

WAREHOUSE LEASE

This Warehouse Lease ("Lease") is made and entered into this 20th day of January 2005 (the "Effective Date"), by and between the **PORT OF BELLINGHAM**, a Washington municipal corporation ("Lessor"), and **GEORGIA-PACIFIC WEST, INC.**, an Oregon corporation ("Lessee"),

WHEREAS, pursuant to the terms and conditions of that certain Purchase and Sale Agreement ("Purchase and Sale Agreement") dated as of January 20, 2005, Lessor has acquired substantially all the real property and improvements owned by Lessee and its parent corporation, Georgia-Pacific Corporation, on the Bellingham waterfront. The acquisition includes real property, as more particularly [described] [shown] on Exhibit "A" (the "Tissue Warehouse Property") and includes a two-hundred and fifty thousand square foot tissue warehouse ("Tissue Warehouse") located thereon.

WHEREAS, under the terms and conditions of the Purchase and Sale Agreement, Lessor has agreed to lease to Lessee the Tissue Warehouse Property ("Premises").

ARTICLE I

1.1 **PREMISES LEGAL DESCRIPTION**: The Premises are legal described as follows: .

Lots "A", "B" and "C", G.P. & B.C. No. 2 Lot Line Adjustment – Auditors File No. 1990701088, Situate in Whatcom County, Washington.

ARTICLE II

Premises, Term, and Renewal

2.1 **LEASE OF PREMISES**: Lessor, in consideration of the rents hereinafter reserved and of the covenants and conditions herein set forth to be performed by Lessee, does hereby demise and let unto Lessee the Premises.

2.2 **TERM**: The initial term of this Lease shall begin on **January 20, 2005** and end on **June 30, 2006**.

2.2.1 Notwithstanding anything to the contrary, this Lease and all renewals hereto, at the option of Lessor, shall automatically terminate on the last day of the month in which the Lessee's Tissue Mill ceases substantial operation.

2.3 **RENEWAL**: Provided the Lease is in good standing, Lessee shall have the option, exercisable upon six (6) months written notice prior to the expiration of the initial term, to extend this Lease for one additional term of twelve (12) months at a rent provided in Section 3.1. Thereafter, Lessee shall have the option to renew this Lease for consecutive one-year periods for the then fair market value as determined in accordance with Section 3.2 by giving written notice of such intention to Lessor at least **six (6) months** prior to the expiration of any renewal thereof.

2.3.1 Any lease for any period extending past June 30, 2012 shall be subject to renegotiation of the rent and all other provisions.

ARTICLE III

**Compensation, Rental Renegotiation,
Arbitration, and Performance Bond**

3.1 **RENT**: As rent, the Lessee shall pay the following amounts:

Period	Amount
Initial Term: a. January 20, 2005 through December 31, 2005 and b. January 1, 2006 through June 30, 2006 (initial term 18 months)	\$350,000 per year, plus applicable Washington State leasehold excise tax without proration for the month of January 2005 \$175,000 (six months), plus applicable Washington State leasehold excise tax
Twelve Month Renewal Option: July 1, 2006 through June 30, 2007	\$350,000 per year, plus applicable Washington State leasehold tax.
July 1, 2007 to June 30, 2012	Fair market value as determined in accordance with Section 3.2
July 1, 2012 and thereafter	The lease is subject to full renegotiation of all terms.

3.1.1 Subject to Section 3.4.1, all rental payments, plus applicable Washington State leasehold excise tax, are to be made **monthly**, in advance, beginning **January 20, 2005**. A late charge of one percent (1%) per month will be assessed against past due amounts. All rental payments are due to Lessor on the [first] day of each month (except for the first month of January, 2005 (which shall be due on January 20, 2005) and are to be delivered to the Lessor at the current address as provided in Section 5.15f.

3.2 **RENTAL RENEGOTIATION**: Should Lessee renew this Lease, as provided for in Section 2.3 above, for any period after **July 1, 2007 and terminating before June 30, 2012**, the rental rate for the Premises shall be subject to renegotiation. The parties agree to renegotiate the fair market value amount of rent payable to Lessor, and to agree on the amount at least nine (9) months prior to the commencement date of each succeeding one-year period ("Rental Renegotiation Deadline"). In no event shall the rent payable by Lessee be less than the rent for the preceding year. If the parties unable to agree, the annual fair market value rent shall be determined by an MAI appraisal of the fair market value rent without consideration of

the previous rent. The parties will share equally the cost of the appraisal. If the parties are unable to agree on one MAI appraiser, then each shall select and pay for an MAI appraiser. The average of two MAI appraisals shall be the rent for the next year. Thereafter, the rent for the next four years shall increase annually by a percentage amount equal to the annual percentage increase in the Consumer Price Index for the Seattle-Everett Metropolitan Area. However, in no event will the rent for a succeeding annual term be less than the preceding term or increase more than three (3%) percent from the preceding term. For the sixth annual term and each five year anniversary thereafter, the process stated herein shall be repeated.

3.2.1 Rent for any lease for any period extending past June 30, 2012 shall be subject to renegotiation between the parties.

3.3 **PERFORMANCE BOND:** In compliance with the requirements of state law, Lessee agrees that it will secure the performance of the rental portion of this Lease by a good and sufficient bond, or equal surety, satisfactory to Lessor in an amount equal to one quarter of the annual rent then in effect, plus Washington State leasehold excise tax. Such bond shall be obtained within fourteen (14) days of execution of this Lease. Lessee shall forward evidence of such bond to Lessor within fourteen (14) days of execution of this Lease. Failure to comply with this requirement shall be grounds for termination of this Lease upon notice by Lessor. Said bond shall comply with the requirements of state law and shall be kept always in effect. In the event of failure to keep such bond in full force and effect, this Lease may be terminated upon thirty (30) days written notice to Lessee and reasonable opportunity to cure.

3.3.1 In lieu of the performance bond requirement outlined above, the Lessee shall have the option to pay rents annually in advance.

ARTICLE IV

Use of Premises, Condition of Premises, Improvements, Removal of Property, Maintenance, Utilities, and Off Street Parking

4.1 **LESSEE'S USE OF PREMISES:** Lessee shall only conduct the following activity on the Premises: **STORAGE, HANDLING, TRANSPORTATION AND SHIPMENT OF PAPER PRODUCTS PRODUCED BY LESSEE.** It is further understood and agreed that the Premises shall not be used to store, distribute or otherwise handle flammable or dangerous materials, except as may be used in the normal course of Lessee's business.

4.2 **LESSOR'S RESERVATION OF ACCESS TO PARKING AREAS:** The Lessor hereby reserves reasonable access over and across the parking areas for the purpose of (i) delivering lechate from the Airport Landfill to the Aeration Stabilization Basin (ASB) and access for technical consultants to study the ASB provided such access does not unreasonably interfere with the use of the Premises by the Lessee..

4.2.1 The parties shall negotiate reasonable access to the ASB for the purpose of conducting remedial actions and the non-exclusive use of the parking area in any lease renewal that will extend past June 30, 2007. Such use and reasonable access will not unreasonably interfere with the use of the premises by the Lessee.

4.3 **CONDITION OF PROPERTY:** Except as specifically provided herein, Lessee accepts the Premises "as is" without further maintenance liability on the part of Lessor, and is not relying on any representations of Lessor as to the condition or usability of the Premises, except Lessor's right to grant a lease of the Premises.

4.4 **IMPROVEMENTS BY LESSEE**: Subject to obtaining written approval as hereafter described, Lessee may make and install, at its own expense, such improvements as are normal and customary in connection with the activity described in Section 4.1 above. Lessee's contractor, if any, shall be subject to Lessor's approval, not unreasonably withheld. Lessor reserves the right to condition its approval upon Lessee providing satisfactory payments and/or performance bonds. Lessee shall submit plans to and obtain written approval from Lessor before commencing any improvements. Notwithstanding the foregoing, Lessee shall have the right to make nonstructural improvements costing less than \$10,000 without the prior written approval of Lessor. All improvements by Lessee shall conform to the requirements of the Americans With Disabilities Act, 42 USC 12111 et seq.

4.5 **REMOVAL OF LESSEE'S PROPERTY**: On or before the termination of the Lease, Lessee shall, at its own expense, remove all improvements placed on the Premises by the Lessee after the inception of this Lease unless accepted by Lessor and all personal property of Lessee from the Premises. If Lessee fails to remove any of its improvements or personal property from the Premises, Lessor may, at its option, remove and store said property without liability for loss thereof or damage thereto. The storage shall be for the account and at the expense of Lessee. If Lessee fails to pay the storage costs after thirty (30) days, Lessor may, at its option, sell any or all of such property at public or private sale, in such manner and at such times and places as Lessor, in its sole discretion, may deem appropriate, without notice to Lessee. Lessor shall apply the proceeds of the sale first to the costs of the sale, including attorneys' fees, second to the storage costs, and third to the payment of any amounts then or thereafter due to Lessor from Lessee under this Lease. The balance, if any, shall be returned to Lessee.

4.6 **MAINTENANCE OF FACILITIES**: Maintenance of the loading bays, loading doors, interior of the Premises (including interior and exterior lamp replacement), and all non-structural improvements therein not otherwise the responsibility of Lessor herein, shall be the responsibility of Lessee. Lessee shall promptly repair any damage caused by the negligent or willful acts of Lessee, its employees, its agents or any third party on the Premises at the request of Lessee. Except for damage caused by Lessee's employees, agents or any third party on the Premises at the request of Lessee, Lessor shall be responsible for the repair and maintenance of the roof system, plumbing system (not including interior fixtures), HVAC system, sprinkler system, methane gas collection system, electrical system, the exterior wall system, foundation and all other structural components of the Tissue Warehouse, and the paved parking areas and driveways

4.7 **UTILITIES**: Lessee shall arrange and pay for any and all utility connections and services and distribution of such utilities required for the Tissue Warehouse, including, but not limited to, water, sewer, storm and surface water utility fees, electricity, and gas.

4.8 **PARKING**: Lessee agrees to provide space for the parking of vehicles in the number necessary to comply with applicable regulations and otherwise to accommodate its normal business requirements on property included within this Lease and not rely on any public streets, right-of-way or other properties not included in this Lease for the parking of said vehicles.

ARTICLE V

Miscellaneous Provisions

5.1 **INSURANCE**: The parties hereto agree that Lessor shall not be responsible to Lessee for any property loss or damage done to Lessee's property, whether real, personal or mixed, occasioned by reason of any fire, storm or other casualty whatsoever. It shall be Lessee's sole responsibility to provide its own protection against casualty losses of its improvements and personal property of whatsoever kind or nature, regardless of whether or not such loss is occasioned by the acts or omissions of the Lessor, Lessee, third party, or act of nature.

5.1.1 Lessee covenants and agrees that it will, at all times during the existence of this Lease, carry a comprehensive general liability insurance policy, naming both parties hereto as insured, with a bodily injury amount of not less than \$1,000,000 aggregate per person and per accident. Lessee shall provide evidence of such insurance to Lessor in a form reasonably acceptable to Lessor. Lessee believes and states that the insurance obligation herein does not exceed that which Lessee would otherwise normally place upon itself and obtain in order to operate its business in a prudent manner.

5.1.2 The Lessor shall insure or self insure the Premises under the Lessor's normal risk management/insurance programs. Lessor waives subrogation to the extent permitted without impairing insurance coverage under the Lessor's insurance programs.

5.1.2 In the event that the Tissue Warehouse on the Premises is substantially destroyed (i.e., to the extent of fifty percent (50%) or more of the replacement cost of the Tissue Warehouse immediately prior to such loss) by fire, the elements, or any other cause, the Lease shall be automatically terminated and of no further force and effect as of the date of such casualty. If the Tissue Warehouse is only partially damaged (less than 50%) by fire, the elements or any other cause, and if such damage does not substantially interfere with the conduct of Lessee's business on the Premises, Lessor shall promptly repair such damage. If, however, such damage shall substantially interfere with the conduct of Lessee's business on the Premises, Lessor shall have the option either to terminate this Lease effective as of the date of such casualty or to repair such damage. This option must be exercised by Lessor within thirty (30) days from the date of such damage and the repairs are to be made without undue delay. If Lessor elects not to repair the damage, the Lease shall be automatically terminated and of no further force and effect as of the date of such casualty. If Lessor repairs or elects to repair such damage, a reasonable abatement, proration or refund of the rent shall be made until the repairs have been completed.

5.2 **INDEMNIFICATION AND HOLD HARMLESS**: On and after the Effective Date, Lessee covenants and agrees that it will protect, save, and keep Lessor forever harmless and indemnified from any damages (including fines or penalties) arising as a result of accidents, injuries, or other occurrences, caused by the negligence or willful conduct of either Lessee, or those holding under Lessee, regardless of who the injured party may be. Notwithstanding the foregoing, Lessee shall not be responsible for that portion of the damages arising from the negligent or willful conduct of Lessor, its employee or agents.

5.2.1 **Environmental Indemnification and Hold Harmless**: On and after the Effective Date, and except with regard to the actions of Lessor, its employees or agents, Lessee shall indemnify and hold Lessor harmless from any and all claims, demands, judgments, orders, or damages resulting from hazardous substances discharged onto the Premises by Lessee, its employees, or agents, subtenants, or any other person or entity on Premises during the term of this Lease. It is the intent of the parties that Lessee shall be responsible and shall hold Lessor harmless from any hazardous substances that are discharged onto Lessor's property or the Premises during the term of this Lease or any renewal thereto. The term "hazardous

substances," as used herein, shall mean any substance heretofore or hereafter designated as hazardous under the Resource Conservation and Recovery Act, 42 U.S.C. Sec. 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. Sec. 1257 et seq.; the Clean Air Act, 42 U.S.C. Sec. 2001 et seq.; the Comprehensive Environmental Response Compensation and Liability Act of 2080, 42 U.S.C. Sec. 9601 et seq.; or the Hazardous Waste Cleanup-Model Toxics Control Act, RCW 70.105D, all as amended and subject to all regulations promulgated thereunder.

5.2.2 Lessee's indemnity obligations are unconditional, shall not be discharged or satisfied by Lessor's re-entry of the Premises or exercise of any other remedy for Lessee's default under this Lease, shall continue in effect after any assignment or sublease of this Lease, and shall continue in effect after the expiration or earlier termination of this Lease.

5.3 **LESSEE SHALL OBTAIN AND MAINTAIN PERMITS:** Lessee agrees to obtain and comply with all necessary permits for any operation conducted by Lessee on the Premises or anyone on the Premises with the permission of Lessee and for any leasehold improvement . If Lessee fails to obtain and comply with such permits, then Lessee accepts full responsibility for any and all costs incurred by Lessor, including actual attorneys' fees. In this way, Lessee agrees to hold Lessor harmless for Lessee's failure to fully comply with any necessary permit process and requirements.

5.4 **LIENS:** Lessee agrees to keep the Premises free and clear of all liens and charges whatsoever caused by Lessee or anyone on the Premises with the permission of Lessee. Lessee shall not allow any materialsmen's, mechanic's or other liens caused by Lessee to be placed upon the Premises . If such a lien is placed of record, Lessee shall cause it to be discharged or bonded, at its own expense, within ten (10) days of Lessor's demand. Failure to comply with Lessor's demand within ten (10) days shall be a default under the terms of this Lease.

5.5 **LAWS AND REGULATIONS:** Lessee agrees to conform to and abide by all lawful rules, codes, laws, and regulations in connection with its use of said Premises and the construction of improvements and operation of Lessee's business thereon, and not to permit the Premises to be used by Lessee or anyone on the Premises with the permission of Lessee in violation of any lawful rule, code, law, regulation or other authority.

5.5.1 Lessee's obligations herein shall include, but in no way be limited to, the obligation to comply with all state and federal environmental laws and regulations. Lessee covenants and agrees that it will indemnify and hold harmless Lessor from any fine, penalty, or damage which may be imposed by any lawful authority or which may arise as a result of Lessee's failure to comply with the obligations of this Section.

5.6 **WASTE AND REFUSE:** Lessee agrees not to allow conditions of waste and refuse to exist on the Premises and to keep the Premises in a neat, clean, and orderly condition and to be responsible for all damages caused to the Premises by Lessee, its employees, agents or any third party on the Premises at the request of Lessee.

5.7 **TAXES AND ASSESSMENTS:** Lessee agrees to pay its pro rata share of all taxes, fees and assessments including, but not limited to, storm water assessments assessed against the Premises based upon an overall sharing program among all properties served by the same utility.

5.8 **SIGNS**: No exterior signs shall be installed without the written consent of Lessor, which consent shall not be unreasonably conditioned, withheld or delayed.

5.9 **EQUAL OPPORTUNITY**: Lessee agrees that in the conduct of activities on the Premises it will be an equal opportunity employer in accordance with Title VI of the 1964 Civil Rights Act, and will comply with all requirements of the Americans With Disabilities Act.

5.10 **LITIGATION**: In the event Lessor shall be made a party to any litigation commenced by or against Lessee arising from this Lease, then Lessee agrees to pay all costs, expert witness fees, and attorneys' fees, including all customary charges, incurred by Lessor in connection with such litigation. However, if Lessor is made a party defendant and Lessee undertakes the defense of the action on behalf of Lessor, then no obligation for costs and attorneys' fees will be chargeable against Lessee by Lessor for costs arising out of such undertaking. Lessee also agrees to pay all costs and attorneys' fees incurred by Lessor in enforcing any of the covenants, agreements, terms, and provisions of this Lease. This Section shall not apply to any dispute primarily between Lessor and Lessee concerning this Lease.

5.11 **ASSIGNMENT OF LEASE**: Lessee shall have the right to assign this Lease to an affiliate of Lessee or its parent corporation, Georgia-Pacific Corporation, without the consent of Lessor provided Georgia-Pacific Corporation shall remain liable for the performance of Lessee herein.. Lessee shall have the right to sublease this Lease or any portion thereof with the prior written consent of Lessor which consent shall not be unreasonably withheld. Notwithstanding the foregoing, Georgia-Pacific shall not assign or sublease this Lease or any portion thereof prior to July 1, 2007.

5.12 **TERMINATION**: Upon termination of this Lease or any extension thereof, whether by expiration of the stated term or sooner termination thereon, as herein provided, Lessee will surrender to Lessor said Premises peaceably and quietly, "broom clean," and in the same condition in which they existed prior to the commencement of this Lease, reasonable wear and tear, casualty and condemnation excepted.

5.13 **DEFAULT**: Failure to pay rent or other monetary obligations when due, pursuant to Section 3.1.1, shall constitute a default under the terms of this Lease. If default in the payment of rent or other monetary obligations occurs then, at Lessor's sole option, upon ten (10) days' written notice, this Lease may be terminated and Lessor may enter upon and take possession of the Premises. This remedy is in addition to and is not exclusive of any other remedies provided either by this Lease or by law.

5.13.1 If Lessee shall fail to perform any term or condition of this Lease, other than the payment of rent or other monetary obligations, then Lessor, upon providing Lessee thirty (30) days' written notice of such default, may terminate this Lease and enter upon and take possession of the Premises, unless the default is not capable of being cured within the thirty (30) day period. In such event, Lessee shall not be in default so long as Lessee is diligently proceeding to cure the subject of the default and does so within one-hundred and eighty (180) days. This remedy is in addition to and is not exclusive of any other remedies provided either by this Lease or by law.

5.13.2 The following shall also constitute a default under the terms of this Lease: insolvency of Lessee; an assignment by Lessee for the benefit of creditors; the filing by Lessee of a voluntary petition in bankruptcy; an adjudication that Lessee is bankrupt or the appointment of a receiver of the properties of Lessee; the filing of an involuntary petition of bankruptcy and failure of Lessee to secure a dismissal of the petition within thirty (30) days after filing;

normal and usual operation. Without limiting the foregoing, Lessor or its agents may enter the Premises with prior reasonable notice to Lessee, for the purpose of inspecting the building and planning for the reuse of the Premises.

5.18.1 Lessor reserves the right to grant easements and other land uses on the Premises to others when the easement or other land uses applied for will not unreasonably interfere with the use to which the Lessee is putting the Premises. No easement or other land uses shall be granted to third parties, until damages to Lessee have been dealt with appropriately, or a waiver has been signed by Lessee.

5.19 **TIME**: It is mutually agreed and understood that time is of the essence of this Lease and that a waiver of any default of Lessee shall not be construed as a waiver of any other default.

5.20 **INTERPRETATION**: In any dispute between the parties, the language of this Lease shall, in all cases, be construed as a whole according to its fair meaning and not for or against either the Lessor or the Lessee. If any provision is found to be ambiguous, the language shall not be construed against either Lessor or Lessee solely on the basis of which party drafted the provision. If any word, clause, sentence, or combination thereof for any reason is declared by a court of law or equity to be invalid or unenforceable against one party or the other, then such finding shall in no way affect the remaining provisions of this Lease.

5.21 **HOLDING OVER**: If Lessee remains in possession of the Premises after the date of expiration of this Lease, with the written consent of the Lessor, it is hereby agreed and understand that until such time as a new agreement in writing shall be entered into between the parties thereto, Lessee shall continue to make payments to Lessors provided for in this Lease. Said holdover tenancy may be terminated by either party at the end of any calendar month period by sending written notice not less than five (5) days before the end of such period. Said holding over shall be subject to approval of Lessor.

5.22 **SURVIVAL**: All obligations of Lessee, as provided for in this Lease except the payment of rent, 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 until fully performed.

5.23 **FURTHER COOPERATION**: Lessor and Lessee recognize that this Lease is part of the larger transaction set forth in the Purchase and Sale Agreement. Therefore, the parties shall cooperate in all respects to allow Lessee to continue to operate the Tissue Warehouse and allow Lessor to undertake environmental remediation and develop activities on the balance of the property acquired under the Purchase and Sale Agreement.

5.24 **ENTIRE AGREEMENT**: This Lease contains all of the understandings between the parties. Each party represents that no promises, representations or commitments have been made by the other as a basis for this Lease which have not been reduced to writing herein. No oral promises or representations shall be binding upon either party, whether made in the past or to be made in the future, unless such promises or representations are reduced to writing in the form of a modification to this Lease executed with all necessary legal formalities by the Commission of the Port of Bellingham.

IN WITNESS WHEREOF, Lessor has caused this instrument to be signed by its Executive Director by authority of the Commission of the Port of Bellingham, and this instrument has been signed and executed by Lessee, the day and year first above written.

GEORGIA-PACIFIC WEST, INC.

PORT OF BELLINGHAM

By: _____ President _____
Carol A. Stephens
Senior Director of Corporate Real Estate

Secretary

LESSEE

LESSOR

PORT/PROPERTIES/WAREHOUSE LEASE_11-05-04(RSV)