



UNIVERSITY
of ALASKA

Many Traditions One Alaska

August 5, 2008

Steve Forester
Special Projects Manager
UCLA Real Estate
10920 Wilshire Boulevard, Suite 810
Los Angeles, CA 90024-6502

**Re: UCLA Lease Termination
Fairbanks, Alaska**

Dear Mr. Forester:

Thank you for your letter dated July 14, 2008, giving us notice that UCLA wishes to terminate its lease for the HIPAS site near Fairbanks. UCLA occupies the 130 acre HIPAS site under a Lease Agreement with the University of Alaska ("UA") dated April 2, 2001 ("Lease"). In addition, UCLA has requested a lease termination agreement from UA. Because the Lease termination obligations are already specified in the Lease, a termination agreement is not necessary.

On July 21, 2008, I, along with other members of our staff, visited the Property. We did not see anyone there, and we did not enter any of the buildings. We walked most of the Property, and I took numerous photographs, some of which I have enclosed for you.

We saw enormous quantities of junk and debris scattered over much of the Property. There are areas covered with old equipment, rusting, broken-down vehicles, old trailers, piles of metal and plastic materials, heaps of old construction supplies, large stacks of pipes apparently used to transport chemicals, loads of what appeared to be old electronic equipment, and mounds of miscellaneous, abandoned stuff. We saw small hills of dirt that

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appeared to be covering piles of junk, and a large number of barrels containing unknown substances. We also observed stains on the ground in several spots that appear to us to be consistent with ground contamination. And we saw two newly constructed roads that we did not know about and did not approve.

As you know, Paragraph 12 of the Lease requires UCLA, at its sole cost and expense, to remove UCLA's Improvements and personal property from the Property prior to termination. Before this Lease can be terminated, UCLA must comply with its obligations under the Lease to clean up and remediate the Property. Based on my brief visit to the site, UCLA's obligation to clean up and remediate will be a significant and lengthy undertaking.

Under the Lease, UCLA has at least the following obligations.

1. Removal of Improvements. UA does not wish to take possession of any of UCLA's Improvements located on the Property. Therefore, under Section 12.a. of the Lease, UCLA must remove all of its Improvements and restore the Property to a condition acceptable to UA (generally clean, rough-graded and seeded). Such work will need to be completed to the reasonable satisfaction of UA and in compliance with Paragraph 12.a. of the Lease and other relevant provisions of the Lease. Paragraph 12.a. reads as follows:

12. OBLIGATIONS UPON TERMINATION.

a. Improvements. All Improvements (as defined in Paragraph 7) constructed or placed on the Property by Lessee shall be owned by Lessee until the expiration or earlier termination of this Lease. Prior to the expiration or earlier termination of this Lease, and at Lessor's sole option, Lessee, at its sole cost and expense, shall dismantle, demolish and remove any or all of Lessee's Improvements from the Property, removing all debris and leaving the Property in a rough-graded condition. All injuries to the Property which result from such removal shall be completely remedied by Lessee and Lessee shall comply with Lessor's reasonable requirements concerning the resultant appearance of the Property. All Improvements which Lessee is not required to dismantle, demolish or remove, shall be surrendered to Lessor in broom-clean condition and the Improvements shall then become the sole property of Lessor. Any Improvements left on the Property after expiration or earlier termination of this Lease shall be considered abandoned and shall, at the sole option of Lessor, become the sole property of Lessor. In the event Lessee fails to dismantle, demolish or remove the Improvements as required by Lessor, prior to the termination of this Lease, Lessor reserves the right to dispose of the Improvements, and Lessee shall be liable and reimburse Lessor for all costs, including legal and administrative expenses incurred by Lessor in removal and disposal of the Improvements. Lessee shall defend, indemnify and save Lessor harmless from and against all liability, loss, cost and expense resulting from Lessee's delay or failure to dismantle,

demolish or remove the Improvements, including claims made by succeeding tenants founded on or resulting from Lessee's failure to properly dismantle, demolish or remove the Improvements.

Under the terms of the Lease, "UCLA Improvements" are defined as follows:

7. IMPROVEMENTS.

a. "Improvements" shall mean all improvements constructed or placed on the Property by Lessee pursuant to this Lease and the 1986 Lease, including but not limited to, buildings, portable buildings, temporary structures, communication equipment, trade fixtures, water or wastewater systems, fences, fuel tanks, pit liners, electrical or utility systems, sheds, storage facilities or garages erected on the Property by Lessee.

2. Removal of Personal Property. Under the Lease, UCLA must remove personal property from the Property and restore the Property to a condition acceptable to UA (generally clean, rough-graded and seeded). Such work will need to be completed to the reasonable satisfaction of UA and in compliance with Paragraph 12.b. of the Lease and other relevant provisions of the Lease. Paragraph 12.b. reads as follows:

12. OBLIGATIONS UPON TERMINATION.

b. Personal Property. Prior to the expiration or earlier termination of this Lease, Lessee shall be responsible for the removal of any personal property from the Property. All injuries to the Property which result from such removal shall be completely remedied by Lessee and Lessee shall comply with Lessor's reasonable requirements concerning the resultant appearance of the Property. Any personal property left on the Property at the expiration or earlier termination of this Lease shall be considered abandoned and shall, at the sole option of Lessor, become the property of Lessor. Lessor reserves the right to dispose of the abandoned property and charge Lessee for all costs, including legal and administrative expenses, associated with said disposal."

3. Environmental Testing and Remediation. Among other things, Paragraph 21 of our Lease provides, in part:

21. HAZARDOUS MATERIAL.

...if the presence of any Hazardous Material on the Property or adjoining property owned by Lessor caused or permitted by Lessee results in any contamination of the Property, Lessee shall promptly take all actions at its sole expense as are necessary to return the Property to the condition existing prior to the introduction of any such Hazardous

Material to the Property; provided that Lessor's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Property. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material, or waste which is or becomes regulated by any local governmental authority, the State of Alaska, or the United States Government. Hazardous Material also includes petroleum products and petroleum by-products. This provision shall survive expiration or earlier termination of this Lease.

To comply with this paragraph, UCLA must obtain the services of a qualified, independent third party environmental contractor to prepare a plan for an environmental site characterization of the Property and all related improvements, and to remediate any contamination identified by the site characterization. All work including planning, testing and remediation must follow and be in compliance with the Alaska Department of Environmental Conservation ("ADEC") procedures and requirements and will generally include the following:

- **Site Characterization Plan.** A site characterization plan of the Property must be prepared by UCLA's environmental contractor and reviewed and approved by the ADEC and UA.
- **Site Characterization.** A site characterization must be conducted by UCLA's environmental contractor. The site characterization will identify the location, nature and extent of environmental contamination on the Property above ADEC cleanup criteria. Results of laboratory testing of soil samples and a map identifying the location from which samples were taken must be delivered by UCLA's environmental contractor to ADEC and UA, at the same time they are delivered to UCLA. Any comments from UA regarding the site characterization will be forwarded to UCLA.
- **Final Site Characterization Report.** A final site characterization report must be prepared by UCLA's environmental contractor, including a proposed cleanup plan to remediate all contaminated areas above cleanup criteria. The final site characterization report and cleanup plan will address all comments or proposed changes by ADEC and UA. The final report will be provided to ADEC and UA by UCLA's environmental contractor, at the same time it is provided to UCLA.
- **Remediation.** UCLA's environmental contractor or another qualified independent third party environmental contractor must fully remediate all contamination found on the Property to meet ADEC standards and as outlined in the site characterization plan and required by ADEC. No on-site remediation shall be allowed.

- **Preparation of Final Cleanup Report.** Upon completion of UCLA's remediation activities and clean closure sampling, a final cleanup report must be prepared by UCLA's environmental contractor and submitted to ADEC for review and approval. The final report will be provided to UA, at the same time it is provided to ADEC.
- **No Further Remedial Action Determination Letter.** UCLA's obligations under the Lease relating to environmental contamination will be completed upon receipt and acceptance of ADEC's "No Further Remedial Action Determination" for the Property by UA.

4. Removal of Personal Property and Repair of UA's Office/Quarters Building and Garage. As already noted, under Paragraph 12.b. UCLA is responsible for removing all personal property from the Lease Property. During my visit to the site on July 21, 2008, I saw piles of materials stored in and around the garage, and the office/quarters building appeared to be full of personal property. Under the Lease, UCLA must remove and haul away all personal property located in UA's office/quarters building and garage.

In addition, under Paragraph 8.a., UCLA is obligated, at its sole expense, to maintain UA's office/quarters building and garage. Paragraph 8.a. provides:

8. MAINTENANCE, REPAIR AND ALTERATIONS.

a. Throughout the Term of this Lease, Lessee shall, at Lessee's sole cost and expense, maintain the Property and Improvements, including Lessor's garage and office/quarters, described in Exhibit B (i) in good repair and in a safe, clean and sanitary condition to the reasonable satisfaction of Lessor, ordinary wear and tear excepted, (ii) in accordance with all applicable laws, ordinances, orders and regulations of any governmental agency or body having or claiming jurisdiction over the Property, and (iii) in a manner which will not jeopardize coverage provided by any insurance company or companies insuring all or any part of the Property or improvements.

Based on my brief inspection on July 21st these buildings have had little to no maintenance during the term of the Lease. UCLA will need to repair UA's office/quarters building and garage to a condition similar to the condition at the commencement of the 1986 Lease, ordinary wear and tear excepted, and in accordance with Paragraph 8 of the Lease. But, with the termination of this Lease, UA has no need for these buildings. It may be more cost effective for UCLA to demolish and remove the buildings rather than repair them. Demolishing and removing these buildings at the same time UCLA is removing its Improvements may be an efficient and economical way to satisfy the terms of the Lease.

5. Secure the Lease Property from Trespass. At some point during the past two years, UCLA's representative(s) apparently constructed two roads through the Lease Property to

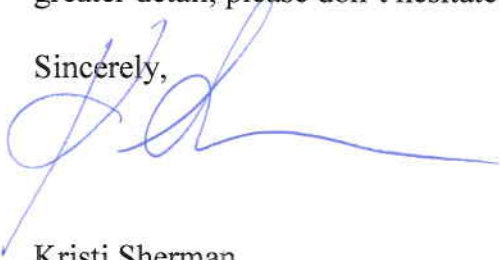
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access adjacent land to the west owned by Alfred Y. Wong and Lydia L. Wong as Co-Trustees of the Wong Revocable Living Trust. Paragraph 31.a. of the Lease provides, in part, that "...Before construction of any road on or across the Property, Lessee shall obtain from Lessor written approval of the proposed location and the construction standards of the road." UCLA never requested approval from UA for the construction of these roads. UCLA must remove these roads and block the cleared area from trespass by installing earth berms and/or large boulders and reseeding the property.

As I mentioned earlier, satisfactory clean up and remediation of the Property will be a daunting and lengthy task. It is not feasible to complete this work by August 31, 2008. Until such time as UCLA has successfully and satisfactorily cleaned up and remediated the Property, UCLA must continue to pay rent under the Lease and maintain security for the Property. If you have any questions or would like to discuss the Lease termination work in greater detail, please don't hesitate to contact me at 907-450-8133.

Sincerely,



Kristi Sherman
Associate Director

Enclosure: Representative Photos - Taken by Kristi Sherman on July 21, 2008