

TO: James L. App, City Manager

FROM: Meg Williamson, Assistant City Manager

SUBJECT: Airport Fixed Based Operator (FBO) Lease
Aviation Consultants, Inc.

DATE: June 7, 2011

Needs: For the City Council to authorize entering into a lease for airport Fixed Base Operator (FBO) services with Aviation Consultants, Inc. (ACI).

Facts:

1. In June 2010, the City released a Request for Proposals (RFP) for qualified parties to submit proposals for the Fixed Base Operator (FBO) and fueling services at the Municipal Airport.
2. The City Council assigned an FBO Selection Committee that consisted of two City Council members (Ed Steinbeck and John Hamon) and the Chairman of the Citizen's Airport Advisory Committee (Wayne Caruthers).
3. The Selection Committee oversaw the preparation of the RFP, the screening of FBO candidates, and the oral panel interview process. At the conclusion of the panel interviews, the Selection Committee's ranking of the candidates was unanimous.
4. At the regular meeting of December 7, 2010 the City Council approved the FBO selection of ACI and directed staff to begin negotiation of a lease.
5. Lease deal points were then pursued in accordance with City Council direction from closed session discussion on November 16, 2010.
6. The City and ACI each obtained a Broker's Opinion of Value to confirm market rates, and have met multiple times to discuss lease terms.
7. Before the Council lease committee could be briefed on the status of lease discussions, the potential for a conflict of interest with a potential subtenant of ACI arose for one of the Council lease committee members. As a result, Councilman Hamon chose to step down from further discussions. No compromise of lease negotiations resulted.
8. The City Attorney prepared the draft lease and minor changes have been incorporated through the negotiation dialogue. The final draft lease is consistent with the lease parameters identified by Council and summarized in attachment two (2).

9. The proposed lease is “market based” and is designed to generate a return on investment after three (3) years once the City has made necessary expenditures for deferred maintenance on the FBO facility.
10. Deferred maintenance investment by the City will include repairs to existing FBO building (siding, balcony/railing, exterior paint, parking resealed/striped/landscaped & a new trash enclosure installed). In addition, the City would make repairs to its self-service fuel island.
11. The tenant, ACI, would make tenant improvements to the interior of the FBO building (new carpet, paint, window treatments, technical audio/visual installations and furnishings) and taking on the full rental liability of the facility.
12. During the estimated construction period for the City’s deferred maintenance (estimated at 6 months) the tenant is proposed to be allowed access to the FBO building to begin their tenant improvements at a “construction period base rent” calculation of half the standard monthly rate. Full monthly rate will begin at time of completion of the City’s deferred maintenance, or 6 months, which ever comes first.
13. The tenant, ACI, will make lease payment to the City based on the full square footage of the FBO facility (18,000 s.f.) and a portion of the public terminal (546 s.f.). It will be the tenant’s responsibility to market and secure appropriate subtenants for their lease space.
14. The Fuel Flowage fees are proposed to be modified from 5 cents per gallon for Jet Fuel to 8 cents per gallon to aid in building the Airport’s capital reserves. No change in AvGas fuel flowage is proposed.

Analysis &

Conclusion: The selection of a quality Fixed Base Operator and successful negotiation of a mutually beneficial lease is a key business goal for the City’s Airport enterprise. The City chose ACI as the FBO after an exhaustive open and competitive selection process.

The business framework, confirmed by the City Council, placed high value on a candidate’s ability to:

- Maximize a guaranteed monthly/annual income to the airport enterprise
- Develop/pursue marketing efforts to enhance aviation & visitor services
- Assume the task/risk of lease management for the primary FBO building

Aviation Consultants Inc. (ACI) have been operating as the City’s temporary Fuel Service provider since April 2010 and have demonstrated through their

business activities/performance, their business proposal and the open selection process that they meet the above business goals for the Paso Robles airport.

The lease proposed for City Council's authorization is market based (non-incentivized) and is based on a foundation of sound business principles. The City is able to work with a strong business partner to build and promote aviation services at the airport consistent with the City's long term economic goals.

Policy

Reference: Council 2008-2011 Goals (Goal - C3) to develop the Airport and improve/expand general aviation, commercial and visitor service.

Fiscal

Impact: The market rate lease income is \$8,500 monthly (\$102,000 annually). The lease provides for "re-openers" at the respective 3 and 4 year renewal terms to reevaluate the market rate and determine what rent adjustments may be appropriate.

- Options:
- A. Adopt the attached Resolution 11-XXX authorizing the City Manager to enter in to a Lease and Concession Agreement with Aviation Consultants, Inc. (ACI) for the Fixed Based Operation (FBO) services needs at the Paso Robles Airport; or
 - B. Amend, modify, or reject the above option.

Attachments:

1. Resolution 11-XXX authorizing entering into a lease for FBO services with ACI
2. Summary of lease parameters

RESOLUTION NO. 11- XXX

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
APPROVING AND AUTHORIZING THE EXECUTION OF A LEASE AND
CONCESSION AGREEMENT WITH AVIATION CONSULTANTS INC. (ACI) AS
THE FBO AT THE MUNICIPAL AIRPORT

WHEREAS, the selection of a high-quality Fixed Base Operator and successful negotiation of a mutually beneficial lease is a key business goal for the City's Airport enterprise; and

WHEREAS, in June of 2010, the City circulated a Request for Proposals (RFP) for qualified parties to submit proposals to be a designated Fixed Base Operator (FBO) to provide fueling and other services at the Municipal Airport; and

WHEREAS, the City Council appointed an FBO Selection Committee that consists of two City Council members (Ed Steinbeck and John Hamon) and the Chairman of the Citizen's Airport Advisory Committee (Wayne Caruthers); and

WHEREAS, the Selection Committee oversaw the preparation of the RFP, the screening of FBO candidates, and the oral panel interview process; and

WHEREAS, all reasonable efforts were made to ensure that the selection process was open and competitive; and

WHEREAS, on October 29, 2010 the Selection Committee conducted oral interviews and explored the relative strengths of each candidate team based on the criteria listed in the RFP; and

WHEREAS, at the conclusion of the panel interviews, the Selection Committee unanimously agreed that the proposal from Aviation Consultants Inc. (ACI) was the most responsive to the RFP, and would provide the greatest business benefit to the Airport enterprise; and

WHEREAS, on November 16, 2010 the City Council conducted a closed session meeting to discuss the business framework and lease terms/parameters for future negotiation of an FBO lease; and

WHEREAS, at a regular meeting on December 7, 2010 the City Council approved the selection of ACI as the FBO and directed staff to begin negotiation of a lease; and

WHEREAS, the proposed lease terms are based on current market standards and will serve the best interests of the Airport, which is an important community resource;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The City Council hereby approves the Fixed Base Operator Lease and Concession Agreement (the "Lease"), in substantially the form attached hereto as Attachment A and

incorporated herein by reference, and authorizes the City Manager to execute the Lease, subject to any minor technical, clarifying or non-substantive changes approved by the City Attorney.

PASSED AND ADOPTED this 7th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

Duane Picanco, Mayor

Caryn Jackson, Deputy City Clerk

Attachment A

FIXED BASE OPERATOR LEASE AND CONCESSION AGREEMENT

THIS FIXED BASE OPERATOR LEASE AND CONCESSION AGREEMENT ("Lease") is made as of this ____ day of ____, 2011, by and between the CITY OF PASO ROBLES, a municipal corporation ("Landlord") and AVIATION CONSULTANTS, INC. a California corporation ("Tenant").

1. CONCESSION

1.1 Grant of Concession

In consideration of the terms and conditions hereinafter set forth to be performed by Tenant, City hereby grants to Tenant for the terms set forth hereinafter the non-exclusive right to conduct an on-airport "Fixed Base Operation" at the Paso Robles Airport ("FBO Concession"), upon the terms and subject to the conditions set forth in this Agreement. As used in this Agreement, the term "Fixed Base Operation" shall have the meaning set forth in Section 5.2.

1.2 Additional Concessions

Tenant acknowledges and understands that the grant to Tenant of the FBO Concession pursuant to this Agreement is non-exclusive and City reserves the right to grant to other persons, partnerships, firms, corporations and other entities, at any time and from time to time, the right to operate fixed base operator businesses at the Airport.

2. PREMISES

2.1 Leased Premises. Landlord leases to Tenant and Tenant leases from Landlord Parcel 20 of Parcel Map PRAL 88-207, shown and described in **Exhibit "A"** (the "Leased Premises" or "Premises"), which Leased Premises are situated within the Paso Robles Municipal Airport ("Airport"), City of Paso Robles, County of San Luis Obispo, State of California. Exhibit A is attached hereto and made a part hereof. The Premises include a building, of approximately 18,000 square feet (the "FBO Building") and associated vehicle parking adjacent thereto. The Leased Premises also includes a portion of the Airport Terminal, consisting of approximately 546 square feet, designated as "Office Area" and also depicted in Exhibit A (the "Terminal Space").

2.2 Airport. The Airport is owned and operated by Landlord. The Leased Premises shall include the nonexclusive right to use of the common areas of the Airport as set forth in Section 2.3 below, particularly for the purposes of providing aircraft services as defined herein. The Lease shall also include the non-exclusive right to use seven (7) aircraft parking spaces located adjacent to the Leased Premises, on the adjacent apron frontage of Parcel 19, and as depicted on Exhibit A, which is part of the common area available for other Airport users. The use of these spaces shall be subject to the requirements and provisions of the adopted (i) Paso Robles Airport Rules and Regulations, and (ii) Airport Minimum Standard Requirements for Airport Aeronautical Services ("Minimum Standards"), as both were adopted by City Council Resolution No. 05-127, and as they may be amended from time to time.

2.3 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.

2.4 Acceptance of the Premises. Tenant hereby accepts the Leased Premises in the condition existing as of the date hereof, provided however, that Landlord shall be required to complete the Landlord

Improvements as described in Section 8.1.1 hereof. Tenant hereby agrees that the Premises are in a good and tenable 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 other than as set forth in Sections 8.1.1 and 8.1.2 of this Lease.

2.5 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 Section 2.5 shall be so exercised as to interfere unreasonably with Tenant's operations hereunder.

2.6 Landlord's Right of Access. Landlord shall have free access to the Leased Premises in all cases of emergency and during all reasonable hours for the purposes of examining the same to ascertain if they are in good repair, inspecting any work in progress within the Leased Premises or elsewhere on the Airport, making repairs which Landlord may be required or permitted to make hereunder, and exhibiting the same to prospective purchases or Operators. Such entry shall be made in a manner that will not unreasonably interfere with Tenant's use of the Leased Premises, except in case of emergency. In the event that Tenant is not personally present to open and permit such entry, City may enter the Leased Premises by means of a master key or may enter forcibly and shall incur no liability to Tenant as a result of such entry, except for any willful misconduct on the part of City or any of its employees, agents, representatives or contractors.

3. TERM

3.1 Term. The initial term (the "Initial Term") of this Lease shall commence at 12:01 a.m. on June 15, 2011 ("Commencement Date"), and shall continue until 11:59 p.m. on June 14, 2014 ("Expiration Date"), unless (i) the term is earlier terminated by Landlord pursuant to Article 15 or otherwise, in which case, the last day of the earlier terminated term shall be the Expiration Date; or (ii) Tenant elects to exercise an option to renew, as set forth in Section 3.2 below, in which case the Expiration Date shall be the date on which the applicable Option Term expires. Upon the Expiration Date, all rights of Tenant under this Agreement, including all of Tenant's rights with respect to the FBO Concession and the Leased Premises, shall terminate, and Landlord shall be under no duty or obligation to enter into a new lease or concession agreement with Tenant or to extend this Agreement with respect to any other premises at the Airport or to grant to Tenant any right to conduct a fixed base operator business at the Airport. In the event Tenant desires to make significant capital improvements to the Leased Premises, Tenant and Landlord shall meet and confer in good faith to determine if the terms of the Lease should be modified.

3.2 Option to Renew. So long as Tenant is not then in default hereunder and subject to an agreement by the parties on the amount of the Adjusted Rent (as defined in Section 4.4 below, Tenant shall have an option to renew this Lease for two (2) additional term(s). The first option ("First Option") extend the term of this Lease for an additional three (3) years (the "First Option Term") and the second option shall extend the term of this Lease, as extended by the First Option, for a period of four (4) years (the "Second Option Term"). Tenant shall deliver written notice to Landlord of its intent to exercise the First Option or the Second Option, as applicable, at least one hundred twenty (120) days and no more than one hundred eighty (180) days prior to the Expiration Date of the Initial Term or the First Option Term, as the case may be..

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

4. PAYMENTS BY TENANT

4.1 Construction Period Base Rent. Landlord has agreed to make certain improvements (the "Landlord's Improvements") as described in Section 8.1.1, below) on the Premises. Beginning with the Commencement Date and continuing through the period of construction (the "Construction Period"), Tenant shall pay monthly base rent ("Construction Period Base Rent") for the Premises of FOUR THOUSAND TWO HUNDRED FIFTY DOLLARS (\$4,250) until the earlier of (i) completion by Landlord of Landlord's Improvements (as described in Section 8.1.1, below) ; or (ii) January 1, 2012; provided, however, if Landlord has not commenced the Landlord Improvements by January 1, 2012, the period of time for which Construction Period Base Rent shall be extended until such time as the Landlord Improvements have been completed. For the period from June 15 through June 30, the pro-rated rent shall be TWO THOUSAND ONE HUNDRED TWENTY-FIVE DOLLARS (\$2,125), which shall be paid by Tenant upon execution of this Lease by Landlord.

In addition, Tenant agrees that if it has subleased any portion of the Premises during the Construction Period, and the total aggregate monthly amount of rents owed by such subtenants exceeds FOUR THOUSAND TWO HUNDRED FIFTY DOLLARS (\$4,250), Tenant agrees to pay any such excess amounts of subtenant rent (the "Excess Rent Proceeds") to Landlord as additional rent.

4.2 Monthly Base Rent. Upon the termination of the Construction Period, and thereafter for the remainder of the Initial Term, Tenant shall pay Landlord monthly base rent (the "Base Rent") in the amount of EIGHT THOUSAND FIVE HUNDRED DOLLARS (\$8,500). Payments of Construction Period Base Rent and Base Rent shall be made on or before the first day of each calendar month during the Initial Term of this Lease, in advance.

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

4.4 Rent Adjustments for Option Terms. Within ten (10) days of Landlord's receipt from Tenant of the notice indicating Tenant's intent to exercise either the First Option or Second Option, as applicable, the parties shall meet and confer on the Adjusted Base Rent to be paid during the applicable First Option Term or Second Option Term, whichever is applicable. The parties intend that the Adjusted Base Rent shall be an amount equal to fair market rent for comparable airports in California provided, however, that in no event shall the Adjusted Base Rent be less than Base Rent (or the Adjusted Base Rent for the First Option Term, as applicable), adjusted annually by the Consumer Price Index ("CPI") during the Initial Term or First Option Term, as applicable. As used herein, CPI shall mean the Consumer Price Index for all Urban Consumers for the San Francisco-Oakland-San Jose (CPI-U) (1982-84 = 100) published by the United States Department of Labor, Bureau of Labor Statistics. In the event the Consumer Price Index is discontinued or revised during the term of this Lease, such other governmental index or computation with which it is replaced shall be used.

4.5 Fuel Flowage Fees. In addition to the Rents set forth in Sections 4.1, 4.2 and 4.4, Tenant shall pay to City the Fuel Flowage Fees and all other amounts payable under Section 5.3 hereof.

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

4.7 Interest on Past Due Payments. Any amount due from Tenant pursuant to this Article 4 or any other provision of this Lease that is not paid when due shall bear interest from the due date until paid at a rate equal to five percent (5%) in excess of the prevailing rate established by the Federal Reserve Bank at San Francisco on advances to member banks on the twenty-fifth (25th) days of the month preceding the Commencement Date (but not more than the maximum rate permissible by law); provided, however, that the payment of any interest pursuant to this Section shall not excuse or cure any default by Tenant with respect

to its obligations to pay any amount due from Tenant pursuant to this Article 4 or any other provision of this Lease.

4.8 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 Article 4 free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the lease and operation of the Premises. In addition to the rent required by this Section 4, 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.

5. USE OF LEASED PREMISES AND CONDUCT OF BUSINESS BY TENANT

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

5.2 Use of Leased Premises

5.2.1 Operation of FBO Concession. Tenant shall use the Leased Premises primarily for the operation of a "Fixed Base Operation." As used in this Agreement, the term "Fixed Base Operation" is defined as the permissible general aviation activities and services set forth in Section 5.3. Tenant acknowledges and understands that the use of the Leased Premises as a Fixed Base Operation pursuant to this Lease is non-exclusive and Landlord reserves the right to lease to other persons, partnerships, firms, corporations and other entities, at any time and from time to time, other land for use as a Fixed Base Operation. Tenant shall not use nor authorize the use of the Leased Premises, or any portion thereof, for any other purpose whatsoever without Landlord's prior written consent, which consent Landlord may withhold or condition in Landlord's sole and absolute discretion without regard to any standard or reasonableness.

5.2.2 Continuous Operation. Tenant shall, continuously and uninterruptedly during the term of this Lease, operate the FBO Concession upon the Leased Premises, as permitted herein, consistent with the convenience and needs of the general aviation market, unless prevented from so doing by strikes, fire, casualty or other causes beyond Tenant's control. Any cessation or interruption of Tenant's operation of the FBO Concession upon the Leased Premises for a continuous period in excess of ten (10) calendar days, unless caused by circumstances outside of the control of Tenant, shall constitute an event of default under Section 14.1 of this Lease, provided, however, that notwithstanding the foregoing, any interruption in fuel service for a continuous period of two (2) days or more, unless caused by circumstances outside of the control of Tenant, shall be deemed a default under Section 14.1 of this Lease. Any cessation of fuel service for two (2) days or more for whatever reason shall be deemed an emergency and Landlord shall be authorized to take any steps it deems necessary to reinstate such fuel service.

5.2.3 Permitted Activities and Services. During the term of this Lease, Tenant shall qualify as a Full Service FBO, as defined by the Airport Minimum Standards and may engage in the following general aviation activities and may provide the following services to users of the Airport in a manner consistent with

the high quality of facilities and services provided in the aviation industry and in compliance with applicable federal, state and local laws, rules and regulations:

5.2.3.1 Ground Support Services The City recognizes the need for professional ground support and handling of larger aircraft and meeting the requirements for the more technical service than typically is encountered with smaller aircraft. Accordingly, these specific services are found to be a qualifying aviation activity for this FBO. Tenant shall provide the following ground support and handling equipment necessary to accommodate the sizes and types of aircraft typically requiring such service at the airport. Specifically, Tenant shall

(i) Perform or arrange for minor maintenance services, such as lights, tires, parts replacement, as may be reasonably possible;

(ii) Provide qualified line personnel who are on site during commercially reasonable hours consistent with the Airport's utilization and that are also available twenty-four (24) hours per day, seven (7) days a week on an on-call basis;

(iii) Provide line services, including marshaling aircraft, ramp service for parking and towing of aircraft, luggage loading, and arranging for aircraft cleaning;

(iv) Provide adequate ground support equipment, i.e, fueling trucks, ground power units, stairs, aircraft tugs or tow tractors, tow bars for variety of aircraft, lavatory service carts, portable compressed air, utility cart for personnel and baggage transport, to service transient aircraft;

(v) Provide an adequate waiting lounge, a quiet area where pilots may rest or sleep, restrooms, telephone facilities and related facilities consistent with other Fixed Base Operations in Central California servicing the general aviation market;

(vi) Provide flight planning facilities and supplies, including computerized weather information, appropriate aeronautical charts and access to telephones for filing flight plans; and

(vii) Provide lobby hospitality, snacks and coffee, guest book, information display with brochures on Central California attractions, concierge services to arrange for lodging, transportation, recreational activities, etc.

5.2.3.2 Aircraft and Oil Service

(i) Maintain an adequate inventory of Jet-A Fuel and AvGas for normally anticipated customer demands and in accordance with the requirements of Section 5.3.1, below.

(ii) Maintain an inventory of generally accepted engine oils and lubricants, sufficient to meet customer demands.

(iii) Provide for and maintain the safe storage, handling and dispensing of fuel in accordance with all federal, state and local requirements and fire codes.

(iv) Operate, maintain and repair the City-owned fuel storage tanks and associated pumping and dispensing systems, and assume all cost and liability for such, unless specifically excluded elsewhere in this agreement.

(v) Maintain an adequate number of fire extinguishers and provide employee training in fire suppression and safety, in accordance with applicable fire and fuel handling codes.

(vi) Provide for the timely handling and cleanup of any spills or contamination that may occur, including the prompt reporting and accounting for any incident in accordance with established regulations and procedures for such notifications, or as established elsewhere in this Lease.

5.2.3.3 Aircraft Maintenance and Repair As specified in Section 4.1 (A.) of the Minimum Standards, Aircraft Maintenance and Repair shall be conducted in conjunction with the operation of a Full-Service FBO. Tenant shall provide, either directly, or by agreement with others, the following:

(i) Adequate equipment, supplies and manuals as required by FAA in order to accomplish the prescribed service work.

(ii) FAA-certified mechanics and inspectors to provide the typical 100-hour and annual inspection work required on general aviation aircraft.

(iii) Adequate hangar space (within the Leased Premises) to accomplish the prescribed service required.

(iv) Assurance that service is available during routine business hours on weekdays.

5.2.3.4 Aircraft Charter and Air Taxi In consideration of Tenant's current Air Taxi operation and its close proximity to Paso Robles, the City finds that said service meets or exceeds the intent of the Airport Minimum Standards requirements and therefore provides an acceptable level of available service in compliance with the FBO operating requirements referred to herein. Throughout the Term of this Lease, Tenant shall:

(i) Actively promote and advertise the availability of said service to make local Airport users and the interested public aware of its existence.

(ii) Maintain its current Air Carrier Operating Certificate, as issued by the FAA, together with its inherent requirements and provisions, in full force and effect during the Term of this Lease.

(iii) Make the Air Taxi service available to local customers upon reasonable request and provide said service on a fair and equitable basis in accordance with accepted practices in the aviation industry.

(iv) At all times during the Term of this Lease maintain no less than the minimum number and type of available aircraft and/or associated staffing listed on Tenant's Air Carrier Operating Certificate and as prescribed in the Airport Minimum Standards.

5.2.3.5 Aircraft Sales and Brokerage Tenant shall provide the venue and sales information necessary for the advertising, promotion and display of aircraft being offered for sale, or for management and operation of customer aircraft, in accordance with the following:

(i) Tenant shall provide any and all required permits licenses and operating certificates required for the specified service offered.

(ii) Tenant shall maintain adequate and qualified personnel, either on staff or on a contract basis, to provide for the required services being offered.

(iii) Tenant shall provide for appropriate repair and servicing of aircraft, either within the current FBO operation, or by others, as necessary.

(iv) Tenant shall be open to provide said services 8 hours per day, 5 days per week.

5.2.3.6 Office Space Subleases Subject to the provisions of Article 12, Tenant may sublease space for office use provided that such use conforms to applicable land use and zoning requirements.

5.3 Fuel Service and Flowage Fees

5.3.1 Fuel Service. Fuel service shall be available twenty-four (24) hours per day, seven (7) days per week, as provided by the self-serve fuel island or on-site personnel during commercially reasonable hours, consistent with the airport's utilization. Personnel shall also be available on an on-call basis at all other hours of the day.

Tenant agrees that it shall maintain on the Leased Premises a minimum of two (2) Jet-A refueler vehicles and one (1) AvGas refueler vehicle, except that from April 1 through September 30 of each year ("Fire Season"), Tenant also shall maintain a second AvGas refueler vehicle available for service. At such time as the California Department of Forestry ("CDF") no longer utilizes piston-engine-driven aircraft, this requirement for a second AvGas refueler vehicle shall be waived. City shall notify Tenant if the designated dates of the Fire Season differ from those specified above.

Tenant also agrees to maintain a quantity of both AvGas and Jet-A Fuel sufficient to meet the needs of customer aircraft at the airport. Except as the result of an event of Force Majeure as described in Section 21.15, the quantity of fuel shall be deemed sufficient if all requests for fuel are filled in a timely manner and not delayed or refused as a result of limited inventories.

5.3.2 Fuel Flowage Fees. Tenant shall pay, or cause its fuel supplier(s) to pay, to Landlord, a flowage fee for all fuel sold or dispensed on the airport as Fuel Flowage Fees (the "Fuel Flowage Fees") in the following amounts: (i) Five Cents (\$.05) per gallon of AvGas; and (ii) Eight Cents (\$.08) per gallon of Jet-A Fuel.

Tenant shall request its fuel supplier(s) to provide monthly reports and the required Fuel Flowage Fees payment, (and charged back to Tenant) to Landlord for all quantities delivered and Fuel Flowage Fees due. The Fuel Flowage Fees shall be deemed to be additional rent due under this Lease. In the event that Tenant's fuel supplier(s) do not provide such reports and required Fuel Flowage Fees, Tenant shall be responsible for timely providing Landlord with same.

Tenant shall be responsible for maintaining, for a period of not less than three (3) years following the end of each anniversary date of the Commencement Date, accurate and complete books and records of all fuel flowage and sales activities at the Airport conducted throughout the Term of this Lease. The records shall include, at a minimum, (i) the amount of bulk fuel (both AvGas and Jet-A Fuel) purchased and the dates of such purchases; (ii) the amount of AvGas and Jet-A Fuel sold. These books and records shall be maintained in Paso Robles unless Landlord otherwise consents in writing. Tenant agrees that Landlord shall have the right, through its agents, to inspect such books and records and agrees to make such books and records available for inspection. If for any reason such books and records are not available, Landlord shall have the right to make reasonable estimates of the amounts due based on amounts previously reported and charge such reasonably estimated amount as additional rent. Tenant agrees to provide Landlord with reports customarily submitted to Federal and State agencies reporting total fuel sales by Tenant at the Airport.

At any time within three (3) years following receipt of any written statement of fuel purchases, Fuel Flowage Fees and fuel sales, Landlord shall have the right, but not the obligation, to cause an audit to be conducted by an auditor selected by Landlord, including any employee or contractor of Landlord, of Tenant's books, records and accounts, relating to the purchase and sale of fuel, and the computation of Fuel Flowage Fees,

for the period covered such written statement, including, without limitation, all federal, state, county or city reports and income or other tax returns, bank statements, sales receipts, general ledgers, invoices, rental orders and check registers. Tenant shall cooperate with and shall provide all information requested by such auditor. Any deficiency disclosed by any such audit shall be paid by Tenant upon demand. The cost of any such audit shall be paid by Landlord,; provided, however, in the event that any such audit shall disclose an understatement in the amount of Fuel Flowage Fees in excess of two percent (2%) of the amount reported by Tenant for any period, Tenant shall pay to Landlord upon demand the cost of such audit.

5.3.3 Fuel Reports. Tenant shall be responsible for preparing and timely filing any and all reports required by any Federal, State or local agencies regarding fuel sales, storage, handling or spillage by Tenant on the Airport, as well as the payment of any fees, fines, charges, taxes, assessments or penalties related thereto.

5.4 Parking Fee Collection. Tenant shall have the right and the obligation to collect daily parking fees from any and all transient aircraft parked on public/common-use apron areas as defined in the Airport Rules and Regulations. Aircraft are considered transient if they are NOT under a monthly parking agreement with the City. Tenant shall retain all proceeds collected. Any fees charged shall be in accordance with City approval and the adopted Airport Users Fee Schedule.

5.5 Licenses and Permits. 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.

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

5.7 Restrictions on Use.

5.7.1 Tenant shall not use or permit the use of the Premises for any purpose other than that set forth in Section 5.1 above, and Tenant shall comply promptly with all applicable laws, rules and regulations regarding the use of the Premises, including, but not limited to, the provisions of Section 26.8, and all rules and regulations promulgated by the FAA.

5.7.2 Tenant shall not use or permit the use of the Premises in any manner that will (i) tend to create or permit any waste or nuisance, (ii) tend to disturb other tenants or users of the Airport, (iii) invalidate or cause cancellation or be in conflict with fire or other hazard insurance policies covering the Airport, or (iv) 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.

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

5.8.1 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.

5.8.2 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.

5.8.3 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.

5.8.4 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.

5.8.5 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).

5.8.6 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.

5.8.7 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.

5.8.8 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.

5.8.9 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.

5.8.11 Tenant shall use reasonable precautions to prevent unauthorized persons from gaining access to restricted flight and aircraft operational areas, including the precautions established pursuant to Section 5.8.

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

5.9 Airport Security.

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

5.9.2 Indemnity. In the event Tenant breaches, violates or fails to comply with any provision of this Section 5.9, its own security program, any applicable laws or regulations, or applicable guidelines, policies or procedures adopted from time to time by the FAA or by Landlord, Tenant shall indemnify and hold harmless Landlord, its City Council officers, employees and agents, from and against any and all liabilities, claims, demands, losses, damages, judgments, awards, fines, penalties, costs and expenses (including attorneys' fees) of whatever kind or nature that any such person may at any time sustain or incur by reason of any such breach, violation or failure. The foregoing indemnity is in addition to all other rights or remedies which Landlord may have, which shall include, but not be limited to, termination of this Lease or other agreement with Landlord. Tenant shall provide to Landlord written confirmation from Tenant's liability insurance carrier that coverage of the foregoing indemnity is provided under the liability insurance policy or policies maintained by Tenant with respect to its operations at the Airport.

5.10 Hazardous Materials.

5.10.1 Restrictions. Tenant shall not cause or permit any hazardous materials or toxic substances other than generally accepted aviation fuels and engine lubricants to be brought upon, kept or used in or about the Premises or the Airport by Tenant, its agents, employees, contractors or invitees, without the prior written consent of Landlord. Landlord shall not unreasonably withhold such consent as long as Tenant demonstrates to Landlord's reasonable satisfaction and covenants to Landlord that such hazardous materials or toxic substances are necessary or useful to Tenant's business and will be used, kept and stored in a manner that complies with all laws relating to any such hazardous materials or toxic substances so brought upon or used or kept in or about the Premises or the Airport. If Tenant breaches the obligations stated in the preceding sentence, or if the presence of hazardous materials or toxic substances on the Premises or the Airport caused or permitted by Tenant (except for fuel leaks that directly and solely result from the Landlord's failure to monitor and repair the City's underground fuel storage tanks) results in contamination of the Premises or the Airport, or if contamination of the Premises or the Airport by hazardous materials or toxic substances otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises or the Airport, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises or the Airport, damages arising from any adverse impact on marketing of space in the Airport, and sums paid in settlement of claims, actual attorneys' fees, consultant fees and expert fees), which arise during or after the term of the Lease as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions, including regular inspections, or any clean-up, remedial, removal or restoration work required or recommended by any federal, state or local governmental agency or political subdivision because of hazardous materials or toxic substances present in the soil or ground water on or under the Premises and/or the Airport. The indemnity, defense and hold harmless obligations of Tenant under this Rider shall survive any termination of this Lease. Without limiting the foregoing, if the presence of any hazardous materials or toxic substances on the Premises or the Airport caused or permitted by Tenant results in any contamination of the Premises or the Airport, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises and the Airport to the condition existing prior to the introduction of any such hazardous materials or toxic substances; provided that, Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions, in Landlord's sole and absolute discretion, would not potentially have any material adverse long-term or short-term effect on the Premises or the Airport.

5.10.2 Tenant shall perform or shall cause each of its permitted sublessees to perform the obligations, duties and covenants set forth in this Section 5.10. Performance by a sublessee shall be accepted by Landlord as performance by Tenant; provided however that Tenant, at all times, shall be fully obligated and liable to Landlord for the complete and timely performance of the obligations, duties and covenants set forth in this Section 5.10 and Landlord shall not be required to look to any sublessee for any such performance or to enforce any remedy hereunder.

5.10.3 Tenant shall take any and all action which any federal, state, regional, municipal or local governmental agency ("Agency") lawfully requires to be taken to investigate, clean-up, remediate or remove Tenant's contamination (the "Necessary Action"). In addition to any notification required by Section 5.10.4, Tenant shall promptly furnish Landlord with a copy of all correspondence between Tenant or its environmental consultants and each involved Agency concerning the Necessary Action. On or before ten (10) business days prior to any Tenant's submittal of any work plans or descriptions of the Necessary Action to each involved Agency, Tenant shall furnish Landlord with a draft copy of said document for Landlord's review and comment. Landlord shall have the right to submit written comments on all aspects of the work plan to Tenant and to each involved Agency, including without limitation, comments on the remediation, methodology and appropriateness of clean-up levels. Tenant shall provide Landlord with written notice of all meetings with Agencies concerning the Necessary Action, which notices shall be provided where possible ten (10) business days in advance of the meeting. Landlord and its consultants shall have the right to attend and participate actively in all meetings with Agencies concerning the Necessary Action. Except in the case of an emergency, no Necessary Action shall be commenced without (i) written approval by the lead Agency, if one exists, or by all Agencies having and asserting jurisdiction over the Necessary Action and (ii) where practical, ten (10) business days written notice to Landlord. Landlord shall have the right to have a representative present on the Leased Premises at all times during the implementation of the Necessary Action by the Tenant. Tenant agrees that the Necessary Action will be supervised by and certified by a registered professional engineer. Tenant hereby releases Landlord from responsibility for, and indemnifies the Landlord, its officers, employees and agents (with counsel approved by Landlord) against any liability in connection with the Necessary Action. If Tenant fails to take the Necessary Action on a timely basis, Landlord may, but shall not be obligated to, take the Necessary Action and in such event, all costs incurred by Landlord with respect thereto shall be for the account of Tenant and recoverable as additional rent hereunder.

5.10.4 If Tenant is required by statute or regulation to give notice to any Agency about any contamination, Tenant shall immediately give Landlord Public Works Director the same notice by telephone at (805) 237-3860, which shall be confirmed by written notice not later than the same business day. This obligation to notify Landlord shall also extend to any personal injuries or property damage to third parties resulting directly or indirectly from said contamination. If Tenant becomes aware of the present of or use of any Hazardous Materials not authorized in accordance with the terms of this Lease, or of any contamination not subject to the notification provisions of the first sentence of this Section 5.10.4, Tenant shall immediately give written notice of such condition to Landlord to the extent required by California Health and Safety Code section 25359.7.

5.10.5 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, except for fuel leaks that directly and solely result from the Landlord's failure to monitor and repair the City's underground

fuel storage tanks. 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.

5.10.6 Access. Landlord and Landlord's agents shall have the right to inspect the Premises for the purposes of ascertaining Tenant's compliance with this Section 5.10. The cost of such inspections shall be paid by Landlord. In the event of a spill or mishandling of hazardous materials or toxic substances (except for an aviation fuel or engine lubricant spill of less than five (5) gallons that is promptly cleaned up by Tenant), 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.

5.10.7 Assignment and Subletting. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or sublease if: (i) 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; (ii) 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 (iii) 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.

5.10.8 Definitions. As used herein, the terms "hazardous materials and/or toxic substances" mean any hazardous or toxic substance, material or waste which is or becomes regulated by any local, state or federal government or special district, or even if not so regulated, is or becomes known to pose a hazard or potential threat to the health and safety of any person or to the environment. The term hazardous materials and/or toxic substances shall include, without limitation, (i) asbestos; (ii) petroleum, petroleum by-products, and petroleum degradation products; (iii) polychlorinated biphenyls; (iv) all substances now or hereafter 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), (v) designated as a "hazardous substance" pursuant to Section 1311 of the Federal Water Pollution Control Act (33 USC Section 1317); (vi) 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); (vii) defined as a "hazardous waste" or as a "hazardous substance" pursuant to Section 25117, 25316 or 25821(d) of the California Health and Safety Code (viii) all substances now or hereafter designated by the Governor of the State of California as substances known to cause cancer or reproductive toxicity pursuant to California Health and Safety Code section 25249.8; (ix) all substances now or hereafter defined as an "economic poison" pursuant to California Health and Safety Code section 12753; and (x) all substances now or hereafter defined as "extremely hazardous waste" pursuant to California Health and Safety Code section 25115. References herein to specific statutes or laws shall also be references to any amendments of or applicable successor statutes or laws.

5.10.9 Delivery of Inventory and Plans. If Tenant presently uses in its business any materials other than generally accepted aviation fuels and engine lubricants which may be classed as hazardous materials or toxic substances, Tenant shall, prior to execution of the Lease, deliver to Landlord (i) a list of all such hazardous materials and toxic substances, (ii) a plan for use, handling, storage and disposal of hazardous materials and toxic substances, (iii) the name, address, telephone number and qualifications of a licensed company that will handle emergency clean-up for Tenant, and (iv) a written contingency plan for any emergency involving hazardous materials and toxic substances. During the term of the Lease, Tenant shall immediately deliver to Landlord (i) 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 (ii) copies of all reports required by any and all regulatory agencies governing the use, handling, storage and disposal of hazardous materials or toxic substances.

5.10.10 Consent to Use. Landlord agrees that Tenant may use the hazardous materials and toxic substances specifically consented to by Landlord as required by Section 5.10.1 above, subject to the terms of this agreement. Tenant shall immediately notify Landlord in writing of any other materials which may be used by Tenant or stored by Tenant on or about the Premises which may be hazardous or toxic, and shall obtain Landlord's written consent prior to such use or storage.

5.10.11 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.

5.10.12 Storage. It is the intent of the parties hereto that the provisions of this Section 5.10 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.

5.11 Additional Performance Standards. In addition to the above requirements, Tenant agrees to use good faith efforts to do the following during the Term of this Lease: (i) work collaboratively with the City and other Airport stakeholders to build and enhance the reputation of the Airport for reliability and high-quality professional service; (ii) work to build "good will" with Airport stakeholders, staying involved with on-Airport events; and being accessible to Airport patrons and City staff; and (iii) annually promote the Paso Robles Airport with the issuance of a minimum of three (3) sets of marketing materials or releases to appropriate targeted potential Airport users.

6. TAXES AND ASSESSMENTS

6.1 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 improvements made by Tenant on the Leased Premises, personal property located on or in the land or improvements, to the full extent of installments falling due during the term, belonging to or chargeable against Tenant. Tenant shall make all such payments directly to the charging authority at least fifteen (15) days before delinquency and before any fine, interest or penalty shall become due or be imposed by operation of law for nonpayment. If, however, the law permits the payment of any or all of the above items in installments (whether or not interest accrues on the unpaid balance), Tenant may, at Tenant's election, utilize the permitted installment method, but shall pay each installment with any interest before delinquency. Tenant shall pay any charge or levy only upon the rent payable by the Tenant under this Lease to Landlord, and any tax in lieu of property tax, but shall not be required to pay any franchise, state inheritance, succession, capital levy or transfer tax of the Landlord, or any income, excess profits or revenue tax, or any other tax, assessments or charge attributable to Landlord.

If at any time during the term of this Lease a tax or excise is levied on rents, Tenant shall pay the same. In addition, Tenant shall pay any possessory interest tax imposed on Tenant pursuant to 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 Leased Premises may be taxed.

6.2 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.

6.3 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 June 15 and ending June 14.

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

7. UTILITIES AND SERVICES

7.1 Utilities. During the term of this Lease, Tenant agrees to pay as additional rent under this Lease, 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.

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

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.

8. IMPROVEMENTS, REPAIRS AND MAINTENANCE

8.1 Landlord's Obligations.

8.1.1 Landlord Improvements. Landlord shall use its good faith efforts to commence and complete certain work on the exterior of the buildings on the Premises within six (6) months after the Commencement Date. Such improvements (the "Landlord's Improvements") consist of (i) repair of the exterior siding and balcony/railing of the FBO Building; (ii) painting the exterior of the FBO Building and Airport Terminal; (iii) resealing and restriping the parking lot; (iv) installing landscaping; (v) constructing a trash enclosure; and (vi) purchasing and installing a new fuel pump skid as identified in **Exhibit B** for the self-service fuel island.

8.1.2 Landlord Maintenance and Repair. Subject to the provisions of Article 10 hereof and the obligations of Tenant under Section 8.3, during the term of this Lease, Landlord shall keep and maintain in good condition and repair, reasonable wear and tear excepted, according to the standards established by Landlord, as the same may be changed from time to time, the Leased Premises, including all of the following:

(i) structural components of the roofs, ceilings, floors and walls of the Leased Premises; (ii) doors and entrances within the Leased Premises; and (iii) fixtures and sprinkler, plumbing, gas, sewer, drainage, heating, air conditioning and other systems, facilities, equipment and devices located within the boundaries of and serving the Leased Premises, excluding any and all trade fixtures and personal property, interior and exterior surfaces of ceilings, floors and walls and counters. Landlord shall have no obligation to repair any damage to the Leased Premises to the extent caused by the willful or negligent act or omission of Tenant or the officers, employees, agents, representatives, contactors or customers of Tenant, which damage shall be repaired promptly by Tenant, at Tenant's expense. Notwithstanding the foregoing, Landlord shall have no obligation to commence any maintenance or repair required under this Section until thirty (30) days following the receipt by Landlord of written notice of the need for such maintenance or repair. Landlord shall not be liable to Tenant for any injury to or interference with Tenant's business arising out of, resulting from or relating to the performance of any maintenance or the making of any repairs required pursuant to this Section.

Except as provided in this Section 8.1.2, Landlord shall have no obligation to maintain or make any repairs to the Leased Premises. Tenant hereby waives any and all rights provided in Section 1941 through 1942, inclusive, of the Civil Code of California and hereby waives, to the extent permissible, any rights under other statutes or laws now or hereafter in effect which are contrary to the obligations of Landlord under this Section 8.1.2 or which place obligations upon Landlord in addition to those provided in this Section 8.1.2.

8.2 Tenant's Initial Improvement Responsibilities. Within one hundred eighty (180) days after the Commencement Date, Tenant shall, in compliance with all requirements of Article 9 below, commence construction of the following improvements in the FBO Building located at 4990 Wing Way.

- (i) New carpet in the downstairs office areas;
- (ii) New paint on all interior walls, upstairs and downstairs
- (iii) New blinds as appropriate for upstairs windows
- (iv) Complete cleaning, organization and furnishing of the entire FBO Building
- (v) Installation of satellite TV and internet service
- (vi) Installation of pilot supplies sale and display cabinet

8.3 Tenant's Obligations to Maintain and Repair. Except for those obligations of Landlord set forth in Section 8.1.2, above, Tenant shall maintain the Leased Premises and every part thereof in good order, condition and repair, according to standards established by Landlord, and Tenant shall maintain in good order, condition and repair all trade fixtures and other personal property located in or used for the Leased Premises and Tenant's operations on the Leased Premises. Landlord shall not be liable to Tenant by reason of any injury to or interference with Tenant's business arising from or connected with the need for or the making of any repairs, alterations or improvements. All repairs, modifications or improvements to the Premises shall be performed in accordance with the building standards of the City of Paso Robles, and it shall be the responsibility of Tenant to secure appropriate permits from the City of Paso Robles. Tenant shall paint the floors, interior walls and exterior walls and shall wash all windows in the Premises as often as may be required to keep the Premises neat and attractive, and shall keep the Premises at all times in a neat, sanitary condition, free from waste or debris, and maintain any landscaping, consistent with standards established by Landlord. Tenant shall screen and landscape all outside storage areas and service yards of the

Premises with fencing and landscaping approved by Landlord, and shall not allow any temporary structures or facilities on the Premises, without Landlord's approval, which approval is revocable at any time in the sole discretion of Landlord.

8.4 Landlord's Remedies. In the event Tenant fails to perform its obligations under Section 8.2, Landlord may, at its option, after fifteen (15) days' written notice to Tenant, enter upon the Premises and put the same in good order, condition and repair, and the cost thereof shall become due and payable, upon demand, by Tenant to Landlord as additional rent.

8.5 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.

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

8.7 Indemnity. Tenant shall indemnify and save harmless Landlord against all actions, claims and damages by reason of (i) Tenant's failure to perform the terms of this Article 8, or (ii) 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.

9. PLANS AND SPECIFICATIONS; CONSTRUCTION; LIENS AND CLAIMS

Any requirements set forth in paragraphs 9.1 through 9.9 shall be in addition to any applicable requirements contained in Section 21.13 and other Applicable Laws.

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

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

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

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

9.1.4 A complete set of working drawings.

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

9.2 Time for Approval. Tenant shall notify Landlord in writing when completed plans and specifications for improvements to be erected, placed or altered on the Premises have been submitted to Landlord ("Notice"). Landlord shall have thirty (30) days after receipt of the Notice to approve the plans and specifications. Said approval by Landlord shall not be unreasonably withheld. If Landlord does not approve the plans and specifications, it shall notify Tenant within such thirty (30)-day period 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 the Tenant Improvements and Approved Improvements.

9.3 Commencement of Construction. Once Tenant shall have commenced construction, Tenant shall pursue the same with reasonable speed and dispatch in compliance with the approved plans and specifications and using the contractors specified in Section 9.1.5. All construction shall be in accord with all applicable laws, ordinances and regulations. Tenant's construction shall not interfere with Landlord's operation of the Airport, and Tenant shall comply with all directives of Landlord related thereto. If Tenant is prevented from completing improvements on account of strikes, lockouts, failure of contractor or subcontractors, inability to procure material or labor in the free market, governmental restrictions, fire, earthquake, the elements, or other casualty or similar extraordinary conditions beyond Tenant's reasonable control (excluding financial difficulties, economic conditions or inability to obtain governmental approvals), then the Tenant shall thereafter proceed with all reasonable speed and dispatch to complete the improvements.

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

9.5 Approved Buildings and Improvements. All of the improvements shown in the approved plans and specifications constitute the "Approved Improvements." Substantial modifications to Approved Improvements shall be made only with prior written approval of Landlord, except that Landlord's prior written approval shall not be required for changes to the interior of any building which do not substantially diminish the value thereof.

9.6 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.

9.7 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.

9.8 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.

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

10. INSURANCE AND INDEMNITY

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

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

10.3 Liability Insurance. Tenant shall procure and maintain at all times during the term of this Lease, at its sole cost and expense, a policy or policies of comprehensive public liability insurance by the terms of which Landlord and Tenant are named as insured and are indemnified against liability for damage or injury to property or person, including death, of any person entering upon or using the Leased Premises or any improvements thereon or any part thereof, with limits of coverage in an amount of not less than Five Million

Dollars (\$5,000,000.00) combined single limit and annual aggregate coverage applying to injury to or death of any one or more persons arising from the same occurrence and for damage or injury to property. If Landlord's reasonably exercised judgment determines that the liability insurance amounts set forth herein become inadequate, then Landlord may, by written notice, require a reasonable increase in coverage commencing with the next policy anniversary date. Such public liability insurance policy or policies shall be stated to be primary and noncontributing with any insurance which may be carried by Landlord and shall contain a provision (provided such provisions are available without increased premium) that the Landlord, although named as an additional 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:

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

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

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

10.3.4 The Landlord, its officers, agents, employees and volunteers shall be named as additional 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.

10.3.5 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.

10.3.6 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.

10.3.7 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.

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

10.3.9 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.

10.3.10 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.

10.3.11 Additional Requirements - Claims Made Policies.

10.3.11.1 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.

10.3.11.2 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.

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

10.5 Fire Insurance. Landlord 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 hazard insurance insuring against loss or damage to or destruction of the Leased Premises caused by fire, vandalism, malicious mischief and any and all other perils included with the classification of "Standard Fire and Extended Coverage" in an amount equal to not less than the full replacement value thereof. Tenant shall maintain a policy of hazard insurance insuring against loss or damage to or destruction of Tenant's fixtures, personal property and equipment located in, on, or at the Leased Premises in an amount not less than eight percent (80%) of their replacement value, and caused by fire, vandalism, malicious mischief and any and all other perils included within the classification of "Standard Fire and Extended Coverage."

10.6 Workers Compensation Insurance. Tenant shall maintain worker's' compensation insurance covering Tenant's liability for its business and operations as required by the law of the State of California.

10.7 Automobile Liability Insurance. Automobile liability insurance covering all owned, non-owned and hired vehicles written on an occurrence basis insuring against injuries to or deaths of persons and damages to or loss of property arising out of, resulting from or relating to the use by Tenant and its employees, agents, representatives and contractors of automobiles and other motor vehicles at the Airport, in an amount not less than One Million Dollars (\$1,000,000) combined single limit for each occurrence for bodily injury, death and property damage.

10.8 Environmental Insurance. Tenant shall maintain an insurance policy with coverage in an amount not less than One Million Dollars (\$1,000,000.00) related to fuel spills or other environmental events, exclusive of any leaks or spills directly from the underground fuel storage tanks and their existing plumbing or fixtures. Landlord shall be named as an additional insured on such policy.

10.9 Certificates or Policies of Insurance. All policies of insurance procured and maintained by Tenant hereunder shall be issued by companies authorized to do business in California having not less than Best's A: Class X rating and shall be issued in the name of the Landlord and Tenant for the mutual and joint benefit and protection of the parties. Executed copies of all insurance policies or a certificate thereof shall be

delivered to Landlord on the Commencement Date and shall contain a provision that not less than thirty (30) days' written notice shall be given to Landlord prior to the cancellation, reduction of coverage, expiration or any material change in any such policy.

10.10 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 Article 11 below, be expended for the restoration, repair or replacement of said buildings, structures or improvements.

10.11 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.

10.12 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.

11. REPAIR AND RESTORATION

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

12. ASSIGNMENT AND SUBLETTING

12.1 Restriction of Assignment. Tenant shall not encumber, assign or otherwise transfer this Lease, or any right or interest hereunder, or in or to any of the improvements constructed or installed on the Leased Premises, in whole or in part, without the prior written consent of Landlord, which consent will not be

unreasonably withheld. If Tenant is a corporation or a partnership, any change in Tenant which would be a "change in ownership" pursuant to California Revenue and Taxation Code Sections 60 *et seq.* shall be deemed an assignment subject to Landlord's consent. It shall not be unreasonable for Landlord to withhold or condition its consent based on the prospective assignee's financial strength, experience in operating the type of business permitted under Article 2, credit history or any other factor which Landlord reasonably believes germane to a tenant's ability and willingness to perform the obligations of this Lease. No such assignment shall release Tenant of further liability under this Lease. Landlord reserves the right to re-negotiate the rental rate upon any assignment of this Lease.

12.2 Restriction on Subleasing. Tenant may not sublease all or any portion of the Leased Premises or the improvements constructed or installed on the Leased Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Any such sublease shall provide (i) such subleasing shall be subject to the terms of this Lease, (ii) such subleasing shall comply with all applicable statutes and regulations, including, without limitation, the California Subdivision Map Act and the provisions of Article 20 hereof, (iii) all building improvements and alterations constructed on the Leased Premises shall have been approved by Landlord pursuant to Article 9 of this Lease, (iv) Tenant shall remain liable under this Lease; and (v) 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.

If the prior written consent to a sublease has been obtained from Landlord, then Landlord shall, at Tenant's request, execute and deliver to any subtenant a recognition and non-disturbance agreement which shall assure such subtenant, so long as it is not in default under its sublease, the quiet possession of its subleasehold during the term thereof, notwithstanding Tenant's default or any termination of this Lease, provided that: (i) Landlord's written consent has been obtained in accordance with the provisions below; (ii) no sublease shall be for a term which exceeds the term of this Lease; (iii) all rental terms shall be reasonable and at prevailing market rates; and (iv) no greater burdens are placed upon the Landlord in the sublease than are undertaken by the Landlord under this Lease. To obtain the consent required hereunder, and the recognition and non-disturbance agreement, Tenant shall provide Landlord with a fully executed copy of any sublease along with a written request for consent. Landlord shall not unreasonably withhold its consent to a sublease which meets the requirements of this subsection.

12.3 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. 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 Article 12, 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.

13. CONDEMNATION

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

13.1 Date of Taking. The date of taking, as used in this article, is defined as the earliest of the following dates: (i) 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; (ii) 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 (iii) the date physical possession of the property is taken.

13.2 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.

13.3 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.

13.4 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.

13.5 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 Tenant Improvements, and all other improvements constructed by Tenant on the Leased Premises shall be equitably apportioned between Tenant and Landlord if, at the time of the taking, the expected useful life of the Tenant Improvements extends beyond the Expiration Date provided for in Article 3. Otherwise, Tenant shall be entitled to such award. Tenant shall be entitled to any award for damage to Tenant's business or on account of any cost or loss Tenant may sustain in the removal of Tenant's fixtures, equipment and furnishings, or as a result of any alterations, modifications or repairs which may be reasonably required by Tenant in order to place the remaining portion of the Leased Premises not so condemned in a suitable condition for the continuance of Tenant's tenancy. Tenant shall also be entitled to that portion of any award that may be attributable to any severance damages to the remaining leasehold interest and to any improvements constructed by Tenant.

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

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

14. DEFAULT

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

14.1.1 Failure to pay any amount due hereunder when due and payable, when such failure to pay continues for ten (10) days following written notice to Tenant that such amount is past due;

14.1.2. 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;

14.1.3 (i) The appointment of a receiver, trustee or liquidator of all or a substantial portion of Tenant's assets; or (ii) the adjudication of Tenant as a bankrupt or insolvent; or (iii) the filing by Tenant of a voluntary petition in bankruptcy; or (iv) the admittance by Tenant in writing of Tenant's inability to pay its debts as they become due; or (v) the failure by Tenant to pay its debts as they become due; or (vi) the making by Tenant of a general assignment for the benefit of creditors; or (vii) the filing by Tenant of a petition or answer seeking reorganization or arrangement with creditors; or (viii) the taking by Tenant of advantage of any insolvency law; or (ix) the entrance of any order, judgment or decree upon an application of a creditor of Tenant by a court of competent jurisdiction approving a petition seeking appointment of a receiver or trustee of all or a substantial part of Tenant's assets.

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

14.1.5 Any attempted assignment, sublease, transfer, mortgage, grant of security interest, hypothecation or other encumbrance of Tenant's interest in this Lease or in the Leased Premises in violation of Article 12.

14.1.6 Vacation or abandonment of the Leased Premises or any cessation or interruption of Tenant's business for a continuous period in excess of ten (10) days in violation of Section ____; or termination of Tenant's right of possession of the Leased Premises by operation of law or as herein set forth, except in conjunction with the exercise by Tenant of any express right of Tenant to terminate this Lease.

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

14.1.8 Failure by Tenant to obtain and/or maintain in effect all licenses, permits, approvals, authorizations, certificates, and registrations required by applicable federal, state and local statutes, regulations, rules, ordinances and governmental orders required in connection with the conduct of Tenant's business.

14.1.9 Failure by Tenant to maintain the insurance required under Article 10;

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

14.1.11 Failure to complete the Tenant Improvements within one hundred eighty (180) days of Landlord's approval of the plans and specifications.

14.2 Default by Landlord. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days following the delivery by Tenant to Landlord of written notice specifying the obligation Landlord has failed to perform; provided, however, in the event that the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

15. 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:

15.1. 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.

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

15.3. 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: (i) the highest rate allowed by law; or (ii) 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.

15.4. The various rights, options, elections, powers and remedies reserved to Landlord herein shall be cumulative, and except as otherwise provided by statute, Landlord may pursue any or all such rights and remedies, whether at the same time or otherwise, and no single right shall be deemed to be exclusive of any of the other or of any right or priority allowed by law or in equity. 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 waiver of any default by Tenant. In addition to the foregoing, Landlord may exercise any other remedy now or hereafter available to landlord against a defaulting tenant under the laws of the State of California.

16. LANDLORD'S RIGHT TO SELL ITS INTEREST

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

17. ESTOPPEL CERTIFICATES

17.1 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:

17.1.1 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);

17.1.2 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

17.1.3 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.

18. OWNERSHIP OF IMPROVEMENTS

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

19. 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.

20. COMPLIANCE WITH FEDERAL REQUIREMENTS

20.1 Tenant, for itself, its heirs, personal representatives, successors in interest and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land that in the event facilities are constructed, maintained or otherwise operated on the said property described in this Lease for a purpose for which a Department of Transportation program or activity is extended or for another purpose involving the provision of similar services or benefits, Tenant shall maintain and operate such facilities and services in compliance with all other requirements imposed pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, or as said Regulations may be amended.

20.2 Tenant, for itself, its personal representatives, successors in interest and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land: (i) 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; (ii) 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 (iii) that Tenant shall use the Premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said Regulations may be amended.

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

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

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

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

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 TWICE the amount of Rent being paid at the expiration date of the Lease, provided, however, that nothing herein contained shall be construed to give Tenant any rights to so hold over and to continue in possession of the Leased Premises after the expiration of the term hereof.

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

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

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

21.7 Relationship of Parties. The relationship of the parties hereto is that of Landlord and Tenant, and it is expressly understood and agreed that Landlord does not in any way nor for any purpose become a partner of Tenant or a joint 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 Article 12 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 Rules and Regulations. Tenant shall comply with all uniform rules and regulations established by Landlord for use of the Airport or the Premises, as the same may be amended from time to time by Landlord. Landlord shall provide Tenant with a copy of all such rules and regulations and any and all amendments thereto. Landlord shall not be responsible to Tenant for the nonperformance of any other tenant or occupant of the Airport of any of said rules and regulations.

21.19 Estoppel. Within ten (10) days after a written request from Landlord, Tenant shall deliver to Landlord or any party designated by Landlord an estoppel statement confirming that this is the Lease, the date to which rent has been paid, whether or not Landlord is then in default under the Lease and such other statements as Landlord reasonably requests. Tenant shall be liable to Landlord for all damages suffered by

Landlord attributable to Tenant's failure to timely deliver an accurate estoppel, including loss or renegotiation of a sale, financing or bond financing.

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

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

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

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

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

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

To Tenant: Aviation Consultants, Inc.
945 Airport Drive
San Luis Obispo, CA 93401
Attn: William R. Borgsmiller

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

This Lease has been executed on the date first set forth, to become effective as provided for in Section 3.1 hereof.

TENANT:

AVIATION CONSULTANTS, INC.,
a California corporation

By: _____
William R. Borgsmiller, President

LANDLORD:

CITY OF PASO ROBLES

By: _____
James L. App, City Manager

ATTEST:

By: _____
Dennis Fansler
City Clerk

APPROVED AS TO FORM

By: _____
Iris P. Yang, City Attorney

[illegible]

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Leased Premises: Office Area, Airport Terminal

EXHIBIT 'B'

PASO ROBLES AIRPORT PROPOSED Fuel Island Pump Replacement

Scope of Work:

Remove existing filter vessels from the fueling island, and modify piping to accept fuel from the new pumping skids.

Replace piping on the island with black steel piping as required.

Install two new filter vessels, one for each dispenser, with the appropriate filter element. Water protection will be provided by the main skid. Install stainless steel piping after this filter.

Install a 200 gallon per minute JetA fuel pumping skid for loading refueler trucks, and pump fuel to the existing dispenser system. Install a 150 gallon per minute pumping skid for Avgas 100LL to load refuelers, and pump fuel to the existing dispenser.

Install new piping to the tanks from the skid for both off-loading fuel and pulling fuel from the tanks. Install floating suction in all three tanks.

Tank Details:

In each tank install:

Stainless steel piping for the sump line
Stainless steel or aluminum down tube for the fill line
OPW 3" floating suction

JetA skid details:

All materials shall be as listed. Equals may be submitted along with supportive documentation demonstrating it is equal. Frame shall contain:

Pomeco 15 gallon spill containment box
Morrison 3" flanged strainer
Morrison 3" flanged check valve
Blackmer GX-3E 3" Positive displacement pump
Blackmer 3.4:1 gear reducer
Baldor 10HP explosion proof motor (460/230V, 3 phase)
Facet 243 gallon/minute filter vessel w/ elements
Armstrong 11AV Air eliminator
Taylor pressure relief valve
Gammon differential pressure gauge
Gammon Millipore test fittings
Gems water slug switch with safepack
3/4" SS spring return drain on sump
LC M15C2 meter
OCV rate-of-flow valve in line to dispenser
OPW swivel
2" X 15' aviation hose

Single Point nozzle
Hannay HGR-50-50 Grounding Reel

All piping prior to filtration will be black carbon steel.

Piping after the filter will be stainless steel.

The skid will be pre-wired by a licensed electrician, certified to meet State of California Electrical Code and ready for field connections.

The entire skid will be primed and finished painted with a quality marine enamel.

Avgas Skid Details:

All materials shall be as listed. Equals may be submitted along with supportive documentation demonstrating it is equal. Frame shall contain:

Pomeco 15 gallon spill containment box
Morrison 3" flanged strainer
Morrison 3" flanged check valve
Blackmer GX-3E 3" Positive displacement pump
Blackmer 4.19:1 gear reducer
Baldor 10HP explosion proof motor (460/230V, 3 phase)
Facet 157 gallon/minute filter vessel w/ elements
Armstrong 11AV Air eliminator
Taylor pressure relief valve
Gammon differential pressure gauge
Gammon Millipore test fittings
Gems water slug switch with safepack
3/4" SS spring return drain on sump
LC M15C2 meter
OCV rate-of-flow control valve in line to dispenser
OPW swivel
2" X 15' aviation hose
Single Point dry-break connector
Hannay HGR-50-50 Grounding Reel

All piping prior to filtration will be black carbon steel.

Piping after the filter will be stainless steel.

The skid will be pre-wired by a licensed electrician, certified to meet State of California Electrical Code and ready for field connections.

The entire skid will be painted with a quality marine enamel.

Options:

Monitoring System:

To control overflow protection and provide leak detections.

Sump Separators:

Install two manual sump separators, one each for Jet and Avgas. The units would be piped into the pumping skids to suction the fuel out (after draining off the water) through the filter and back to the tank.

ACI - FBO Lease Summary

Term

Initial 3 Year Term – July 1, 2011 to June 30, 2014

Two performance based extensions to: July 1, 2017 (3 yrs) & July 1, 2021 (4 yrs)

Each extension contains reopener to reevaluate market rate / rent adjustments

Renegotiate term beyond 10 years – proportional to capital investment by FBO

Facilities Lease Rate

Full FBO Facilities (18,000 s.f.)@\$.43/s.f. = \$7,750

Terminal Concourse (546 s.f.) @\$1.37/s.f. = \$ 750

Lease Payment

\$8,500/month gross rate

Flowage Fees

AvGas – 5 cents per gallon

Jet – 8 cents per gallon

City - Deferred Maintenance

City to repair exterior siding and balcony/railing of FBO Building

New exterior paint on FBO Building & Terminal Building

Parking lot reseal, restripe, landscape installation & construct trash enclosure

City to make equipment purchase of a fuel pump skid – self-service island

Tenant Improvements - Reduced Rent during construction

ACI responsible for all interior Tenant Improvements

ACI to have access and begin Tenant Improvements by 6/15/11

Reduced rate during construction period set at \$4250/month for a maximum of 6 months or until City's improvements are done (whichever comes first), provided:

- City can demonstrate good faith start of construction within 6 months
- Any rent collected by ACI in excess of \$4250 is passed through to City