



200803110144

Skagit County Auditor

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FARM LEASE

THIS FARM LEASE AGREEMENT is entered into on the date set forth below, by and between HARVEY SCALF, (hereinafter referred to as "lessor") and KNUTZEN FARMS LP., a Washington Corporation, (hereinafter referred to as "lessee").

RECITALS

In consideration of the promises and of the mutual agreement hereinafter set forth, the parties agree as follows:

1. **DESCRIPTION OF PREMISES:** Upon the terms and conditions herein specified, lessor leases to lessee and lessee leases from lessor, to be used for agricultural and related purposes, the following described property, located in Skagit County, Washington, herein referred to as the farm, particularly described on Exhibit A attached hereto. P38362 34-35-4
2. **TERM:** The term of this lease shall begin on the 1st day of January, 2008 and end on the 31st day of December, 2010.
3. **RENT:** The total annual rent shall be Three Thousand Three Hundred Twenty-five Dollars (\$3,325.00) which lessee agrees to pay lessor at the address set forth below, or at such other place or places as lessor may from time to time designate. Said rent shall be paid in two installments as follows: The sum of One Thousand Six Hundred Sixty-Two Dollars (\$1,662.00) on the 15th day of April and on the 15th day of October. The total amount of the lease equals One Hundred Seventy-Five Dollars (\$175) per acre for a total acreage of Nineteen (19) acres. Failure to pay rent on time will cause interest to accrue at One percent (1%) per month, (Twelve percent (12%) per annum) compounded.
4. **PERMISSIBLE USES:** All premises are leased to lessee for the purpose of producing crops. All operations in furtherance of the use or uses and purpose or purposes for which the premises are leased, shall be carried on and conducted in an efficient and husbandlike manner and in accordance with the best practices and husbandry generally employed and practiced in the area. Lessee shall not use or permit to be used, the leased premises, or any part thereof, for any purpose to use other than those for which the premises have been leased, and in the manner provided herein, unless otherwise from time to time mutually agreed by lessor or lessee.
5. **WASTE:** Lessee shall not commit waste on, or damage to, the premises, and will use due care to prevent others from so doing; nor shall lessee commit a nuisance on the premises, or permit others to do so; nor shall lessee itself use the premises for any unlawful purpose, nor allow any person to do so.
6. **DUTIES OF LESSEE TO REPAIR:** Lessee shall keep the premises, including buildings, fences and other improvements, the approaches to and appurtenances of the farm in as good repair and condition as when received, and in as good repair and condition as they may be put during the term of the lease, ordinary wear and tear excepted.

7. **WATER RIGHTS:** Water for farm operations obtained by lessee under lessor's water rights (however acquired by lessor) shall be used only on the premises and in the pursuit and performance of lessee's operations and obligations under the lease. No water shall be used upon or be exported to other lands without the written consent of lessor first had and obtained. Lessor assumes no responsibility to lessee for any water shortage from the source or sources of water under lessor's water rights, or from any source whatsoever; nor does lessor warrant the quality or quantity of water obtained from any source or sources. Lessee shall pay all acquisition, operation and maintenance, repair, diversion and dispersion costs and charges and/or water tolls connected with the use of water used on the farm for whatever purpose or purposes; provided, however, lessor shall pay all taxes and assessments properly levied on the premises.
8. **LESSOR'S RIGHT OF ENTRY:** Lessor reserves the right during the term of this lease, of itself, its agents, employees, or its assigns to enter upon the premises, and all parts thereof, at any reasonable time or times for the purpose of inspection, consultation with the lessee, making repairs or improvements, posting notices, and for all other lawful purposes whatsoever, provided, however, such entry by lessor shall not interfere with lessee carrying out regular farm operations that it shall, at the time, have the right to carry out and perform under the terms of this lease.
9. **LIABILITY OF LESSOR TO THIRD PERSONS:** Lessee agrees to hold lessor harmless and keep it free, during the term of this lease and all extensions thereof, from any and all liability and claim of damages arising out of injury to persons and property while in or upon the leased premises, or the approaches thereto, or resulting from livestock or other animals straying from said premises, or resulting from water or flood damage caused by improper, inadequate or defective canals and ditches, or works of whatsoever kind, or the negligent operation, maintenance, use, or handling thereof by whomsoever, said water damage occurring on or off the said leased premises.
10. **ASSIGNMENT OR SUBLETTING:** Lessee shall not assign this lease, or any interest thereon, nor sublet the premises, or any part thereof, without lessor's approval. Nor shall lessee, without the written consent of lessor, permit the premises, or any part thereof, to be occupied or possessed by any other person or persons, excepting, however, its agents and employees. Notwithstanding the foregoing, Lessee is permitted to trade acreage with another farmer but Lessee shall remain solely responsible for payment of rent and any damage to the property.
It is expressly provided that no right or interest of lessee in and to this lease shall be assignable by operation of law without the approval and consent of the lessor first obtained in writing. Lessor shall have the right to terminate this lease upon any unauthorized assignment or sublease, and declare this lease void and of no further force or effect.
11. **WAIVER BY LESSOR OF BREACH BY LESSEE:** The waiver by lessor of a breach of any covenant or condition in this lease shall not constitute a waiver of such covenant or condition, nor a waiver of a future breach of the same or any other covenant or condition of this lease; and the acceptance of rent by the lessor, with or without knowledge of a previous breach, shall not be deemed a waiver of a previous breach or breaches, by the lessee of any covenant or condition contained in this lease, other than the one for which payment is so accepted.

12. **LESSOR'S REMEDIES ON DEFAULT BY LESSEE:** Lessee agrees that in the event it should be in default of the performance of any of the terms, covenants, and/or conditions of this lease, or have otherwise breached the same, lessor may in addition to every remedy now or hereafter available to it at law or in equity have the rights and remedies herein set forth and the same shall be deemed cumulative and not exclusive of those available to it at law or equity.

Lessor shall have the right to reenter the premises without effecting thereby the termination of this lease, by giving lessee lawful notice of such intention. Lessor, either before or after reentry, may, after giving 30 days written notice to lessee, if it can be located, terminate lessee's account under the terms and conditions herein below provided; if lessee cannot with reasonable diligence be located within 14 days after abandonment of the premises by it, lessor may make its election without notice to lessee, or by such substituted notice as the law shall provide or allow.

Lessor shall have the right to own and possess at its election all crops both harvested and unharvested; the right to remove all property and persons from the premises; the right to store in a public warehouse at lessee's expense, all property so removed. At its election, lessor may terminate this lease, or, without terminating it, relet the premises or any part thereof, upon such terms and conditions, and at such rental as to it may seem advisable, and from time to time. The term of such reletting may be for a term beyond the term of this lease.

Lessor shall have the right to, at lessee's expense, alter said premises, or any part thereof, and put the premises in good condition and repair.

Upon such reletting, lessor may elect: (1) to hold lessee immediately liable to it (a) for its expenses of reletting, altering, and repairing the premises; (b) for the amount by which the rent reserved in this lease for a period of reletting (not exceeding the term of this lease, however) exceeds the amount agreed to by the new lessee, or lessees, to be paid as rent for the relet premises; and (c) for all indebtedness due under this lease; or, (2) to apply the periodic rents received by it (a) first, to and indebtedness (other than rent) due from lessee to itself; (b) second, to the payment of expenses incurred by it in repairing and altering the premises, and in reletting the same; and (c) third, to the payment of rent due under this lease as it shall become due and payable hereunder.

If the rent payments due from the reletting of the premises are not paid at the time they become due and payable by the Lessee holding under the reletting, or are, for any reason, insufficient to pay the rent of this lease, lessee shall immediately pay to lessor the total deficiency ascertained to be due under the provisions of (1) above; or pay to the lessor the deficiency for the period in which it occurs, under the provisions of (2) above.

13. **ATTORNEYS' FEES:** In the event that it is necessary for either of the parties herein to bring an action to enforce the terms, conditions or covenants of this lease agreement, then the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements.



14. **NOTICES, DEMANDS AND REQUESTS:** All notices demands, and requests that may or are required to be given by either party to the other shall be in writing. All notices, demands and requests by one party may be personally served on the other or may be sent by United States registered or certified mail, postage prepaid, addressed as set forth below.
15. **BINDING EFFECT:** Subject to the restrictions on assignment herein set forth, this lease and the terms, conditions and provisions hereof shall inure to and be binding on the respective heirs, personal representatives and assigns of the parties respectively.
16. **TIME IS OF THE ESSENCE:** Time is of the essence of this Agreement.
17. **EFFECT OF PARTIAL INVALIDITY:** The invalidity of any portion of this lease will not and shall not be deemed to affect the validity of any other provision. In the event any provision of this lease is held to be invalid, the parties agree that the remaining provisions shall be deemed to be in full force and effect as if they had been executed by both parties subsequent to the expungement of the invalid provision.
18. **ENTIRE AGREEMENT/MODIFICATION:** This written Agreement constitutes the entire and complete Agreement between the parties hereto and supersedes any prior oral or written agreements between the parties with respect to the transaction contemplated herein. It is expressly agreed that there are no verbal understandings or agreements which in any way change the terms, covenants, and conditions herein set forth, and that no modification of this Agreement and no waiver of any of its terms or conditions shall be effective unless made in writing and duly executed by the parties hereto.
19. **LAW AND VENUE:** This Agreement shall be interpreted under the laws of the State of Washington and the parties agree that Skagit County shall be the sole jurisdiction over any question, claim, loss or injury arising hereunder.
20. **INTERPRETATION/CONSTRUCTION:** Both parties acknowledge that they have had the opportunity to have this Agreement reviewed by independent counsel of their choice, and have been advised to do so. Therefore, no interpretation or construction shall be made with respect to this Agreement, based on which party drafted the Agreement.
21. **FIRST RIGHT OF REFUSAL FOR SALE:** The Lessor hereby grants to the Lessee the first right to purchase the property legally described on Exhibit A upon the same terms as those of a third party offer. Lessee shall exercise this right in writing within fourteen (14) days of receiving written notice from Lessor that they are accepting an offer from a third party. Lessor shall provide Lessee with a copy of the offer to be accepted with the written notice. The parties agree that a sale under a mortgage foreclosure, tax foreclosure, tax foreclosure, lien foreclosure or any transfer (including by not limited to gifts or exchange) will trigger Lessee's first right of refusal. In addition, if an exchange of property is proposed by a third party offer, then the property being exchanged shall be valued and the Lessee shall have the right to purchase the property for this price on all cash at closing terms. The term of this first right of refusal shall be for as long as Lessee rents the property and is not assignable by Lessee. If the Lessee chooses to exercise this first right of refusal, the Lessor agrees to convey the above described real property free



and clear of all taxes, assessments, liens, encumbrances and charges to the date of closing of the sale of the property, except that it is agreed that all taxes and special assessments accruing for the calendar year in which the date of closing of the purchase under this first right of refusal shall fall, shall be prorated as follows: the Lessor (Sellers) shall be liable for the same proportion of such taxes as the part of the calendar year prior to the date of closing bears to the whole of such calendar year and the Lessee (Purchaser) shall be liable for the remainder of such taxes and all subsequent taxes. Lessor promises to give marketable title to the real property and to convey the same by a Statutory Warranty Deed.

- 22 **FIRST RIGHT OF REFUSAL FOR LEASE:** The Lessor hereby grants to the Lessee the first right to lease the property legally described on Exhibit A upon the same terms as those of a third party lease offer. Lessee shall exercise this right in writing fourteen (14) days of receiving written notice from Lessor that they are accepting a lease offer from a third party. Lessor shall provide Lessee with a copy of the lease offer to be accepted with the written notice.

LESSOR:

HARVEY SCALF

Harvey E. Scalf

Lessor's Address

941 Digby Lane
Mt. Vernon, WA 98273

LESSEE:

KNUTZEN FARMS, LP

By: *R. Kraig Knutzen*

R. KRAIG KNUTZEN, President of
Triple K Holdings Corporation,
General Partner

9255 Chuckanut Drive
Burlington, WA 98233

12-10-07

Date

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX

MAR 11 2008

Amount Paid \$ 0
Skagit Co. Treasurer
By *mam* Deputy

12-10-07

Date



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STATE OF WASHINGTON)
)
COUNTY OF SKAGIT)

ss

On this day personally appeared before me, HARVEY SCAIF
to me known to be the individual described in and who executed the within and
foregoing instrument, and acknowledged that they signed the same as their free and
voluntary act and deed for the uses and purposes therein mentioned.

GIVEN under my hand and official seal this 10 day of December, 2007.

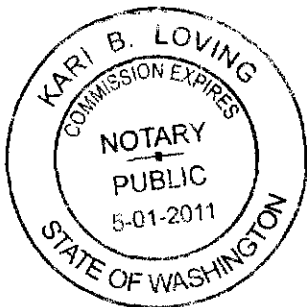


KARI B. LOVING
(Notary's printed name)
Kari B. Loving
NOTARY PUBLIC in and for the
State of Washington
Residing at: BURLINGTON
My Commission expires: 5-1-2011

STATE OF WASHINGTON)
) ss.
COUNTY OF SKAGIT)

On this day personally appeared before me R. KRAIG KNUTZEN, President of
TRIPLE K HOLDINGS CORPORATION, to me known to be the General Partner of
KNUTZEN FARMS, LP, a Washington Limited Partnership, and acknowledged the said
instrument to be the free and voluntary act and deed of said General Partner for the uses
and purposes therein mentioned, and on oath stated that R. KRAIG KNUTZEN was
authorized to execute said instrument on behalf of said Limited Partnership.

GIVEN under my hand and official seal this 10 day of December, 2007.



KARI B. LOVING
(Notary's printed name)
Kari B. Loving
NOTARY PUBLIC in and for the
State of Washington
Residing at: BURLINGTON
My Commission expires: 5-1-2011



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Exhibit A: Legal Description

Legal Description Abbreviation Definitions

O/S#183 AF#750942 1973; INCLUDING MANUFACTURED HOME 2005 FLEETWOOD AMERICANA 70X27 SERIAL NUMBER 0RFL54830637AE13; THE WEST 20 RODS OF THE SOUTHEAST QUARTER OF THE SOUTHWEST QUARTER; AND ALSO EXCEPT THE NORTH 155 FEET OF THE NORTH 80 FEET (ALSO KNOWN AS TRACT 1 OF SKAGIT COUNTY SHORT PLAT NUMBER 50-74); AND ALSO EXCEPT FOR THE FOLLOWING DESCRIBED PARCEL: BEGINNING AT THE SOUTHEAST CORNER OF TRACT A OF SKAGIT COUNTY SHORT PLAT NUMBER 7-72, APPROVED MARCH 7, 1972, (BEING LOCATED IN THE SOUTHWEST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 27, TOWNSHIP 35 NORTH, RANGE 4 EAST, W.M.); AND RUNNING THENCE NORTH 89 DEGREES 51'07" EAST ALONG THE EASTERLY CONTINUATION OF THE SOUTH LINE OF SAID SHORT PLAT, A DISTANCE OF 97 FEET; THENCE NORTH 0 DEGREES 13'18" WEST, AND PARALLEL WITH THE EAST LINE AND OF SAID SHORT PLAT, A DISTANCE OF 180 FEET, MORE OR LESS, TO THE SOUTH LINE OF JAMES MCLENNIN ROAD; THENCE WEST ALONG THE SOUTH LINE OF MCLENNIN ROAD, A DISTANCE OF 17 FEET TO THE NORTHEAST CORNER OF TRACT 1, SKAGIT COUNTY SHORT PLAT NUMBER 50-74; THENCE SOUTH ALONG THE WEST LINE OF TRACT 1, AND THE CONTINUATION THEREOF, A DISTANCE OF 180 FEET, MORE OR LESS, TO THE SOUTHEAST CORNER OF TRACT A, SKAGIT COUNTY SHORT PLAT NUMBER 7-72, AND THE TRUE POINT OF BEGINNING

Legal Description Abbreviation Definitions

OPEN SPACE #183 #750942 1973 W 20 RDS OF NE1/4 OF NW1/4



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