

JUL 29 1994

PORT OF SKAGIT COUNTY

LEASE AGREEMENT

9407290099

Amount Paid
By Skagit Co. Treasurer
Deputy

This is a lease made and entered into this 28th day of July, 1994, by and between the PORT OF SKAGIT COUNTY, a Washington municipal corporation, hereinafter referred to as "Lessor", and MEL EDSTROM and TIMBERLINE FOREST PRODUCTS, INC., a Washington corporation, hereinafter referred to as "Lessee".

W I T N E S S E T H:

1. Property Subject to This Lease Agreement: In consideration of their mutual covenants, agreements and undertakings hereinafter contained, the parties hereto do mutually agree to that which is hereinafter set forth, upon and subject to the following terms, conditions, covenants and provisions:

a. Leased Premises: Lessor hereby leases to Lessee and Lessee hereby leases from Lessor, the following described premises, situated in the Bayview Business & Industrial Park within unincorporated Skagit County, Washington:

Lot No. 73, containing approximately 70,323.00 square feet (1.614 acres); Lot No. 74, containing approximately 89,322.00 square feet (2.051 acres); a portion of Lot No. 66, containing approximately 2,240 square feet (.051 acres); a portion of Lot No. 67, containing approximately 8,060 square feet (.185 acres); a portion of Lot No. 72, containing approximately 10,513 square feet (.241 acres), Port of Skagit County Binding Site Plan, and depicted on Exhibit "A" attached hereto, and hereinafter called the "premises".

The property referenced above is subject to restrictions, easements, and reservations of record. The Lessor reserves a non-exclusive easement over and across the property to provide ingress and egress to any and all such buildings and areas and other adjacent properties owned by Lessor. Lessor shall exercise said easement so as not to unreasonably interfere with Lessee's use of the property.

2. Condition of Property. Lessee accepts the property in its present condition and is not relying upon any covenants, warranties or representations of Lessor as to its condition or usability, except Lessor's right to grant a lease of the property.

3. Term. The term of this lease shall be for thirty (30) years, beginning July 28, 1994 through July 27, 2024, unless sooner terminated or further extended pursuant to any provision of this lease. Lessee has not secured necessary financing. Accordingly, on or before November 1, 1994, Lessee has the one time right to unilaterally terminate this lease by providing ten (10) days advance written notice to Lessor.

4. Rental. Lessee shall pay to Lessor an initial rent for the premises of Seven Hundred Seventy Six Dollars and seventy-six cents (\$776.76) per month, plus leasehold tax, payable monthly in advance in U. S. currency. Rental payments will commence upon issuance of Certificate of Occupancy or on February 1, 1995, whichever occurs first.

5. Option to Extend. Lessee is granted the right to extend this lease for two (2) consecutive ten (10) year option periods by giving written notice of said intention to Lessor not less than ninety (90) days prior to the expiration of the initial term or any extended term, conditioned upon the fact that all

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terms, covenants and conditions of the initial or extended term have been fully met and fulfilled. All terms and conditions of the initial term shall continue with the exception that the rental shall be adjusted as herein provided.

6. Periodic Rental Adjustments. Rental shall be adjusted at the end of each three (3) year period of the lease term, or any extended term. No adjusted rental shall be less than the rental being adjusted. The date of any such change in rental is called the "Change Date", as defined in paragraph 7 of this lease.

7. Procedure to Determine Adjusted Rental.

a. Definitions: The adjusted rental rate(s) shall be determined in accordance with the formula set forth below. In applying the formula, the following definitions apply:

i. "Bureau" means the U.S. Department of Labor, Bureau of Labor Statistics or any successor agency.

ii. "Change Date" herein shall initially be the commencement date of this lease, and thereafter the first day of the month following each 36 month period of this lease or any extension thereof as herein provided.

iii. "Price Index" means the U.S. City Average Consumer Price Index for all Urban Consumers issued from time to time by the Bureau, or any other measure hereafter employed by the Bureau in lieu of the price index that measures the cost of living nationally or if said Bureau should cease to issue such indices and any other agency of the United States should perform substantially the same function, then the indices issued by such other agency.

b. Formula: The rental rate(s) being adjusted shall be multiplied by a multiplier equal to the change in the Price Index computed as follows: (Rental being adjusted) times (Price Index for the most recent month divided by the Price Index for the month of the most recent Change Date in rental). The Price Index in effect at the commencement of this lease is 147.5 for the month of May, 1994.

8. Security for Rent. To secure the rent hereunder, Lessee agrees to furnish, in form and content satisfactory to Lessor, rental insurance, bond or other security to the Lessor in an amount equal to one (1) year's rental.

9. Hold Harmless Provisions, Liability and Indemnity. The Lessor, its officers, employees and agents, shall not be liable for any injury (including death) or damage to any persons or to any property sustained or alleged to have been sustained by the Lessee or by others as a result of any condition (including existing or future defects in the premises), or occurrence whatsoever related in any way to the premises or related in any way to the Lessee's use of the premises or Lessee's performance under this lease, except to the extent of such damage caused by negligence of the Lessor. Lessee agrees to defend and hold and save the Lessor, its officers, employees and agents, harmless from any and all liability or expense (including expense of litigation) in connection with any such items of actual or alleged injury or damage. In addition, the Lessee shall, at its own expense, maintain throughout the term of this lease, proper liability insurance with a reputable insurance company or companies satisfactory to the Lessor in the minimum of \$500,000.00 single limit liability, including fire legal liability and a comprehensive general liability broadening endorsement (and hereafter in such increased amounts to be comparable and consistent with the going or standard coverage in the area for comparable business operations), to indemnify both the Lessor and Lessee against any such liability or expense. The Lessor shall be named as one of the insureds, and shall be furnished a copy of such policy or policies of insurance or certificate of such insurance

coverage by the Lessor, or both, at the Lessor's election. Each certificate of insurance shall provide that the insurance policy or policies are not subject to cancellation without at least thirty (30) days advance written notice of such cancellation having been first given to the Lessor.

10. Business Purpose and Type of Activity. It is understood and agreed that Lessee intends to erect structures and improvements upon the premises for the purpose of operating a remanufacturing wood products facility, and to conduct such other activities incidental and related thereto. It is further understood that the above activities are the only types of activities to be conducted upon the premises. Failure to perform the above type of business or cessation of such business or carrying on of other activities without first obtaining a lease modification with Lessor's written approval of such other activities shall constitute a default by Lessee of this lease.

11. Construction of Improvements. Lessee intends to construct improvements on the premises, at Lessee's cost. Lessee will not commence construction of any improvements without prior written consent of Lessor. Lessee shall submit to Lessor all plans and specifications relating to such construction of improvements, in accordance with Lessor's Bayview Business and Industrial Park Development Standards. Lessee shall comply with all regulations of federal, county, and state governments in the construction of all improvements.

12. Disposition of Improvements at End of Lease. Lessee shall have the right to remove all buildings, equipment, personal property and trade fixtures which may have been placed upon the premises by Lessee during the period of this lease, provided that the same are removed upon conclusion of the lease and that the lease is in good standing. Any such equipment, personal property and trade fixtures not removed from the premises by the conclusion of the lease shall revert to Lessor. All other improvements shall become the property of the Lessor. If Lessee does not remove all buildings, equipment, personal property and trade fixtures which have been placed on the premises by Lessee during the period of this lease and Lessor wants the property removed, then same shall be removed and stored at Lessee's expense and Lessor shall recover any costs and expenses from the Lessee resulting from the removal. Following removal of said described property, the premises shall then be restored by Lessee to a condition requiring Lessor to only undertake normal excavation for construction of a new building, or to such other condition satisfactory to Lessor prior to termination of this lease.

13. Off Street Parking. Lessee agrees to provide space for the parking of vehicles in the number necessary to comply with zoning and development/land use plan requirements on property included within this lease; and not to use any public streets, rights of way or other properties not included in this lease for the parking of said vehicles.

14. Lessee Will Obtain Permits. Lessee agrees to obtain and comply with all necessary permits for the operation and conduct of Lessee's business and construction of any leasehold improvements. If Lessee fails to obtain and comply with such permits, then Lessee accepts full responsibility for any and all costs incurred by the Lessor, including actual attorney's fees, occasioned by Lessee failing to obtain and/or comply with such permits. Lessee agrees to hold the Lessor harmless from any liability and to fully reimburse expenses of the Lessor for Lessee's failure to obtain and/or fully comply with any necessary permit.

15. Maintenance of Facilities. Lessee shall be responsible for all maintenance and/or repair of the leased premises and all improvements thereon. The premises shall be maintained in such condition so as not to create a hazard nor be unsightly, and shall at all times conform to existing laws.

16. Utilities. Lessee agrees to pay for all public utilities which shall be used in or charged against the premises, and to hold the Lessor harmless from such charges.

17. Advertising and Signs. No signs or other advertising matter, symbols, canopies or awnings shall be installed, attached to or painted on the premises without the prior written approval of the Lessor's Executive Director.

18. Liens and Insolvency. Lessee shall keep the leased premises free from any liens arising out of work performed, materials furnished, or obligations incurred by Lessee. In the event Lessee becomes insolvent, voluntarily or involuntarily bankrupt, or if a receiver, assignee or other liquidating officer is appointed for the business of the Lessee, then the Lessor may cancel this lease at Lessor's option.

19. Taxes. Lessee shall be liable for, and shall pay throughout the term of this lease, all license fees and excise taxes payable for, or on account of, the activities conducted on the premises and all taxes on the property of Lessee on the premises and any taxes on the premises and/or on the leasehold interest created by this lease and/or any taxes levied in lieu of a tax on said leasehold interest and/or any taxes levied on, or measured by, the rental payable hereunder, whether imposed on Lessee or on the Lessor. With respect to any such taxes payable by the Lessor which are on or measured by the rent payments hereunder, Lessee shall pay to the Lessor with each rent payment an amount equal to the tax on, or measured by, that particular payment. All other tax amounts for which the Lessor is or will be entitled to reimbursement from Lessee shall be payable by Lessee to the Lessor at least fifteen (15) days prior to the due dates of the respective tax amounts involved; provided, that Lessee shall be entitled to a minimum of ten (10) days written notice of the amounts payable by it.

20. Laws and Regulations. The Lessee agrees to conform to and abide by all lawful rules, codes, laws and regulations of the United States, the State of Washington, and any municipality or agency of any of said entities, including rules and regulations of Lessor, where applicable to the Lessee's use and operation of said premises, including the construction of any improvements thereon, and not to permit said premises to be used in violation of any said rules, codes, laws or regulations.

21. Alterations. Lessee shall not make alterations to the leased premises without first obtaining the written consent of the Lessor.

22. Commit No Waste. Lessee agrees not to allow conditions of waste and refuse to exist on the premises and to keep the premises in a neat, clean, and orderly condition and to be responsible for all damages caused to the premises by Lessee, its agents or any third party.

23. Costs and Attorneys' Fees. In the event it is necessary for either party herein to bring an action to enforce the terms, conditions or covenants of this lease, then the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements.

24. Equal Opportunity. Lessee agrees that in the conduct of activities on the premises it will be an equal opportunity employer in accordance with Title 6 of the 1964 Civil Rights Act.

25. Termination. Upon termination of this lease or any extension thereof, whether by expiration of the stated term or sooner termination thereon as herein provided, Lessee shall surrender to Lessor said premises peaceably and quietly and in the condition required under paragraph 12 herein.

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26. Default and Re-Entry. Time is of the essence of this agreement. (i) If (a) any rent or other payment due from Lessee hereunder remains unpaid for more than ten (10) days after the date it is due; (b) Lessee files a voluntary petition in bankruptcy or makes a general assignment to the benefit of, or a general arrangement with, creditors; (c) there is an involuntary bankruptcy filed against Lessee that has not been dismissed within thirty (30) days of filing; (d) Lessee becomes insolvent; or (e) a receiver, trustee, or liquidating officer is appointed for Lessee's business; or (ii) If Lessee violates or breaches any of the other covenants, agreements, stipulations or conditions herein, and such violation of breach shall continue for a period of thirty (30) days after written notice of such violation or breach is sent to Lessee, then Lessor may at its option, declare this lease forfeited and the term hereof ended, or without terminating this lease elect to re-enter and attempt to relet, in which event Lessee authorizes Lessor to relet the premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this lease) and at such rental or rentals and upon such other terms and conditions as Lessor in its sole discretion deems advisable. Upon each such reletting, all rentals received by Lessor from such reletting shall be applied, first, to the payment of any amounts other than rent due hereunder from Lessee to Lessor; second, to the payment of any costs and expenses of such reletting and renovation, including brokerage fees and attorneys' fees; third, to the payment of rent due and unpaid hereunder, and the residue, if any shall be held by Lessor and applied to payment of future rent as the same may become due and payable hereunder. If rental received from such reletting during any month are less than that to be paid during that month by Lessee hereunder, Lessee shall pay any such deficiency to Lessor, and Lessee covenants and agrees to pay Lessor for all other expenses resulting from its default, including, but not limited to, brokerage commissions, attorneys fees and the reasonable cost of converting the premises for the benefit of the next Lessee. Delinquent rental and other payments shall bear interest at the rate of twelve percent (12%) per annum from the date due until paid. In the event of any default hereunder and entry in, or taking possession of, the premises, Lessor shall have the right, but not the obligation, to remove from the premises all personal property located therein, and may store the same in any place selected by Lessor, including but not limited to a public warehouse, at the expense and risk of the owners thereof, with the right to sell such stored property, without notice to Lessee, after it has been stored for a period of thirty (30) days or more, with the proceeds of such sale to be applied to the cost of such sale and to the payment of charges for storage, and to the payment of any other sums of money which may then be due from Lessee to Lessor under any of the terms hereof.

27. Assignment and Sublease. Lessee shall not, by operation of law or otherwise, assign or sublease any portion of the premises without Lessor's prior written consent. The consent of Lessor to any assignment or sublease shall not in any manner be construed to relieve Lessee from obtaining Lessor's express written consent to any other or further assignment or sublease.

Lessor may deny consent to any assignment or sublease, or may condition consent to assignment or sublease upon, but not limited, to the following factors:

- a. Financial responsibility of assignee.
- b. Whether the intended use of the premises by assignee is consistent with applicable zoning and the development and land use plan of the Lessor.

Any assignee or sublessee of any portion of the premises shall expressly assume, and by reason of such assignment or sublease shall be considered as having assumed, and become bound to all of Lessee's obligations hereunder.

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The sublease of Lessee's interests in this lease shall not in any manner release Lessee from payment of rent or the performance of the covenants herein contained, or from any of the terms of this lease.

Lessee and assignee shall execute a Consent to Assignment, in a form satisfactory to Lessor. Such Consent is subject to approval by the Lessor.

28. Lessor's Right to Enter Premises. Lessor and/or its authorized representatives shall have the right to enter the premises at all reasonable times for any of the following purposes:

- a. To determine whether or not the premises are in good condition or whether the Lessee is complying with its obligations under this lease;
- b. To do any necessary maintenance and to make any restoration to the premises that the Lessor has the right or obligation to perform;
- c. To post "For Rent" or "For Lease" signs during any period that the Lessee is in default;
- d. To repair, maintain or improve the premises; and
- e. To do any other act or thing necessary for the safety or preservation of the premises.

Lessor shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance, or other damage arising out of the Lessor's entry onto the premises as provided in this paragraph. Lessor shall conduct its activities on the premises as provided herein in a manner that will cause the lease inconvenience, annoyance or disturbance to the Lessee.

29. Right of Quiet Enjoyment. Lessor acknowledges that it has ownership of the premises heretofore described and that it has the legal authority to lease said premises unto Lessee. Lessor covenants that Lessee's right of occupancy shall not be disturbed during the term of this lease so long as the terms are complied with by Lessee and subject to the provisions of paragraph 28.

30. Time is of the Essence. It is mutually agreed and understood that time is of the essence of this lease and that a waiver of any default of Lessee shall not be construed as a waiver of any subsequent default, and that any notice required to be given under this lease may be given by United States Mail addressed to the party identified in paragraph 34 of this lease.

31. Waiver of Subrogation. Lessor hereby releases Lessee from any and all right, claim and demand that Lessor may hereafter have against Lessee, or Lessee's successors or assigns, arising out of or in connection with any loss or losses occasioned by fire and such items as are included under the normal extended coverage clauses of fire insurance policies, and does hereby waive all rights of subrogation in favor of insurance carriers against Lessee arising out of any losses occasioned by fire and such items as are included under the normal extended coverage clauses of fire insurance policies and sustained by Lessor in or around the premises. Lessee hereby releases Lessor from any and all right, claim and demand that Lessee may hereafter have against Lessor or Lessor's successors or assigns, arising out of or in connection with any loss or losses occasioned by fire and such items as are included under the normal extended coverage clauses of fire insurance policies, and does hereby waive all rights of subrogation in favor of insurance carriers against Lessor arising out of any losses occasioned by fire and such items as are included under the normal extended coverage clauses of fire insurance policies and sustained by Lessee in or around the premises. The waivers provided for in this paragraph shall be applicable and effective only in the event such waivers are obtained from the insurance carriers concerned.

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32. Federal Aviation Administration Requirements.

Lessee agrees:

- a. To prevent any operation on the leased premises which would produce electromagnetic radiations of a nature which would cause interference with any existing or future navigational aid or communication serving Skagit Regional Airport, or which would create any interfering or confusing light or in any way restrict visibility at the Airport.
- b. To prevent any use of the leased premises which would interfere with landing or taking off of aircraft at Skagit Regional Airport, or otherwise constitute an airport hazard.

33. Retention of Airspace Rights by Lessor. Lessor retains the public and private right of flight for the passage of aircraft in the airspace above the surface of the premises hereinbefore described, together with the right to cause in said airspace such noise as may be inherent in the operation of aircraft, now known or as hereinafter used, for navigation of or flight in said airspace and for use of said airspace for taking off from, landing on or operating at Skagit Regional Airport.

34. Notices. All notices or payment hereunder may be delivered or mailed. If mailed, they should be sent to the following respective addresses:

LESSOR:

Port of Skagit County
P. O. Box 348
Burlington, WA 98233

LESSEE:

Timberline Forest Products, Inc.
1156 Water Tank Road
Burlington, WA 98233

35. Lessee's Fire Insurance Coverage. Lessee shall at Lessee's expense maintain on all of Lessee's personal property and leasehold improvements and alterations on the premises, a policy of standard fire insurance, with extended coverage in the amount of their replacement value.

36. Bayview Business and Industrial Park Covenants, Ordinances and Regulations. Lessee understands that the area leased is within the Lessor's Bayview Business and Industrial Park, situated in Industrial Development District No. 1. Lessor has or may promulgate and adopt ordinances, regulations and covenants for the orderly care, maintenance, development and control of all property within said district and all Lessee's use thereof. Lessee agrees to comply with such covenants, ordinances and regulations in force as of the date of this lease and all other covenants, ordinances and regulations which may be promulgated by Lessor.

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37. Validation. IN WITNESS WHEREOF, Lessor has caused this instrument to be signed by its President and Secretary, on the date and year first above written.

LESSOR:

PORT OF SKAGIT COUNTY

Thomas F. Perkins
Thomas F. Perkins, Commission President

John E. Henriot
John E. Henriot, Commission Secretary

LESSEE:

MEL EDSTROM AND TIMBERLINE
FOREST PRODUCTS, INC.

Mel Edstrom
Mel Edstrom, Individually

Mel Edstrom Pres.
Mel Edstrom, Its President

STATE OF WASHINGTON)
COUNTY OF SNOWHISH) SS

On this 27th day of July, 1994, before me personally appeared Mel Edstrom, to me known to be the President of the corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument and that the seal affixed, if any, is the corporate seal of said corporation.

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

(Signature)

Diana R. Osborne

(Print Name)

NOTARY PUBLIC in and for the State of
residing at Everett

My appointment expires: 1-30-98

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STATE OF WASHINGTON)
) SS
COUNTY OF SNOHOMISH)

On this 27th day of July, 1994, before me, the undersigned Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Mel Edstrom, to me known to be the individual described in and who executed the within instrument and acknowledged he signed and sealed the same as his free and voluntary act and deed for the uses and purposes herein mentioned.

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

Diana R. Osborne

(Signature)

Diana R. Osborne

(Print Name)

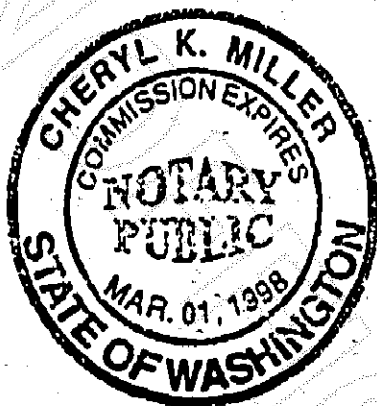
NOTARY PUBLIC in and for the State of WASH.
residing at Everett

My appointment expires: 1-30-98

STATE OF WASHINGTON)
) SS
COUNTY OF SKAGIT)

On this 28th day of July, 1994, before me, the undersigned Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Thomas F. Perkins and John E. Henriot to me known to be the President and Secretary, respectively, of the Port Commission of the PORT OF SKAGIT COUNTY, a municipal corporation, the corporation that executed the foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were duly authorized to execute the same and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal hereto the day and year in this certificate first above written.



Cheryl K. Miller

(Signature)

CHERYL K. MILLER

(Print Name)

NOTARY PUBLIC in and for the State of Washington
residing at Bellingham

My appointment expires: 3/1/98

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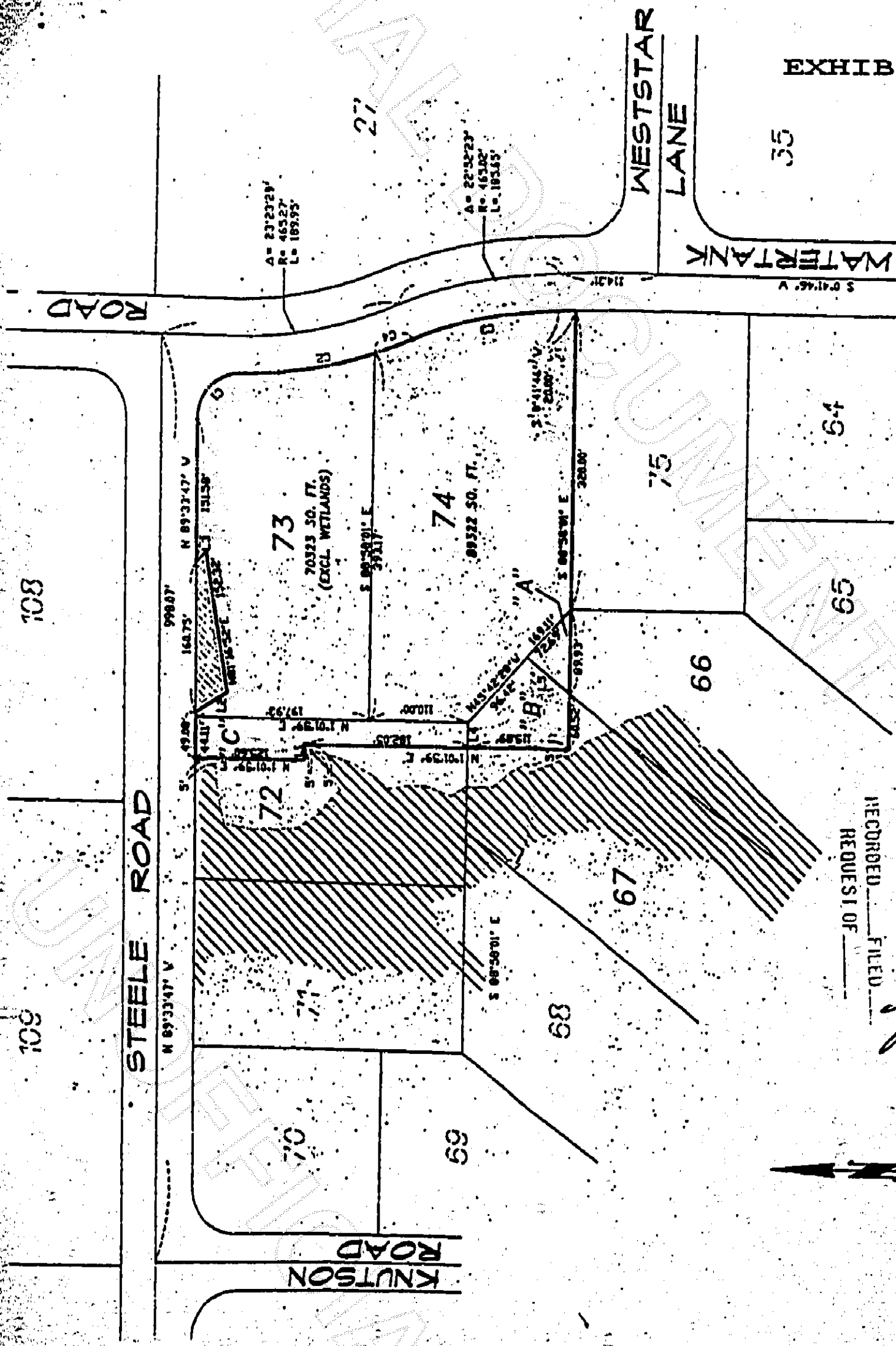


EXHIBIT "A"

AREA SUMMARIES

PARCEL "A" = 2,240 SQ. FT. LOT 74 = 89,322 SQ. FT.
PARCEL "B" = 8,060 SQ. FT. LOT 75 (EXCL. WETLANDS) =
PARCEL "C" = 10,513 SQ. FT. 70,323 SQ. FT.

JERRY MCINTURFF
SKAGIT COUNTY AUDITOR

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RECORDED _____ FILED _____
REQUEST OF _____

