

TO: City Council
FROM: James L. App, City Manager *ML*
SUBJECT: Property Acquisition - Kyodo Air
DATE: August 17, 1999

NEEDS: For the City Council to consider authorizing a lease and purchase option for the Kyodo Air Building located at the Municipal Airport.

- FACTS:**
1. The Kyodo Air building located at the Municipal Airport has been available for some time.
 2. The facility contains 8,600 square feet of office and lobby area, as well as 10,000 square feet of enclosed aircraft hanger space. It is well situated to attract and house Airport fixed base operations services (aircraft maintenance, flight instruction, charter/commuter/cargo air transport, pilot services, etc.).
 3. The City has negotiated a two year lease with option to purchase.
 4. The lease rate will be \$60,000 per year. Should the City exercise its purchase option within the two year lease period, the purchase price will be \$600,000 with \$60,000 of the lease payment(s) applied as credit against that purchase price.
 5. The lease and purchase option agreement will take effect September 1, 1999 pending completion of all escrow conditions including structural and environmental assessments, as well as Council approval.

ANALYSIS &

CONCLUSION: The Municipal Airport is currently home to 145 private aircraft, the California Department of Forestry Regional Air Tanker Base, and the California Highway Patrol Regional Air enforcement unit. It is capable of housing up to 500 private aircraft, as well as commercial air transport and cargo operations. Service infrastructure to support such an aviation industry is essential to the continued growth and vitality of the Airport.

The Kyodo Air facility is well situated to house aviation enterprise of the types mentioned above. As such, it represents a unique opportunity for the City to obtain and, in turn, offer as an enticement to attract new aviation industry to Paso Robles. The lease with purchase option leaves the City's options open with regards to the duration of financial commitment for the building.

**POLICY
REFERENCE:**

None.

**FISCAL
IMPACT:**

\$60,000 per year for two years. An additional \$540,000 should the City exercise its purchase option. Funding Source - Airport Operations Fund.

**LEASE AGREEMENT WITH OPTION TO PURCHASE
AND ESCROW AGREEMENT**

This sublease with option to purchase and escrow agreement (herein "Lease" or "Agreement") entered into this 29 day of July, 1999, between KYODO AIR, INC., a California Corporation (herein referred to as "Lessor") and the CITY OF EL PASO DE ROBLES, a political subdivision of the State of California (herein "Lessee" or "City") is made with reference to the following recitals:

RECITALS

A. By Assignment dated February 13, 1990, Lessor leases from City real property (herein "Leasehold Estate") located at the Paso Robles Airport, pursuant to the terms and conditions of a Long Term Ground Lease dated September 3, 1983, by and between the City and Sherman G. Smoot (herein "Long Term Lease"). The terms and conditions of the Long Term Lease, including all exhibits thereto, are incorporated herein by reference.

B. Lessor currently pays City rent in the amount of Eight Hundred Twelve and 83/100 Dollars \$812.83 per month, which is subject to an annual CPI adjustment pursuant to the Long Term Lease.

C. Pursuant to the terms of the Long Term Lease, Lessor constructed land and building improvements on the Leasehold Estate. Said improvements are herein referred to as "the Leasehold Improvements".

D. The Leasehold Estate and the Leasehold Improvements are herein referred to as "the Premises" or the "Leased Premises".

E. City desires to sublease the Premises from Lessor with and option to purchase Lessor's interest in the Premises as herein provided.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which are acknowledged, the parties agree as follows:

Section 1. Lessors Representations and Warranties

Lessor hereby represents and warrants to City the following:

(a) Corporate Status.

That Lessor is a California Corporation in good standing.

(b) Hazardous Substances.

(i) To Lessor's knowledge and after reasonable inquiry, the Premises is free and has always been free from Hazardous Substances and is not and has never been in violation of any Environmental Laws.

(ii) To Lessor's knowledge and after reasonable inquiry, there are no buried or partially buried storage tanks located on the Premises.

(iii) To Lessor's knowledge and after reasonable inquiry, no toxic or hazardous chemicals, waste, or substances of any kind have ever been spilled, disposed of, or stored on, under, or at the Premises, whether by accident, burying, drainage, or storage in containers, tanks, or holding areas, or by any other means.

(iv) Lessor has received no notice, warning, notice of violation, administrative complaint, judicial complaint, or other formal or informal notice alleging that conditions on the Premises are or have been in violation of any Environmental Law, or informing Lessor that the Premises is subject to investigation or inquiry regarding Hazardous Substances on the Premises or the potential violation of any Environmental Law.

(v) Lessor has disclosed to City all information, records, and studies maintained by Lessor in connection with the Premises concerning Hazardous Substances.

(c) Violation of Law

To Lessor's knowledge and after reasonable inquiry, no condition on the Premises violates any health, safety, fire, environmental, sewage, building, or other federal, state, or local law, code, ordinance, or regulation.

(d) Leases.

No leases, licenses, or other agreements allowing any third party rights to use the Premises are or will be in force except those provide to and approved by City.

(e) Litigation.

There is no pending or threatened litigation, administrative proceeding, or other legal or governmental action with respect to the Premises.

(f) Encumbrances.

No encumbrances, liens (including tax liens), or other agreements (currently in force or pending) allowing any third party rights to the use of the Premises are or will be in force, except those provided and approved by City.

(g) Disclosure.

Any information that Lessor has delivered to City, either directly or through Lessor's agents, is accurate and Lessor has disclosed all material facts with respect to the Premises.

(h) Good Title.

Lessor represents that Lessor has the full right, power and authority to enter into this Lease with grant of option to City.

(i) Survivorship.

The representations and warranties contained in this Section 1 will survive the termination of this Agreement.

Section 2. Lease

Lessor leases to City, subject to the terms and conditions of this Agreement, the Premises commonly known as the Kyodo Air Terminal located at 4990 Wing Way, Paso Robles, California, more particularly described as Parcel 20 of PAL 88-207, with Leasehold Improvements. The real property is further described in Exhibit "A" attached hereto and incorporated herein by reference.

Section 3. Term of Lease and Possession

(a) The term of this Lease shall be two years commencing on the earlier of September 1, 1999, or the date the conditions stated in Section 4(c) are satisfied, and expiring at midnight August 31, 2001, unless sooner terminated pursuant to City's exercise of its option rights, pursuant to Section 19, below, or other terms of this Agreement (herein "Term").

(b) Lessor shall deliver possession of the Premises to City, along with all keys and access codes on or before September 1, 1999.

Section 4. Rent

(a) Subject to adjustments as provided in Section 4(b) below, ~~and on satisfying the conditions reflected in Section 4 (c) below,~~ City shall pay Lessor Sixty Thousand Dollars upon commencement of the Lease

...year, payable in advance through escrow (as
...on 20, below) in yearly installments; however, the
... shall be paid to Lessor, c/o James Mitsumori*
... shall deduct from the rental amount Lessor's
... obligation pursuant to the agreements reflected in
... B, above.

The Lessor's right to receive the initial rental
through escrow is subject to:

(1) Physical Inspection.

Lessor shall allow City access to the Premises, so
City, at City's expense, can inspect the Premises to
determine whether or not the Premises is suitable for City's
intended use.

(2) Lessor's documentation.

Lessor, at Lessor's sole cost, shall deliver to City
for its approval copies of the following:

- (i) All architectural and engineering plans for
all Leasehold Improvements;
- (ii) Surveys and specifications pertaining to all
Leasehold Improvements;
- (iii) All other documents pertaining to the
physical, geological, or environmental conditions of
the Premises and Leasehold Improvements;
- (iv) All subleases, assignments, and
encumbrances, liens, easements, restrictions, and
conditions relating to the Premises;
- (v) Documents relating or referring to pending
litigation, judgments, administrative proceedings, and
other matters affecting Lessor's interest in the
Premises and/or the condition of the Leasehold
Improvements (including environmental conditions and
tax liens).

(3) Delivery to City by Lessor of insurance policies
or endorsements as required by Section 13, below.

(4) City's approval of the title report, pursuant to
the escrow agreement.

(5) Lessor consents to additional escrow instructions
as required by escrow holder, pursuant to Section 20, below.

(6) Lessor's deposit to Escrow Agent as provided in
the escrow agreement.

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*Law Offices of Mitsumori & La Salle, 420 E. Third Street,
Suite 1003, Los Angeles, California, 90013.

5. Use of Premises

Subject to Section 5(b) (c) and (d), below, City as is entitled to use the Premises for any lawful purposes.

(b) City shall not commit any acts on the Premises, nor use Premises in any manner that will increase the existing rates or cause the cancellation of any fire, liability, or other policy insuring the Premises or the improvements on the Premises.

(c) City shall not commit any waste or any public or private nuisance upon the Premises.

(d) City shall comply with all laws, rules, and orders of all federal, state, and municipal governments or agencies that may be applicable to use of the Premises.

Section 6. Utilities

City will pay for all water, gas, heat, light, power, and all other services supplied to the Premises.

Section 7. Taxes

City shall reimburse Lessor for all property taxes and assessments (excluding penalties) assessed against the Leased Premises from and after September 1, 1999, which are due and owing

Section 8. Condition of Premises

ND
Upon satisfaction of City's inspection rights pursuant to Section 4(c) (1) above, City accepts the Premises in their current condition. City agrees, on the last day of the term of this Lease, or its earlier termination, to surrender the Premises to Lessor in the same condition as received, reasonable use and wear, and damage by fire, act of God, or the elements excepted.

Section 9. Repairs and Maintenance

(a) Lessor, at all times during the term of this lease, will comply with the requirements of applicable building and health codes; and, to the extent that no applicable building or housing code provisions specifically require, will maintain the roofs, windows, screens, doors, floors, steps, porches, balconies, exterior walls, foundations, and all other structural components of the Premises in good repair and capable of resisting normal forces and loads.

(b) Subject to Lessor's obligations referenced in Section 9(a), above, City agrees, at all times during the term of this Lease and at City's own expense, to maintain the Leased Premises

tenances to such Premises in good repair (including and electrical), in at least as good condition as that they were delivered, allowing for ordinary wear and

Section 10. Alterations by City

(a) City shall have the right to paint and decorate the interior and exterior of the Premises, including the design and placement of appropriate signage.

(b) Alterations and improvements (except those referenced in Section 10(a), above) of the Premises made by City shall be in accordance with plans and specifications filed with and approved by Lessor. Lessor's approval shall not be unreasonably withheld. City shall serve proposed plans and specifications on Lessor by either personal delivery or U.S. Mail, Return Receipt Requested, at Lessor's address identified in Section 27, below. The plans and specifications shall be conclusively deemed approved by Lessor unless Lessor delivers to City by personal delivery or U.S. Mail, Return Receipt Requested, Lessor's written objections within fifteen (15) days of Lessor's receipt of the proposed plans and specifications.

Section 11. Restraint on Lessor's Alienation

Lessor covenants that Lessor will not encumber the Leased Premises in any way nor grant any property or contract right relating to the Leased Premises without the prior written consent of the City.

Section 12. Indemnity

City agrees to hold Lessor harmless and to keep Lessor free, during the term of this Lease and all extensions of this Lease, from any and all liability and claim for damages arising out of injury to persons and property while in or on the leased Premises.

Section 13. Insurance

(a) Lessor shall insure the Leasehold Improvements of which the leased Premises are a part against loss or damage by fire or other casualty to the extent of the full insurable value of the Leasehold Improvements, including all improvements, alterations, additions and changes made by Lessor or City, and it is agreed that such insurance shall be carried for the mutual benefit of Lessor and City in proportion to their respective interests in the Premises, and all moneys collected from such insurance shall be used toward the full compliance of Lessor's obligations under the Damage and Destruction provision of this Lease. Said insurance policy shall be issued by a responsible

authorized to do business in California and
issued in the name of Lessor and City. Said policy shall
that a thirty day notice of cancellation and of any
modification of coverage shall be given to all named
persons.

(b) Tenant agrees to procure and maintain public liability
insurance from a responsible insurance company authorized to do
business in California, with a combined single limit of not less
than One Million Dollars (\$1,000,000.00) for injury or death or
property damage for any claims arising out of the City's use of
the Premises during the Term or arising out the City's use of the
Premises.

The insurance coverage required under this Section may be
carried by City under a blanket policy insuring other locations
of City's businesses and properties, provided that the Premises
covered by this Lease are specifically identified and included
under that policy.

Section 14. Damage and Destruction

(a) Should any of Leasehold Improvements on the Premises
be damaged or destroyed by fire, or any other casualty during the
term of this Lease, the Lease will continue in full force and
effect, and Lessor shall promptly repair and restore such
Leasehold Improvements as nearly as practicable to its previous
condition.

(b) If, under the circumstances specified in this section,
such building is rendered partly or wholly untenable for City,
the rent will be proportionately reduced or abated on a fair and
equitable basis appropriate to the extent and duration of such
untenable condition.

Section 15. Condemnation

(a) Effect of condemnation. In the event the entire
Premises or portion thereof shall be appropriated or taken under
the power of eminent domain by any public or quasi-public
authority other than City, this Lease will terminate and expire
as of the date of such taking, and City will then be released
from any liability thereafter accruing under the Lease Agreement.

(b) Condemnation award. In the event of the termination of
this Lease by reason of the total or partial taking of the
Premises by eminent domain, then in any such condemnation
proceedings Lessor and City will be free to make claim against
the condemning or taking authority for the amount of any damage
done to them, respectively, as a result of such taking, including

city's right to exercise the option, as provided in Section 19 of this Agreement.

Section 16. Assignment and Subletting

(a) City shall not assign this Lease without the prior written consent of Lessor, which shall not be unreasonably withheld.

(b) City may sublease any portion of the Premises without the consent of Lessor as long as the term of the sublease does not extend beyond the term of this Lease.

Section 17. Default

Any of the following events or occurrences shall constitute a material breach of this Lease by City and, after the expiration of any applicable grace period, shall constitute an event of default (each an "Event of Default"):

(a) The failure by City to pay rent required under this Agreement within thirty (30) days after receipt of written notice from Lessor;

(b) The failure by City to perform any other obligation under this Lease, if the failure has continued for a period of thirty (30) days after Lessor demands in writing that City cure the failure. If, however, by its nature the failure cannot be cured within thirty (30) days, City may have a longer period as is necessary to cure the failure, but this is conditioned upon City's promptly commencing to cure within the thirty (30) day period and thereafter diligently completing the cure. City shall indemnify and defend Lessor against any liability, claim, damage, loss, or penalty that may be threatened or may in fact arise from that failure during the period the failure is uncured.

Section 18. Remedies

Upon the occurrence of any one or more of the "Events of Default", Lessor shall have the right to:

(a) Terminate this Lease. Upon such termination, City's right to possession of the City's leased Premises shall terminate and City shall surrender possession thereof within a reasonable time for City to cease its operations and to remove all fixtures, equipment and personal property not part of the improvements.

(b) Enforce by suit or otherwise all obligations of City under this Lease, and to recover from City all remedies now or later allowed by law. Lessor shall provide written notice to the City of the time and date of the City Council meeting wherein legal action against the City will be considered.

tion 19. Option

In addition to all other rights that City has under this Lease to use and occupy the Leased Premises during the Term, Lessor grants City an option ("Option") to purchase the Leased Premises for the sum of Six Hundred Thousand Dollars (\$600,000.00) ("Purchase Price") on the following terms and conditions:

(a) Option Consideration. As consideration for the Option, City shall make all payments of Rent required under this Lease Agreement.

(b) Deductions from Purchase Price. The Purchase Price of Six Hundred Thousand Dollars (\$600,000.00) is subject to the following deductions:

(i) The sum of Ten Thousand Dollars (\$10,000.00) for carpet and floor replacements.

(ii) Uncollected monthly rent that Lessor is required to pay City pursuant to the Long Term Lease identified in Recitals A and B, above.

(iii) The amount of Sixty Thousand Dollars (\$60,000.00) for the first payment of yearly rent made by City pursuant to this Lease.

(iv) Lessor's obligations pursuant to the escrow agreement and instructions.

(v) The City's cost to cure any Lessor breaches of this Lease.

(c) Term of Option. This Option may be exercised at any time after September 1, 1999, and on or before midnight, August 31, 2001 ("Option Term"). Upon expiration of the Option Term, Lessor shall be released from all obligations under this Option, and all City's rights under this Option, legal or equitable, shall cease.

(d) Transferability of Option. This Option may be assigned only with the prior written consent of Lessor, which shall not be unreasonably withheld.

(e) Exercise of Option. The Option shall be exercised by mailing or delivering a written notice ("Exercise Notice") to Lessor and Escrow Agent prior to the end of the Option Term and by an additional payment to the Escrow Agent, prior to the end of the Option Term, on account of the Purchase Price, in the amount of the Purchase Price after adjustments as provided in Section 19(b), above.

(f) Notices. The Exercise Notice, if mailed, shall be sent by Certified United State Mail, Return Receipt Requested, postage

d, to Lessor at the address stated in Section 27 of this

(g) Lessor's Covenants, Representations, and Warranties. Lessor warrants that Lessor is the owner of the Leased Premises and has marketable and insurable title to the Leased Premises free of restrictions, leases, liens, and other encumbrances, except as permitted by City pursuant to this Agreement. If this Option is exercised by City, Lessor will convey title to the Leased Premises as provided in the Escrow Instructions. Lessor further covenants that during the Option Term and until the Leased Premises are conveyed to City (assuming this Option is exercised) Lessor will not encumber the Leased Premises in any way nor grant any property or contract right relating to the Leased Premises without the prior written consent of City.

(h) Memorandum of Option. Immediately following the execution of this Lease by Lessor, the attached Memorandum of Lease with Purchase Option, Exhibit B, shall be recorded by City and/or Escrow Agent with the official records of San Luis Obispo County, California.

Section 20. Escrow Instructions

By this Agreement City and Lessor establish an escrow ("Escrow") with First American Title Company located at 935 Riverside Avenue, Paso Robles, California, _____ Escrow Agent, subject to the provisions of standard conditions for the acceptance of escrow, but only to the extent that the standard conditions impose no additional obligations or liabilities on the parties, and further subject to the terms and conditions in this Agreement, the latter to control in the case of conflict, with a signed counterpart of this document to be delivered as escrow instructions to Escrow Agent.

(a) Immediately following the execution of this Agreement by both parties, City shall cause Escrow Agent to issue to City (with a copy to Lessor) a preliminary report setting forth all liens, subleases, assignments, encumbrances, easements, restrictions, conditions, pending litigation, judgments, administrative proceedings, and other matters affecting Lessor's Leasehold Estate and interest in the Leasehold Improvements, together with copies of all documents relating to title exceptions referred to in the Preliminary Report.

(b) City shall approve or disapprove each exception shown on the Preliminary Title Report and any other matter that materially and adversely affects Lessor's interest in the Premises.

(c) If any Exception is disapproved, Lessor shall, within thirty (30) days of the City's disapproval, use its best efforts

Exception to be discharged, satisfied, or terminated, as the case may be, of record, and in a manner which is reasonably satisfactory to City and Escrow Agent, at Lessor's sole cost and expense. Lessor authorizes Escrow Agent to disburse from the cash portion of the proceeds otherwise available to Lessor the sum sufficient to discharge any Approved Exception that may be discharged only by the payment of money. If Lessor is unable to obtain a discharge, satisfaction, release, or termination within the period specified above, City shall have the right to:

(i) waive the Disapproved Exception and proceed with the Lease, accepting title to the Premises subject to the Disapproved Exception if the Option is eventually exercised, or

(ii) terminate this Agreement, in which event Lessor shall pay all charges of the Escrow Agent in connection with this transaction; both City and Lessor shall be relieved of all further obligation and liability to each other under this Agreement/Lease and all the funds and documents deposited with Escrow Agent shall be promptly refunded or returned, as the case may be, by Escrow Agent to the depositing party.

(d) Upon signing this Agreement the parties shall make the following deposits to escrow:

(i) City shall deposit with Escrow Agent the sum of Sixty Thousand Dollars (\$60,000.00) less deductions authorized by Section 4(b), above, which Escrow Agent is authorized to deliver to Lessor, after disbursements authorized by Section 20(c), above, and upon written notification from City that all of the conditions referenced in Section 4(c), above, of this Agreement have been satisfied.

(ii) Lessor shall deposit with Escrow Agent the following documents:

- An appropriate instrument executed and acknowledged by Lessor conveying to City good and marketable fee simple title to all Leasehold Improvements, subject only to Approved Exceptions;
- An assignment executed by Lessor, assigning to City all of Lessor's right, title, and interest in the Long Term Lease free and clear of all liens and encumbrances, unless otherwise approved by City;
- Lessor's affidavit of nonforeign status as contemplated by Section 1445 of the Internal Revenue Code of 1986, as amended ("FIRPTA Affidavit"); and

- Lessor's affidavit as contemplated by the Revenue and Taxation Code §§ 18805 and 26131 (Withholding Affidavit).

(e) Unless sooner terminated, as provided in this Agreement, on or before September 1, 2000, City shall deposit with Escrow Agent the sum of Sixty Thousand Dollars (\$60,000.00) (additional rent) less deductions as specified in Section 4 of this Agreement, which shall be delivered by Escrow Agent to Lessor as rent.

(f) Upon City exercising its option rights as provided in Section 19 of this Agreement, Escrow Agent shall close escrow in accordance with Section 21, below.

Section 21. Escrow Closing

(a) Title.

(i) Escrow Agent shall issue a policy of title insurance ("Title Policy") in the amount of the purchase price subject only to exceptions approved by City in accordance with Section 20(b)(c), above.

(ii) Lessor authorizes Escrow Agent, without further instructions, to disburse from the Purchase Price the proceeds otherwise disburseable to Lessor upon closing, the sum sufficient to discharge any title exceptions and encumbrances not otherwise approved by City pursuant to Section 20(b)(c), above.

(b) Closing.

On the Closing Date, Escrow Agent shall close Escrow as follows:

(i) Record Assignment of Lease with the San Luis Obispo County Recorder's office;

(ii) Deliver to City an appropriate instrument executed and acknowledged by Lessor conveying to City good and marketable fee simple title to all Leasehold Improvements, subject only to the Approved Exceptions;

(iii) Issue the Title Policy;

(iv) Prorate taxes, assessments, rents, and other charges.

(v) Disburse to Lessor the Purchase Price less prorated amounts and charges to be paid by or on behalf of Lessor;

(vi) Charge City for those costs and expenses to be by City pursuant to the Lease Option Agreement;

(vii) Prepare and deliver to both City and Lessor one signed copy of Escrow Agent's closing statement showing all receipts and disbursements of the Escrow; and

(viii) Deliver to City the Assignment, the FIRPTA Affidavit, and the Withholding Affidavit.

(c) Prorations. Escrow Agent shall prorate the following costs at the Close of Escrow:

(i) Lessor shall pay:

- all governmental conveyancing fees and taxes due upon transfer of the Premises;
- one-half (1/2) of the escrow fee charged by Escrow Agent;
- all charges in connection with the issuance of a standard policy of title insurance in the amount of purchase price; and

(ii) City shall pay:

- the recording charges in connection with recordation of the Assignment;
- one-half (1/2) of the escrow fee charged by Escrow Agent

(d) Real Estate Taxes, Bonds and Assessments. Real property taxes and personal property taxes on the Leasehold Improvements, if any, shall be prorated at the Close of Escrow based on the most current tax bill available, including any additional taxes that may be assessed after the Close of Escrow but that relate to a period prior to the Close of Escrow, regardless of when notice of those taxes is received or who receives the notice. All installments of any bond or assessment that constitutes a lien on the Property at the Close of Escrow shall be paid by Lessor.

Section 22. Lessor's Indemnity

Lessor hereby agrees, after the Close of Escrow, at its sole cost and expense, to indemnify, protect, defend (with counsel of Lessor's choice), and hold City, its successors and assigns, officers and/or Council Members, from and against any and all claims, demands, damages, losses, liabilities, obligations, penalties, fines, actions, causes of action, judgments, suits, proceedings, costs, disbursements and expenses (including, without limitations, attorneys' and experts'

reasonable fees and costs) of any kind or nature whatsoever which may at any time be imposed upon, incurred or suffered by, or asserted or awarded against, City, or its successors and assigns, officers and/or Council Members relating to or arising from (i) Lessor's use of the Premises or before the date of this Agreement, (ii) the use of the Premises on or before the date of this Agreement by any third party, including, without limitation, any invitee or licensee of Lessor, (iii) any breach of any covenant, agreement, representation or warranty of Lessor contained in this Agreement, (iv) the presence, use, handling, storage, disposal or release on or before the date of this Agreement of Hazardous substances on, under or about the Premises and (v) the violation of any federal, state or local law, ordinance or regulation, occurring or allegedly occurring with respect to the Lessor's use of the Premises prior to the date of this Agreement.

Section 23. Merger.

All of the terms, provisions, representations, warranties, and covenants of the parties under this Agreement shall survive the Close of Escrow and shall not be merged in the Assignment or other documents.

Section 24. Waiver of Breach

Any express or implied waiver of a breach of any term of this Agreement shall not constitute a waiver of any further breach of the same or other term of this Lease; and the acceptance of rent shall not constitute a waiver of any breach of any term of this Lease, except as to the payment of rent accepted.

Section 25. Attorney Fees

If any action at law or in equity is brought to recover any rent or other sums under this Lease, or for or on account of any breach of or to enforce or interpret any of the covenants, terms, or conditions of this Lease, or for the recovery of the possession of the Premises, the prevailing party shall be entitled to recover from the other party as part of prevailing party's costs reasonable attorney fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

Section 26. Early Termination

City shall have the right to terminate this Lease at any time prior to Lessor's right to receive the initial rent payment pursuant to Section 4, above, by delivering written notice of termination to Lessor and Escrow Agent. Upon receipt of City's

Written termination, Escrow Agent shall forthwith return the city's rental payment.

Section 27. Notices

All notices required by this Lease shall be communicated in writing by either party and shall be delivered to the following addresses:

City:
CITY MANAGER
CITY OF EL PASO DE ROBLES
1000 Spring Street
Paso Robles, CA 93446

Lessor:

If the notice cannot be delivered personally, a copy of the notice may be delivered by mail. Delivery shall be deemed given when such notice is enclosed in a sealed envelope, with postage thereon fully prepaid, that is addressed to a party on one of the above addresses and that envelope is deposited in a United States Post Office mailbox.

Section 28. Heirs and Successors

This Lease shall be binding on and shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of Landlord and Tenant.

Section 29. Partial Invalidity

Should any provision of this Lease be held by a court of competent jurisdiction to be either invalid or unenforceable, the remaining provisions of this Lease shall remain in effect, unimpaired by the holding.

Section 30. Entire Agreement

This instrument constitutes the sole agreement between Lessor and City respecting the Premises, the leasing of the Premises to City, and the specified Lease Term, and correctly sets forth the obligations of Lessor and City. Any agreement or representations respecting the Premises or their leasing by Lessor to City not expressly set forth in this instrument are void.

Section 31. Incorporation of Recitals

Recitals A through E of this Agreement are incorporated herein as though set forth in full.

Section 32. Time of Essence

Time is of the essence in this Lease

Section 33. Amendments

This Lease may be modified only in writing and only if signed by the parties at the time of the modification.

Section 34. Authority

If Lessor is a corporation, trust, or general or limited partnership, all individuals executing this Lease on behalf of that entity represent that they are authorized to execute and deliver this Lease on behalf of that entity. If Lessor is a corporation, trust, or partnership, Lessor shall, prior to the execution of this Lease, deliver to City evidence of that authority and evidence of due formation, all satisfactory to City.

Section 35. Governing Law and Venue

This Lease shall be governed by and construed in accordance with California law. Lessor and City agree that if any legal action is taken to interpret or enforce the terms and conditions of this Lease, such actions shall be filed with the proper court in the County of San Luis Obispo.

Exhibit A: Map of the Premises

Exhibit B: Memorandum of Lease With Options

The parties have executed this Lease/Agreement on the date first written above.

LESSOR:
KYODO AIR, INC.

First Kyodo Air, Inc. signature: By: _____
Name: Richard D. Kim
Title: PRESIDENT

[Signatures continued on page 17]

[Continued signatures to
Kyodo Air, Inc./ Paso Robles
Lease Option Agreement]

Second Kyodo Air, Inc. signature: By: _____
Name: Motoyoshi Imai
Title: PRESIDENT

CITY:
CITY OF EL PASO DE ROBLES

By: _____
James L. App, City Manager

ATTEST:

Dennis Fansler, City Clerk

lease agree with option 7-15-99

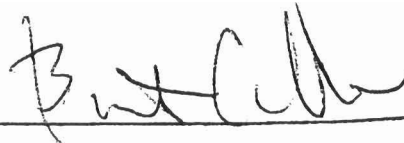
Japan)
Prefecture of Osaka)
City of Osaka) ss:
Consulate General of the)
United States of America)

I, Bart D. Cobbs, Vice Consul of the
United States of America, in and for Osaka-Kobe, Japan,
duly commissioned and qualified, do hereby certify that on
this 29th day of July 1999,
before me personally appeared Nobuyoshi Dan

_____, to me personally known,
and known to me to be the individual described in, who,
being by me duly sworn, did depose and say that he is the
President of Kyodo Air, Inc.

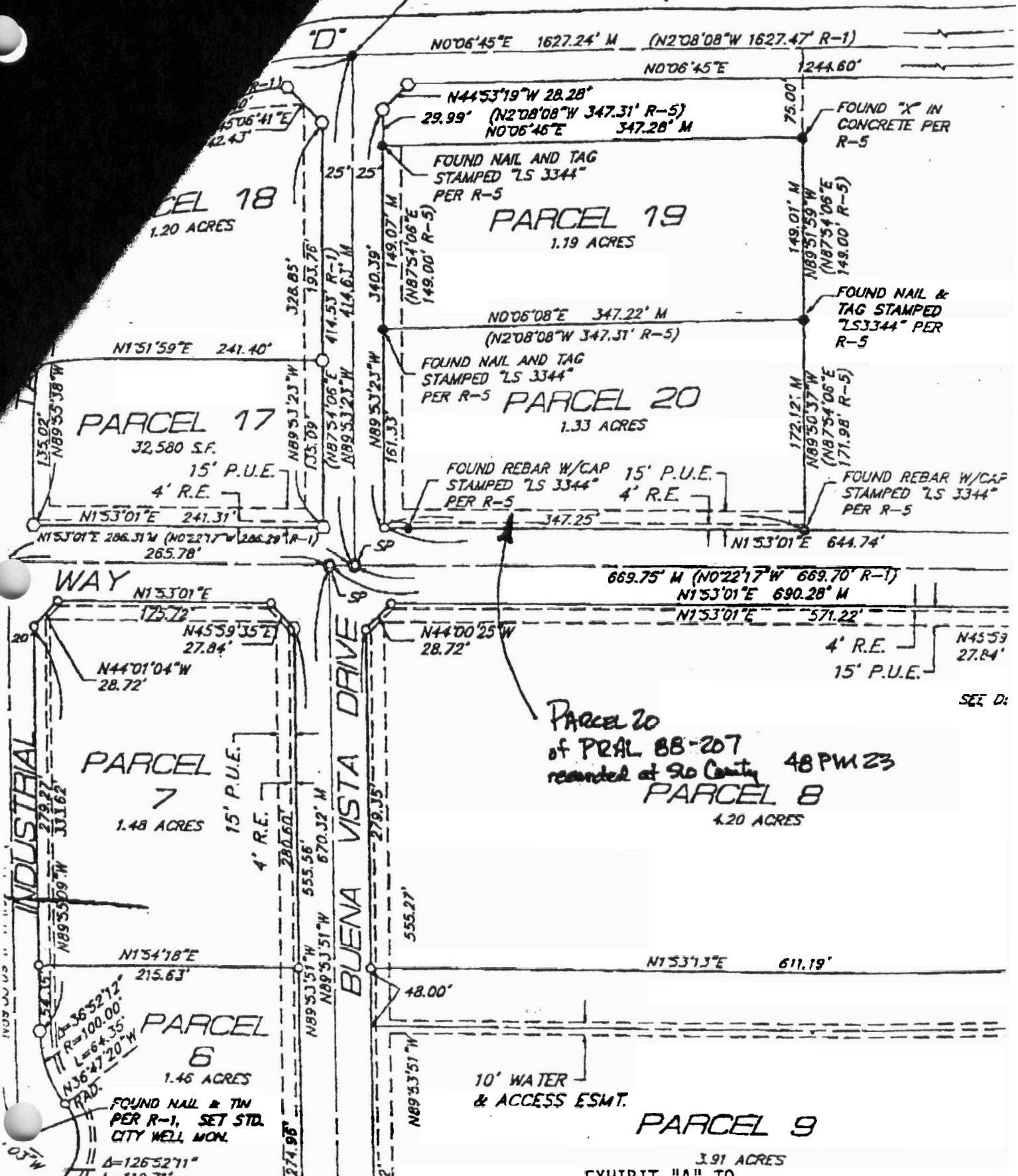
_____,
and that foregoing instrument was signed in behalf of said
corporation by authority of its board of directors and
that said officer acknowledged said instrument to be the
free act and deed of said corporation.

IN WITNESS WHEREOF I have hereunto set
my hand and official seal the day and
year last above written.



Bart D. Cobbs
Vice Consul

FOUND NAIL AND STRADDLERS PER R-1
SET SPIKE AND WASHER STAMPED 'LS 5201'



Parcel 20
of PRAL 88-207
recorded at 90 County 48 PM 23
PARCEL 8
4.20 ACRES

SEE D:

EXHIBIT "A" TO
LEASE AGREEMENT WITH OPTION TO PURCHASE
AND ESCROW AGREEMENT
Page 1 of 1

13-21

Recording Requested by and
When Recorded Return to:

CITY OF EL PASO DE ROBLES
Department of Public Works
1000 Spring Street
Paso Robles, CA 93446

APN: 025-453-008

**MEMORANDUM OF LEASE WITH OPTION TO PURCHASE
LESSOR'S INTEREST IN THE PREMISES**

This Memorandum of Lease With Option to Purchase and Escrow Agreement ("Memorandum") is entered into this 29 day of July, 1999, by and between Kyodo Air, Inc., a California Corporation ("Lessor"), and the City of El Paso de Robles, a political subdivision of the State of California ("City"), with respect to the following recitals:

A. On or about July 29, 1999 Lessor and City entered into a Lease Agreement With Option to Purchase and Escrow Agreement ("Lease"), pursuant to which Lessor leased to City and City leased from Lessor real property with Leasehold Improvements, described as Parcel 20 of PAL 88-207 filed in Book 48 of Parcel Maps at Page 23 of the County of San Luis Obispo, California, and more particularly described in Attachment A, incorporated by reference ("Premises").

B. This Memorandum is recorded in compliance with Government Code Section 37393, and shall not be construed to alter, modify, amend, or supplement the Lease, of which this is a Memorandum.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Term

Lessor leases the Premises to City commencing no later than September 1, 1999 and ending March 31, 2001.

2. Lease Terms

This lease of the Premises to City is on all of the terms and conditions of the Lease, which is incorporated in this Memorandum by reference. The Lease includes, among other terms, an option to purchase Lessor's interest in the Premises.

Exhibit "B" to
LEASE AGREEMENT WITH OPTION TO PURCHASE
AND ESCROW AGREEMENT

3. Assignment

City's rights and obligations under the Lease shall not be assigned without Lessor's prior written consent.

4. Successors and Assigns

This Memorandum and the Lease shall bind and inure to the benefit of the parties and their respective heirs, successors, and assigns, subject, however, to the provisions of the Lease on assignment.

5. Incorporation of Recitals

Recitals A and B, above, are incorporated herein as though set forth in full.

6. Governing Law and Venue

This Memorandum and the Lease are governed by California law. Lessor and City agree that if any legal action is taken to interpret or enforce the terms and conditions of this Lease, such actions shall be filed with the proper court in the County of San Luis Obispo.

Executed as of the date first above written at the City of El Paso de Robles, County of San Luis Obispo, State of California.

LESSOR:
KYODO AIR, INC.

By: _____
Name: Michiyoshi Doan
Title: PRESIDENT

By: _____
Name: _____
Title: _____

CITY:
CITY OF EL PASO DE ROBLES

By: _____
James L. App, City Manager

ATTEST:

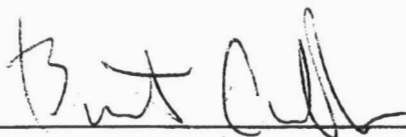
Dennis Fansler, City Clerk

Japan)
Prefecture of Osaka)
City of Osaka) ss:
Consulate General of the)
United States of America)

I, Bart D. Cobbs, Vice Consul of the United States of America, in and for Osaka-Kobe, Japan, duly commissioned and qualified, do hereby certify that on this 29th day of July 1999, before me personally appeared Nobuyoshi Dan, to me personally known, and known to me to be the individual described in, who, being by me duly sworn, did depose and say that he is the President of Kyodo Air, Inc.

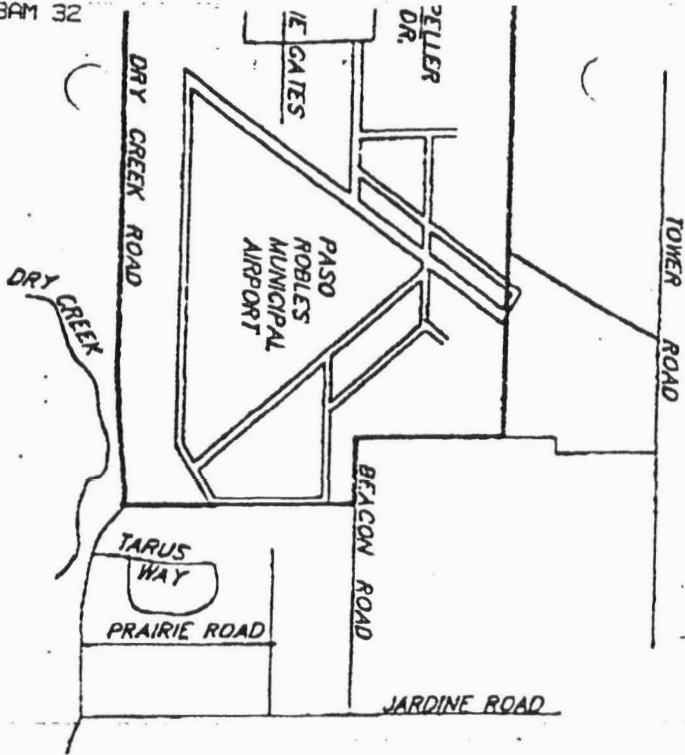
and that foregoing instrument was signed in behalf of said corporation by authority of its board of directors and that said officer acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year last above written.



Bart D. Cobbs
Vice Consul

VICINITY MAP
NO SCALE



**RECORDER'S
STATEMENT**

FILED THIS 4th DAY OF JUNE, 1991
AT 8:00 A.M. IN BOOK 48 OF PARCEL MAPS
AT PAGE 23 AT THE REQUEST OF ALAN L. VOLBRECHT.

DOCUMENT NO.: 31653 FEE: \$12.00

Francis W. Doney BY: Sandra Sturmy
COUNTY RECORDER DEPUTY

PREPARED BY:

VOLBRECHT SURVEYS

7508 MORRO ROAD
ATASCADERO, CALIFORNIA 93422
(805)466-9296

DATE: 5-4-91
JOB NO. 1708

John R. McCarthy
JOHN R. MCCARTHY R.C.E. 29457
(EXP. 1-31-99)

DATED: 5/22/91

13-25

13-26

EXHIBIT "A" to
MEMORANDUM OF LEASE

FOUND NAIL AND STRADDLERS PER R-1
SET SPIKE AND WASHER STAMPED "LS 0201"

N0°06'45"E 1627.24' M (N2°08'08"W 1627.47' R-1)

N0°06'45"E 1244.60'

N44°53'19"W 28.28'
29.99° (N2°08'08"W 347.31' R-5)
N0°06'46"E 347.28' M

FOUND "X" IN
CONCRETE PER
R-5

FOUND NAIL AND TAG
STAMPED "LS 3344"
PER R-5

PARCEL 19
1.19 ACRES

149.01' M
N89°31'59" W
(N87°54'06"E
149.00' R-5)

FOUND NAIL &
TAG STAMPED
"LS 3344" PER
R-5

N0°06'08"E 347.22' M
(N2°08'08"W 347.31' R-5)

FOUND NAIL AND TAG
STAMPED "LS 3344"
PER R-5

PARCEL 20
1.33 ACRES

172.12' M
N89°50'37" W
(N87°54'06"E
171.98' R-5)

FOUND REBAR W/CAP
STAMPED "LS 3344"
PER R-5

FOUND REBAR W/CAP 15' P.U.E.
STAMPED "LS 3344" 4' R.E.
PER R-5

FOUND NAIL AND TIN PER R-1
SET STD. CITY WELL MONUMENT

669.75' M (N0°22'17"W 669.70' R-1)
N1°53'01"E 690.28' M

N1°53'01"E 571.22'

N44°00'25"W
28.72'

4' R.E.
15' P.U.E.

N45°53'50"E
27.84'

SEE DETAIL "A"

PARCEL 8
4.20 ACRES

PARCEL MAP PRAL88-207

BEING A LOT LINE ADJUSTMENT OF PARCELS 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 20, 21, 22, 23, 25, 29, 30, 31, 32, 55, 56, 57, AND 58 OF PARCEL MAP PR77-469, AS SHOWN ON MAP RECORDED IN BOOK 27 OF PARCEL MAPS AT PAGE 88, AS CORRECTED BY DOCUMENT RECORDED IN BOOK 2308, PAGE 759 OF OFFICIAL RECORDS, ALONG WITH PARCELS A, B, C, AND D OF PARCEL MAP PRB3-127, AS SHOWN ON MAP RECORDED IN BOOK 34 OF PARCEL MAPS AT PAGE 26, ALONG WITH PARCELS 60, 61, 62, AND 63 OF PARCEL MAP PR80-167, AS SHOWN ON MAP RECORDED IN BOOK 30 OF PARCEL MAPS AT PAGE 81, ALONG WITH PARCELS 26 AND 27 OF PARCEL MAP PRB3-185, AS SHOWN ON MAP RECORDED IN BOOK 35 OF PARCEL MAPS AT PAGE 60, ALONG WITH PARCELS 17-A, 18-A, 19-A, AND 24-A OF PARCEL MAP PRAL 90-225, AS SHOWN ON MAP RECORDED IN BOOK 47 OF PARCEL MAPS AT PAGE 53, ALL LYING WITHIN THE CITY OF EL PASO DE ROBLES, COUNTY OF SAN LUIS OBISPO, STATE OF CALIFORNIA.



FEET NO. 3

DRIVE
670.36' R-1

280.63'

30' 30"

P.2/3