

ROLLING HILLS GOLF COURSE LEASE AGREEMENT
(KC 185-11)

This Lease is made by and between KITSAP COUNTY, a Body Politic and Washington Municipal Corporation ("Lessor"), and THE ROLLING HILLS GOLF COURSE, LLC, a Washington Limited Liability Company ("Lessee"). Lessor and Lessee shall sometimes be referred to individually as a "Party" or collectively as "the Parties".

In consideration of the mutual promises and covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Parties agree as set forth in this Agreement.

SECTION ONE

Recitals

- 1.1 Pursuant to an Amended And Restated Purchase And Sale Agreement (the "PSA") dated February 16, 2011 executed by and between Lessor and Don Rasmussen ("Rasmussen") as General Partner of the Rolling Hills Partnership (the "Partnership"), Lessor agreed to buy and the Partnership agreed to sell the Rolling Hills Golf Course (the "Golf Course").
- 1.2 As contemplated by the PSA, Gregory W. Peterson ("G. Peterson") and Tedd M. Hudanich ("Hudanich") formed The Rolling Hills Golf Course, LLC, and are the sole Members thereof.
- 1.3 This Lease Agreement (sometimes referred to as the "Lease" or the "Agreement") is being executed concurrently with the closing of the sale of the Golf Course from the Partnership to Lessor.
- 1.4 Concurrently with Closing, Lessor has executed and delivered to the Partnership a Deed of Trust as security for Lessor's obligations under the PSA, including payment of the total sum of \$4,000,000.00 in accordance with the terms of the PSA.

SECTION TWO

Substantive Terms

- 2.1 **Premises.** Lessor does hereby lease to Lessee and Lessee hereby leases from Lessor the following Property located at 2485 McWilliams Road, Bremerton, Washington 98310, sometimes collectively referred to as the "Premises":
 - a. *Real Estate.* Parcel I: Tax Parcel No. 362501-1-002-2000; Parcel II: Tax Parcel No. 362501-1-003-2009; Parcel III: A 10± acre tract generally lying within the NW ¼, SW ¼, NE ¼, Section 36, Township 25 North, Range 1 East, W.M. (more or less) being apportion of Tax Parcel No. 362501-1-004-2008; Parcel IV: The

NE ¼, NW ¼ of Section 36, Township 25 North, Range 1 East, W.M., except any irregular strip of and along the West boundary thereof as generally depicted on the Map attached as Exhibit A, being a portion of Tax Parcel No. 362501-1-022-2006; and Parcel V: A small triangular parcel depicted on the attached Map lying within the NE ¼, SE ¼, NW ¼, Section 36, Township 25 North, Range 1 East, W.M., also being apportion of Tax Parcel No. 362501-1-022-2006. Collectively, the above parcels consist of approximately 129 ½ acres.

- b. All buildings and improvements on the Real Estate, including the Main Building which includes the Golf Shop, Restaurant, Bar, Banquet Room, and Offices; 2 Maintenance Buildings; and a Mobile Home.
- c. The exclusive right to use the Water Well on the Real Estate and withdraw the waters therefrom subject to and in accordance with the DOE Water Rights Certificate and all applicable statutes, ordinances and regulations.
- d. Golf Course and Restaurant Equipment, Fixtures, Hand Tools and Appurtenances; and Office and Computer Equipment, collectively "Equipment".
- e. Irrigation System.
- f. Trade Names for the Golf Course and Restaurant.

- 2.2 **Excluded Property.** The inventory, supplies or consumables for the operation of the Golf Course; the Pro Shop inventory; the Restaurant inventory, supplies or consumables; the furnishings, equipment and personal property in the offices of Rasmussen and Kerma Peterson, any certain personal items of the Partners or not owned by Lessor and shall remain the property of Lessee and/or the Partnership. Ownership of new or replacement Equipment (and Trade Fixtures) is governed by Section 2.9.
- 2.3 **Term.** The initial term of this Lease shall be for a term commencing on the date hereof and ending on October 31, 2017, together with three (3) renewal options for subsequent renewal terms of five (5) years each. Unless the Lease has been or is terminated (i) by Lessor by reason of Lessee's default in accordance with the provisions of Section 2.22.1; or (ii) by Lessee on 180 days advance written notice to Lessor, the right to renew the Lease for each such renewal term shall be automatic and not require notice. Lessor shall grant additional extensions either (i) in conformance with Section 2.22.3; or (ii) renewals as Lessor may, in its absolute discretion, determine. Hereafter, "Term" shall refer to the initial term, all renewal terms and extensions up until the Lease is terminated or expires.
- 2.4 **Rent And Reserve Payments.** During the Term of the Lease, Lessee shall pay the Rent and Reserve Payments as set forth in this Section 2.4.

2.4.1 *Rent.* Lessee covenants and agrees to pay Lessor, or such other party as Lessor shall hereinafter designate annual rent ("Base Rent") in the amount of \$200,000.00 plus and in addition to the leasehold excise tax due the State of Washington pursuant to Chapter 82.29 RCW (the "Tax Payment"). Collectively, Base Rent and the Tax Payment shall be referred to as Rent and shall be due and payable on October 1 of each calendar year beginning on October 1, 2012. Lessee may pay Rent at any earlier date as Lessee may elect without penalty.

2.4.2 *Lease Reserve Payments.* Concurrently with payment of Rent, Lessee shall make the following additional payments (the Lease Reserve Payments) to Lessor:

Lease Years 6 through 10:	\$10,000.00 per year	50K
Lease Years 11 through 20:	\$20,000.00 per year	100K

Lessor agrees to place the Lease Reserve Payments in a restricted Reserve Account which Lessor may use to make any payments due the Partnership pursuant to the PSA by reason of Lessee's default under the Lease. Once the Reserve Account reaches \$200,000.00, Lessee shall be relieved from the obligation to make any further Reserve Payments so long as Lessee continues to make all subsequent Rent payments due Lessor under this Lease. In the final year of the Lease, the balance held in the Reserve Account shall be credited against the annual Rent due for such year.

2.5 **Use Of Premises And Compliance With Law.** Lessee shall use the Premises for the following purposes:

- a. The operation of a lawful and licensed Golf Course and Pro Shop.
- b. The operation of a Restaurant, Bar and Banquet Room through a lease of those portions of the Premises currently used for such purposes to RHR, Inc., a Washington Corporation (hereinafter referred to as "Sub-Lessee"). The Golf Course, Pro Shop and related facilities, fixtures and equipment shall sometimes be referred to as the "Golf Course" and the Lessee's operation of business thereof shall sometimes be referred to as the "Golf Course Operation". The Restaurant, Bar, Banquet Room and related facilities, fixtures and equipment shall sometimes be referred to as the "Restaurant" and Sub-Lessee's operation of business thereon shall sometimes be referred to as the "Restaurant Operation". Collectively, the Golf Course and Restaurant Operations shall sometimes be referred to as "Business". The Golf Course and Restaurant and the operation of Business thereon shall be maintained and operated in accordance with the operating and maintenance standards set forth in this Lease.

So long as Lessee or Sub-Lessee maintains the required licenses and is in compliance with all the conditions thereof, including all applicable statutes,

ordinances and regulations applicable thereto, Lessee or Sub-Lessee shall be entitled to sell wine, beer and liquor on the Premises and to conduct or permit lawful gambling activities on the Premises.

The Premises shall not be used for any other purpose without the express written consent of Lessor or the Oversight Board, which consent shall not be unreasonably withheld. Lessee and Sub-Lessee shall comply with all applicable Federal, State and local laws, ordinances and regulations that apply to Lessee's and Sub-Lessee's Businesses and the Premises.

- 2.6. **Utilities.** Lessee agrees to pay all charges for gas, electricity, telephone, sewer, water and any other utilities used by Lessee on the Premises. Lessee will be responsible for assuring that all billing statements for utilities will be mailed directly to Lessee for payment. In the event Lessor receives utility billing statements, Lessor shall immediately forward same to Lessee for payment and shall cooperate with Lessee to assure that such statements are thereafter sent directly to Lessee.
- 2.7. **Taxes And Licenses.** In addition to the Leasehold Excise Tax due by Lessee, Lessee and Sub-Lessee shall pay all taxes levied upon their respective items of personal property, including any Trade Fixtures and Equipment they may own. Lessee and Sub-Lessee shall pay all license fees required for the conduct of their respective Businesses on the Premises.
- 2.8. **Acceptance And Maintenance Of Premises.** Lessee acknowledges the Premises are in a good, sound condition and state of repair. Lessee agrees to maintain the Premises and every part thereof in a good condition and state of repair and in substantially the same or better condition as exists at the inception of the Lease. Without limiting the generality of the foregoing, Lessee shall comply with the following maintenance standards:
- a. The structural soundness of all Buildings shall be maintained. Roofs shall be cleaned, repaired or replaced as necessary.
 - b. The exterior and interior of all Buildings shall be kept in a neat and attractive condition, washed and/or painted as necessary to maintain an attractive appearance. All broken locks, doors and windows shall promptly be repaired or replaced.
 - c. All electrical, plumbing and heating equipment shall be repaired or replaced as necessary and maintained in a good operating condition.
 - d. The golf course and all landscaping shall be maintained in a good and attractive condition.

- e. All parking and driveway areas shall be maintained and resurfaced or striped when necessary.
- f. Lessee shall permit no waste, damage or injury to the Premises.

Lessor shall have no obligation to maintain, repair or restore any damage to the Premises whether caused by casualty or otherwise. If Lessee fails to fulfill its maintenance obligations hereunder and Lessee does not cure such failure within thirty (30) days after receipt of written notice from the Oversight Board of the required maintenance, then Lessor, without prejudicing its right to declare a default under Section 2.22.1, shall have the right to conduct such maintenance and Lessee shall be responsible to reimburse Lessor for the reasonable costs incurred by Lessor in conducting the required maintenance, with such reimbursement to be made within thirty (30) days following Lessee's receipt of written notice of the amount incurred together with receipts or other documentation of such amount.

2.9 **Golf Course And Restaurant Equipment.** Lessee shall keep all Golf Course Equipment (which term includes tools, rolling stock, golf carts, other equipment, building fixtures and trade fixtures) used in the Golf Course Operation in a good operating condition and state of repair. Lessee shall be responsible for insuring that all Restaurant Equipment (which term includes furnishings, equipment, tenant improvements and trade fixtures used in the Restaurant operation) are maintained in a good operating condition and state of repair. If any such Equipment is not repairable or reaches the end of its useful life, Lessee shall replace such Equipment at Lessee's cost (or in the case of the Restaurant Equipment, cause Sub-Lessee to replace such Equipment). Equipment purchases shall be carried on Lessee's and Sub-Lessee's financial books at cost and be depreciated in accordance with depreciation schedules that conform to generally accepted accounting principles. Lessee and Sub-Lessee shall retain title to all Equipment purchased by them. On the expiration or termination of the Lease, Lessor shall purchase Lessee's and Sub-Lessee's Equipment for the depreciated value thereof. The Purchase Price shall be paid in cash concurrently with Lessee's surrender of the Premises, or on such terms as Lessor and Lessee may mutually agree.

2.10 **Golf Course And Restaurant Inventory.** Lessee shall retain title to the Golf Course Inventory and Sub-Lessee shall retain title to the Restaurant Inventory. Lessee shall maintain and replace the Golf Course Inventory, and cause Sub-Lessee to maintain and replace the Restaurant Inventory, at levels reasonably necessary to maintain the Golf Course Operation and Restaurant Operation in the same condition that exists as of the inception of the Lease. Golf Club Inventory includes (i) the supplies and inventory necessary to maintain the Golf Course, including fertilizers, seed, lawful chemicals, herbicides and/or pesticides, fuel, oils, solvents, sprinkler heads, replacement parts and similar items; (ii) the Pro Shop Inventory includes clothing, golf clubs, balls, tees, equipment and other merchandise maintained for sale to the public; and (iii) printed materials and other consumables used in the Golf Course Operation. Restaurant

Inventory includes food and beverage inventory and other supplies, printed material and consumables used in the Restaurant Operation. On the expiration or termination of the Lease, Lessor shall purchase the Golf Course and Restaurant Inventory at cost, or on such terms as Lessor and Lessee may mutually agree.

- 2.11 **Alterations.** Lessee may make such non-structural, non-weight-bearing alterations or additions to the Building on the Premises as Lessee may deem reasonably necessary to sustain or improve the Golf Course or Restaurant Operations. Lessee shall not make or permit Sub-Lessee to make any alterations involving structural, weight-bearing changes without securing the written consent of the Lessor or Oversight Board, which shall not be unreasonably withheld. Such alterations or additions will be made in a good workmanshiplike manner and in conformance with all applicable building codes, without cost to Lessor and shall be free and clear of mechanics' and materialmen's liens provided that if any such lien is filed, Lessee shall either promptly bond or discharge the same or it may contest the same in good faith.

- 2.12 **Operating Standards.** Lessee shall maintain and/or cause the Golf Course and Restaurant to be maintained and the Business thereon to be operated in substantially the same or better condition and operating standards that now exist, and in conformance with acceptable industry standards for like-kind golf course operations and in conformance with all directives and requirements of the Oversight Board described in Section 2.18 below.

The Lessee shall maintain adequate reserves to cover operating expenses during lean operational periods, and to provide annual operating subsidies for the Restaurant Operation in accordance with the following subparagraph.

Lessee shall oversee and provide any required operating subsidies for the Restaurant Operation to ensure it continues to provide food and beverage amenities to augment the Golf Course operations substantially equivalent to the manner that the Restaurant is currently operated and maintained.

Notwithstanding the foregoing, on the request of the Lessee, the Oversight Board shall have the authority to approve changes to current operating standards for either the Golf Course Operation or the Restaurant Operation as the Oversight Board deems would best advance the interests and survival of the Golf Course Operation.

- 2.13 **Entry By Lessor.**

- 2.13.1 *General Rights.* Lessor, the Oversight Board and their respective agents shall have the right at reasonable times and on reasonable advance notice to enter the Premises, to inspect the same or to maintain or repair, make alterations or additions to the Premises or any portion thereof to remedy any portion of the Premises Lessee has failed to maintain (or caused to be maintained) as provided

in Sections 2.8 and 2.9 after having been given notice and a demand for performance. Excluding emergencies, reasonable advance notice of entry for inspection shall be construed to require at least 24 hours advance notice.

2.13.2 *Stormwater Improvements.* In 2008, the Illahee Creek Watershed Surface Water Management Plan was completed. This Plan evaluated surface and stormwater problems in the Illahee watershed and identified potential locations for structural stormwater flow-control and WQ-treatment facilities. The Kitsap County public Works Department Surface and Stormwater Management (SSWM) Program has reviewed the Illahee Watershed Plan and has identified several options for implementing some of the recommended stormwater facilities. Kitsap SSWM believes some of these facilities may be best sited on the Rolling Hills Golf Course (RHGC) property. Kitsap SSWM would like to be able to utilize areas of RHGC to construct stormwater management facilities. Kitsap SSWM represents that these facilities would be designed and constructed to fit within the course layout without significantly impacting the operations of the RHGC and, in some cases, these facilities may be designed to provide some aesthetic or functional benefit to the RHGC in addition to their stormwater functions. Kitsap SSWM represents it would be responsible for all operational and maintenance (O&M) activities associated with these facilities. As such, Kitsap SSWM would need access to these facilities on a routine or emergency basis at all times.

Lessee agrees to cooperate with Lessor and allow Kitsap SSWM access to construct, operate, repair and maintain its proposed stormwater management facilities, so long as (i) such activities and facilities do not materially impact Lessee's Golf Course Operations including its on-going maintenance activities; (ii) interrupt or alter play on the Golf Course; (iii) the facilities are designed, constructed and maintained in an attractive manner that is aesthetically harmonious with the Golf Course; (iv) Lessor assumes, saves, defends, indemnifies and holds Lessee and its Members, Managers and Employees harmless from all liabilities, claims, demands and causes of action arising from or relating to such activities and facilities, including claims for injury, property damage or death.

Before installing or altering such facilities, Lessor shall provide Lessee with copies of its proposed plans, drawn to scale, including elevation drawings depicting all proposed above-ground structures for Lessee's advance approval, which approval may be withheld if the proposed facilities do not comply with the requirements set forth in subparagraphs (i) through (iv) above.

2.14 **Liens.** Lessee shall keep the Premises free from any liens arising out of work performed, materials furnished or obligations incurred by Lessee or Sub-Lessee and shall indemnify, hold harmless, and defend Lessor from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Lessee or Sub-Lessee.

Lessor shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Lessor shall deem proper, for the protection of Lessor and the Premises, and any other party having an interest therein, from mechanic's and/or materialmen's liens, and Lessee or Sub-Lessee shall give to Lessor at least ten (10) business days prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

- 2.15 **Indemnity.** Lessee shall indemnify and hold Lessor harmless and defend Lessor and its elected officials, officers, agents, and employees from and against any and all claims, liabilities, actions, damages, losses, or expenses including without limitation reasonable attorney's fees and costs for bodily injury or personal injury including death, or loss or damage to tangible or intangible property caused, or alleged to be caused, in whole or part, by the negligent or willful acts or omissions of Lessee or any of its Members, Managers and Employees use of the Leased Premises. It is the specific intention of the parties that the Lessor shall, in all instances, except for claims arising solely from the negligent or willful acts or omissions by the Lessor, be indemnified by Lessee from and against any and all claims. It is agreed that Lessee will be responsible for primary loss investigation, defense and judgment costs where this indemnification is applicable. In consideration for use and occupancy of the Leased Premises, the Lessee agrees to waive all rights of subrogation against the Lessor, its elected officials, officers, agents, and employees for losses arising from the use, occupancy or condition of the Leased premises, so long as such losses do not arise from the negligent or willful acts of the Lessor.

The agreement by the Lessee to hold harmless and indemnify Lessor shall apply, but not be limited, to liability for any injury or damage to any person or property arising from use of the Premises by Lessee and Sub-Lessee, or from the conduct of Business, or from any activity, work or thing done, permitted, caused or suffered by Lessee or Sub-Lessee and their respective employees, agents, contractors or invitees; (i) all charges for goods and services ordered by or procured by Lessee or Sub-Lessee or at their direction; (ii) all Personal Property Taxes levied against any Equipment or Personal Property owned by Lessee or Sub-Lessee; (iii) all repairs and improvements made by Lessee or Sub-Lessee on or about the Premises; and (iv) all claims arising from any breach or default in the performance of any obligation on Lessee's (and/or Sub-Lessee's) part to be performed under this Lease or arising from any negligence of Lessee or Sub-Lessee and/or their respective agents, contractors or employees.

It is further specifically and expressly understood that the indemnification provided herein constitutes the Lessee's waiver of immunity under Industrial Insurance; Title 51 RCW, solely for the purposes of this indemnification. This waiver has been mutually negotiated by the parties. The provisions of this section shall survive the expiration or termination of this Agreement.

2.16 **Insurance.** Lessee shall, during the Lease Term, at its sole expense, procure and maintain in full force and effect insurance against claims for injuries to persons or damages to property which may arise from or in connection with the Lessee's operation and use of the Leased Premises. Coverage shall be at least as broad as:

2.16.1 *Commercial General Liability(CGL) Insurance.* A policy or policies of commercial liability insurance, on an "occurrence" basis, issued by one or more insurance carriers, insuring against liability for personal or bodily injury, including death of persons, and loss of or damage to property arising from Lessee's business activities on the Premises and/or occurring in or on the Premises. Said liability insurance shall include liquor liability and food products liability coverage and shall be in an amount not less than Five Million Dollars (\$5,000,000.00) combined single limit for bodily and personal injury and property damage. Said policies shall be primary and non-contributing with the insurance carried by Lessor.

2.16.2 *Property Insurance.* A standard form policy or policies of property and all-risk coverage with an extended coverage endorsement covering all Buildings, Tenant Improvements, betterments, Inventory, trade fixtures, Equipment at full replacement cost with no coinsurance penalty provision.

2.16.3 *Workers' Compensation Insurance.* Workers' Compensation coverage as required by the Industrial Insurance laws of the State of Washington.

2.16.4 *Other Insurance Provisions.* The policies are to contain, or be endorsed to contain, the following provisions:

- a. For General Liability, the Lessor, its officers, elected officials, employees, and volunteers are to be covered as additional insureds with respect to liability arising out of ownership, maintenance, or use of that part of the Premises leased to the lessee.
- b. The Lessee's insurance coverage shall be primary insurance as respects the Lessor, its officers, elected officials, employees and volunteers. Any insurance or self-insurance maintained by the Lessor, its officers, elected officials, employees, or volunteers shall be excess of the Lessee's insurance and shall not contribute with it. If the Lessee maintains higher limits than the minimums show above, the Lessor shall be entitled to coverage for the higher limits maintained.
- c. Each insurance policy required above shall contain, or be endorsed to contain, a waiver of all rights of subrogation against the Lessor subject to any limitations imposed by Lessee's Insurance Carrier. Furthermore, Lessee

hereby grants to Entity a waiver of any right to subrogation which any insurer of said Lessee may acquire against the Entity by virtue of the payment of any loss under such insurance. This provision applies regardless of whether or not the Entity has received a waiver of subrogation endorsement from the insurer.

- d. Each insurance policy shall be endorsed to state that coverage shall not be canceled except after thirty (30) days' prior written notice (10 days for non-payment) has been given to the Entity.
- e. The Property insurance shall name the Lessor as Loss Payee as its interests may appear.
- f. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A-: VII, unless otherwise acceptable to the Lessor.
- g. Any deductibles in excess of \$5,000.00 or self-insured retentions must be declared to and approved by the Lessor. At the option of the Lessor, either: the Lessee shall obtain coverage to reduce or eliminate such excess deductibles or self-insured retentions as respects the Lessor, its officers, elected officials, employees, and volunteers; or the Lessee shall provide a financial guarantee satisfactory to the Lessor guaranteeing payment of losses and related investigations, claim administration, and defense expenses.
- h. Lessee shall furnish the Lessor with original certificates and amendatory endorsements or copies of the applicable policy language providing the insurance coverage required above. All certificates and endorsements are to be received and approved by the Lessor before the lease commences and annually thereafter. However, failure to obtain the required documents prior to the lease beginning shall not waive the Lessee's obligation to provide them. The Lessor reserves the right to require complete, certified copies of all required insurance policies, including endorsements, required by these specifications, at any time.
- i. At each fifth anniversary date, Lessor reserves the right to reasonably modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other special circumstances.
- j. Lessee can comply with the foregoing requirements through a combination of policies separately maintained by Lessee and Sub-Lessee.
- k. Lessor acknowledges that the inclusion of insurance coverage for Lessor's officers, elected officials, employees and volunteers as required by subparagraphs (a) and (b) of Section 2.16.4 may result in increased Premiums to Lessee. Because of the unique nature of the PSA and this Lease resulting in a gift of the Golf Course to Lessor, for Lease Years 1

through 5, Lessee may offset up to \$1,200 annually of the added premium costs associated with the additional insured coverage from the annual rent due Lessor on condition Lessee provides written documentation from Lessee's Insurance Carrier verifying the premium solely attributable to the coverage required by subparagraphs (a) and (b) of Section 2.16.4.

- 2.17 **Casualty Damage.** In the event the Premises are damaged or destroyed, Lessee may, at its option, promptly and diligently restore the Premises to a functionally equivalent condition that existed prior to the occurrence of the casualty or peril, mutually acceptable to Lessee and Lessor, at Lessee's expense, or may release and assign (and cause Sub-Lessee to release and assign) to Lessor any property insurance proceeds available as a result thereof and cancel and terminate this Lease, provided Lessee and/or Sub-Lessee may retain any separate insurance proceeds available for the loss of their respective Equipment, Inventory and personal property.

If Lessee elects to restore and repair the damage, in the event the damage and/or restoration activities are of such a nature that materially disrupts the operation of the clubhouse, restaurant and/or golf course, the rent shall be abated during the period necessary to restore or repair any damage caused by such casualty and the Lease term shall be extended by a like period.

- 2.18 **The Oversight Board.** Concurrently herewith, Lessor, Lessee and the Partnership hereby declare the formation and creation of the *Rolling Hills Oversight Board* (herein referred to as the "Oversight Board") an unincorporated non-profit Association whose sole purpose is to oversee the operation of the Golf Course and Restaurant so as to advance, promote and protect the interest of maintaining the Premises for golf course and other recreational uses.

The members, duties and basic operation of the Oversight Board are set forth in the PSA. Lessee and Lessor acknowledge that the Oversight Board has the duties and responsibilities set forth therein and in this Lease. Lessee, Sub-Lessee and Lessor agree to comply with and abide by all lawful directives and decisions of the Oversight Board.

The Oversight Board, by majority vote, shall have the right to incorporate itself and adopt Bylaws and/or Procedures and Rules of Order as Oversight Board deems reasonable or necessary. However, neither the Articles of Incorporation, Bylaws, Procedures or Rules may be inconsistent with the terms of the PSA or this Lease without the unanimous written consent of Lessee, and all Members of the Oversight Board and formal approval by the Lessor.

In the event of Lessee's default (including Sub-Lessee's default that Lessee fails to cure), Lessee shall pay all costs and fees incurred by the Oversight Board as a consequence of such default.

- 2.19 **Subletting Or Assignment.** Excluding the Sub-Lease to Sub-Lessee, Lessee shall otherwise not assign, transfer, mortgage, pledge, hypothecate or encumber this Lease or any interest therein and shall not sublet the Premises or any part thereof to any party without the prior written consent of the Oversight Board, which consent shall not be unreasonably withheld. Unless expressly provided to the contrary and approved by the Lessor, all the terms of this Lease are binding on Sub-Lessee. Further, Lessee is responsible for Sub-Lessee's performance of all obligations of Lessee or Sub-Lessee hereunder.
- 2.20 **Surrender Of Premises.** Lessee and Sub-Lessee shall, upon the expiration or sooner termination of this Lease, surrender the Premises to the Lessor in good condition, broom clean, ordinary wear and tear and damage from causes beyond the reasonable control of Lessee excepted. Lessee, at its sole cost and expense, agrees to repair any damage to the Premises caused by or in connection with the removal of any articles of personal property, business or trade fixtures, machinery, equipment, cabinet work, furniture, movable partitions, including, without limitation thereto, repairing the floor and patching and painting the walls where required by Lessor to Lessor's reasonable satisfaction.
- 2.21 **Environmental Compliance.** Lessee shall not dispose of, use, store, generate, produce or otherwise allow or permit the release of any Hazardous Material in, on or under the Premises, either on the part of Lessee or Sub-Lessee, except the following:
- a. Oil, solvents, fluids and petroleum products needed to maintain and operate the rolling stock, golf carts and Equipment and commonly used in golf course operations in the Puget Sound region so long as all such substances are used, stored and disposed of in accordance with all applicable laws and manufacturers and suppliers guidelines and recommendations and in a manner designed to avoid the risk of contamination of soils, ground waters and subsurface waters on, under or about the Premises.
 - b. Lawful fertilizers, pesticides, herbicides and other substances commonly used in golf course operations in the Puget Sound region so long as all such substances are used, stored and disposed of in accordance with all applicable laws and manufacturers and suppliers guidelines and recommendations and in a manner designed to avoid the risk of contamination of soils, ground waters and subsurface waters on, under or about the Premises.
 - c. Cleaning, office and restaurant solvents, cleaners and other substances commonly used for office or restaurant use, so long as such substances are used, stored and disposed of in accordance with applicable laws and manufacturers and suppliers guidelines.

Lessor shall save, indemnify and hold Lessee harmless from all liability for any contamination attributable to the use of the Premises by Lessee and Sub-Lessee and their operation of Business thereon.

2.22 Default; Remedies.

2.22.1 *Default.* The occurrence of any of the following shall constitute a material default and breach of this Lease by Lessee:

- a. Any failure by Lessee to pay Rent as required hereunder (where such failure continues for 120 days);
- b. Any failure by Lessee to pay any other monetary sums required to be paid hereunder (where such failure continues for 90 days);
- c. A failure by Lessee or Sub-Lessee to observe and perform any other provision of this Lease to be observed or performed by Lessee or Sub-Lessee, where such failure continues for sixty (60) days after written notice thereof by Lessor to Lessee, provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such sixty (60) day period, Lessee shall not be deemed to be in default if Lessee (or Sub-Lessee) shall, within such period, commence such cure and thereafter diligently prosecute the same to completion;
- d. The making by Lessee of any general assignment or general arrangement for the benefit of creditors; the filing by or against Lessee of a petition to have Lessee adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Lessee, the same is dismissed within 120 days); the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease where such seizure is not discharged within thirty (30) days.

2.22.2 *Remedies.* Subject to the provisions of Section 2.22.3, in the event of any such material default or breach by Lessee, Lessor may, at any time thereafter, without limiting Lessor in the exercise of any right or remedy at law or in equity which Lessor may have by reason of such default or breach under the laws of the State of Washington terminate any right to possession of Lessee and Sub-Lessee by any lawful means, in which case this Lease shall terminate and Lessee and Sub-Lessee shall immediately surrender possession of the Premises to Lessor. In such

event, Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's or Sub-Lessee's default.

2.22.3 *Exceptions.* Notwithstanding the provisions of Sections 2.22.1 and 2.22.2, in the case of Lessee's failure to pay Rent and/or the Lease Payments, the following provisions shall apply so long as Lessee has paid or made satisfactory arrangements for the payment of any expenses incurred by the Oversight Board as a result of Lessee's default:

- a. In the event Lessee claims it is unable to comply with its monetary obligations under the Lease for reasons other than mismanagement (such as declining revenues attributable to market conditions), Lessee may, by written notice to Lessor and the Oversight Board, seek a reduction in the annual Rent payments and/or Lease Reserve Payments, in which case, the Oversight Committee shall then consider and investigate the Company's request.¹
- b. If the Oversight Board is satisfied such inability is attributable to market conditions and not the fault or mismanagement of Lessee, the Oversight Board may suspend Lessee's obligation to make Rent or Lease Reserve Payments, reduce the amount of future payments, forgive back payments in whole or part and/or may give Lessee the option to extend the Lease Term for an additional term of up to 5 years to enable Lessee to pay cumulative lease payments of \$4,000,000.00 over a 25 year period or so much thereof as the Oversight Board deems is reasonably possible without jeopardizing the long-term maintenance and operation of the Golf Course.
- c. If the Oversight Board determines such inability is attributable to the fault or mismanagement of Lessee, Lessor may terminate the Lease.

2.23 **No Discrimination.** Neither Lessee or Sub-Lessee shall discriminate in the conduct and operation of their respective Businesses in the Premises against any person, or group of persons because of race, creed, color, sex, handicap, national origin or ancestry of that person or group of persons.

2.24 **Miscellaneous.**

2.24.1 *Entire Agreement.* This instrument, along with any exhibits and attachments hereto, constitutes the entire agreement between Lessor and Lessee relative to the Premises and this Agreement and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed by both Lessor and

¹ The above bracketed example is an example only and is not intended to constitute an exclusive list of permissible reasons.

Lessee. Lessor and Lessee agree hereby that all prior or contemporaneous oral agreements between and among themselves and their agents or representatives relative to the leasing of the Premises are merged in or revoked by this Agreement. Notwithstanding the foregoing, in the event any of the terms of this Agreement conflict with the terms of the PSA, the PSA will control.

2.24.2 *Severability.* If any term or provision of this Lease shall, to any extent, be determined by a Court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by law.

2.24.3 *Dispute Resolution.* In the event of any dispute hereunder, such dispute shall be submitted to the Oversight Board for resolution. In the event of deadlock or the failure of the Oversight Board to render a decision within thirty (30) days from the date the dispute has been submitted to the Oversight Board, either Party may bring an action in Superior Court and seek relief for any available remedies under the laws of the State of Washington.

In rendering its decision with respect to a dispute, the Oversight Board shall have the authority to assess the expenses of the Oversight Board and the substantially prevailing Party's costs and fees (including reasonable attorney fees) against the other Party.

2.24.4 *Costs And Fees.* In the event any action is instituted on account of this Agreement including an action to enforce the decision of the Oversight Board, the substantially prevailing Party shall be entitled to the recovery of its costs and fees, including costs or fees paid to the Oversight Board and the prevailing Party's reasonable attorney fees against the other Party.

2.24.5 *Binding Effect; Choice Of Law.* The parties hereto agree that all the provisions hereof are to be construed as both covenants and conditions as though the words importing such covenants and conditions were used in each separate paragraph hereof. All of the provisions hereof shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be governed by the laws of the State of Washington. Venue and jurisdiction for any controversy arising hereunder shall lie exclusively in Kitsap County, Washington.

2.24.6 *Holding Over.* If Lessee remains in possession of all or any part of the Premises following the expiration or termination of this Lease without the express written consent of Lessor, such tenancy shall be from month to month only and not a renewal hereof or an extension for any further term and such month to month

tenancy shall be subject to every other term, covenant and agreement contained herein.

2.24.7 *Notices.* All notices or demands of any kind required or desired should be given by Lessor or Lessee respectively at the addresses set forth after their signatures at the end of this Lease, or to the last address a party provided to the other in writing (the "Last Address"). Any notice required to be given by either party to the other shall be deposited in the United States mail, postage prepaid, addressed to the Party to whom notice is to be sent at such Party's Last Address. Either party may change her address by so designating to the other in writing from time to time.

2.24.8 *No Waiver Of Covenants.* Any waiver of either party of any breach hereof by the other shall not be considered to waiver of any future similar breach. This Lease contains all the agreements between the parties; and there shall be no modification of the agreements contained herein except by written instrument.

2.24.9 *Modification.* This Agreement may be modified or terminated only by a written memorandum executed by both Parties. It may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

2.24.10 *Captions.* The captions appearing under the section designations of this Agreement are for convenience only and are not a part of this Agreement and do not in any way limit or amplify the terms and provisions of this Agreement.

2.24.11 *Construction.* Unless some other meaning and intent are apparent from the context, the plural shall include the singular and vice versa, and masculine, feminine and neuter words shall be used interchangeably.

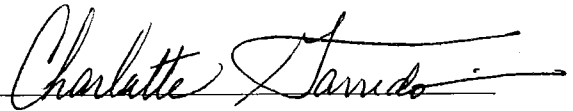
2.24.12 *Interpretation.* This Lease has been submitted to the scrutiny of all parties hereto and their counsel, if desired, and shall be given a fair and reasonable interpretation in accordance with the words hereof, without consideration or weight being given to its having been drafted by any party hereto or its counsel.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates set forth below.

LESSOR:
KITSAP COUNTY
614 Division Street
Port Orchard, WA 98366

Dated: 3-14-11

By



Printed Name: _____

Its: _____

LESSEE:

THE ROLLING HILLS GOLF COURSE, LLC

Address: 2485 NE McWilliams Road

Bremerton, WA 98311

Dated: March 18, 2011

By _____

Printed Name: Todd M. Hendrich / Gregory W. Peterson

Its Managing Members

Sub-Lessee's Covenants

Sub-Lessee agrees to be bound by all the terms and conditions of this Lease with respect to those portions of the Premises used for Restaurant, Bar and Banquet use and operation and all Equipment, Tenant Improvements and Appurtenances used therein or associated therewith.

SUB-LESSEE:

RHR, INC.

Address: 2485 NE McWilliams Road

Bremerton, WA 98311

By _____

Printed Name: Todd M. Hendrich

Its President

STATE OF WASHINGTON)

: ss.

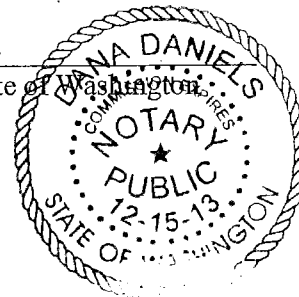
COUNTY OF KITSAP)

I hereby certify that I know or have satisfactory evidence that Charlotte Gorman is the person who appeared before me, and said person acknowledged that he/she signed this instrument and on oath stated that he/she is authorized to execute the instrument and acknowledged it as the Chair of KITSAP COUNTY, to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

Dated: 3-14-11

residing at: Port Orchard

Dana Daniels
Notary Public in and for the State of Washington



My appointment expires: _____
Printed Name _____

STATE OF WASHINGTON)
: ss.
COUNTY OF KITSAP)

I hereby certify that I know or have satisfactory evidence that Ted H. Hadenrich and Gregory W. Petersen ~~is~~ ^{are} the person^s who appeared before me, and said person^s acknowledged that ~~he~~ ^{they} signed this instrument and on oath stated that ~~he~~ ^{they} is ^{are} authorized to execute the instrument and acknowledged it as the Managing Member of THE ROLLING HILLS GOLF COURSE, LLC, to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

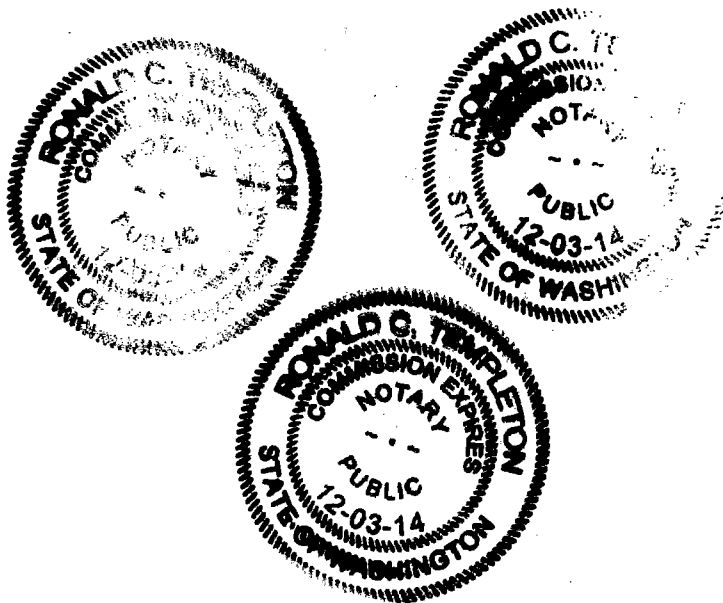
Dated: 3-18-11

residing at: Brenton

My appointment expires: 12-3-14

Ronald C. Templeton
Notary Public in and for the State of Washington

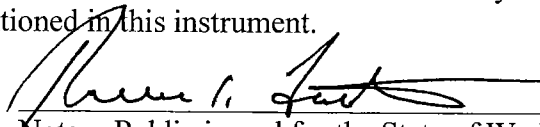
Ronald C. Templeton
Printed Name



STATE OF WASHINGTON)
: ss.
COUNTY OF KITSAP)

I hereby certify that I know or have satisfactory evidence that TEDD M. HUDANICH is the person who appeared before me, and said person acknowledged that he signed this instrument on oath stated that he is authorized to execute the instrument and acknowledged it as the President of RHR, INC., to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

Dated: 3-18-11


Notary Public in and for the State of Washington

residing at: Bremerton

My appointment expires: 12-3-14

Ronald C. Templeton
(Printed Name)

