

GROUND LEASE AGREEMENT

This Ground Lease Agreement (the "Ground Lease") is made as of the ____ day of _____, 2010, by and between THE CITY OF SNOQUALMIE, WASHINGTON, a Washington municipal corporation ("Lessor") and WALLACE PROPERTIES DEVELOPMENT COMPANY LLC, a Washington limited liability ("Lessee").

RECITALS

A. Lessor is the owner of the real estate described on **Exhibit A** attached hereto (the "Land") located in the City of Snoqualmie, King County, Washington; and

B. Lessor intends to lease the Land to the Lessee pursuant to this Ground Lease, and the Lessee intends to construct and equip thereon a community center building and related facilities and grounds—as more fully described in the Preliminary Design and Specifications, including all HVAC, electrical and other building systems, and any parking included in the Preliminary Design and Specifications (the "Project"), all as more particularly defined in that certain agreement between the parties titled "Lease Agreement" (the "Project Lease").

C. Lessee intends to lease the Project back to Lessor in accordance with the Municipal Leasing Act, RCW 35.42, and pursuant to the Project Lease.

D. All capitalized terms used in this Ground Lease but not otherwise defined herein (including these Recitals hereto) shall have the meanings given to such terms in the Project Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the parties hereto agree as follows:

ARTICLE I

THE DEMISE

1.1 Demise. In consideration of the rents, covenants and agreements contained in this Ground Lease, Lessor hereby leases the Land to Lessee, and Lessee hereby leases the Land from Lessor upon and subject to the conditions set forth in this Ground Lease, and subject to all encumbrances and matters of record as of the date of this Ground Lease.

1.2 Use of Land. The Land shall be used and occupied only for the purpose of the development, operation, use, repair and maintenance of the Project but, until Lessee commences such use and occupancy, Lessor reserves the right to continue to use and occupy the Land for its purposes at no cost. Lessee shall not use or permit the Land to be used for any other purpose without the prior written approval of the Lessor. Lessee is hereby authorized to lease to Lessor the Land as improved by the Project Facilities pursuant to the Project Lease.

1.3 Access and Utilities. Lessor and Lessee agree to mutually cooperate regarding the provision of reciprocal temporary and permanent pedestrian and vehicular access and utilities

to, from, and over the Land and the Project Facilities to, from, and over adjacent lands of Lessor. Lessor and Lessee further agree to mutually cooperate regarding the use of parking on the Land and the adjacent lands of the Lessor during construction of the Project. Lessor and Lessee agree to execute such instruments as may be necessary to provide for such pedestrian and vehicular access, parking and utilities and agree to cooperate in the location thereof.

ARTICLE II

TERM

2.1 Commencement. Subject to the terms and conditions of this Lease, the term of this Ground Lease shall commence on the effective date of the City of Snoqualmie ordinance approving this Ground Lease ("Effective Date").

2.2 Duration. The term of this Ground Lease shall continue from the Effective Date until the earlier of (i) December 31, 205_ or (ii) the date that the City of Snoqualmie, as Tenant under the Project Lease, terminates the Project Lease pursuant to Section 9.14(a) (Termination Prior to Commencement of Construction) or pursuant to Section 35 of the Project Lease (by exercising Tenant's Option to Purchase the Project Facilities) (the "Term").

ARTICLE III

RENT

3.1 Rent Amount. Lessee shall pay to Lessor as rent for the Term the sum of \$100.00 payable in whole in advance on or before the first day of the Term.

ARTICLE IV

DEVELOPMENT OF PROJECT

4.1 Construction. Lessor agrees that Lessee may cause the Project to be constructed and developed pursuant to the Project Lease. Lessee shall not permit any development or construction on the Land except as contemplated by the Project Lease or as otherwise specifically approved in writing by Lessor.

4.2 Ownership of Improvements. During the Term, the Project and all other improvements on the Land paid for by Lessee shall be owned by Lessee. Upon the expiration or earlier termination of this Ground Lease, the Project and all other improvements on the Land shall become the property of Lessor.

ARTICLE V

TAXES AND UTILITIES

5.1 Lessee's Responsibility. Lessee shall be solely responsible for the payment of and shall pay and discharge all utility charges which are incurred as part of Project Costs as defined in the Project Lease.

5.2 Lessor's Responsibility. Lessor shall pay all utility charges that are not part of Project Costs and all real estate taxes and assessments that are imposed upon the Land, including, without limitation, any leasehold excise taxes arising as a result of this Ground Lease. In accordance with RCW 35.42.090, this Ground Lease shall be exempt from any taxes imposed under the authority of chap. 82.45 RCW, RCW 82.04.040, or RCW 82.08.090.

ARTICLE VI

CONDITION OF THE LAND

6.1 Condition of Land. Lessee hereby accepts the Land "as is" in its existing condition. Notwithstanding the foregoing, Lessor shall be solely responsible for all claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of hazardous substances that were present in the soil, groundwater or soil vapor on or under the Land or any adjacent or nearby property as of the date of this Lease, including any costs of investigation or remediation of such toxic or hazard substances that may be required by any federal, state or local government agency. Lessor shall not be responsible for any claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the release or disposal of hazardous substances on the Land during construction of the Project and the responsibility for the same shall remain with Lessee.

From and after the Effective Date of this Ground Lease, and to the extent permitted by law, Lessee shall absolutely and unconditionally indemnify, defend and hold Lessor harmless from and against any and all debts, demands, obligations, liens, judgments, claims, liabilities, losses, damages, cleanup costs and expenses (including reasonable attorneys' fees) now or hereafter arising in connection with the presence, transportation, storage, disposal or handling of Hazardous Substances located in, on or about the Land caused by or resulting from the actions of Lessee, its agents or employees after the Effective Date of this Ground Lease, excluding (a) any Hazardous Substances present on the Land prior to the Effective Date of this Lease or which migrates onto the Land from property not owned by Lessee through no act or omission of Lessee; (b) any such debt, demand, obligation, lien, judgment, claim, liability, loss, damage, cleanup cost or expense resulting from the actions or omissions of Lessor and its respective agents, employees, contractors, subcontractors or invitees; or (c) any debt, demand, obligation, lien, judgment, claim, liability, loss, damage, cleanup cost or expense as a result of Lessor's violation of any contractual obligation under this Ground Lease. This indemnification shall survive the Expiration Date of this Ground Lease.

6.2 Lessor's Right to Inspect. Lessor shall have the right to inspect the Land at any time.

ARTICLE VII

LIENS; SECURITY INTEREST

7.1 Lessee's Duty. Except for the use of this Ground Lease as security under the Mortgage to finance or refinance the Project or as specifically approved in writing by Lessor, Lessee will not directly or indirectly create or permit to be created or to remain, and will discharge any other mortgage, lien, security interest, encumbrance or charge on, pledge of or conditional sale or other title retention agreement with respect to the Land, any part thereof, the Project Facilities, Lessee's interest therein, or any equipment, fixtures or personalty on the Land that is imposed by or as a result of the actions of the Lessee.

ARTICLE VIII

INDEMNITY AND INSURANCE

8.1 Indemnity. Lessee agrees to hold harmless, indemnify and defend Lessor, its officers, agents, and employees, from and against any and all claims, losses, or liability, for injuries, sickness or death of persons, including employees of Lessee, or damage to property, arising out of any willful misconduct or negligent act, error, or omission of Lessee, its officers, agents, contractors, subcontractors or employees, in connection with Lessee's use of the Land, provided, however, that:

(A) Lessee's obligations to indemnify, defend and hold harmless shall not extend to injuries, sickness, death or damage caused by or resulting from the sole willful misconduct or sole negligence of Lessor, its officers, agents, contractors, subcontractors or employees; and

(B) Lessee's obligations to indemnify, defend and hold harmless for injuries, sickness, death or damage caused by or resulting from the concurrent negligence or willful misconduct of Lessee and Lessor, or of Lessee and a third party other than an officer, agent, contractor, subcontractor or employee of Lessee, shall apply only to the extent of the negligence or willful misconduct of Lessee.

Pursuant to RCW 4.24.115, Lessee agrees that to the extent necessary to hold harmless, indemnify, and defend Lessor and its officers, agents, and employees from any claims, losses, or liability for injuries, sickness, or death of Lessee's employees, but only to such extent, Lessee waives Lessee's immunity under industrial insurance, Title 51 RCW, for any such injury, sickness, or death. By signing this Ground Lease, Lessee and Lessor acknowledge that this waiver has been mutually negotiated.

8.2 Lessee's Insurance. Lessee shall, at all times during the Term of this Ground Lease, maintain the following insurance coverage, and shall name Lessor as a named insured under each of the policies required below:

(A) Property Insurance. Property insurance fully insuring all improvements constructed on the Land as well as all of Lessor's personal property and trade fixtures located on the Land against loss or damage by fire and lightning, and insurance against risks customarily

covered by extended coverage endorsement, including but not limited to loss by windstorm, hail, explosion, riot, vehicles, smoke damage, vandalism and malicious mischief in amounts sufficient to prevent Lessor or Lessee from becoming a co-insurer of any loss under the applicable policies, but in any event in amounts not less than the full replacement cost of all buildings, equipment, and other improvements to the Land, including the cost of debris removal. The property insurance policy shall meet the requirements set forth in this section and in the Project Lease.

(B) General Liability. Commercial liability insurance, covering the legal liability of Lessor and Lessee against claims for bodily injury, death or property damage, occurring on, in or about the Land and the Project. The commercial liability insurance policy shall meet the requirements set forth in this section and in the Project Lease.

(C) Financially Responsible Insurers. All of the insurance obtained under this Section 8.2 shall be written by companies which are legally qualified to issue such insurance and which have a Best's rating of no less than A:III, or, if not rated by Best's, which have a rating in one of the two highest categories maintained by S&P and Moody's, and shall name Lessor as additional named insured. Lessor shall be given forty-five (45) days advance notice of any termination or intent to terminate or cancel any policy referred to in this Article.

8.3 Waiver of Subrogation. Every insurance policy maintained pursuant to Section 8.3 shall provide that the insurer waives all rights of subrogation against a named insured, and any successor to a named insured's interest in the Land or the Project Facilities. Lessor shall hold Lessee harmless from all damages arising out of the damage to any person or property occurring in, on, or about the Land and the Project other than damages arising out of the intentional misconduct or breach of this Lease by Lessee, its employees or agents; provided, however, that Lessor's obligation under this subparagraph shall be limited to the sum that exceeds the amount of insurance proceeds, if any, received by Lessor.

8.4 Evidence of Insurance. Lessor shall deliver to Lessee prior to the commencement of the Term of this Lease certificates of insurance evidencing all the insurance which is then required to be maintained by Lessor, and Lessor shall, within forty-five (45) days prior to the expiration of any such insurance, deliver other certificates of insurance evidencing the renewal of such insurance.

ARTICLE IX

EMINENT DOMAIN

9.1 Award. In the event of any taking, partial or whole, Lessor shall be entitled to the entire award judgment or settlement from the condemning authority for the value of the Land taken by the condemning authority.

ARTICLE X

EVENTS OF DEFAULT BY LESSEE AND LESSOR'S REMEDIES

10.1 Events of Default. The following occurrences or acts shall constitute an event of default under this Lease:

(A) Failure to Perform. If Lessee shall (1) default in making payment when due of any rent or any other amount payable by Lessee hereunder; or (2) default in the observance or performance of any other substantial provision of this Lease to be observed or performed by Lessee hereunder; and, in either case, if such default shall continue for thirty (30) days, in each case after Lessor shall have given to Lessee notice specifying such default and demanding that the same be cured, or, with respect to a default under subsection (2), if by reason of the nature thereof such default cannot be cured by the payment of money and cannot with due diligence be wholly cured within such period of thirty (30) days, if Lessee shall fail to proceed promptly to cure the same and thereafter prosecute the curing of such default and with all due diligence, it being intended in connection with a default not susceptible of being wholly cured with due diligence within such period that the time within which to cure the same shall be extended for such period as may be necessary to complete the curing of the same with all due diligence; or

(B) Lessee's Financial Condition. If Lessee shall make a general assignment for the benefit of creditors, or shall file a petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, or shall file an answer admitting or shall fail seasonably to contest the material allegations of a petition filed against it in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Lessee or any material part of its properties; or

(C) Termination of Project Lease. Subject to any prior rights of any beneficiary or trustee under a leasehold deed of trust encumbering the ground lease estate created by this Ground Lease, If the City of Snoqualmie, as lessee under the Project Lease, terminates the Project Lease as provided therein for Wallace Properties Development Company LLC's failure, as lessor under the Project Lease, to timely complete the Project.

10.2 Remedies Upon Lessee's Default. In the event of any default by Lessee as defined hereinabove which default remains uncured after the expiration of the respective period set forth above, Lessor may exercise any remedy which may be available to Lessor at law or equity, including but not limited to actions for damages, and/or injunctive relief; provided, that Lessor may not terminate this Ground Lease prior to the end of the Term except for Lessee's failure to pay the rent when due or subject to any prior rights of any beneficiary or trustee under a leasehold deed of trust encumbering the ground lease estate created by this Ground Lease upon termination of the Project Lease as provided under Section 10.1(C) above.

10.3 Cumulative Rights and Remedies. The rights and remedies reserved to Lessor herein, including those not specifically described, shall be cumulative, and except as provided by Washington statutory law in effect at the time, Lessor may pursue any and all such rights and remedies at the same time or independently.

10.4 No Waiver. No delay or omission of Lessor to exercise any right or remedy shall, except as expressly provided herein, be construed as a waiver of any such right or remedy or of any default by Lessee hereunder. The acceptance by Lessor of rent or any additional rent hereunder shall not be a waiver of any preceding breach or default by Lessee of any provision

hereof, other than the failure of Lessee to pay the particular rent accepted, regardless of Lessor's knowledge of such preceding breach or default at the time of acceptance of such rent, or, except as expressly set forth herein, a waiver of Lessor's right to exercise any remedy available to Lessor by virtue of such breach or default.

10.5 Attorneys' Fees. If either party incurs any expenses, including but not limited to reasonable attorneys' fees, consultant and expert witness fees (including, without limitation, those incurred on appeal), in connection with any action or proceeding instituted by any party by reason of any default or alleged default of a party hereunder, the party prevailing in such action or proceeding shall be entitled to recover its reasonable expenses from the other party hereof. For purposes of this provision, in any action or proceeding instituted pertaining to the Lease, a party shall be deemed the prevailing party if (a) judgment is entered substantially in favor of said party, or (b) before trial or judgment the other party shall pay all or any portion of the charges claimed by said party, or the other party shall eliminate the condition(s), cease the act(s) or otherwise cure the omissions(s) claimed by said party to constitute a default by the other party hereunder.

ARTICLE XI

QUIET ENJOYMENT

11.1 Lessee's Occupation of Land. If and so long as Lessee shall pay all rent and all other amounts payable by Lessee hereunder whenever the same shall become due and shall keep all of the covenants and conditions required by it to be kept during this Lease and shall perform all of its other obligations hereunder, Lessor covenants and agrees that, except as may otherwise be provided in the Project Lease, Lessor will not interfere with the peaceful and quiet occupation and enjoyment of the Land by Lessee, which occupation and enjoyment shall be without hindrance, ejection or molestation by Lessor.

ARTICLE XII

LESSEE TO COMPLY WITH APPLICABLE LAWS AND AGREEMENTS

12.1 Compliance with Laws. Lessee shall not use the Land or permit anything to be done in or about the Land which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force, and obtain all permits, licenses or other approvals required by governmental agencies or bodies. Lessee shall further comply with the requirements of any board or fire insurance underwriters or other similar bodies now or hereafter constituted, relating to, or affecting the condition, use or occupancy of the Land.

12.2 Compliance with Agreements. Lessee shall comply with all insurance policies and applicable agreements to which Lessee is a party or by which it is bound, now or hereafter in effect, and all agreements of which Lessee has notice and which are now in effect and applicable to the Land.

ARTICLE XIII

WAIVER

13.1 Waiver Limitations. The waiver by either party of any term, covenant or condition herein contained on the part of the other party to be performed shall not be deemed a waiver of such term, covenant or condition for any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

ARTICLE XIV

NOTICES

14.1 Mailing Addresses. All notices, requests, demands, instructions or other documents to be given hereunder to any party shall be in writing and shall either be personally delivered to the party at the appropriate address set forth below (in which event such notice shall be deemed effective only upon such delivery) or delivered by mail, sent by registered or certified mail, return receipt requested, as follows:

If to Lessor:

City Administrator
P.O. Box 987
Snoqualmie, WA 98065
Facsimile: (425) 831-6041

If to Lessee:

Wallace Properties Development Company LLC
330 112th Ave. NE
Bellevue, WA 98009-4184
Facsimile: (425) 646-3374

Notices so mailed shall be deemed to have been given forty-eight (48) hours after the deposit of the same in any United States Mail post office box in the state to which the notice is addressed or seventy-two (72) hours after deposit in any such post office box other than the state to which the notice is addressed, postage prepaid, addressed as set forth above. For the purpose of this paragraph addresses for notice may be changed by giving written notice of such change in the manner herein provided for giving notice.

ARTICLE XV

ASSIGNMENT AND SUBLEASING

15.1 Subleasing. Lessor and Lessee intend that Lessee shall enter into the Project Lease with Lessor. Any other proposed subleases of the Land shall be subject to the review and approval of Lessor.

15.2 Assignment. Except as may be required pursuant to the Mortgage, Lessee shall not assign, mortgage, or encumber this Lease or delegate the duties of the Lessee under this Lease without the prior written consent of Lessor. Consent to one assignment shall not be deemed to be consent by Lessor to any subsequent assignment by another person. This Lease shall not, nor shall any interest of Lessee herein, be assignable by operation of law, without prior written consent of Lessor.

ARTICLE XVI

MISCELLANEOUS

16.1 Time of Essence. Time is of the essence in regard to performance of the covenants and agreements stated herein.

16.2 No Joint Venture or Agency. Nothing contained in this Lease nor any of the acts of the parties hereto shall be construed nor is it the intent of the parties, to create a joint venture or partnership between Lessor and Lessee, nor is either party the agent or representative of the other, and nothing in this Lease shall be construed to create any such agency relationship or to hold either party liable to anyone for goods delivered or services performed at the request of the other party.

16.3 Amendments. No change in or addition to or waiver or termination of this Lease any part hereof, shall be valid unless made in writing and signed by or on behalf of the party charged therewith. Lessor and Lessee agree to negotiate in good faith any amendments to this Ground Lease that may be requested or required in connection with the issuance of the Bonds to finance the Project.

16.4 Governing Law. This Lease shall be construed in accordance with and governed by the laws of the State of Washington.

16.5 Headings. The article, section and paragraph headings herein contained are for the purposes of identification and reference convenience only and shall not be considered in construing this Lease.

16.6 Successors and Assigns. Subject to the provisions hereof restricting the sublease or assignment by Lessee, all the terms and provisions of this Lease shall be binding upon and to the benefit of and be enforceable by the parties and the successors and assigns of the parties.

16.7 No Merger. In no event shall the leasehold interest of Wallace Properties Development Company LLC hereunder merge with any estate of the City in or to the Land or the

leasehold interest of the City under the Project Lease. Unless and until the City of Snoqualmie exercises its option to purchase the Project (or terminates this Ground Lease pursuant to Section 10.2 hereof) the ground leasehold interest of Wallace Properties Development Company LLC, shall not merge with the City's fee interest in the Land or the leasehold interest of the City under the Project Lease, and this Ground Lease and the Project Lease shall remain in full force and effect.

16.8 Counterparts; Recording of Memorandum. This Lease may be executed in several counterparts, each of which shall be deemed an original for all purposes. Either Lessor or Lessee shall have the right to record a memorandum of this Ground Lease in a form comparable to that provided in the Project Lease and the parties shall cooperate in execution of such memorandum.

16.9 Schedule of Exhibits. This Agreement includes the following exhibits attached hereto and incorporated herein by this reference.

EXHIBIT A Land Legal Description

IN WITNESS WHEREOF Lessor and Lessee have executed this Ground Lease as of the date set forth in the first paragraph of this Ground Lease to evidence their agreement to the terms of this Ground Lease.

CITY OF SNOQUALMIE, WASHINGTON

WALLACE PROPERTIES DEVELOPMENT
COMPANY LLC

Mayor Matthew R. Larson

By:

Its:

ATTEST/AUTHENTICATED:

Jodi Warren, City Clerk

APPROVED AS TO FORM:

City Attorney Pat Anderson

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Matthew R. Larson and Jodi Warren are the persons who appeared before me, and said persons acknowledged that they signed this instrument, on oath stated that they were authorized to execute the instrument and acknowledged it as the Mayor and City Clerk of THE CITY OF SNOQUALMIE, WASHINGTON, a Washington municipal corporation, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED: _____

NOTARY PUBLIC in and for the
State of _____, residing
at _____
My appointment expires: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the _____ of WALLACE PROPERTIES DEVELOPMENT COMPANY LLC, a Washington limited liability company, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED: _____

NOTARY PUBLIC in and for the
State of _____, residing
at _____
My appointment expires: _____

EXHIBIT A
Land Legal Description

