

TO: James L. App, City Manager
FROM: Meg Williamson, Assistant City Manager
SUBJECT: Airport Lease Termination and New Lease Agreement
RMB&B Real Estate Joint Venture to Propeller Investment Properties, LLC
DATE: October 20, 2009

NEEDS: For the City Council to adopt Resolution No. 09-XX, approving the termination of a ground lease with RMB&B Real Estate Joint Venture and approving a long-term ground lease with Propeller Investment Properties, LLC.

- FACTS:**
1. On October 16, 1979, the City entered into a long-term lease on airport parcels 3, 4, & 5 of Parcel Map 88-207, more commonly known as 3020 and 3034 Propellor Drive, with Richard J. and JoAnn Orosel.
 2. The subject lease site was developed per the lease agreement and over the years has served a number of business entities. Currently, these properties are home to the operations of ISSAC Medical, Inc. and Specialty Silicone Fabricators, Inc.
 3. The lease agreement was subsequently assigned to the current tenant in 1999 and amended to add Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025 to the leased area. An expiration date of October 16, 2049 was established at that time.
 5. RMB&B requests the lease agreement be terminated in favor of a new lease, to be signed with Propeller Investment Properties, LLC.
 6. ISSAC Medical, Inc. and Specialty Silicone Fabricators, Inc. will continue to be subtenants to Propeller Investment Properties, LLC.
 7. The lessee is in full compliance with the terms of the lease agreement.
 8. The proposed lease would take on the same terms and conditions of the present agreement, including rent escalation requirements.

**ANALYSIS
AND**

CONCLUSION: The termination of the subject lease and the initiation of a new agreement is advantageous to both parties. This lease structure will accommodate Specialty Silicone, Inc. during their facility expansion on Rollie Gates Drive (a separately leased site). Also, it removes an obsolete agreement format in favor of a newer, more recently-adopted lease format with clearer terms and provisions. The termination date of the new agreement would remain unchanged and the present rental rate, with escalations, would continue.

POLICY

REFERENCE: Airport Leasing Policy

FISCAL

IMPACT: None. The current rental rates are combined in the new agreement.

- OPTIONS:**
- a. For the City Council to approve Resolution No. 09-XX, as presented.
 - b. Amend, modify or reject the above option.

Attachments:

- 1) Resolution No. 09-XX
- 2) Termination Agreement (RMB&B)
- 3) Lease Agreement (Propellor Investments)

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
APPROVING TERMINATION OF GROUND LEASE WITH RMB&B REAL ESTATE
JOINT VENTURE AND APPROVING LONG-TERM GROUND LEASE WITH
PROPELLER INVESTMENT PROPERTIES, LLC.
(3020 & 3034 Propeller Drive and Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025)

WHEREAS, City and Richard J. Orosel and Jo Ann Orosel, collectively as "Lessee," entered into that certain lease dated October 16, 1979, for the rental of certain real property which included Parcels 3, 4 and 5 of Parcel Map No. PRAL 88-207 (Assessor Parcel Nos. 025-452-003, 004 and 005, commonly known as 3020 Propeller Drive and 3034 Propeller Drive) (the "Original Premises"); and

WHEREAS, that lease was subsequently assigned to RMB&B Real Estate Joint Venture, a California general partnership, ("RMB&B") and amended (the "Lease") to add Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025 (Assessor Parcel Nos. 025-454-004, 005 and 006) (the "Added Premises") as part of the leased property (collectively, the "Original Premises" and the "Added Premises" are referred to herein as the "Premises."); and

WHEREAS, Propeller Investment Properties, LLC, a California limited liability company ("PIP") is in the process of acquiring all of the interest of RMB&B in the Premises, and PIP desires to enter into a new lease of the Premises with the City; and

WHEREAS, the existing subtenants on the Premises, ISSAC Medical, Inc. and Specialty Silicone Fabricators, Inc. will remain on the Premises as subtenants under the proposed new lease; and

WHEREAS, the City Council of the City of El Paso de Robles desires to update the provisions governing the rental of the Premises while ensuring the continued employment of highly-skilled professionals and technicians at the premises, who are important contributors to the City's employment base;

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of El Paso de Robles as follows:

Section 1. The City Council hereby approves the Lease Termination Agreement, attached hereto as Exhibit A and incorporated herein by reference, and hereby authorizes the City Manager to execute said agreement, subject to any minor technical or clarifying changes approved by the City Attorney, and any documents necessary to effectuate such termination..

Section 2. The City Council hereby approves the Nonsubordinated Airport Ground Lease, attached hereto as Exhibit B and incorporated herein by reference, and hereby authorizes the City Manager to execute said lease, subject to any minor technical or clarifying changes

approved by the City Attorney, and any documents necessary to effectuate such lease.

PASSED AND ADOPTED this _____ day of _____, 2009 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Duane Picanco, Mayor

ATTEST:

Cathy David, Deputy City Clerk

Exhibit A

Lease Termination Agreement

Exhibit B

Nonsubordinated Airport Ground Lease

LEASE TERMINATION AGREEMENT

This Lease Termination Agreement ("**Agreement**") dated as of _____, 2009 is made by and between THE CITY OF EL PASO DE ROBLES ("**Landlord**") and RMB&B REAL ESTATE JOINT VENTURE, a California general partnership ("**Tenant**"), who agree as follows:

1. Background.

A. Landlord, as "Lessor," and Richard J. Orosel and Jo Ann Orosel, collectively as "Lessee," entered into that certain lease dated October 16, 1979, for the rental of certain real property which included Parcels 3, 4 and 5 of Parcel Map No. PRAL 88-207 (Assessor Parcel Nos. 025-452-003, 004 and 005, commonly known as 3020 Propeller Drive and 3034 Propeller Drive) (the "**Original Premises**"), and which lease was subsequently assigned to Tenant and amended (the "**Lease**") to add Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025 (Assessor Parcel Nos. 025-454-004, 005 and 006) (the "**Added Premises**") as part of the leased property. Collectively, the Original Premises and the Added Premises are referred to herein as the "**Premises.**").

B. Tenant's leasehold interest in the Premises and the Lease, including the improvements on the Premises and the existing subleases with ISSAC Medical, Inc. and Specialty Silicone Fabricators, Inc., are being acquired by Propeller Investment Properties, LLC, a California limited liability company ("**PIP**"). RMB&B has requested that the Lease be terminated in order to allow for a new lease to be executed between the City and PIP, to take effect immediately upon the effectiveness of this Agreement. The City Council of the City of El Paso de Robles has adopted Resolution No. _____ authorizing Landlord to terminate the Lease upon the terms and conditions of this Agreement.

2. Lease Termination. Landlord and Tenant agree that the Lease shall be terminated effective as of 11:59 p.m. on _____ (the "**Termination Date**"). From and after the Termination Date, the Lease will be of no further force and effect, and Landlord and Tenant will be released from any further obligations under the Lease, except for those obligations that accrued prior to the Termination Date and those obligations and indemnifications that survive termination according to the Lease, this Agreement or by law.

3. Surrender of Premises. Tenant will surrender possession of the Premises to Landlord on or before the Termination Date. From and after the Termination Date, Tenant will have no further right to occupy the Premises.

4. Release of Liability. Conditioned on the performance by the parties of the provisions of this Agreement, on the Termination Date, Landlord and Tenant will be fully and unconditionally released and discharged from their respective obligations arising from or connected with the provisions of the Lease. This Agreement shall fully and finally settle all demands, charges, claims, accounts or causes of action of any nature, including, without limitation, both known and unknown claims and causes of action that arose out of or in connection with the Lease, and it constitutes a mutual release with respect to the Lease. Each of the parties expressly waives the provisions of Civil Code Section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH DEBTOR.

Landlord's Initials

Tenant's Initials

6. Tenant's Obligations. On or prior to the Termination Date, Tenant shall, subject to the terms of this Agreement, fulfill all covenants and obligations of Tenant under the Lease applicable to the period prior to and including the Termination Date.

7. Default. If Tenant fails to perform any obligation arising under this Agreement, Landlord may declare a breach of the Lease and pursue its remedies under the Lease.

8. Indemnity. The obligations of Tenant set forth in the Lease that by their terms survive the Lease will survive termination pursuant to this Agreement, including without limitation all indemnifications of Landlord by Tenant (the "**Surviving Lease Obligations**"). Further, Tenant agrees to indemnify Landlord and to hold Landlord harmless from and against all injury, loss, claims or damage (including attorneys' fees, investigation costs and disbursements from the first notice that any claim or demand is to be made or may be made) to any person or property, arising from, relating to, or in connection with the use or occupancy of the Premises or the conduct or operation of Tenant's business in the Premises. The indemnity set forth in this Section 7 will be deemed to be in addition to the Surviving Lease Obligations.

9. Representation and Warranties by Tenant. Tenant represents and warrants that (i) Tenant is the rightful owner of all of the Tenant's interest in the Lease; (ii) Tenant has not made any disposition, assignment, sublease, or conveyance of the Lease or Tenant's interest therein other than those existing subleases with ISSAC Medical, Inc., and Specialty Silicone Fabricators, Inc.; (iii) Tenant has no knowledge of any fact or circumstance which would give rise to any claim, demand, obligation, liability, action or cause of action arising out of or in connection with Tenant's occupancy of the Premises; (iv) no other person or entity has an interest in the Lease, collateral or otherwise; and (v) there are no outstanding contracts for the supply of labor or material and no work has been done or is being done in, to or about the Premises which has not been fully paid for and for which appropriate waivers of mechanic liens have not been obtained. The foregoing representations and warranties shall survive the termination of the Lease.

10. General.

A. Voluntary Agreement. The parties have read this Agreement and the mutual releases contained in it, and on advice of counsel they have freely and voluntarily entered into the Agreement.

B. Binding on Successors. This Agreement shall be binding upon and inure to the benefit of Landlord and Tenant and their respective successors, assigns and related entities.

C. Entire Agreement. This Agreement is the final expression of and contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto. This Agreement may only be modified in writing executed by both parties.

D. Attorneys' Fees. In the event of any action or suit arising hereunder by reason of any breach of the covenants, agreements and provisions of this Agreement, then the prevailing party shall be entitled to recover from the other party all costs and expenses of the actual suit, including attorneys' fees, accounting and engineering fees and other professional fees resulting therefrom.

E. Counterparts. This Agreement may be executed in counterparts which when taken together shall constitute a single document.

LANDLORD:

CITY OF EL PASO DE ROBLES

By: _____
James L. App, City Manager

TENANT:

**RMB&B REAL ESTATE JOINT
VENTURE, a California general partnership**

By: _____
William E. Reising, General Partner

APPROVED AS TO FORM:

Iris P. Yang, City Attorney

ATTEST:

Cathy David, Deputy City Clerk

CITY OF PASO ROBLES



MUNICIPAL AIRPORT PROPERTY LEASE

NONSUBORDINATED AIRPORT GROUND LEASE

This Lease ("**Lease**") is made on _____, 2009, between THE CITY OF EL PASO DE ROBLES ("**Landlord**") and PROPELLER INVESTMENT PROPERTIES, LLC., a California limited liability company ("**Tenant**").

RECITALS

A. Landlord, as "Lessor," previously leased (the "Original Lease") to RMB&B Real Estate Joint Venture, a California general partnership, ("**RMB&B**") the Leased Premises, as defined herein. Propeller Investment Properties, LLC, a California limited liability company, has purchased or is in the process of purchasing all of RMB&B's rights, title, real property improvements and interest in the Leased Premises.

B. In connection with that transaction, Landlord and RMB&B have agreed to terminate the Original Lease pursuant to a Lease Termination Agreement, dated _____, 2009, and approved by the City Council on _____, 2009, by Resolution No. _____.

C. Landlord desires to lease the Leased Premises to Tenant to ensure the continued employment of highly-skilled professionals and technicians at the premises, who are important contributors to the City of El Paso de Robles' employment base.

D. The City Council of the City of El Paso de Robles has adopted Resolution No. _____ authorizing Landlord to lease the Leased Premises to Tenant upon the terms and condition of this Lease.

NOW, THEREFORE, Landlord leases to Tenant, and Tenant hereby leases from Landlord, the Leased Premises pursuant to the terms and conditions set forth below.

1. PREMISES

1.1. Leased Premises. Landlord leases to Tenant and Tenant leases from Landlord Parcels 3, 4 and 5 of Parcel Map No. PRAL 88-207 (Assessor Parcel Nos. 025-452-003, 004 and 005 commonly known as 3034 Propeller Drive and 3020 Propeller Drive), and Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025 (Assessors Parcel Nos. 025-454-004, 005 and 006), located in the City of Paso Robles, County of San Luis Obispo, California, as more particularly 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 lease term shall expire on October 16, 2049 ("**Expiration Date**").

2.2. Possession. Tenant acknowledges that there are existing subtenants occupying all or a portion of the Leased Premises and that it shall take possession of the Leased Premises subject to such subtenancies.

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 be 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: Sub-lease premises to a precision medical device manufacturing company such as Specialty Silicone Fabricators, Inc.

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 within five (5) business days, Landlord, at its option, may terminate this Lease upon thirty (30) days' written notice. However, if Tenant has undertaken steps to cure within five (5) business days, then Landlord shall not terminate this Lease unless Tenant fails to diligently complete said cure. In such event, Landlord may terminate this Lease upon thirty (30) days written notice. Notwithstanding the foregoing, if at any time Tenant's breach has a material adverse effect on the operations of the Airport or creates an emergency situation that, in City's reasonable estimation, presents a risk to public health or safety, Tenant shall immediately commence to cure such breach.

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 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 State and City Fire Code.

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. If the foregoing development or improvement shall have a material adverse effect on

Tenant's use of the Premises, the parties hereto shall meet and confer prior to the commencement of such development or improvement.

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, by accepting this Lease, expressly agrees for itself, its successors and assigns that it will not permit any natural growth or other obstruction on the land leased hereunder above a height as determined by the application of the requirements of Part 77 of the Federal Aviation Regulations. Tenant shall also not erect or permit the erection of any structure or building on the land leased hereunder above a height of thirty-five (35) feet, as required by the City Fire Code. 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 conform to Airport and FAA safety and security rules and regulations regarding use of the Airport operations area including runways, taxiways, aircraft aprons by vehicles, employees, customers, visitors, etc. in order to prevent security breaches and avoid aircraft incursions and vehicle/pedestrian deviations; will complete and pass an airfield

safe driving instruction program when offered or required by the Airport, and will be subject to penalties as prescribed by the Airport for violations of the Airport safety and security requirements.

3.4. Airport Security. 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.

3.5. Hazardous Materials.

3.5.1. Restrictions. Landlord acknowledges receipt and consents to Tenant's list of the current hazardous materials or toxic substances, as more particularly described on **Exhibit "B"**, which are necessary or useful to Tenant's business and which are used, kept and stored in a manner that complies with all laws relating to such hazardous materials or toxic substances so brought upon or used or kept in or about the Premises or the Airport. Notwithstanding the foregoing, Tenant shall not cause or permit any hazardous materials or toxic substances which are not included on the foregoing approved list 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's consent shall be obtained in connection with Section 3.5.6 below, which shall not be unreasonably withheld so 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 hereunder 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, in a manner that will not unreasonably interfere with the Tenant's use of the Leased Premises, 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. Landlord shall provide Tenant with thirty (30) days prior written notice if it determines such testing wells are to be installed in order to minimize disruption to Tenant's business operations. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. Landlord shall bear the cost of such tests and of the maintenance, repair and replacement of such wells, unless such test indicates that the presence of hazardous materials or toxic substances are the result of Tenant's operations on the Premises. In that event, 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 Lease with notice at least five (5) days in advance of any inspection. The cost of such inspections shall be paid by Landlord, unless such inspection reveals the presence of hazardous materials or toxic substances are the result of Tenant's operations on the Premises. 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 or 25316 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. 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. 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.

3.5.8. Storage. It is the intent of the parties hereto that the provisions of this Section 3.5 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 Three Thousand One Hundred Six Dollars and Twelve Cents (\$3,106.12) 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.

4.3. Cost-of-Living Increase. On July 1, 2010, and on July 1st 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 eight percent (8%) 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 216, the Adjusted Rent would be the Cumulative Base Rent increased by eight percent (8%). If, however, the Index as of the first

Adjustment Date were 400, the Adjusted Rent would be the Cumulative Base Rent increased by eight percent (8%). 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.

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. In addition, Landlord shall be solely responsible for any income taxes assessed against Landlord arising out of its operation of the Airport or related to the rents received from Tenant.

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 1st and ending June 30th.

5.4. Payment by Landlord. In the event Tenant fails to pay such taxes or assessments, Landlord may, at its option, after giving fifteen (15) 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 except those already 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 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 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 keep the exterior of the improvements on the Premises in a reasonably neat and attractive condition, free from waste or debris, and replace any trees, shrubs, plants, and ground cover as may be needed. 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 reasonable approval.

7.2. 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 to cure such failure, 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.

7.3. 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.

7.4. 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, if such reconstruction, alteration or improvement to the aircraft pavement areas would result in a material adverse effect on Tenant's use of the Premises, the parties hereto shall meet and confer prior to the commencement of such reconstruction, alteration or improvement. Tenant hereby acknowledges that Landlord has no obligation to make such alterations or improvements.

7.5. 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 Section 7, 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

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 (not including the internal layout) on the Leased Premises, Tenant shall notify Landlord of the date of commencement and expected completion thereof and shall submit for approval plans and specifications in accordance with the City of El Paso de Robles Community Development Department Application Guide for Major Development, which can be found at:

<http://www.prcity.com/government/departments/commdev/planning/pdf/forms-applications/MajorGuide.pdf>:

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**"). Such plans and specifications shall be processed in accordance with the normal procedures of the City of Paso Robles. Approval of the completed plans and specifications by Landlord shall not be unreasonably withheld. If Landlord does not approve the plans and specifications, it shall notify Tenant of the reasons for its disapproval, and failure to so notify Tenant shall be deemed approval of the plans and specifications. 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 any improvements or Approved Improvements.

8.3. Commencement of Construction. Once Tenant has commenced construction, Tenant shall pursue the same with reasonable speed and dispatch in compliance with the approved plans and specifications. 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 any 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 on the Premises. Notwithstanding the foregoing, nothing in this Section 8.5 shall limit or waive the building and permit requirements of the City of Paso Robles.

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 fifteen (15) 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 sole negligence of Landlord, its agents or employees.

9.2. Indemnification of Landlord. To the fullest extent permitted by law, Tenant shall, at Tenant's sole expense and with counsel reasonably acceptable to Landlord, defend, indemnify, and hold harmless Landlord and Landlord's officers, officials, employees and agents from and against all claims, (including demands, losses, actions, causes of action, damages, liabilities, expenses, charges, assessments, fines or penalties of any kind, and costs including consultant and expert fees, court costs and attorney's fees) from any cause, arising out of or relating (directly or indirectly) to this Lease, the tenancy created under this Lease, or the Premises, including without limitation:

9.2.1. The use or occupancy, or manner of use or occupancy, of the Premises or buildings by Tenant;

9.2.2. Any act, error or omission, or negligence of Tenant or of any subtenant, invitee, guest, contractor or licensee or Tenant or any subtenant in, on, or about the Premises;

9.2.3. Tenant's conducting of its business;

9.2.4. Any alterations, activities, work, or things done, omitted, permitted, allowed, or suffered by Tenant in, at, or about the Premises or buildings, including the violation of or failure to comply with any applicable laws, statues, ordinances, standards, rules, regulations, orders, decrees, or judgments in existence on the Commencement Date or enacted, promulgated, or issued after the date of this Lease, and;

9.2.5. Any breach or default in performance of any obligation on Tenant's part to be performed under this Lease, whether before or during the term of this Lease or after its expiration or earliest termination.

9.2.6. This indemnification extends to and includes, without limitation, claims for:

9.2.6.1 Injury to any persons (including death at any time resulting from that injury);

9.2.6.2 Loss of, injury or damage to, or destruction of property (including loss of use at any time resulting from that loss, injury, damage, or destruction); and

9.2.6.3 All economic losses and consequential or resulting damage of any kind.

Tenant's indemnification obligation hereunder shall survive the expiration or earlier termination of this Lease until all claims against Landlord involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

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 a combined single limit coverage in an amount of not less than Two Million Dollars (\$2,000,000.00) and annual aggregate coverage in an amount of not less than Five Million Dollars (\$5,000,000.00) 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. 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 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 a "Loss Payee" endorsement issued in favor of Landlord and 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.

9.5. 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 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.

9.6. 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 Section 10 below, be expended for the restoration, repair or replacement of said buildings, structures or improvements.

9.7. 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.

9.8. 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 Section 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 that are attributable to those improvements that would become the property of the Landlord pursuant to Section 17. 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. Landlord's 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, 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 unless express written approval is signed by Landlord.

Notwithstanding the foregoing, Landlord's consent to an assignment of this Lease shall be deemed given if all of the following are satisfied:

11.1.1. such assignment is to ISSAC Medical, Inc., a California corporation, Specialty Silicone Fabricators, Inc., a California corporation, Innovative Surgical Products, Inc., a California corporation, Medical Silicone, Inc., a California corporation, Walnut Investment Properties, LLC, a California limited liability company, Rollie Gates Investment Properties, LLC, a California limited liability company, JETAGe, LLC, a California limited liability company, or RBRE, LLC, a California limited liability company (individually, the "**Assignee**");

11.1.2. Landlord has received thirty (30) days' prior written notice of such assignment specifying the name of the Assignee to which such assignment is being made;

11.1.3. the Assignee's main business operation on the Premises is manufacturing precision medical devices of reasonably similar quality to that produced by Specialty Silicone Fabricators, Inc.; and

11.1.4. Tenant has not assigned or subleased this Lease more than once during the previous calendar year.

Tenant's failure to comply with any of the foregoing requirements shall render any such assignment void, and Tenant shall remain liable under 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. Landlord's consent shall not be unreasonably withheld. Notwithstanding the foregoing, Landlord's consent to a sublease shall be deemed given if all of the following are satisfied:

11.2.1. such sublease is to ISSAC Medical, Inc., a California corporation, Specialty Silicone Fabricators, Inc., a California corporation, Innovative Surgical Products, Inc., a California corporation, Medical Silicone, Inc., a California corporation, Walnut Investment Properties, LLC, a California limited liability company, Rollie Gates Investment Properties, LLC, a California limited liability company, JETAGe, LLC, a California limited liability company, or RBRE, LLC, a California limited liability company (individually, the "**Subtenant**");

11.2.2. Tenant has received Landlord's prior written approval of a form sublease;

11.2.3. Landlord has received thirty (30) days' prior written notice of such sublease specifying the name of the Subtenant to which such sublease is being made;

11.2.4. the Subtenant's main business operation on the Premises is manufacturing precision medical devices of reasonably similar quality to that produced by Specialty Silicone Fabricators, Inc.; and

11.2.5. Tenant has not assigned or subleased this Lease more than once during the previous calendar year.

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; (E) that the subtenant shall not be permitted to further assign or sublet the Leased Premises to any person or entity, including the affiliated entities stated above, and (F) 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. Tenant's failure to comply with any of the foregoing requirements shall render any such sublease void.

11.3. 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. Except as provided in Section 11.1 and 11.2, 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 Section.

12.1. Date of Taking. The date of taking, as used in this Section, 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 belong to Tenant. 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, to any improvements constructed by Tenant, and to good will.

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

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 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

15.1. Landlord's Right to Sell. Landlord shall have the right to sell all of its interest in the Leased Premises and any lease with respect thereto. If Landlord chooses to exercise such right to sell, and whether such sale is to a public entity or non-public entity, Landlord shall conduct the sale in accordance with the legal requirements imposed upon a municipality by law.

15.2. Landlord's Sale to Non-Public Entity; Right of First Refusal. Subject to Section 15.1 above, if Landlord chooses to exercise such right to sell, and if such sale is proposed to any non-public entity, then Landlord agrees to offer Tenant, in writing, the right of first refusal (the "**Right of First Refusal**") to such sale. The Right of First Refusal shall include without limitation, the date of the offer (the "**Offer Date**") to Tenant and the purchase price (the "**Purchase Price**") for which Landlord has decided to sell the Leased Premises to such non-public entity. The Right of First Refusal must be accepted in writing by Tenant at the Purchase Price no later than ten (10) days after the Offer Date. Tenant's failure to comply with the foregoing acceptance requirements shall be deemed Tenant's rejection of the Right of First

Refusal, thereby releasing Landlord of any obligation to sell its interest in the Leased Premises to Tenant.

15.3. Landlord's Release from Liability Upon Sale. 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 pertaining to the real property shall become the property of Landlord.

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, but in no event shall such extension exceed an additional twelve (12) 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, sub-lessees 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 therefore 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.

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 double the amount of Rent; 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 hereinabove provided, and all fixtures appurtenant to the real estate 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 upon five (5) days prior written notification 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 venturer 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.

1000 Spring Street
Paso Robles, CA 93446

To Tenant: Propeller Investment Properties, LLC.
2761 Walnut Avenue
Tustin, California 92780

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.

[Signatures appear on following page]

This Ground Lease has been executed on the date first set forth, to become effective as of the Commencement Date.

LANDLORD:

TENANT:

CITY OF EL PASO DE ROBLES

**PROPELLER INVESTMENT
PROPERTIES, LLC**, a California limited
liability company

By: _____
James L. App, City Manager

By: _____
William E. Reising, Jr., Manager

APPROVED AS TO FORM:

Iris Yang, City Attorney

ATTEST:

Cathy David, Deputy City Clerk

EXHIBIT "A"

Legal Description of Leased Premises

A leasehold estate described as follows:

Parcels 3, 4 and 5 of Parcel Map No. PRAL 88-207 in the City of El Paso De Robles, County of San Luis Obispo, State of California, according to map recorded June 4, 1991 in Book 48, Page 23 of Parcel Maps, in the office of the County Recorder of said County.

APN: 025-453-003, 025-453-004, 025-453-005

Parcels 4, 5 and 6 of Parcel Map No. PRAL 96-025 in the City of El Paso De Robles, County of San Luis Obispo, State of California, according to map recorded June 4, 1991 in Book 48, Page 23 of Parcel Maps, in the office of the County Recorder of said County.

APN: 025-454-004, 025-454-005, 025-454-006

EXHIBIT B

HAZARDOUS MATERIALS LIST SSF/ ISSAC Medical

Chemical, Substance, or Material, as listed on MSDS	<u>Type of HAZARD</u>	<u>Location / Use</u>
Acetic Acid (RTV Silicones)	Eye Irritant	Bldg. 2 Finishing, Molding
Acetone (solvent)	Flammable	Bldg.3 Fab Shop – cleaning agent.
Acetylene (Welding Gas) cylinders)	Flammable	Bldg.3 Tool Room, Fab Shop (in
Benzene (in Natural Gas) heating @ roof)	Carcinogen, Flammable	Bldg.2 & 3 Facilities (space
Benzene (in Propane)	Carcinogen, Flammable	Fork Lift fuel, (unburned)
Cadmium (metal) equipment @ All	Carcinogen	Plated fasteners, hardware, on areas
Carbon Black (pigment)	Carcinogen	Bldg.1 Extrusion, Milling
Carbon Black	Carcinogen	Forklift exhaust gas component
Carbon Dioxide (Liq. & gas) in one type of fire	Thermal, Asphyxiate	Extrusion Post-Cure, Reeling, and extinguisher
Chromium (metal)	Carcinogen	Plated hardware, machine parts
Dynasolve 218 tooling	Acutely Caustic	Bldg.3 R&D Lab for cleaning
Liquid solvent w/acid	Skin, eye, inhalation haz.	(dissolves silicone)
Formaldehyde*(Silicones) decomposition	Carcinogen	*Product of thermal
Formaldehyde** (Propane) gases	Carcinogen	**Component of Forklift exhaust
Halon (gas) extinguisher	Thermal, Toxic, Asphyxiate, Environmental Hazard	Found in one type of fire

Hydraulic Oils/ Petroleum Distillates	Carcinogen	Bldg.3 Fab Shop, Tool Room, Bldg.2 Molding, Milling, Bldg.1 Extrusion
Isopropyl Alcohol (solvent) Rm , Fab shop	Flammable; inhalation Skin, eye hazard	All Production areas, R&D, Tool
Kleensall some production areas (cleaner concentrate)	Slightly caustic & corrosive Skin, eye hazard	Used on one type tacky mat in
Lead, Lead Compounds Solder, batteries, (metal)	Carcinogen, Birth Defects	Bldg.3 Tool Room, Fab Shop; water faucets
Lacquer Thinner (solvent)	Flammable	Fab Shop
Mercury (metal) thermostats, switches,	Carcinogen, other health hazards	All facilities; in relays, fluorescent.lights
Natural Gas	Flammable; Health and inhalation hazard	Bldg. 2 & 3 facilities, (in piping)
Nickel Compounds, (metal) metals, plated parts	Carcinogen	Bldg. 3 Fab Shop; in welding
Nitrogen (liquid) Cryogenic material	Thermal, Asphyxiate	Bldg.2 Cryogenic Deflashing; Room, (in Tanks, in system)
Methyl Chloroform (solvent), Trichloroethane	Carcinogen, Flammable, other Health Hazards	Bldg.2 Knifecoater Room Calender Room
MEK/Methyl Ethyl Ketone (solvent)	Carcinogen, Flammable, Other Health Hazards	Bldg.2 Reel Assembly, Bldg.3 R&D, Fab Shop
MIBK/Methyl Isobutyl Ketone (solvent, primer)	Flammable, Health Hazards	Bldg.2 Molding Dept.
Naphtha (solvent in primer)	Flammable, Health hazards	Bldg.2 Sheeting Dept.
Organic Peroxide catalyts (Cadox, Perkadox, etc.)	Oxidizer/Fire hazard, health hazards	All facilities, Milling areas
Radon (in Natural Gas)	Radioactive, Carcinogen	Space heating @ roof,

		Bldg.s 2 & 3 facilities
Sodium Hypochlorite (0.5% solution in Bleach)	Acutely caustic Skin and eye hazard	Antiseptic solution, used in all facilities, all areas
Sodium Lauryl Sulfate (Supralate WAQ, etc.)	Skin and eye irritant	Used as a release agent Bldg. 2 Molding, Sheeting
Styrene Monomer (CryoshotPlus PSS, etc.)	Eye and health hazards, Slip hazard, combustible, Potential carcinogen	Blast media for Cryogenic Deflashing machine, Bldg.2
Toluene (in Natural Gas)	Birth Defects, Flammable	Space heating @ roof, Bldg.2 & 3 facilities
Toluene (in Ink Extender)	Birth Defects, Flammable	Bldg.1 Printing Equipment
Xylene (solvent) and Primer component	Flammable, Health Hazard	Bldg.2 Molding, Sheeting; Bldg.1 Finishing