

April 20, 2010

18669.0101

**VIA EMAIL AND FIRST CLASS MAIL**

David W. Danner  
Executive Director and Secretary  
Attn.: Records Center and Dave Gomez  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
P. O. Box 47250  
Olympia, WA 98504-7250

2010 APR 22 AM 8:26  
STAGE 1  
WILLIAMS KASTNER  
GIBBS PLLC  
SEATTLE, WA 98101

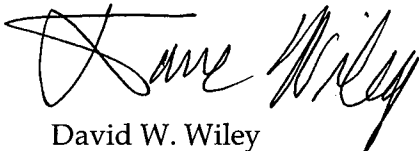
Re: *TS-100546; San Juan Express, Inc. - BC-000117*

Dear Mr. Danner:

At the request of staff, this is to clarify that the enclosed Bareboat Charter Agreement should be associated with the above tariff and time scheduling filing constituting affiliated interest documents.

Please contact the undersigned should you have any further concerns regarding this filing.

Yours truly,



David W. Wiley  
Attorney at Law  
(206) 233-2895  
[dwiley@williamskastner.com](mailto:dwiley@williamskastner.com)

cc: Darci Haustveit (w/o encl.)

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SEATTLE . TACOMA . PORTLAND

## BAREBOAT CHARTER PARTY

April 9, 2010

THIS BAREBOAT CHARTER PARTY (this "Agreement") is made and entered into effective this 9th day of April, 2010 between CLIPPER NAVIGATION, INC., a Washington corporation ("Owner") and SAN JUAN EXPRESS, INC., a Washington corporation ("Charterer").

### BACKGROUND

- A. Owner owns the vessel M/V VICTORIA CLIPPER III, official number 965831 (the "Vessel").
- B. Charterer is engaged in the business of operating passenger ferries in the waters of Puget Sound (the "Service Area").
- C. Charterer desires to charter from Owner, and Owner desires to charter to Charterer, the Vessel at the charter hire, for the charter term and upon the conditions hereinafter provided.

### AGREEMENT

#### **SECTION 1: Charter.**

Charterer agrees to charter the Vessel from Owner and Owner agrees to charter the Vessel to Charterer. Charterer's continued possession of the Vessel shall be on an "as is" basis.

#### **SECTION 2: Term of Agreement.**

The beginning date of the initial term of this Agreement (the "Sailing Season Term") shall be May 1, 2010 through September 30, 2010. The subsequent Term shall extend for four additional years from the beginning date of the Term. Charterer may extend the Term for one additional five-year term on verbal or written notice to the Owner. Owner and Charterer both understand the term of the vessel each year will likely have varying start and end dates but will cover the approximate period referenced annually from May 1 until the end of September unless Charterer gives notice to Owner of additional dates or revisions to the Sailing Season Term.

#### **SECTION 3: Payment of Hire.**

3.1 Hire. Charterer shall pay Owner for the hire of the Vessel in the amount of two thousand five hundred Dollars (\$2,500.00) per day for use of the vessel for each day it is chartered during the term of the Hire

**SECTION 4: Title, Possession, Use and Operation of Vessel.**

4.1 Registration. The Vessel is registered in the name of Owner under the laws and flag of the United States, at the Port of Seattle, Washington. Owner shall throughout the Term, and any extension thereof, maintain at Owner's expense such registration of the Vessel. Owner agrees that it will promptly execute and deliver to Charterer from time to time any and all documents necessary to maintain the registration of the Vessel and to obtain all permits necessary to operate the Vessel in Charterer's business.

4.2 Use. The Vessel shall not be used or operated in any manner contrary to any applicable law, treaty, or convention, or any rule or regulation duly issued thereunder, or in violation of the terms of the hull or any other insurance coverage thereon and shall not be used outside of the Service Area without the prior written consent of Owner, which shall not be unreasonably withheld or delayed.

4.3 Control. Charterer agrees that the Vessel will be used solely in the conduct of business and will at all times be and remain in the exclusive possession and control of Charterer, and Charterer shall navigate and operate the Vessel, and, if the Vessel shall be manned, shall man and victual the Vessel.

**SECTION 5: Maintenance of Vessel.**

5.1 Maintenance. Charterer, shall fully maintain, service and preserve the Vessel so as to keep the Vessel seaworthy and in good operating condition and in substantially the same condition as when delivered to Charterer under this Agreement, ordinary wear and tear excepted. Ordinary wear and tear as used hereunder shall mean ordinary wear and tear which would occur in normal commercial use of a high volume passenger vessel with good commercial first-class cleaning and maintenance practices, including regular and thorough cleaning of passenger accommodations. Charterer shall perform all maintenance procedures required by the engine's manufacturer in accordance with its then-current service manuals and bulletins. Charterer shall, as required, maintain the Vessel in such condition as will entitle her to a Certificate of Inspection by the United States Coast Guard, and shall furnish to Owner upon request copies of all Certificates of Inspection issued by the United States Coast Guard. Charterer shall also promptly notify Owner of all Coast Guard inspections, with advance notice if circumstances permit, and shall promptly notify Owner at any time that the Vessel is placed in drydock.

5.2 Records. Charterer shall maintain and keep all records and other materials for the Vessel that are normally and customarily kept by prudent operators of vessels, that are similar in type to the Vessel and that are required to be kept by such oceangoing vessels, including a ship's log and engine logs, and shall permit inspection thereof by Owner or any person designated by Owner.

5.3 Inspection. Owner, and a mortgagee designated by Owner, shall have the right, at reasonable times and upon reasonable advance written notice to Charterer, to inspect the Vessel and its papers.

**SECTION 6: Alterations of the Vessel.**

Owner agrees that Charterer, at its own expense, may from time to time make alterations, additions and changes in and to the Vessel and in her machinery as it may find necessary or convenient for its purposes, provided that all such alterations, additions or changes may be removed without affecting or impairing the originally intended function, condition or use of the Vessel and that Owner shall be promptly notified of all such changes. No structural changes or alterations may be made to the Vessel without the prior written consent of Owner, which consent may not be unreasonably withheld.

**SECTION 7: Insurance.**

7.1 Insurance Coverage. Throughout the Term and any renewal thereof, Owner shall keep the Vessel insured against the risks indicated below and will allocate a pro rata share of annual insurance premiums to Charterer.

- a. Marine and war risk hull insurance under the latest forms of American Institute of Marine Underwriters' policies, or under such other forms or policies as Owner may deem necessary; and
- b. Marine and war protection and indemnity risks and liability policies of insurance (including, but not limited to, covering property damage, personal injury and death to third parties and crew, breach of warranty, and tower's liability) provided that war protection and indemnity insurance shall not be required.

7.2 Policy Terms. All insurance required under this section shall be taken out in the name of Owner and other parties with an insurable interest, as co-insured, shall be named as a loss payee(s) under all such policies as their interest may appear.

**SECTION 8: Redelivery of Vessel.**

At the expiration of the annual seasonal Term, and for any term extension thereof, Charterer shall redeliver the Vessel to Owner at 2701 Alaskan Way, Pier 69, Seattle, Washington unless some other redelivery point is agreed to by Charterer and Owner. Upon such redelivery the Vessel shall be charter-free and free and clear of all liens, charges and encumbrances and shall be tight, strong, staunch and seaworthy and in every respect fit for the use intended and in like condition as when received by Charterer, except for ordinary wear and tear and depreciation. Ordinary wear and tear as used hereunder shall mean ordinary wear and tear which would occur in normal commercial use as a high volume passenger vessel with good commercial first-class maintenance.

**SECTION 9: Assignment.**

Charterer shall not assign, pledge, subcharter, hypothecate or in any other way transfer this Agreement, the Vessel or any interest therein, without the prior written consent of Owner, which consent shall not be unreasonably withheld.

**SECTION 10: Extension Not a Waiver.**

No delay or omission in the exercise of any power or remedy herein provided or otherwise available to Owner shall impair or affect Owner's right thereafter to exercise the same. Any extension of time for payment hereunder or other indulgence granted to Charterer shall not otherwise alter or affect the obligations of Charterer or Owner's rights hereunder with respect to any subsequent payment or default herein.

**SECTION 11: Termination.**

Owner reserves the right on reasonable notice to Charterer to give notice of its intention to terminate this lease without recourse against the Owner should Owner decide in its exercise of its reasonable business judgment that the charter of the Vessel is no longer in the best interests of Owner provided, however, Owner shall use its best business efforts to identify and assist Charterer in finding a suitable replacement Vessel for Charter to utilize in its intended for hire passenger transportation service.

**SECTION 12: Successors and Assigns.**

This Agreement shall be binding upon and shall inure to the benefit of Owner and Charter, and their respective successors and assigns.

**SECTION 13: Execution of Agreement.**

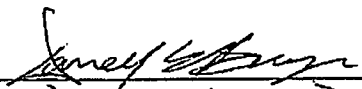
This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall constitute but one and the same instrument.

This Agreement constitutes the entire agreement of the parties and neither party shall be bound except in accordance herewith. No amendment or modification of this Agreement shall be effective unless in writing and executed by the parties hereto. All section headings and captions of paragraphs are for convenience only and shall in no way be held to explain, modify, amplify or aid in the interpretation of the provisions hereof.

IN WITNESS WHEREOF, Owner and Charterer have caused this Bareboat Charter Party to be duly executed, all as of the date first written above.

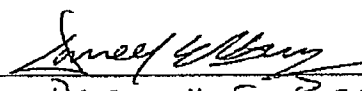
**OWNER:**

Clipper Navigation, Inc.

By:   
Name: DARRELL E. BRYAN  
Its: PRESIDENT & CEO

**CHARTERER:**

San Juan Express, Inc.

By:   
Name: DARRELL E. BRYAN  
Its: PRESIDENT & CEO