data with respect to Borrower and any guarantor as may be in the possession of Beneficiary. Borrower agrees to provide any additional information that any proposed assignee or participant may reasonably request.

10.24 **Estoppel Certificate.** Borrower shall, within twenty (20) days after receipt of Beneficiary's written request, furnish Beneficiary or any other party designated by Beneficiary with a written statement, duly acknowledged, setting forth the amount of the Secured Obligations and otherwise confirming the status of the Secured Obligations, the Property, and the Loan Documents.

10.25 **Costs and Expenses.** Borrower shall reimburse Lender on demand for all costs and expenses incurred by Lender in making and administering the Loan and enforcing the Loan Documents, including without limitation survey costs, appraisal costs, title insurance premiums, recording charges, inspection costs, and legal and other professional fees. Upon an Event of Default, Lender may hire or pay someone else to help collect on the Note or enforce the other Loan Documents, and Borrower covenants to pay Lender all such expenses. This includes, subject to any limits under applicable law, statutory court costs, Lender's attorney fees, and other expenses whether or not there is a lawsuit, and legal expenses incurred to enforce any rights under bankruptcy law (including efforts to modify or vacate any automatic stay or injunction), appeals, and post-judgment collection.

10.26 **Certain Obligations Unsecured.** Notwithstanding anything to the contrary set forth herein or any of the Loan Documents, this Deed of Trust shall not secure the following obligations (the "**Unsecured Obligations**"): (a) any obligations evidenced by or arising under the Indemnity Agreement, and (b) any other obligations in this Deed of Trust

or in any of the other Loan Documents to the extent that such other obligations relate specifically to the presence on the Property of Hazardous Materials and are the same or have the same effect as any of the obligations evidenced by or arising under the Indemnity Agreement. Any breach or default with respect to the Unsecured Obligations shall constitute an Event of Default hereunder, notwithstanding the fact that such Unsecured Obligations are not secured by this Deed of Trust. Nothing in this Section shall, in itself, impair or limit Beneficiary's right to obtain a judgment in accordance with applicable law after foreclosure for any deficiency in recovery of all obligations that are secured by this Deed of Trust following foreclosure.

10.27 **Execution.** This Deed of Trust may be executed in several counterparts and all so executed shall constitute one Deed of Trust, binding on all the parties hereto even though all the parties are not signatories to the original or the same counterpart. Delivery of a facsimile or other copy of a signed version of this Deed of Trust has the same effect as delivery of an original.

10.28 **Condominium Sales.** Notwithstanding the restrictions in Article IV of this Deed of Trust, Beneficiary will consent (without the imposition of any assumption fee or increase in the interest rate) to the sale of condominium units (each a "Unit") in the Property but only to the extent specified, and on the terms and conditions stated, in the Loan Agreement.

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

10.30 **Condominium Assessments.** Borrower shall promptly pay, when due, all assessments imposed by the condominium association or other governing body of the condominium created by Borrower pursuant to the provisions of the declaration, bylaws, and any other constituent documents of the condominium.

10.31 **Condominium Termination or Amendment.** Borrower shall not, except after obtaining Beneficiary's prior written approval, petition or subdivide the Property or consent to: (i) the voluntary or involuntary abandonment or termination of the condominium, except for abandonment or termination provided bylaws in the case of substantial



destruction by fire or other casualty or in the case of a taking by condemnation or eminent domain; or (ii) any amendment to the condominium declaration or the articles of incorporation or bylaws of the condominium association, or equivalent constituent documents including, but not limited to, any amendment which would change the percentage interests of the unit owners in the condominium.

[Signatures on following page]

Page 28 of 31

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Skagit County Auditor

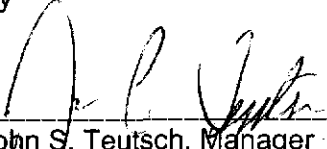
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ORAL AGREEMENTS OR ORAL COMMITMENTS TO LEND MONEY, EXTEND CREDIT, OR FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust as of the date first above written.

"Borrower"

J&J SKAGIT LLC, a Washington limited liability company

By: 
John S. Teutsch, Manager

By: 
John Walker, Manager



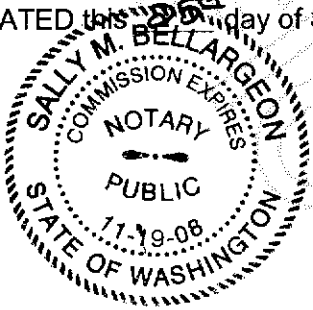
STATE OF WASHINGTON)

County of King)

ss.

I certify that I know or have satisfactory evidence that John S. Teutsch 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 a Manager of J&J SKAGIT LLC, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED this 25th day of September, 2006.



Sally M. Bellargeon

Notary Public in and for the State of Washington,
residing at 936 N. 78th ST, SEATTLE, WA.
SALLY M. BELLARGEON

Name (printed or typed)
My appointment expires: 11-19-08

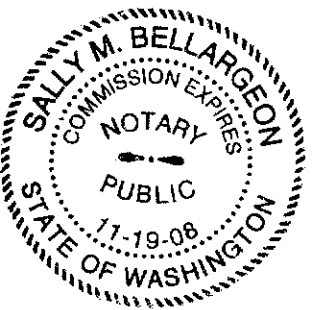
STATE OF WASHINGTON)

County of King)

ss.

I certify that I know or have satisfactory evidence that John Walker 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 a Manager of J&J SKAGIT LLC, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED this 25th day of September, 2006.



Sally M. Bellargeon

Notary Public in and for the State of Washington,
residing at 936 N. 78th ST, SEATTLE, WA.
SALLY M. BELLARGEON

Name (printed or typed)
My appointment expires: 11-19-08



EXHIBIT A
TO
DEED OF TRUST

Legal Description

Parcel A:

Building Legal Description

That portion of the west half of the southeast quarter of the northeast quarter of Section 27, Township 35 North, Range 4 East, Willamette Meridian, described as follows:

Commencing at the southeast corner of Parcel F as shown on survey for United General Hospital Dist. #304, recorded April 29, 2005, under Auditor's File Number 200504290057; records of Skagit County Washington; thence S 61°42'33" W along the south line of Parcel F and Parcel B of said survey, a distance of 347.16 feet to the most southerly corner of Parcel B; thence N 56° 49'37" W along the south line of said Parcel B, a distance of 41.43 feet; thence N 00°00'00" E, a distance of 323.41 feet to the point of beginning of this description; thence N 90°00'00" E, a distance of 343.05 feet to the east line of said Parcel F; thence N 00°50'50" E along the east line of said Parcel F, a distance of 153.80 feet to the northeast corner of said Parcel F; thence S 88°21'23" E along the south line of Parcel G of said survey, a distance of 96.70 feet to the southeast corner of said Parcel G; thence N 00°50'50" E along the east line of said Parcel G, a distance of 50.00 feet to the south line of the north 50 feet of said Parcel G; thence N 88°21'23" W along the south line of said north 50 feet, a distance of 442.91 feet; thence S 00°00'00" W, a distance of 213.71 feet to the point of beginning of this description.

Situate in the City of Sedro Woolley, Skagit County, Washington.

Parcel B:

Parking Easement Parcel

A parking easement across that portion of the west half of the southeast quarter of the northeast quarter of Section 27, Township 35 North, Range 4 East, Willamette Meridian, described as follows:

Beginning at the southeast corner of the east line of Parcel F as shown on survey for United General Hospital Dist. #304, recorded April 29, 2005, under Auditor's File Number 200504290057, records of Skagit County, Washington; thence S 61°42'33" W along the south line of Parcel F and Parcel B of said survey, a distance of 347.16 feet to the most southerly corner of Parcel B; thence N 56°49'37" W along the south line of Parcel B, a distance of 41.43 feet; thence N 00°00'00" E, a distance of 323.41 feet; thence N 90°00'00" E, a distance of 343.05 feet to the east line of said Parcel F, thence S 00°50'50" W along the east line of said Parcel F, a distance of 181.47 feet to the point of beginning of this description.

Situate in the City of Sedro-Woolley, Skagit County, Washington.

