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Jefferson County Aud PORT LUDLOW ASSOCIAT

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Return Address:

Richard B. Shattuck
4102 NW Anderson Hill Road
Silverdale, Washington 98383

SOUTH BAY ANNEXATION AND CAPITAL CONTRIBUTION AGREEMENT

Grantor: PORT LUDLOW ASSOCIATES LLC, a Washington
limited liability company

Grantee: SOUTH BAY COMMUNITY ASSOCIATION, a
Washington not-for-profit corporation

Legal Description: Portions of Sections 8, 9, 16, 17, 18, 20, 21 and 29,
Township 28 North, Range 1 East, W.M., Jefferson
County, Washington.
Full legal descriptions on Exhibit A and Exhibit B of
document.

Assessor's Tax Parcel ID Nos.:

Olympic Terrace II = 821 213 001
Ironwood = 821 213 003
Creekside II = 821 173 001
Falls Terrace = 821 172 002
Ludlow Cove II = 968 800 102
Bay Hollow = 821 164 002

THIS AGREEMENT (this "Agreement") dated for reference purposes only as of February 2, 2007, is made by PORT LUDLOW ASSOCIATES, LLC, a Washington limited liability company ("PLA"), and SOUTH BAY COMMUNITY ASSOCIATION, a Washington not-for-profit corporation ("SBCA").

RECITALS

A. PLA is the owner of the real property legally described on Exhibit A attached hereto (the "Property"), situate in the unincorporated area of Port Ludlow, Jefferson County, Washington. The Property comprises the areas commonly known as Olympic Terrace II, Bay Hollow, Ironwood, Creekside II, Falls Terrace, and Ludlow Cove II (a/k/a Tract E).

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B. A portion of the Property was approved for annexation into South Bay by vote of the SBCA membership at the SBCA annual meeting in July 2005. This annexed portion of the Property is legally described on Exhibit B attached hereto and is hereafter referred to as "Olympic Terrace II."

C. The Property, including that portion defined as Olympic Terrace II, is shown generally on the drawing attached hereto as Exhibit C (the "Drawing"). The Property comprises a portion of a master planned resort, designated by Jefferson County in 1998. The Property generally is unimproved and, with the exception of Olympic Terrace II, is unplatted.

D. SBCA is an association of owners of platted residential lots and condominium units within portions of Port Ludlow. SBCA owns recreational facilities, including the Bay Club, and maintains certain common areas within Port Ludlow, all for the benefit of its members.

E. PLA and SBCA wish to enter into an agreement under which the future owners of homes within the Property, including Olympic Terrace II, will become members of SBCA in exchange for the payment of a capital contribution in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, PLA and SBCA hereby agree as follows:

AGREEMENT

1. Property Subject to Agreement. The Property, including Olympic Terrace II, is and shall be subject to the terms and conditions of this Agreement. This Agreement shall run with the land legally described in Exhibit A for the benefit of PLA and SBCA, and shall bind the successors and assigns of the parties.

2. Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

a. "Annexed into South Bay" means annexed into the area of land that is governed by SBCA and commonly known as "South Bay" by the recording in the real property records of Jefferson County, Washington, of a Declaration of Annexation or similar document the effect of which is to subject the annexed land to the South Bay Master Declaration of Covenants, Conditions, Restrictions, Assessments, Charges, Servitudes, Liens, Reservations and Easements recorded under Jefferson County Auditor's File No. 324010 and 325175, as amended.



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b. "Capital Contribution" means the fee or fees paid on the Conveyance Date to SBCA, or to the escrow set forth under Section 4 of this Agreement, in exchange for full membership in SBCA.

c. "Conveyance Date" means, as to any Lot or Unit, the later of (i) the date on which title to the Lot or Unit is conveyed by PLA or its successors or assigns to a consumer purchaser for the residential occupancy of a dwelling unit, or (ii) the date on which a final and complete certificate of occupancy is issued by Jefferson County, Washington, approving the residential occupancy of a dwelling unit located within the Lot or Unit. For any Lot or Unit, there is only one Conveyance Date, which shall occur after the Lot or Unit is annexed into South Bay.

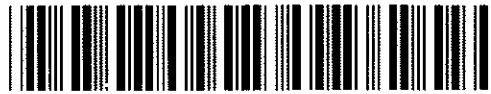
d. "Lot or Unit" means any platted lot or condominium unit intended for or restricted to residential use, provided, however, that such term shall not include any timeshare unit.

e. "Owner" means the consumer purchaser of fee simple title to any Lot or Unit located within the Property.

f. "Tract E" (a/k/a Ludlow Cove II) means Tract E as depicted on the Plat of Ludlow Cove Division No. 1, Phase 1, recorded in Volume 8 of Plats, pages 1 through 6 inclusive, records of Jefferson County, Washington.

3. Annexation and Membership.

a. In consideration of the making of this Agreement and the commitment to make the Capital Contributions described herein, the SBCA Board of Directors shall present a resolution to its membership under which SBCA shall grant to PLA the option to Annex into South Bay portions of the Property or the entirety thereof from time to time until the total number of Lots and Units within South Bay, whether Annexed into South Bay before or after the making of this Agreement, is Eight Hundred (800). If the resolution is approved by the SBCA membership on or before August 31, 2007, then until the total number of Lots and Units within South Bay, whether Annexed into South Bay before or after the making of this Agreement, is Eight Hundred (800), (i) PLA shall have the option to complete, execute, and record one or more Declarations of Annexation from time to time, in substantially the form of Exhibit D hereto, the effect of which shall be to cause the portion of the Property described therein to be Annexed into South Bay, and (ii) this Agreement, including the provisions regarding the making of Capital Contributions, shall remain

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in full force and effect. If the resolution is not approved by the SBCA membership on or before August 31, 2007, then this Agreement shall be null, void and of no further effect, and any sums held in escrow associated with a Lot or Unit in Olympic Terrace II under Section 4 herein shall be returned to the Owner of record on September 1, 2007.

b. If any portion of the Property is Annexed into South Bay, then such portion shall be subject to all generally applicable articles, bylaws, declarations, and rules and regulations of SBCA and to all provisions of this Agreement. Upon the Conveyance Date of any Lot or Unit within the Property after the Lot or Unit is Annexed into South Bay, and upon payment of the Capital Contribution for the Lot or Unit, the Owner of the Lot or Unit shall become a member of SBCA, entitled to all rights and privileges of membership in SBCA without limitation or restriction and without payment of any initiation fee, membership fee, new member fee, or other charge or fee except for periodic and special charges, assessments, and fees to which all regular current members are subjected, provided, however, that as to Olympic Terrace II no Capital Contribution shall be payable if the resolution described in subsection 3.a is not approved by the SBCA membership on or before August 31, 2007.

4. Capital Contributions.

a. The amount of each Capital Contribution payable by an Owner under this Agreement shall be included within the agreed purchase price payable by the Owner for the Lot or Unit on the Conveyance Date. Except as to Capital Contributions paid through escrow as described in this subsection in connection with the sale of Lots or Units within Olympic Terrace II prior to the date the resolution described in subsection 3.a is approved by the SBCA membership, PLA will cause the Capital Contribution payable under this Agreement to be paid directly to SBCA at the close of the purchase and sale transaction on the Conveyance Date, provided, however, that if at the close of the purchase and sale transaction a final and complete certificate of occupancy has not yet been issued by Jefferson County, Washington, approving the residential occupancy of a dwelling unit located within the Lot or Unit, then the Owner shall pay the Capital Contribution to SBCA within fourteen (14) days after issuance of the certificate of occupancy. In connection with the sale of Lots and Units within Olympic Terrace II prior to the date on which the resolution described in subsection 3.a is approved by the SBCA membership, PLA, at its sole cost and expense, shall establish an escrow account with First American Title Insurance Company, and



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PLA will cause any Capital Contribution payable under this Agreement to be placed with the escrow at the close of the purchase and sale transaction. If the resolution described in subsection 3.a is approved by the SBCA membership on or before August 31, 2007, all Capital Contributions and interest held in the escrow account shall be immediately released to SBCA.

b. Except as provided below, each Owner will pay SBCA a Capital Contribution of Two Thousand Dollars (\$2,000.00) for each Lot or Unit upon the Conveyance Date.

c. If all governmental approvals and permits relating to the proposed Trendwest Resorts, Inc., timeshare resort project within Tract E are granted, and if all appeals relating to such approvals and permits are resolved and the approvals and permits are affirmed, and if PLA completes the sale of Tract E to Trendwest or its assignee for timeshare development, then each Owner will pay SBCA an additional Capital Contribution of Five Hundred Dollars (\$500.00) for each Lot or Unit owned by such Owner, provided that the Conveyance Date of such Lot or Unit is after the closing of the sale of Tract E to Trendwest or its assignee.

d. If, prior to the Conveyance Date for any Lot or Unit, the SBCA membership adopts any special assessment for expanding, remodeling, renovating or upgrading the Bay Club owned by the SBCA, then each Owner will pay the SBCA, an additional Capital Contribution equal to the amount of such special assessment payable by each SBCA member per lot or unit, for each Lot or Unit owned by such Owner, upon the Conveyance Date of such Lot or Unit, provided that the Conveyance Date is after the commencement of collection of the special assessment from SBCA members.

e. From time to time, the parties to this Agreement shall prepare, execute, acknowledge, and record in the real property records of Jefferson County, Washington, amendments to this Agreement to give notice to Owners of the actual current amount of the Capital Contribution as it may be adjusted from time to time based on subsections 4.c and 4.d above.

f. The Capital Contribution amounts described in this Agreement shall be adjusted once every five (5) years, commencing on the fifth anniversary of the date of this Agreement, by the percentage change during the preceding five (5) year period in the Consumer Price Index for All Urban Consumers (revised 1982) for Seattle, Washington, All Items (base 1982-84 = 100), published by the Bureau of Labor Statistics,

United States Department of Labor.

5. Enforcement. PLA and SBCA and their successors and assigns shall have the exclusive privilege and right to enforce the terms and conditions of this Agreement. SBCA may enforce payment of the Capital Contribution, together with all collection costs and attorneys' fees, by bringing an action at law and recovering judgment or by pursuing any other remedy available at law or in equity for such default. A delinquent Capital Contribution shall bear interest from the date of delinquency at the lesser of twelve percent (12%) per annum, or the maximum rate permitted under Washington law on the date on which the Capital Contribution became delinquent. In the event that any Capital Contribution is not paid when due by any Owner, then upon the recording of a Notice of Lien in the real property records of Jefferson County, Washington, SBCA shall have a lien upon the Lot or Unit, which may be foreclosed as a mortgage in accordance with the laws of the State of Washington, to secure payment of the Capital Contribution, default interest, costs of recording the Notice of Lien, attorneys' fees and costs, and other costs of collection, provided, however, that (a) such lien shall be subordinate in priority to the lien of any deed of trust or mortgage against the Lot or Unit, and (b) SBCA shall not exercise its right to foreclose the lien unless the obligations secured by the lien are not satisfied in full upon the conveyance of any ownership or security interest in the Lot or Unit after the recording of the Notice of Lien.

6. Attorneys' Fees. In the event any legal proceeding is commenced to enforce or interpret any term or condition of this Agreement, the substantially nonprevailing party shall pay the costs, expenses, and attorneys' fees of the substantially prevailing party, including costs, expenses and fees on appeal.

7. Successors and Assigns of PLA. Any reference in this Agreement to PLA shall include any successors or assigns of PLA's rights and powers hereunder. PLA shall be liable to SBCA for the amounts of any unpaid Capital Contribution if PLA shall fail to perform its obligations under subsections 4.a, 4.b, 4.c, and 4.d of this Agreement, but otherwise only an Owner shall be liable to SBCA for any unpaid Capital Contribution. The benefits and burdens of this Agreement shall benefit and bind the parties, their successors and assigns.

8. Recordation. Upon execution, this Agreement shall be recorded in the real property records of Jefferson County, Washington.

9. Authority. PLA and SBCA each represent and warrant to the other that the making of this Agreement has been duly approved by all requisite corporate action of such party, that the officer signing below has due authority to execute and deliver this Agreement on behalf of such party, and that this Agreement constitutes the legal and binding obligation of such party, enforceable according to its terms, provided, however, that no individual

director, officer, manager, or member of either PLA or SBCA shall be personally liable for breach of the foregoing representation and warranty.

10. Modifications. The terms of this Agreement shall not be amended, modified, or waived, except upon either (a) the written agreement of PLA and SBCA, or (b) the order of a court of competent jurisdiction.

IN WITNESS WHEREOF, the parties hereunto caused their authorized officials to execute this Agreement as of the day and year first above written.

PLA:

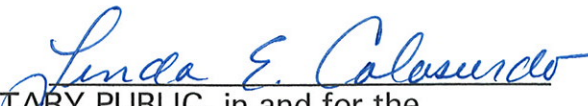
**PORT LUDLOW ASSOCIATES LLC,
a Washington limited liability company**


By: Diana Smeland
Its President and Chief Financial Officer

STATE OF WASHINGTON)
) ss
County of Jefferson)

On this 5 day of February, 2007, before me, a Notary Public in and for the State of Washington, personally appeared DIANA SMELAND, to me known to be the President and Chief Financial Officer of Port Ludlow Associates LLC, the company that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said company, for the uses and purposes therein mentioned, and on oath stated that she was authorized to execute the said instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.


NOTARY PUBLIC, in and for the
State of Washington, residing
at: Jefferson County.
Commission Expires: 5/16/2010.





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SBCA:

SOUTH BAY COMMUNITY ASSOCIATION

By: Thomas Stone, Its President

STATE OF WASHINGTON)
) ss
County of Jefferson)

On this 6 day of February, 2007, before me, a Notary Public in and for the State of Washington, personally appeared THOMAS STONE, to me known to be the President of the South Bay Community Association, the Association that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said association, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute the said instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC, in and for the
State of Washington, residingat: Jefferson CountyCommission Expires: 5 / 16 / 2010

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

Olympic Terrace II:

Resultant Parcel B of that Boundary Line Adjustment recorded under Recording No. 495995, Records of Jefferson County, Washington.

Bay Hollow:

That Portion of the south half of Section 16, and the north half of Section 21, Township 28 North, Range 1 East, W. M., in Jefferson County, Washington, lying south of Ludlow Bay Road and North of Paradise Bay Road,

EXCEPT therefrom the east five hundred (500) feet thereof,

ALSO EXCEPT Bayview Village Divisions 1 through 3.

Ironwood:

Resultant Parcel C of that Boundary Line Adjustment recorded under Recording No. 495995, Records of Jefferson County, Washington.

Creekside II:

Resultant Parcel C of that Boundary Line Adjustment recorded under Recording No. 440088, Records of Jefferson County, Washington.

Falls Terrace:

Resultant Parcel A of that Boundary Line Adjustment recorded under Recording No. 495996, Records of Jefferson County, Washington.

Ludlow Cove II (a/k/a Tract E):

Tract E as depicted on the Plat of Ludlow Cove Division No. 1, Phase 1, recorded in Volume 8 of Plats, pages 1 through 6 inclusive, records of Jefferson County, Washington.



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EXHIBIT B

LEGAL DESCRIPTION OF OLYMPIC TERRACE II

Resultant Parcel B of that Boundary Line Adjustment recorded under Recording No. 495995, Records of Jefferson County, Washington.



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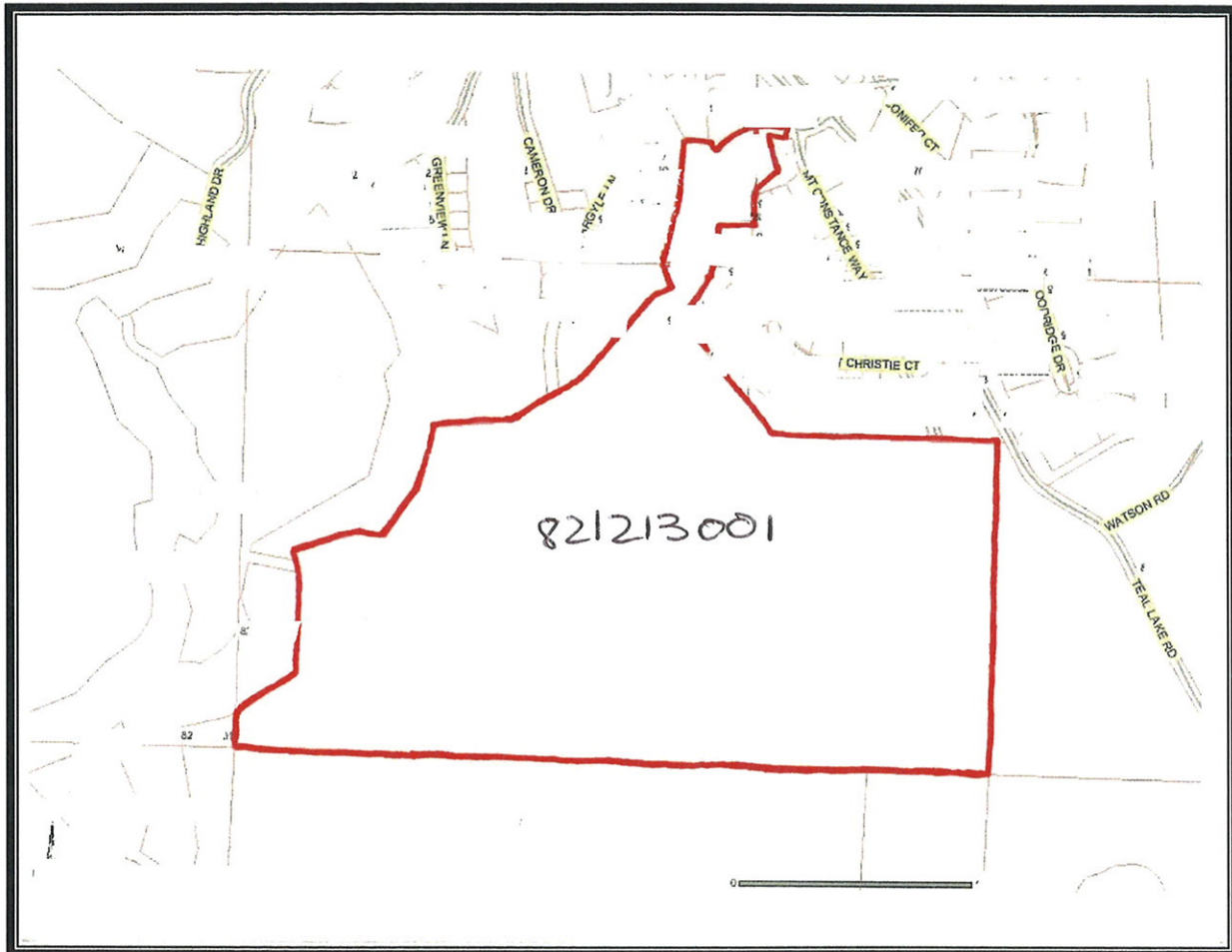
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EXHIBIT C

DRAWING

OLYMPIC TERRACE II



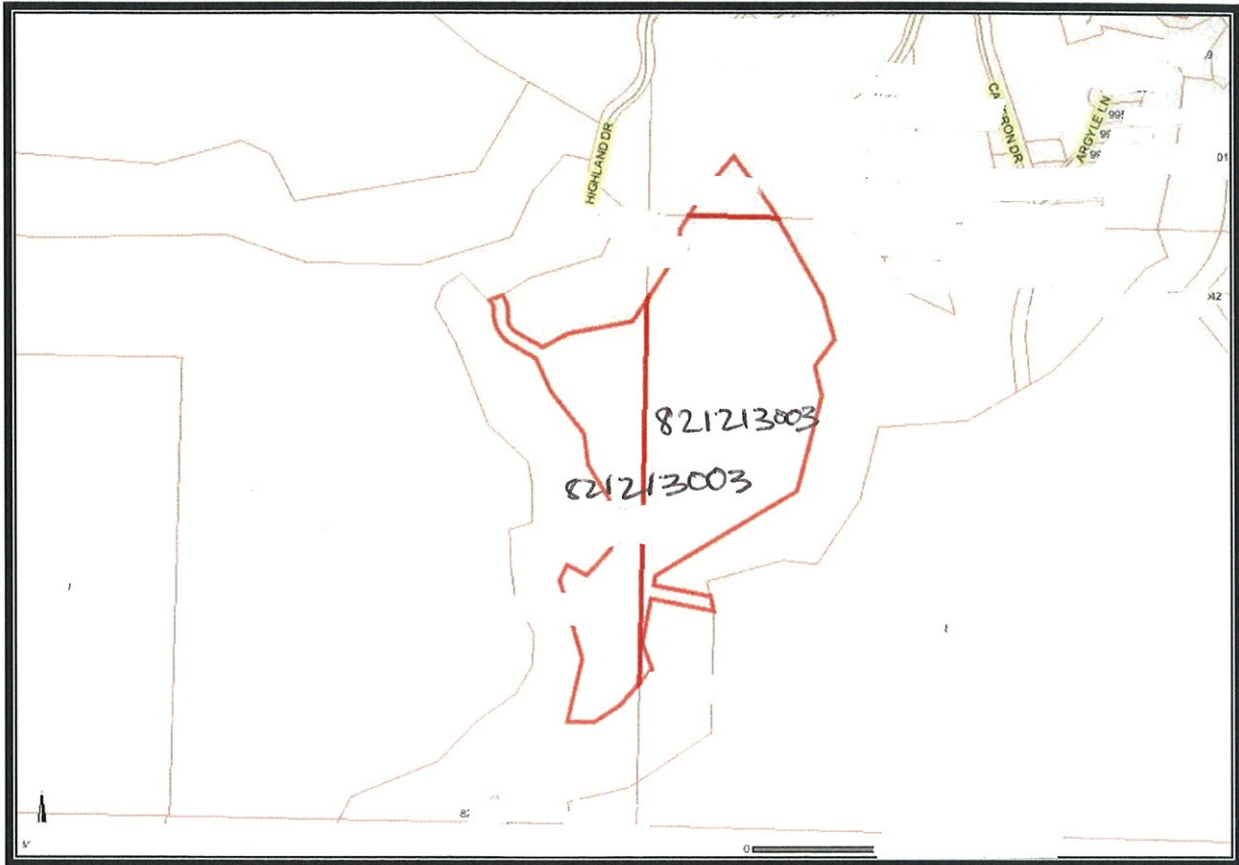


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IRONWOOD





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CREEKSIDE II



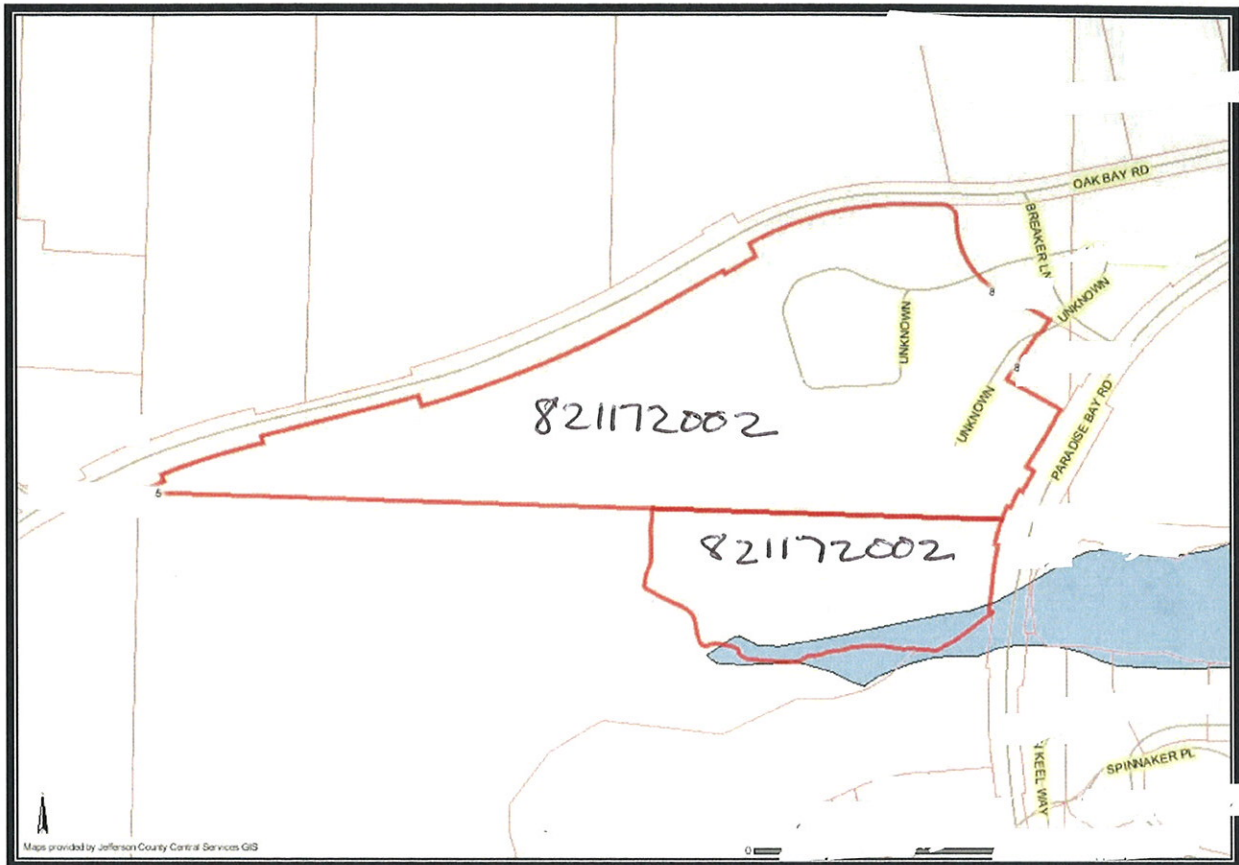


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FALLS TERRACE





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LUDLOW COVE II (a/k/a TRACT E)





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BAY HOLLOW

