

**Shelter Bay Company**  
**Lease Negotiations/Arbitration - Chronology of Actions**

DATE	DESCRIPTION
Oct. 15-21, 2004	<p>Town Meetings held on Purchase of Shelter Bay Company; presented:</p> <ul style="list-style-type: none"> <li>• Purchase price of \$2 million</li> <li>• Assets Acquired – 2 Master Leases; Marina; Reserve fund for Retroactive Rental Adjustment (\$374K)</li> <li>• Liabilities Assumed – Entered new 10-year rent period; Retroactive Rental Adjustment payment to Tribe; operating expenses for marina; rent payments to Tribe</li> <li>• Conditions on closing – 2/3rds votes of a quorum to approve the purchase</li> <li>• Closing Date – within 30 days of Community vote, no later than Dec. 31.</li> </ul> <p>Meetings also emphasized Risk and Reward:</p> <ul style="list-style-type: none"> <li>• Risk – new 10-year rent period, future rents could be?? (unknown)</li> <li>• Reward – Community retains management and control of Shelter Bay and common areas; Ability to negotiate extensions to Master Lease; Protection under the Master Lease (consummate sub-leases; arbitration fallback)</li> </ul> <p>Materials in meeting state: “By purchasing the Company now, the Community has much greater control over the future, and is in a much better position to negotiate an extension of the Master Leases.”</p>
Oct. 24, 2004	<p>Community members vote in support of purchasing Shelter Bay Company. Of a total of 840 eligible voters, 648 (77%) voted.  YES – 636 votes; NO – 12 votes</p>
Nov. 24, 2004	<p>Shelter Bay Community, Inc. purchases Shelter Bay Company</p>
Feb. 24, 2005	<p>Tribe’s Proposal to Shelter Bay:</p> <p><u>Option 1</u> – No Extension</p> <ul style="list-style-type: none"> <li>• \$840,000 rent on \$12 million value plus marina percentage rent</li> <li>• Back rent at 8% interest</li> </ul> <p><u>Option 2</u> – 20 year extension</p> <ul style="list-style-type: none"> <li>• 20 year additional term for individual lots signing up for extension (voids master lease arrangement)</li> <li>• Tribe retains marina in 2044</li> <li>• Back rent at 8% interest</li> <li>• Calculation of Master Lease rent due is revised to exclude sublessees accepting new sub-lease from amount due</li> <li>• Existing subleases honored with no extension</li> <li>• New 60-year leases for individual lots offered with rent at 1.75% of County assessed value</li> <li>• At conversion from CPI capped subleases to new lease, 10% interest on differential in rent</li> </ul> <p><u>Option 3</u> – No Extension</p> <ul style="list-style-type: none"> <li>• Arbitrate – Tribe &amp; individual interests will defend \$12 million value</li> </ul>
Feb. 24, 2005  (Continued)	<p>Shelter Bay Board President Judy Colby sends letter of proposal to Swinomish Tribal Chairman Brian Cladoosby:</p> <ul style="list-style-type: none"> <li>• 40-year extension</li> <li>• \$420,000 rent on \$6 million land value for 2003, 2004, 2005, &amp; 2006</li> </ul>

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	<ul style="list-style-type: none"> <li>• \$560,000 rent on \$8 million land value for 2007, 2008 &amp; 2009</li> <li>• \$700,000 rent on \$10 million land value for 2010 thru 2015</li> <li>• In 2016, change from current rent method of 7% raw land valuation to Skagit County Assessor's valuations of improved land at .85% on a continuing basis through 2083.</li> </ul>
April 21, 2005	<p>Letter from Shelter Bay Legal Counsel, Philip Buri to Swinomish Tribal Legal Counsel Marty Loesch:  Counteroffer for extension of Master Lease:</p> <ul style="list-style-type: none"> <li>• Extension to 2084 (additional 40 years)</li> <li>• 2003 &amp; 2004 rent at 7% of \$6 million (\$420,000 rent), payable July 2005</li> <li>• 2005 &amp; 2006 rent at 7% of \$8 million (\$560,000 rent)</li> <li>• 2007, 2008 2009, 2010, &amp; 2011 rent at 7% of \$10 million (\$700,000 rent)</li> <li>• 2012 through 2084 rent at 1% of Skagit County assessed value for improved land leased from Tribe</li> <li>• Shelter Bay will pay the Tribe 4% of gross receipts less allowable expenses from the marina</li> <li>• Shelter Bay will have responsibility for transferring sublessees to new subleases</li> </ul> <p>All lease payments are due in full regardless of the progress of signing homeowners onto the new subleases.</p>
June 21, 2005	<p>In Email from Tribal Legal Counsel Marty Loesch:  Tribe rejects Shelter Bay's offer. Explains that lease extension postpones Tribe's realization of its reversionary interest in the improved property and that extension defers Tribe's ability to lease improved property at market rates. Tribe asks for Shelter Bay to submit a revised proposal and indicates that they will get something to Shelter Bay in the short term.</p>
July 11, 2005	<p>Shelter Bay Board President Judy Colby offers revised proposal to Swinomish Tribal Chairman Brian Cladoosby:</p> <ul style="list-style-type: none"> <li>• Master Lease term extended to 2104 with an option to extend another 99 years at market rent for residential land then prevalent in Skagit County</li> <li>• Back rent for 2003 and 2004 to be paid \$420,000 per year</li> <li>• Rent for years July 2005 –2008 will be \$560,000 per year</li> <li>• Rent for years July 2008 – July 2013 will be \$700,000 per year</li> <li>• Rent July 2013 – 2018 will be 1.75% of Skagit County Assessors value of the 867 lots (today's value \$1,079,750 per year)</li> <li>• Rent July 1029 until end of this new lease (2104) to be 2.4% of Skagit County assessed value</li> <li>• 3.5% of gross income from the marina, less allowable expenses</li> </ul>
September 15, 2005	<p>Letter from Tribal Chairman Brian Cladoosby:  Tribe rejects Shelter Bay's revised offer. Tribe declares, "At this time, neither the Tribe nor the individuals with whom we have met are interested in pursuing further discussions of an extension of the lease term." Tribe offers:</p> <ul style="list-style-type: none"> <li>• No extension</li> <li>• \$700,000 rent on \$10 million land value for the current period</li> <li>• Back rent at 8% interest</li> </ul>
(Continued)	

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	<ul style="list-style-type: none"> <li>If no agreement by Shelter Bay, Tribe to proceed with arbitration process on September 30<sup>th</sup>.</li> </ul>
September 26, 2005	<p>Shelter Bay letter of response to Tribe's 9/15/05 offer: (Board President Judy Colby takes letter in hand and meets with Chairman Cladoosby on Sept. 27, 2005)</p> <ul style="list-style-type: none"> <li>Will accept \$700,000 rent on \$10 million land value for current period</li> <li>Master Lease extension to 2074 (additional 30 years)</li> <li>Commencing 2013, use 1.75% of the Skagit County Assessor's value, adjusted every 4 years. (Based on projected assessed value, rent would then be \$1,400,000 in 2013.)</li> <li>Subject to community vote</li> </ul> <p>Request Tribe to consider this offer and respond by October 14,2005; if approved by community, will pay \$1,636,890 within 60 days of acceptance of offer.</p>
September 27, 2005	<p>Email from M. Morrell to Tribal Legal Counsel Marty Loesch and Steve LeCuyer. Refers to July meeting in which Shelter Bay makes a proposal; also expresses disappointment that offer was rejected by Tribe. Goes on to say, "nothing could be more friendly than for us both to attempt to meet the needs of the other. The Shelter Bay Community needs an extension to the lease and ...the Tribe needs to be fairly compensated for the Community's use of the Tribe's land."</p> <p>Email explains that Board President Judy Colby will be presenting new offer to Chairman Cladoosby – our last attempt to meet the needs of both sides. In the event the new offer is not accepted, Shelter bay will be forced into arbitration. If no extension is granted, the Shelter Bay Board has an obligation to the community to settle at the lowest possible rental payment to the Tribe, "because without an extension, the lease is becoming less and less valuable." Email indicates that Shelter Bay will retain Buck &amp; Gordon LLP in arbitration process; Buck &amp; Gordon's experience with prior arbitration will save Shelter Bay considerable time and money compared to starting over with someone not familiar with the lease situation.</p>
October 12, 2005	<p>Shelter Bay President Judy Colby met with Tribe's General Manager Allan Olson; explained that if there is no extension to the master lease, will go to arbitration with Peter Buck representing Shelter Bay; also painted a picture of what might happen to property values with no extension [inability to get 30-year loans, due to 2044 lease expiration]. Mr. Olson restated Tribe's position that they first need to agree on a fair and equitable amount for rent adjustment, then would come back later and talk about an extension. Colby proposed:</p> <ul style="list-style-type: none"> <li>\$420,000 for this current period without an extension (would need to get an extension in return of paying more)</li> <li>\$520,000 for this current period if a 20-year extension was granted</li> <li>\$700,000 for this current period if a 30-year extension was granted</li> </ul>
November 10, 2005	<p>Shelter Bay Board President Judy Colby sends revised proposal to Swinomish Tribal Senators, Swinomish Indian Owners, and Judith Joseph, BIA:</p>

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	<ul style="list-style-type: none"> <li>• Same terms as above, except only 20-year extension to 2064.</li> </ul>
November 15, 2005	<p>Letter from Tribal Chairman Brian Cladoosby – acknowledges the two letters of Sept. 26 and Nov. 15, 2005.</p> <p>Tribe states, “...neither the Tribe nor the Indian landowners with whom we have met have an interest in pursuing further discussions of an extension to the lease term at this time....the Tribe and the individual owners are intently focused upon prompt correction of the lease rate being paid for the current ten-year period.”</p> <p>Tribe also expresses concern over inconsistent messages from Shelter Bay; and concern that Shelter Bay advised that they had already communicated with legal counsel, Buck &amp; Gordon, to represent Shelter Bay in the arbitration proceedings.</p> <p>Tribe states that their offer set forth in September 15, 2005 letter to accept \$700,000 rent on \$10 million land value – with no extension – remains open.</p>
December 13, 2005	<p>Shelter Bay Board President Judy Colby sends letter to Tribal Chairman Brian Cladoosby; cc'd to Judith Joseph, BIA):</p> <p>Expresses that the rent the Tribe asks for meets Tribe's needs, but [no extension] does not meet Shelter Bay's needs. Reiterates that by retaining Buck &amp; Gordon, community will save valuable resources by not having to reinvent the wheel.</p> <p>Letter requests that Chairman Cladoosby, the Senate, and other interested parties meet, “neighbor to neighbor” to discuss a settlement agreement, as Shelter Bay is not looking forward to the impending arbitration.</p>
January 19, 2006	<p>Memo from Shelter Bay Board – mailed to all Shelter Bay Community Members; Subject: Status of the Master Lease Negotiations</p> <p>Summarizes master lease rent determination; status of lease negotiations to date; the arbitration process; master lease-sublease relationship and the possibility that the rent due under Master lease could exceed the amount collected under subleases, which is an unknown liability; master lease extension and concern about the ability of community members to obtain loans on property, and concluding remarks.</p>
March 20, 2006  (Continued)	<p>Shelter Bay Board President Judy Colby sends letter to Swinomish Tribal Senators and Swinomish Indian Owners:</p> <p>Presents another counteroffer for consideration:</p> <ul style="list-style-type: none"> <li>• \$700,000 rent on \$10 million land valuation</li> <li>• Back rent at 8%</li> <li>• Existing subleases honored with no extension</li> <li>• Tribe to grant new 60-year leases for individual lots with rent at 1.75% of County assessed value</li> <li>• Calculation of Master Lease rent due is revised to exclude the sub-lease rent for lots accepting new 60-year leases from Tribe.</li> <li>• At conversion from CPI capped subleases to new leases, 10% interest on differential in rent from inception of the new 60-year leases.</li> <li>• Tribe gets marina in 2044 with Shelter Bay managing it; all profits going</li> </ul>

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	<p>to Tribe</p> <ul style="list-style-type: none"> <li>• Tie future rent increases to fair market assessed value as determined by Skagit County Assessor</li> </ul>
<p>March 27, 2006</p>	<p>Shelter Bay Board President Judy Colby sends letter to Swinomish Tribal Senators and Swinomish Indian Owners, c/o Judith Joseph, BIA, copy to Mary Anne Kentworthy, Office of the Solicitor:</p> <p>Letter states. "... that going to arbitration at this point would represent a significant missed opportunity for everyone involved. We believe it would be a significant benefit to the Tribe, the Indian Owners, the Shelter Bay Company and the Shelter Bay Community to resolve the current rental dispute through a negotiated settlement, rather than arbitration."</p> <p>"We would like to try one more time to resolve this matter through a negotiated settlement rather than arbitration." Offer:</p> <ul style="list-style-type: none"> <li>• \$700,000 rent on \$10 million</li> <li>• Back rent at 8%</li> <li>• Modify Master Lease to tie future rental increases to a percentage of the Skagit County assessed value of land; propose 1.113% of assessed value</li> <li>• Tribe/Indian Owners to offer each current sublessee the option to enter into a lease extension agreement directly with the Tribe; 20-year extension at 1.75% County assessed values. Rent under Master Lease to be adjusted to exclude the sublessees who entered into lease extension agreements with Tribe.</li> <li>• Any sublessee seeking to execute a lease extension agreement with Tribe within 12 months of settlement agreement could sign up for a lease with Tribe provided they paid back rent (based on 1.75% of County assessed value) to June 30, 2007, with interest on that back rent at a rate of 10% per annum. Any sublessee seeking to enter a lease extension agreement after June 30, 2007 would have to pay the difference between the rent paid under the Master Lease attributable to their lot and 1.75% of the County assessed value for their lot, with 10% interest.</li> <li>• Tribe gets marina in 2044, but Shelter Bay would manage and operate it; all profits to go to Tribe.</li> </ul> <p>Letter acknowledges that Shelter Bay made a misstep when an extension of 100 years was proposed earlier; asks for Tribe's forgiveness of that error in the interest of reaching a mutually beneficial agreement. Letter requests to speak directly with Tribal Senate about this offer, or to perhaps participate in mediation to reach agreement.</p>

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June 8, 2006	Letter from Chairman Brian Cladoosby to Shelter Bay Board President Art Young: Acknowledges receipt and consideration of Shelter Bay's March 27 <sup>th</sup> proposal; declines the offer in that letter. Goes on to say, "We have previously offered to accept a \$10,000,000 value for the premises, resulting in a \$700,000 annual rent for the current period. That offer remains open to Shelter Bay." Chairman Cladoosby urges Shelter Bay to accept this offer. Letter then states, "Until such time as the current Master Lease rental rate is corrected, however, the Tribe does not have an interest in pursuing further discussions of extension of the Master Lease." <i>[Note: Offer did not include lease extension.]</i>
July 2006	Shelter Bay Board President Art Young meets with Tribal Chairman Brian Cladoosby to introduce himself as the new Shelter Bay Board President; no specific discussion on lease issues.
August 8, 2006	Letter from Shelter Bay Board President Art Young to Tribal Chairman Brian Cladoosby: Acknowledges the meeting they had in July. Expresses that the community would probably accept the \$700,000 rental fee if it is combined with a lease extension. Re-states that method of rent adjustment based on CPI or Skagit County assessed values would be fair to both sides. Requests a meeting with Chairman and/or Tribal Senate to work out details of a settlement. Also extends an invitation for Chairman Cladoosby to address Shelter Bay Board at one of our meetings. <i>[Since the Tribe's June 8<sup>th</sup> and prior offers had not changed – and did not include a lease extension – there was no board action. The Aug. 8<sup>th</sup> letter was an attempt to get the Tribe to move from their fixed position.]</i>
September 21, 2006	Letter from Chairman Cladoosby to Board President Art Young: Acknowledges receipt of Aug. 8 letter from Shelter Bay. Cladoosby states that "until such time as the current rental correction is completed, by either arbitration decision or the parties' agreement, the Tribe does not have an interest in discussing an extension of either the Master Lease or of individual subleases. Please be advised that the settlement offer set out in my June 08, 2006 letter is hereby withdrawn. As you know, the lease rate arbitration proceedings are moving forward. Until such time as the parties' appraisers complete their work in connection with those proceedings, further settlement discussions would be premature. I anticipate that the Tribe will again be interested in discussing settlement of the lease rate correction one appraisal reports have been completed and reviewed by Shelter Bay and the Tribe."
October 11, 2006	Shelter Bay Town Meeting to discuss Master Lease and collect member comments.
October 20, 2006	Letter from Tribal Legal Counsel, Stephen LeCuyer to Tribal [Shelter Bay] Landowners (copy sent to Shelter Bay Legal Counsel Molly Lawrence): Advises them of amendment to Master Lease agreeing to use only one arbitrator, pending their comments. Explains that arbitrator will be Judge

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(Continued)	Jordan, and provides his qualifications/experience. Requests comments or objections by November 3, 2006, and presents information on tentative dates for the proceedings.
October 23, 2006	Letter from Shelter Bay Board President Art Young to Tribal Chairman Brian Cladoosby and Swinomish Tribal Senate: Explains that community held Town Meeting to discuss current lease situation. Letter asks Tribe to give full consideration to the following question: “...The members heard that the Swinomish Tribe had offered, in good faith, to discuss a lease extension of the Community would accept the Tribe’s offer of \$700,000 per annum for the current lease term. The Shelter Bay Board unanimously voted to hold a community-wide vote to approve accepting such an offer if it is reinstated. If the community approves the offer will you and your Council Members agree to meet at a not to distant future date to discuss an extension?”
November 15, 2006	Shelter Bay Company board agrees to approve authorization to sign the Master Lease amendment with only one arbitrator (instead of three).
November 29, 2006	First meeting of arbitration held with Judge Jordan to take care of pre-hearing motions and administrative details. Tentative schedule for official arbitration proceedings is July 2007.
March - April 2007	Shelter Bay’s Appraiser, Bruce Allen, becomes ill and retires as a result of ill health. Will need to delay the July arbitration proceedings, due to the need to get new appraiser on board.
June 7, 2007	Shelter Bay Board authorizes Board Member Steff Steinhorst to hand-carry a copy of October 23, 2006 offer to Tribal Chairman Brian Cladoosby in an effort to again stimulate discussion on settling outside of arbitration.
November 12-16, 2007	Arbitration proceedings held.
January 23, 2008	Receive Judge Jordan’s decision, placing land valuation at \$19.4 million.