



200307010093

Skagit County Auditor

7/1/2003 Page

1 of

28 11:17AM

COVER SHEET

RETURN TO:

Skagit State Bank

PO Box 285

Burlington WA 98233

104179
LAND TITLE COMPANY OF SKAGIT COUNTY

DOCUMENT TITLE(S) (or transactions contained herein):

Notice Of And Consent To Assignment of Lease & Copy Of DNR Lease #22 002695

REFERENCE NUMBER(S) OF DOCUMENTS ASSIGNED OR RELEASED:

|| ADDITIONAL REFERENCE NUMBERS ON PAGE ____ OF DOCUMENT.

GRANTOR(S) (Last name, first name and initials):

1. Tore Dybfest DBA Lighthouse Restaurant (Assignor)
- 2.
- 3.
- 4.

|| ADDITIONAL NAMES ON PAGE ____ OF DOCUMENT.

GRANTEE(S) (Last name, first name and initials):

1. Skagit State Bank (Assignee)
- 2.
- 3.
- 4.

|| ADDITIONAL NAMES ON PAGE ____ OF DOCUMENT.

LEGAL DESCRIPTION (Abbreviated; I.e., lot, block, plat or quarter, quarter, section, township and range):

Tr 7 Plat 18, LaConner tidelands & Ptn of Harbor Area Tr 2 Map of LaConner

|| ADDITIONAL LEGAL(S) ON PAGE ____ OF DOCUMENT.

ASSESSOR'S PARCEL/TAX I.D. NUMBER: 4 1290 180070 102; 4 1290 180070003; 4 123024 0000004

|| TAX PARCEL NUMBER(S) FOR ADDITIONAL LEGAL(S) ON PAGE ____ OF DOCUMENT.

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
JENNIFER M. BELCHER
Commissioner of Public Lands
Olympia, Washington 98504

NOTICE OF AND CONSENT TO ASSIGNMENT OF LEASE

NOTICE OF AND CONSENT TO ASSIGNMENT AGREEMENT NO. 22-002695

THIS AGREEMENT is made by and between TORE DYBFEST, d.b.a. LIGHTHOUSE RESTAURANT, an Individual Proprietorship, whose address is 512 S. 1st Street, LaConner, WA 98257 ("Assignor") and SKAGIT STATE BANK, a Washington Corporation, whose address is 301 E. Fairhaven, Burlington, WA 98233 ("Assignee").

BACKGROUND

A. Lease No. 22-002695 entered into on the 25th day of June, 1986 (the "Commencement Date"), by and between TORE DYBFEST, d.b.a. LIGHTHOUSE RESTAURANT as Lessee and the STATE OF WASHINGTON, acting through the Department of Natural Resources, as landlord ("State").

B. Assignor desires to assign and Assignee desires to assume the rights, duties, and liabilities of Lessee under the Lease. Assignor acknowledges the receipt and adequacy of consideration given by Assignee for this assignment. The Lease prohibits an assignment without State's consent. State is willing to give its consent based upon the assurances and agreements made in this Agreement.

THEREFORE, the parties agree as follows:

1. NOTICE OF ASSIGNMENT

Assignor gives notice of its intent to assign all of its rights, title, and interest as Lessee under the Lease to Assignee effective the 18th day of August, 2000 (the "Effective Date"), for the balance of the lease term as provided in the Lease.

2. ACCEPTANCE AND INDEMNIFICATION

Assignee gives notice of its intent to assume the obligations as Lessee under the Lease, and agrees to faithfully perform and discharge those obligations according to the terms of the Lease.

3. NO RELEASE

State is not releasing Assignor from fully performing the provisions of the Lease. Assignor remains liable to State to the same extent as if no assignment had been made.



4. MODIFICATION OF LEASE AT TIME OF ASSIGNMENT

Assignor agrees that State and Assignee may change, modify, or amend the Lease in any way, including the rent to be paid. The assignment and any modification or amendment to the Lease shall occur contemporaneously. Assignee acknowledges receipt of a copy of the Lease and any previous or contemporaneous amendments. Assignor acknowledges receipt of a copy of the amended Lease. Further assignments may be made, without notice to or consent of Assignor, and without in any manner releasing or relieving Assignor from liability under the Lease. Assignor shall remain liable under all the terms, covenants, and conditions of the Lease as originally executed to the end of the term of the Lease.

5. WARRANTIES


Assignor represents and warrants to State and to Assignee that (i) the Lease is in full force and effect; (ii) Assignor is not in default or breach of the Lease; (iii) Assignor has no knowledge of any claims, offsets, or defenses of any lessee under the Lease; (iv) rents due subsequent to this assignment have not been paid in advance by any lessee; and, (v) to the best of Assignor's knowledge, the property is in full compliance with all applicable federal, state, and local governmental permits, rules, ordinances, and laws. Assignor shall defend, indemnify and hold State harmless from any breach of the foregoing warranties and from any claims or causes of action, known or unknown, of Assignor that have or may arise from circumstances that precede this assignment.

6. NOTICE

Assignor instructs State to send all future notices to Assignee. Assignee has the obligation to keep Assignor informed about the activities on the property and Assignee's performance of its obligations under the Lease. Assignee shall send to Assignor copies of any notices it receives or sends to State. Assignor has the obligation to remain informed of Assignee's activities on the property, Assignee's performance of its obligations under the Lease, and Assignee's financial condition. State has no obligation to provide Assignor any notice or information concerning the Lease or Assignee and Assignor shall not rely on State to inform Assignor.

SKAGIT COUNTY WASHINGTON
REAL ESTATE EXCISE TAX

JUL 01 2003

Amount Paid \$
Skagit Co. Treasurer
By  Deputy



200307010093
Skagit County Auditor

THIS AGREEMENT requires the signature of all parties and is executed as of the date of the last signature below.

ASSIGNOR:

ASSIGNEE:

TORE DYBFEST, d.b.a. LIGHTHOUSE RESTAURANT, an Individual Proprietorship

SKAGIT STATE BANK, a Washington Corporation

By: *Tore Dybfest*
TORE DYBEEST

By: *Cheryl A. Bishop*
CHERYL BISHOP

Its: Individual Proprietor

Its: Co-Chief Executive Officer

Dated: *Sept 13, 2000*

Dated: *september 13, 2000*

CONSENT TO ASSIGNMENT BY STATE

In consideration of the foregoing, State consents to the Assignment of the Lease to Assignee. However, State expressly conditions this consent on the understanding that neither State's consent nor its collection of rent from Assignee shall be a waiver of the covenant against future assignments or subletting. Furthermore, State's acceptance of Assignee as Lessee shall not be construed as releasing Assignor from full performance of the provisions of the Lease. Except as set forth in this Agreement, no provision of this consent alters or modifies any of the terms and conditions of the Lease, including the requirement that the written consent of the State be obtained before any further assignment of the Lease or subletting of the property occurs.

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

By: *William J. Wallace*
WILLIAM J. WALLACE

Its: Northwest Region Manager

Dated: *September 29, 2000*



STATE OF WASHINGTON)

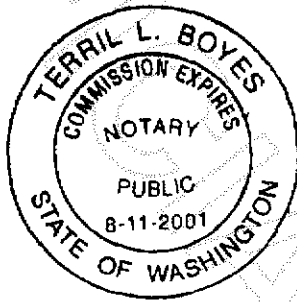
ss.

COUNTY OF)

I certify that I know or have satisfactory evidence that CHERYL BISHOP is the person who appeared before me, and is the Co-Chief Executive Officer of Skagit State Bank ("Assignee"). I further certify that said person acknowledged the foregoing instrument to be the free and voluntary act of the Tenant for the uses and purposes mentioned in the instrument, and on oath state that she is duly authorized to execute and acknowledge said instrument.

SEAL

DATED: September 13, 2000



Terril L. Boyes
Terril L. Boyes

(Type/Print Name)

Notary Public in and for the State of Washington
residing at: Mmve

My Commission Expires: 8-11-01



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STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
Brian J. Boyle
Commissioner of Public Lands
Olympia, Washington 98504

AMENDMENT TO LEASE NO. 22-002695

WHEREAS, the Lessor has established a new property value for use in determining lease rentals in the Town of LaConner and agreed to a revised method of applying the new property values; and the Lessor and the Lessee have agreed to a revised legal description of the leased property, the Lease will be amended to reflect the corrected square footage;

IT IS THEREFORE AGREED:

(1) Provisions 3.1 and 3.2 of Lease 22-002695 shall be amended and replaced as follows:

3.1 Rent

a. Annual Rent. Annual rent for the four year period of this Lease, commencing on June 25, 1990, is as follows: first year \$7,282.24, second year \$8,994.50, third year \$10,632.31, fourth year \$10,632.31. These rents and subsequent annual rent, as determined by the Lessor in accordance with Chapter 221, Laws of 1984 (RCW 79.90.450 - .902) or as amended by subsequent legislation, is due and payable in advance by the Lessee to the Lessor and is the essence of this Lease, and is a condition precedent to the continuance of this Lease or any rights thereunder. Payment is to be to the Department of Natural Resources, Olympia, Washington 98504.

3.2 Revaluation of Rent. On June 25, 1994, and at intervals of not less than four (4) years thereafter, a new annual rental will be established. The nonwater-dependent portion of the annual rental will be based on the Fair Market Value of the Property multiplied the Lessor's current capitalization rate for water-dependent uses as described in RCW 79.90.480(2). This provision has been negotiated by the Lessor and the Lessee in accordance with WAC 332-30-125(4) and recognizes the economic impact of the historic district designation and the maintenance costs associated with piling-supported structures. Consistent with RCW 79.90.500, however, the nonwater-dependent rent shall always be more than the amount that would be charged for a water-dependent use. The water-dependent portion of the annual rental fee will be revalued in accordance with RCW 79.90.480 or such other laws and regulations of the Department of Natural Resources as are now or hereinafter shall be applicable. The review of annual rental established under this subsection shall be conducted in accordance with WAC 332-30-128, if so requested by the Lessee.

(2) The Lessor and the Lessee agree to amend the square footage of the property and the legal description. Exhibit A of Lease 22-002695 shall be replaced with "Amended Exhibit A" that is attached and incorporated by reference. Exhibit A-1 of Lease 22-002695 shall be replaced with "Amended Exhibit A-1" that is attached and incorporated by reference.

(3) All other terms and conditions of said lease shall not be affected by these amendments.

The Lessee expressly agrees to all covenants herein and binds himself for any payments hereinbefore specified.

Executed this 7th day of October, 19 91.

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

James A. Stearns
JAMES A. STEARNS, Supervisor

Signed this 20 day of May, 19 91.

TORRE DYBFEST, dba LIGHTHOUSE RESTAURANT,
an Individual Proprietorship

Torre Dybfest Pres
PO Box 485
LaConner, WA 98257

To: jms/22002695.amd

22-002695



CERTIFICATE OF ACKNOWLEDGMENT

STATE OF WASHINGTON)
County of) ss.

On this 7th day of Entire, 1971, personally appeared before me JAMES A. STEARNS, to me known to have signature authorization delegated to him to sign for BRIAN J. BOYLE, the Commissioner of Public Lands, and ex officio administrator of the Department of Natural Resources of the state of Washington, the department that executed the within and foregoing instrument on behalf of the state of Washington, and acknowledged said instrument to be the free and voluntary act and deed of the state of Washington for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument and that the seal affixed is the official seal of the Commissioner of Public Lands for the state of Washington.

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

SEAL

[Signature]
NOTARY PUBLIC in and for the
state of Washington

My commission expires 5/10/1976

CERTIFICATE OF ACKNOWLEDGMENT

STATE OF)
County of Skagit) ss.

On this 1st day of May, 1971, personally appeared before me TORE DYBFEST dba LIGHTHOUSE RESTAURANT, to me known to be the individual described in and who executed the within and foregoing instrument and acknowledged that he signed the same as his free and voluntary act and deed for the uses and purposes therein mentioned.

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

SEAL

[Signature]
NOTARY PUBLIC in and for the
state of Washington

My commission expires 11/1/74



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STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
Brian J. Boyle
Commissioner of Public Lands
Olympia, Washington 98504

AQUATIC LANDS LEASE NO. 22-002695

THIS LEASE AGREEMENT ("Lease") is made and entered into by and between the STATE OF WASHINGTON, acting in its proprietary capacity by and through the Department of Natural Resources (collectively referred to as "the State"), and TORE DYBFEST, dba LIGHTHOUSE RESTAURANT, an individual proprietorship ("the Lessee").

WHEREAS, the State is the owner of that certain real property consisting of aquatic lands located in Skagit County, Washington, the survey and/or legal description of which are set forth in Exhibit A, attached hereto and incorporated herein; and

WHEREAS, the Lessee desires to lease the Property from State, and State desires to lease the Property to the Lessee, pursuant to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual terms, covenants and conditions set forth herein, the parties hereto agree as follows:

1. PROPERTY
1.1 Property.

(a) For and in consideration of the Lessee's covenant to pay the Rent and other sums for which provision is made in this Lease, and the performance of the other covenants and obligations of Lessee hereunder, State leases to the Lessee and Lessee leases from State that certain real property described in Exhibit A including all improvements thereon.

(b) The real property which is leased includes public aquatic land together with the right to occupy the water column and water surface in accordance with Subsection 5.3, for Lessee, its customers, invitees, approved sublessees, and employees. Said real property and rights leased thereby are herein referred to as the "Property."

(c) Except as is necessary to carry out the Lessee's permitted use under Subsection 5.3, State does not convey: any right to disturb, alter, or modify the aquatic land; any right to harvest or collect any sea life or living plants from the aquatic land, the water column, or water surface; any right to excavate or withdraw sand, gravel, minerals, gas, oil or other material; any water rights; or any mineral rights.

(d) The Lessee's rights are subject to all rights of the public, including all rights of the public which State holds in trust, under the public trust doctrine.

(e) Lessee's rights are further subject to valid easements and encumbrances of record as of the date of execution hereof as noted in the records of Skagit County, or on file in the Office of the Commissioner of Public Lands, Olympia, Washington.

(f) In executing this Lease, State is relying on a survey provided by the Lessee. The Lessee expressly assumes all liability for the correctness thereof and expressly agrees to indemnify and save harmless State, its employees, officers, and agents for all liability, damages (including damages to land, aquatic life and other natural resources), expenses, causes of action, suits, claims, costs, fees (including attorneys' fees and costs), penalties (civil and criminal), or judgments arising out of State's use of or reliance on the Lessee's survey.

2. TERM

2.1 Term. The term of this Lease is thirty (30) years, commencing on June 25, 1986, which date shall be referred to as the "Commencement Date" of the term of this Lease, and ending on June 1, 2016. The date upon which this Lease terminates, whether at the end of the above stated term or upon such earlier date in the event the Lease Term is terminated, or cancelled for any reason prior to the end of said period, shall be referred to as the "Termination Date." The period between the Commencement Date and Termination Date is referred to herein as the "Term" of this Lease.

2.2 Authority. This lease is entered into by State pursuant to the authority granted in Chapter 79.90 RCW et seq. and the Constitution of the state of Washington. The terms and conditions hereof is subject to such statutory and constitutional provisions as may be now in effect and such provisions which do not impair the contractual rights of Lessee under this Lease which may lawfully be enacted subsequent to the date of this Lease.



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Skagit County Auditor

3. RENT**3.1 Annual Rent.**

(a) Annual rent for the first four year period of this Lease is as follows: first year \$2,166.92, second year \$3,985.99, third year \$5,823.55, fourth year \$5,837.12. These rents and subsequent annual rent, as determined by the Lessor in accordance with Chapter 221, Laws of 1984 (RCW 79.90.450 -.902) or as amended by subsequent legislation, is due and payable in advance by the Lessee to the Lessor and is the essence of this Lease, and is a condition precedent to the continuance of this Lease or any rights thereunder. Payment is to be to the Department of Natural Resources, Olympia, Washington 98504.

(b) Rent is due and payable by the Lessee to State and is the essence of this Lease, and is a condition precedent to the continuance of this Lease or any rights thereunder.

(c) Payment is to be made in advance on or before the Commencement Date in the amount of \$5,837.12 and a like sum, as adjusted or revalued as provided for herein, on or before the same day of each and every subsequent year of the Term.

(d) Payment is to be made to State in care of the Department of Natural Resources, Division of Financial Services, MS: QW-21, Olympia, Washington 98504. In the event Lessee has not received a statement from State prior to the date payment is due under Subsection 3.1(c) above, Lessee shall pay an amount equal to the previous year's rent prior to that payment date, and shall pay the remainder, if any within thirty (30) days of billing by State.

3.2 Revaluation of Rent. On June 1, 1990, and at intervals of not less than four (4) years thereafter, a new annual rental will be established. The new annual rental will be based on the fair market value of the Property times the Lessor's current capitalization rate used in other ground lease transactions at the date of reappraisal. The fair market value will be determined, exclusive of the Lessee's improvements, by the Lessor's appraiser. The fair market value will be appraised with ninety (90) days of a rental adjustment period. The appraisal shall consider the economic impacts associated with a historic district designation and other unusual maintenance costs unique to the leased premises. In the event that agreement cannot be reached between the parties on the fair market value of the Property, such valuation shall be submitted to a panel of three qualified appraisers (as defined in Section 3.7 below.) One appraiser is to be selected by the Lessee and his expense shall be borne by the Lessee; one appraiser is to be selected by the Lessor and his expense shall be borne by the Lessor; these appraisers so selected shall mutually select a third appraiser and his expenses shall be shared equally by the Lessee and the Lessor. The majority decision of this panel of appraisers shall be binding on both parties. Notwithstanding submission of the evaluation to the appraisers, the Lessee shall pay the rental amount as proposed by the Lessor on the due dates as required if no decision by the panel of appraisers has been made. If additional payments or refunds are required as a result of this review, such moneys shall be due and payable within thirty (30) days after such decision.

3.3 Inflation Adjustment. After the initial year of the Term, State will adjust each year's Rent thereafter, exclusive of the years in which Rent is revalued under Subsection 3.2 hereof, in accordance with RCW 79.90.480 and such other laws and regulations of the Department of Natural Resources as are now or hereinafter shall be applicable.

3.4 Interest Penalty for Past-Due Rent and Other Sums Owed. The Lessee shall pay interest at the rate of one percent (1%) per month (or at such higher rate as may be authorized by statute subsequent to the Commencement Date hereof), until paid, on Rent or other sums owing under the terms of this Lease (except for Leasehold Taxes) commencing thirty (30) calendar days after the date such Rent or other sum is due and payable. In the event State pays any sum or incurs any expense which the Lessee is obligated to pay under this Lease, or which is made on behalf of the Lessee, State shall be entitled to receive reimbursement thereof from the Lessee upon demand, together with interest thereon from the date of expenditure at the rate stated above.

3.5 Allocation of Rent. The Rent for the first period has been established based upon the use of the Property as described in Subsection 5.3 below. In the event the Lessee changes the use of any portion of the Property, which change must be approved by State under Subsection 5.3 below, the rental rate to be paid for that portion of the area affected by such change of use shall be subject to adjustment to the then effective rental rate for the changed use for that portion of the Property.



3.6. Rent for Improvements.

(a) In Section 6, Lessee and State have determined ownership of improvements on the Property. In accord with RCW 79.90.515, the Rent set forth in Subsection 3.1 above includes no rental charge for improvements on the Property at this time. The State does reserve the right to charge rent for state-owned improvements in accord with RCW 79.90.515.

(b) In the event the restrictions on State's ability to charge rent for improvements contained in RCW 79.90.515 are removed in whole or in part, State reserves the right to increase the rent during any portion of the Term after such removal, to the extent then allowed based upon the then fair market value of such improvements owned by State.

3.7 Qualified Appraiser Defined. A "Qualified Appraiser" shall mean a real estate appraiser who has a professional designation as an "MAI" or "SREA" or is a member of a similarly recognized professional organization.

4. OTHER EXPENSES

4.1 Utilities. From and after the Commencement Date, the Lessee shall pay all expenses incurred in the use, enjoyment, and operation of the Property, including, but not limited to all charges for electricity, water, gas and telephone and all other utility services used on the Property. Lessee shall indemnify and hold State harmless against and from any loss, liability, or expense resulting from any failure of Lessee to pay all charges when due.

4.2 Leasehold Taxes. From the Commencement Date and continuing throughout the Term, Lessee, unless exempt, shall pay to State the "Leasehold Tax" established and defined in Chapter 82.29A RCW. The Leasehold Tax shall be due and payable at the same time the rental charged herein is due and payable. Payment is to be made to the Department of Natural Resources, Division of Financial Services, MS: QW-21, Olympia, Washington 98504. Any delinquent Leasehold Tax shall be a debt to State, and in the event any penalties or interest are due because of the failure of Lessee to timely pay the Leasehold Tax, such penalties shall be payable by Lessee to State.

4.3 Other Taxes and Assessments.

(a) The term "Taxes," as used herein, shall mean all taxes and other governmental charges, general and special, ordinary and extraordinary, of any kind whatsoever, applicable or attributable to the Property, Lessee's leasehold interest therein, improvements thereon, or Lessee's use and enjoyment thereof, excluding Leasehold Taxes, defined in Subsection 5.2, and Assessments as defined below. Unless exempt, Lessee shall pay when due all Taxes commencing with the Commencement Date and continuing throughout the Term.

(b) The term "Assessments," as used herein, shall mean all assessments for public improvements or benefits which heretofore or during the Term shall be assessed, levied, or imposed upon, or become due and payable, or become a lien upon the Property, any improvements constructed thereon, the leasehold estate created hereby, or any part thereof. The Lessee shall not cause or suffer the imposition of any Assessment upon the Property, without the prior written consent of State. In the event any Assessment is proposed which affects the Property, any improvements constructed thereon, the leasehold estate created hereby, or any part thereof, the Lessee shall promptly notify State of such proposal after the Lessee has knowledge or receives notice thereof. Any Assessment upon the Property shall be made in compliance with all applicable statutes, including, but not limited to, Chapter 79.44 RCW. The Lessee shall pay the total amount of all Assessments levied. In no event shall State be obligated to pay any Assessment or any portion thereof levied or created during the Term, irrespective of whether such Assessment or any portion thereof was specifically allocated to the Property or State's reversionary interest therein. No Assessment shall be payable in installments without State's prior written consent, which State may condition upon the posting by the Lessee of a satisfactory bond guaranteeing the payment of such installments as they become due.

4.4 Payment Date and Proof. The Lessee shall pay all payments for Taxes and Assessments at the time due. The Lessee shall, if required by State, furnish to State receipts or other appropriate evidence establishing the payment of such amounts. Lessee may comply with this requirement by retaining a tax service to notify State when the taxes have been paid.

4.5 Failure to Pay.

(a) In the event the Lessee fails to pay any of the expenses or amounts specified in this Section 4, State may, but shall not be obligated to do so, pay any such amount and the amounts so paid shall immediately be due and payable by the Lessee to State, and shall thereafter bear interest at the rate specified in Subsection 3.4 above.

(b) Any failure to pay any expense or amount specified in this Section 4 or any other amount to be paid by Lessee under the term of this Lease shall be a material breach hereunder by the Lessee and such breach shall entitle State to pursue all remedies



specified in this Lease, and all remedies otherwise available to it in law or equity, including the rights to terminate this Lease and to pursue the remedies available pursuant to Chapter 59.12 RCW.

4.6 No Counterclaim, Setoff, or Abatement of Rent. Rent and all other sums payable by the Lessee hereunder shall be paid without the requirement of prior notice or demand by State, and shall not be subject to any counterclaim, setoff, deduction or defense and without abatement. The obligations and liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected (except as expressly provided herein) by reason of:

- (a) Any damage to or destruction of or any taking of the Property or improvements on the Property or any part thereof (except as allowed in Section 11 or 12);
- (b) Any restriction of or prevention of or interference with any use of the Property, improvements or any part thereof which does not result in the eviction of the Lessee therefrom (except as allowed in Section 10);
- (c) Any title defect or encumbrance upon the Property or any part thereof which does not result in the eviction of the Lessee therefrom;
- (d) Any claim which the Lessee has or might have against State;
- (e) Any failure on the part of State to perform or comply with any of the terms hereof or of any other agreement with the Lessee so long as such failure to perform or comply does not have the result of eviction of Lessee from the Property.

4.7 Right to Contest. The Lessee may contest the basis or amount of any Leasehold Taxes, Taxes, or Assessments at its sole cost and expense so long as the Lessee shall furnish State with a bond or other security reasonably acceptable to State, and otherwise in compliance with law, in the full amount of such amount contested.

5. POSSESSION AND USE

5.1 Possession at Commencement Date. If for any reason whatsoever State does not deliver possession of the Property or a portion thereof at the Commencement Date, Rent shall be abated until such date as possession of the Property is tendered by State, and in all other respects this Lease shall remain in full force and effect and the Term shall not be extended thereby. If in the interim, the Lessee shall take possession of any portion of the Property, Lessee shall pay the full Rent specified herein reduced pro rata for the portion of the Property not available for possession by Lessee. In no event shall State be liable for damages caused by failure to deliver possession of the Property.

5.2 Inspection. Lessee has inspected and made an independent investigation of the Property and will accept the same on the Commencement Date in its present condition.

5.3 Permitted Use. The Lessee shall have use of the Property only for the specified purposes of restaurant, deck, moorage, float, pilings, and open water for ingress and egress, and for no other purpose whatsoever. The State's prior written consent shall be required for any change in use of the Property or any portion thereof.

5.4 Entry.

(a) State shall have access to the Property at all reasonable times for the purpose of inspecting the Property and securing compliance with the terms and conditions of this Lease. State shall exercise its right of access in a manner that will not [unreasonably interfere with Lessee's permitted use of the Property.

(b) The right reserved in Subsection 5.4(a) above includes the right to perform or have performed such environmental tests, audits, surveys or investigations as State, in its sole discretion, deems appropriate. Such tests, audits, surveys, or investigations may include, but shall not be limited to, the determination of whether Lessee is improperly storing, handling or disposing of Hazardous Substances, as defined in Subsection 5.6(d) below, or of refuse, as defined in Subsection 5.6(b) below.

(c) This reserved right imposes no obligation upon State to make inspections, tests, audits, surveys, or investigations and shall impose no liability upon State for failure to do so. This reserved right is in addition to and separate from Lessee's obligation to test under Subsection 5.9 below.

5.5 State's Right to Grant Easements. State reserves the right to grant easements and other land uses on the Property to others when the easement or other land uses will not unduly interfere with the Lessee's permitted use under Subsection 5.3. State will notify Lessee of any easement or other land use request by third parties. No easement or other land uses shall be granted to third parties until payment for any damages to the leasehold have been paid to the Lessee by the third party or a waiver of damages is signed by the Lessee.

5.6 Restrictions on Use.

(a) Conformance With Laws. The Lessee shall, at its own expense, cause all work on the Property and all business conducted thereon during the Term to be performed in accordance with all directions and regulations of all governmental agencies and the



representatives of such agencies. All building permits and other permits, licenses, permissions, consents, and approvals required to be obtained from governmental agencies or third parties in connection with any work on the Property, including the construction, repair, or replacement of any improvements, or the conduct of any business upon the Property shall be acquired as required by applicable laws, ordinances, or regulations, by and at the sole cost and expense of Lessee. Copies of such permits, licenses, or orders shall be supplied to State upon request. The Lessee shall correct at the Lessee's own expense any failure of compliance created through the Lessee's fault or by reason of the Lessee's use.

(b) Refuse. The Lessee shall not make, or suffer to be made, any filling in of the Property or any deposit of rock, earth, ballast, refuse, garbage, waste matter (including chemical, biological or toxic wastes), hydrocarbons, any other pollutants, or other matter within or upon the Property, except as approved in writing by State. If the Lessee shall fail to remove all nonapproved fill material, refuse, garbage, wastes or other of the above materials from the Property and restore the Property to its condition immediately prior to the deposition of the unauthorized material, the Lessee agrees that State may remove such materials and charge Lessee for the cost of removal and disposal together with interest thereon from the date of expenditure at the date specified in Section 3.4 above.

(c) Waste. At all times during the Term, Lessee shall neither commit nor suffer waste to be committed to the Property.

(d) Hazardous, Toxic, or Harmful Substances.

1. The Lessee shall not keep, use, dispose, transport, generate, and/or sell on or about the Property, any substances now or hereinafter designated as, and/or containing components now or hereinafter designated as, and/or containing components now or hereinafter designated as, and/or containing components now or hereinafter designated as, and/or which are subject to regulation as, hazardous, toxic, dangerous, or harmful by any federal, state or local law, regulation, statute or ordinance, including but not limited to RCRA, CERCLA, SARA, and the Washington Model Toxic Control Act (hereinafter collectively referred to as "Hazardous Substances"), in violation of any such law, regulation, statute, or ordinance.

2. The Lessee shall promptly notify State of all spills or releases of any Hazardous Substances, which are otherwise required to be reported to any federal, state, or local regulatory agency and, upon notice thereof, shall promptly notify State of all failures to comply with any federal, state, or local law, regulation or ordinance, as now enacted, or as subsequently enacted or amended, all inspections of the Property by any regulatory entity concerning the same, all regulatory orders or fines, and all response or interim cleanup actions taken by or proposed to be taken by any government entity or private party on the Property.

3. The Lessee agrees to conduct, at its own expense, all tests, audits, surveys, or investigations requested by State, in writing, during the Term of the Lease as are reasonable and necessary to ascertain the existence, scope, or effects of Hazardous Substances on the Property, adjacent Property, or associated natural resources where State has reason to believe the Hazardous Substances result from or are associated with Lessee's use, occupation, or control of the Property or adjacent property by Lessee, any predecessor-in-interest of Lessee, or any entity related to Lessee, and to provide the results of such tests, audits, surveys, or investigations to State. If Lessee fails to conduct such tests, State may conduct such tests and State shall be entitled to receive full reimbursement from Lessee upon demand, together with interest thereon from the date of expenditure at the rate stated above.

4. Lessee shall be fully and completely liable to State, and shall waive any claims against State for contribution or otherwise, and shall indemnify, defend, and save harmless State and its agencies, employees, officers, directors, and agents with respect to any and all liability, damages (including damages to land, aquatic life, and other natural resources), expenses, causes of action, suits, claims, costs (including testing, auditing, surveying, and investigation costs), fees (including attorneys' fees and costs), penalties (civil and criminal), and response, cleanup, or remediation costs assessed against or imposed upon the Lessee, the State, or the Property, as a result of Lessee's control of the Property, or Lessee's use, disposal, transportation, generation and/or sale of Hazardous Substances or that of Lessee's employees, agents, assigns, sublessees, contractors, subcontractors, licensees, permittees, or invitees, and for any breach of this Subsection 5.6(d).

(e) Marine Plastics Act. Lessee shall, in addition to compliance with all other applicable laws and regulations, comply with the Marine Plastic Pollution Research and Control Act of 1987 (Public Law 100-220) which became effective December 31, 1988. Under that Act, Lessee may be required among other things to provide waste reception facilities, permit Coast Guard inspection of the adequacy of these facilities, and provide for waste handling and disposition.

(f) Lessee to Take Corrective Action. The parties expressly agree that Lessee will, at its own expense, upon any failure to comply with the above Subsections 5.6(a)-(e), and upon direction to do so by State, take corrective or remediation action measures satisfactory to State to restore the Property, as nearly as possible, to the condition the Property would have been in absent such failure to comply (with lack of or failure to expend funds not to adversely affect the possibility of



restoration). If Lessee fails to do so, Lessee agrees that State may take such corrective action and State shall be entitled to receive full reimbursement therefore from Lessee upon demand, together with interest thereon from the date of expenditure at the rate in Subsection 3.4 above.

5.7 Development Rights. The Lessee shall not undertake development of the Property except in accordance with Subsection 5.3 above. The Lessee shall not represent to any person, governmental body, or other entity, that the Lessee is the fee owner of the Property, nor shall the Lessee execute any petition, application, permit, plat, or other document on behalf of State as the "owner" of the Property without State's express written consent which may be withheld for any reason whatsoever. The Lessee, in its own name and as the Lessee under this Lease, may execute and apply for permits, petitions, or applications in connection with work allowed pursuant to Subsection 5.3 above. Lessee shall notify State in writing of any proposed or pending governmental action of which the Lessee receives written notice which affects the Property, its zoning or the right to develop the Property for any future use.

5.8 Control and Indemnification. During the Term of this Lease, Lessee shall have exclusive control and possession of the Property (subject to easements or other land uses that may be granted under Subsection 5.5, and any interference by third parties as identified in Subsection 10.2), and State shall have no liabilities, obligations, control, or responsibilities whatsoever with respect thereto, or with respect to any plans or specifications submitted to State pursuant to this Lease, or improvements or repairs made to the Property or any activity conducted thereon. State's approval or disapproval of any such plans and specifications or improvements shall not render State liable therefor.

6. IMPROVEMENTS

6.1 Authorized Improvements.

(a) **Existing Improvements.** There are constructed upon the Property as of the date of this Lease, the following improvements: restaurant, deck, moorage, float, pilings. All of the improvements on the Property as of the date of this Lease shall be considered to be the property of Lessee ("Lessee-owned Improvements"). Lessee acknowledges ownership of, and responsibility for, all Lessee-owned Improvements.

(b) **New Improvements.**

1. Any improvements made to the Property during the Term, subject to the exclusion below, shall be referred to herein as "New Improvements." New Improvements shall not include: any construction, reconstruction, alteration, or addition to the existing Improvements on the Property made by Lessee pursuant to its obligation to maintain the Property in good order and repair, including, without limitation, repairs, replacements, reconstruction, alterations, or additions made pursuant to Sections 9.2 or 11.1 below; or any unauthorized improvements made to the Property. New Improvements shall include any material changes, alterations, or modifications to the Existing Improvements, not excluded by the preceding sentence.

2. No New Improvements shall be placed on the Property without the prior written consent of State. Construction, reconstruction, alteration, or additions to the Existing Improvements on the Property made by Lessee pursuant to its obligation to maintain the Property in good order and repair may be undertaken by Lessee after written notice to State and State's prior written consent shall not be required.

3. All improvements, repairs, alterations, maintenance, and replacements to the Property shall be made in a good and workmanlike manner and in compliance with all applicable building and zoning codes, shorelines management, health, safety, and environmental laws and other legal requirements.

4. The plans and specifications for any and all New Improvements including amendments of such plans and specifications, shall be submitted to State for its prior approval, which approval will not be unreasonably withheld.

5. No New Improvements shall be made except under the supervision of an architect or engineer selected by Lessee and approved in writing by State, which approval will not be unreasonably withheld.

6. Upon completion of any improvements, repairs, or alterations to the Property, the Lessee shall furnish State with a certificate of substantial completion of such work executed by the Lessee or its architect or engineer, and a complete set of "as built" plans showing all changes or alterations. The Lessee shall also furnish to State copies of certificates of occupancy or other similar documents issued to certify completion of construction in compliance with applicable requirements.

(c) **Ownership.** All new improvements authorized under Subsection 6.1(a) made to the Property or installed thereon by Lessee during the Term, and all Lessee-owned Improvements, shall remain the property of the Lessee until the Termination Date, whether such date occurs at the end of the stated term of this Lease or upon earlier cancellation, termination, or surrender, at which time ownership of said improvements shall, at State's option, revert to and become immediately vested in State, without payment therefor by State. The Lessee hereby conveys and quitclaims to State as of the Termination Date, all interest in and to all New Improvements and all Lessee-owned Improvements, contingent upon State's exercise of its option.



(d) Removal of Certain Improvements. Lessee agrees to sever, remove, and dispose of all New Improvements and/or Lessee-owned Improvements to which State does not elect to claim title by the Termination Date. If such action is not taken by Lessee, Lessee agrees that State may remove such improvements and charge Lessee for the cost of removal and disposal, together with interest thereon from the date of expenditure at the rate stated above. It shall be the duty of Lessee to inquire of State as to whether State will exercise its option to take ownership of all, or a portion of, the New Improvements and/or Lessee-owned Improvements sufficiently, but in no event less than sixty (60) days, in advance of the Termination Date to permit Lessee, in the event State declines to claim title, to sever, remove, and dispose of the unclaimed improvements by the Termination Date.

6.2 Unauthorized Improvements.

(a) Improvements made on or to the Property without State's prior written consent or not in conformance with the approved plan of development (not including repairs, maintenance or replacements due to ordinary wear) ("Unauthorized Improvements"), shall immediately become the property of State, unless State elects otherwise.

(b) State may, at its option, require Lessee to sever, remove and dispose of any or all Unauthorized Improvements, or, in addition to any other remedy State may have for such breach of the Lease, State may charge the Lessee Rent for the use of such improvements based upon the value thereof, which Rent shall be due and payable together with all installments of Rent due hereunder. If Lessee fails to sever and complete removal of such Unauthorized Improvements within thirty (30) calendar days of request for removal by State, State may (i) remove and dispose of such Unauthorized Improvements at Lessee's expense; (ii) cancel this Lease; or (iii) pursue any other remedies for default provided that all such severance and completion of removal must be accomplished by the Termination Date. Any cost of removal and disposal borne by State shall become an obligation of the Lessee due and owing under this Lease together with interest thereon from the date of expenditure at the rate stated above.

6.3 Trade Fixtures.

(a) All trade fixtures brought onto the Property by Lessee shall remain the property of Lessee. Lessee agrees to sever and remove those fixtures by the Termination Date.

(b) All trade fixtures allowed to remain on the Property thereafter shall, at State's option, become the property of State. If State does not elect to claim title to said trade fixtures, Lessee agrees that State may remove and dispose of such trade fixtures. Any costs of removal and disposal borne by State shall become an obligation of the Lessee due and owing under this Lease together with interest thereon from the date of expenditure at the rate stated above.

6.4 Mechanics, Liens, Labor Liens, and Project Completion.

(a) Mechanics and Labor Liens. Lessee agrees that it will not permit any claim of lien made on any mechanic, materialman, laborer, or other similar liens to stand against the Property, any improvements or trade fixtures located thereon, or Lessee's leasehold, for work, labor, services, or materials furnished to Lessee or its sublessees in connection with any construction, improvements, alterations, maintenance, or repair thereof made by Lessee or its agents or sublessees upon the Property. Lessee further agrees to cause any such claim of lien to be fully discharged within thirty (30) calendar days after the date of filing thereof. In the event the Lessee in good faith disputes the validity or amount of any such claim of lien, and Lessee shall, at the Lessee's expense, give to State such security as State may reasonably require, indemnifying State, the Property, improvements and trade fixtures on the Property, and Lessee's leasehold against all liability, costs and expenses, including attorneys' fees, which State may incur as a result of the lien, then Lessee shall not be deemed to be in breach of this Section 6.4 so long as:

1. Lessee is diligently pursuing a resolution of such dispute;
2. At no time is the Property, any improvements or trade fixtures located thereon, or Lessee's leasehold in any danger of being sold, forfeited, or lost; and
3. Upon entry of final judgment resolving the dispute if litigation or arbitration results therefrom, Lessee discharges said lien within the time limits specified above. Nothing contained in this section shall be deemed a waiver of any provision of Washington law which exempts property owned by State from any such lien claims.

7. ASSIGNMENT AND SUBLETTING

7.1 Assignment and Subletting.

(a) State Consent Required. Lessee shall not hypothecate, mortgage, assign, encumber, transfer, sublease or otherwise alienate this Lease, or any interest therein or engage in any other transaction which has the present effect or future possibility of transferring the right of enjoyment of the Property without the prior written consent of State, which shall not be unreasonably withheld or delayed. In granting such consent, State reserves the right to: (1) Change the terms and conditions of this Lease, including



the rental terms, as it may affect the transferee; (2) Consider, among other items, the proposed transferee's financial condition, business reputation, the nature of the proposed transferee's business, the then current value of the Property, and such other factors as may reasonably bear upon the suitability of the transferee as a lessee of the Property; and, (3) Require the Lessee or transferee to conduct such tests, audits, surveys, or investigations as are identified in Section 5.6(d)(3). Lessee shall submit information regarding any proposed transferee or assignee under this Subsection 7.1 to State at least thirty (30) days prior to the date of the proposed transfer or assignment. Consent of State to any one transfer shall not constitute a waiver of State's right to approve subsequent transfers.

(b) Rent Payments Following Assignment. The acceptance by State of the payment of Rent following an assignment or other transfer shall not constitute consent to any assignment or transfer, and State's consent shall be evidenced only in writing.

7.2 Corporations, General Partnerships, Limited Partnerships.

(a) Corporations. If Lessee is a corporation, any merger, consolidation, liquidation, or any change in ownership of, or the power to vote the majority of its outstanding voting stock, shall constitute an assignment of this Lease which requires prior approval of State, whether the result of a single transaction or a series of transactions.

(b) General Partnerships. If Lessee is a general partnership, the death, withdrawal or expulsion of a partner or partners owning, or transfer or interests representing, in the aggregate more than fifty percent (50%) of the partnership profits or capital shall constitute an assignment of this Lease which requires prior approval of State, whether as the result of a single transaction or a series of transactions.

(c) Limited Partnerships. If Lessee is a limited partnership, the death, withdrawal or expulsion of any general partner shall constitute an assignment of this Lease which requires prior approval of State.

(d) Marital Communities. If Lessee is a marital community, the dissolution of the marital community shall constitute an assignment of this Lease which requires prior approval of State.

7.3 Assignee Obligations. Each permitted assignee, or transferee, other than State, shall assume and be deemed to have assumed all obligations under this Lease and shall become liable for all payments and for the due performance and satisfaction of all provisions, covenants, and conditions herein contained. Notwithstanding any such assignment or transfer, Lessee shall be and remain jointly and severally liable with the assignee or transferee for all obligations under this Lease, unless released, in writing, by State.

7.4 Copies of Instruments. In connection with any assignment, sublease, or transfer, Lessee shall, at State's option, provide State with copies of all assignments, subleases, assumption instruments or other documentation.

7.5 Assignment by State. State may, if legally permissible, assign its interest in this Lease.

8. LESSEE'S INDEMNITY: SECURITY BOND AND INSURANCE

8.1 Indemnity. Lessee shall indemnify and save harmless State, its employees, officers, and agents from any and all liability, damages (including damages to land, aquatic life, and other natural resources), expenses, causes of action, suits, claims, costs, fees (including attorneys' fees and costs), penalties (civil and criminal), or judgments, by any reason whatsoever caused, arising out of the use, occupation, or control of the Property by Lessee, its sublessees, invitees, agents, employees, licensees, or permittees except as may arise solely out of the willful or grossly negligent act of State or State's employees, officers, or agents. To the extent that RCW 4.24.115 is applicable to any indemnification provision of this Lease, State and Lessee agree that provision shall not require Lessee to indemnify and save State harmless from State's sole or concurrent negligence if any.

8.2 Bond or Other Security.

(a) Upon execution of this Lease, Lessee shall furnish State a good and sufficient corporate surety bond or provide other security satisfactory to State (hereinafter referred to as "Bond") in an amount equal to \$12,000, which shall secure the full performance by Lessee of all the terms, conditions, and covenants of this Lease to be performed by Lessee, including, but not limited to, the payment by Lessee of all amounts now or hereafter due and payable to State. The Bond shall be in a form and issued by a surety company acceptable to State. The amount of the Bond may be adjusted by State at the same time as the adjustment of the rent, as a condition of approval of assignment or sublease of this Lease, upon any breach by Lessee of Subsections 5.6(b)-(d) above, upon a change in the condition of the improvements, or upon a request for a change in the Permitted Use. A new or modified Bond shall be delivered to State not less than thirty (30) calendar days following any adjustment by State of the amount of the Bond.



(b) Upon any default by Lessee in its obligations under this Lease, any or all of the Bond may be appropriated by State to offset the liability of Lessee to State, but such Bond and State's appropriation thereof or realization thereon shall in no way limit the liability or other security or obligations of Lessee or the rights or remedies of State nor shall such realization in any manner reinstate, cure or relieve Lessee from a termination of its rights under this Lease following a material default. Lessee's failure to have a Bond in force at all times during the Term in the full amount as required by this paragraph shall constitute a material breach of this Lease.

8.3 Acquisition of Insurance Policies. Lessee shall, at its sole cost and expense, procure and maintain, or cause to be procured and maintained, during the entire Term, the insurance described in Subsections 8.4 and 8.5, issued by an insurance company or companies licensed to do business in the state of Washington satisfactory to State, covering and protecting Lessee, State, and the Property, including any improvements.

8.4 Types of Required Insurance.

(a) **Comprehensive General Liability Insurance.** Lessee shall procure and maintain comprehensive general liability insurance covering all claims with respect to injuries or damages to persons or property sustained in, or about the Property, and the appurtenances thereto, with limits of liability no less than: \$1,000,000.00 for each occurrence and not less than \$2,000,000.00 annual aggregate for property damage in any one occurrence. Such limits may be achieved through the use of umbrella liability insurance sufficient to meet the requirements of this section. The limit of liability may be adjusted by State at the same time as adjustment of the Rent, as a condition of approval of assignment or sublease of this Lease, upon any breach by Lessee of Subsections 5.6(b)-(d) above, upon a change in the condition of the improvements, or upon a request for a change in the Permitted Use.

(b) **Physical Property Damage Insurance.** Lessee shall procure and maintain physical damage insurance covering all real and personal property, excluding property paid for by sublessees or paid for by Lessee for which sublessees have reimbursed Lessee, located on or in, or constituting a part of, the Property in an amount equal to at least one hundred percent (100%) of replacement value of all such property, with commercially reasonable deductibles.

(c) **Worker's Compensation Insurance.**

1. State of Washington worker's compensation coverage, as applicable, with respect to any work by employees of Lessee on or about the Property.

2. Longshore and Harbor Worker's Act and Jones Act coverage, as applicable, with respect to any work by employees of Lessee on or about the Property.

8.5 Terms of Insurance. The policies required under Subsections 8.3 and 8.4 shall name State as an additional insured (except for state of Washington worker's compensation) and Lessee shall provide promptly to State certificates of insurance and copies of policies obtained by Lessee hereunder, provided that receipt of such policies by State does not constitute approval by State of the terms of such policies. Further, all policies of insurance described in Subsection 8.3 shall:

(a) Be written as primary policies not contributing with and not in excess of coverage that State may carry;

(b) Contain an endorsement providing that such insurance may not be materially changed, amended or cancelled with respect to State except after thirty (30) calendar days, prior written notice from the insurance company to State;

(c) Contain an endorsement containing express waiver of any right of subrogation by the insurance company against State and State's officers, elected officials, agents and employees;

(d) Provide that the insurance proceeds of any loss will be payable notwithstanding any act or negligence of Lessee which might otherwise result in a forfeiture of said insurance;

(e) Expressly provide that State shall not be required to give notice of accidents or claims and that State shall have no liability for premiums;

(f) Provide that all proceeds shall be paid jointly to State and Lessee;

8.6 State's Acquisition of Insurance. If Lessee at any time during the Term fails to procure or maintain such insurance or to pay the premiums therefore, State shall have the right to procure substitute insurance as State deems appropriate and to pay any and all premiums thereon, and Lessee shall pay to State upon demand the full amount so paid and expended by State, together with interest thereon at the rate provided in Subsection 3.4, hereof from the date of such expenditure by State until repayment thereof by Lessee.

9. REPAIRS

9.1 State's Repairs. State shall not be required or obligated to make any repairs, alterations, maintenance, replacements or repairs in, on, or about the Property, or any part thereof, during the Term of this Lease.



9.2 Lessee's Repairs, Alteration, Maintenance and Replacement.

(a) Lessee shall, at its sole cost and expense, keep and maintain the Property and all improvements thereon and all facilities appurtenant thereto (regardless of ownership) in good order and repair and safe condition, sufficient for the safe conduct of any activities or enterprises conducted on the Property pursuant to this Lease and keep and maintain the whole of the Property, including all improvements in a clean, sanitary and attractive condition.

(b) Lessee shall, at its sole cost and expense, make any and all additions to: repairs, alterations, maintenance, replacements, or changes about and to the Property, which may be required by any public authority affecting the Property and its use.

(c) Ownership of Repairs.

1. All repairs, alterations, maintenance to, or replacement of the Property, including any state-owned improvements, as defined in Subsection 6.1, shall immediately become the property of State.

2. All repairs, alterations, maintenance to or replacement of New Improvements, and/or all Lessee-owned Improvements, as defined in Subsection 6.1, shall remain the property of Lessee subject to the terms of Subsection 6.1.

3. All repairs, alterations, maintenance to, or replacements of any Unauthorized Improvements as defined in Subsection 6.2 shall immediately become the property of State subject to the terms of Subsection 6.2.

9.3 Condition at End of Lease. Upon vacating the Property on the Termination Date, Lessee shall leave the Property and all improvements thereon to which State has elected to claim title in the state of repair and cleanliness required to be maintained by Lessee during the Term of this Lease and shall peaceably surrender the same to State.

10. DISCLAIMER OF IMPLIED COVENANTS OF POWER TO LEASE AND QUIET ENJOYMENT

10.1 Power to Lease. State believes that it has full right, power and authority to make this Lease. However, State expressly disclaims and Lessee expressly releases State from any and all claims for breach of any implied covenant of power to lease.

10.2 Quiet Enjoyment. State expressly disclaims and Lessee expressly releases State from any claim for breach of any implied covenant of quiet enjoyment with respect to the possession of the Property during the Term of this Lease or any holdover. This disclaimer includes but is not limited to, interference arising from or in connection with access or other use rights of adjacent property owners or the public over the water surface or in or under the water column, rights held by Indian tribes, and the general power and authority of State and the United States to regulate the use of navigable waters, bedlands, tidelands, and shorelines. In the event that Lessee is evicted from the Property by reason of successful assertion of any such rights, this Lease shall be deemed terminated as of the date of such eviction. In the event of a partial eviction, Lessee's Rental obligations hereunder shall abate as of the date of the partial eviction in direct proportion to the extent of the eviction, but in all other respects, this Lease shall remain in full force and effect.

11. DAMAGE OR DESTRUCTION

11.1 Possible to Repair Within Term.

(a) In the event of any damage to or destruction of the Property or any improvements, Lessee shall promptly give written notice thereof to State. Lessee shall promptly reconstruct, repair or replace the Property as nearly as possible to its condition immediately prior to such damage or destruction. All such reconstruction, repair and replacement shall be performed in accordance with the requirements of Section 9.2 above.

(b) Lessee's duty to reconstruct, repair, or replace any damage or destruction of the Property or any improvements thereon shall not be conditioned upon the availability of any insurance proceeds to Lessee from which the cost of repairs may be paid.

(c) Unless this Lease is terminated by mutual agreement, there shall be no abatement or reduction in Rent during such reconstruction, repair and replacement.

(d) Any insurance proceeds payable by reason of the damage or destruction shall be made available to pay the cost of the reconstruction.

(e) In the event Lessee is in default under the terms of this Lease at the time damage or destruction occurs, State may elect to terminate the Lease and State shall thereafter have the right to retain any and all insurance proceeds payable as a result of such damage or destruction.

(f) Upon completion of reconstruction, repair or replacement by Lessee, any insurance funds in excess of the cost of such reconstruction, repair or replacement shall be paid to Lessee provided, however, State shall have a lien on Lessee's share of such proceeds to the extent Lessee has failed to pay any moneys to State under the terms of this Lease.



11.2 Not Possible to Repair Within Term.

If such damage or destruction cannot be substantially repaired within the time remaining in the Term, this Lease shall terminate as of the date of such damage or destruction. Any insurance proceeds shall be divided between State and Lessee pro rata based upon the unexpired Term of the Lease, with Lessee receiving a fraction thereof which is equal to the then remaining Term divided by the original Term, and State receiving the remainder.

12. CONDEMNATION

12.1 Definitions.

(a) Total Taking. The term "total taking," as used in this Lease, means the taking of the entire Property and any improvements thereon under the power of eminent domain either by judgment or settlement in lieu of judgment, or the taking of so much of the Property and improvements as to prevent the use thereof by Lessee or, in the judgment of State, renders the Property impractical to operate for the uses and purposes hereinabove provided.

(b) Partial Taking. The term "partial taking" means the taking of a portion only of the Property which does not constitute a total taking as defined above.

(c) Voluntary Conveyance. The terms "total taking" and "partial taking" shall include a voluntary conveyance to any agency, authority, public utility, person, or corporate entity empowered to condemn property in lieu of formal court proceedings.

(d) Date of Taking. The term "date of taking" shall mean the date upon which title to the Property or a portion thereof passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor.

12.2 Effect of Taking. If during the Term hereof there shall be a total taking under the power of eminent domain, then the leasehold estate of Lessee in and to the Property shall cease and terminate as of the Date of Taking. If this Lease is so terminated, in whole or in part, all Rentals and other charges payable by Lessee to State hereunder and attributable to the Property taken, shall be paid by Lessee up to the Date of Taking by the condemnor, and the parties thereupon shall be released from all further liability in relation thereto. If Lessee has pre-paid Rent, Lessee will be entitled to a refund of the pro-rate share of this pre-paid Rent attributable to the period after the Date of Taking. In the event of a Partial Taking, such that Lessee is no longer able to use a portion of the Property, there shall be a partial abatement of Rent in a percentage equal to the percentage of Property taken.

12.3 Allocation of Award. State and Lessee agree that in the event of any condemnation, the award shall be allocated between State and Lessee based upon the ratio of the fair market value of Lessee's Leasehold Estate and Lessee-owned Improvements and New Improvements on the Property and State's interest in the Property, including State's landlord interest in the Leasehold reversionary interest in Lessee-owned Improvements and New Improvements, and ownership of State-owned Improvements. In the event of a Partial Taking, this ratio will be computed on the basis of the portion of Property or improvements taken. If the Lessee and State are unable to agree on the allocation, it shall be submitted to binding arbitration in accordance with the rules of the American Arbitration Association.

13. INSOLVENCY

13.1 Insolvency May Constitute Default. If a receiver or trustee is appointed to take possession of all or substantially all of the assets of Lessee, or if any action is taken or suffered by Lessee pursuant to an insolvency, bankruptcy or reorganization act, including the filing of a petition in bankruptcy, or if Lessee makes a general assignment for the benefit of its creditors, and if such appointment or assignment continues for a period of thirty (30) calendar days, it shall, at State's option, constitute a default by Lessee and State shall be entitled to the remedies set forth in Section 14 below, which may be exercised by State without prior notice or demand upon Lessee. In the event that any provision of this Section 13 is contrary to any applicable law, such provision shall have no force or effect.

13.2 Notice of Insolvency. Lessee shall be required to notify State, within ten (10) days of filing, that it has filed a petition for relief under the bankruptcy code.

14. BREACH BY LESSEE

14.1 Breach and Default.

(a) Any breach of any provision of this Lease by Lessee, shall be deemed a default after State has delivered to Lessee notice of the alleged breach and demand that the breach be remedied immediately. Such a default entitles State to the remedies set forth in this Lease or otherwise available at law or in equity. If Lessee shall promptly commence to cure the default and shall cure the default within



for sixty (60) calendar days after receipt of the notice; c. within sixty (60) calendar days after receipt of the notice if the default pertains to the payment of rent, the breach shall no longer constitute a default.

(b) In the event State deems the breach to constitute a threat to safety, life, or property it may elect to intervene immediately without notice to remedy the breach and Lessee hereby agrees to repay State for all costs in remedying the breach upon demand, together with interest thereon from the date of expenditure at the rate set forth in Section 3.4 above. Alternatively, State may require Lessee itself to act immediately to remedy the breach, should State deem it a threat to safety, life, or property.

14.2 Reletting in the Event of Default.

(a) State's Right to Relet. In the event of a default, State, in addition to any other rights or remedies that it may have, shall have the immediate right of re-entry. Should State elect to re-enter or take possession of the Property, it may either terminate this Lease or, from time-to-time without terminating this Lease, relet the Property or any part thereof, for any term or terms and conditions as State in its sole discretion may deem advisable with the right to complete construction of or make alterations and repairs to the improvements. Lessee shall pay to State the cost and expenses incurred by State in such reletting, completion of construction, or in making such alterations and repairs.

(b) Allocation of Rentals. Rentals received by State from reletting shall be applied: first, to the payment of any indebtedness, other than Rent, due hereunder from Lessee to State; second, to the payment of Rent due and unpaid hereunder; and the residue, if any, shall be held by State and applied in payment of future rent or damages as the same may become due and payable hereunder. The balance, if any, at the end of the Term shall belong to State. Should such rentals received from time-to-time from reletting during any month be less than the Rent agreed to be paid during that month by Lessee, Lessee shall pay the deficiency to State. The deficiency shall be calculated and paid monthly. At the option of State following Lessee's default, State may accelerate and demand as immediately due the difference between (i) all Rent reserved for the unexpired portion of the Term following the event of Lessee's default, and (ii) the fair market rental value of the Property for the unexpired portion of the Term reduced by any costs of State in reletting the Property.

(c) Exercise of Right Not an Election. No such reletting of the Property by State shall be construed as an election on its part to terminate Lessee's obligations under this Lease unless a notice of such intention be given to Lessee or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, State may at any time thereafter elect to terminate this Lease for such previous breach, provided that it has not been cured. Should State at any time terminate this Lease for any breach, in addition to any other remedy it may have, it may recover from Lessee all damages it may incur by reason of such breach.

15. HOLDING OVER AND EXPIRATION

15.1 Unapproved Holdover. Any holding over by Lessee without the express written consent of State shall not constitute a renewal or extension of this Lease or give Lessee any rights in or to the Property and this Lease shall terminate without further notice at the Termination Date. Such occupancy shall be subject to the same terms and conditions as set forth herein. At State's option, Rent may be charged for each month of occupancy, or any portion thereof, on a pro rata basis, equal to one hundred sixty percent (160%) of the amount of full fair market Rent due for the last month of the term of this Lease.

15.2 Approved Holdover. If Lessee shall, with the written consent of State, hold over after the Termination Date, the resulting tenancy shall, unless otherwise mutually agreed, be for an indefinite period of time on a month-to-month basis. During such month-to-month tenancy, Lessee shall pay State Rent as provided herein, unless a different rate shall be agreed upon, and shall be bound by all the terms of this Lease.



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16. NOTICE

16.1 Procedure. Any notice required or desired to be given under this Lease shall be in writing with copies directed as indicated herein and shall be personally served or sent by mail. Any notice given by mail shall be deemed to have been received when seventy-two (72) hours have elapsed from the time when such notice was deposited in the United States mails, correctly addressed to the party to be served at the last address given by that party to the other party under the provisions of this Section 16. At the date of the execution of this Lease, the address of State is:

DEPARTMENT OF NATURAL RESOURCES
Division of Aquatic Lands
Mail Stop QW-21
Olympia, WA 98504

and the address of Lessee is:

TORRE DYBFEST, dba LIGHTHOUSE RESTAURANT
PO BOX 485
LA CONNER, WA 98257

16.2 Change of Address. Lessee shall notify State immediately of any change of address.

17. SUCCESSORS

17.1 Successors and Assigns Bound. The covenants and agreements contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns, to the extent the Lease is assignable, and upon any person, firm, or corporation coming into ownership or possession of any interests in the Property or improvements on the Property by operation of law or otherwise, and shall be construed as covenants running with the land.

18. TERMINATION

18.1 Lessee's Rights Cease Upon Lease Termination. Upon the termination of this Lease by expiration of time or otherwise, the rights of Lessee and of all persons, firms, corporations, and entities claiming under Lessee in and to the Property and all improvements hereon, unless specified otherwise in this Lease, shall cease.

19. MISCELLANEOUS

19.1 Headings. The Section and Subsection headings used in this Lease are for convenience only. They shall not be construed to limit or to extend the meaning of any part of this Lease.

19.2 Amendments. Any amendments or additions to this Lease shall be made in writing executed by the parties hereto, and neither State nor Lessee shall be bound by verbal or implied agreements.

19.3 Waiver. The waiver by State of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The acceptance by State of Rent or any other sum owing, following a breach by Lessee of any provision of this Lease shall not constitute a waiver of any right of State with respect to such breach. State shall be deemed to have waived any right hereunder only if State shall expressly do so in writing.

19.4 Cumulative Remedies. Each right, power and remedy of State provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, and the commencement of the exercise by State of any one or more of the rights, powers, or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute, or otherwise, shall not preclude the simultaneous or later exercise by State of any or all such other rights, powers or remedies.

19.5 Time of Essence. Time is expressly declared to be of the essence of this Lease and each and every covenant of Lessee hereunder.

19.6 Entire Agreement. This Lease contains the entire agreement of the parties hereto with respect to the matters covered hereby, and no other agreement, statement or promise made by any party hereto, or to any employee, officer or agent of any party hereto, which is not contained herein, shall be binding or valid.



19.9 Applicable Law and venue. This Lease shall be interpreted and construed under and pursuant to the laws of the state of Washington. Any reference to a statute enacted by the state of Washington shall refer to that statute as presently enacted and any subsequent amendments thereto, unless the reference to said statute specifically provides otherwise. The parties agree that venue for any action arising out of or in connection with this Lease shall be in the Superior Court for Thurston County, Washington.

19.10 Authority. Persons executing this Lease on behalf of Lessee represent that they are authorized to do so and represent and warrant that this Lease is a legal, valid and binding obligation on behalf of Lessee, and is enforceable in accordance with its terms.

19.11 Date of Execution. The date this Lease is executed shall be deemed to be the day and year when executed by State.

19.12 Survival. All obligations of Lessee to be performed after the Termination Date shall not cease upon the Termination of this Lease, and shall continue as obligations until fully performed. All clauses of this Lease which require performance beyond the Termination Date shall survive the Termination Date of this Lease.

19.13 Recordation. Lessee shall record this Lease in the county in which the Property is located at Lessee's sole expense. Lessee shall provide State with recording information including the date of recordation and file number. Lessee shall have thirty (30) days from the Commencement Date of the Lease to comply with the requirements of this paragraph.

19.14 Discrimination. Lessee shall not conduct or suffer any business upon the Property which unlawfully discriminates against any person on the basis of race, color, creed, religion, sex, age, or physical or mental handicap.

IN WITNESS WHEREOF, this Lease Agreement is executed on the day and year when executed by the state of Washington.

STATE:

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

James A. Sterns

JAMES A. STERNS, Supervisor

Date January 23, 1990

LESSEE:

TORÉ DYBFEST, dba LIGHTHOUSE RESTAURANT,
an Individual Proprietorship

Tore Dybfest

PO Box 485
La Conner, WA 98257

Date 12/14-89

de

CV1/22002695.LSE

22-002695



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CERTIFICATE OF ACKNOWLEDGMENT

STATE OF WASHINGTON
County of Skagit) ss.

On this 23rd day of January, 1990, personally appeared before me JAMES A. STEARNS, to me known to have signature authorization delegated to him to sign for BRIAN J. BOYLE, the Commissioner of Public Lands, and ex officio administrator of the Department of Natural Resources of the state of Washington, the department that executed the within and foregoing instrument on behalf of the state of Washington, and acknowledged said instrument to be the free and voluntary act and deed of the state of Washington for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument and that the seal affixed is the official seal of the Commissioner of Public Lands for the state of Washington.

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

SEAL

Ann M. Reiter
NOTARY PUBLIC in and for the

state of Washington

My commission expires 2-1-93



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CERTIFICATE OF ACKNOWLEDGMENT

STATE OF Washington
) ss.
County of Skagit)

On this 15th day of December, 1989, personally appeared before me Lee Hyslop, 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/she was) (they were) authorized to execute said instrument for said corporation and that the seal affixed 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.

SEAL

Kathleen E. Watson
NOTARY PUBLIC in and for the
state of Washington
My commission expires 3-17-92



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Skagit County Auditor

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EXHIBIT A-1
PARCEL A - RESTAURANT DECK

A portion of the Harbor Area fronting Tract 7, as shown on the 1986 Corrected Supplement to Plate 18 of La Conner Tidelands as shown on the official map on file at the Office of the Commissioner of Public Lands, Olympia, Washington, more particularly described as follows:

Commencing at the lead plug at the intersection of First Street and Benton Street; thence North 58° 47' 00" West 45.00 feet; thence North 31° 13' 00" East 20.00 feet; thence North 58° 47' 00" West 57.00 feet, more or less, and the True Point of Beginning; thence North 58° 47' 00" West 27.00 feet, more or less; thence North 29° 57' 00" East 122.00 feet, more or less; thence South 58° 47' 00" West 60.00 feet, more or less; thence South 18° 16' 00" West 94.00 feet, more or less; thence North 58° 47' 00" West 18.00 feet, more or less; thence South 31° 13' 00" West 7.00 feet, more or less; thence North 58° 47' 00" West 20.00 feet more or less; thence South 31° 13' 00" West 6.00 feet, more or less; thence North 58° 47' 00" West 7.00 feet, more or less; thence South 31° 13' 00" West 6.00 feet, more or less; thence North 58° 47' 00" West 5.00 feet, more or less; thence South 31° 13' 00" West 15.00 feet, more or less, to the Point of Beginning; containing 9,144.60 square feet.

PARCEL A-1 - INGRESS AND EGRESS

A portion of the Harbor Area fronting Tract 7, as shown on the 1986 Corrected Supplement to Plate 18 of La Conner Tidelands as shown on the official map on file at the Office of the Commissioner of Public Lands in Olympia, Washington, more particularly described as follows:

Commencing at the lead plug at the intersection of First Street and Benton Street; thence North 58° 47' 00" West 95.00 feet; thence North 31° 13' 00" West 21.00 feet; thence North 13° 55' 00" East 127.00 feet, more or less, to the True Point of Beginning; thence North 58° 47' 00" West 35.00 feet to a point on the outer harbor line; thence North 29° 57' 00" East 10.40 feet; thence South 89° 55' 40" East 68.00 feet, more or less; thence South 16° 00' 00" West 45.00 feet, more or less; thence North 58° 47' 00" West 26.00 feet, more or less, to the Point of Beginning, as shown in red on Exhibit A; containing 1,689.00 square feet.

PARCEL A-2 - FLOAT AND PILINGS

A portion of the Harbor Area fronting Tract 7, as shown on the 1986 Corrected Supplement to Plate 18 of La Conner Tidelands as shown on the official map at the Office of the Commissioner of Public Lands in Olympia, Washington, more particularly described as follows:

Commencing at the lead plug at the intersection of First Street and Benton Street; thence North 58° 47' 00" West 45.00 feet, more or less; thence North 31° 13' 00" East 20.00 feet, more or less; thence North 58° 47' 00" West 120.00 feet, more or less, to a point on the outer harbor line and the True Point of Beginning; thence northeasterly along the outer harbor line 120.03 feet, more or less; thence South 58° 47' 00" East 35.00 feet, more or less; thence South 29° 57' 00" West 120.03 feet, more or less; thence North 58° 47' 00" West 35.00 feet, more or less, to the Point of Beginning; containing 3,759.00 square feet as outlined in red on Exhibit A.

1568.90



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EXHIBIT "A"



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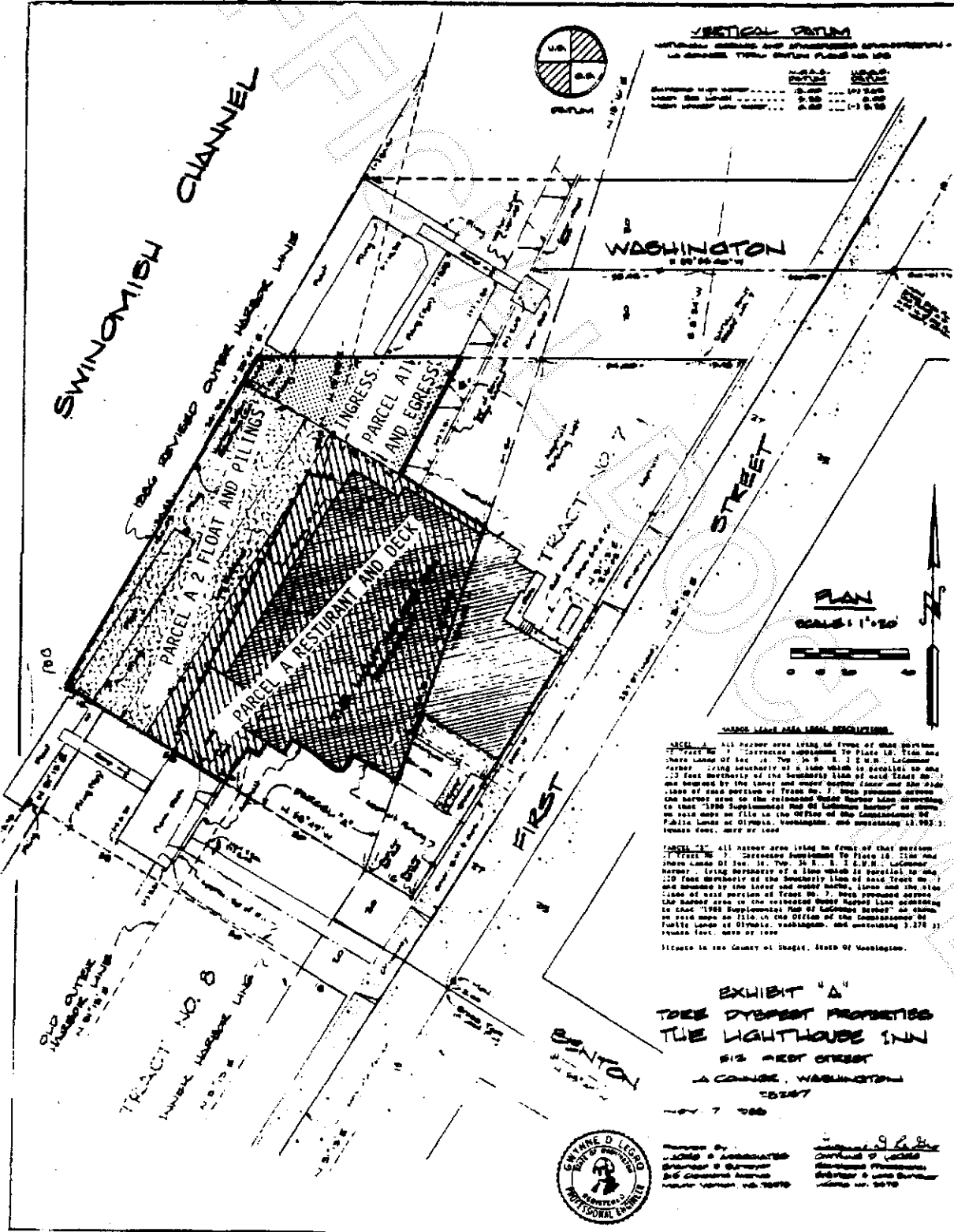


EXHIBIT "A"
 TREE DISEASE PROPERTIES
 THE LIGHTHOUSE INN
 612 WEST STREET
 A CORNER, WASHINGTON
 98547
 MAY 7 2003



Prepared by:
 JAMES A. ANDERSON
 Skagit County Auditor
 200307010093

Checked by:
 JAMES A. ANDERSON
 Skagit County Auditor
 200307010093



VERTICAL DATUM

VERTICAL DATUM
NATIONAL GEODESIC SURVEYING ADMINISTRATION
LA CROSSE TIDE DATUM PLATE NO. 103

	N.G.S.	U.S.G.S.
	DATA	DATA
Mean High Water	10.00	(+1) 7.65
Mean Low Water	9.00	0.00
Mean Spring Tide Water	9.50	(-1) 5.50

EXHIBIT 'A'

SWINOMISH CHANNEL

WASHINGTON

FIRST

BENTON

INGRESS
1689.00 SA

RESTURANT
7444.00 SA

TRACT NO. 7

TRACT NO. 8
INNER HARBOUR LINE

PLAN
SCALE 1"=20'



HARBOUR LINE AREA LEGAL DESCRIPTIONS

PARCEL "A" All harbor area lying in front of that portion of Tract No. 7, "Corrected Supplement to Plate 18, Tide and Shore Lands of Sec. 38, Twp. 34 N., R. 2 E., M. N., LaCrosse Harbor", lying northerly of a line which is parallel to and 120 feet northerly of the southerly line of said Tract No. 7 and bounded by the inner and outer harbor lines and the side line of said parcel of Tract No. 7, both produced across the harbor area to the relocated Outer Harbor Line according to that "1986 Supplemental Map of LaCrosse Harbor" as shown on said map on file in the Office of the Commissioner of Public Lands at Olympia, Washington, and containing 17,903.35 square feet, more or less.

PARCEL "B" All harbor area lying in front of that portion of Tract No. 7, "Corrected Supplement to Plate 18, Tide and Shore Lands of Sec. 38, Twp. 34 N., R. 2 E., M. N., LaCrosse Harbor", lying northerly of a line which is parallel to and 120 feet northerly of the southerly line of said Tract No. 7, and bounded by the inner and outer harbor lines and the side line of said parcel of Tract No. 7, both produced across the harbor area to the relocated Outer Harbor Line according to that "1986 Supplemental Map of LaCrosse Harbor" as shown on said map on file in the Office of the Commissioner of Public Lands at Olympia, Washington, and containing 3,278.35 square feet, more or less.

Situate in the County of Skagit, State of Washington.

EXHIBIT 'A'
TORRE DIRECT PROPERTIES
THE LIGHTHOUSE INN
512 FIRST STREET
LA CROSSE, WASHINGTON
98287
NOV. 7, 1988



Prepared by
LEGROS & ASSOCIATES
Engineer & Surveyor
800 Cleveland Avenue
Mount Vernon, WA 98276

Sylvain D. Legros
Sylvain D. Legros
Registered Professional Engineer & Land Surveyor
License No. 34782



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VERTICAL DATUM
NATIONAL GEODESIC SURVEYING SYSTEM -
LA CORNER, TIDE AND HARBOUR PLANE 1988

	1988	1988
Sea level high water	15.00	07.70
Mean low water	12.00	4.70
Mean lower low water	9.00	1.70

SWINOMISH CHANNEL

WASHINGTON

STREET

TRACT NO. 7

FIRST

TRACT NO. 8

BENTON

PLAN
SCALE: 1"=20'

HARBOUR AREA LEGAL DESCRIPTION

PARCEL "A" All harbor area lying in front of that portion of Tract No. 7, "Corrected Supplement to Plat 18, Tide and Harbors of Sec. 26, Twp. 34 N., R. 2 E., S. 10 N., LaConner Harbor", lying southerly of a line which is parallel to and 120 feet northerly of the southerly line of said Tract No. 7, and bounded by the inner and outer harbor lines, and the line of said portion of Tract No. 7, both produced across the harbor area to the extended Outer Harbor Line according to that "1924 Supplemental Map of LaConner Harbor" as shown on said map on file in the Office of the Commissioner of Public Lands at Olympia, Washington, and containing 12,992.35 square feet, more or less.

PARCEL "B" All harbor area lying in front of that portion of Tract No. 7, "Corrected Supplement to Plat 18, Tide and Harbors of Sec. 26, Twp. 34 N., R. 2 E., S. 10 N., LaConner Harbor", lying northerly of a line which is parallel to and 120 feet northerly of the southerly line of said Tract No. 7, and bounded by the inner and outer harbor lines, and the line of said portion of Tract No. 7, both produced across the harbor area to the extended Outer Harbor Line according to that "1924 Supplemental Map of LaConner Harbor" as shown on said map on file in the Office of the Commissioner of Public Lands at Olympia, Washington, and containing 3,292.35 square feet, more or less.

Situate in the County of Skagit, State of Washington.

EXHIBIT "A"
TREE DIBEST PROPERTIES
THE LIGHTHOUSE INN
512 FIRST STREET
LA CONNER, WASHINGTON
98267
Nov. 7, 1988



Wayne D. Legio
Commissioner of Public Lands
512 Commercial Avenue
North Vancouver, B.C. V8P 2P6

Signature of Legio
Wayne D. Legio
Commissioner of Public Lands
512 Commercial Avenue
North Vancouver, B.C. V8P 2P6