

TO: JAMES L. APP, CITY MANAGER
FROM: JOHN R. McCARTHY, DIRECTOR OF PUBLIC WORKS
SUBJECT: AIRPORT PROPERTY LEASE - JAMES AND TERRY SAUNDERS OF PACIFIC MANAGEMENT & DEVELOPMENT
DATE: MAY 18, 1999

Needs: For the City Council to consider a new long term lease at the Paso Robles Airport with James and Terry Saunders of Pacific Management & Development (PMD).

- Facts:**
1. A lease has been negotiated with PMD for Parcel 53 of PRAL 80-53, with a monthly lease rate of \$900.00. The City will forgo the first eight months rent to offset developer start-up costs for site improvements.
 2. The term of this lease is proposed to be thirty (35) years, with one five (5) year option to extend and subsequently, one ten (10) year option to extend.
 3. The lessee's improvements to the site will consist of general office, printing production, and manufacturing facilities.
 4. The Council subcommittee that reviews Airport leases and the Citizens' Airport Advisory Committee have reviewed the Lease and recommend approval.

Analysis & Conclusion: It is a high priority of the City to encourage industrial development, especially at the Airport. This lease represents an opportunity for the City to provide space for, and encourage the development of, a graphics printing and production company. PMD is developing the site for Block Graphics. This will be an opportunity to increase the employment base in Paso Robles.

Policy Reference: Economic Strategy.

Fiscal Impact: \$900.00 per month new Airport revenue following an 8 month deferred rent period. The lease provides for the standard annual escalation.

- Options:**
- A. For the City Council to approve the lease with James & Terry Saunders of Pacific Management & Development and authorize the City Manager to execute same.
 - B. Amend, modify or reject the above option.

Attachments: (1)
1) Lease

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**NONSUBORDINATED AIRPORT
GROUND LEASE
PARCEL 53**

THIS LEASE is made on _____, 1999, between THE CITY OF PASO ROBLES ("Landlord") and James R. Saunders and Terry C. Saunders ("Tenant").

1. PREMISES

1.1 **Leased Premises.** Landlord leases to Tenant and Tenant leases from Landlord that real property in the City of Paso Robles, County of San Luis Obispo, California, described in Exhibit "A" which is attached hereto and made a part hereof. The premises leased to Tenant are referred to in this Lease as the "Leased Premises" or the "Premises."

1.2 **Airport.** The Leased Premises are a part of the municipal Airport owned and operated by landlord and known as the Paso Robles Municipal Airport (the "Airport"). The Leased Premises shall include the nonexclusive right to use of the common areas of the Airport as set forth in Paragraph 1.3 below.

1.3 **Common Use Facilities.** In conjunction with Tenant's use of the Premises and for the purposes hereinbefore set forth in this Lease, Tenant is hereby granted the nonexclusive right during the term of this Lease to enter upon or make customary and reasonable use of such areas of the Airport as Landlord may from time to time designate as "common areas." Tenant's rights hereunder shall be in common with Landlord and with other persons authorized by Landlord from time to time to use such areas.

1.4 **Acceptance of the Premises.** Tenant hereby accepts the Premises in the condition existing as of the date hereof. Tenant hereby agrees that the Premises are in a good and tenantable condition and acknowledges that it has inspected the Premises and common areas of the Airport to its satisfaction and acknowledges that Landlord is not obligated to make any repairs or alterations to the Premises or common areas.

1.5 **Reservations to Landlord.** Tenant further accepts the Premises subject to any and all existing easements and encumbrances. Landlord reserves the right without obligation to install, lay, construct, maintain and repair utilities and appurtenances necessary or convenient in connection therewith in, over, upon, through, across, under and along the Premises or any part thereof, and to enter the Premises for any and all such purposes. Landlord also reserves the right to grant franchises, easements, rights-of-way and permits in, over, upon, through, across, under and along any and all portions of the Premises. No right reserved by Landlord in this clause shall be so exercised as to interfere unreasonably with Tenant's operations hereunder, and the rights granted to third parties by reason of this clause shall contain provisions that the surface of the land shall be restored as nearly as practicable to its condition prior to the construction upon completion of any construction.

2. TERM

2.1 Term. The term of this Lease shall commence on **June 1, 1999** ("Commencement Date"), and shall terminate, unless earlier terminated in accordance with the provisions of this Lease, on a date **Thirty-five (35) years** (April 30, 2034) from the Commencement Date ("Termination Date").

2.2 Possession. Landlord shall use good faith efforts to give Tenant possession of the Leased Premises on the Commencement Date. If Landlord does not do so, Landlord shall have no liability to Tenant for any damages to Tenant, actual or consequential, but rent shall be abated and the Termination Date extended for the period of time until Tenant is granted possession.

2.3 Option to Renew.

(a) So long as Tenant has constructed Phases II – (16,000 square feet) within the initial term of this Lease, and is not in default hereunder, Tenant shall have the option to renew this Lease for **Five (5) additional years** to April 30, 2039, exercisable by written notice of Tenant's intent to renew at lease one hundred twenty (120) days, and no more than one hundred eighty days (180) days prior to the expiration date of the initial term, April 30, 2034.

(b) So long as Tenant has constructed Phase III – (24,000 square feet) within the five (5) year extension term of this Lease, and is not in default hereunder, Tenant shall have the option to renew this Lease for **Ten (10) additional years** to April 30, 2049, exercisable by written notice of Tenant's intent to renew at lease one hundred twenty (120) days, and no more than one hundred eighty days (180) days prior to the expiration date of the additional five (5) year term, April 30, 2039.

3. CONDUCT OF BUSINESS BY TENANT

3.1 Use of the Premises and Conduct of Tenant's Business.

3.1.1 Tenant hereby acknowledges that the principal use of the Airport consists of the operation of a public airport and that all other operations and businesses which are now or hereafter permitted by Landlord, including the use hereunder, must be at all times compatible with such principal use, as Landlord shall, in its sole discretion, determine.

3.1.2 Tenant shall, continuously and uninterruptedly during the term of this Lease, conduct its business activity, as permitted herein, upon the Premises unless prevented from so doing by strikes, fire, casualty or other causes beyond Tenant's control, except during reasonable periods for repairing, cleaning and decorating the Premises. Business activity is as follows: general office and printing production/manufacturing.

3.1.3 Tenant shall, at Tenant's own cost and expense, obtain and maintain all licenses, permits, certificates or other authorizations of any governmental authority having jurisdiction thereover, including, but not limited to, the FAA, which may be necessary for the conduct in the Premises of its business. Without limiting the generality of the foregoing, Tenant shall comply with

all applicable laws, resolutions, codes, rules, orders, directions, ordinances and regulations of any department, bureau or agency or any governmental authority having jurisdiction over the operations, occupancy, maintenance and use of the Premises for the purpose demised hereunder, except for those requiring major Alterations to the Premises as distinguished from those relating to furniture, fixtures or equipment of Tenant therein. Tenant shall indemnify and save Landlord harmless from and against any claims, penalties, losses, damages or expenses imposed by reason of Tenant's violation of any applicable law or the rules and regulations of governmental authorities having jurisdiction thereof.

3.1.4 Notwithstanding any other remedies of Landlord hereunder, in the event of a breach of this Section 3, Tenant, upon receipt of written notice from Landlord of said breach, shall cure said specified breach within five (5) business days. If cure is not performed, Landlord, at its option, may terminate this Lease upon thirty (30) days' written notice.

3.2 Restrictions on Use.

3.2.1 Tenant shall not use or permit the use of the Premises for any purpose other than that set forth in Section 3.1 above, and Tenant shall comply promptly with all applicable laws, rules and regulations regarding the use of the Premises, including, but not limited to, the provisions of Section 26.8, and all rules and regulations promulgated by the FAA.

3.2.2 Tenant shall not use or permit the use of the Premises in any manner that will (A) tend to create or permit any waste or nuisance, (B) tend to disturb other tenants or users of the Airport, (C) invalidate or cause cancellation or be in conflict with fire or other hazard insurance policies covering the Airport, or (D) increase the rate of fire insurance for the Airport or of property located therein, over that rate in effect on the Commencement Date hereof. Tenant, at its expense, shall comply with all rules, orders, regulations or requirements of the National Board of Fire Underwriters, or any other similar body.

3.3 Airport Use. In connection with the ownership and use of the Airport by Landlord, Tenant hereby agrees as follows:

3.3.1 Landlord reserves the right to further develop or improve the landing area of the Airport as it sees fit, regardless of the desires or views of Tenant, and without interference or hindrance.

3.3.2 Landlord reserves the right, but shall not be obligated to Tenant, to maintain and keep in repair the landing area of the Airport and all publicly-owned facilities of the Airport, together with the right to direct and control all activities of Tenant in this regard.

3.3.3 This Lease shall be subordinate to the provisions and requirements of any existing or future agreement between Landlord and the United States relative to the development, operation or maintenance of the Airport.

3.3.4 In the event any future structure or building is planned for the Premises or in the event of any planned modification or alteration of any present or future building or structure situated on the Premises, Tenant shall comply with the notification and review requirements covered in Part 77 of the Federal Aviation Regulations.

3.3.5 It is understood and agreed that nothing herein contained shall be construed to grant or authorize the granting of any exclusive right within the meaning of Section 308(a) of the Federal Aviation Act of 1958 (49 U.S.C. Section 1349).

3.3.6 There is hereby reserved to Landlord, its successors and assigns, for the use and benefit of the public, a right of flight for the passage of aircraft in the airspace above the surface of the Premises. This public right of flight shall include the right to cause within the said airspace any noise inherent in the operation of any aircraft used for navigation or flight through the said airspace or landing at, taking off from or operating on the Airport.

3.3.7 Tenant shall not erect or permit the erection of any structure or object on the Airport in violation of federal height restrictions and obstruction criteria. In the event the aforesaid covenants are breached, Landlord reserves the right to remove the offending structure or object, all of which shall be at the expense of Tenant.

3.3.8 Tenant shall not make use of the Premises in any manner which might interfere with the landing and taking off of aircraft from the Airport, or which might otherwise constitute a hazard. In the event the aforesaid covenant is breached, Landlord reserves the right to enter upon the Premises and cause the abatement of such interference, at the expense of Tenant.

3.3.9 This Lease and all the provisions hereof shall be subject to whatever right the United States Government now has, or in the future may have or acquire, affecting the control, operation, regulation and taking over of said Airport, or the exclusive or nonexclusive use of the Airport, by the United States during the time of war or national emergency or otherwise.

3.3.10 Tenant shall use reasonable precautions to prevent unauthorized persons from gaining access to restricted flight and aircraft operational areas, including the precautions established pursuant to Section 3.5.

3.3.11 Tenant shall comply with Part 107 of the Federal Aviation Regulations requiring that all persons who have unescorted access to the airfield side of the Airport security fence have background checks, including references and prior employment history. Tenant agrees to maintain records of employee background checks and to make such records available to the FAA and Landlord as may be requested from time to time.

3.4 Airport Security.

3.4.1 Tenant Responsibilities. Tenant is responsible for maintaining security in and around the Premises or any other area adjacent to or upon the Airport which Tenant has an exclusive right to use or which Tenant otherwise controls. Tenant is further responsible for

maintaining security with respect to entry upon the airfield or other portions of the Airport designated by Landlord from time to time as security areas (the "Airport Operating Areas") by employees, subtenants, contractors, invitees or customers of Tenant or any other person who enters the Airport Operating Areas at Tenant's invitation, direction or authority, whether through or from the Premises or otherwise.

3.4.2 Gates. If the Premises have access to the Airport Operating Areas, Tenant is solely responsible for controlling entry into the Airport Operating Areas, and Tenant shall take such actions as are necessary to prevent, and shall prevent, all unauthorized entries into the Airport Operating Areas. The security program of Tenant shall provide for such control.

3.4.3 Indemnity. In the event Tenant breaches, violates or fails to comply with any provision of this Section 3.4, its own security program, any applicable laws or regulations, or applicable guidelines, policies or procedures adopted from time to time by the FAA or by Landlord, Tenant shall indemnify and hold harmless Landlord, its City Council officers, employees and agents, from and against any and all liabilities, claims, demands, losses, damages, judgments, awards, fines, penalties, costs and expenses (including attorneys' fees) of whatever kind or nature that any such person may at any time sustain or incur by reason of any such breach, violation or failure. The foregoing indemnity is in addition to all other rights or remedies which Landlord may have, which shall include, but not be limited to, termination of this Lease or other agreement with Landlord. Tenant shall provide to Landlord written confirmation from Tenant's liability insurance carrier that coverage of the foregoing indemnity is provided under the liability insurance policy or policies maintained by Tenant with respect to its operations at the Airport.

3.5 Hazardous Materials.

3.5.1 Restrictions. Tenant shall not cause or permit any hazardous materials or toxic substances to be brought upon, kept or used in or about the Premises or the Airport by Tenant, its agents, employees, contractors or invitees, without the prior written consent of Landlord. Landlord shall not unreasonably withhold such consent as long as Tenant demonstrates to Landlord's reasonable satisfaction and covenants to Landlord that such hazardous materials or toxic substances are necessary or useful to Tenant's business and will be used, kept and stored in a manner that complies with all laws relating to any such hazardous materials or toxic substances so brought upon or used or kept in or about the Premises or the Airport. If Tenant breaches the obligations stated in the preceding sentence, or if the presence of hazardous materials or toxic substances on the Premises or the Airport caused or permitted by Tenant results in contamination of the Premises or the Airport, or if contamination of the Premises or the Airport by hazardous materials or toxic substances otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises or the Airport, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises or the Airport, damages arising from any adverse impact on marketing of space in the Airport, and sums paid in settlement of claims, actual attorneys' fees, consultant fees and expert fees), which arise during or after the term of the Lease as a result of such contamination. This indemnification of Landlord by Tenant

includes, without limitation, costs incurred in connection with any investigation of site conditions, including regular inspections, or any clean-up, remedial, removal or restoration work required or recommended by any federal, state or local governmental agency or political subdivision because of hazardous materials or toxic substances present in the soil or ground water on or under the Premises and/or the Airport. The indemnity, defense and hold harmless obligations of Tenant under this Rider shall survive any termination of this Lease. Without limiting the foregoing, if the presence of any hazardous materials or toxic substances on the Premises or the Airport caused or permitted by Tenant results in any contamination of the Premises or the Airport, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises and the Airport to the condition existing prior to the introduction of any such hazardous materials or toxic substances; provided that, Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions, in Landlord's sole and absolute discretion, would not potentially have any material adverse long-term or short-term effect on the Premises or the Airport.

3.5.2 Testing Wells. Landlord shall have the right, at any time, to cause testing wells to be installed on or about the Premises and/or the Airport, and may, at its option, cause the ground water, soil and air to be tested to detect the presence of hazardous materials or toxic substances at least once every twelve (12) months during the term of the Lease by the use of such tests as are then customarily used for such purposes. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. The cost of such tests and of the maintenance, repair and replacement of such wells shall be fully paid for by Tenant within ten (10) days after receiving a statement of charges from Landlord.

3.5.3 Access. Landlord and Landlord's agents shall have the right to inspect the Premises for the purposes of ascertaining Tenant's compliance with this Rider. The cost of such inspections shall be reimbursed to Landlord by Tenant. In the event of a spill or mishandling of hazardous materials or toxic substances, Tenant shall immediately inform Landlord verbally and in writing. Such notice shall identify the hazardous materials or toxic substances involved and the emergency procedures taken.

3.5.4 Assignment and Subletting. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or sublease if: (A) the proposed assignee's or subtenant's anticipated use of the Premises or the Airport involves the generation, storage, use, treatment or disposal of hazardous materials or toxic substances; (B) the proposed assignee or subtenant has been required by any prior landlord, lender or governmental authority to take remedial action in connection with hazardous materials or toxic substances contaminating a property if the contamination resulted from such assignee's or subtenant's actions or use of the property in question; or (C) the proposed assignee or subtenant is subject to an enforcement order issued by any governmental authority in connection with the use, disposal or storage of any hazardous materials or toxic substances.

3.5.5 Definitions. As used herein, the terms "hazardous materials and/or toxic substances" mean (A) any hazardous or toxic substance, material or waste which is or becomes regulated by any local, state or federal government or special district, (B) designated as a

"hazardous substance" pursuant to Section 1311 of the Federal Water Pollution Control Act (33 USC Section 1317), (C) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 USC Section 6901, *et seq.* (42 USC Section 6903), (D) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 USC Section 9601, *et seq.* (42 USC Section 9601), (E) defined as a "hazardous waste" or as a "hazardous substance" pursuant to Section 25117, 25316 or 25821(d) of the California Health and Safety Code, or (F) any infectious wastes or substances. References herein to specific statutes or laws shall also be references to any amendments of or applicable successor statutes or laws.

3.5.6 Delivery of Inventory and Plans. If Tenant presently uses in its business materials which may be hazardous materials or toxic substances as defined in this Rider, Tenant shall, prior to execution of the Lease, deliver to Landlord (A) a list of all such hazardous materials and toxic substances, (B) a plan for use, handling, storage and disposal of hazardous materials and toxic substances, (C) the name, address, telephone number and qualifications of a licensed company that will handle emergency clean-up for Tenant, and (D) a written contingency plan for any emergency involving hazardous materials and toxic substances. During the term of the Lease, Tenant shall immediately deliver to Landlord (A) a new list of all such hazardous materials and toxic substances, each time Tenant adds or changes the materials or substances it uses and each time a material or substance used by Tenant becomes included within the definition of hazardous materials or toxic substances under this Lease (due to new or revised laws or otherwise), and (B) copies of all reports required by any and all regulatory agencies governing the use, handling, storage and disposal of hazardous materials or toxic substances.

3.5.7 Consent to Use. Landlord agrees that Tenant may use the hazardous materials and toxic substances specifically consented to by Landlord as required by Section 3.5.1 above, subject to the terms of this Lease and this Rider. Tenant shall immediately notify Landlord in writing of any other materials which may be used by Tenant or stored by Tenant on or about the Premises which may be hazardous or toxic, and shall obtain Landlord's written consent prior to such use or storage.

3.5.8 Insurance. Any increase in the premium for insurance carried by Landlord or required of Tenant under this Lease on the Premises or the Airport which arises from Tenant's use and/or storage of these materials shall be solely at Tenant's expense. Tenant shall procure and maintain at its sole expense such additional insurance as may be necessary to comply with any requirement of any federal, state or local governmental agency or special district with jurisdiction.

3.5.9 Storage. It is the intent of the parties hereto that the provisions of this Lease Rider regarding the use and handling of hazardous materials and toxic substances shall also apply to Tenant's storage upon the Premises of any substances, including, but not limited to, gasoline and diesel fuels, in above- or below-ground storage tanks.

4. RENT

4.1 Monthly Rent. The monthly base rent ("Base Rent") for the Premises shall be **Nine Hundred Dollars (\$900.00)** for the Premises until the first Adjustment Date. Tenant shall pay Landlord the Base Rent on or before the first day of each calendar month during the term of this Lease, in advance.

4.2 Rent Commencement. Rent payments shall commence on the Commencement Date.

4.2.1 Eight Months Free Rent. Lessee will be entitled to eight (8) months free rent commencing **June 1, 1999** through **January 31, 1999**. No further free rent will be granted.

4.3 Cost-of-Living Increase. On July 1, 2000 and on July 1 of every year thereafter ("Adjustment Date") for the full term of this Lease, including any extensions, the Base Rent shall be increased, but not decreased, for the term of this Lease, by the same percentage increase in the Consumer Price Index for all Urban Consumers San Francisco-Oakland Metropolitan area, Bureau of Labor Statistics, United States Department of Labor, 1982 = 100 ("Index"), published immediately before the Adjustment Date increases over the Index which was published immediately before the Commencement Date or the preceding Adjustment Date (as the case may be) provided, however, that in no event shall the increase exceed ten percent (10%) of the Base Rent (or, after the first adjustment, the Adjusted Rent, as hereafter defined) payable for the year immediately prior to the Adjustment Date]. The Base Rent as so adjusted shall be the Adjusted Rent. [By way of example only, if the Index immediately prior to the Commencement Date were 200 and the Index as of the first Adjustment date were 220, the Adjusted Rent would be the Cumulative Base Rent increased by ten percent (10%). If, however, the Index as of the first Adjustment Date were 400, the Adjusted Rent would be the Cumulative Base Rent increased by ten percent (10%).] If the Index shall no longer be published, another Index generally recognized as authoritative for purposes of this paragraph shall be substituted.

4.4 Payments. All rent to be paid by Tenant to Landlord shall be in lawful money of the United States of America and shall be paid without deduction or offset, prior notice or demand, and at such place or places as may be designated from time to time by Landlord.

4.5 Security Deposit. Concurrently with the execution of this Lease, Tenant shall deposit with Landlord cash or negotiable irrevocable and unconditional letter of credit in form acceptable to Landlord, or other form of security deposit as may be acceptable to Landlord, in the amount of one (1) months' rent as security for the full and faithful performance of each and every provision of this Lease to be performed by Tenant. Said letter of credit shall be effective at least one (1) year, shall be renewed by Tenant in the amount as set forth in this Section each year until the termination of this Lease and shall be delivered to Landlord thirty (30) days before expiration of the current letter of credit. Failure to deliver a renewed letter of credit on or before thirty (30) days prior to expiration of the current letter of credit shall constitute a material breach of this Lease and Landlord shall be entitled to present the existing letter of credit for payment. In the event Tenant defaults with respect to any provision of this Lease, including, but not limited to, the provisions relating to the payment of rent, Landlord may use, apply or retain all or any part of said security deposit for the

payment of any rent in default, to cure any other default or to repair damages to the Premises caused by Tenant. In the event any portion of said security deposit is so used or applied, Tenant shall, within five (5) days after written demand therefor, obtain and deliver to Landlord an amount sufficient to restore the security deposit to one (1) months' rent at the then prevailing amount, and Tenant's failure to do so shall result in immediate termination of this Lease. In the event Landlord draws against the required letter of credit, such action would not constitute a waiver of any other rights or remedies which Landlord may have by virtue of Tenant's default.

5. TAXES AND ASSESSMENTS

5.1 Taxes and Assessments. Tenant shall pay without abatement, deduction or offset all real and personal property taxes, general and special assessments, and other charges of every description levied on or assessed against the Leased Premises, improvements located on the Leased Premises, personal property located on or in the land or improvements, the leasehold estate, or any subleasehold estate, to the full extent of installments falling due during the term, whether belonging to or chargeable against Landlord or Tenant. Tenant shall make all such payments directly to the charging authority at least fifteen (15) days before delinquency and before any fine, interest or penalty shall become due or be imposed by operation of law for nonpayment. If, however, the law permits the payment of any or all of the above items in installments (whether or not interest accrues on the unpaid balance), Tenant may, at Tenant's election, utilize the permitted installment method, but shall pay each installment with any interest before delinquency. Tenant shall pay any charge or levy only upon the rent payable by the Tenant under this Lease to Landlord, and any tax in lieu of property tax, but shall not be required to pay any franchise, state inheritance, succession, capital levy or transfer tax of the Landlord, or any income, excess profits or revenue tax, or any other tax, assessments or charge attributable to Landlord.

If at any time during the term of this Lease a tax or excise is levied on rents, Tenant shall pay the same. Also, if at any time during the term of this Lease any tax, however described, is levied or assessed against Landlord as a substitute, in whole or in part, for any real property taxes, or in addition to such real property taxes, Tenant shall pay before delinquency the substitute or additional tax or excise. Such substitutes include, but are not limited to, any possessory interest tax imposed on Tenant by California Revenue and Taxation Code Sections 103 and 107. Tenant hereby expressly acknowledges that Landlord has given Tenant notice that Tenant's possessory interest in the demised premises may be taxed.

5.2 Proof of Compliance. Tenant shall furnish to Landlord at least thirty (30) days before the date when any tax, assessment or charge would become delinquent, receipts or other appropriate evidence establishing their payment. Tenant may comply with this requirement by retaining a tax service to notify Landlord whether the taxes have been paid.

5.3 Proration. Taxes and assessments determined from the latest information available for the first and, if Tenant is not in default under this Lease, the last year of this Lease shall be prorated between the Landlord and Tenant on the basis of a tax fiscal year commencing July 1 and ending June 30.

5.4 Payment by Landlord. In the event Tenant fails to pay such taxes or assessments, Landlord may, at its option, after giving ten (10) days' notice to Tenant, pay any such taxes or assessments together with all penalties and interest which may have been added thereto by reason of any such delinquency or failure to pay, and may likewise redeem the Leased Premises or any part thereof, or the buildings or improvements located thereon, from any tax sale or sales. Any such amounts so paid by Landlord shall become immediately due and payable as additional rent by Tenant to Landlord, together with interest thereon at the maximum lawful rate from the date of payment by Landlord until paid by Tenant. Any such payment shall not be deemed to be a waiver of any other rights of Landlord hereunder. Tenant may, in good faith, contest any such tax or assessment at its expense. However, Tenant shall defend itself and Landlord against the same and shall pay and satisfy any judgment including all penalties and interest that may be rendered thereon. Landlord may require Tenant to furnish Landlord a surety bond or other security reasonably satisfactory to Landlord in an amount equal to such contested tax or assessment, indemnifying Landlord against liability for such tax or assessment and holding the Leased Premises free from the effect of such tax or assessment. Landlord shall cooperate with Tenant in any such contest and shall execute any necessary legal documents incident thereto, but shall be held harmless by Tenant against all costs or expenses incident to such cooperation.

6. UTILITIES AND SERVICES

6.1 Utilities. During the term of this Lease, Tenant agrees to pay all charges and expenses in connection with utility services furnished to the Leased Premises and to protect Landlord and the Leased Premises from all such charges and expenses. If any utilities are not separately metered for the Leased Premises, Tenant will arrange for separate meters at Tenant's expense and Tenant shall contract directly with utility providers. If separate meters are not possible, Tenant shall reimburse Landlord for Tenant's pro rata share, as reasonably determined by Landlord, of all shared utilities within ten (10) days after billing by Landlord.

6.2 Tenant acknowledges that Landlord has no obligation to provide utilities furnished as of the date of this Lease to the Premises or additional utilities. Landlord shall not be liable to Tenant under any circumstances for damages or loss to Tenant's property, injury to person or property, or consequential damages, however occurring, through, in connection with, or incidental to failure to furnish or interruption of any utilities or services.

6.3 Tenant shall comply with all rules and regulations which Landlord, any governmental agencies or authorities, or any utility company may establish for the use, proper functioning and protection of any such utility.

6.4 Special Net Lease. This Lease is what is commonly called a "Net, Net, Net Lease," it being understood that Landlord will receive the rent set forth in Section 4.1 free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. In addition to the rent required by this Section 4.1, and to the other amounts payable by Tenant pursuant to this Lease, Tenant shall pay to the parties respectively entitled thereto all other impositions, operating charges, maintenance charges, construction costs and any other charges, costs and expenses which arise or may be contemplated

under any provision of this Lease during the term hereof. All of such charges, costs and expenses shall constitute additional rent, and upon the failure of Tenant to pay any of such costs, charges or expenses, Landlord shall have the same rights and remedies as otherwise provided in this Lease for the failure of Tenant to pay rent. It is the intention of the parties hereto that this Lease shall not be terminable for any reason by Tenant, and that Tenant shall in no event be entitled to any abatement of or reduction in rent payable under this Lease, except as herein expressly provided. Any present or future law to the contrary shall not alter this agreement of the parties.

7. IMPROVEMENTS, REPAIRS AND MAINTENANCE

7.1 Tenant's Initial Improvement Responsibilities. Within sixty (60) days after the Commencement Date, Tenant shall, in compliance with all requirements of Article 8 below, commence construction of a 40,000 square foot single story industrial building for the manufacture/production of a printing business (Block Graphics). Subject to Section 8.3 below, Landlord may, at Landlord's election, terminate this Lease if the Tenant Improvements have not been completed (as evidenced by a final Certificate of Occupancy allowing the Tenant Improvements to be used for the purposes specified herein) within six (6) months after the Commencement Date.

7.2 Tenant's Obligations to Maintain and Repair. Tenant shall maintain the Premises and every part thereof in good order, condition and repair according to standards determined by Landlord (whether or not such part of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of such part of the Premises), including, without limiting the generality of the foregoing, (A) all buildings, structures or fixtures, including foundations, roofs, ceilings, floors, interior and exterior walls, (B) store fronts, windows, doors, hangar doors, plate glass, showcases, skylights, entrances and vestibules located within the Premises, (C) automobile and aircraft pavement, driveways, landscaping, parking lots, fences and signs, and (D) all sprinkler systems, plumbing, sewers, drainage devices, heating, air conditioning, electrical facilities, equipment and other utilities or facilities serving the Premises. Tenant shall commence any repair within thirty (30) days after the receipt by Tenant of written notice of the need for such repair, including any notice from Landlord. Landlord shall not be liable to Tenant by reason of any injury to or interference with Tenant's business arising from or connected with the need for or the making of any repairs, alterations or improvements. All repairs, modifications or improvements to the Premises shall be performed in accordance with the building standards of the City of Paso Robles, and it shall be the responsibility of Tenant to secure appropriate permits from the City of Paso Robles. Tenant shall paint the floors, interior walls and exterior walls and shall wash all windows in the Premises as often as may be required to keep the Premises neat and attractive, and shall keep the Premises at all times in a neat, sanitary condition, free from waste or debris, consistent with standards established by Landlord. Tenant shall screen and landscape all outside storage areas and service yards of the Premises with fencing and landscaping approved by Landlord, and shall not allow any temporary structures or facilities on the Premises, without Landlord's approval, which approval is revocable at any time in the sole discretion of Landlord.

7.3 Landlord's Remedies. In the event Tenant fails to perform its obligations under Section 7.2, Landlord may, at its option, after fifteen (15) days' written notice to Tenant, enter upon the Premises

and put the same in good order, condition and repair, and the cost thereof shall become due and payable, upon demand, by Tenant to Landlord as additional rent.

7.4 No Landlord Obligations. Landlord shall have no obligation to make any repairs to the Premises other than as expressly and specifically set forth in this Lease. Tenant hereby waives any and all rights provided in Sections 1941 through 1942, inclusive, of the Civil Code of California and hereby waives, to the extent permissible, any rights other than statutes or laws now or hereafter in effect which are contrary to the obligations of Tenant under this Lease, or which place obligations upon Landlord in addition to those provided in this Lease.

7.5 Landlord's Reservations of Rights. During the term of this Lease, Landlord reserves the right, in its sole discretion, to reconstruct, alter or improve the aircraft pavement areas of the Premises, to such standards as it shall determine; provided, however, Tenant acknowledges that Landlord has no obligation to make such alterations or improvements.

7.6 Indemnity. Tenant shall indemnify and save harmless Landlord against all actions, claims and damages by reason of (A) Tenant's failure to perform the terms of this paragraph, or (B) Tenant's nonobservance or nonperformance of any law, ordinance or regulation applicable to the Leased Premises, and any liability or duty to repair imposed by the laws of California.

8. PLANS AND SPECIFICATIONS; CONSTRUCTION; LIENS AND CLAIMS

Any requirements set forth in paragraphs 8.1 through 8.9 shall be in addition to any applicable requirements contained in paragraph 20.12 and other Applicable Laws.

8.1 Approval of Plans. No improvement shall be erected, placed, altered or maintained on the Premises unless plans and specifications have been approved in writing by Landlord. Such approval by Landlord shall not be unreasonably withheld. Prior to commencing construction of any building, structure or improvement (including landscaping) on the Leased Premises, Tenant shall notify Landlord of the date of commencement and expected completion thereof and shall submit the following plans and specifications for approval:

8.1.1. Plot plans drawn to scale, full dimensions, with name, date and north arrow showing property lines, size, location and configuration of all improvements, including, but not limited to, buildings, structures, retaining walls, fences, walls, easements, access, parking areas, public and private streets, signs, exterior lighting, landscaped areas, topography, and the proposed location of all service areas and trash collection areas indicating the proposed method of screening such service and trash areas from public view.

8.1.2. Landscaping plans indicating the location, type, size and quantity of all trees, shrubs, plants and ground cover plus the layout of the proposed watering facilities plan. Said approval by Landlord shall not be unreasonably withheld.

8.1.3. Architectural plans and total square footage of all structures, including signs, and showing exterior renderings or elevations of all sides of all structures, details of roof screening, construction materials and exterior colors.

8.1.4 A complete set of working drawings.

8.1.5 The name and license number of the general contractor and each subcontractor who will supply material or services in constructing the improvements.

8.2 Time for Approval. Tenant shall notify Landlord in writing when completed plans and specifications for improvements to be erected, placed or altered on the Premises have been submitted to Landlord ("Notice"). Landlord shall have ninety (90) days after receipt of the Notice to approve the plans and specifications. Said approval by Landlord shall not be unreasonably withheld. If Landlord does not approve the plans and specifications, it shall notify Tenant within such ninety (90)-day period of the reasons for its disapproval. By approving the plans and specifications, Landlord does not represent or warrant that such plans and specifications comply with Applicable Laws. Tenant shall be responsible, at Tenant's sole cost and expense, for securing all necessary governmental or quasi-governmental approvals of the plans and specifications and for securing all permits necessary to construct and operate the Tenant Improvements and Approved Improvements.

8.3 Commencement of Construction. Once Tenant shall have commenced construction, Tenant shall pursue the same with reasonable speed and dispatch in compliance with the approved plans and specifications and using the contractors specified in Section 8.1.5. All construction shall be in accord with all applicable laws, ordinances and regulations. Tenant's construction shall not interfere with Landlord's operation of the Airport, and Tenant shall comply with all directives of Landlord related thereto. If Tenant is prevented from completing improvements on account of strikes, lockouts, failure of contractor or subcontractors, inability to procure material or labor in the free market, governmental restrictions, fire, earthquake, the elements, or other casualty or similar extraordinary conditions beyond Tenant's reasonable control (excluding financial difficulties, economic conditions or inability to obtain governmental approvals), then the Tenant shall thereafter proceed with all reasonable speed and dispatch to complete the improvements.

8.4 Liabilities. By approving plans and specifications, Landlord assumes no liability therefor, or for any defect resulting from the plans and specifications. Tenant indemnifies and shall hold Landlord harmless from any damage, loss or prejudice claimed, and from all expenses incurred arising out of approvals of plans and specifications or any improvement on the Premises. Tenant hereby assigns to Landlord all warranties and guarantees of all material suppliers, contractors and subcontractors furnishing material or labor or otherwise relating to the Tenant Improvements or Approved Improvements.

8.5 Approved Buildings and Improvements. All of the improvements shown in the approved plans and specifications constitute the "Approved Improvements." Substantial modifications to Approved Improvements shall be made only with prior written approval of Landlord, except that

Landlord's prior written approval shall not be required for changes to the interior of any building which do not substantially diminish the value thereof.

8.6 Notice of Work. Before commencement of any construction, alteration, addition, replacement or restoration of any building, structure or other improvement, Tenant shall (A) give to Landlord written notice of the work to be performed, specifying the nature and location of the intended work and the expected date of commencement and completion thereof; and (B) provide Landlord with written plans and specifications therefor, and shall have obtained the written approval thereof from the Landlord as required above. Landlord reserves the right at any time and from time to time to post and maintain on the Leased Premises such notices as may be necessary to protect Landlord against liability for all such liens and claims.

8.7 Covenant Against Liens and Claims. Tenant shall not allow or permit to be enforced against the Leased Premises or any part thereof, any mechanic's, materialmen's, contractor's or subcontractor's liens arising from any claim growing out of work of any construction, repair, restoration, replacement or improvement, or any other claim or demand no matter how the same may arise. Tenant shall pay or cause to be paid all of said liens, claims or demands before any lawsuit is brought to enforce them against the Leased Premises. Tenant agrees to indemnify and hold the Landlord and the Leased Premises free and harmless from all liability for any and all such liens, claims and demands, together with reasonable attorneys' fees and all costs and expenses incurred by Landlord in connection therewith.

8.8 Tenant's Right to Contest Liens. Notwithstanding anything to the contrary set forth above, if Tenant shall in good faith contest the validity of any such lien, claim or demand, then Tenant shall, at its expense, defend itself and Landlord against the same and shall pay and satisfy any adverse judgment that may be rendered thereon before the enforcement thereof against Landlord or the Leased Premises. A condition to Tenant's right to contest the validity of any lien, claim or demand shall be that if Landlord shall require, Tenant shall furnish to Landlord evidence of a surety bond satisfactory to Landlord in an amount at least equal to the contested lien, claim or demand, the effect of which is to indemnify Landlord against liability for the same, and to hold the Leased Premises free from the effect of such lien or claim.

8.9 Landlord Paying Claims. In the event Tenant shall fail to pay and discharge or cause to be paid and discharged, when due and payable, any tax, assessment or other charge upon or in connection with the Leased Premises, or any lien or claim for labor or material employed or used or any claim for damages arising out of the construction, repair, restoration, replacement, maintenance and use of the Leased Premises and any improvements thereon, or any judgment on any contested lien or claim, or any insurance premium or expense in connection with the Leased Premises and improvements, or any other claim, charge or demand which Tenant has agreed to pay or cause to be paid under the terms of this Lease, and if Tenant, after ten (10) days' written notice from Landlord to do so shall fail to pay and discharge the same, or in the event Tenant contests such tax, assessment, claim or charge and fails to post security as provided elsewhere in this Lease, then Landlord may, at his option, pay any such tax, assessment, insurance expense, lien, claim, charge or demand, or settle or discharge any action therefor, or judgment thereon, and all costs, expenses and other sums incurred or paid by Landlord in connection with any of the foregoing shall be paid by

Tenant to Landlord upon demand, together with interest thereon at Bank of America's prime rate from the date incurred or paid. Any default in such repayment by Tenant shall constitute a breach of the covenants and conditions of this Lease.

9. INSURANCE AND INDEMNITY

9.1 Landlord's Non-liability. Landlord shall not be liable for any loss, damage or injury of any kind to any person or property arising from any use of the Leased Premises, or any part thereof, or caused by any defect in any building, structure or other improvement thereon or in any equipment or other facility therein, or caused by or arising from any act or omission of Tenant or any of its agents, employees, licensees or invitees, or by or from any accident on the Leased Premises or any fire or other casualty thereon, or occasioned by the failure of Tenant to maintain the Leased Premises and all improvements thereto in a safe condition, or arising from any other cause except where caused by the negligence of Landlord, its agents or employees.

9.2 Indemnification of Landlord. Notwithstanding anything to the contrary contained in this Lease, and irrespective of any insurance carried by Tenant for the benefit of Landlord under the terms of this Lease, Tenant agrees to protect, indemnify and hold the Landlord and the Leased Premises harmless from any and all damages and liabilities at any time occasioned by or arising out of (A) any act, activity or omission of Tenant, or of anyone holding under Tenant, or (B) the occupancy or use of the Leased Premises or any part thereof, by or under Tenant, or (C) any state or condition of the Leased Premises or any part thereof.

9.3 Liability Insurance. Tenant shall procure and maintain at all times during the term of this Lease, at its sole cost and expense, a policy or policies of comprehensive public liability insurance by the terms of which Landlord and Tenant are named as insured and are indemnified against liability for damage or injury to property or person, including death, of any person entering upon or using the Leased Premises or any improvements thereon or any part thereof, with limits of coverage in an amount of not less than **One Million Dollars (\$1,000,000.00)** combined single limit and annual aggregate coverage applying to injury to or death of any one or more persons arising from the same occurrence and for damage or injury to property. If Landlord's reasonably exercised judgment determines that the liability insurance amounts set forth herein become inadequate, then Landlord may, by written notice, require a reasonable increase in coverage commencing with the next policy anniversary date. Such public liability insurance policy or policies shall be stated to be primary and noncontributing with any insurance which may be carried by Landlord and shall contain a provision (provided such provisions are available without increased premium) that the Landlord, although named as an insured shall nevertheless be entitled to recover under that policy for any loss, injury or damage to the Landlord, its agents and employees or the property of such persons by reason of the negligence of Tenant. Worker's compensation insurance shall be in the amounts required by law.

The following endorsements shall be attached to the liability insurance policy:

9.3.1 If the insurance policy insures on an "accident" basis, it shall be changed to an "occurrence" basis.

9.3.2 The policy must cover personal injury, as well as bodily injury.

9.3.3 The coverage shall be at least as broad as comprehensive liability and broad form comprehensive general liability or "commercial" general liability.

9.3.4 The Landlord, its officers, agents, employees and volunteers shall be named as insured under the coverage afforded with respect to liability arising out of activities performed by or on behalf of Tenant under this contract. The coverage shall contain no special limitations on the scope of protection afforded to Landlord, its officers, agents, employees and volunteers.

9.3.5 An endorsement shall be attached which states that the coverage is primary insurance and that any insurance or self-insurance fund maintained by or available to Landlord or any of its officers, agents, employees or volunteers shall be in excess of Tenant's insurance and shall not be called upon to contribute to a loss covered by the policy.

9.3.6 The policy must provide that it shall not be canceled or changed or made the "retroactive date" of the policy or any renewal or replacement policy be changed without thirty (30) days' prior written notice to Landlord.

9.3.7 A cross-liability endorsement must be included to the effect that each insured is covered as if separate policies had been issued to each insured.

9.3.8 The liability coverage may be either on a blanket basis or a policy which specifically identifies this Agreement with a contractual liability endorsement.

9.3.9 Any deductibles or self-insured retention must be declared to and approved by Landlord. At the option of Landlord, the insurer shall reduce or eliminate such deductibles or self-insured retention as respects the Landlord, its officers, agents, employees and volunteers or the Tenant shall procure a bond guaranteeing payment of losses and related investigation, claims administration and defense expenses.

9.3.10 If the policy or policies are written on a "claims made" basis, the retroactive date of such policies shall be maintained as the date this lease was executed or earlier in time notwithstanding any renewals of such policies or changes in insurance carriers. Further, the reporting period for claims made under such policy or policies shall, at a minimum, continue through sixty (60) days after termination of this lease.

9.3.11 Additional Requirements - Claims Made Policies.

9.3.11.1 Statement of Coverage. If the policy or policies are written on a "claims made" basis, the insurer shall provide Landlord with a statement specifically describing (A) the date coverage began under the policy and the retroactive date for claims received, (B) the reporting period(s) applicable to the policy, and (C) the incident, event and claims notice procedures applicable to the policy and the name and address of the person to whom notice of incidents, events and claims may be given.

9.3.11.2 Notice of Events and Claims. If the policy or policies are written on a "claims made" basis, Tenant shall give its insurance carrier and Landlord written notice of each and every event or incident occurring during the term of this Lease that may ripen into a claim. Notice shall be given no later than ten (10) days after such event or incident.

9.4 Aircraft Liability Insurance. Tenant shall, at all times and at its sole cost and expense, maintain in effect aircraft liability insurance for each aircraft owned, leased or used in Tenant's business. Such policies shall name Landlord as an additional named insured against liability for injury to or death of any person or damage to property in connection with the use, operation or condition of such aircraft and shall be in an amount not less than One Million Dollars (\$1,000,000.00) for single-piston engine fixed wing aircraft, Five Million Dollars (\$5,000,000.00) for twin-piston engine fixed wing aircraft, Ten Million Dollars (\$10,000,000.00) for twin turboprop engine fixed wing aircraft, Twenty Million Dollars (\$20,000,000.00) for all gas turbine engine fixed wing aircraft, Five Million Dollars (\$5,000,000.00) for single engine rotorcraft, and Ten Million Dollars (\$10,000,000.00) for twin engine rotorcraft, combined single limit and annual aggregate for injury to or death of one or more persons in any one occurrence, and for damage to property in any one occurrence, and shall include a cross-liability endorsement or severability of interest clause in favor of Landlord.

9.5 Fire Insurance. Tenant shall at all times during the term of this Lease and at its sole expense, procure and maintain in full force a policy or policies of standard fire and extended coverage insurance insuring all improvements on the Leased Premises in an amount equal to not less than the full replacement costs. Tenant agrees to reevaluate insurance coverage at three (3)-year intervals or annually upon request of Landlord and to increase said coverage if it shall be less than the then full replacement cost of the improvements on the Leased Premises. The amount of the full replacement cost shall be determined in writing by the carrier of insurance then in force and shall be binding on the parties for the purpose of this paragraph. The insurance policies insuring against fire or other casualty shall include the interest of the holder of any "mortgage" executed by Tenant in connection with obtaining of any interim or permanent financing with respect to the Leased Premises, and said policies shall provide that any loss is payable jointly to Landlord, Tenant and the holder, if any, of a "mortgage" in the Tenant's interest under this Lease. Proceeds from any insurance policy shall be used in accordance with the provisions of this Lease dealing with use of insurance funds for repair and restoration.

9.6 Certificates or Policies of Insurance. All policies of insurance procured and maintained by Tenant hereunder shall be issued by companies authorized to do business in California having not less than Best's A: Class X rating and shall be issued in the name of the Landlord and Tenant for the mutual and joint benefit and protection of the parties. Executed copies of all insurance policies or a certificate thereof shall be delivered to Landlord on the Commencement Date and shall contain a provision that not less than thirty (30) days' written notice shall be given to Landlord prior to the cancellation, reduction of coverage, expiration or any material change in any such policy.

9.7 Use of Insurance Funds for Repair and Restoration. In the event any buildings, structures or improvements located on the Leased Premises are damaged by fire or other casualty, any such sums as are received from or on account of any policy of insurance covering the same shall, except as

provided in paragraph 10 below, be expended for the restoration, repair or replacement of said buildings, structures or improvements.

9.8 Failure to Provide Insurance. If Tenant fails or refuses to procure or to maintain insurance as required by this Lease or fails or refuses to furnish Landlord with required proof that the insurance has been procured and is in force and paid for, Landlord shall have the right at Landlord's election, without notice, to procure and maintain such insurance. The premiums paid by Landlord shall be treated as added rent due from Tenant with interest at the Bank of America prime rate, to be paid within thirty (30) days of demand. Landlord shall give prompt notice of the payment of such premiums, stating the amounts paid and the names of the insurer or insurers.

9.9 Waiver of Subrogation. The parties hereby release each other, and their respective representatives, from any claims for damage to any person or to the Premises and the improvements which may be located upon the Premises and to the fixtures, personal property, Tenant's improvements and alterations of Tenant in or on the Premises and the improvements which may be located upon the Premises that are caused by or result from risks insured against under any insurance policies carried by the parties hereto and in force at the time of any such damage. Each party hereto shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by any policy, provided obtaining such a waiver in each such policy is then available at a reasonable charge. Neither party hereto shall be liable to the other for any damage caused by fire or any of the risks insured against under any insurance policy required by this Lease.

10. REPAIR AND RESTORATION

If during the term of this Lease any building or improvement on the Leased Premises or any part thereof shall be damaged or destroyed by fire or other casualty, Tenant shall, at its sole cost and expense, repair or restore the same according to the original plans thereof or to such modified plans as shall be previously approved in writing by Landlord pursuant to Article 8. If such damage or destruction occurs during the last two (2) years of the Lease term Tenant shall have no duty to repair or restore, and if Tenant elects not to repair or restore, this Lease shall terminate and Landlord shall receive all insurance proceeds. Such work of repair or restoration shall be commenced within one hundred twenty (120) days after the damage or loss occurs and shall be completed with diligence but not longer than one (1) year after such work is commenced, provided, however, that the time for completion of such repair and restoration shall be extended as appropriate in accordance with the provisions of Section 21.15 below. If insurance proceeds provided for above shall be insufficient for the purpose of such restoration and repair, or if the casualty is one not required to be insured against, then Tenant shall make up the deficiency out of its own funds. Tenant waives the provisions of Civil Code Sections 1932(2) and 1933(4) with respect to any destruction of the Premises.

11. ASSIGNMENT AND SUBLETTING

11.1 Restriction of Assignment. Except as provided in Section 19 of this Lease entitled "Hypothecation," Tenant shall not encumber, assign or otherwise transfer this Lease, or any right or

interest hereunder, or in or to any of the improvements constructed or installed on the Leased Premises, in whole or in part, without the prior written consent of Landlord, which consent will not be unreasonably withheld. If Tenant is a corporation or a partnership, any change in Tenant which would be a "change in ownership" pursuant to California Revenue and Taxation Code Sections 60 *et seq.* shall be deemed an assignment subject to Landlord's consent. It shall not be unreasonable for Landlord to withhold or condition its consent based on the prospective assignee's financial strength, experience in operating the type of business permitted under Article 2, credit history or any other factor which Landlord reasonably believes germane to a tenant's ability and willingness to perform the obligations of this Lease. No such assignment shall release Tenant of further liability under this Lease. Landlord reserves the right to re-negotiate the rental rate upon any assignment of this Lease.

11.2 Restriction on Subleasing. Tenant may not sublease all or any portion of the Leased Premises or the improvements constructed or installed on the Leased Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Any such sublease shall provide (A) such subleasing shall be subject to the terms of this Lease, (B) such subleasing shall comply with all applicable statutes and regulations, including, without limitation, the California Subdivision Map Act and the provisions of Section 20 hereof, (C) all building improvements and alterations constructed on the Leased Premises shall have been approved by Landlord pursuant to Section 8 of this Lease, (D) Tenant shall remain liable under this Lease; and (E) each sublease shall contain a provision satisfactory to Landlord requiring the subtenant, if Landlord shall so demand as provided below, to attorn to Landlord if Tenant defaults under this Lease, and if the subtenant is notified of Tenant's default and instructed to make subtenant's rental payments to Landlord, but Landlord shall have no obligation to recognize the subtenant or to allow any subtenant to remain in possession upon the default of Tenant.

11.4 Effect of Failure to Comply. Except as provided above, no encumbrance, assignment or other transfer, whether voluntary, involuntary, by operation of law, under legal process, through a receivership, bankruptcy or otherwise, shall be valid or effective without the prior written consent and approval of Landlord. If Tenant attempts to make or allow to be made any subleasing, encumbrance, assignment or other transfer except in accordance with the provisions of this Section 11, then any of the foregoing events shall be deemed a breach of the conditions and restrictions of this Lease, and upon such breach, Landlord may, at its option, terminate this Lease at once by written notice, and upon such termination this Lease shall end and be of no further force.

12. CONDEMNATION

If, during the term of this Lease there is a taking, or transfer of, or damage to all or any part of the Leased Premises (Leased Premises as used herein shall include all appurtenant interests such as access rights) for a public use by any individual or entity, public or private, possessing the power of eminent domain, whether by condemnation proceedings or otherwise (hereinafter referred to as "appropriation"), the rights and obligations of Landlord and Tenant with regard to such appropriation shall be governed by the provisions of this article.

12.1 Date of Taking. The date of taking, as used in this article, is defined as the earliest of the following dates: (A) the date legal possession is taken, which is defined as the date, if any is established, after which the condemnor may take possession of the property as stated in an order authorizing the condemnor to take possession; (B) the date a final order of condemnation or final judgment is filed or recorded or the date a deed is recorded in the event of a voluntary sale; and (C) the date physical possession of the property is taken.

12.2 Total Taking. Total taking means an appropriation of the entire Leased Premises or so much thereof as to prevent or substantially impair the conduct of Tenant's business unless Tenant elects to continue the Lease in effect. If during the term of this Lease there is an appropriation of the Leased Premises which amounts to a total taking as herein defined, then the leasehold estate of Tenant in and to the Leased Premises shall cease and terminate as of the date of such taking, and all rentals and other charges payable by Tenant to Landlord hereunder and attributable to the Leased Premises shall be paid up to the date of such taking.

12.3 Partial Taking. The term "partial taking" shall mean the taking of a portion only of the Leased Premises which does not constitute a total taking as defined above. If during the term of this Lease there shall be a partial taking of the Leased Premises, this Lease shall terminate as to the portion of the Leased Premises so taken at the date of taking as herein defined, but said Lease shall continue in force and effect as to the remainder of the Leased Premises. The rental payable hereunder by Tenant shall, as of the date of taking, be adjusted so that Tenant shall be required to pay for the remainder of the term only such portion of such rent as the value of the part of the Leased Premises remaining after the taking bears to the value of the entire Leased Premises at the date of taking.

12.4 Abandonment of Proceedings. In the event the condemning agency shall abandon an eminent domain proceeding, either party hereto shall have the right to contest the condemnor's abandonment and a right to its respective costs and disbursements as defined and provided for in California law. If after the condemnor takes possession or the Tenant moves from the property sought to be condemned in compliance with an order of possession, the condemnor abandons the proceeding as to such property or a portion thereof, or if it is determined that the condemnor does not have authority to take such property or portion thereof by eminent domain and the condemnor is required by law to deliver possession of such property or such portion thereof to the party entitled to the possession thereof and pay damages as provided for in California law, then Tenant shall receive the award for costs and damages incurred by reason of Tenant being removed from possession of the Premises, but Tenant shall be entitled to retake possession of the Premises and, in the event of such repossession by Tenant, all of the terms of this Lease shall remain in operation and effect.

12.5 Allocation of Award. All compensation and damages awarded for the taking of the Leased Premises or any portion thereof shall, except as otherwise herein provided, belong to and be the sole property of Landlord. However, any award that may be made for the taking of or injury to the Approved Improvements, and all other improvements constructed by Tenant on the Leased Premises shall be equitably apportioned between Tenant and Landlord if, at the time of the taking, the expected useful life of the Approved Improvements extends beyond the Termination Date provided for in Section 3. Otherwise, Tenant shall be entitled to such award. Tenant shall be

entitled to any award for damage to Tenant's business or on account of any cost or loss Tenant may sustain in the removal of Tenant's fixtures, equipment and furnishings, or as a result of any alterations, modifications or repairs which may be reasonably required by Tenant in order to place the remaining portion of the Leased Premises not so condemned in a suitable condition for the continuance of Tenant's tenancy. Tenant shall also be entitled to that portion of any award that may be attributable to any severance damages to the remaining leasehold interest and to any improvements constructed by Tenant.

12.6 Cost. Each party shall bear his own costs, attorneys' fees, appraiser's fees and all other costs in connection with any matter contained in this article, except as may be otherwise provided.

12.7 Right of Entry. Neither party hereto shall grant a right of entry to any condemnor without the written consent of the other party hereto.

13. DEFAULT

The occurrence of any one or more of the following events shall constitute a default under this Lease by Tenant:

13.1 Failure to pay an installment of rent or other sum when due;

13.2 Failure to pay any insurance premium, lien, claim, demand, judgment or other charge provided for in this Lease to be paid or caused to be paid by Tenant at the time and in the manner as provided for in this Lease;

13.3 Failure to maintain the Leased Premises or cause the same to be maintained as provided for in this Lease;

13.4 Abandonment of the Leased Premises after completion of construction for a continuous period of ninety (90) days;

13.5 Default by Tenant under the terms of any mortgage on the estate of Tenant;

13.6 Failure to perform or breach of any other covenant, condition or restriction provided for in this Lease;

13.7 Failure to maintain compliance with Economic Development Administration Civil Rights Provisions and Certificate on Non-relocation; or

13.8 Failure to complete the Tenant Improvements as specified in Section 7.

14. REMEDIES IN EVENT OF DEFAULT

Upon any default of Tenant, and in the event the said default is due to the failure of Tenant to make the payment of any installment of rent or other sum when due, and in the event Tenant

shall fail to remedy such default within ten (10) days after written notice to do so, or upon any other default by Tenant, and in the event that Tenant shall fail to remedy such other default within thirty (30) days after written notice from Landlord so to do specifying the nature of such default, or if such default cannot be cured within thirty (30) days, Tenant has not commenced corrective action and prosecuted the same to completion with due diligence, or in the event that the default is of such a nature that it cannot be cured by any action of Tenant, then and in any of these events, in addition to any other remedy Landlord may have by operation of law, Landlord shall have the right but not the obligation without any further demand or notice to reenter the Leased Premises and eject all persons from the Leased Premises, using due process of law, and either:

14.1 Immediately terminate Tenant's right to possession of the Premises, and repossess the same by summary proceedings or other appropriate action, and Landlord shall thereupon be entitled to receive from Tenant all damages specified in California Civil Code Section 1951.2(a), including, without limitation, the right to receive the worth at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided; all of which damages to the extent specified in Section 1951.2(b) shall be computed by allowing interest at the maximum rate permitted by law. Landlord shall also have the right, but no duty, to cure any default of Tenant under the terms of any mortgage on the estate of Tenant.

14.2 Without terminating this Lease or the Tenant's right to possession, relet the Leased Premises or any part of the Leased Premises as the agent and for the account of Tenant upon such reasonable terms and conditions as Landlord may deem advisable, in which event the rents received on such reletting and collection shall be applied first to the reasonable expenses of such reletting and collection, including necessary renovation and alterations of the Leased Premises, reasonable attorneys' fees, any real estate commissions paid, and thereafter to payment of all sums due or to become due to Landlord under this Lease, and if a sufficient sum shall not be thus realized by the payment of such sums and other charges, Tenant shall pay Landlord any deficiency monthly notwithstanding Landlord may have received rental in excess of the rental stipulated in this Lease in previous or subsequent months, and Landlord may bring an action therefor as such monthly deficiency shall arise.

If Tenant fails to provide necessary repair and maintenance of the Premises and all improvements thereon, Landlord shall have the right, after notice provided for above and failure of Tenant to cure or commence and diligently pursue a cure, to enter the Premises and take all corrective action necessary in the sole judgment of Landlord. Any such entry shall be at the sole risk and expense of Tenant. Tenant shall immediately, upon presentation of a statement therefor, reimburse Landlord for all costs incurred by Landlord in taking such corrective action with interest on said sums from the date of payment by Landlord at the lower of: (A) the highest rate allowed by law; or (B) two points over the prime rate charged from time to time by the Bank of America, or if the Bank of America no longer exists, an equivalent institution. Nothing in this Section shall: (i) require Landlord to take any corrective action on the Premises; (ii) diminish the rights and remedies of Landlord under this Lease, whether or not Landlord elects to take such corrective action; and (iii) cause a waiver by Landlord of any of its rights and remedies under this Lease. Any

such reentry shall be allowed by Tenant without hindrance, and Landlord shall not be liable in damages for any such reentry, or be guilty of trespass or forcible entry.

15. LANDLORD'S RIGHT TO SELL ITS INTEREST

Landlord shall have the right to sell all of its interest in the Leased Premises and any lease with respect thereto. In the event of any such sale by Landlord, Landlord shall be and is hereby entirely freed and relieved of all liability under all of its covenants and unaccrued obligations contained in or derived from this Lease arising out of any act, occurrence or omission occurring after the consummation of such sale.

16. ESTOPPEL CERTIFICATES

Landlord and Tenant shall, respectively, at any time and from time to time upon not less than ten (10) days' prior written request by the other, deliver to the requesting party an executed and acknowledged statement in writing certifying:

16.1 That this Lease is unmodified and in full force and effect (or if there has been any modification(s) thereof that the same is in full force and effect as modified, and stating the nature of the modification or modifications);

16.2 That to its knowledge the requesting party is not in default under this Lease (or if any such default exists, the specific nature and extent thereof), and

16.3 The date to which rent and other charges have been paid in advance, if any. Each certificate delivered pursuant to this Section may be relied on by any prospective purchaser or transferee of the Leased Premises or of Landlord's or Tenant's interest hereunder or by any fee mortgagee of the Leased Premises or of Landlord's or Tenant's interest hereunder or by any assignee of any such mortgagee.

17. OWNERSHIP OF IMPROVEMENTS

At the expiration or sooner termination of the term of this Lease, all improvements on the Premises shall become the property of Landlord. Landlord may elect to have Tenant remove any improvements by written notice to Tenant. If Landlord so elects, Tenant, at Tenant's sole cost and expense, shall remove all improvements specified by Landlord in the notice and repair all damage caused by such removal.

18. SUBORDINATION FOR BENEFIT OF LANDLORD

If Landlord desires this Lease to be subordinated to any mortgage, deed of trust or other encumbrance ("Fee Mortgage") now or hereafter placed upon the Leased Premises by Landlord, and all advances, whether obligatory or optional made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof, this Lease, at Landlord's election, shall be subordinate to any such Fee Mortgage provided Landlord first obtains from the

lender a written agreement that provides substantially as follows: As long as Tenant performs its obligations under this Lease, no foreclosure of, deed given in lieu of foreclosure of, or sale under the encumbrance, and no steps or procedures taken under the encumbrance, shall affect Tenant's rights under this Lease.

Subject to the foregoing, Tenant agrees to execute any documents required to effectuate such subordination, and failing to do so within ten (10) days after Landlord's written request to Tenant therefore, does hereby irrevocably appoint Landlord as Tenant's attorney-in-fact in Tenant's name to do so.

19. HYPOTHECATION OF LEASEHOLD INTEREST

Tenant is hereby given the right by Landlord in addition to any other rights herein granted, without Landlord's prior written consent, to mortgage its interest in this Lease, under one or more leasehold Mortgage(s) and assign its interest in this Lease, as collateral security for such Mortgage(s) to secure any bona fide loan upon the condition that all rights acquired under such leasehold Mortgage(s) shall be subject to each and all of the covenants, conditions and restrictions set forth in this Lease, and to all rights and interest of Landlord herein, none of which covenants, conditions or restrictions is or shall be deemed waived by Landlord by reason of the right given so to mortgage such interest in this Lease, except as expressly provided herein. If Tenant shall mortgage this leasehold, and if the holder(s) of such Mortgage(s) shall, within thirty (30) days of execution, send to Landlord a true copy thereof, together with written notice specifying the name and address of the Mortgagee(s) and the pertinent recording data with respect to such Mortgage(s), Landlord agrees that (effective upon receipt of such notice) so long as any such leasehold Mortgage(s) shall remain unsatisfied of record or until written notice of satisfaction is given by the holder(s) to Landlord, the following provisions shall apply:

19.1 Except for the natural expiration of the term of this Lease, there shall be no cancellation, surrender or material modification of this Lease by joint action of Landlord and Tenant without the prior consent in writing of the leasehold Mortgagee(s);

19.2 Landlord shall, upon serving Tenant with any notice of default, simultaneously serve a copy of such notice upon the holder(s) of record of such leasehold Mortgage(s). The leasehold Mortgagee(s) shall thereupon have sixty (60) days, after service on it of such a notice, either to cure such default or breach, if the same can be cured by the payment of money, or if such default or breach is not so curable or cannot be remedied within said sixty (60) day period, if such holder, within said period, shall (A) commence in good faith to cure such default or breach if curable and thereafter diligently prosecute the same to completion, or (B) institute proceedings for the foreclosure of such mortgage and thereafter diligently prosecute the same to completion; provided such holder keeps and performs all of the covenants and conditions of this Lease herein provided to be kept and performed by Tenant, and capable of being performed by such holder, until such time as Tenant or such holder shall cure any defaults hereunder (if curable) or until the leasehold hereunder shall be either sold upon foreclosure pursuant to any such mortgage or shall be released from said mortgage or reconveyed thereunder.

The time periods set forth immediately above shall be extended for delays occasioned by the application of any law, rule, court order or court decree restraining or prohibiting such leasehold Mortgagee(s) from taking any such action. If such leasehold Mortgagee(s) undertakes to so cure any such default by Tenant in accordance with the terms and conditions set forth in this subsection 19.2, Landlord shall not terminate this Lease. If the leasehold Mortgagee(s) has fully complied with the foregoing provisions of this subsection 19.2 but all such defaults of Tenant have not been cured by the time that Tenant's interest under this Lease is sold by a judicial or nonjudicial foreclosure sale or by deed in lieu of foreclosure, the party who acquires such leasehold estate and interest through such foreclosure sale or deed in lieu of foreclosure shall not be in default hereunder by reason of such uncured defaults, provided such party diligently prosecutes to completion the curing of all such defaults which are curable by such party.

19.3 Notwithstanding anything contained herein to the contrary, if Landlord shall elect to terminate this Lease by reason of any default of Tenant, the leasehold Mortgagee(s) shall have the right to postpone and extend the specified date for termination of this Lease as fixed by Landlord in its notice of termination, for a period of six (6) months, provided that such leasehold Mortgagee(s) shall cure or cause to be cured any then existing money defaults and meanwhile pay the rent and comply with and perform all of the other terms, conditions and provisions of this Lease on Tenant's part to be complied with and performed, and capable of being performed by such holder, other than past nonmonetary defaults, and provided further that the leasehold Mortgagee(s) shall forthwith take steps to acquire or sell Tenant's interest in this Lease by foreclosure of the Mortgage(s) or otherwise and shall prosecute the same to completion with all due diligence. If at the end of said six (6) month period the leasehold Mortgagee(s) shall be actively engaged in steps to acquire or sell Tenant's interest herein, the time of said Mortgagee(s) to comply with the provisions of this Section 19.3 shall be extended for such period as shall be reasonably necessary to complete such steps with reasonable diligence and continuity not to exceed an additional six (6) months.

19.4 Landlord agrees that the name of the leasehold Mortgagee(s) may be added to the "Loss Payable Endorsement" of any and all insurance policies required to be carried by Tenant hereunder on condition that the insurance proceeds are to be applied in the manner specified in this Lease and that the leasehold Mortgagee(s) or collateral document shall so provide.

19.5 Nothing contained herein shall require the leasehold Mortgagee(s) to cure any default of Tenant hereunder, but such failure to cure and proceed in accordance with this Section 19 shall leave Landlord free to terminate this Lease and to pursue all of its rights against Tenant.

19.6 Any act required to be performed by Tenant pursuant to the terms of this Lease may be performed by any leasehold mortgagee on Tenant's behalf and the performance of such act shall be deemed to be performance by Tenant and shall be acceptable as Tenant's act by Landlord.

20. COMPLIANCE WITH FEDERAL REQUIREMENTS

20.1 Tenant, for itself, its heirs, personal representatives, successors in interest and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land that in the event facilities are constructed, maintained or otherwise operated on the said

property described in this Lease for a purpose for which a Department of Transportation program or activity is extended or for another purpose involving the provision of similar services or benefits, Tenant shall maintain and operate such facilities and services in compliance with all other requirements imposed pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, or as said Regulations may be amended.

20.2 Tenant, for itself, its personal representatives, successors in interest and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land: (A) that no person on the grounds of race, color or national origin shall be excluded from participation in, denied the benefits of or be otherwise subjected to discrimination in the use of said facilities; (B) that in the construction of any improvements on, over or under such land and the furnishing of services thereon, no person on the grounds of race, color or national origin shall be excluded from participation in, denied the benefits of or otherwise be subject to discrimination; and (C) that Tenant shall use the Premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said Regulations may be amended.

20.3 That in the event of breach of any of the above nondiscrimination covenants, Landlord shall have the right to terminate the Lease and to reenter and repossess said land and the facilities thereon, and hold the same as if said Lease had never been made or issued. This provision does not become effective until the procedures of Title 49, Code of Federal Regulations, Part 21, are followed and completed, including expiration of appeal rights.

20.4 Tenant shall furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof and it shall charge fair, reasonable and not unjustly discriminatory prices for each unit or service; provided, that Tenant may be allowed to make reasonable and nondiscriminatory discounts, rebates or other similar type of price reductions to volume purchasers.

20.5 Noncompliance with Section 20.4 above shall constitute a material breach thereof and, in the event of such noncompliance, Landlord shall have the right to terminate this Lease and the estate hereby created without liability therefor or at the election of Landlord or the United States either or both said Governments shall have the right to judicially enforce provisions.

20.6 Tenant agrees that it shall insert Sections 20.1 through 20.5 in any lease agreement by which said Tenant grants a right or privilege to any person, firm or corporation to render accommodations and/or services to the public on the Premises herein leased.

20.7 Tenant assures that it will undertake an affirmative action program as required by Title 14, Code of Federal Regulations, Part 152, Subpart E. Tenant assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or

activity covered by this subpart. Tenant assures that it will require that its covered sub-organizations provide assurances to Tenant that they similarly will undertake affirmative action programs and that they will require assurances from their suborganizations, as required by Title 14, Code of Federal Regulations, Part 152, Subpart E, to the same effort.

20.8 Landlord reserves the right to further develop or improve the Common Areas and the balance of the Airport as it sees fit, regardless of the desires or view of Tenant and without interference or hindrance.

20.9 Landlord reserves the right, but shall not be obligated to Tenant to maintain and keep in repair the landing area of the Airport and all publicly-owned facilities of the Airport, together with the right to direct and control all activities of Tenant in this regard.

20.10 This Lease shall be subordinate only to the provisions and requirements of any existing or future agreement between Landlord and the United States, relative to the development, operation or maintenance of the Airport.

20.11 There is hereby reserved to Landlord, its successors and assigns, for the use and benefit of the public, a right of flight for the passage of aircraft in the airspace above the surface of the Premises herein leased. This public right of flight shall include the right to cause in said airspace any noise inherent in the operation of any aircraft used for navigation or flight through the said airspace or landing at, taking off from or operation on the Airport.

20.12 Tenant agrees to comply with the notification and review requirements covered in Part 77 of the Federal Aviation Regulations in the event future construction of a building is planned for the Leased Premises, or in the event of any planned modification or alteration of any present or future building or structure situated on the Leased Premises.

20.13 Tenant, by accepting this Lease, expressly agrees for itself, its successors and assigns that it will not erect or permit the erection of any structure or object, nor permit the growth of any tree on the land leased hereunder above the mean sea level elevation of 830 MSL feet. In the event the aforesaid covenants are breached, Landlord reserves the right to enter upon the land leased hereunder and to remove the offending structure or object and cut the offending tree, all of which shall be at the expense of Tenant.

20.14 Tenant, by accepting this Lease, agrees for itself, its successors and assigns that it will not make use of the Leased Premises in any manner which might interfere with the landing and taking off of aircraft from Airport or otherwise constitute a hazard. In the event the aforesaid covenant is breached, Landlord reserves the right to enter upon the Premises hereby leased and cause the abatement of such interference at the expense of Tenant.

20.15 It is understood and agreed that nothing herein contained shall be construed to grant or authorize the granting of an exclusive right within the meaning of Section 308a of the Federal Aviation Act of 1958 (49 U.S.C. Section 1349a).

20.16 This Lease and all the provisions hereof shall be subject to whatever right the United States Government now has or in the future may have or acquire, affecting the control, operation, regulation and taking over of said Airport or the exclusive or nonexclusive use of the Airport by the United States of America during the time of war or national emergency.

21. MISCELLANEOUS

21.1 Attorneys' Fees. In the event any action is brought by Landlord to recover any rent due and unpaid hereunder or to recover possession of the Leased Premises, or in the event any action is brought by Landlord or Tenant against the other to enforce or for the breach of any of the terms, covenants or conditions contained in this Lease, the prevailing party shall be entitled to recover reasonable attorneys' fees to be fixed by the Court, together with costs of suit therein incurred.

21.2 Waiver. No waiver of any breach of any of the terms, covenants, agreements, restrictions or conditions of this Lease shall be construed as a waiver of any succeeding breach of the same or other covenants, agreements, restrictions and conditions hereof. No delay or omission of Landlord to exercise any right or remedy shall be construed as a waiver of any such right or remedy or of any default by Tenant under this Lease. The various rights and remedies reserved to Landlord herein including those not specifically described in this Lease shall be cumulative and, except as otherwise provided by California statutory law in force at the time of execution of this Lease, Landlord may pursue any or all of such rights and remedies whether at the same time or otherwise.

21.3 Holding Over. If Tenant shall hold over the Leased Premises after the expiration of the term hereof with the consent of Landlord, either express or implied, such holding over shall be construed to be only a tenancy from month to month, subject to all the covenants, conditions and obligations hereof, and Tenant hereby agrees to pay to Landlord an amount equal to one hundred fifty percent (150%) of the current monthly rental rate as of the time of the holding over, as provided in this Lease; provided, however, that nothing herein contained shall be construed to give Tenant any rights to so hold over and to continue in possession of the Leased Premises after the expiration of the term hereof.

21.4 Surrender at End of Term. Upon the end of the term of this Lease, as provided herein, or any extension thereof, or sooner termination of this Lease, Tenant shall surrender to Landlord all and singular the Leased Premises, together with all improvements, except as herein above provided, and all fixtures and equipment in good condition, reasonable wear and tear excepted.

21.5 Lease Binding Upon Successors and Assigns. Subject to the limitations on assignment and subleasing, each of the terms, covenants and conditions of this Lease shall extend to and be binding on and inure to the benefit of not only Landlord and Tenant, but each of their successors and assigns. Whenever in this Lease reference is made to either Landlord or Tenant, the reference shall be deemed to include, wherever applicable, the successors and assigns and such parties the same as if in every case expressed.

21.6 Inspection. Landlord reserves the right for Landlord and Landlord's agents and representatives to enter upon the Leased Premises at any reasonable time for the purpose of attending to Landlord's interest hereunder, and to inspect the Leased Premises.

21.7 Relationship of Parties. The relationship of the parties hereto is that of Landlord and Tenant, and it is expressly understood and agreed that Landlord does not in any way nor for any purpose become a partner of Tenant or a joint venture with Tenant in the conduct of Tenant's business or otherwise.

21.8 Time of the Essence. Time is expressly declared to be of the essence of this Lease.

21.9 Memorandum of Lease. This Lease shall not be recorded, but the parties agree to execute and deliver a Memorandum of this Lease in recordable form which will include the restrictions on assignment provided in Section 11.1 hereof.

21.10 Quitclaim. At the expiration or earlier termination of this Lease, Tenant shall execute, acknowledge and deliver to Landlord within five (5) days after written demand from Landlord to Tenant any quitclaim deed or other document required by any reputable title company to remove the cloud of this Lease from the real property subject to this Lease.

21.11 Number and Gender. Whenever the singular number is used in this Lease and when required by the context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders, and the word "person" shall include corporation, firm or association. If there is more than one Tenant, the obligations imposed under this Lease upon Tenant shall be joint and several.

21.12 Headings and Titles. The marginal headings or titles to the Sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part of this Lease.

21.13 Compliance with Governmental Regulations. Tenant shall, at its own cost and expense, promptly and properly, comply with and execute, including the making of any alteration to the Leased Premises, all orders, regulations, laws and requirements of all governmental authorities arising from the use or occupancy of, or applicable to, the Leased Premises ("Applicable Laws").

21.14 Entire Agreement. This Lease contains the entire agreement of the parties hereto with respect to the matters covered hereby, and no other previous agreement, statement or promise made by any party hereto which is not contained herein shall be binding or valid.

21.15 Force Majeure. Except as to the payment of rent, neither of the parties hereto shall be chargeable with, liable for, or responsible to, the other for anything or in any amount for any delay caused by fire, earthquake, explosion, flood, hurricane, the elements, acts of God, or the public enemy, action or interference of governmental authorities or agents, war, invasion, insurrection, rebellion, riots, strikes, or lockouts or any other cause whether similar or dissimilar to the foregoing,

which is beyond the control of such parties and any delay due to said causes or any of them shall not be deemed a breach of or default in the performances of this Lease.

21.16 Disclaimer of Representation. Except as otherwise specifically provided herein, Landlord has made no representations or warranties to the Tenant concerning the Leased Premises, the present use thereof or the suitability for Tenant's intended use of the property. The foregoing disclaimer includes, without limitation, topography, climate, air, water, water rights, utilities, present and future zoning, soil, subsoil, drainage, access to public roads, proposed routes of roads, or extension thereof, or effect of any state or federal environmental protection laws or regulations. Tenant represents and warrants to Landlord that he and his representatives have made or will make their own independent inspection and investigation of the Leased Premises and Tenant, in entering into this Lease, is relying solely on such inspection and investigation. No patent or latent physical condition of Leased Premises, whether or not known or discovered, shall affect the rights of either party hereto. Any agreement, warranties or representations not expressly contained herein shall in no way bind either Tenant or Landlord. Landlord and Tenant waive any right of rescission and all claims for damages by reason of any statement, representations, warranty, promise and agreement, if any, not contained in this Lease.

21.17 Quiet Enjoyment. This Lease is subject and junior to all existing easements, covenants, conditions and restrictions and other matters and encumbrances of record. As long as Tenant is not in default of any provision of the Lease, Tenant shall have quiet enjoyment of the Premises.

21.18 Late Charge. Both Landlord and Tenant acknowledge and agree that Landlord is dependent on the revenue from Tenant for Airport operations and that it would be extremely difficult to estimate the damages to Landlord from late payment by Tenant. If any installment of Base Rent or other payment due from Tenant is not received by Landlord within ten (10) days of the date upon which it is due, Tenant shall pay to Landlord an additional charge of ten percent (10%) of the overdue payment as a late charge.

21.19 Interest on Past Due Obligations. Any amount due from Tenant to Landlord which is not paid when due shall bear interest at an annual rate equal to the higher of (A) ten percent (10%) per annum, or (B) five percent (5%) per annum in excess of the prevailing rate established by the Federal Reserve Bank at San Francisco on advances to member banks on the twenty-fifth (25th) day of the month preceding the Commencement Date (but not more than the maximum rate permissible by law), from the due date until paid, but the payment of such interest shall not excuse or cure any default by Tenant. Said interest is in addition to the late charge due pursuant to Section 21.18.

21.20 Rules and Regulations. Tenant shall comply with all uniform rules and regulations established by Landlord for use of the Airport or the Premises, as the same may be amended from time to time by Landlord. Landlord shall provide Tenant with a copy of all such rules and regulations and any and all amendments thereto. Landlord shall not be responsible to Tenant for the nonperformance of any other tenant or occupant of the Airport of any of said rules and regulations.

21.21 Estoppel. Within ten (10) days after a written request from Landlord, Tenant shall deliver to Landlord or any party designated by Landlord an estoppel statement confirming that this is the Lease, the date to which rent has been paid, whether or not Landlord is then in default under the Lease and such other statements as Landlord reasonably requests. Tenant shall be liable to Landlord for all damages suffered by Landlord attributable to Tenant's failure to timely deliver an accurate estoppel, including loss or renegotiation of a sale, financing or bond financing.

21.22 Transfer of Landlord's Interest. In the event of any transfer of Landlord's interest in the Premises, the transferor shall be automatically relieved of any and all obligations and liabilities accruing from and after the date of such transfer.

21.23 Airport Operation. It is understood and agreed that general control over said Airport and all flying activities in connection therewith are vested by law in the City acting by and throughout its City Council, Committees and Officers appointed by such City Council. In the general operation of any activities conducted under the terms of this Lease, Lessee agrees to comply with all reasonable rules and regulations adopted by the City for the use and operation of the said Airport which are not in conflict with the terms of this Lease.

21.24 Continued Operation. Save and except as to acts beyond its control, the City does hereby obligate itself during the terms hereof to continue the operation of said airport as a public airport, consistent with public regulations. In the event the airport is closed by lawful authority, rendering the leased premises unusable, the term of this Lease shall be extended for the same period of any such closure.

21.25 Premises Inspection. City, its agents or employees shall have the right to enter upon said premises at such times as City may deem expedient for the purpose of inspecting said premises during normal business hours. City, its agents or employees agree to observe all safety regulation, whether they be Corporate, City or Federal rules while on said premises. Furthermore, the City, its agents or employees may be escorted by Lessee or Lessee representative during the inspection. If Lessee is unable or unwilling to escort City personnel during inspection, City personnel shall nevertheless have the right to make such inspection without said escort.

22. Payments and Notices. Any notice to be given or other document to be delivered by either party to the other party may be given by personal delivery, generally recognized overnight courier, prepaid, or may be deposited in the United States mail, duly registered or certified, with postage prepaid, and addressed to the party for whom intended as follows:

To Landlord: City of Paso Robles
Municipal Airport
1000 Spring Street
Paso Robles, CA 93446

To Tenant: James R. Saunders
Terry C. Saunders
Post Office Box 3148
Paso Robles, CA 93447

Either party hereto may from time to time by written notice to the other party designate a different address which shall be substituted for the one specified above. Notices and documents shall be served upon receipt or, if any notice or other document is sent by registered or certified mail, as provided above, the same shall be deemed served or delivered seventy-two (72) hours after the mailing thereof.

This Ground Lease has been executed on the date first set forth, to become effective as provided for in Section 2 hereof.

TENANT

**LANDLORD:
City Of Paso Robles**

By: _____
James R. Saunders

By: _____
James L. App, City Manager

By: _____
Terry C. Saunders

Attest:

By: _____

6	20.00'	90°44'17"	31.67'	20.26'	20	50.00'	21°24'12"
7	20.00'	89°15'43"	31.16'	19.74'	21	95.00'	56°46'47"
8	93.00'	28°31'46"	46.31'	23.64'	22	95.00'	13°14'49"
9	47.00'	28°31'46"	23.40'	11.95'	23	95.00'	56°46'48"
10	47.00'	90°00'00"	73.83'	47.00'	24	50.00'	21°24'12"
11	47.00'	90°00'00"	73.83'	47.00'	25	25.00'	90°00'00"
12	47.00'	28°31'46"	23.40'	11.95'	26	93.00'	21°24'12"
13	93.00'	28°31'46"	46.31'	23.64'	27	47.00'	90°00'00"
14	20.00'	90°44'17"	31.67'	20.26'	28	47.00'	90°00'00"
15	20.00'	89°15'43"	31.16'	19.74'	29	47.00'	28°31'46"
	20.00'	90°00'00"	31.42'	20.00'	30	93.00'	28°31'46"

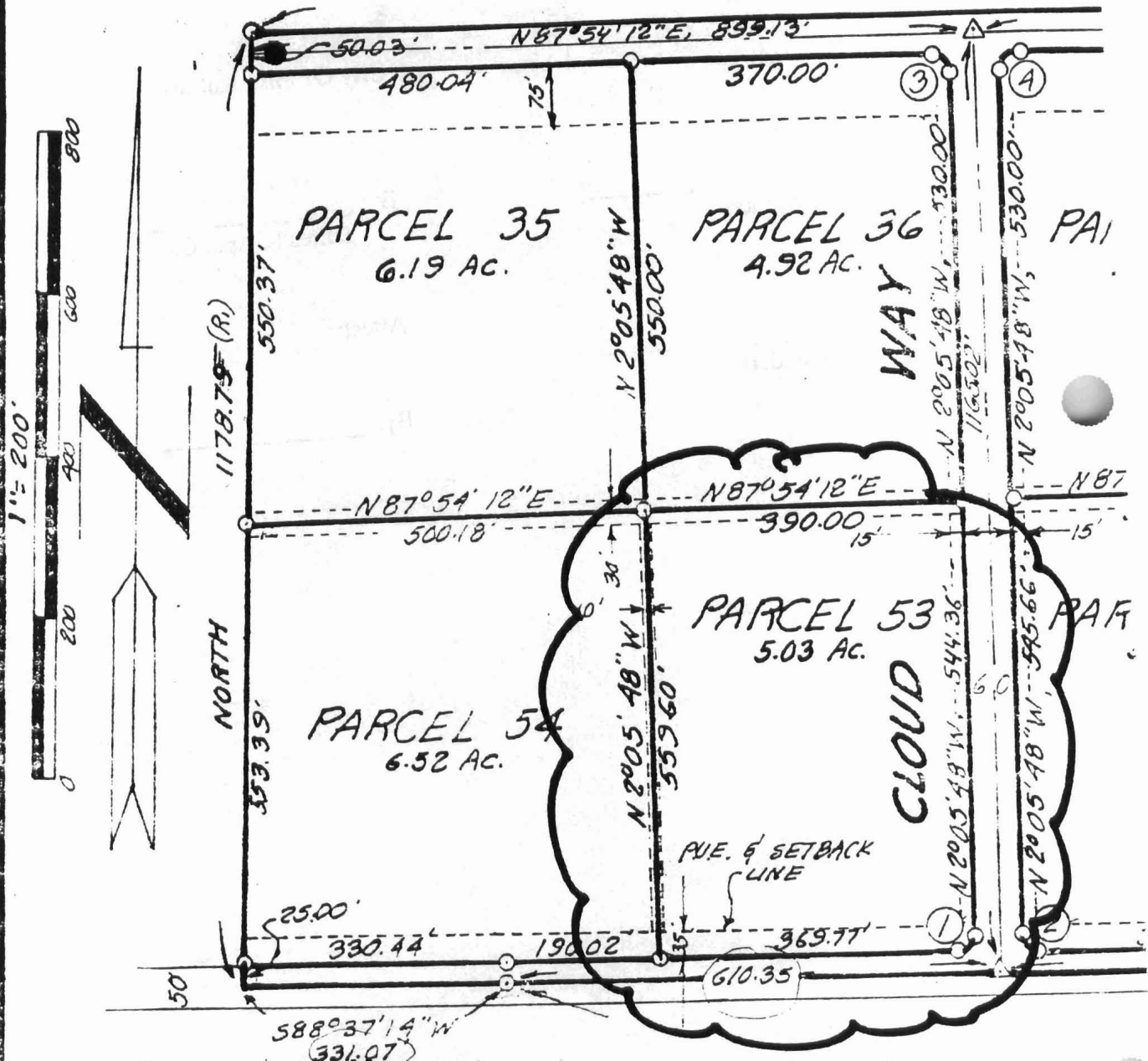


EXHIBIT A
 LOT # 53 PARCEL 43
 29 PM 47

17-34