

1 Law Offices of Steven C. Hathaway
2 P.O. Box 2147
3 Bellingham, WA 98227
4 (360) 676-0529

Honorable Marc Barreca
Chapter 11
Location: Seattle, WA
Hearing Date: October 20, 2016
Time: 9:30 AM
Response Date: October 13, 2016

5
6
7 UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF WASHINGTON

8 IN RE:) Chapter 11 Proceeding
9)
10 DENNIS LEROY SCHEFFER,) Case No. 15-13327
11)
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28)
AND CLEAR OF LIENS AND ENCUMBRANCES

PLEASE TAKE NOTICE that the above stated matter in this case is set for hearing as follows:

JUDGE: Honorable Marc Barreca
PLACE: U.S. Courthouse
700 Stewart Street
Courtroom 7106
Seattle, WA 98101-1271

TIME: 9:30 a.m.
DATE: October 20, 2016

PLEASE TAKE FURTHER NOTICE that any responses or objections to the approval of the Motion must be in writing, filed with the Clerk of the Bankruptcy Court, and served upon and received by the counsel for the Debtor on or before October 13, 2016.

IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY DECIDE THAT YOU DO NOT OPPOSE THE RELIEF SOUGHT IN THE MOTION AND MAY GRANT THE RELIEF DEMANDED BY THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Dated: 09/20/2016

/s/ Steven C. Hathaway

Steven C. Hathaway, Attorney for Debtor

NOTICE AND MOTION
TO SELL REAL PROPERTY

STEVEN C. HATHAWAY
P.O. BOX 2147
BELLINGHAM, WA 98229
PHONE(360) 676-0529
FAX (360) 676-0067

1 MOTION FOR ORDER APPROVING SALE OF REAL PROPERTY FREE & CLEAR
2 OF LIENS, CLAIMS AND OTHER INTERESTS AND FOR OTHER RELIEF

3 **COMES NOW** Dennis L. Scheffer, the debtor-in-possession in the above-referenced
4 Chapter 11 case (“Debtor”), and hereby moves the Court for an order: (a) authorizing the Debtor
5 to sell the bankruptcy estate's interest in real property located at 2909 Massey Road in Everson,
6 Washington free and clear of liens, claims, encumbrances and other interests, with the liens,
7 claims, encumbrances and other interests attaching to the proceeds of the sale in the same order,
8 priority, and validity as they had with respect to the property immediately prior to the sale; (b)
9 directing the payment of all valid liens, encumbrances, other interests of record and the costs of
10 sale from the proceeds of the sale at the close of escrow; (c) approving the payment of attorney
11 fees, costs and other charges to Steven Hathaway from the proceeds of the sale at the close of
12 escrow; (d) directing that the balance of the proceeds remaining after payment of all valid liens,
13 encumbrances, other interests and costs of sale be paid to Steven C. Hathaway to hold in trust to
14 pay other creditors pursuant to the terms of the Debtor’s Chapter 11 plan; (e) directing that the
15 balance of the funds remaining in trust after paying creditors pursuant to the Debtor’s Chapter 11
16 plan be returned to the Debtor; (f) waiving the 14-day waiting period under Rule 6004(g) of the
17 Federal Rules of Bankruptcy Procedure; and, (g) granting such other relief as is proper and just.
18
19 This motion is supported by the Declaration of Dennis L. Scheffer, the Declaration of Jim
20 Ackerman and the records and files herein.
21

22
23 *Dated: 09/20/2016*

/s/ Steven C. Hathaway

Steven C. Hathaway, Attorney for Debtor

1 copy of the Right of First Refusal is attached as Exhibit 2 and incorporated herein by this
2 reference.

3 7. On November 30, 2015 the Bankruptcy Court approved the sale of the 3037 Massey
4 Road property to Bedlington-Kleindel Real Estate for \$1,360,000. All valid liens, claims,
5 encumbrances and other interests of record (except a \$38,519.34 judgment obtained by the U.S.
6 Department of Labor) were paid from the proceeds of the sale.

7 8. The Debtor and his wife continue to reside in the residence located on the 3037
8 Massey Road parcel. Bedlington-Kleindel Real Estate has offered to sell to the Debtor and his
9 wife the residence, several adjacent outbuildings and the surrounding 2 acres of land (“Massey
10 Road Residence”) for \$60,000 if they are able to segregate it into a separate legal parcel. The
11 Debtor and his wife must also pay all costs to segregate the property into a separate legal parcel.
12

13 9. On May 21, 2015 the Debtor leased 2909 Massey Road to Dick Bedlington Farms and
14 gave it the option to purchase the property for \$600,000. A true and correct copy of the Lease
15 with Option to Purchase is attached hereto as Exhibit 3 and incorporated herein by this reference.
16

17 10. By letter dated June 16, 2016 Dick Bedlington Farms advised the Debtor that it was
18 exercising its option to purchase the 2909 Massey Road parcel for \$600,000 cash and was
19 prepared to close within 60 days. Dick Bedlington Farms will be given credit against the
20 \$600,000 sale price for the unused portion of the rent it prepaid on 2909 Massey Road and 3037
21 Massey Road (estimated at \$48,000). A true and correct copy of the letter exercising its option to
22 purchase 2909 Massey Road is attached as Exhibit 5 and incorporated herein by this reference.
23

24 11. The parties have agreed that \$60,000 of the \$600,000 purchase price will be held in
25 the trust account of the attorney for Dick Bedlington Farms (Nicole Terpstra) to pay for the
26 Massey Road Residence after it is segregated into a separate legal parcel. If the Massey Road
27 Residence cannot be segregated into a separate legal parcel the \$60,000 shall be returned to the
28 Debtor within 72 hours of written request.

1 12. Dick Bedlington Farms option to purchase the property for \$600,000 equates to
2 \$16,882.39 per acre. The Whatcom County Assessor lists the market value of the 2909 Massey
3 Road parcel at \$308,901 (\$8,691.64 per acre). The retail value of Whatcom County farmland
4 averages \$15,000 to \$20,000 per acre depending on the location of the property, the quality of
5 the soil and the water rights that go with the property. The \$600,000 offer for the 2909 Massey
6 Road parcel is fair and reasonable based on the average retail value of Whatcom County
7 farmland. *See* Declaration of Jim Ackerman ¶ 7.

8 13. The Debtor has had the assistance of Jim Ackerman (Muljat Group, Nooksack) as his
9 real estate agent to market and sell the 2909 Massey Road parcel which sale is subject to a 2.5%
10 commission. The bankruptcy court authorized the Debtor to employ Mr. Ackerman by an order
11 entered on July 10, 2015 (Docket No. 25). The real estate commissions will be paid from the
12 proceeds of the sale at the close of escrow.

13 14. The Whatcom County Treasurer filed Proof of Claim No. 1 that states real property
14 taxes in the amount of \$7,064.91 are owed against 2909 Massey Road and personal property
15 taxes are owed in the amount of \$99.14. According to the Whatcom County Treasurer's website
16 2909 Massey Road has no personal property taxes owing and real property taxes in the amount
17 of \$2,609.63 are owed for 2014, real property taxes in the amount of \$2,612.83 are owed for
18 2015 and real property taxes in the amount of \$2,624.32 are owed for 2016 (\$7,846.78 total).
19 These property taxes are included in the adequate protection payment to Industrial Credit Union
20 pursuant to the Amended Stipulated Order dated May 23, 2016 (ECF No. 91) wherein the Debtor
21 is making monthly payments to Industrial Credit Union which, among other things, is for
22 delinquent property taxes in the amount of \$7,238.15. A copy of the Stipulated Order is attached
23 as Exhibit 4 and incorporated herein by this reference.

24 15. The proceeds received from the sale will be sufficient to pay all liabilities, liens,
25 encumbrances, claims and interests recorded against the 2909 Massey Road property. Proceeds
26 received from the sale of the property will be distributed as follows:
27
28

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a. Sales commission and usual costs of sale (estimated):	\$25,000.00
b. First position DOT to Industrial Credit Union (Claim No. 4):	\$92,135.96
c. US Department of Labor Judgment (Claim No. 9):	\$38,519.34
d. CHS Northwest (Claim No. 11):	\$89,783.63
e. Attorney fees, costs and other charges to Steven Hathaway:	\$25,000.00
f. Reimburse prepaid rent:	\$48,000.00
g. Trust account of Nicole Terpstra for Massey Road Residence:	\$60,000.00
f. Balance into trust account of Steven Hathaway (estimated):	\$221,561.07

MEMORANDUM OF POINTS AND AUTHORITIES

16. Section 363 of the Bankruptcy Code provides authority for a trustee and, through the application of Section 1107(a), a debtor in possession, “after notice and a hearing, [to] use, sell or lease, other than in the ordinary course of business, property of the estate.” 11 U.S.C. § 363(b)(1); 11 U.S.C. § 1107(a).

17. Section 363(f) of the Bankruptcy Code authorizes a debtor in possession to sell property “free and clear of any interest in such property of an entity other than the estate” if one of five conditions is satisfied.

18. Section 363(f)(1) of the Bankruptcy Code permits a sale free and clear of an interest if “applicable nonbankruptcy law permits sale of such property free and clear of such interest.”¹ In Washington applicable state and federal nonbankruptcy law permits a sale of property free and clear of liens.²

19. Section 363(f)(2) of the Bankruptcy Code permits a sale free and clear of an interest if “such entity consents.”³ Creditors holding claims secured by deeds of trust against the Properties will voluntarily release their liens upon receipt of the release price. Any secured creditor that does not oppose this motion will be deemed to consent to the sale of the Properties.

¹ 11 U.S.C. § 363(f)(1).

² RCW 62A.9A-617, RCW 62A.9A-615(a) and (d), RCW 7.60.260, RCW 7.60.025, RCW 61.12; RCW 61.24.

³ 11 U.S.C. § 363(f)(2).

1 Therefore, the Properties can be sold free and clear of liens held by creditors that do not oppose
2 this motion.

3 20. Section 363(f)(3) of the Bankruptcy Code permits a sale free and clear of an interest
4 if “such interests is a lien and the price at which such property is to be sold is greater than the
5 aggregate value of all liens on such property.”⁴ In this case the proceeds from the sale are
6 greater than the liabilities, liens, encumbrances, claims and interests recorded against the 2909
7 Massey Road property.

8 21. Section 363(f)(5) of the Bankruptcy Code permits a sale free and clear of an interest
9 if “such entity could be compelled, in a legal or equitable proceeding, to accept a money
10 satisfaction of such interest.”⁵ In Washington there are legal and equitable proceedings by which
11 lienholders can be compelled to accept money satisfactions to release the creditors’ liens for less
12 than full value.⁶

13
14 22. The Debtor respectfully requests that the Court approve the proposed sale free and
15 clear of liens, claims, and encumbrances under Sections 363(f)(2) and (3). The proposed 363 sale
16 will facilitate the Debtor's ability to perform his Chapter 11 plan. The liens, claims,
17 encumbrances and other interests of record against the property will attach to the proceeds of the
18 sale and be paid at the close of escrow. The Debtor’s other creditors will be paid pursuant to the
19 terms of his Chapter 11 plan.

20
21 23. A bankruptcy court’s power to authorize a sale under Section 363(b) is to be
22 exercised at the court’s discretion. In re WPRV-TV, 983 F.2d 336, 340 (1st Cir. 1993); In re
23 Martin-Trigona, 760 F.2d 1334, 1346 (2d Cir. 1985); In re Lionel Corp., 722 F.2d 1063, 1069
24 (2d Cir. 1983).

25 24. Bankruptcy Code § 363(b)(1), provides that the "trustee, after notice and a hearing,
26 may use, sell, or lease, other than in the ordinary course of business, property of the estate..." 11

27
28 ⁴ 11 U.S.C. § 363(f)(3).

⁵ 11 U.S.C. § 363(f)(5).

⁶ RCW 84.64.080; RCW 11.56.020; RCW 84.56.070; and 26 U.S.C. §§ 6335, 6339(c), and 6342(c).

1 U.S.C. § 363(b)(1). Although Bankruptcy Code § 363 does not set forth a standard for
2 determining when it is appropriate for a court to authorize the sale or disposition of a debtor's
3 assets, courts have uniformly held that approval of a proposed sale of property under Bankruptcy
4 Code § 363(b) is appropriate if the transaction is supported by the sound business judgment of
5 the debtor. *See* Committee of Equity Securityholders v. Lionel Corp. (In re Lionel Corp.), 722
6 F.2d 1063 (2d Cir. 1983); *see also* In re Delaware & Hudson Ry. Co., 124 B.R. 169, 176 (D.Del.
7 1991); Stephens Indus. V. McClung, 789 F.2d 386, 398-90 (6th Cir. 1986).

8 25. Courts in the Ninth Circuit have also authorized a sale of all a debtor's assets
9 pursuant to Section 363 of the Bankruptcy Code when there is a good business reason for so
10 doing. *See, e.g.*, In re American Development Corp., 95 B.R. 735, 739 (Bankr. C.D. Cal. 1989)
11 (among the factors that determines whether a good business reason exists is whether the sale is in
12 the best interests of the estate's creditors); In re Photocopy & Supply, Inc., 1994 WL 553065 at *
13 1 (Bankr. D. Idaho 1994) (a sale o substantially all of the debtor's assets was authorized, in the
14 absence of a reorganization plan, when justified by a good business reason).

15 26. Courts have traditionally applied four factors in determining whether a sound
16 business justification exists to authorize a debtor to sell assets outside of the ordinary course: (i)
17 whether a sound business reason exists for the proposed transaction; (ii) whether fair and
18 reasonable consideration is being provided; (iii) whether the transaction has been proposed and
19 negotiated in good faith; and (iv) whether adequate and reasonable notice is provided. *See* In re
20 Delaware & Hudson Ry. Co., 124 B.R. 169, 176 (D.Del. 1991) (adopting the Lionel factors in
21 determining whether sound business purpose exists for sale outside ordinary course of business).

22 27. As discussed in the Debtor's Declaration, sound business reasons justify the sale of
23 the 2909 Massey Road property: (i) a sound business reason exists for the sale of the 2909
24 Massey Road property; (ii) fair and reasonable consideration is being paid for the property; (iii)
25 the sale has been proposed and negotiated in good faith; and (iv) adequate and reasonable notice
26 has been provided to all creditors and parties in interest. All of the Debtor's secured creditors
27
28

1 will be paid in full at the close of escrow. All of the Debtor's other creditors will be paid from
2 the balance of the proceeds pursuant to the terms of the Debtor's Chapter 11 plan.

3 28. The proposed 363(b) transaction is not a sub rosa plan because the Debtor will
4 receive more than fair value in return for the sale of the 2909 Massey Road property to Dick
5 Bedlington Farms, all the sales proceeds will be distributed according to the Chapter 11 priority
6 scheme and the proceeds will allow the Debtor to successfully perform on his reorganization
7 plan.

8 29. Bankruptcy Rule 6004(h) provides that an order authorizing the sale of property is
9 stayed until the expiration of fourteen (14) days after entry of the order, unless the Court orders
10 otherwise (emphasis added). Debtor believes it is necessary for the court to waive the fourteen
11 day stay due to the immediate need to sell the Property. Debtor believes that waiting for an
12 additional fourteen days after the entry of the order would deter the Buyers from purchasing the
13 Property, as escrow is currently set to close on October 30, 2016. Therefore, the Debtor requests
14 that the fourteen day stay period be waived.
15

16 RELIEF REQUESTED

17 The Debtor respectfully requests that the Court enter an order granting the following
18 relief: (a) authorizing the Debtor to sell the bankruptcy estate's interest in real property located at
19 2909 Massey Road in Everson, Washington free and clear of liens, claims, encumbrances and
20 other interests, with the liens, claims, encumbrances and other interests attaching to the proceeds
21 of the sale in the same order, priority, and validity as they had with respect to the property
22 immediately prior to the sale; (b) directing the payment of all valid liens, encumbrances, other
23 interests of record and the costs of sale from the proceeds of the sale at the close of escrow; (c)
24 approving the payment of attorney fees, costs and other charges to Steven Hathaway from the
25 proceeds of the sale at the close of escrow; (d) directing that the balance of the proceeds
26 remaining after payment of all valid liens, encumbrances, other interests and costs of sale be paid
27 to Steven Hathaway to hold in trust to pay other creditors pursuant to the terms of the Debtor's
28

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1 Chapter 11 plan; (e) directing that the balance of the funds remaining in trust after paying
2 creditors pursuant to the Debtor's Chapter 11 plan be returned to the Debtor; (f) waiving the 14-
3 day waiting period under Rule 6004(g) of the Federal Rules of Bankruptcy Procedure; and, (g)
4 granting such other relief as is proper and just.

5 CONCLUSION

6 Based on the foregoing, and for the reasons stated, the Debtor respectfully submits that
7 the relief requested herein is necessary and appropriate, is in the best interests of the Debtor, the
8 bankruptcy estate and his creditors, and should be granted in all respects. Accordingly, the
9 Debtor requests that the Court enter the proposed order granting the relief requested herein and
10 such other and further relief as is just and proper.
11

12 *Dated: 09/21/2016*

/s/ Steven C. Hathaway

13 Steven C. Hathaway, Attorney for Debtor

14 DECLARATION OF MAILING

15 THE UNDERSIGNED CERTIFIES UNDER PENALTY OF PERJURY THAT
16 ON 09/21/2016 THE UNDERSIGNED CAUSED TO BE DELIVERED EITHER
17 BY FIRST CLASS MAIL, LEGAL MESSENGER OR ELECTRONICALLY A
18 COPY OF THIS NOTICE AND MOTION, THE DECLARATION OF DENNIS
19 L. SCHEFFER, THE DECLARATION JIM ACKERMAN AND THE
20 PROPOSED ORDER TO THE U.S. TRUSTEE, ALL CREDITORS AND ALL
21 THOSE REQUESTING SPECIAL NOTICE TO THE ADDRESSES SET FORTH
22 ON THE BANKRUPTCY COURT MAILING MATRIX.
23
24
25
26

27 *Dated: 09/21/2016*

/s/ Simone M. Hathaway

28 Simone M. Hathaway, Legal Assistant

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EXHIBIT 2

FILED FOR AND RECORDED AT REQUEST OF AND RETURN ORIGINAL TO:

NICOLE L. TERPSTRA, ATTORNEY AT LAW, PLLC
709 Grover Street
Lynden, WA 98264
(360) 318-9300

GRANTOR(S)/LESSOR(S):

1. Dennis L. & Teri J. Scheffer

GRANTEE(S)/LESSEE(S):

1. Dick Bedlington Farms L.L.C.

LEGAL DESCRIPTION: Full legal descriptions found on Exhibit A.

Abbreviated:

1. Gov't Lot 4, Exc E 4.66 acres, Exc ¾ int in min rts, less road

ASSESSOR'S PARCEL NUMBER(S):

1. 390405 072473 0000

LEASE

****With Option to Purchase****

THIS LEASE WITH OPTION TO PURCHASE (the "Lease"), is made and entered into this 21st day of May, 2015, by and between **DENNIS L. SCHEFFER & TERI J. SCHEFFER**, husband and wife, referred to collectively herein as "Lessor", and **DICK BEDLINGTON FARMS L.L.C.**, a Washington limited liability company, hereinafter referred to as "Lessee".

In consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. **Description of Leased Premises.** Upon the terms and conditions herein specified, Lessor leases to Lessee, and Lessee leases from Lessor, the real property legally described on Exhibit A attached hereto and incorporated herein by this reference (the "Leased Premises"), situate in Whatcom County, Washington.

2. **Lease Term.** The term of this Lease shall be five (5) years commencing on May 21, 2015 (the "Commencement Date") and expiring on May 20, 2020 (the "Lease Term").

3. **Rent.** The Lessee covenants and agrees to pay to the Lessor as rent for the Leased Premises the annual amount of Five Hundred Dollars (\$500) per acre per year, based on thirty (30) acres comprising the Leased Premises, for a total annual rent payment of Fifteen Thousand and No/100 Dollars (\$15,000) per year. Lessor hereby acknowledges prepaid rent received from Lessee in the amount of \$55,000 (paid for 2019

EXHIBIT 2

EXHIBIT 2

rent pursuant to a prior lease agreement between Lessor and Lessee) plus the prepaid rent for 2015 of \$55,000 which shall be prorated as of the Commencement Date of this Lease. The total prepaid rent is agreed to be ~~Sixty-Three Thousand Three Hundred~~ ^{Sixty-Three Thousand Three Hundred} (\$~~63,333.32~~ ^{63,333.32}) (the "Prepaid Rent"). Lessee shall not be required to pay any rent hereunder until the full amount of the Prepaid Rent has been credited toward Lessee's account under this Lease. In the event Lessee exercises its option to purchase the Leased Premises as more particularly described in Section 20 hereof prior to the Prepaid Rent being fully applied to Lessee's account, then any remaining Prepaid Rent shall be applied to the Purchase Price under Section 20.A. hereof at Lessee's closing on the Option described in Section 20.

4. **Taxes and Utilities.** Lessee shall pay all utilities for the Leased Premises during the Lease Term. The Lessor hereby covenants and agrees to pay before delinquent all real property taxes and assessments levied against the Leased Premises during the Lease Term. The Lessee hereby covenants and agrees to pay before delinquent all personal property taxes levied against the Lessee's personal property which is located upon the Leased Premises.

5. **Use of Leased Premises.** The Leased Premises are leased to Lessee for Lessee's agricultural uses. Lessee shall not use, or permit to be used, the Leased Premises, or any part thereof, for any purposes or use other than those for which the Leased Premises have been leased, and in the manner provided herein, unless otherwise from time to time mutually agreed to by Lessor and Lessee.

6. **Waste.** Lessee shall not commit waste on, or damage to, the Leased Premises, and will use due care to prevent others from so doing; nor shall Lessee commit a nuisance on the Leased Premises, or permit others to do so; nor shall Lessee use the Leased Premises for any unlawful purpose, nor allow any other person to do so.

7. **Condition of Leased Premises.** Lessee shall keep the Leased Premises and improvements, the approaches to and the appurtenances of the Leased Premises in as good repair and condition as when received, and in as good repair and condition as they may be put during the term of the Lease, ordinary wear and tear excepted.

8. **Alterations or Additions.** Lessee may not make or permit to be made, any additions to or any alterations to the Leased Premises, or a part thereof, without the prior consent of the Lessor. All additions to the Leased Premises shall immediately become a part of the realty and shall be surrendered upon expiration or termination of this Lease.

9. **Right of Entry.** Lessor reserves the right during the Lease Term, of himself, his agents, employees, or his assigns to enter upon the Leased Premises, and all parts thereof, at any reasonable time or times for the purpose of inspection, consultation with Lessee, making repairs or improvements, posting notices, and for all other lawful purposes whatsoever. The Lessor will provide Lessee with no less than twenty-four (24) hours notification prior to entering the Leased Premises, except in the case of any

EXHIBIT 2

EXHIBIT 2

emergency where twenty-four (24) hour notice is not feasible.

10. **Liability to Third Persons.** Lessee agrees to hold Lessor harmless and keep Lessor free, during the term of this Lease from any and all liability and claim for damages, caused by Lessee or Lessee's agents, arising out of injury to persons and/or property while in or upon the Leased Premises, as long as said injury to person or damage to property is not caused by the negligence or intentional misconduct of the Lessor.

11. **Assignment of Lease.** Lessee may not assign this Lease without the prior written consent of the Lessor, which consent shall not be unreasonably withheld or delayed by Lessor.

12. **Sublet of Leased Premises.** Lessee may not sublet the Leased Premises to third parties without the prior written consent of the Lessor, said consent not to be unreasonably withheld or delayed by Lessor.

13. **Accidents.** All personal property on said Leased Premises shall be at the risk of the Lessee. Lessor and Lessor's agents shall not be liable for any damage, either to person or property, sustained by Lessee or others, caused by any defects now in said Leased Premises or hereafter occurring thereon. Lessee agrees to defend and hold Lessor and Lessor's agents harmless from any and all claims for damages suffered or alleged to be suffered in or about the Leased Premises by any person, firm or corporation, except in the event of negligence or intentional misconduct on the part of Lessor or Lessor's agents.

14. **Insurance.** The Lessor shall pay the annual premiums for hazard insurance protecting buildings and improvements to the Leased Premises against loss due to wind, fire, and other hazards. Such insurance shall name Lessee as an additional insured thereunder. Lessee shall maintain liability insurance in the minimum amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00) covering Lessee's operations on the Premises. Lessee shall name Lessor as an additional named insured on said liability policy and shall provide Lessor with a certificate of insurance evidencing these requirements within ten (10) days of mutual execution hereof.

15. **Notices.** Any notices which may be or are required to be given pursuant to the provisions of this Lease shall be delivered or sent by certified mail, postage prepaid, return receipt requested, and addressed as follows:

Lessor: Dennis & Teri Scheffer
PO Box 31433
Bellingham, WA 98228

Lessee: Dick Bedlington Farms L.L.C.
8497 Guide Meridian Road
Lynden, WA 98264

or at such other address as the Lessee may provide to Lessor in writing.

EXHIBIT 2

EXHIBIT 2

16. **Non-Waiver.** The waiver by Lessor or Lessee of a breach of any covenant or condition in this Lease shall not constitute a waiver of such covenant or condition, nor a waiver of a future breach of the same or any covenant or condition of this Lease; and the acceptance of rent by Lessor, with or without knowledge of a previous breach, shall not be deemed a waiver of a previous breach or breaches, by the Lessee of any covenant or condition contained in this Lease, other than the one for which payment is so accepted.

17. **Binding Effect.** The terms, covenants and conditions herein contained shall, subject to the provisions herein with respect to assignment and subletting, apply to and bind the heirs, successors, executors, administrators, and assigns of the parties hereto, and all such parties, including the Lessors and Lessees herein, shall be jointly and severally liable under its terms, covenants, and conditions as the benefits and burdens accrue to them as Lessors or Lessees.

18. **Time of Essence.** Time is of the essence of this Lease.

19. **Recordation.** Once this Lease has been executed in full, Lessee shall record a Memorandum of Lease with the Whatcom County Auditor in the form attached hereto as Exhibit D and incorporated herein by this reference.

20. **Continuing Option to Purchase.** Lessee shall have a continuing option to purchase the Leased Premises (the "Option") during the Lease Term provided the Lease is not in default. Lessee may exercise its purchase Option for the Leased Premises by giving written notice to Lessor during the Lease Term. The consideration for this Option is Lessee's lease of the Leased Premises from Lessor pursuant to this Lease at the rent stated herein ("Option Price"). In the event the Lessee is unable to complete the Option to purchase prior to the end of the Lease Term, this Option shall automatically terminate and be of no further force or effect. The purchase agreement for Lessee's Option to purchase the Leased Premises shall contain the following terms and conditions:

A. **PURCHASE PRICE.** The Purchase Price for the Leased Premises shall be Six Hundred Thousand and No/100 Dollars (\$600,000.00). The Purchase Price shall be payable as follows:

1. One Hundred Twenty Thousand Dollars (\$120,000.00) of the Purchase Price shall be paid in all cash at closing. The balance shall be financed by the Seller in accordance with the terms set forth in the Secured Promissory Note attached hereto as Exhibit B and the Mortgage attached hereto as Exhibit C, both of which exhibits are attached hereto and incorporated herein by this reference.

B. **CONDITION OF TITLE.** The title of Lessor is to be free and clear of all liens, encumbrances or defects except:

1. Easements of record accepted by Lessee.
2. Any other exceptions to title set forth in the title commitment and not

EXHIBIT 2

EXHIBIT 2

objected to by Lessee.

- C. **TITLE INSURANCE.** Lessor shall obtain and pay for an ALTA standard form owner's policy of title insurance and shall furnish to Buyer a preliminary commitment therefore issued by Whatcom Land Title Company (or such other title company as mutually agreed to by the parties) (the "Title Company") at least ten (10) days prior to the conveyance of the Leased Premises. The title policy to be issued shall contain no exceptions other than those provided in said standard form plus encumbrances or defects noted in Paragraph B above and otherwise not objected to by Lessee.
- D. **FORM OF CONVEYANCE.** Title to the Leased Premises shall be conveyed by Statutory Warranty Deed free and clear of encumbrances or defects except those noted in Paragraph B and Paragraph C.
- E. **PRORATIONS.** Property taxes for the current year shall be prorated as of the date of closing.
- F. **POSSESSION.** Lessor shall deliver exclusive possession of the Leased Premises to Lessee on or before the close of business on the date of closing.
- G. **CONDITION OF LEASED PREMISES, WARRANTIES.** Lessee offers to purchase the property in its present condition on the terms noted. Lessor hereby warrants that to the best of their knowledge the Leased Premises described herein and the improvements thereon do not materially violate the applicable building or zoning regulations and that Lessor is unaware of any material defect in the Leased Premises or improvements thereon. Except in accordance with, and in full compliance with, any and all applicable governmental laws, regulations and requirements (collectively called "Environmental Laws") relating to environmental and occupational health and safety matters and hazardous materials, substances or wastes, and except as disclosed in writing to Lessee, Lessor has not released into the environment, or discharged, placed or disposed of any hazardous substances or wastes, or caused the same to be released into the environment, or discharged, placed or disposed of, at or on, the Leased Premises. The Leased Premises is currently designated open space for tax purposes and will be conveyed with a continuation of the open space tax classification.
- H. **CLOSING, ESCROW.** The sale shall be closed in the offices of Whatcom Land Title Company, 2011 Young Street, Bellingham, WA ("Closing Agent") on a date chosen by Lessee, which shall be no later than the expiration of the Lease Term. The Lessee and Lessor shall deposit with the Closing Agent all reasonable instruments, documents and monies required by the Closing Agent as necessary to complete the sale in accordance with this Lease and the purchase and sale agreement. Customary escrow fees shall be paid to the Closing Agent and shall be split equally by and between Lessor and Lessee. The Washington State Real Estate Excise Tax due upon the sale of the Leased Premises shall be paid by the Lessor, as Seller. A standard owners policy of title insurance shall be provided by

EXHIBIT 2

EXHIBIT 2

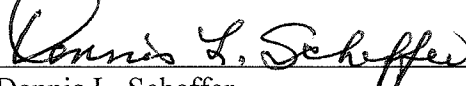
the Closing Agent to Lessee and paid for by Lessor, as Seller.

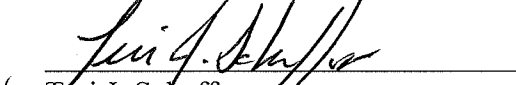
- I. **DATE OF CLOSING.** For purposes of this agreement, "date of closing" shall be construed as the date upon which all appropriate documents are recorded and proceeds of this sale are available for disbursement to Lessor. Funds held in reserve accounts pursuant to escrow instructions shall be deemed, for purposes of this definition, as available for disbursement to Lessor.
- J. **BROKER'S COMMISSION.** Lessor and Lessee represent and warrant to each other that they have dealt with no finders, brokers or realtors in connection with this Lease and Option to purchase. Both Lessor and Lessee agree to indemnify and hold one another harmless from any costs, fees, expenses (including attorneys' fees), or claims of commissions owed that may be made by any third parties arising out of the actions of one of the parties hereto and not the other party.

21. **Counterparts.** This Lease may be executed in counterparts, each of which shall be deemed an original, and which together shall constitute a single, integrated contract.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals on the day and year first above written.


LESSOR:


Dennis L. Scheffer


Teri J. Scheffer

LESSEE:

DICK BEDLINGTON FARMS L.L.C.


By: Melissa Bedlington-Kleindel, Its: Manager

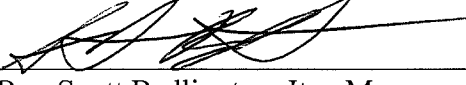

By: Scott Bedlington, Its: Manager

EXHIBIT 2

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this 21st day of May, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Melissa Bedlington-Kleindel** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be her free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

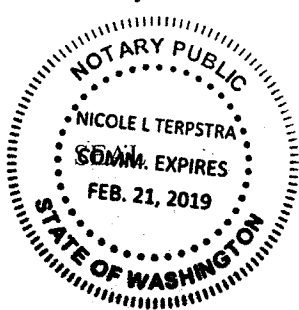


Nicole L. Terpstra
{Notary Signature}
Notary Public in and for the State of Washington
Residing at: Lynden, WA
My commission expires: 2-21-19

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this 21st day of May, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Scott Bedlington** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be his free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.



Nicole L. Terpstra
{Notary Signature}
Notary Public in and for the State of Washington
Residing at: Lynden, WA
My commission expires: 2-21-19

EXHIBIT 2

EXHIBIT 2

STATE OF WASHINGTON }
 }
 } ss.
COUNTY OF WHATCOM }

On this 21st day of May, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Dennis L. Scheffer**, who acknowledged the said instrument to be his free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

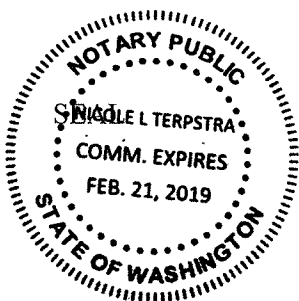


Nicole L. Terpstra
{Notary Signature}
Notary Public in and for the State of Washington
Residing at: Lynden WA
My commission expires: 2-21-19

STATE OF WASHINGTON }
 }
 } ss.
COUNTY OF WHATCOM }

On this 21st day of May, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Teri J. Scheffer**, who acknowledged the said instrument to be her free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.



Nicole L. Terpstra
{Notary Signature}
Notary Public in and for the State of Washington
Residing at: Lynden, WA
My commission expires: 2-21-19

EXHIBIT 2

EXHIBIT 2

EXHIBIT A

Legal Description of Leased Premises

Government Lot 4, Section 5, Township 39 North, Range 4 East of W.M., except the East 4.66 acres thereof; also except right-of-way for Massey Road No. 88 lying along the North line thereof; and except right-of-way for County Road No. 75, lying along the West line thereof.

Situate in Whatcom County, Washington.

EXHIBIT 2

EXHIBIT B

Secured Promissory Note

EXHIBIT 2

SECURED PROMISSORY NOTE

\$480,000.00

_____, 2015

FOR VALUE RECEIVED, the undersigned, **DICK BEDLINGTON FARMS L.L.C.**, a Washington limited liability company ("Maker"), does hereby promise to pay to the order of **DENNIS L. SCHEFFER & TERI J. SCHEFFER**, husband and wife (referred to collectively herein as the "Holder") in lawful money of the United States of America, the principal sum of **Four Hundred Eighty Thousand Dollars (\$480,000.00)**, together with interest thereon until paid in full as stated herein.

1. Interest Rate. The outstanding principal balance of this Note shall bear interest prior to any default at a rate of three and one half percent (3.5%) per annum. The interest rate on this Note after occurrence of, and prior to the cure of any default, shall be ten percent (10%).

2. Payments. Maker shall make monthly payments in the minimum amount of Three Thousand Four Hundred Thirty-One and 44/100 Dollars (\$3,431.44), which payments shall be made on or before the first (1st) day of each month beginning on _____ 1, _____.

3. Maturity. Unless paid sooner, the entire principal balance of this Note, plus all accrued and unpaid interest, and all other amounts owing hereunder or under any Mortgage or other security document that secures repayment of this Note, shall be due and payable on or before the fifteen (15) year anniversary date of this Note.

4. Security. This Note is secured by the liens and provisions of a Mortgage to be made with reference to this Note, the terms of which are incorporated herein by this reference (the "Mortgage"). Such Mortgage shall be executed by Maker as grantor covering real property located in Whatcom County, Washington (the "Collateral") and shall be a first position lien on the Collateral. Reference is hereby made to such Mortgage for description of the property conveyed or pledged, the nature and extent of the security, and other rights of the beneficiaries and secured parties thereunder and the Holder(s) hereof in respect to such security.

5. Application of Payments; Prepayment. Each payment hereunder shall be applied first to any charges or unpaid amounts due and owing under this Note or under the terms of any applicable Mortgage, second to the payment of interest then accrued on the unpaid balance under this Note, and the remainder, if any, shall be applied to the reduction of principal. Upon payment in full of the principal and accrued interest thereon, this Note shall be canceled, shall be of no further force or effect, and shall be returned to Maker, and any instruments securing repayment hereof shall be promptly reconveyed and released at Maker's expense.

6. Default. This Note shall be in default if Maker fails to make any payment under this Note when due or if Maker fails to pay or perform any of its obligations under any applicable Mortgage or any collateral agreement to which Maker is a party and that specifically refers to this Note. If a default occurs, the Holder of this Note shall be entitled to declare the entire unpaid principal balance and all accrued and unpaid interest thereon immediately due and

EXHIBIT 2

EXHIBIT 2

payable and may proceed to protect and enforce its or their rights either by suit in equity and/or law or any other appropriate proceedings, whether for the specific performance of any covenant or agreement contained in this Note or in the Mortgage. A default in the payment of any amount due hereunder shall not occur if such payment is made within ten (10) business days after the date it is due. After any such default the principal balance shall bear interest at a rate equal to the applicable default interest rate set forth above from the date of default until the default is cured.

7. Due on Sale. Reference is made to the Mortgage that contains a provision precluding the sale of the real property that secures this Note. The obligations due under this Note may be accelerated upon default of such provisions.

8. Attorneys' Fees and Costs. If a default occurs hereunder and this Note is placed in the hands of an attorney or other party for collection, or collection is through bankruptcy, receivership or other creditor proceeding, or suit is brought on any amount called for herein, Maker shall be liable for all costs of administration and collection, including without limitation reasonable attorneys' fees and all related costs and out of pocket expenses, including court fees and costs and any sums advanced by the Holder pertaining to protection of the collateral or the lien of the Mortgage.

9. Waiver. Each Maker, Co-Maker, surety, guarantor or endorser of this Note hereby: (a) waives presentment for payment, demand, notice of nonpayment, notice of protest, and protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default, dishonor, or enforcement of the payment of this Note; (b) agrees that its liability shall be unconditional without regard to the liability of any other party, and shall not be in any manner affected by any indulgence, extension of time, renewal, waiver, or modification granted to or consented to by Holder; (c) consents to any such indulgences, extensions, renewals, waivers, or modifications; and (d) consents to the release of any property now or hereafter securing this Note with or without substitution.

10. Rights Cumulative. The rights and remedies of the holder(s) of this Note and any instrument securing payment hereof, shall be cumulative and concurrent, and may be pursued individually, successively, or together against the property described in any instrument securing payment hereof, or any other funds, property or security held by the Holder for the payment hereof or otherwise at the sole discretion of the Holder. The failure to exercise any such right or remedy shall in no event be construed as a waiver or release of said rights to remedies or of the right to exercise them at any later time.

11. Applicable Law. This Note shall be construed according to the laws of the state of Washington. This Note shall be fully binding on and inure to the benefit of the successors, heirs, legal representatives, and assigns of the parties hereto.

EXHIBIT 2

EXHIBIT 2

12. Time of Essence. Time is of the essence. All reimbursements and payments other than payments of principal or interest required by this Note shall be immediately due and payable on demand. Each and every maker hereof agrees that they have received valuable consideration hereunder, that they sign this Note as makers and not as sureties, and that any and all suretyship defenses are hereby waived.

13. Purpose. Maker acknowledges that this loan evidenced by this Note is primarily for investment, business, or commercial purposes and not primarily for personal, family, household or agricultural purposes.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

IN WITNESS WHEREOF, the undersigned Maker has caused this Note to be executed as of the date first written above.

Maker:

DICK BEDLINGTON FARMS L.L.C.

By: Melissa Bedlington-Kleindel, Its: Manager

By: Scott Bedlington, Its: Manager

EXHIBIT 2

EXHIBIT C

Mortgage

EXHIBIT 2

FILED FOR AND RECORDED AT REQUEST OF AND RETURN ORIGINAL TO:

NICOLE L. TERPSTRA, ATTORNEY AT LAW, PLLC
709 Grover Street
Lynden, WA 98264
(360) 318-9300

GRANTOR(S)/LESSOR(S):

1. Dick Bedlington Farms L.L.C.

GRANTEE(S)/LESSEE(S):

1. Dennis L. & Teri J. Scheffer

LEGAL DESCRIPTION: Full legal descriptions found on Exhibit A.

Abbreviated:

1. Gov't Lot 4, Exc E 4.66 acres, Exc $\frac{3}{4}$ int in min rts, less road

ASSESSOR'S PARCEL NUMBER(S):

1. 390405 072473 0000

MORTGAGE

THIS MORTGAGE dated _____, 20____, is made and executed between **DICK BEDLINGTON FARMS L.L.C.**, a Washington limited liability company, whose address is 8497 Guide Meridian Road, Lynden, WA 98264 (referred to below as "Grantor") and **DENNIS L. SCHEFFER & TERI J. SCHEFFER**, husband and wife, whose address is PO Box 31433, Bellingham, WA 98228 (collectively referred to below as "Lender").

GRANT OF MORTGAGE. For valuable consideration, Grantor mortgages and conveys to Lender all of Grantor's right, title and interest in and to the following described real property, together with all existing or subsequently erected or affixed buildings, improvements and fixtures; all easements, rights of way, and appurtenances; all water, water rights, watercourses and ditch rights (including stock in utilities with ditch or irrigation rights); and all other rights, royalties, and profits (relating to the real property, including without limitation all minerals, oil, gas, geothermal and similar matters, (the "Real Property") located in WHATCOM County, State of Washington:

See EXHIBIT A, which is attached to this Mortgage and made a part of this Mortgage as if fully set forth herein.

The Real Property tax identification numbers are as follows:

1. 390405 072473 0000

Grantor hereby assigns as security to Lender, all of Grantor's right, title and interest in and to all leases, Rents, and profits of the Property. This assignment is recorded in accordance with RCW 65.08.070; the lien created by the assignment is intended to be specific, perfected and choate upon the recording of this Mortgage. Lender grants to Grantor a license to collect the Rents and profits, which license may be revoked at Lender's option and shall be automatically revoked upon acceleration of all or part of the Indebtedness.

THIS MORTGAGE, INCLUDING THE ASSIGNMENT OF RENTS AND THE SECURITY INTEREST IN THE RENTS AND PERSONAL PROPERTY, IS GIVEN TO SECURE (A) PAYMENT OF THE INDEBTEDNESS AND (B) PERFORMANCE OF ANY AND ALL OBLIGATIONS UNDER THE NOTE, THE RELATED DOCUMENTS, AND THIS MORTGAGE. THIS MORTGAGE IS GIVEN AND ACCEPTED ON THE FOLLOWING TERMS:

PAYMENT AND PERFORMANCE. Except as otherwise provided in this Mortgage, Grantor shall pay to Lender all amounts secured by this Mortgage as they become due and shall strictly perform all of Grantor's obligations under this Mortgage.

POSSESSION AND MAINTENANCE OF THE PROPERTY. Grantor agrees that Grantor's possession and use of the Property

EXHIBIT 2

EXHIBIT 2

shall be governed by the following provisions:

Duty to Maintain. Grantor shall maintain the Property in tenantable condition and promptly perform all repairs, replacements and maintenance necessary to preserve its value.

Nuisance, Waste. Grantor shall not cause, conduct or permit any nuisance nor commit, permit or suffer any stripping of or waste on or to the Property or any portion of the Property. Without limiting the generality of the foregoing, Grantor will not remove, or grant to any other party the right to remove, any timber, minerals, (including oil and gas), coal, clay, scoria, soil, gravel or rock products without Lender's prior written consent.

Lender's Right to Enter. Lender and Lender's agents and representatives may enter upon the Real Property at all reasonable times to attend to Lender's interests and to inspect the Real Property for purposes of Grantor's compliance with the terms and conditions of this Mortgage. Lender shall give 24 hour advance notice of its desire to enter the Real Property and for what purposes.

Compliance with Governmental Requirements. Grantor shall promptly comply, and shall promptly cause compliance by all agents, tenants or other persons or entities of every nature whatsoever who rent, lease or otherwise use or occupy the Property in any manner, with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the use or occupancy of the Property. Grantor may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Grantor has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Property are not jeopardized. Lender may require Grantor to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Duty to Protect. Grantor agrees neither to abandon or leave unattended the Property. Grantor shall do all other acts, in addition to those acts set forth above in this section, which from the character and use of the Property are reasonably necessary to protect and preserve the Property.

DUE ON SALE - CONSENT BY LENDER. Lender may, at Lender's option, (A) declare immediately due and payable all sums secured by this Mortgage or (B) increase the interest rate provided for in the Note or other document evidencing the indebtedness and impose such other conditions as Lender deems appropriate, upon the sale or transfer, without Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property, or upon violation of any prohibition or agreement contained in the above section titled "Water Rights to Remain Appurtenant to Property." A "sale or transfer" means the conveyance of Real Property or any right, title or interest in the Real Property; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of an interest in the Real Property. If any Grantor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than forty-nine percent (49%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of such Grantor. However, this option shall not be exercised by Lender if such exercise is prohibited by federal law or by Washington law.

TAXES AND LIENS. The following provisions relating to the taxes and liens on the Property are part of this Mortgage:

Payment. Grantor shall pay when due (and in all events prior to delinquency) all taxes, payroll taxes, special taxes, assessments, water charges and sewer service charges levied against or on account of the Property, and shall pay when due all claims for work done on or for services rendered or material furnished to the Property. Grantor shall maintain the Property free of any liens having priority over or equal to the interest of Lender under this Mortgage, except for those liens specifically agreed to in writing by Lender, and except for the lien of taxes and assessments not due as further specified in the Right to Contest paragraph.

Right to Contest. Grantor may withhold payment of any tax, assessment or claim in connection with a good faith dispute over the obligation to pay, so long as Lender's interest in the Property is not jeopardized. If a lien arises or is filed as a result of nonpayment, Grantor shall within fifteen (15) days after the lien arises or, if a lien is filed, within fifteen (15) days after Grantor has notice of the filing, secure the discharge of the lien, or if requested by Lender, deposit with Lender cash or a sufficient corporate surety bond or other security satisfactory to Lender in an amount sufficient to discharge the lien plus any costs and attorneys' fees, or other charges that could accrue as a result of a foreclosure or sale under the lien. In any contest, Grantor shall defend itself and Lender and shall satisfy any adverse judgment before enforcement against the Property. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Evidence of Payment. Grantor shall upon demand furnish to Lender satisfactory evidence of payment of the taxes or assessments and shall authorize the appropriate governmental official to deliver to Lender at any time a written statement of the taxes and assessments against the Property.

PROPERTY DAMAGE INSURANCE. The following provisions relating to insuring the Property are a part of this Mortgage:

Maintenance of Insurance. Grantor shall procure and maintain policies of fire insurance with standard extended coverage endorsements on a replacement basis for the full insurable value covering all improvements on the Real Property in an amount sufficient to avoid application of any coinsurance clause, and with a standard mortgagee clause in favor of Lender. Grantor shall also procure and maintain comprehensive general liability insurance in such coverage in the minimum amount of One Million Dollars (\$1,000,000.00) per occurrence and One Million Dollars (\$1,000,000.00) in aggregate, or such other amounts as Lender may request with Lender being named as additional insureds in such liability insurance policies. Additionally, Grantor shall maintain such other insurance, including but not limited to hazard, business interruption and boiler insurance as Lender may require in writing. Policies shall be written by such insurance companies and in such form as may be reasonably acceptable to Lender. Grantor shall deliver to Lender certificates of coverage from each insurer containing a stipulation that coverage will not be canceled or diminished without a minimum of thirty (30) days prior written notice to Lender and not containing any disclaimer of the insurer's liability for failure to give such notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. Should the Real Property be located in an area designated by the Director of the Federal Emergency Management Agency as a special flood hazard area, Grantor agrees to obtain and maintain Federal Flood

EXHIBIT 2

EXHIBIT 2

Insurance, if available, within 45 days after notice is given by Lender that the Property is located in a special flood area, for the full unpaid principal balance of the loan and any prior liens on the property securing the loan, up to the maximum policy limits set under the National Flood Insurance Program, or as otherwise required by Lender, and to maintain such insurance for the term of the loan.

Application of Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Property if the estimated cost of repair or replacement exceeds \$50,000.00. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. Whether or not Lender's security is impaired, Lender may, at Lender's election, receive and retain the proceeds of any insurance and apply the proceeds to the reduction of the Indebtedness, payment of any lien affecting the Property, or the restoration and repair of the Property. If Lender elects to apply the proceeds to restoration and repair, Grantor shall repair or replace the damaged or destroyed Improvements in a manner satisfactory to Lender. Lender shall, upon satisfactory proof of such expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration if Grantor is not in default under this Mortgage. Any proceeds which have not been disbursed within 180 days after their receipt and which Lender has not committed to the repair or restoration of the Property shall be used first to pay any amount owing to Lender under this Mortgage, then to pay accrued interest, and the remainder, if any, shall be applied to the principal balance of the Indebtedness. If Lender holds any proceeds after payment in full of the Indebtedness, such proceeds shall be paid without interest to Grantor as Grantor's interests may appear.

Compliance with Existing Indebtedness. During the period in which any Existing Indebtedness described below is in effect, compliance with the insurance provisions contained in the instrument evidencing such Existing Indebtedness shall constitute compliance with the insurance provisions under this Mortgage, to the extent compliance with the terms of this Mortgage would constitute a duplication of insurance requirement. If any proceeds from the insurance become payable on loss, the provisions in this Mortgage for division of proceeds shall apply only to that portion of the proceeds not payable to the holder of the Existing Indebtedness.

Grantor's Report on Insurance. Upon request of Lender, however not more than once a year, Grantor shall furnish to Lender a report on each existing policy of insurance showing: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured, the then current replacement value of such property, and the manner of determining that value; and (5) the expiration date of the policy. Grantor shall, upon request of the Lender, have an independent appraiser satisfactory to Lender determine the cash value replacement cost of the Property.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Property or if Grantor fails to comply with any provision of this Mortgage or any Related Documents, including but not limited to Grantor's failure to comply with any obligation to maintain Existing Indebtedness in good standing as required below, or to discharge or pay when due any amounts Grantor is required to discharge or pay under this Mortgage or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or payment all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Property and paying all costs for insuring, maintaining and preserving the Property. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Mortgage also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

WARRANTY; DEFENSE OF TITLE. The following provisions relating to ownership of the Property are a part of this Mortgage:

Title. Grantor warrants that: (a) Grantor holds good and marketable title of record to the property in fee simple, free and clear of all liens and encumbrances other than those set forth in the Real Property description or in the Existing Indebtedness section below or in any title insurance policy, title report, or final title opinion issued in favor of, and accepted by, Lender in connection with this Mortgage, and (b) Grantor has the full right, power and authority to execute and deliver this Mortgage to Lender.

Defense of Title. Subject to the exception in the paragraph above, Grantor warrants and will forever defend the title to the Property against the lawful claims of all persons. In the event any action or proceeding is commenced that questions Grantor's title or the interest of Lender under this Mortgage, Grantor shall defend the action at Grantor's expense. Grantor may be the nominal party in such proceeding, but Lender shall be entitled to participate in the proceeding and to be represented in the proceeding by counsel of Lender's own choice, and Grantor will deliver, or cause to be delivered, to Lender such instruments as Lender may request from time to time to permit such participation.

Compliance with Laws. Grantor warrants that the Property and Grantor's use of the Property complies with all existing applicable laws, ordinances, and regulations of governmental authorities.

Survival of Representations and Warranties. All representations, warranties and agreements made by Grantor in this Mortgage shall survive the execution and delivery of this Mortgage, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's indebtedness shall be paid in full.

CONDEMNATION. The following provisions relating to condemnation proceedings are a part of this Mortgage:

Proceedings. If any proceeding in condemnation is filed, Grantor shall promptly notify Lender in writing, and Grantor shall promptly take such steps as may be necessary to defend the action and obtain the award. Grantor may be the nominal party in such proceeding, but Lender shall be entitled to participate in the proceeding and to be represented in the proceeding by counsel of its own choice all at Grantor's expense, and Grantor will deliver or cause to be delivered to Lender such instruments and documentation as may be requested by Lender from time to time to permit such participation.

Application of Net Proceeds. If all or part of the Property is condemned by eminent domain proceedings or by any proceeding or purchase in lieu of condemnation, Lender may at its election require that all or any portion of the net proceeds of the award be applied to the indebtedness or the repair or restoration of the Property. The net proceeds of the award shall mean the award after payment of all reasonable costs, expenses, and attorney's fees incurred by Lender in connection with the

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condemnation.

IMPOSITION OF TAXES, FEES AND CHARGES BY GOVERNMENTAL AUTHORITIES. The following provisions relating to governmental taxes, fees and charges are a part of this Mortgage.

Current Taxes, Fees and Charges. Upon request by Lender, Grantor shall execute such documents in addition to this Mortgage and take whatever other action is requested by Lender to perfect and continue Lender's lien on the Real Property. Grantor shall reimburse Lender for all taxes, as described below, together with all expenses incurred in recording, perfecting or continuing this Mortgage, including without limitation all taxes, fees, documentary stamps, and other charges for recording or registering this Mortgage.

Taxes. The following shall constitute taxes to which this section applies: (1) a specific tax upon this type of Mortgage or upon all or any part of the Indebtedness secured by this Mortgage; (2) a specific tax on Grantor which Grantor is authorized or required to deduct from payments on the Indebtedness secured by this type of Mortgage; (3) a tax on this type of Mortgage chargeable against the Lender or the holder of the Note; and (4) a specific tax on all or any portion of the Indebtedness or on payments of principal and interest made by Grantor.

Subsequent Taxes. If any tax to which this section applies is enacted subsequent to the date of this Mortgage, this event shall have the same effect as an Event of Default, and Lender may exercise any or all of its available remedies for an Event of Default as provided below unless Grantor either (1) pays the tax before it becomes delinquent, or (2) contests the tax as provided above in the Taxes and Liens section and deposits with Lender cash or a sufficient corporate surety bond or other security satisfactory to Lender.

SECURITY AGREEMENT; FINANCING STATEMENTS. The following provisions relating to this Mortgage as a security agreement are a part of this Mortgage:

Security Agreement. This instrument shall constitute a Security Agreement to the extent any of the Property constitutes fixtures, and Lender shall have all of the rights of a secured party under the Uniform Commercial Code as amended from time to time.

Security Interest. Upon request by Lender, Grantor shall take whatever action is requested by Lender to perfect and continue Lender's security interest in the Rents and Personal Property. In addition to recording this Mortgage in the real property records, Lender may, at any time and without further authorization from Grantor, file executed counterparts, copies or reproductions of this Mortgage as a financing statement. Grantor shall reimburse Lender for all expenses incurred in perfecting or continuing this security interest. Upon default, Grantor shall not remove, sever or detach the Personal Property from the Property. Upon default, Grantor shall assemble any Personal Property not affixed to the Property in a manner and at a place reasonably convenient to Grantor and Lender and make it available to Lender within three (3) days after receipt of written demand from Lender to the extent permitted by applicable law.

Addresses. The mailing addresses of Grantor (debtor) and Lender (secured party) from which information concerning the security interest granted by this Mortgage may be obtained (each as required by the Uniform Commercial Code) are as stated on the first page of this Mortgage.

FULL PERFORMANCE. If Grantor pays all the Indebtedness when due, and otherwise performs all the obligations imposed upon Grantor under this Mortgage, Lender shall execute and deliver to Grantor a suitable satisfaction of this Mortgage and suitable statements of termination of any financing statement on file evidencing Lender's security interest in the Rents and the Personal Property. Grantor will pay, if permitted by applicable law, any reasonable termination fee as determined by Lender from time to time.

EVENTS OF DEFAULT. Each of the following, at Lender's option, shall constitute an Event of Default under this Mortgage:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Default on Other Payments. Failure of Grantor within the time required by this Mortgage to make any payment for taxes or insurance, or any other payment necessary to prevent filing of or to effect discharge of any lien.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Mortgage or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Mortgage or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Mortgage or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any property securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its

EXHIBIT 2

EXHIBIT 2

sole discretion, as being an adequate reserve or bond for the dispute.

Existing Indebtedness. The payment of any installment of principal or any interest on the Existing Indebtedness is not made within the time required by the promissory note evidencing such indebtedness, or a default occurs under the instrument securing such indebtedness and is not cured during any applicable grace period in such instrument, or any suit or other action is commenced to foreclose any existing lien on the Property.

Breach of Other Agreement. Any breach by Grantor under the terms of any other agreement between Grantor and Lender that is not remedied within any grace period provided therein, including without limitation any agreement concerning any indebtedness or other obligation of Grantor to Lender, whether existing now or later.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness. In the event of a death, Lender, at its option, may, but shall not be required to, permit the guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure any Event of Default.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default in payment is curable and if Grantor has not been given a notice of a breach of the same provision of this Mortgage within the preceding twelve (12) months, it may be cured if Grantor, after receiving written notice from Lender demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. Upon the occurrence of an Event of Default and at any time thereafter, Lender, at Lender's option, may exercise any one or more of the following rights and remedies, in addition to any other rights or remedies provided by law:

Accelerate Indebtedness. Lender shall have the right at its option without notice to Grantor to declare the entire Indebtedness immediately due and payable, including any prepayment penalty which Grantor would be required to pay.

UCC Remedies. With respect to all or any part of the Personal Property, Lender shall have all the rights and remedies of a secured party under the Uniform Commercial Code.

Collect Rents. Lender shall have the right, without notice to Grantor, to take possession of the Property and collect the Rents, including amounts past due and unpaid, and apply the net proceeds, over and above Lender's costs, against the Indebtedness. In furtherance of this right, Lender may require any tenant or other user of the Property to make payments of rent or use fees directly to Lender. If the Rents are collected by Lender, then Grantor irrevocably designates Lender as Grantor's attorney-in-fact to endorse instruments received in payment thereof in the name of Grantor and to negotiate the same and collect the proceeds. Payments by tenants or other users to Lender in response to Lender's demand shall satisfy the obligations for which the payments are made, whether or not any proper grounds for the demand existed. Lender may exercise its rights under this subparagraph either in person, by agent, or through a receiver.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Property, with the power to protect and preserve the Property, to operate the Property preceding or pending foreclosure or sale, and to collect the Rents from the Property and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Property exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Judicial Foreclosure. Lender may obtain a judicial decree foreclosing Grantor's interest in all or any part of the Property.

Nonjudicial Sale. If permitted by applicable law, Lender may foreclose Grantor's interest in all or in any part of the Personal Property or the Real Property by non-judicial sale.

Deficiency Judgment. If permitted by applicable law, Lender may obtain a judgment for any deficiency remaining in the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this section.

Tenancy at Sufferance. If Grantor remains in possession of the Property after the Property is sold as provided above or Lender otherwise becomes entitled to possession of the Property upon default of Grantor, Grantor shall become a tenant at sufferance of Lender or the purchaser of the Property and shall, at Lender's option, either (1) pay a reasonable rental for the use of the Property, or (2) vacate the Property immediately upon the demand of Lender.

Other Remedies. Lender shall have all other rights and remedies provided in this Mortgage or the Note or available at law or in equity.

Sale of the Property. To the extent permitted by applicable law, Grantor hereby waives any and all right to have the Property marshalled. In exercising its rights and remedies, Lender shall be free to sell all or any part of the Property together or separately, in one sale or by separate sales. Lender shall be entitled to bid at any public sale on all or any portion of the Property.

Notice of Sale. Lender shall give Grantor reasonable notice of the time and place of any public sale of the Personal Property or of the time after which any private sale or other intended disposition of the Personal Property is to be made. Reasonable notice shall mean notice given at least ten (10) days before the time of the sale or disposition.

EXHIBIT 2

EXHIBIT 2

Any sale of the Personal Property may be made in conjunction with any sale of the Real Property.

Election of Remedies. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Mortgage, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies. Nothing under this Mortgage or otherwise shall be construed so as to limit or restrict the rights and remedies available to Lender following an Event of Default, or in any way to limit or restrict the rights and ability of Lender to proceed directly against Grantor and/or against any other co-maker, guarantor, surety or endorser and/or to proceed against any other collateral directly or indirectly securing the Indebtedness.

Attorneys' Fees-Expenses. If Lender institutes any suit or action to enforce any of the terms of this Mortgage Lender shall be entitled to recover such sum as the court may adjudge reasonable as attorneys' fees at trial and upon any appeal. Whether or not any court action is involved, and to the extent not prohibited by law all reasonable expenses Lender incurs that in Lender's opinion are necessary at any time for the protection of its interest or the enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest at the Note rate from the date of the expenditure until repaid. Expenses covered by this paragraph include, without limitation, however subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees and expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post judgment collection services, the cost of searching records, obtaining title reports (including foreclosure reports), surveyors' reports, and appraisal fees and title insurance, to the extent permitted by applicable law. Grantor also will pay any court costs, in addition to all other sums provided by law.

NOTICES. Subject to applicable law, and except for notice required or allowed by law to be given in another manner, any notice required to be given under this Mortgage, including without limitation any notice of default and any notice of sale shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Mortgage. All copies of notices of foreclosure from the holder of any lien which has priority over this Mortgage shall be sent to Lender's address, as shown near the beginning of this Mortgage. Any party may change its address for notices under this Mortgage by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Subject to applicable law, and except for notice required or allowed by law to be given in another manner, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Mortgage:

Amendments. This Mortgage, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Mortgage. No alteration of or amendment to this Mortgage shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Caption Headings. Caption headings in this Mortgage are for convenience purposes only and are not to be used to interpret or define the provisions of this Mortgage.

Governing Law. This Mortgage will be governed by, construed and enforced in accordance with federal law and the laws of the State of Washington. This Mortgage has been accepted by Lender in the State of Washington.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of WHATCOM COUNTY, State of Washington.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Mortgage unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Mortgage shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Mortgage. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Mortgage, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Severability. If a court of competent jurisdiction finds any provision of this Mortgage to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Mortgage. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Mortgage shall not affect the legality, validity or enforceability of any other provision of this Mortgage.

Merger. There shall be no merger of the interest or estate created by this Mortgage with any other interest or estate in the Property at any time held by or for the benefit of Lender in any capacity, without the written consent of Lender.

Successors and Assigns. Subject to any limitations stated in this Mortgage on transfer of Grantor's interest, this Mortgage shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Property becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Mortgage and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Mortgage or liability under the Indebtedness.

Time is of the Essence. Time is of the essence in the performance of this Mortgage.

Waive Jury. All parties to this Mortgage hereby waive the right to any jury trial, trial in any action, proceeding, or

EXHIBIT 2

EXHIBIT 2

counterclaim brought by any party against any other party.

Waiver of Homestead Exemption. Grantor hereby releases and waives all rights and benefits of the homestead exemption laws of the State of Washington as to all Indebtedness secured by this Mortgage.

DEFINITIONS. The following capitalized words and terms shall have the following meanings, when used in this Mortgage. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Mortgage shall have the meanings attributed to such terms in the Uniform Commercial Code:

Borrower. The word "Borrower" means DICK BEDLINGTON FARMS L.L.C., a Washington State limited liability company, its successors and/or assigns and includes all the signers, guarantors and co-makers signing the Note.

Default. The word "Default" means the Default set forth in this Mortgage in the section titled Default.

Event of Default. The words "Event of Default" means any of the events of default set forth in this Mortgage in the events of default section of this Mortgage.

Grantor. The word "Grantor" means DICK BEDLINGTON FARMS L.L.C., a Washington State limited liability company, its successors and/or assigns.

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Improvements. The word "Improvements" means all existing and future improvements, buildings, structures, mobile homes affixed on the Real Property, facilities, additions, replacements and other construction on the Real Property.

Indebtedness. The word "Indebtedness" means all principal, interest, and other amounts, costs and expenses payable under the Note or Related Documents, together with all renewals of, extensions of, modifications of, consolidations of and substitutions for the Note or Related Documents and any amounts expended or advanced by Lender to discharge Grantor's obligations or expenses incurred by Lender to enforce Grantor's obligations under this Mortgage, together with interest on such amounts as provided in this Mortgage.

Lender. The word "Lender" means DENNIS L. SCHEFFER & TERI J. SCHEFFER, husband and wife.

Mortgage. The word "Mortgage" means this Mortgage between Grantor and Lender.

Note. The word "Note" means the secured promissory note dated _____, in the original principal amount of \$480,000.00 from Grantor to Lender, together with all renewals of, extensions of, modifications of, refinancing of, consolidations of, and substitutions for the promissory note or agreement.

Personal Property. The words "Personal Property" mean all equipment, fixtures, and other articles of personal property now or hereafter owned by Grantor, and now or hereafter attached or affixed to the Real Property; together with all accessions, parts, and additions to, all replacements of, and all substitutions for, any of such property; and together with all issues and profits thereon and proceeds (including without limitation all insurance proceeds and refunds of premiums) from any sale or other disposition of the Property.

Property. The word "Property" means collectively the Real Property and the Personal Property.

Real Property. The words "Real Property" mean the real property, interests and rights, as further described in the Mortgage.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guarantees, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

Rents. The word "Rents" means all present and future rents, revenues, income, issues, royalties, profits, and other benefits derived from the Property.

GRANTOR ACKNOWLEDGES HAVING READ ALL OF THE PROVISIONS OF THIS MORTGAGE, AND GRANTOR AGREES TO ITS TERMS.

DICK BEDLINGTON FARMS L.L.C.

By: Melissa Bedlington-Kleindel, Its: Manager

By: Scott Bedlington, Its: Manager

EXHIBIT 2

EXHIBIT 2

STATE OF WASHINGTON }
 }
 } ss.
COUNTY OF WHATCOM }

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Melissa Bedlington-Kleindel** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be her free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

STATE OF WASHINGTON }
 }
 } ss.
COUNTY OF WHATCOM }

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Scott Bedlington** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be his free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

EXHIBIT 2

EXHIBIT 2

Exhibit A
Legal Description

Government Lot 4, Section 5, Township 39 North, Range 4 East of W.M., except the East 4.66 acres thereof; also except right-of-way for Massey Road No. 88 lying along the North line thereof; and except right-of-way for County Road No. 75, lying along the West line thereof.

Situate in Whatcom County, Washington.

EXHIBIT 2

EXHIBIT D

Memorandum of Lease Option

EXHIBIT 2

RETURN DOCUMENT TO:

NICOLE L. TERPSTRA, ATTORNEY AT LAW, PLLC
709 Grover Street
Lynden, WA 98264
(360) 318-9300

DOCUMENT TITLE: MEMORANDUM OF LEASE WITH OPTION
GRANTOR: DENNIS L. SCHEFFER & TERI J. SCHEFFER
GRANTEE: DICK BEDLINGTON FARMS L.L.C.
ABBREVIATED LEGAL: Govt. Lot 4, Exc E 4.66 acres, Exc ¼ int in min rts, less road
ASSESSOR TAX PARCEL NO: 390405 072473 0000

MEMORANDUM OF LEASE WITH OPTION TO PURCHASE

THIS MEMORANDUM OF LEASE WITH OPTION TO PURCHASE (the "Memorandum") is made as of the _____ day of _____, 2015 by and between DENNIS L. SCHEFFER & TERI J. SCHEFFER, husband and wife ("Scheffer") and DICK BEDLINGTON FARMS L.L.C., a Washington limited liability company ("Bedlington").

AGREEMENT

1. Memorandum. Scheffer and Bedlington have entered into that certain Lease with Option to Purchase dated as of _____, 2015 (the "Lease") pursuant to which Scheffer is leasing to Bedlington certain farmland located in Whatcom County, Washington as legally described on Exhibit A attached hereto (the "Property"). The parties hereto are entering into this Memorandum for the purpose of incorporating the terms and conditions of the Lease and for the purpose of recording an agreement to give notice of the terms of this Memorandum and the Lease which includes an option to purchase the Property.

2. Term. The term of the Lease is effective on _____, 2015 and expires on the five (5) year anniversary date thereof.

3. Notice. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be given by: (a) hand delivery; (b) first-class registered or certified mail with postage prepaid, (c) overnight receipted courier service, or (d) confirmed facsimile transmission, which notice is addressed to the party at the address set forth

EXHIBIT 2

EXHIBIT 2

below, or such other address as may hereafter be designated in writing by the party. Notices given in accordance with this Section shall be effective upon receipt or when receipt is refused.

If to Bedlington: Dick Bedlington Farms L.L.C.
8497 Guide Meridian Road
Lynden, WA 98264
Attn: Scott Bedlington

If to Scheffer: Dennis & Teri Scheffer
PO Box 31433
Bellingham, WA 98228

4. Additional Terms of Lease. Additional and supplementary terms, conditions, covenants and agreements pertaining to the Property are set forth in the Lease.

5. Option to Purchase. The Lease includes an option to purchase the Property during the term of the Lease.

IN WITNESS WHEREOF, the parties have executed this Memorandum of Lease with Option to Purchase as of the date first written above.

DICK BEDLINGTON FARMS L.L.C.
a Washington limited liability company

By: Melissa Bedlington-Kleindel, Manager

By: Scott Bedlington, Manager

SCHEFFER:

Dennis L. Scheffer

Teri J. Scheffer

EXHIBIT 2

EXHIBIT 2

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Melissa Bedlington-Kleindel** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be her free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Scott Bedlington** as a **Manager of Dick Bedlington Farms L.L.C.**, who acknowledged said instrument to be his free and voluntary act and deed on behalf of the Limited Liability Company for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

EXHIBIT 2

EXHIBIT 2

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Dennis L. Scheffer**, who acknowledged the said instrument to be his free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

STATE OF WASHINGTON }
 }
COUNTY OF WHATCOM } ss.

On this ____ day of _____, 2015, before me a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Teri J. Scheffer**, who acknowledged the said instrument to be her free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal hereto affixed the day and year first written above.

SEAL

{Notary Signature}
Notary Public in and for the State of Washington
Residing at: _____
My commission expires: _____

EXHIBIT 2

EXHIBIT 2

EXHIBIT A

Property Legal Description

390405 072473 0000

Government Lot 4, Section 5, Township 39 North, Range 4 East of W.M.; except the East 4.66 acres thereof; also except right-of-way for Massey Road No. 88 lying along the North line thereof; and except right-of-way for County Road No. 75, lying along the West line thereof.

Situate in Whatcom County, Washington.

EXHIBIT 4

NICOLE L. TERPSTRA

ATTORNEY AT LAW, PLLC

709 Grover Street

Lynden, WA 98264



PHONE 360-318-9300

nicole@terpstralaw.com

FAX 360-318-9301

June 16, 2016

Via Email (shathaway@expresslaw.com)

& First Class US Mail

Steven Hathaway

PO Box 2147

Bellingham, WA 98227

Via First Class US Mail

& Via Certified Mail

Dennis & Teri Scheffer

PO Box 31433

Bellingham, WA 98228

Dennis & Teri Scheffer

3037 Massey Road

Everson, WA 98247

Re: Dick Bedlington Farms L.L.C. (“Lessee”) Lease with Option to Purchase dated May 21, 2015 (“Lease Option”) with Dennis & Teri Scheffer (“Lessor”)

Dear Mr. & Mr. Scheffer and Mr. Hathaway:

I am writing this letter on behalf of the Lessee (my “Client”), with regards to my Client’s desire to exercise its’ option to purchase the Leased Premises as more specifically described in the Lease Option referenced above. This letter is to serve as written notice to the Lessor of Lessee’s desire to exercise its purchase Option pursuant to Section 20 of the Lease Option.

My Client has elected to obtain bank financing and to cash out the Lessor at Closing so that Lessor will have more than adequate cash to clear out Lessor’s bankruptcy and get a fresh start. The Option does call for Seller financing; however, there is no prohibition on prepayment of the Seller financing and therefore my Client desires to immediately cash the Seller out at Closing. There would be no point in executing and recording the Seller financing documents, only to have the bank funding and reconveyances occur immediately thereafter, and it would cost both parties unnecessary funds.

The Lessee will be ready to close within sixty (60) days from the date of this letter assuming that Lessor is able to provide clear title within such time frame and to remove the liens, etc. related to the bankruptcy. If additional time beyond the sixty (60) days is

EXHIBIT 4

Of Counsel

BETTS ▲ AUSTIN ▲ JOHNSON *p.l.l.c.*

Bellingham, WA

EXHIBIT 4

needed, please let our office know. We will be copying Whatcom Land Title on this letter also as they are the stated Closing Agent for this transaction pursuant to the Lease Option.

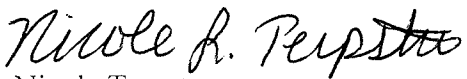
The purchase price for the Option to purchase is \$600,000. Pursuant to Section 3 of the Lease Option the remaining prepaid rent shall also be credited against the Purchase Price at Closing. The initial prepaid rent was \$63,333.32 and is estimated to be approximately \$48,000 as of the date of this letter. Other than the closing cost prorations as set forth in the Lease Option and the approximate \$250,000 that Mr. Hathaway emailed is needed to clear the loans secured by the 2909 Massey Road property, the Lessor will net the remaining purchase price proceeds in cash as a result of the Lessee's bank financing.

Mr. Scheffer has also discussed with my Client the possibility of buying back the existing residence, outbuildings and surrounding 3 acres that he and his wife are currently leasing at 3037 Massey Road, and which they have the right to lease rent free until December 4, 2017 (the "Massey Road Residence"). As all parties are aware, any agreement regarding buying back the Massey Road Residence was thrown out as a result of the Scheffer's bankruptcy proceedings. My Client ended up paying substantially more for the 3037 Massey Road property, providing a 2 year rent free living arrangement, and additional attorneys' fees and delay as a result of this change and the requirements of the bankruptcy court. Also, as the parties are aware, in order for the Scheffers to ever purchase the Massey Road Residence, there must be a legal segregation process completed with Whatcom County.

Enclosed herewith is a Comparative Market Analysis prepared by local realtor, Greg Flint, regarding the value of the 3037 Massey Road Residence which values this property at \$320,000 (assuming it can be successfully subdivided). My Client is willing to sell this property back to the Scheffers at a 10% discount from this value (\$288,000) subject to Scheffers paying all costs associated with obtaining the necessary segregation for such a conveyance.

We look forward to completing the closing on the Lease Option in accordance with the written terms thereof. Please let us know as soon as possible if you believe that the sixty (60) day close is an issue for the Scheffers given their pending bankruptcy; otherwise, my Client will be moving forward with a closing in sixty (60) days.

Sincerely,


Nicole Terpstra

Cc: client
Eric Moe @ Whatcom Land Title

EXHIBIT 4