

Exhibit B

Ground Lease

[A copy of the Ground Lease follows this cover page.]

4907-0174-4903, v. 1

**LEASE  
BETWEEN  
CITY OF REDONDO BEACH  
AND  
SUNRISE-HARBOR, LTD.**

**Commencement Date: December 18, 2013**

## TABLE OF CONTENTS

	<u>Page</u>
1. IDENTIFICATION.....	1
1.1 Definitions.....	1
2. Recitals.....	8
3. Lease of Premises .....	9
4. Term.....	10
5. Rent.....	10
5.1 Minimum Monthly Rental .....	10
5.2 Percentage Rental.....	10
5.3 Appreciation Rent .....	11
5.4 Penalties, Late Charges, Interest and Place of Payment .....	11
5.5 Maintenance of Records .....	11
5.6 Monthly and Annual Statements by Lessee, Verification of Records, Computation, Payment and Correction of Additional Percentage Rental .....	12
5.7 Acceptance Not Waiver; Retention of Records .....	13
5.8 Adjustment of Minimum Monthly Rental .....	14
5.9 Adjustment and Renegotiation of Percentage Rental .....	14
5.10 Lessee's Covenant .....	17
5.11 Negation of Partnership .....	17
5.12 No Deduction or Offset.....	17
5.13 Execution Payment .....	18
6. Uses.....	18
6.1 Permitted Uses .....	18
6.2 Other Uses.....	19
6.3 Tidelands.....	19
7. Improvements To The Premises .....	19
7.1 Renovation of Existing Leasehold Improvements.....	19
7.2 Planning, Design and Construction of Additional Improvements .....	22
7.3 Prevailing Wages. ....	23
7.4 Utilities.....	24
7.5 As-Built Plans and Substantial Compliance .....	24
7.6 Signs.....	24
7.7 Capital Improvement Fund .....	24
8. Security .....	25
8.1 Security Deposit.....	25
8.2 Security for Compliance with Commencement, Development, and Completion of Construction of Required and Additional Improvements or Alterations on the Premises .....	26

8.3 Negation of Warranties, Lessee Waivers, Litigation Limitations and Stipulation .....	28
9. Lessee's Obligation to Maintain and Repair.....	29
9.1 Normal Repairs .....	29
9.2 Structural Review and Renovation Fund .....	29
9.3 FF&E Fund .....	30
10. Maintenance and Repair by Lessor.....	32
10.1 Lessor's Right of Entry for Purposes of Repair.....	32
10.2 Limitations on Lessor's Obligation to Repair.....	33
11. Surrender of Premises .....	33
11.1 Lessee's Obligation to Surrender upon Expiration of Lease Term or upon Termination.....	33
11.2 Reversion of Improvements.....	33
12. Title and Warranties.....	36
12.1 Disclaimer of Warranties .....	36
12.2 Lessee's Quiet Possession.....	36
12.3 Lessee Acknowledgments and Waiver .....	37
13. Encumbrance of Leasehold.....	37
13.1 Lessee's Right to Encumber To Finance Construction of Additional Improvements or Renovation Program.....	37
13.2 Lessor's Approval of Encumbrance and Processing Fee.....	39
13.3 Lessee's Right to Refinance.....	39
13.4 Rights of the Lender.....	40
14. Indemnification, Hold Harmless and Insurance.....	43
14.1 Indemnification .....	43
14.2 Waiver of Claims .....	43
14.3 Hazardous Substances and Environmental Indemnity.....	44
14.4 General Liability and Property Damage Insurance.....	45
14.5 Workers' Compensation Insurance.....	47
14.6 Rental Insurance.....	48
14.7 Other Insurance .....	48
15. Assignment and Subletting .....	48
15.1 Restrictions on Assignment .....	48
15.2 Assignments Pursuant to the Bankruptcy Code.....	52
15.3 Restrictions on Subletting.....	53
15.4 Sublease Form.....	55
15.5 Restrictions on Sublessees' Right to Encumber .....	55
15.6 Lessor's Discretion .....	56
15.7 Assignment and Sublease Documents .....	56
15.8 Consent Not a Waiver.....	56
16. Default.....	57

16.1	Definition of Default.....	57
16.2	Lessee's Right to Cure a Default .....	59
16.3	Lessor Remedies .....	60
16.4	Right of Re-Entry.....	61
16.5	Percentage Rental upon Default.....	61
16.6	Lessor's Right to Cure Default .....	61
16.7	Attorneys' Fees .....	61
16.8	Right to Legal and Equitable Remedies, Waiver and Judicial Reference .....	62
16.9	Rights of Sublessee .....	62
16.10	No Lessee Rights After Termination .....	62
17.	[Reserved] .....	62
18.	Appreciation Rent .....	62
18.1	Intention of the Parties.....	62
18.2	Payment Upon Financing.....	63
18.3	Payment Upon Assignment.....	63
18.4	Arbitration of Appreciation Rent Disputes.....	63
19.	Condemnation .....	64
19.1	Termination on Total Taking .....	64
19.2	Termination on Partial Taking .....	64
19.3	Adjustment of Rent on Partial Taking .....	64
19.4	Allocation of Award .....	65
19.5	Proration of Rent and Repayment of Security Deposit.....	65
20.	Destruction.....	66
20.1	Destruction by Non-Insurable Peril .....	66
20.2	Destruction of Lessor Owned, Controlled or Maintained Improvement .....	66
20.3	Termination or Destruction by Non-Insurable Peril .....	66
20.4	Proration of Rent and Repayment of Security Deposit and Fees on Termination.....	66
20.5	Adjustment of Rent Upon Less Than Total Destruction by Non-Insurable Peril.....	67
20.6	Destruction by Insurable Peril .....	67
20.7	Controlling Agreement .....	68
21.	Abandonment.....	68
22.	Waiver of Breach .....	68
23.	Compliance with the Law .....	68
23.1	Rules, Statutes and Ordinances.....	68
23.2	Judicial Decrees .....	69
24.	Operations .....	69
24.1	Continuous Operation .....	69
24.2	Public Purpose .....	69
24.3	Operating Rules .....	69

25. Controlled Prices.....	70
26. Taxes.....	70
27. Lessee's Association.....	70
28. Waste.....	71
29. Holding Over .....	71
30. Extension of Lease Term .....	71
31. Non-Discrimination .....	71
32. Notices .....	71
33. Coastal Commission Permits .....	72
34. Reservations to Lessor .....	72
35. Lessor's Reversionary Option DURING LAST FIVE YEARS.....	73
36. Successors.....	73
37. Captions .....	73
38. Time .....	73
39. Construction.....	73
40. Savings Clause.....	74
41. Recordation of Memorandum of Lease .....	74
42. Estoppel Certificate.....	74
43. Amendments .....	75
44. Signatures.....	75
45. Execution in Counterparts.....	75
46. Force Majeure .....	75
47. [Reserved].....	75
48. Adjustment of Insurance Coverages .....	76
49. Payments as Additional Rent.....	76

50. No Broker.....	76
51. Authority .....	76
52. Venue .....	76
53. Assumption of Risk.....	76
54. Exhibits .....	77

## LEASE

### 1. IDENTIFICATION

This LEASE ("Lease") is made and entered into effective as of December 18, 2013 (the "Commencement Date"), by and between the **CITY OF REDONDO BEACH**, a chartered city and municipal corporation (the "Lessor") and **SUNRISE-HARBOR LTD.**, a California limited partnership (the "Lessee").

#### 1.1 Definitions

The following are definitions applicable to this Lease:

(a) **Annual Financial Statement:** balance sheet, income and other annual financial statements prepared, reviewed or audited by an independent certified public accountant, reflecting all business transacted on or from the Premises by Lessee and its Sublessees during the preceding calendar year using industry standard accounting practices and methods.

(b) **Applicable Percentage:** the percentage applicable to each permitted use (specified in Sections 6.1 and 6.2 below) separately considered in calculating Percentage Rent. The initial Applicable Percentage rate for each category of permitted use is set forth in **Exhibit "C"** attached hereto, subject to adjustment as provided in Section 5.9 below.

(c) **Appreciation Rent:** as defined in Section 5.3 hereof.

(d) **Audit Charge:** Audit costs, including all reasonable outside accounting, auditing, bookkeeping and computer fees and expenses, administrative, financial and economic consultant fees, related legal fees, and the reasonable value of the services provided by Lessor's employees, elected officials, lease administrators and/or auditors and in-house counsel.

(e) **Bankruptcy Code:** applicable federal bankruptcy laws.

(f) **Base Value:** the sum of (i) Twelve Million Two Hundred Thousand Dollars (\$12,200,000), plus (ii) the lesser of Six Million Three Hundred Six Thousand One Hundred Fifty Dollars (\$6,306,150) or eighty-five percent (85%) of the actual Hard Costs, Soft Costs and FF&E costs incurred by Lessee in connection with Renovation 2013-14 (the "Renovation 2013-14 Costs"), plus (iii) Four Hundred Thousand Dollars (\$400,000) (representing the Execution Payment), plus (iv) sums invested subsequent to the completion of Renovation 2013-14 for that portion of the Permitted Capital Expenditures and Permitted Renovations which are Hard Costs, and which are approved by Lessor pursuant to Sections 7.7(a) and 9.2(b) hereof.

(g) **Capital Improvement Fund:** an impound account to be created, funded and held by Lessee of a sum equal to two percent (2%) of Gross Receipts each year and which shall be used only for Permitted Capital Expenditures in the manner provided in Section 7.7 hereof.

(h) **CEQA:** California Environmental Quality Act.

(i) **Coastal Commission:** California Coastal Commission.



- (j) Coastal Commission Permit: There is no Coastal Commission Permit.
- (k) Commencement Date: the date in the first paragraph of this Lease.
- (l) CPI Index: Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for All Urban Consumers, Los Angeles – Riverside – Orange County, California (all items), 1982-84 = 100, or its successor index.
- (m) Deposit: the sum of the Old Deposit and New Deposit..
- (n) Excess Percentage Rent Payment: defined in Section 5.6(d).
- (o) Excluded Default: defined in Section 13.4(b).
- (p) Execution Payment: the sum Lessee shall pay Lessor as additional consideration for agreeing to enter into the Lease, which sum shall be Four Hundred Thousand Dollars (\$400,000).
- (q) Extended Required Completion Date: defined in Section 7.1(b).
- (r) Fair Market Rental: shall mean, as of each Rental Adjustment Date, the fair market rent, including minimum rental and percentage rental, with the percentage rent expressed as the respective percentages of Gross Receipts in accordance with the categories enumerated in **Exhibit "C"**, which the Premises would bring taking into account permitted uses as described in Article 6 below and all of the other terms, conditions and covenants contained in the Lease, if the Premises were exposed for lease for a reasonable time on an open and competitive market to a lessee for the purpose of the Permitted Uses, where Lessor and the tenant are dealing at arms length and neither is under abnormal pressure to consummate the transaction.
- (s) Fair Market Value: shall mean the amount for which the relevant real property would be sold in a voluntary transaction between a buyer and seller, neither of whom is under any obligation to buy or sell and otherwise determined in accordance with the standards set forth in the current edition of the Appraisal Standards Board of the Appraisal Foundation, Uniform Standards of Professional Appraisal Practice (Washington, D.C), or its successor.
- (t) Fees: defined in Section 27.
- (u) FF&E: shall mean fixtures, furniture and equipment, including guest room, dining room and lounge furnishings; kitchen equipment; front office and administrative equipment; and decorative items.
- (v) FF&E Fund: The reserve fund established pursuant to Section 9.3 hereof to fund the cost of the purchase and installment of replacements, additions or upgrades of or to the FF&E used in the Improvements throughout the Term.
- (w) First Class Condition and Repair: a standard of maintenance and repair consistent with and in accordance with the maintenance requirements of the Required Hotel Standard.

(x) Force Majeure: an occurrence beyond the control and without the fault or negligence of the party affected and by which said party is unable to prevent or provide against by exercise of reasonable diligence, including acts of God or the public enemy, expropriation or confiscation of facilities, changes in applicable law, war, legal disputes, rebellion, sabotage, riots, floods, unusually severe weather (provided that rain within the normal range of annual rainfall shall not be considered unusually severe weather), fires, explosions, or other catastrophes, strikes or lockouts, or similar occurrences, or an injunction or restraining order against the performance of Renovation 2013-14. Inability to obtain financing is not an event of Force Majeure.

(y) Foreclosure Period: defined in Section 13.4(e).

(z) Gross Sale Proceeds: the current cash value of all consideration paid or to be paid for the conveyance of the leasehold interest.

(aa) Gross Receipts: the total amount of all revenue, whether for cash or credit, including but not limited to gross charges, sales and rentals made or earned by Lessee and any and all licensees, agents, or concessionaires of Lessee and all Sublessees, from any business, use, occupation or any combination thereof, originating, transacted, or performed in whole or in part, on the Premises, including but not limited to rentals, the rendering or supplying of services and the sale of goods, wares or merchandise and services made in, upon, or from the Premises, whether delivered from the Premises or elsewhere, including, without limitation, rentals, fees, licenses, royalties, and other payments of any kind.

To the extent Lessee or any agent, Sublessee, or concessionaire of Lessee (a "Multi-facility Entity") derives revenue from membership fees or similar fees that permit access to one or more facilities outside the Premises as well as a facility within the Premises, e.g. a membership health club with on and off Premises locations, Lessor may, in Lessor's reasonable discretion, require the Multi-facility Entity to include a reasonable portion of such revenue in Gross Receipts, regardless of whether such revenues are charged or collected on the Premises or not. Lessee shall make reasonable efforts, including filing and pursuing suit, to cause the Multi-facility Entity to provide to Lessor such records and other evidence as Lessor may reasonably require to enable Lessor to determine the appropriate proportion to be included in Gross Receipts. The failure of Lessor to require such an allocation in any year shall not be deemed a waiver of Lessor's right to require such an allocation in any other year; similarly, Lessor's determination of the appropriate proportion for one year shall not impair the right of Lessor to determine a different of appropriate proportion for any other year.

The following shall not be included in Gross Receipts, or if previously included in Gross Receipts for any time period, shall be deducted therefrom for that time period:

(i) Taxes collected from customers and paid by Lessee, its agents, Sublessees, concessionaires or licensees;

(ii) Income derived from the sale or disposal of capital assets (including, without limitation, fixtures, equipment or property which are not Lessee's stock in trade), the sale of which will not diminish the value of the Premises;

(iii) Refundable deposits, unless converted to a sale or nonrefundable deposit;

(iv) Tips and gratuities paid to employees, however paid (including by credit card), so long as such items are separately stated on customer's bills, paid to employees without deduction (except taxes or similar deductions required by law), and do not replace wages previously paid to any such employees or comparable employees;

(v) Reimbursements paid to Lessee by its agents, Sublessees, concessionaires or licensees for the Lessee's Association indicated in Article 27 for advertising and publicity, which are not paid in lieu of or reduction of rent and do not otherwise constitute a disguised payment of rent to Lessee where the funds are at all times segregated from Lessee's other funds and are paid to and spent by merchants' association or tenants' association;

(vi) Credit and cash refunds made on any sale;

(vii) Rent or license fees if the revenue of the payer (such as a Sublessee or management company) is already included in Gross Receipts and upon which Percentage Rental has been paid or will be paid with the next report;

(viii) Goods or meals provided to employees of the business operation at cost or less;

(ix) Receipts from vending machines used solely by employees of the business operation;

(x) Interest earned by Lessee on funds arising from the Premises or the use thereof, deposited or maintained by Lessee in banks or similar financial institutions; and

(xi) Receipts from insurance claims other than rental interruption or business interruption insurance related to the replacement of Gross Receipts.

(bb) Harbor Area: the area commonly known as Redondo Beach King Harbor, which includes tide and submerged lands and uplands, of which the Premises is a part.

(cc) Hard Costs: Direct contractor costs for labor, material, equipment, and services, contractor's overhead and profit, and other actual and direct construction costs for permanent physical improvements to the Premises. Hard Costs shall not include any Soft Costs, costs of FF&E, or costs of replacement of existing improvements not directly paid by Lessee, including without limitation costs which are funded through insurance and casualty proceeds. Specific line items to be included in Hard Costs for the Renovation 2013-14 are set forth in **Exhibit "A"**, provided that such line items shall not be construed as an exclusive list of Hard Cost items.

(dd) Hazardous Substance: any substance, the presence of which on the Premises is (i) potentially injurious to the public health, safety or welfare, the environment on the Premises, or (ii) regulated or monitored by any governmental authority, or (iii) a potential basis for liability of Lessor to any governmental agency or third party, or (iv) a potential basis for cancellation of any insurance policy covering the Premises, or (v) petroleum and petroleum products and fractions thereof.

(ee) Improvements: all buildings, structures, installations and other improvements on the Premises, except trade fixtures owned or installed by or on behalf of Lessee or its Sublessees.

(ff) Initial Construction Loan: defined in Section 18.2.

(gg) Initial Rental Period: the period ending on the third anniversary of the Commencement Date.

(hh) Institutional Lender: Any person, insurance company, savings and loan association, commercial bank, savings bank, pension fund, welfare fund, retirement fund, endowment fund, fraternal organization, college, university, commercial lender, investment bank, opportunity fund, mortgage conduit, real estate investment trust, commercial finance lender or other similar financial institution which ordinarily engages in the business of making, holding or servicing commercial real estate loans, including any affiliate thereof, or charitable organization or any combination thereof or entity controlled thereby which has net assets of not less than One Hundred Million Dollars (\$100,000,000).

(ii) Lease Term: term of this Lease which shall be fifty-five (55) years, commencing on the Commencement Date and ending on the fifty-fifth (55th) anniversary thereof, except as such term may be reduced pursuant to Section 4 hereof or earlier terminated as provided in Section 16 hereof. Term to expire on December 17, 2068.

(jj) Lender: An applicable mortgage lender, its successors and assigns, including any Institutional Lender.

(kk) Lessee: Sunrise-Harbor Ltd., a California limited partnership, and its permitted successors and assigns.

(ll) Lessor: The City of Redondo Beach, a chartered city and municipal corporation, and its permitted successors and assigns.

(mm) Lessor Parties: Lessor, its officers, elected officials, agents, attorneys and employees.

(nn) Lessor Removal Notice: defined in Section 11.2(b).

(oo) Minimum Monthly Rental: the minimum rent amounts set forth in Section 5.1 hereof.

(pp) Monthly Financial Statement: a statement in the form required by Section 5.6(a) hereof and certified as correct by Lessee, which sets forth the Gross Receipts of each separate business of Lessee and its Sublessees operating on the Premises for the month just concluded.

(qq) Net Financing Proceeds: the principal amount of the loan (net of customary transaction and closing costs, including yield maintenance, prepayment or defeasance fees and expenses) reduced by the sum of the following: (i) the Base Value, plus (ii) any prior Net Financing Proceeds as to which Lessor was paid Appreciation Rent, plus (iii) any prior Net Sale Proceeds as to which Lessor was paid Appreciation Rent, plus (iv) any portion of the loan

proceeds which are required to be used only for Permitted Capital Expenditures or the Permitted Renovations after the closing of the financing. For example, assume a proposed financing that will generate loan proceeds after closing costs equal to \$20,000,000, a Base Value at the time of a financing of \$18,000,000, no prior payments of Appreciation Rent to Lessor, and \$1,500,000 of the proposed financing is required to be utilized for Permitted Capital Expenditures following the closing of the financing. In such event, Net Financing Proceeds would be \$20,000,000, less the \$18,000,000 Base Value, and less the \$1,500,000 to be utilized for the future Permitted Capital Expenditures, resulting in Net Financing Proceeds of \$500,000.

(rr) Net Sale Proceeds: the current cash value of all consideration paid or to be paid for the conveyance of the leasehold interest (net of customary transaction and closing costs, including yield maintenance, prepayment or defeasance fees and expenses), reduced by the sum of (i) the Base Value, plus (ii) any prior Net Financing Proceeds as to which Lessor was paid Appreciation Rent, plus (iii) any prior Net Sale Proceeds as to which Lessor was paid Appreciation Rent. For clarification, Net Sale Proceeds shall not include any amount paid by a purchaser in replacement of amounts in the Capital Improvement Fund or FF&E Fund so long as the amounts in the Capital Improvement Fund remain in the Capital Improvement Fund following a sale or assignment as contemplated in Section 18.3 below and the Capital Improvement Fund is transferred to the purchaser.

(ss) New Deposit: the sum of Thirty Six Thousand Eight Hundred Ten Dollars (\$36,810) which is an amount, in addition to the Old Deposit that shall equal the Deposit and is required under this Lease.

(tt) Noncurable Default: defined in Section 13.4(e).

(uu) Non-Disturbance Agreement: Lessor Estoppel Certificate, Non-Disturbance and Attornment Agreement and Consent to Deed of Trust.

(vv) Notice of Exercise of Right of First Offer: Lessor's written notice to Lessee of its decision to exercise a right of first offer following receipt of Notice of Intention to Offer from Lessee.

(ww) Notice of Intention to Offer: Lessee's notice to Lessor of its intention to sell or assign Lessee's leasehold interest in accordance with Section 15.1(b).

(xx) Old Deposit: the sum of Four Thousand Dollars (\$4,000) paid to Lessor as a security deposit for the Old Lease.

(yy) Old Lease: the Amended Lease dated February 14, 1978, between Lessee and Lessor, as amended by the First, Second, Third and Fourth Amendments.

(zz) Percentage Rental: the sums described in Section 5.2 below.

(aaa) Percentage Rental Adjustment Date: The tenth anniversary of the Commencement Date, and each ten (10) year anniversary following that date.

(bbb) Permit Holders: Lessee, its successors and assigns, and any other holder of the possessory interest in the development authorized by the Coastal Commission Permit.

(ccc) Permitted Capital Expenditures: capital expenditures benefiting the Improvements, and approved as provided in Section 7.7 hereof, regardless of whether or not such expenditures will be paid from the Capital Improvement Fund.

(ddd) Permitted Renovations: renovations made by Lessee benefiting the Improvements which are approved in advance by the Lessor's Harbor Director or his successor in accordance with Section 9.2(b) hereof, regardless of whether or not the cost of such renovations will be paid from the Renovation Fund.

(eee) Plans: plans, specifications, or other designs.

(fff) Plan Revisions: any revisions, modifications, or corrections to Plans proposed by Lessee and requested by Lessor.

(ggg) Premises: those parcels of land and/or water (the "Premises"), legally described in **Exhibit "B"** attached hereto.

(hhh) Primary Coverage: defined in Section 14.4(a).

(iii) Records: complete and accurate books, records and accounts of Gross Receipts and all financial transactions for all business and commercial activities of any kind conducted on or connected with the Premises, including all transactions of Lessee and its Sublessees.

(jjj) Removal Extension Period: defined in Section 11.2(b).

(kkk) Removal Security Fund: defined in Section 11.2(b).

(lll) Renovation 2013-14: the renovation of the Improvements and Premises which is described in the attached **Exhibit "A"**, as the same may be amended or otherwise modified by the California Coastal Commission.

(mmm) Renovation Fund: an impound account to be created, funded and held by or on behalf of Lessee of a sum equal to two percent (2%) of Gross Receipts each year and which shall be used only for Permitted Renovations, as provided in Section 9.2 hereof.

(nnn) Rental Adjustment Date: the tenth anniversary of the Commencement Date and every ten year anniversary thereof.

(ooo) Required Completion Date: defined in Section 7.1(b).

(ppp) Required Hotel Standard: a level of hotel equal to the Best Western Plus standard, "upper midscale" as defined by STR, Mobil Three Diamond, or a similar standard by a known hotel or rating company similar to such standards which is reasonably acceptable to the Lessee and the Harbor Director.

(qqq) Restoration: the reasonable costs and expenses of restoring the Premises to the surrender condition as specified in Section 8.1(c).

(rrr) Soft Costs: Indirect costs for permanent physical improvements to the Premises, including without limitation design, architecture, and engineering (including civil, structural and landscape design); project management; consultant fees; permitting and inspection; legal and accounting fees; pre-opening and working capital directly related to the permanent physical improvements to the Premises; construction loan fees; preopening expenses directly related to permanent physical improvements to the Premises; and construction period construction loan interest during the time that the property is undergoing Renovation 2013-14. Soft Costs do not include Hard Costs, FF&E costs, or costs of operating the Premises which are not directly related to permanent physical improvements to the Premises. Specific line items to be included in Soft Costs for the Renovation 2013-14 are set forth in **Exhibit "A"**, provided that such line items shall not be construed as an exclusive list of Soft Cost items.

(sss) Special Form: defined in Section 14.4(a).

(ttt) State: State of California.

(uuu) Sublessees: all businesses and individuals occupying or using any portion of the improvements on the Premises for purposes of conducting business, whether pursuant to a license, a sublease, or an occupancy agreement of any kind. The term "Sublessees" shall not include residential occupants of any apartment unit, nor the occupants of hotel rooms or meeting rooms and other public spaces for group meetings and events.

(vvv) Subsequent Rental Period: each successive three (3) year period succeeding the Initial Rental Period.

(www) Transfer: any sale, transfer, conversion, redemption or encumbrance of any voting stock or ownership interest in Lessee following the Commencement Date which either separately or in the aggregate with other contemporaneous such sales, transfers, conversions, redemptions, or encumbrances after the Commencement Date or since the last assignment of this Lease, whichever event is the last to occur, and results in a change in control of Lessee.

(xxx) Transient Occupancy Taxes: taxes to be charged pursuant to Title 8, Chapter 2 of the Redondo Beach Municipal Code, as it may be amended from time to time, pertaining to the City's collection of Transient Occupancy Tax.

(yyy) Umbrella Coverage: defined in Section 14.4(a).

## **2. RECITALS**

(a) The State of California has granted to Lessor certain tidelands on condition that Lessor develop, improve and operate such lands as a harbor.

(b) Lessor has developed, improved and is currently operating the Harbor Area.

(c) The Harbor Area was developed and constructed in large part prior to the State's enactment of CEQA. The parties acknowledge, however, that the leasing of parcels in the Harbor Area and the granting of entitlements for the further development of the Harbor Area, whether done by Lessor, Lessee or others, would be a "project" within the meaning of CEQA and would require appropriate environmental assessment, study and governmental approvals under CEQA.

(d) Lessor has not committed itself to the proposed uses and improvements identified herein, or any other actions, so as to effectively preclude the consideration and/or incorporation of any alternatives or mitigation measures required under CEQA, including, but not limited to, the alternative of not proceeding with said uses, improvements and actions. Lessor is not obligated to and will not commit to any course of action or grant any entitlement, or make any project approval in furtherance of this Lease without first complying with the requirements of CEQA.

(e) Lessee currently leases the Premises, which is a portion of the Harbor Area, from Lessor, pursuant to the Old Lease, the term of which expires on or about February 13, 2028 (with a five year option to extend).

(f) Lessee anticipates that on or about the Commencement Date, Business First Bank (a division of Heritage Oaks Bank) ("Lender") and Lessee have or will enter into a loan in the original principal amount of \$5,000,000 (the "Loan") which will be secured by a deed of trust on Lessee's leasehold interest and Improvements and will be consented to by Lessor pursuant to another instrument. In addition, it is anticipated that Lender will request that Lessee and Lessor enter into an estoppel certificate and which will require Lender to consent to this Lease.

(g) Lessor has adopted a Lease Extension Policy for Harbor Enterprises which provides that the primary rationale for granting a lease term extension is for the redevelopment of property to higher economic and physically competitive uses in order to generate higher economic returns to the City and to avoid deterioration of older improvements. Under the Lease Extension Policy, Lessor desires to facilitate improvements other than standard deferred maintenance, refurbishing or decorative improvements to Harbor properties.

(h) Lessee and Lessor now desire to enter into a new lease for the Premises in order to facilitate the redevelopment of the Premises to a higher economic and physically competitive use in accordance with the Lessor's Lease Extension Policy, to maintain, further develop and improve the Harbor Area, and to provide facilities for the accommodation of the public in the Harbor Area. This Lease is intended to supersede the Old Lease, which will be terminated and of no further force or effect as of the Commencement Date.

### **3. LEASE OF PREMISES**

Lessor hereby leases to Lessee, and Lessee leases from Lessor, for the period of time and upon the terms and conditions set forth herein, the Premises. This Lease and all rights and privileges granted Lessee in the Premises are subject to all covenants, conditions, restrictions and exceptions of record or apparent, including those which are set out in the grant referred to in Article 2, above, and the Charter of Lessor, as originally adopted and thereafter amended, or as



may hereafter be amended from time to time, and all applicable laws, ordinances, codes and regulations.

#### **4. TERM**

The term of this Lease shall be fifty-five (55) years, commencing on the Commencement Date and ending on the fifty-fifth (55th) anniversary thereof (the "Lease Term"), subject to prior termination as herein provided. If Lessee fails to timely complete the Renovation 2013-14, subject to applicable notice and cure periods, Section 7.1(b) hereof provides that the Lease Term shall be automatically amended to expire on February 13, 2028, with a 5-year extension option.

The parties acknowledge that Lessee currently occupies the Premises pursuant to the Old Lease, which is scheduled to expire on February 13, 2028 (with a five year option to extend). The parties agree that, as of the Commencement Date of this Lease, the Old Lease shall be terminated automatically and that this Lease shall supersede in all respects the Old Lease; however, the parties shall execute and deliver such documentation as may be reasonably necessary to evidence the termination of the Old Lease upon commencement of this Lease.

#### **5. RENT**

In consideration for the leasing of the Premises to Lessee by Lessor and Lessor's obligations under this Lease, Lessee shall pay Lessor rent as follows:

##### **5.1 Minimum Monthly Rental**

During the Initial Rental Period and each Subsequent Rental Period Lessee agrees to pay to Lessor in advance on or before the first day of each calendar month, the sum of Twenty Thousand Four Hundred Five Dollars (\$20,405) (the "Minimum Monthly Rental"). The Minimum Monthly Rental is subject to adjustment as provided in Section 5.8 of this Lease.

##### **5.2 Percentage Rental**

(a) During the Lease Term, Lessee shall also pay to Lessor, on a monthly basis and in the manner hereinafter specified, Percentage Rental if and to the extent that the aggregate amount of Percentage Rental calculated under this paragraph exceeds the Minimum Monthly Rental paid by Lessee. The Percentage Rental attributable to each category of sales at the Premises that generates Gross Receipts shall be calculated by multiplying the Gross Receipts derived on, in or from the Premises or Improvements by the Applicable Percentage for the use generating such Gross Receipts. Notwithstanding the foregoing, however, if a Sublessee, licensee or concessionaire of Lessee generates Gross Receipts, the Percentage Rental with respect to the portion of the Premises occupied by that Sublessee, licensee or concessionaire shall be the greater of (i) the product of Sublessee's Gross Receipts times the Applicable Percentage for the use that generated the Gross Receipts, or (ii) the product of Lessee's Gross Receipts with respect to that Sublessee (i.e., the rent paid by the Sublessee) times the Applicable Percentage for such use.

(b) The following are provided as examples of Percentage Rental as provided in subsection (a) above (the rates herein are not necessarily a reflection of future market rates by either party):

(i) If the Gross Receipts received by Lessee from room occupants of the hotel building on the Premises total Twenty Thousand Dollars (\$20,000) in a month, and the Applicable Percentage for a hotel use is 7.5%, the Percentage Rent for that month for that portion of the Premises is \$1,500 ( $\$20,000 \times 7.5\%$ ).

(ii) If a retail store Sublessee generates Gross Sales of \$30,000 in a month and the Applicable Percentage with respect to those Gross Sales is 5%, the Percentage Rent for the portion of the Premises occupied by that Sublessee is \$1,500 ( $\$30,000 \text{ times } 5\%$ ).

(iii) If a retail store Sublessee generates Gross Sales of \$30,000 in a month and the Applicable Percentage with respect to those Gross Sales is 5%, and the Sublessee pays \$10,000 in rent to Lessee and the Applicable Percentage for rent from retail stores is 20%, then the Percentage Rent for the portion of the Premises occupied by that Sublessee is \$2,000 (because  $\$30,000 \text{ times } 5\%$ , or \$1,500, is less than  $\$10,000 \text{ times } 20\%$ , or \$2,000).

### **5.3 Appreciation Rent**

In addition to the Minimum Monthly Rental and Percentage Rental specified above, Lessee shall pay to Lessor such amounts as may be calculated and determined to be due as and for Appreciation Rent pursuant to, at the times and in the manner specified in Article 18 below. A Lender which acquires Lessee's interest in this Lease by foreclosure or deed in lieu of foreclosure shall not be obligated to pay Appreciation Rent upon such acquisition; provided, however, that such Lender shall pay Appreciation Rent in the event of Lender's Transfer to a subsequent Lessee that generates Net Sales Proceeds.

### **5.4 Penalties, Late Charges, Interest and Place of Payment**

If Lessee fails to make any payment to Lessor of any sum of money when due under this Lease, and such delinquency continues for ten (10) days following the due date thereof, there shall be imposed a late charge equal to four percent (4%) of the payment, which shall be added to the amount due and the total sum shall become immediately due and payable to Lessor. An interest charge equal to eight percent (8%) per year or the maximum rate allowed by law, whichever rate is less, of the total sum due and unpaid, (including the principal amount, late charges and any interest previously assessed), shall be added for each month, or portion thereof, that such amount remains unpaid, but the total interest charges shall not exceed the maximum amount permitted by law. All payments to Lessor required under this Lease shall be made at the office of the Financial Services Department of Lessor.

### **5.5 Maintenance of Records**

(a) Lessee and its Sublessees shall at all times keep Records.

(b) All retail sales and charge Records shall be recorded by means of cash registers, point-of-sale computers or other comparable devices which display to the customer the amount

of the transaction and automatically issue a sales receipt. The registers shall be equipped with devices that customarily lock in sales totals and other transaction records, or with counters that cannot be reset and that record transaction numbers and sales details. Totals registered shall be read and recorded at the beginning and end of each day. If point-of-sale computers are used, the software must not permit modification of transactions once they are recorded. Back-up copies of all such data, records and reports must be made at least weekly in a computer-readable medium and stored off-site.

(c) In the event of admission charges or fees, Lessee shall use a system, e.g. serially numbered tickets, for each such admission or fee that shall enable Lessee to keep an adequate and accurate record of said admissions.

(d) Lessee and its Sublessees shall keep all of their respective Records related to this Lease at one location within the County of Los Angeles or the County of Santa Barbara. Lessor may examine and audit the Records at any and all reasonable business times subject to reasonable notice. Lessor may disclose publicly all information, data and documents made available to Lessor in connection with the exercise of its right to examine and audit such Records, subject to claim of confidentiality under applicable law. All Records, including any sales tax reports that Lessee and its Sublessees may be required to furnish to any governmental agency, shall be open to the inspection of and copying (at Lessor's expense) by Lessor, Lessor's auditor, or other authorized representative or agent of Lessor at all reasonable times during business hours.

#### **5.6 Monthly and Annual Statements by Lessee, Verification of Records, Computation, Payment and Correction of Additional Percentage Rental**

(a) Within twenty (20) days after the end of each calendar month during the Lease Term, Lessee shall furnish Lessor with the Monthly Financial Statement, in a form reasonably acceptable to Lessor. Concurrently with delivery of each Monthly Financial Statement, Lessee shall pay Lessor the amount of Percentage Rental due, if any, to the extent such Percentage Rental as calculated exceeds the Minimum Monthly Rental already paid for such month.

(b) Within one hundred eighty (180) calendar days after the end of each calendar year during the Lease Term, Lessee shall submit to Lessor an Annual Financial Statement. Lessee shall certify that the Annual Financial Statement is an accurate representation of its Records as reported for income tax purposes.

(c) The Annual Financial Statement shall include the total Gross Receipts from the Premises for each month of the calendar year according to the separate categories of business or permitted use established for Percentage Rental purposes. Within each business category or permitted use, Lessee shall separately identify each source of monthly Gross Receipts by business name (including Lessee and its Sublessees conducting any business activities on the Premises), or other appropriate identification, and specifying the exact amount of monthly Gross Receipts derived from that source during the calendar year. The statement shall also specify all amounts received by Lessee from its Sublessees, including a separate specification of all amounts paid as deposits, fees, rents, common area charges, monetary equivalents, pass through rents or other consideration with a monetary equivalent.

(d) If the Annual Financial Statement for a calendar year discloses that the monthly Percentage Rental payments or the Minimum Monthly Rental payments during such calendar year, as applicable, exceed the Minimum Monthly Rental or Percentage Rental payments that should have been due during each month of the calendar year, Lessee shall be permitted to credit that excess amount ("Excess Percentage Rent Payment") against the succeeding monthly installments of Percentage Rent otherwise due under Section 5.2, without credit for interest, until such time as the entire Excess Percentage Rent Payment has been recouped. If Lessee makes an Excess Percentage Rent Payment in the final calendar year of the Term, Lessor shall refund such amount to Lessee within thirty (30) days after Lessor's verification of such overpayment, which Lessor agrees to use its reasonable efforts to diligently complete after receipt by Lessor of all information required for Lessor to calculate the Excess Percentage Rent Payment and to resolve any audits of Percentage Rental. However, if the Annual Financial Statement for a calendar year discloses that the monthly Percentage Rental payments or the Minimum Monthly Rental payments during such calendar year, as applicable, are less than the total Minimum Monthly Rental or Percentage Rental payments that should have been due during each month of the calendar year, Lessee shall pay the amount of the deficiency to Lessor concurrently with its submission of the Annual Financial Statement.

(e) Lessor may audit or perform a sales examination of any Monthly Financial Statement or Annual Financial Statement at any time, and Lessee and its Sublessees shall provide full access to all its books and records as provided herein. Records must be supported by source documents such as sales slips, cash register tapes, computerized sales records, purchase invoices, or any other documents that may assist in determining the total Gross Receipts, including contracts and agreements related to the financial transactions. If any audit or examination conducted by Lessor discloses that the Gross Receipts reported by Lessee for any calendar month was understated by five percent (5%) or more or that Gross Receipts reported by Lessee for any calendar year was understated by three percent (3%), or more, Lessee shall promptly pay the Audit Charge in addition to any amounts due as rent; otherwise Lessor shall bear all costs of such audit or examination. Lessor's billings for the Audit Charge shall be sufficiently detailed so that Lessee may determine the fees for the various participants in the audit or examination for whom Lessee is required to pay. Prior to Lessee's obligation to pay any Audit Charge, Lessor shall have provided Lessee with the audit or examination report which is the basis for such Audit Charge, access to documents supporting such audit or examination, and a reasonable opportunity to review and discuss the audit or examination with Lessor and the auditor.

#### **5.7 Acceptance Not Waiver; Retention of Records**

(a) Lessor's acceptance of any money paid by Lessee under this Lease, whether shown by any statement furnished by Lessee or otherwise specified in this Lease, shall not constitute an admission of the accuracy or the sufficiency of the amount of such payment. Lessor may, at any time within five (5) years after the receipt of any such payment, question the sufficiency of the amount thereof and/or the accuracy of any underlying statement furnished by Lessee.

(b) Lessee shall retain, for five (5) years after submission to Lessor of any such statement, all of Lessee's Records relating to the Gross Receipts shown by any such statement,

and shall make them available to Lessor for examination to the extent as provided herein during that period. Lessee shall require that all its Sublessees keep, maintain and retain Records of their business activities conducted on the Premises for such five (5) year period, which Records shall be made available to Lessor, Lessor's auditor, or other authorized representative or agent of Lessor for inspection and copying (at Lessor's expense) as provided herein. Lessor's request for access to Sublessees records may be made directly by Lessor to the Sublessee, but Lessor shall give Lessee advance or simultaneous notice thereof. Notwithstanding the foregoing, Lessee shall not be responsible for the records of any Sublessee who is no longer a Sublessee (except to the extent such records were previously received by Lessee from Sublessee).

(c) Lessee shall also furnish, or require its Sublessees to furnish, all information reasonably requested by Lessor relating to the costs, expenses, earnings and profits of Lessee and/or its Sublessees related in any way to operations conducted on or connected with the Premises.

### **5.8 Adjustment of Minimum Monthly Rental**

At the expiration of the Initial Rental Period, and at the commencement of each Subsequent Rental Period, the Minimum Monthly Rental shall be adjusted as follows and a new Minimum Monthly Rental shall be paid:

(i) On or before thirty (30) days following the end of the Initial Rental Period, the annual average of the combined Minimum Monthly Rentals and Percentage Rentals due and payable with respect to each year during the Initial Rental Period shall be calculated. The Minimum Monthly Rental to be paid in equal monthly installments for each Subsequent Rental Period shall be an amount equal to the greater of (A) one-twelfth (1/12) of seventy-five percent (75%) of the annual average of the total rental paid during the prior three year period (including both Minimum Monthly Rental and Percentage Rental) or (B) the Minimum Monthly Rental due and payable by Lessee during the Initial Rental Period adjusted by the increase, if any, in the CPI Index as of two months prior to the commencement of the Subsequent Rental Period compared to the index as of three years and two months prior to the commencement of the Subsequent Rental Period.

(ii) At the expiration of each succeeding Subsequent Rental Period the Minimum Monthly Rental shall again be subject to adjustment in the manner provided above, except that the total rentals for purposes of adjustment of the Minimum Monthly Rental shall be the total rentals due and payable with respect to the immediately preceding three (3) year period, and the adjusted rent shall in no event be less than the Minimum Monthly Rental paid by Lessee during the previous Subsequent Rental Period.

(iii) To the extent there is a delay in calculating and paying the Minimum Monthly Rental for any Subsequent Rental Period, the first payment after such calculation is made shall retroactively bring current Minimum Monthly Rental payments.

### **5.9 Adjustment and Renegotiation of Percentage Rental**

On or before the first Percentage Rental Adjustment Date and each Percentage Rental Adjustment Date thereafter, Lessor and Lessee agree to negotiate an adjustment in the

Percentage Rental rates provided for in **Exhibit "C"** to Fair Market Rental. Such renegotiation shall be conducted in accordance with the following procedure:

(a) Not less than ninety (90) days prior to each Percentage Rental Adjustment Date, Lessee or Lessor shall submit to the other party in writing its proposed adjustment to Fair Market Rental, if any, in the Percentage Rental rates provided for above. Within forty five (45) days after receipt of such written proposal, the party first receiving the proposed adjustment shall accept, reject or counter such proposal. If the receiving party fails to accept, reject or counter the proposal within the forty five (45) day period, the proposing party may send a second notice stating that a failure to respond to the proposal within an additional twenty (20) days will be deemed approval. The failure of the party to respond to the second notice within such time shall be deemed to have approved the written proposal. Except as to a deemed approval or rejection pursuant to the preceding sentence, any response must be in writing. After receipt of the response, Lessor and Lessee shall enter into good faith negotiations to agree upon Percentage Rental at the Fair Market Rental.

(b) In the event that the parties do not reach an agreement on the amount of increase or decrease, if any, of the Percentage Rental rates on or before the Percentage Rental Adjustment Date, the adjustment of the Percentage Rental rates for the ten (10) year period next succeeding shall be determined by arbitration as hereinafter set forth.

#### **ARBITRATION OF PERCENTAGE RENTAL RENEGOTIATION DISPUTES**

(i) On or before thirty (30) days immediately following the Percentage Rental Adjustment Date Lessor and Lessee shall jointly appoint a single neutral arbitrator to determine the Fair Market Rental Percentage Rental rates to be charged by Lessor and paid by Lessee for the uses, businesses, activities and operations conducted by Lessee and its Sublessees on the Premises. The fees of such arbitrator shall be divided equally between the parties. If the parties are unable to agree on one arbitrator before the time period identified above, on or before ten days later, each party shall appoint one arbitrator and the two arbitrators together shall then determine the Percentage Rental rates to be paid by Lessee for the uses, businesses, activities, and operations conducted by Lessee and its Sublessees upon the Premises. Each party shall pay the fees of the arbitrator appointed by it.

(ii) If the two (2) arbitrators so appointed are unable to agree on all Percentage Rental rates for the uses and operations conducted by Lessee and its Sublessees on the Premises on or before ninety (90) days following the Percentage Rental Adjustment Date, then they shall, in writing, immediately appoint a third arbitrator and the third arbitrator so appointed shall determine the Percentage Rental rates in the manner provided in subsection (iii) of this subsection (b), for the uses, businesses, activities and operations conducted by Lessee and its Sublessees on the Premises on or before one hundred fifteen (115) days following the Percentage Rental Adjustment Date. The fees of the third arbitrator shall be divided equally between the parties.

(iii) If the Percentage Rental rates are to be determined by the third arbitrator so appointed, the arbitrators appointed by the separate parties shall, within seven (7) days following the acceptance of the appointment of the third arbitrator, jointly prepare a statement of

the disputed Percentage Rental rates to be determined and the final offer by each party with respect to each percentage rental rate in dispute and shall deliver same to the third arbitrator within such seven (7) day period. The third arbitrator, after conducting such hearing as he may in his sole discretion determine to be necessary or appropriate, but which shall include an opportunity for each party to be reasonably heard on the issues (including telephonically), shall determine the Percentage Rental rates in dispute, which determination shall be made on or before one hundred forty five (145) days following the Percentage Rental Adjustment Date. In making such determination, the third arbitrator may only select the final offer of either Lessee or Lessor as to each category of Percentage Rental rate in dispute, and no other alternative or compromise Percentage Rental rate may be selected, unless the parties otherwise agree in writing that such a determination shall be within the power and authority of the arbitrator to make.

(iv) The arbitrator or arbitrators shall determine the Fair Market Rental Percentage Rental rates, assuming that Lessee and its Sublessees would rent the Premises to use for business uses similar to those of Lessee and Sublessees in a commercially reasonable and cost-effective way with the goal of maximizing the rate of return from those operations for both Lessor and Lessee and taking into consideration the proper performance of the obligations of Lessor and Lessee under the Lease, but without reference to the particular financial results and intangible business value of Lessee and its Sublessees. Said arbitrator or arbitrators shall consider only the Percentage Rental rates to be paid for the next Percentage Rental Adjustment Date during the Lease Term and shall not take into account any past occurrences, breaches, defaults or claims of Lessor or Lessee, one against the other. The arbitrator or arbitrators shall reduce the decision to writing and shall deliver to each of the parties a statement of that decision, specifying each of the Percentage Rental rates determined by the arbitrator(s). The arbitrator(s) so appointed pursuant to the foregoing provisions shall be real estate attorneys, certified public accountants whose practice regularly involves commercial real estate, or members in good standing of the American Institute of Real Estate Appraisers holding an M.A.I. designation and primarily engaged in the business or occupation of appraising or evaluating businesses, real property and Improvements. Should any arbitrator(s) be made a party to any legal proceedings arising out of this Article, Lessor and Lessee shall jointly defend, hold harmless and indemnify said arbitrators against any and all costs and expenses incurred in said proceedings.


(v) Lessee and Lessor, and their advisors, shall each cooperate with the other and shall fully and fairly exchange information relevant to the determination of Percentage Rental rates throughout the execution of the arbitration process. In determining the Percentage Rental rates the arbitrators may take into consideration the cooperation and failure to cooperate of both Lessee and Lessor.

**NOTICE: BY INITIALING IN THE SPACE BELOW, YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF PERCENTAGE RENTAL RENEGOTIATION DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR BY JURY TRIAL. BY INITIALING IN THE**

**SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF PERCENTAGE RENTAL RENEGOTIATION DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.**

**WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF PERCENTAGE RENTAL RENEGOTIATION DISPUTES" PROVISION TO NEUTRAL ARBITRATION.**

  
\_\_\_\_\_  
Lessor's Initials

  
\_\_\_\_\_  
Lessee's Initials

(c) The determination of adjustment, if any, in Percentage Rental rates pursuant to this Article shall be final and conclusive and shall apply as of the first day of the calendar month next following the applicable Percentage Rental Adjustment Date. Lessee agrees to pay Percentage Rental at the prior rates until the new Percentage Rental rates are determined, at which time the parties will make a retroactive cash adjustment in the amount paid to reflect the new Percentage Rental rates.

(d) At each Percentage Rental Adjustment Date, the Percentage Rental rates shall again be subject to adjustment in the manner hereinabove provided.

#### **5.10 Lessee's Covenant**

Lessee shall use commercially reasonable efforts to maximize the profits derived from all activities and uses conducted or permitted to be conducted on the Premises.

#### **5.11 Negation of Partnership**

Nothing in this Lease, including the provisions relating to Appreciation Rent, Percentage Rent and standards of conduct related to Lessee's employees, shall be construed to render Lessor and Lessee in any way or for any purpose a partner, joint venturer, fiduciary or associate in any relationship with each other. The relationship of Lessor and Lessee is landlord and tenant, and this Lease shall not be construed to authorize either party to act as agent for the other, except as otherwise expressly provided in this Lease.

#### **5.12 No Deduction or Offset**



All payments of rent of any kind under this Lease shall be made without deduction or offset, and without abatement except as specifically provided in this Lease.

### **5.13 Execution Payment**

Lessee shall pay Lessor the Four Hundred Thousand Dollar (\$400,000) Execution Payment in seven equal installments of \$57,142.86, on or before the following dates:

- a. Installment No. 1: Execution of Option Agreement.
- b. Installment No. 2: Commencement Date.
- c. Installment No. 3: First anniversary of Commencement Date.
- d. Installment No. 4: Second anniversary of Commencement Date.
- e. Installment No. 5: Third anniversary of Commencement Date.
- f. Installment No. 6: Fourth anniversary of Commencement Date.
- g. Installment No. 7: Fifth anniversary of Commencement Date.

Interest shall accrue on the Execution Payment at the Prime Rate (as defined herein), commencing on the Commencement Date. All accrued and unpaid interest on the Execution Payment shall be payable concurrently with the payment of each of Installments 3 through 7. The "Prime Rate" shall mean the prime or reference rate announced from time to time by Bank of America, N.A. or its successor, or if Bank of America, N.A. and its successor cease to exist then the prime or reference rate announced from time to time by the largest state chartered bank in California in terms of deposits. Lessee may prepay the Execution Payment without penalty.

Such sums shall be deemed fully earned and nonrefundable upon mutual execution of this Lease. In the event this Lease is terminated prior to the fifth anniversary of the Commencement Date, all of the remaining unpaid installments of the Execution Payment shall be immediately due and payable upon the date of termination. Installments of the Execution Payment shall not be applied to payment of Minimum Monthly Rental, Percentage Rental or Appreciation Rent payable hereunder, but shall be considered additional rent payable pursuant to this Lease.

## **6. USES**

### **6.1 Permitted Uses**

Lessee shall not use, or permit the Premises, or any part thereof, to be used for any purpose or purposes, other than the purposes set forth in **Exhibit "D"**. The permitted uses for the Premises are non-exclusive to Lessee as to the Harbor Area and Lessor reserves the right to conduct or to permit other lessees to conduct or permit the same or similar uses on property leased from Lessor in the Harbor Area. Notwithstanding any provision contained in this Lease to the contrary, no portion of the Premises shall be used for any purpose that will interfere with

commerce, navigation or fishery, or be inconsistent with any trusts under which the Premises are now or may hereafter be held by Lessor.

## **6.2 Other Uses**

Lessee may, with Lessor's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed, use the Premises for any other lawful purposes in addition to or in place of those enumerated above. Lessor is not obligated to and will not commit to any course of action or make any approval related to other uses of the Premises without first complying with the requirements of CEQA. Lessor retains the absolute sole discretion to modify the other uses proposed by Lessee as may be necessary to comply with CEQA. Mitigation measures and/or alternatives to avoid significant environmental impacts, including the "no project" alternative, required in connection with the CEQA environmental review process may be adopted. Nothing precludes Lessor from denying the other uses proposed by Lessee, or from weighing the economic, legal, social, technological, or other benefits of the other uses when determining whether to approve such uses. The parties understand and agree that Lessor, in its evaluation of any additional or substitute uses proposed by Lessee, may take into consideration the effect that such proposed additional or substitute uses may have on Lessor's goals, objectives and resources for the Harbor Area, and the impact of the loss of hotel uses on the Lessor's ability to implement its goals, objectives and resources for the Harbor Area. Lessor may condition its approval of additional or substitute uses on the parties' written agreement upon a Percentage Rental rate to be applied to any such use, which agreement shall be in the form of an amendment or supplement to this Lease, duly executed by the parties.

## **6.3 Tidelands**

Lessor reserves the right to include the Premises as part of the tidelands trust held by Lessor pursuant to the grant from the State of California so long as such inclusion (i) will not preclude the permitted uses and/or requirements described in Sections 6.1 and 6.2 above, (ii) will not unreasonably interfere with the use of the Premises by Lessee and (iii) will not increase the operating costs of Lessee.

# **7. IMPROVEMENTS TO THE PREMISES**

## **7.1 Renovation of Existing Leasehold Improvements**

(a) As a further and material part of the consideration for execution of this Lease, Lessee shall, at its sole cost and expense, renovate and modernize the existing improvements on the Premises in accordance with the renovation description attached hereto as **Exhibit "A"**, as the same may be amended or otherwise modified by action of the California Coastal Commission ("Renovation 2013-14").

(b) Lessee shall complete the Renovation 2013-14 within eighteen (18) months of the later of the date Lessee receives its (i) permit from Coastal Commission for the Renovation 2013-14 (if required) and (ii) its building permits from the City of Redondo Beach for the same, subject to Force Majeure (but in no event shall any such extension for Force Majeure events be longer than twelve (12) months) (the "Required Completion Date"). Notwithstanding the foregoing, and regardless of when Lessee receives its Coastal Commission permits or building

permits, the Required Completion Date shall be no later than the second anniversary of the Commencement Date, subject to Force Majeure (but in no event shall any such extension for Force Majeure events be longer than twelve (12) months). Lessor shall cooperate with Lessee (and Lessor shall execute applications, certificates and like documents) as shall reasonably be required in Lessor's capacity as owner of the Premises to enable and facilitate Lessee's filing for and receipt of all entitlements necessary to complete Renovation 2013-14. Lessee covenants and agrees to make reasonable efforts to obtain all permits as soon as possible. Any failure by Lessee to complete the Renovation 2013-14 according to this timetable and for reasons within its reasonable control shall constitute a breach of this Lease; upon written notice by Lessor of such a breach, Lessee shall have twenty (20) days to begin to cure the breach, and ninety (90) days to complete the cure (the "Extended Required Completion Date"). If Lessee fails to timely cure such breach, the Term of this Lease pursuant to Section 4 hereof shall be automatically amended to expire on February 13, 2028; provided that Lessee shall have the option to extend the modified Term for one additional five year period by delivery of written notice to Lessor not later than February 13, 2027 and not earlier than February 13, 2028. Notwithstanding the foregoing, if and as long as Lessee has commenced construction of Renovation 2013-14 and is diligently prosecuting and continues to diligently prosecute such construction to completion, then the Lease shall not be amended as stated unless and until such time as the delay in the completion of the Renovation 2013-14 exceeds six (6) months beyond the Extended Required Completion Date. During the period from the Extended Required Completion Date until the earlier of (a) the date of the completion by Lessee of the Renovation 2013-14, or (b) the six (6) month extension contemplated herein, Lessor shall have the right to increase the Percentage Rental payable by Lessee pursuant to Section 5.2 of this Lease to an amount calculated by Lessor based on the good faith projection of the Gross Receipts that would have been generated at the Premises if the Renovation 2013-14 Work had been timely completed as required under this Lease. Renovation 2013-14 shall be deemed completed at such time as Lessee receives a final certificate of occupancy from the City following such work. The foregoing shall be Lessor's exclusive remedies for Lessee's failure to timely complete the Renovation 2013-14.

(c) Further, notwithstanding anything in Section 7.1 or any other provision of this Lease to the contrary, so long as a Lender exists with respect to Lessee's entire leasehold interest in this Lease, the automatic amendment shall not occur unless and until (i) Lessor has given written notice of the occurrence of the automatic amendment to each such Lender in accordance with subsection 13.4(d) (which notice shall describe the possible automatic amendment that has occurred, and shall include the following statement in all capital and bold letters: "YOUR FAILURE TO COMMENCE A CURE OF THE DEFAULT DESCRIBED IN THIS NOTICE WITHIN 60 DAYS OF YOUR RECEIPT OF THIS NOTICE, AND TO THEREAFTER PURSUE SUCH CURE TO COMPLETION IN ACCORDANCE WITH THE PROVISIONS OF SUBSECTION 13.4(d) and (g) OF THE LEASE APPLICABLE TO NONMONETARY DEFAULTS, WILL RESULT IN AN AUTOMATIC REDUCTION IN THE TERM OF THIS LEASE, AS MORE PARTICULARLY DESCRIBED IN SECTION 7.1 OF THE LEASE"), and (ii) no such Lender commences a cure of the default, including, without limitation, completion of Renovation 2013-14, within 60 days of its receipt of such notice and thereafter pursues such cure to completion in accordance with the provisions of subsections 13.4(d) and (g) of the Lease applicable to nonmonetary defaults. Further, in the event that an automatic amendment occurs, such automatic amendment shall be subject to the "new lease" provisions of subsection 13.4(h) of the Lease (and in such event the automatic amendment shall be deemed a "termination" of this

Lease solely for purposes of subsection 13.4(h) and the “new lease” to be entered into pursuant to subsection 13.4(h) shall mean a new lease on the same terms as this Lease, without the automatic amendment).

(d) Lessee agrees to spend at least Five Million Dollars (\$5,000,000.00) of reasonable, out-of-pocket, third-party Hard Costs, Soft Costs and FF&E costs with respect to such Renovation 2013-14, of which at least Three Million Six Hundred Thousand Dollars (\$3,600,000) shall qualify as out-of-pocket Hard Costs for Improvements. Soft Costs associated with the CUP and Coastal Commission application shall be included as Soft Costs for purposes of the foregoing calculation. For purposes of the foregoing calculation, Soft Costs may include Soft Costs incurred prior to execution of this Lease, if approved in writing by Lessor. All of the foregoing (including the allocation of Hard Costs, Soft Costs and FF&E costs) shall be pursuant to, and as reflected in Exhibit “A” hereto and in a budget approved by Lessor. Any material deviation from the approved budget that will result in a reduction in Hard Costs shall be subject to the approval of Lessor, such approval not to be unreasonably withheld or delayed. In evaluating such deviation from the budget, the parties understand that Lessor will be evaluating the Proposed reduction in Hard Costs in light of Lessor’s Lease Extension Policy for Harbor Enterprises which provides that the primary rationale for granting a lease term extension is for the redevelopment of property to higher economic and physically competitive uses in order to generate higher economic returns to the City and to avoid deterioration of older improvements.

(e) The essence of this renovation provision is to retain first class high quality facilities in accordance with the Required Hotel Standard for the full Lease Term.

(f) All work required under the renovation program shall be subject to the approval of Lessor and any other public agency or governmental authority which has jurisdiction over said work. Lessor is not obligated to and will not commit to any course of action or make any approval related to the renovation program without first complying with the requirements of CEQA. Lessee shall secure, at its own expense, all permits and other approvals required for said work, including all actions, studies, assessments and reports that may be required in order to comply with all requirements of CEQA and the California Coastal Act. Lessor retains the absolute sole discretion to modify the renovation program proposed by Lessee as may be necessary to comply with CEQA. Mitigation measures and/or alternatives to avoid significant environmental impacts, including the “no project” alternative, required in connection with the CEQA environmental review process may be adopted. Nothing precludes Lessor from denying the renovation program, or from weighing the economic, legal, social, technological, or other benefits the renovation program when determining whether to approve the program.

(g) Lessee shall submit to Lessor a detailed accounting describing the Hard Costs and the Soft Costs of the Renovation 2013-14 within ninety (90) days following completion of Renovation 2013-14. If by such date the Renovation 2013-14 Costs have not been established because of a dispute or disputes between Lessee and its contractor(s), then Lessee shall note such dispute(s) in its submission of the Renovation 2013-14 Costs (including a description of the costs and the amounts under dispute). Lessee shall thereafter notify Lessor in writing within thirty (30) days after the resolution of any such dispute as to any final adjustment required to the amount of the Renovation 2013-14 Costs for such project to reflect the resolution of such

dispute. Any outstanding disputed costs for Renovation 2013-14 shall not be added to the Base Value until the disputes are resolved.

## **7.2 Planning, Design and Construction of Additional Improvements**

(a) If Lessee proposes to construct other Improvements, alterations or modifications on the Premises during the Lease Term in addition to those specified in Section 7.1 above and those currently existing on the Premises, if any, Lessee shall first submit a written request for conceptual approval of such Improvements by the City Harbor Commission. The proposal shall include the proposed use and location thereof in relation to the particular portion of the Premises upon which Lessee proposes to construct said Improvements. Concurrently therewith, Lessee shall pay Lessor a non-refundable processing fee which shall be reasonable under the circumstances in light of the size, complexity and expertise required to review said Improvements. If required, following approval of the proposed Improvements by the Harbor Commission and other required City of Redondo Beach boards or officers (which approval shall be delivered in writing), Lessee shall apply promptly to the California Coastal Commission for approval of the proposed Improvements and Lessor shall cooperate with such application in the manner described in subsection 7.1(b) above. Thereafter, the procedure for submission of designs, plans, drawings and other documents for the additional Improvements shall be as Lessor shall from time to time reasonably specify in writing as requested by Lessee.

(b) Any approval by Lessor of plans, specifications or other designs under this Article shall not constitute approval by Lessor of an application for any building or other permit or any other land use entitlements, CEQA or other approvals required for the project. Lessor is not obligated to and will not commit to or approve any additional improvements under this Lease without first complying with the requirements of CEQA. Lessor retains the absolute sole discretion to modify any application for additional improvements as may be necessary to comply with CEQA. Mitigation measures and/or alternatives to avoid significant environmental impacts, including the "no project" alternative, required in connection with the CEQA environmental review process may be adopted. Nothing precludes Lessor from denying any application for proposed additional improvements, or from weighing the economic, legal, social, technological, or other benefits of any proposed additional improvements when determining whether to approve such improvements. In its review of any plan, specification or other design submitted pursuant to the terms of this Lease, Lessor shall be guided by the provisions of this Lease as well as the City Building Code, design, architectural and construction standards applicable to the Premises and in force by the Lessor. In the event of an inconsistency or conflict between the terms and provisions of this Lease, the City Building Code and other applicable standards, the terms and provisions of this Lease shall control and supersede such standards; provided, however, as between the Lease and the City Building Code, the one with the most strict provisions relating to the conflicting terms shall control and provided, further, nothing herein shall allow design or construction on the Premises inconsistent with applicable law, code and regulations, including CEQA (taking into account normal practices regarding variances and conditional use permits).

(c) In addition to all submissions to be made and approvals to be obtained by Lessee as required in this Article, Lessee shall secure, at Lessee's sole cost and expense, all necessary permits and approvals from any other governmental entities and agencies with jurisdiction over the planning, design and construction of any additional improvements.

(d) If Lessor rejects or requests modifications in any Plans, it will notify Lessee in writing of the reasons for such rejection or request. If Lessor requests Plan Revisions, Lessee shall have forty-five (45) days from the request by Lessor to submit such Plan Revisions. In the event the Plans are neither approved nor responded to by Lessor within the forty-five (45) days after the submission of the Plan Revisions and within ten (10) days following a second written notification from Lessee, they shall be deemed approved by Lessor. If Lessee fails to submit any Plan Revisions within the specified period, such failure will be deemed a withdrawal of Lessee's request for approval, and all processing thereof by Lessor shall cease.

(e) If Lessee withdraws, or is deemed to have withdrawn, its request for any approval under this Article, or if this Lease is terminated pursuant to its terms while a request for approval hereunder is pending, Lessee shall immediately deliver to Lessor, at Lessee's sole cost and expense, but without representation or warranty, copies of all tests, studies, inspections, plans, blueprints, reports, investigations, renderings and other documents and things made or prepared by or for Lessee in connection with the request for approval, all of which documents shall thereafter be and become the property of Lessor, subject to any ownership rights of the authors of the same. Lessee shall transfer to Lessor, or Lessor's nominee, all permits, licenses, and other approvals obtained by Lessee in connection with the proposed Improvements on the Premises.

### **7.3 Prevailing Wages.**

The Lessee shall carry out the Renovation 2013-14 work and all other Improvements made pursuant to this Lease in conformity with all applicable federal and state labor laws. If applicable, Lessee and its contractors and subcontractors shall pay prevailing wages and employ apprentices in compliance with Health and Safety Code Sections 33423 through 33426, and Labor Code Section 1770, *et seq.*, and shall be responsible for the keeping of all records required pursuant to Labor Code Section 1776, complying with the maximum hours requirements of Labor Code Sections 1810 through 1815, and complying with all regulations and statutory requirements pertaining thereto. Although the parties believe that California law does not require the payment of prevailing wages or the hiring of apprentices as a result of this Lease because the Premises is being leased at its fair market rental value, and no other subsidy or financial assistance is being provided by Lessor to Lessee hereunder, Lessee shall be solely responsible for determining and effectuating compliance with such laws, and the Lessor makes no representation as to the applicability or non-applicability of any of such laws to the Renovation 2013-14 work or the other Improvements or any part thereof. Lessee hereby expressly acknowledges and agrees that Lessor has not previously affirmatively represented to the Lessee or its contractor(s) for the construction of the Renovation 2013-14 work or any other Improvements, in writing or otherwise, in a call for bids or otherwise, that such work is not a "public work," as defined in Section 1720 of the Labor Code.

Lessee shall indemnify, protect, defend and hold harmless the Lessor and the Lessor Parties, with counsel reasonably acceptable to Lessor, from and against any and all loss, liability, damage, claim, cost, expense and/or "increased costs" (including reasonable attorneys fees, court and litigation costs, and fees of expert witnesses) which, in connection with the Renovation 2013-14 work or construction of the Improvements, including, without limitation, any and all public works (as defined by applicable law), results or arises in any way from any of the

following: (1) the noncompliance by Lessee of any applicable local, state and/or federal law, including, without limitation, any applicable federal and/or state labor laws (including, without limitation, if applicable, the requirement to pay state prevailing wages); (2) the implementation of Section 1781 of the Labor Code, as the same may be amended from time to time, or any other similar law; and/or (3) failure by Lessee to provide any required disclosure or identification as required by Labor Code Section 1781, as the same may be amended from time to time, or any other similar law. It is agreed by the parties that, in connection with the Renovation 2013-14 work or construction of the Improvements, including, without limitation, any and all public works (as defined by applicable law), Lessee shall bear all risks of payment or non-payment of prevailing wages under California law and/or the implementation of Labor Code Section 1781, as the same may be amended from time to time, and/or any other similar law. "Increased costs," as used in this Section, shall have the meaning ascribed to it in Labor Code Section 1781, as the same may be amended from time to time. The foregoing indemnity shall survive termination of this Lease.

#### **7.4 Utilities**

(a) Lessee agrees that any utility company has the right, subject to Lessor's written approval, to place utility lines, cables, pipes, wires, poles, conduits, or ductwork where necessary, through or on the Premises in any manner which will not interfere with Lessee's and its Sublessees, concessionaires, licensees, tenants, customers and invitees use and enjoyment of the Premises. Lessee and Lessor shall each cooperate with the other in the prosecution or defense of any claims against or by any utility company related to the Premises.

(b) Lessee shall connect the utilities provided on or to the Premises to its facilities, and shall furnish, install and maintain, at its own expense, all necessary ducts, pipes, wires, cables, lines and conduits to service adequately its own installations and shall relocate at its cost and expense all existing utilities required to be relocated by reason of Lessee's development and operation of the Premises. All utilities shall be underground.

#### **7.5 As-Built Plans and Substantial Compliance**

Within ninety (90) days following completion of the construction of any Improvements to or on the Premises required or permitted hereunder, Lessee shall furnish to Lessor a complete set of "as-built" plans depicting the improvements as constructed, which construction shall be in substantial compliance with approved working drawings.

#### **7.6 Signs**

Neither Lessee nor any of its Sublessees may construct, maintain, or allow any sign upon the Premises except pursuant to applicable Lessor specifications and as approved by Lessor.

#### **7.7 Capital Improvement Fund**

(a) Lessee shall create a Capital Improvement Fund impound account which shall be used only for Permitted Capital Expenditures, and shall be maintained at a reputable commercial financial institution. Commencing upon the completion of Renovation 2013-14 (as evidenced by the issuance of a Certificate of Occupancy for the Premises) and continuing through the date on

which the Capital Improvement Fund must be fully expended as described below, Lessee shall deposit a sum equal to two percent (2%) of Gross Receipts for the prior quarter into the Capital Improvement Fund every quarter no later than the end of the first month succeeding such quarter. All expenditures from the Capital Improvement Fund shall be approved in advance by the Harbor Director or his successor as defined by the City of Redondo Beach Municipal Code Title 12 (as the same may be amended from time to time). Such approval shall be made in accordance with the then current policy within the Harbor Area, shall be commercially reasonable and shall not be unreasonably withheld, conditioned or delayed. However, such approval shall not be required with respect to expenditures to ameliorate an emergency situation so long as Lessee promptly submits reasonable documentation after such expenses are incurred and Lessor agrees such expenses fall within this definition, such agreement not to be unreasonably withheld. Lessee shall furnish to Lessor an annual accounting of the Capital Improvement Fund no later than April 1st of each year. The accounting shall include a detailed description and cost of all Permitted Capital Expenditures funded through Capital Improvement Fund expenditures. Upon receipt of the accounting Lessor shall confirm that such Capital Improvement Fund expenditures are permitted hereunder, and shall add the Hard Costs of the permitted Capital Fund Expenditures to the Base Value. Lessee shall reimburse the Capital Improvement Fund for any expenditures which Lessor determines are not permitted hereunder. In addition, upon request of Lessor, Lessee shall provide Lessor with evidence of quarterly deposits into the Capital Improvement Fund. The Capital Improvement Fund shall be fully expended for Permitted Capital Expenditures in accordance with the Required Hotel Standard and at one or more times which are no later than ten (10) years prior to the scheduled expiration of the Lease Term. To the extent any Lender requires a capital reserve that accomplishes the same objectives in a manner consistent with the Capital Improvement Fund, Lessee shall be credited with amounts paid into such reserve but shall meet the other obligations stated in this paragraph, including annual accounting and timing of expenditures. The Capital Improvement Fund shall not be pledged to any third party, except a Lender, nor shall it be spent for any purposes other than Permitted Capital Expenditures. The cost of Permitted Capital Expenditures shall be paid with amounts deposited in the Capital Improvement Fund, provided that any Permitted Capital Expenditures costs in excess of the amounts deposited in the Capital Improvement Fund may be paid from funds other than the Capital Improvement Fund.

(b) If Lessor elects to require Lessee to remove the Improvements at the end of the Term and requires Lessee to provide a Removal Security Fund to secure its obligation to perform such removal obligations in accordance with Section 11.2 of this Lease, then Lessee shall have the right to contribute to the Removal Security Fund any amounts in the Capital Improvement Fund that are not (and will not be) required for the purposes of this Section 7.7, as determined by Lessor's Harbor Director in Lessor's Harbor Director's reasonable judgment. If Lessor does not require the removal of the Improvements, and at the end of the Term there are amounts remaining in the Capital Improvement Fund that in Lessor's Harbor Director's reasonable judgment were not required for the purposes of this Section 7.7, then Lessee shall be entitled to the return of such funds.

## **8. SECURITY**

### **8.1 Security Deposit**



(a) Lessee has deposited the Old Deposit with Lessor. Lessee shall deposit the New Deposit with Lessor on or before the Commencement Date as additional security under this Lease. The sum of the Old Deposit and the New Deposit (together, the "Deposit") shall equal twice the initial Minimum Monthly Rental amount. The Deposit shall be held by Lessor as a deposit to secure the performance of this Lease under Section 1950.7 of the California Civil Code. If at any time during the Lease Term any of the rent herein reserved is overdue and unpaid, or any other sum payable by Lessee to Lessor hereunder is overdue and unpaid, then Lessor may, at its option, apply any portion of the Deposit to the payment of any such overdue rent or other sum. Upon any failure of Lessee to keep and perform all of the terms, covenants and conditions of this Lease, Lessor may, at its option, apply the Deposit, or so much thereof as may be necessary, to compensate Lessor for all loss, cost, expense or damage sustained by Lessor due to such breach on the part of Lessee, including fees incurred on account of services rendered or work performed at the request of Lessor by independent accountants, attorneys and other consultants, or the value of services provided by employees of Lessor, Lessor's elected officials, in-house counsel, lease administrators and/or lease auditors.

(b) If the entire Deposit, or any portion thereof, is applied by Lessor for the payment of overdue rent or other sums due and payable to Lessor by Lessee hereunder, then Lessee shall, within ten (10) days after Lessor's written demand, immediately remit to Lessor a sufficient amount in cash to restore the Deposit to its original amount.

(c) If Lessee is not, as of the expiration or other termination of this Lease, in breach of its obligations under this Lease, the Deposit shall be returned in full to Lessee at such expiration or other termination of this Lease. Notwithstanding the foregoing, Lessor may retain the Deposit for a reasonable time after expiration or other termination of this Lease as security for the surrender of the Premises by Lessee in substantially the same condition as when first occupied by Lessee, taking into account subsequent construction, maintenance, repair, alteration, modification and modernization as required or allowed by this Lease and commercially normal wear and tear.

(d) Lessor is not a trustee of the Deposit and may commingle it, use it in the ordinary course of business, transfer, or assign it. No interest shall accrue on the Deposit for the benefit of Lessee.

(e) The Deposit specified under this Section 8.1 may be increased in such reasonable amounts as Lessor shall determine to be commercially reasonable and necessary to protect Lessor, the public, the Premises, Redondo Beach King Harbor, the Harbor Area and the environment. Such increase may be based on changes in the current Minimum Monthly Rent and Percentage Rent amounts and/or changes in the CPI Index, in Lessor's reasonable discretion. In the event Lessor determines additional deposit monies are so required, Lessor shall give written notice of such determination to Lessee. Lessee shall thereafter pay the additional deposit amount specified in said notice by Lessor within sixty (60) days after Lessee receives the notice.

## **8.2 Security for Compliance with Commencement, Development, and Completion of Construction of Required and Additional Improvements or Alterations on the Premises**

(a) With respect to any financing from an Institutional Lender, Lessee shall utilize a draw and payment process during construction of Improvements of the Premises that is consistent with sound construction management processes and real estate lending under the circumstances and taking into consideration the cost, duration, size, complexity, scope and contractors working on the Improvements, including utilization of conditional and unconditional lien releases and two-party checks. The draw and payment process shall be designed to protect the interests of Lessee and Lessor in the Premises, including from liens, and to cause the timely completion of the project.

(b) Unless expressly waived by written instrument signed by the Harbor Director and approved by the City Attorney for Lessor, if the construction involves funding from a government or public entity Lessee shall provide to Lessor prior to commencement of construction of any Improvements on the Premises either: (i) an unconditional written personal or corporate guaranty, in a form approved by and reasonably acceptable to Lessor, that the construction involving funding from a government or public entity will be completed as required (provided the identity and the net worth of the guarantor are acceptable to Lessor in its sole and absolute discretion); (ii) a set aside letter from Lessee's construction lender, or (iii) a bond of a responsible surety company approved in advance by Lessor and licensed to do business in California, in an amount equal to one hundred percent (100%) of the cost of constructing said improvements, in combination with such other security, such as a completion guaranty, as acceptable to Lessor. Notwithstanding the foregoing obligation to provide a bond or bonds or other security, Lessor may eliminate or reduce the amount of the bond(s) if it is satisfied, within its reasonable discretion, that procedures are in place by Lessee to protect the interests of Lessor from liens being filed on the Premises and/or the construction not being completed. If Lessee provides such a bond or other security, it shall remain in effect until the entire cost of the work has been paid in full and the Improvements have been insured as provided in this Lease. Any bond shall state that it is for the purpose of securing the completion of the proposed construction, free of all claims and liens of contractors, subcontractors, designers, mechanics, laborers and materialmen. The bond shall state that the construction work shall be performed by Lessee, its general contractor, or in the event of their default, by the surety. The bond shall also provide that the surety will defend and indemnify Lessor against all loss, cost, damages, expenses, and liability arising out of or connected with the construction of the Improvements, including the cost of any professional, investigative, accounting, legal or other services which may reasonably be required by Lessor, plus the value of services provided by employees of Lessor, Lessor's elected officials, in-house counsel, lease administrators and/or lease auditors. For purposes of this paragraph, funding from a government or public entity shall mean any funds provided by Lessor or by any other governmental entity such as a county, the state or the federal government.

(c) Lessee shall, at all times, indemnify and hold Lessor harmless from all claims for design, labor or materials in connection with construction, repair, alteration or installation of structures, Improvements, equipment or facilities within or on the Premises, and from the cost of defending against such claims, including attorneys' fees. Lessee shall carry, or assure that its contractor or contractors carry, statutory coverage in Workers' Compensation and Longshoremen and Harbor Workers' Insurance, as appropriate, to protect all workers employed by all contractors involved with the construction, renovation or modernization of any Improvements on the Premises at any time during the Lease Term.

(d) If a lien is imposed on the Premises as a result of any construction, repair, alteration, or installation work on the Premises, Lessee shall procure and record a bond which frees the Premises from the claim of the lien and from any action brought to foreclose the lien. Such bond shall be recorded within thirty (30) days after Lessee receives written notice of the filing of such a lien.

(e) The providing of security and insurance by Lessee under this Article shall not be construed to limit Lessee's liability or responsibility for completing construction of any required or additional Improvements on the Premises, nor to fulfill the indemnification provisions and requirements of this Lease. Notwithstanding the provision of any bond or guaranty, as between Lessor and Lessee, Lessee shall be obligated for the full and total cost of constructing required or additional Improvements on the Premises and the full amount of any damage, injury, or loss, including all costs, expenses and attorneys' fees, caused by negligence or neglect arising out of any act or omission of Lessee, its agents, employees and Sublessees connected with this Lease or with the use or occupancy of the Premises and related to construction of said Improvements.

### **8.3 Negation of Warranties, Lessee Waivers, Litigation Limitations and Stipulation**

(a) The parties recognize and agree that this Lease, the development process contemplated by this Lease and the business operations Lessee proposes to conduct on the Premises pursuant to this Lease, contain elements of risk, especially with respect to permits, approvals and financing. Subject to the specific terms of this Lease, Lessee acknowledges and agrees: (i) that this risk shall be borne by Lessee alone; (ii) that Lessor does not and cannot guarantee permits or approvals will be secured from all required agencies; and (iii) that Lessor does not warrant or guarantee financeable title, financing or feasibility, except for any specific agreements or commitments made by Lessor in this Lease and the fact that Lessor covenants and agrees that it will not voluntarily encumber or place any cloud on Lessee's title to the Premises.

(b) Lessee further acknowledges and agrees as follows:

(i) That Lessor is a charter city formed under and pursuant to the terms and provisions of the Government Code of the State of California. The powers and authority of Lessor to act are governed by the Government Code and other applicable laws and regulations of the State of California, including the City Charter, and other municipal laws and regulations. Lessee accepts this Lease, subject to the terms and provisions of such Code and such other applicable laws and regulations now existing or hereafter enacted, and, as they may be amended from time to time.

(ii) That the Premises are within the coastal zone and subject to the California Coastal Act, that any proposed further development of the Premises is subject to compliance with CEQA and the California Coastal Act and that this Lease may be subject to the restrictions imposed in connection with the grant of tidelands from the State of California to Lessor as set forth above.

(iii) That, in the event of a breach of this Lease by Lessor, the remedy of Lessee shall be limited to an action at law for damages actually and demonstrably incurred by

Lessee by reason of said breach. In the event of such a breach by Lessor, Lessee waives all right to claim any interest in the Premises in or as a result of any judicial proceeding, including but not limited to a claim for specific performance, quiet title, declaratory relief, equitable lien or constructive trust.

## **9. LESSEE'S OBLIGATION TO MAINTAIN AND REPAIR**

### **9.1 Normal Repairs**

Except for Lessor's obligations to maintain and repair as stated in Section 10.1 below, Lessee shall, at its sole cost and expense, maintain the Premises and all Improvements of whatever kind that may be now or hereafter erected, installed or otherwise made thereon, in First Class Condition and Repair and in accordance with all applicable laws, rules, ordinances, orders and regulations relating to any part of the Premises or the Improvements thereon, and shall make all necessary repairs and alterations thereto. Lessee further shall provide proper containers for trash and garbage and keep the Premises at all times free and clear of rubbish, debris and litter. Lessee shall not be responsible for any of Lessor's responsibilities in Section 10.1 of this Lease. If Lessee receives written notice from Lessor of any deficiencies in Lessee's maintenance of the improvements on the Premises, and Lessee fails to cure such deficiencies within thirty (30) days thereafter (or, if any such deficiency is of such a nature that it cannot be cured within thirty (30) days, such additional time as is reasonably necessary to cure such deficiency so long as the cure thereof is commenced with such thirty (30) day period and thereafter diligently pursued to completion), Lessee shall pay Lessor the sum of One Hundred Dollars (\$100.00) per day (for each date after the expiration of the applicable notice and cure period) for each separate item for so long as the deficiencies remain uncured. Such sum shall, at Lessor's discretion, be increased by the percentage increase in the CPI since the Commencement Date. Lessor may deduct such amounts from the Deposit, and Lessee shall be obligated to restore the Deposit to its full amount. Such payment shall not be deemed to cure the default, and Lessor shall have all other rights and remedies with respect thereto.

### **9.2 Structural Review and Renovation Fund**

(a) Lessee shall contract with a licensed and insured structural engineer (to be approved by the City Engineer or the City Manager's designee, which approval shall not be unreasonably withheld) to perform a complete structural review of the Improvements prior to the tenth anniversary of the Commencement Date and every tenth anniversary thereafter during the Lease Term. Each structural review shall determine any work necessary to maintain the structural integrity of the Improvements. Lessee shall promptly perform any work specified by such engineer in writing, which work shall qualify as Permitted Capital Improvements. All written reports of such engineer shall be submitted to Lessor's Harbor Director and City Engineer.

(b) No later than the fourth anniversary of the Commencement Date, Lessee shall create the Renovation Fund. Upon the fourth anniversary of the Commencement Date, and until twenty-seven and one-half years after the Commencement Date, Lessee shall deposit a sum equal to Two Percent (2%) of Gross Receipts of the prior quarter into the Renovation Fund every quarter no later than the end of the first month succeeding such quarter. If the Term of this

Lease is revised to February 13, 2028 as provided in Section 4 hereof, the foregoing amounts shall be deposited into the Capital Improvement Fund instead of the Renovation Fund, in addition to the other amounts required to be placed into the Capital Improvement Fund pursuant to Section 7.7 hereof. The Renovation Fund shall be maintained at a reputable commercial financial institution. Lessee shall furnish to Lessor's Harbor Director an annual accounting of the deposits made into and the balance of the Renovation Fund no later than April 1st of each year. In addition, upon request of Lessor, Lessee shall provide Lessor with evidence of quarterly deposits into the Renovation Fund. The Renovation Fund shall be expended by Lessee on Permitted Renovations benefiting the Improvements which are approved in advance by the Lessor's Harbor Director or his successor, as defined by the City of Redondo Beach Municipal Code Title 12 (as the same may be amended from time to time). Such approval shall be made in accordance with the then current policy within the Harbor Area, shall consider CEQA, shall be commercially reasonable, shall not be unreasonably withheld, conditioned, or delayed, and shall maintain the Improvements in accordance with the Required Hotel Standard. The Permitted Renovations shall consist of a single midterm renovation and construction work as necessary to revitalize the Improvements to a condition and appearance in accordance with the Required Hotel Standard. The Renovation Fund shall be fully expended during a single renovation event no earlier than December 18, 2039 (26 years after Commencement Date) and no later than December 18, 2042 (29 years after Commencement Date Term) on Permitted Renovations. Lessee shall provide Lessor an accounting which includes a detailed description and cost of all Permitted Renovations funded through Renovation Fund expenditures. Upon receipt of the accounting Lessor shall confirm that such Renovation Fund expenditures are permitted hereunder, and shall add the Hard Costs of the approved Renovation Fund expenditures to the Base Value. Lessee shall reimburse the Renovation Fund for any expenditures which are not permitted hereunder. To the extent any Lender requires a capital reserve that accomplishes the same objectives in a manner consistent with the Renovation Fund, Lessee shall be credited with amounts paid into such reserve but shall meet the other obligations stated in this paragraph, including annual accounting and timing of expenditures. The Renovation Fund shall not be pledged to any third party, except any Lender in connection with financing permitted hereunder, nor shall it be used for any purpose other than Permitted Renovations. Any funds remaining in the Renovation Fund after completion of the Permitted Expenditures shall be transferred to the Capital Improvement Fund and/or Removal Security Fund, as approved by Lessor, and used in accordance with the requirements for such funds. The cost of Permitted Renovations shall be paid with amounts deposited in the Renovation Fund, provided that any Permitted Renovations costs in excess of the amounts deposited in the Renovation Fund may be paid from funds other than the Renovation Fund.

### **9.3 FF&E Fund**

(a) Commencing with the Commencement Date, and continuing through the remaining Term of the Lease, Lessee shall establish and maintain a reserve fund (the "FF&E Fund"). Lessee shall deposit the sums set forth in paragraph (b) below. Such amounts shall be deposited into the FF&E Fund every year no later than the end of the first month succeeding such year. The FF&E Fund will be available to fund the cost of the purchase and installment of replacements, additions or upgrades of or to the FF&E used in the Improvements throughout the Term. The FF&E Fund shall not be used for (a) maintenance or repair purposes, (b) the cost of Renovation 2013-14 or the initial furniture, fixtures and equipment to be installed in the

Premises in connection with Renovation 2013-14, (c) the cost of Permitted Renovations to be funded by the Renovation Fund, or (d) the cost of Permitted Capital Expenditures to be funded by the Capital Improvement Fund. All specific purposes and costs for which Lessee desires to utilize amounts from the FF&E Fund shall be subject to prior approval by Lessor's Harbor Director, which approval shall not be unreasonably withheld.

(b) Commencing on the first anniversary of the first (1st) full calendar month following the Commencement Date and continuing each anniversary thereafter during the remaining Term, Lessee shall make a deposit to the FF&E Fund in the following amounts:

(i) for the first (1st) year of the Term, one percent (1%);

(ii) for the second (2nd) year of the Term, two percent (2%) of total Gross Receipts for the previous year; and

(iii) during the third (3rd) and each subsequent year of the Term, three percent (3%) of total Gross Receipts for the previous year.

(c) All interest and earnings on the FF&E Fund shall be added to the FF&E Fund, but shall not be treated as a credit against the FF&E Fund deposits required to be made by Lessee pursuant to this Section 9.3.

(d) Disbursements shall be made from the FF&E Fund only for costs which have been approved by Lessor's Harbor Director and which satisfy the requirements of this Section 9.3. For the purpose of obtaining Lessor's Harbor Director's prior approval of FF&E Fund disbursements in any given year, Lessee shall submit to Lessor's Harbor Director a furniture, fixtures and equipment expenditure plan for the upcoming year which details the amount and purpose of anticipated FF&E Fund expenditures for which Lessee requests Lessor's Harbor Director's approval, which approval shall not be unreasonably withheld, conditioned or delayed. Any anticipated expenditure set forth in such FF&E expenditure plan which is approved by Lessor's Harbor Director as an acceptable FF&E Fund disbursement shall be considered pre-approved by Lessor's Harbor Director (but only up to the amount of such expenditure set forth in the annual furniture, fixtures and equipment expenditure plan) for the duration of the upcoming year. Lessee shall have the right during the course of each year to submit to Lessor's Harbor Director for approval revisions to the then current furniture, fixtures and equipment expenditure plan in effect for such year, or individual expenditures not noted on the previously submitted FF&E expenditure plan. Prior to the disbursement of any amounts from the FF&E Fund, Lessee shall furnish to Lessor's Harbor Director applicable invoices, evidence of payment and other back-up materials reasonably acceptable to Lessor's Harbor Director concerning the use of amounts from the FF&E Fund. Upon receipt of such materials Lessor shall confirm that such expenditures are permitted hereunder. Lessee shall reimburse the FF&E Fund for any expenditures which are not permitted hereunder.

(e) Amounts in the FF&E Fund shall be expended periodically as necessary for Lessee to comply with the standard of operation for the Premises applicable under this Lease. If Lessor elects to require Lessee to remove the Improvements at the end of the Term and requires Lessee to provide a Removal Security Fund to secure its obligation to perform such removal

obligations in accordance with subsection 11.2 (ii) of this Lease, then Lessee shall have the right to contribute to the Removal Security Fund any amounts in the FF&E Fund that are not (and will not be) required for the purposes of this Section 9.3, as determined by Lessor's Harbor Director in Lessor's Harbor Director's reasonable judgment. If Lessor does not require the removal of the Improvements, and at the end of the Term there are amounts remaining in the FF&E Fund that in Lessor's Harbor Director's reasonable judgment were not required for the purposes of this Section 9.3, then Lessee shall be entitled to the return of such funds.

## **10. MAINTENANCE AND REPAIR BY LESSOR**

### **10.1 Lessor's Right of Entry for Purposes of Repair**

(a) If, in Lessor's opinion, it ever becomes necessary for the safety of the Harbor to extend any bulkhead, mole or quaywall situated in the Redondo Beach King Harbor, Lessor shall have the right to do so at its sole cost and expense. All maintenance, repair and other work by or on behalf of Lessor required or permitted under this paragraph shall be undertaken, using best efforts, in a manner so as to reasonably minimize the negative impacts of the same upon the Premises, Lessee, Lessee's guests, marina tenants, subtenants and invitees.

(b) Lessor shall not be required to maintain or repair any Improvements or facilities on the Premises. Lessor may enter upon the Premises, or any portion thereof, from time to time, for the purpose of inspecting or repairing items of Lessor's responsibility, or to inspect and/or cure an actual or suspected breach of this Lease by Lessee that reasonably requires entry upon the Premises. In so doing, Lessor shall use reasonable efforts to minimize disruption to Lessee or its Sublessees. Lessor shall not be liable to Lessee, or its Sublessees, or any person or entity claiming through Lessee or its Sublessees, or to the occupant of any portion of the Premises for any loss, damage or harm arising out of Lessor's exercise of the rights reserved herein except to the extent the same is due to the willful misconduct or gross negligence of Lessor, its agents, contractors and employees (provided that Lessee shall not be required to indemnify Lessor against any claim relating to Lessor's right of entry hereunder, except, and only to the extent of, Lessee's own negligence, recklessness, or willful misconduct, including that of any of its Sublessees, agents, concessionaires, and licensees). Except for damages arising from the willful misconduct or gross negligence of Lessor, its agents, contractors or employees, neither Lessee nor any Sublessee, or other person claiming under or through Lessee, shall be entitled to any consequential damages arising therefrom.

(c) If Lessee fails to make repairs or replacements as required in this Lease, Lessor may notify Lessee of said failure in writing. If Lessee fails to make the repairs or replacements within a reasonable time thereafter, as established by Lessor, Lessor may make such repairs and replacements at Lessee's expense. Lessee shall reimburse Lessor for the costs thereof within ten (10) days after Lessor's notice specifying such costs. Such costs may include, without limitation, the cost of design, labor, material, equipment, the value of services provided by employees of Lessor, its officers, elected officials, in-house counsel and lease administrators, and the cost of professional services such as attorneys, accountants, contractors and other consultants as may be reasonably incurred or paid by Lessor. Lessor, at its option, may commit all or part of the Deposit to cover the cost of making such repairs and replacements. If Lessor makes such repairs or replacements, Lessee shall indemnify and hold Lessor harmless from and against all

claims, demands, loss or liability of any kind arising out of or connected in any way with such work, including, but not limited to claims by Lessee, its officers, employees, agents, Sublessees and the patrons or visitors of Lessee or its Sublessees (except for damages to the extent arising from the willful misconduct or gross negligence of Lessor, its agents, contractors or employees).

## **10.2 Limitations on Lessor's Obligation to Repair**

Except for Lessor's obligations as stated in Section 10.1 (a) above Lessor shall have no duty, obligation or liability to care for or maintain the Premises. If, by any express provision of this Lease, Lessor agrees to care for or maintain the whole or any part of the Premises, such agreement on the part of Lessor shall constitute a covenant only, and no obligation or liability whatsoever shall exist on the part of Lessor to Lessee by reason thereof unless Lessor fails to commence performance of such obligation with reasonable diligence after receipt of a written notice from Lessee, specifying (a) the provisions of this Lease under which such duty is claimed to exist on the part of Lessor, and (b) the facts that require the performance of such duty. In such event, Lessor's liability shall be limited to the costs and expenses of performing such obligation and neither Lessee nor its Sublessees, nor any person claiming under or through Lessee, shall be entitled to consequential damages arising therefrom except to the extent the same is due to the willful misconduct or gross negligence of Lessor, its agents, contractors and employees.

## **11. SURRENDER OF PREMISES**

### **11.1 Lessee's Obligation to Surrender upon Expiration of Lease Term or upon Termination**

Lessee hereby covenants that upon the expiration of the Lease Term, or any sooner termination of this Lease, Lessee shall surrender the Premises to Lessor along with any Improvements, subject to the Sections below.

### **11.2 Reversion of Improvements**

Upon the expiration of the Term or sooner termination of this Lease, whether by cancellation, forfeiture or otherwise:

(a) Lessor's Election to Receive Improvements. At the election of Lessor, in Lessor's sole and absolute discretion, all structures, buildings, Improvements and all alterations, additions, and betterments thereto, and all other Improvements made to or upon the Premises shall remain upon and be surrendered with the Premises as part thereof and title thereto shall vest in Lessor without compensation therefor to Lessee. Nothing contained herein shall be construed to deny or abrogate the right of Lessee, prior to the expiration of the Term or termination of this Lease, to receive any and all proceeds which are attributable to the Condemnation of business installations, Improvements, structures and buildings belonging to Lessee immediately prior to the taking of possession by the Condemnor as said rights are set forth in Article 6 of this Lease, or to remove any furniture or equipment not permanently affixed to the Premises, any signage identifying Lessee (as opposed to other signage used in the operation of the Premises and associated Improvements), or any personal property, upon the expiration of the Term or earlier termination of this Lease or at any time during the Term, subject to Lessee's obligations under this Lease to use the Premises for the Permitted Uses.



(b) Duty to Remove.

(i) No earlier than eleven (11) years, and no later than ten (10) years prior to the expiration of the Term, Lessee shall deliver to Lessor a report prepared by a construction and demolition expert approved by Lessor, such approval not to be unreasonably withheld or delayed, which report details and estimates the cost of removing all Improvements on the Premises at the expiration of the Term. Lessor is not obligated to and will not commit to or approve the removal of the Improvements under this Lease without first complying with the requirements of CEQA. Lessor retains the absolute sole discretion to modify any application for removal of the Improvements as may be necessary to comply with CEQA. Mitigation measures and/or alternatives to avoid significant environmental impacts, including the "no project" alternative, required in connection with the CEQA environmental review process may be adopted. Nothing precludes Lessor from denying any application for removal of the Improvements, or from weighing its economic, legal, social, technological, or other benefits when determining whether to approve such removal. Lessor may give written notice (the "Lessor Removal Notice") at any time, no later than the later of (a) one (1) year following Lessee's delivery of the removal cost report described above, or (b) nine (9) years prior to the expiration of the Term, or concurrently upon any earlier termination, of Lessor's election to reserve the right to require Lessee to remove, at the sole cost and expense of Lessee, not later than the expiration of the Term or earlier termination of this Lease, all or any portion of the at-grade, above-grade and below-grade Improvements of any kind whatsoever placed or maintained on the Premises, whether placed thereon or maintained by Lessee or others, including, but not limited to, concrete foundations, pilings, structures and buildings, but not including any public utilities maintained by utility companies. If Lessor reserves the right to require the removal of Improvements in the Lessor Removal Notice, then Lessor shall have the right to notify Lessee in writing not later than two (2) years prior the expiration of the Term as to whether Lessor in fact desires to exercise such reserved right. If Lessor fails to notify Lessee in writing pursuant to the immediately preceding sentence by the date that is two (2) years prior to the expiration of the Term, then Lessor shall be deemed to have elected to require Lessee to remove the Improvements in accordance with the Lessor Removal Notice. If Lessor requires Lessee to remove the Improvements, then Lessee shall, upon the expiration or termination of this Lease, immediately restore, and quit, and peacefully surrender possession of, the Premises to Lessor in good, usable and buildable condition, consisting of a level, graded buildable pad with no excavations, hollows, hills or humps. Under such circumstances whereby City requests removal of the Improvements, Lessee shall have the right to cease business operations on the Premises no sooner than ninety (90) days prior to the expiration of the Term in order to commence such removal. During such period after operations have ceased, but prior to the expiration of the Term, Lessee shall be required to pay to Lessor concurrent with Lessee's cessation of operations, a lump sum payment equal to the Monthly Minimum Rent (calculated at the rate in effect immediately prior to Lessee's cessation of operations) for the remaining portion of the Term.

(ii) If Lessor has elected to require Lessee to remove the Improvements, Lessee shall have the right, by written notice to Lessor not later than thirty (30) days prior to the expiration of the Term, to extend the date by which Lessee must complete the Improvement removal and Premises surrender obligations under this subsection 11.2(ii) and/or the Lessee's removal obligations under subsection 11.2 (iv) below, for a period (the "Removal Extension Period") of not more than one hundred twenty (120) days after the expiration of the Term;

provided, however, that Lessee shall be required to pay to Lessor concurrent with Lessee's extension notice Monthly Minimum Rent (calculated at the rate in effect immediately prior to the expiration of the Term) for the Removal Extension Period. The aggregate amount of Monthly Minimum Rent for the entire Removal Extension Period shall be paid by Lessee to Lessor in advance as a condition to the extension described in this paragraph. During the Removal Extension Period all of the Lessee's other obligations and liabilities under the Lease (other than the obligation to affirmatively operate the Premises and other than the obligation to pay any Monthly Minimum Rent over and above the advance Monthly Minimum Rent paid by Lessee as provided above) shall be applicable, including without limitation, the Lessee's obligations with respect to insurance and indemnification.

(iii) If Lessor elects to reserve the right to require Lessee to remove Improvements hereunder pursuant to the Lessor Removal Notice, then Lessee shall, no later than the date which is thirty (30) days after Lessee's receipt of the Lessor Removal Notice, provide Lessor with a written plan which sets forth Lessee's proposed method of securing the discharge of Lessee's removal and restoration obligations pursuant to this subsection. Such security plan shall detail (a) the form of security proposed by Lessee (the "Removal Security Fund"), which security shall be either a deposit of funds, or a letter of credit, bond or other form of security in form and amount, and from an issuer, satisfactory to Lessor, and (b) a schedule satisfactory to Lessor for the delivery by Lessee of the Removal Security Fund, which schedule shall in all events provide for a full funding of the Removal Security Fund not later than two (2) years prior to the expiration of the Term. The amount of the Removal Security Fund shall be no less than the estimated costs to remove the Improvements set forth in the report described above, adjusted annually to reflect the increase or decrease, if any, in the cost index as of the date of cost estimation set forth in such expert report; provided, however, that in no event shall such adjustment result in a Removal Security Fund of an amount less than that set forth in the expert report. If Lessor requires Lessee to establish a Removal Security Fund, then Lessee shall have the right to credit to such removal fund the quarterly Capital Improvement Fund deposits thereafter required to be made by Lessee during the remaining Term pursuant to Section 7.7 of this Lease, to the extent that in the Lessor's Harbor Director's sole and absolute judgment sufficient funds remain available from time to time in the Capital Improvement Fund to satisfy the purposes of Section 7.7 of this Lease. Any uncured failure by Lessee to fund the Removal Security Fund as required under this subsection 11.2 (ii) shall constitute an Event of Default.

(iv) If Lessor requires the Removal Security Fund, Lessee shall have the right to use all amounts remaining in the Capital Improvement Fund at the end of the Term for the Improvement removal purposes described in this subsection 11.2 (ii), if and to the extent that such funds were not required for Capital Improvement Fund purposes. If a Removal Security Fund is required, but Lessor does not require the removal of the Improvements at the end of the Term, then the Removal Security Fund (including any Capital Improvement Funds that were transferred to the Removal Security Fund and were not required for Capital Improvement Fund purposes under Section 7.7) shall be returned to Lessee.

(v) If Lessor decides not to require Lessee to remove the buildings, structures and Improvements on the Premises as provided above, then upon the expiration of the Term, or earlier termination of the Lease, Lessee shall turn over the Premises to Lessor in good and

workmanlike condition, consistent with the condition of other buildings, structures and Improvements of comparable age and construction quality.

(c) Lessor's Right to Remove Improvements.

If Lessee fails to perform demolition, removal and restoration obligations required to be performed by Lessee hereunder, then Lessor may, at its election, sell, remove or demolish the Improvements, and such event, Lessee shall reimburse Lessor for any cost or expense thereof in excess of any funds received by Lessor through the security above provided and any consideration received by Lessor as a result of such sale, removal or demolition.

(d) Duty to Remove Equipment, Etc.

No later than the expiration of the Term or sooner termination of this Lease (or within the additional one hundred twenty (120) day period described in subsection 11.2 (ii) above), Lessee shall in any event remove at its cost and expense such furniture, equipment and personal property as are not firmly affixed to said structures, buildings and Improvements. Should Lessee fail to so remove said furniture, equipment and personal property within said period, and said failure continues for thirty (30) days after written notice from Lessor to Lessee, Lessee shall lose all right, title and interest in and thereto, and Lessor may elect to keep the same upon the Premises or to sell, remove, or demolish the same, in event of which sale, removal, or demolition Lessee shall reimburse Lessor for all costs incurred in connection with such sale, removal or demolition in excess of any consideration received by Lessor as a result of said sale, removal or demolition.

## **12. TITLE AND WARRANTIES**

### **12.1 Disclaimer of Warranties**

Lessee acknowledges that the Premises are subject to trusts, covenants, conditions, easements and restrictions of record. Lessor warrants that it has the authority to lease the Premises to Lessee in accordance with the terms of this Lease for uses not inconsistent with the trusts under which the Premises are held by Lessor pursuant to the California Coastal Act of 1976 and other grants from the State of California and the public trust. Lessor and Lessee agree and acknowledge that no warranties, covenants, promises or representations as to the title, possession or use of the Premises are made by Lessor in this Lease, or in any other form or manner, except as provided in this Article. It is expressly agreed and understood that notwithstanding any provision in this Lease to the contrary, if the tenancy hereunder is or becomes inconsistent with the trusts under which the Premises are held by Lessor pursuant to the grants from the State of California, the rights and obligations of the parties will be governed solely and exclusively by the provisions of Sections 6.3 and 6.4, above.

### **12.2 Lessee's Quiet Possession**

Except as specifically provided herein, if Lessee performs and observes all of the covenants and conditions on its part to be performed hereunder, including payment of all sums payable to Lessor or others by Lessee, Lessor shall secure to Lessee during the Lease Term, the quiet and peaceful possession of the Premises against all persons. Lessor shall, upon acquiring actual knowledge of the claims of any such person, which claims disturb or interfere with the

quiet, peaceful and lawful possession of the Premises by Lessee, at Lessor's own cost and expense and with reasonable diligence, file such proceedings and take such actions as may be reasonably necessary to remove the claim of such person and the actual interference and disturbance thereby with the quiet, peaceful and lawful possession by Lessee; but aside therefrom, neither Lessee nor its Sublessees, nor any other person claiming under or through Lessee, shall have any claim against Lessor for any damages, whether consequential, incidental or compensatory, nor shall Lessee be released or discharged from any of its obligations, liabilities, or indebtedness hereunder unless and until Lessee is legally, actually, and physically (as distinguished from constructively) evicted from the Premises by such person or persons.

### **12.3 Lessee Acknowledgments and Waiver**

Lessee acknowledges that from time to time during the term of the Lease, and at such times and intervals as may be determined by Lessor in its sole discretion, construction, rehabilitation, replacement, repair and restoration activities may be conducted by the authority of Lessor within the Harbor Area. Lessee acknowledges that said activities and related operations, including the staging, storage and docking activities on other parcels in and around the Harbor Area are necessary and for the benefit of Lessee, its Sublessees, other lessees and the public, and that the conduct of such activities shall not be deemed to have disturbed or interfered with the possession and use of the Premises by Lessee or its Sublessees, or anyone claiming under Lessee or its Sublessees, or to have caused Lessee or its Sublessees to be evicted, either actually or constructively, from the Premises, and shall, under no circumstances, entitle Lessee, its Sublessees or others claiming under or through Lessee or any Sublessee, to claim or recover incidental or consequential damages from Lessor on account of such activities.

## **13. ENCUMBRANCE OF LEASEHOLD**

### **13.1 Lessee's Right to Encumber To Finance Construction of Additional Improvements or Renovation Program**

(a) If it becomes necessary or desirable for Lessee to secure interim or permanent financing for the construction of any required or additional Improvements on the Premises or to complete the renovation program under Section 9.2, above, or otherwise, Lessee shall, subject to the terms and provisions of this Article, have the right to subject Lessee's leasehold estate in the Premises, and any and all of Lessee's Improvements on the Premises, to one or more mortgages or trust deeds as security for a loan or loans from an Institutional Lender, subject to Section 13.2 below, provided among other things, that:

(i) The mortgage, all related documents and instruments and all rights acquired under the mortgage documents shall be subject and subordinate to the covenants, conditions and restrictions set forth in this Lease and to all rights and interests of Lessor, except as may be expressly provided in this Lease;

(ii) The mortgage shall not be placed upon or encumber the tide or submerged lands, or the fee simple title to the Premises, or any other interests of Lessor;

(iii) The amount of indebtedness secured by the proposed mortgage, plus the amount of indebtedness secured by all other approved mortgages, if any, encumbering Lessee's

interest in the Premises, shall not exceed eighty percent (80%) of the Fair Market Value of Lessee's interest in this Lease and the Improvements on the Premises, and Lessee's projections of net operating income derived from all operations conducted on or from the Premises for the next five (5) calendar years of the Lease Term shall be no less than one hundred twenty percent (120%) of all debt service (including all costs and expenses related to the debt service) payable by Lessee during such calendar year for all loans secured by mortgages encumbering Lessee's interest in this Lease, and the Improvements on the Premises. For purposes of this subsection (iii) if requested by Lessor acting in its reasonable discretion, the Fair Market Value of Lessee's interest in this Lease and the Improvements on the Premises shall be determined by an appraiser selected by Lessee and subject to the reasonable approval of Lessor, and who shall be a member in good standing of the American Institute of Real Estate Appraisers holding an M.A.I. designation and be primarily engaged in the business or occupation of appraising or evaluating business real property and Improvements. All costs and fees of obtaining such market value determination shall be at Lessee's sole expense;

(iv) The mortgage shall encumber only Lessee's interest in the Improvements on the Premises and Lessee's interest in this Lease and no other real property;

(v) The mortgage shall not be cross-defaulted with agreements relating to other property or transactions;

(vi) The mortgage shall expressly provide that it shall not be modified, extended, renewed or otherwise revised (other than such extension permitted by its terms), nor shall the mortgage, or any interest therein, be further mortgaged, pledged, encumbered, hypothecated or any security otherwise granted therein, without the prior written consent of Lessor, which consent shall not be unreasonably withheld, conditioned or delayed;

(vii) The mortgage shall not, by its terms or effect, be used to transfer ownership of this Lease or Lessee's interest herein, or in the Improvements on the Premises (except a security interest therein) nor to change control of Lessee, except in connection with the exercise of Lender's rights and remedies under any applicable security instrument; and

(viii) The mortgage and related documents shall state that:

a) the terms and provisions of this Lease shall prevail, govern and control in any instance where an inconsistency or conflict exists between the terms and provisions of this Lease and the terms and provisions of any mortgage document, unless otherwise agreed by Lessor;

b) any proceeds from fire or extended coverage insurance shall first be used for the repair, rebuilding, restoration or reconstruction of Improvements on the Premises and only the remaining proceeds, if any, may then be used to repay any part of the outstanding indebtedness secured by the mortgage;

c) should the Lender or any successor-in-interest to it, succeed to the interests of Lessee in the Premises or under this Lease by any means or proceedings whatsoever, and regardless of whether or not the Lender actually enters into and takes possession of the Premises, then the Lender shall be obligated to keep and perform all of the covenants and

conditions of this Lease required to be kept and performed by Lessee during its ownership of the Lessee's interest in the Premises and Improvements; and

d) unless prohibited by Lender, the Lender, regardless of whether or not a request for notice shall have been recorded by Lessor, shall give Lessor written notice of any default under the mortgage and related documents, which notice shall be given within twenty (20) calendar days after the Lender declares an event of default or otherwise commences the exercise of its rights and remedies under the applicable security instrument. Notwithstanding the requirements of this subsection, Lessor agrees to consider acceptance of alternate methods of compliance with this provision, provided the effect of such alternate methods achieve the same legal effect as it relates to Lessor's rights and requirements under the Lease.

(b) For purposes of this Article, the extension or renewal of existing financing, unless explicitly provided for in the original financing documents or this Lease, shall be considered a new loan or encumbrance, subject to all criteria set forth in this Article and Lessor's approval thereof pursuant to the provisions hereof. In such event, Lessor shall have the right to require that Lessee invest additional capital and equity to bring the loan or encumbrance within the debt service coverage standards set forth in subsection (a)(iii).

(c) Whenever the words "mortgage", "deed of trust" or "encumbrance" appear herein, the words "security instrument" may be substituted in their place.

### **13.2 Lessor's Approval of Encumbrance and Processing Fee**

Prior to the making of any such lien or encumbrance under Section 13.1 above, Lessee must submit to Lessor the proposed terms and conditions of the loan, setting forth the total amount thereof, the interest rate, the payment schedules and a description of the security for repayment, and shall obtain the consent of Lessor for such encumbrance, which consent may not be unreasonably withheld, conditioned or delayed. Any such encumbrance without Lessor's consent shall be immediately void and shall constitute a default hereunder. A non-refundable fee, which shall be reasonable under the circumstances in light of the size, nature, complexity and expertise required to review said proposed encumbrance, shall be paid by Lessee to Lessor for processing each request for consent to such mortgage or encumbrance submitted to Lessor. Such fee shall be paid concurrently with the initial submission of encumbrance documents and loan information, is deemed earned by Lessor when paid, and shall not be refundable. Lessee acknowledges that Lessor may deny approval of any encumbrance if Lessee or any of its successors or assigns is then in default of any obligation under this Lease or if, Lessee is not in compliance with Section 13.1 above. Lessee shall provide and make available to Lessor all documents and information related to its operations, past and/or contemplated business activities and other information which Lessor may request and reasonably require in order to determine the commercial reasonableness of the proposed encumbrance. Lessor's consent to any such encumbrance or mortgage shall not be deemed to be, nor construed as, Lessor's consent to any other encumbrance or mortgage, regardless of whether such other encumbrance is secured in whole or in part by the same collateral or property interests as an encumbrance or mortgage to which Lessor has previously consented.

### **13.3 Lessee's Right to Refinance**

to be cured by Lender consists of the failure of a prior lessee to pay Appreciation Rent, upon cure by Lender Lessor shall assign to Lender all of its right, title and interest to its claim against such prior lessee in form satisfactory to Lender and shall reasonably cooperate with Lender in its pursuit of payment from such prior lessee.

(c) If the purchaser at foreclosure or entity that acquires the interest in the Lease by means of a deed-in-lieu of foreclosure or similar type of assignment is not either (i) an Institutional Lender or (ii) an affiliate of an Institutional Lender, then no such subsequent transfer by the purchaser can be made without obtaining the prior written consent of Lessor pursuant to the terms and provisions of Article 15 below. In the event of any transfer, and in addition to the requirements of subsection (b), above, the transferor shall immediately give written notice to Lessor of such transfer, including the name and address of the transferee and the effective date of such transfer.

(d) Notwithstanding any provision of this Lease to the contrary, Lessor agrees that it will not terminate this Lease because of any default or breach thereunder on the part of Lessee, if the Lender, within thirty (30) days after service of written notice from Lessor of its intention to terminate this Lease for such default or breach (or within sixty (60) days after receipt by the Lender of written notice from Lessor stating that Lessee has commenced curing said default but is not diligently prosecuting the same to completion) shall cure such default or breach and thereafter keep and perform all of the covenants and conditions of this Lease provided herein to be kept and performed by Lessee (other than those that are personal to Lessee or are Excluded Defaults). In the event that the cure requires Lender to obtain a receiver and Lender otherwise cures any default related to non-payment of rent, Lender's time to cure shall not expire so long as Lender (or the receiver appointed) shall commence to cure the default within thirty (30) days after appointment and diligently pursues the cure to completion, provided the Lender has instituted judicial proceedings required for the appointment of a receiver and is diligently pursuing same.

(e) If the breach or default is an Excluded Default ("Noncurable Defaults"), or if there are multiple defaults, some being curable and some Noncurable Defaults (in which case the Lender shall commence to cure the curable defaults within thirty (30) days after service of written notice by Lessor of its intention to terminate this Lease and diligently pursues the cure to completion and the Lender shall further, within sixty (60) days after service of written notice by Lessor of its intention to terminate this Lease, shall commence and thereafter diligently pursue to completion proceedings for the foreclosure and sale under and pursuant to the terms of its encumbrance, which shall be accomplished within one hundred eighty (180) days after commencement or such longer period as may be required for Lender to obtain an order of sale or other judicial remedy, including but not limited to relief from a stay under the Bankruptcy Code, in order to permit under applicable law the foreclosure or sale (the "Foreclosure Period"). The actions required under the preceding sentence may include, but are not limited to the initiation and prosecution of proceedings under the Bankruptcy Code, 11 USC §§101 et seq., to lift any stay or other order which may be in effect. During the Foreclosure Period, the Lender shall perform (or, with respect to nonmonetary obligations, has instituted judicial proceedings required for the appointment of a receiver and is diligently pursuing same and thereafter the receiver so appointed shall perform) all of Lessee's obligations required under the Lease, other than those that are Excluded Defaults.

(f) [reserved]

(g) Notwithstanding any provisions of this Lease to the contrary, Lessor further agrees that it will not terminate this Lease because of any default or breach by Lessee specified in Article 16 below, if, prior to expiration of the Foreclosure Period, the Lender gives written notice to Lessor agreeing to cure all curable defaults under this Lease as defined in subsection (d) of this Section 13.4, and expressly assuming all obligations of Lessee under this Lease during such period that the Lender, or a receiver appointed at its instance and request, shall be in possession or entitled to possession of the Premises. If the Lender fails or refuses to comply with any or all of the terms of this subsection 13.4(g), Lessor shall be released from the covenants of forbearance contained herein.

(h) In the event that this Lease is terminated by reasons of bankruptcy, assignment for the benefit of creditors, insolvency or any similar proceedings, operation of law, an Excluded Default or other event beyond the reasonable ability of a Lender to cure or remedy, or if the Lease otherwise terminates for any reason, Lessor shall, upon the written request of any Lender with respect to Lessee's entire leasehold estate under this Lease (according to the priority described below if there are multiple Lenders), enter into a new lease (which shall be effective as of the date of termination of this Lease) with the Lender or an affiliate thereof for the then remaining Term of this Lease on the same terms and conditions as shall then be contained in this Lease, provided that the Lender cures all then existing monetary defaults under this Lease, and agrees to commence a cure of all then existing non-monetary Defaults within sixty (60) days after the new lease is entered into, and thereafter diligently pursues such cure until completion. In no event, however, shall the Lender be obligated to cure any Noncurable Defaults. Lessor shall notify the most junior Lender of a termination described in this subsection 13.4(h) within thirty (30) days after the occurrence of such termination, which notice shall state (i) that the Lease has terminated in accordance with Section 13.4 of this Lease, and (ii) that such Lender has sixty (60) days following receipt of such notice within which to exercise its right to a new lease under this subsection 13.4(h), or else it will lose such right. A Lender's election shall be made by giving Lessor written notice of such election within sixty (60) days after such Lender has received the above-described written notice from Lessor. Within a reasonable period after request therefore, Lessor shall execute and return to the Lender any and all documents reasonably necessary to secure or evidence the Lender's interest in the new lease for the Premises. From and after the effective date of the new lease, the Lender (or its affiliate) shall have the same rights to a single transfer that are provided in subsection 13.4(b) above, and shall enjoy all of the other rights and protections that are provided to a Lender in this Article 13. Any other subsequent transfer or assignment of such new lease shall be subject to all of the requirements of Article 15 of this Lease. If there are multiple Lenders, this right shall inure to the most junior Lender in order of priority; provided, however, if such junior Lender shall accept the new lease, the priority of each of the more senior Lenders shall be restored in accordance with all terms and conditions of such Lenders' security interest(s). If a junior Lender does not elect to accept the new lease within thirty (30) days of receipt of notice from Lessor, the right to enter into a new lease shall be provided to the next most junior Lender, under the terms and conditions described herein, until an Lender either elects to accept a new lease, or no Lender so elects. Any Lender who attempts to secure a new lease as described herein shall cause to be paid to Lessor all reasonable expenses incurred by Lessor in connection with the request for and negotiation of the new lease (including without limitation reasonable administrative, financial,



economic, accounting and/or legal costs and fees and the reasonable value of services provided by Lessor's employees, elected officials, in-house counsel, lease administrators and/or lease auditors).

(i) Any notice to the Lender provided for in this Lease may be given contemporaneously with any notice to Lessee.

(j) Nothing herein contained shall be deemed to impose any obligation on the part of the Lessor to deliver physical possession of the Premises or any part thereof to any Lender, or any successor thereto, provided, however, that if Lessor is fully indemnified therefore by such Lender to Lessor's satisfaction (including without limitation indemnification for reasonable attorneys' fees), Lessor shall cooperate with such Lender (by joining as a party in any appropriate action or proceeding, or otherwise) at the sole cost and expense of such Lender, and at no cost, expense, risk or liability to Lessor, for the purpose of enabling such Lender to obtain possession of the Premises.

(k) Any such new lease, and the leasehold estate thereby created, are intended to continue to maintain the same priority as this Lease, with regard to any encumbrance or mortgage on the Premises, or any part thereof, or any other lien, charge or encumbrance thereon caused or made by the Lessor whether or not the same shall then be in existence; provided, however, that although the provisions of this sentence are intended to be self-executing, Lessor shall not be obligated to expend any funds or take any other action to accomplish or obtain such priority for any such new lease or leasehold estate.

(l) Lessee shall be deemed to have agreed to apply the rents, issues and profits of the Premises to fulfill Lessee's obligations under this Lease before applying them for any other purpose.

## **14. INDEMNIFICATION, HOLD HARMLESS AND INSURANCE**

### **14.1 Indemnification**

Lessee shall defend, protect, indemnify and hold harmless Lessor, its officers, elected officials, agents, attorneys, volunteers and employees, from and against any and all claims, demands, loss or liability of any kind that Lessor, its officers, elected officials, agents, attorneys and employees, may sustain or incur or which may be imposed upon them, or any of them, for injury to or death of persons, or damage to property, as a result of or arising out of this Lease or with occupancy and use of the Premises by Lessee, its officers, agents, employees, Sublessees, patrons, visitors, or trespassers. If any action or proceeding is brought against Lessor, its officers, elected officials, agents, attorneys or employees as provided in the preceding sentence, Lessee shall, upon notice from Lessor, defend the claim at Lessee's sole expense with counsel reasonably satisfactory to Lessor.

### **14.2 Waiver of Claims**

Except for areas for which Lessor has retained maintenance and repair as provided in Paragraph 10.1 above, Lessee accepts the Premises in their "as is" and "where is" condition, including without limitation, standard risks of subsidence and liquefaction, Lessee

acknowledging it has been in possession of the Premises for a period of years pursuant to the Old Lease, is familiar with the condition of the Premises, and is not relying on any representations or warranties of Lessor with respect to the Premises or condition thereof. As a material part of the consideration for this Lease, Lessee hereby waives all claims against Lessor for damages to goods, wares, merchandise, buildings, installations or other Improvements in, upon, or about the Premises and for injuries to Lessee, its Sublessees or third persons in or about the Premises from any cause arising at any time, except claims for damages or injuries arising out of or to the extent of the active negligence of Lessor.

#### **14.3 Hazardous Substances and Environmental Indemnity**

(a) Lessee shall not engage in any use of Hazardous Substances in, on or about the Premises (including the installation or use of any above-ground or underground storage tank) without Lessor's prior written consent, which consent is hereby given related to the requirements and conditions of any Coastal Commission permit or other entitlements, to ordinary commercially available Hazardous Substances used in a lawful manner. Lessor shall exercise its discretion in a commercially reasonable manner and may condition its consent upon Lessee giving Lessor such additional assurances or deposits as Lessor, in its commercially reasonable discretion, deems necessary to protect Lessor, the public, the Premises, Redondo Beach King Harbor, the Harbor Area, and the environment against damage, contamination, injury or liability, including, without limitation, the deposit of additional security under Article 9 above.

(b) If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from a Hazardous Substance, is present on, under, or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, together with copies of all reports or notifications to or from governmental agencies or private parties concerning the same.

(c) Lessee hereby represents that it has conducted all testing, inspection and analysis Lessee deems reasonably necessary with regard to the condition of the Premises. Lessee therefore takes possession of the Premises, and its leasehold interest in the Premises and any Improvements now existing on the Premises, in their "as is" condition and with all faults and Lessee hereby specifically waives any rights Lessee may have against Lessor with regard to the condition of the Premises including, but not limited to soils, toxic or Hazardous Substances, fill material, compaction, geologic constraints and faults.

(d) Lessee shall indemnify, protect, defend and hold harmless Lessor Parties against any losses, liabilities, damages, demands, actions, judgments, causes of action, assessments, penalties, costs and expenses (including, without limitation, the reasonable fees and disbursements of legal counsel and accountants) and all applicable damages, at law and in equity, as a result of a storage tank existing within and brought onto the Premises by Lessee or its Sublessees, or their predecessors, or under Lessee's control, or a claimed violation of any and all present and future federal, state and local laws (whether under common law, statute, rule, regulation or otherwise), including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the applicable provisions of the California Health and Safety Code and the California Water Code, relating to the environment or to any Hazardous Substance, activity or material connected with the condition of the Premises.

If any such action or proceeding is brought against Lessor, its officers, elected officials, agents, attorneys or employees, Lessee, upon notice from Lessor, shall defend the claim at Lessee's sole expense with counsel reasonably satisfactory to Lessor. Lessee's obligations under this subsection (d) shall include, without limitation, loss of rents to Lessor, the effects of any contamination or injury to person, property or the environment, the cost of investigation, remediation, restoration and abatement. Further, Lessee's obligations hereunder shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this subsection (d), unless specifically stated in writing in the agreement and signed by Lessor. Nothing in this Lease shall release or waive Lessee's rights against any third persons with respect to its obligations and liabilities under this subsection (d), including against Lessee's Sublessees, their predecessors and insurers. In the event of any claim hereunder, Lessor Parties shall fully cooperate with Lessee in the defense, prosecution and resolution of such claims.

(e) Lessee shall, at its sole cost and expense, comply with (i) any and all requirements necessary for the maintenance of reasonable fire and general liability insurance covering the Premises; and (ii) any and all rules, regulations, requirements and mandates of those federal, state and local public agencies now existing or as may hereafter be established or modified, with jurisdiction, power and authority to monitor, enforce and administer matters relating to air and water quality, waste management and disposal, storage tanks, fish and game, commerce and navigation and other matters of the environment, especially those of a marine nature, within and connected with Redondo Beach King Harbor and the Harbor Area.

(f) Lessor shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all applicable laws and regulations. The cost of the inspection shall be borne by Lessor unless a default under this Lease, violation of law, or a contamination caused or contributed to by Lessee, is found to exist, in which case Lessee shall reimburse Lessor on demand for all reasonable costs of inspection, investigation, remediation, restoration or abatement, including all reasonable legal, accounting and other professional consulting fees and expenses incurred or paid by Lessor and the value of services provided by employees of Lessor, its officers, elected officials, in-house counsel and lease administrators. Except in the case of an emergency, Lessor shall not undertake remediation, restoration, or abatement without first providing a reasonable opportunity for Lessee to do the same and in such cases, Lessor and Lessee shall each cooperate with the other, including in providing access to the Premises. Any payment required to be made pursuant to this subsection (f) shall be made to Lessor within thirty (30) days after Lessee receives Lessor's reasonably detailed written demand for payment of the costs required to be paid pursuant to this subsection (f).

#### **14.4 General Liability and Property Damage Insurance**

(a) In addition to and independently of all other provisions of this Lease, Lessee shall, at its own cost and expense, maintain insurance in full force and effect throughout the Lease Term. The policy or policies of insurance shall provide coverages which shall be commercially reasonable for the Premises and operations conducted on the Premises and shall name Lessor, and Lessor's elected officials, officers, employees, agents, attorneys, volunteers

and members of all boards and commissions, collectively, but not individually, as additional insureds. As a minimum, provided the same are available at commercially reasonable rates, the policy or policies of insurance shall provide the following forms of coverage in the amounts specified:

(i) Commercial General Liability: Fifteen Million Dollars (\$15,000,000) general aggregate coverage, which may be satisfied with a combination of primary coverage ("Primary Coverage") and excess liability coverage ("Umbrella Coverage") (as long as (a) Lessee's Primary Coverage is at least One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars general aggregate and (b) the combination of such Primary Coverage and Umbrella Coverage provides Lessor with the same protection as if Lessee had carried primary coverage for the entire amount of commercial general liability coverage.

(ii) "Special Form" property coverage, in an amount not less than 100% of the replacement cost basis of all. Improvements now existing or hereafter constructed or installed on or within the Premises by Lessee, any predecessor-in-interest of Lessee, or any Sublessee or assignee of Lessee, subject only to the following exclusions: (a) infidelity or any dishonest act on the part of the insured or employees; (b) war and similar acts of government authority; (c) nuclear reaction, radiation or contamination; (d) volcanic action, landslide or mudflow; (e) terrorism, and (f) such other exclusions as are customarily included in "Special Form" property policies. Policies of insurance providing this coverage shall contain a provision that all insurance proceeds shall be used to meet the obligations of Lessee to restore, repair and replace the Improvements on the Premises as required hereunder. Lessor and Lessee agree that such proceeds may be placed in trust with a trustee acceptable to Lessor and Lessee to secure the restoration and replacement of the Improvements (which may be an encumbrancer), provided Lessee shall be solely responsible for all payments and costs connected with the creation and administration of the trust and such costs and expenses shall not be paid from the insurance proceeds placed in trust. It shall be the obligation of Lessee to determine the availability of said coverage. If a loss occurs due to a risk which would have been covered under "Special Form" property coverage, and such insurance was commercially available and economically feasible at the time of the loss, the loss shall be treated as occurring as a result of an insurable peril, as that term is defined in Article 20 below.

(iii) Earthquake insurance coverage, if and to the extent available at a commercially reasonable rate, covering Improvements now existing or hereafter constructed or installed on or within the Premises.

(b) All insurance required to be provided under this Article shall be in force on or before the Commencement Date.

(c) Each policy of insurance shall contain a clause substantially similar to the following clause (with such modifications as may be standard in commercially available policies):

"It is agreed that this policy shall not be canceled nor the coverage reduced until thirty (30) calendar days after the Harbor Director of the City of Redondo Beach has received written notice of such cancellation or reduction. The notice shall be sent by certified or registered mail

and shall be deemed effective the date delivered to said Harbor Director, as evidenced by a properly validated return receipt.”

(d) Lessee agrees to deposit with Lessor, at or before the times at which they are required to be in effect, two copies each of the endorsements, policies, certificate or certificates of insurance, necessary to satisfy the insurance provisions of this Lease and to keep such insurance in effect and the policy or policies, or certificate or certificates therefore on deposit with Lessor during the entire Lease Term. All policies of insurance shall be issued by insurance companies licensed to do business in the State of California and rated not less than Best's A: VII, or such other rating service as Lessor shall select in its reasonable commercial discretion if Best's is no longer available or providing such rating service. Further, all policies of insurance shall contain language to the effect that: (i) the insurer waives the right of subrogation against Lessor and Lessor's elected officials, officers, employees, agents, attorneys and members of all boards and commissions and all employees of Lessor performing services for or under this Lease; (ii) the policies are primary and noncontributing with any insurance that may be carried by Lessor; (iii) the insurance is to apply severally as if each named insured were the only named insured, and separately as to each insured against whom a claim is made or an action is brought; and (iv) the inclusion of any person or entity as an insured is not to affect any right such person or entity would have as a claimant against another insured.

(e) Lessor shall retain the right at any time to review the coverage, form and amount of the insurance required to be maintained by Lessee under this Lease. If, in the opinion of Lessor, applying Lessor's then current standards, the insurance provisions in this Lease do not provide adequate protection for Lessor and for members of the public using the Premises, Lessor may require Lessee at Lessee's sole expense to obtain insurance sufficient in coverage, form and amount to provide adequate protection. In such case, Lessor's requirements shall be commercially reasonable and designed to assure protection from and against the kind and extent of the risks which exist at the time a change in insurance is required. Further, insurance coverages specified in this Article 14 are subject to adjustment pursuant to Article 48, below.

(f) Lessor shall notify Lessee in writing of changes in the insurance requirements pursuant to subsection (e), and, if Lessee does not deposit copies of acceptable insurance policies or certificates of insurance with Lessor incorporating such changes within thirty (30) calendar days of receipt of such notice, Lessee shall be in default of this Lease.

(g) The procuring of such required policy or policies of insurance shall not be construed to limit Lessee's liability hereunder, nor to fulfill the indemnification provisions and requirements of this Lease. Notwithstanding said policy or policies of insurance, Lessee shall be obligated for the full and total amount of any damage, injury, or loss, including all costs, expenses and attorneys' fees caused by negligence or neglect arising out of any act or omission of Lessee, its agents, employees and Sublessees connected with this Lease or with the use or occupancy of the Premises.

#### **14.5 Workers' Compensation Insurance**

Lessee shall procure, at its own expense, and shall keep in force during the Lease Term, adequate insurance against liability arising on account of injuries or death to workers or

employees on the Premises or any installation or other Improvements of Lessee. Such workers' compensation insurance to be provided by Lessee shall be in the statutory amounts obtainable against liability under the Workers' Compensation Insurance and Safety Act of the State of California as well as Employer's Liability Insurance.

#### **14.6 Rental Insurance**

During the first year of the Lease Term, Lessee shall procure, at its own expense, and keep in force during said year, commercially available business interruption insurance payable to Lessor in an amount equal to twelve (12) times the initial Minimum Monthly Rental specified above. Effective on the one hundred twentieth (120th) day after the first anniversary date of this Lease, and the one hundred twentieth (120th) day after each anniversary date thereafter during the Lease Term, Lessee shall procure and maintain in force at its own expense, rental interruption insurance (or, as the case may be, use and occupancy insurance) and business interruption or disruption insurance, exclusive of pollution, with benefits payable to Lessor in an amount not less than the total of the minimum monthly and percentage rentals payable by Lessee to Lessor for the twelve (12) month period immediately preceding the anniversary date of this Lease. The amount of such insurance shall be so adjusted each year of the Lease Term so that the amount of such insurance payable to Lessor shall at all times be at least equal to the total of the Minimum Monthly Rental and Percentage Rental payable to Lessor for the twelve (12) month period immediately preceding such adjustment.

#### **14.7 Other Insurance**

(a) Lessee shall procure, at its sole cost and expense, and shall keep in force during the Lease Term:

(b) Boiler and machinery insurance if at any time such equipment is located on the Premises.

(c) Course of construction insurance at all times during which any Improvements to be located on the Premises are under construction and not yet otherwise insured.

(d) Other insurance in amounts from time to time reasonably required by Lessor against other insurable risks if, at the time, they are commonly insured against for premises similarly situated and containing comparable Improvements.

### **15. ASSIGNMENT AND SUBLETTING**

#### **15.1 Restrictions on Assignment**

(a) Except as otherwise permitted in connection with assignments as security for an encumbrance under Article 13 above or as otherwise provided in subsection 13.4(b), Lessee may assign, transfer, convey or otherwise sell this Lease, or Lessee's interest in this Lease or in the Premises, or any portion thereof only with the prior written consent of Lessor, which consent may not be unreasonably withheld, conditioned or delayed. As a condition precedent to Lessor's review for consent, the following requirements must be met:

(i) Lessee shall have given Lessor reasonable advance written notice of the proposed assignment sufficient to enable Lessor to conduct an investigation and review of the transaction and the proposed assignee;

(ii) Lessee shall have provided Lessor with such appropriate documentation as Lessor may require, including (1) all transaction, financing, and escrow documents which shall specify any brokerage commissions, finder's fees or other charges and payments to third persons not parties to the proposed assignment, (2) if the proposed assignee is a corporation, but not a publicly traded corporation, the name and address of each shareholder and his or her shareholding interests in the proposed assignee, (3) if the proposed assignee is a partnership, limited liability company or joint venture, the name and address of each general partner, member, or joint venturer, and a statement of his or her equity interest in the proposed assignee, (4) evidence of the proposed assignee's business history, including information relative to its status as a Multi-facility Entity, (5) current financial statement(s) for the proposed assignee(s), (6) the last three years' income tax returns for the proposed assignee(s), or general partners or members thereof, if the proposed assignee is a partnership or limited liability company (alternatively the last three years' of financial statements shall be provided), (7) the business plan and financial projections of the proposed assignee(s), (8) a statement of any litigation affecting the proposed assignee(s) or general partners or members thereof, if the proposed assignee is a partnership or limited liability company, (9) identification of each operator or independent contractor the proposed assignee intends to use in its business operations on the Premises, including name, address, business experience and references, (10) copies of any management or operation agreements between the proposed assignee and its independent contractors which shall be subject to specific prior approval by Lessor applying commercially reasonable standards, (11) such other information and material that evidences that proposed assignee has the experience, reputation, business background and financial capacity to reasonably ensure the continued prompt performance of the obligations of Lessee under this Lease after such assignment is to become effective and, (12) such other documents and information as may be reasonably required by Lessor to determine the commercial reasonableness of the proposed assignment;

(iii) The proposed assignee shall expressly agree in a writing in a form acceptable to Lessor to be bound by all of the terms, covenants, conditions and agreements of this Lease;

(iv) Lessee is not in default;

(v) Lessee shall pay Lessor a non-refundable fee for processing each request for approval of assignment in a reasonable amount under the circumstances in light of the size, nature, complexity and expertise required to review said proposed assignment, plus Lessor's out-of-pocket costs and overhead expense that may be incurred in connection with the processing of said assignment, including without limitation the cost of making investigations as to the acceptability of the proposed assignee, together with any and all other reasonable administrative, financial, economic, accounting and/or legal costs and fees (including without limitation the value of services provided by employees of Lessor, elected officials, in-house counsel, lease administrators and/or lease auditors) incurred or expended in connection with any such proposed assignment;

(vi) The proposed assignee shall, in Lessor's commercially reasonable business judgment, have sufficient business reputation and/or experience to operate a successful business of Required Hotel Standard and the type and quality permitted under this Lease;

(vii) Concurrently with the initial submission of assignment documents and information specified in subsection (ii) above, Lessee shall demonstrate to Lessor the ability to pay, or cause to be paid, the amount of real estate transfer tax, if any, due the appropriate governmental entities under the applicable laws, ordinances, rules and regulations of those entities;

(viii) The proposed assignee(s) shall provide all funds necessary and shall open all appropriate accounts to hold any Renovation Fund and Capital Improvement Fund required to be made under this Lease;

(ix) The proposed assignee(s) shall provide to Lessor all funds necessary to replace, replenish, or increase any security deposit required to be made under this Lease in accordance with its terms;

(x) The assignment shall include a transfer of all FF&E; and,

(xi) The Lessee shall pay Lessor all sums due as "Appreciation Rent" for an assignment of this Lease, if any, under and pursuant to Article 18 below.

(b) If Lessee proposes to assign this Lease to any third party, person or entity, except Lender, an affiliate of Lender or pursuant to an Excluded Transfer, Lessee shall give Lessor a Notice of Intention to Offer. The Notice of Intention to Offer shall include reasonably detailed terms, including purchase price, financing requirements, closing requirements and material terms and conditions upon which Lessee will sell or assign its leasehold interest. Lessor shall have thirty (30) days from receipt of the Notice of Intention to Offer within which to give Lessee a Notice of Exercise of Right of First Offer. Lessor's Notice of Exercise of Right of First Offer may include a financing contingency, which contingency must be approved or disapproved by Lessor within thirty (30) days of the date of the Notice of Exercise of Right of First Offer. If Lessor fails to give a timely Notice of Exercise of Right of First Offer, Lessee shall be free to sell or assign its leasehold interest to a third party, person or entity on the terms stated in the Notice of Intention to Offer (or for a higher price and/or on less favorable terms) for a period of six (6) months after the date that Lessor's period to provide a Notice of Exercise of Right of First Offer has expired. If Lessor gives a timely Notice of Exercise of Right of First Offer it shall be considered an acceptance of Lessee's offer to purchase or take assignment of Lessee's interest in the leasehold on the terms and conditions contained in the Notice of Intent to Offer, and the closing for such assignment shall take place within seventy-five (75) days after Lessor's approval of the financing contingency. For clarity, nothing in this paragraph shall be applicable either to an assignment to Lender, an affiliate of Lender, an Excluded Transferee or any assignment by Lender to Lender's first assignee.

(c) If Lessee is a corporation, a partnership of any kind or an unincorporated association, any Transfer shall constitute an assignment. If Lessee is a corporation, but not a publicly traded corporation, Lessee shall concurrently with the execution of this Lease deliver to



Lessor a list of all shareholders of the corporation, which list shall be certified to be true and correct by the secretary of the corporation, and Lessee shall give Lessor written notice of any proposed Transfer at least thirty (30) days prior to such Transfer taking place and regardless of whether said Transfer is itself an assignment or will be deemed to be an assignment under this Article 15. If Lessee is a partnership, limited liability company, joint venture or unincorporated association, Lessee shall concurrently with the execution of this Lease deliver to Lessor a list of all partners, members, joint venturers or owners constituting Lessee, specifying the type of partner, membership and percentage ownership interest of each partner, member, joint venturer or owner, which list shall be certified to be true and correct by at least one general partner or managing owner of Lessee. Further, if any proposed transferee is a partnership, limited liability company, joint venture or unincorporated association, a similar certified list of partners, joint venturers or owners in the proposed transferee shall be delivered to Lessor together with the written notice of proposed transfer specified above. Excluded Transfers shall be excluded from this subsection.

(d) Except as expressly stated above, any assignment without Lessor's prior written consent shall be void and, at the option of Lessor if the same is material may be grounds for terminating this Lease.

(e) Any approved assignment of this Lease shall release the assignor of all liability arising due to actions or omissions on or after the effective date of such assignment, provided the assignee assumes all of such liability, including without limitation the obligation of assignee to cure any defaults and delinquencies under this Lease and to pay Percentage Rent and any other amounts attributable to the period prior to the assignment, but not discovered by Lessor or the assignee until after the assignment; provided, further, the assignor shall not be relieved of any liability for the payment of Appreciation Rent which arises upon such assignment as provided herein.

(f) The following shall be Excluded Transfers, not requiring the consent of Lessor:

(i) a transfer by any shareholder or member of Lessee as of the Commencement Date or the date on which an assignment occurred as to the interest transferred, to any direct or indirect partner, shareholder or member of Lessee (or of a limited partnership, corporation or limited liability company that is a direct or indirect owner in Lessee's ownership structure) as of the Commencement Date that does not result in a change of control of Lessee, including in each case to or from a trust for the benefit of the immediate family of any direct or indirect partner, shareholder or member of Lessee who is an individual (for purposes of this Lease a "change in control" shall mean (A) a change in the ownership, directly or indirectly, on a cumulative basis, of fifty percent (50%) or more of all equity interests in Lessee or (b) the change in the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of Lessee, through the ownership of voting securities, by contract or otherwise;

(ii) a transfer to a spouse (or to a domestic partner if domestic partners are afforded property rights under then-existing applicable laws) in connection with a property settlement agreement or decree of dissolution of marriage or legal separation;

(iii) a transfer of ownership interests in (i) to a member of the immediate family of the transferor (which for purposes of this Lease shall be limited to the transferor's spouse, children, parents, siblings and grandchildren), (ii) to a trust for the benefit of a member of the immediate family of the transferor, (iii) from such a trust or any trust that is an owner in a constituent entity of Lessee as of the Commencement Date, to the settlor or beneficiaries of such trust or to one or more other trusts created by or for the benefit of any of the foregoing persons, whether any such transfer described in this subsection is the result of gift, devise, intestate succession or operation of law, or (iv) in connection with a pledge by any partners of a constituent entity of Lessee to an affiliate of such partner;

(iv) a transfer of a beneficial interest resulting from public trading in the stock or securities of an entity, where such entity is a corporation or other entity whose stock (or securities) is (are) traded publicly on a national stock exchange or traded in the over-the-counter market and whose price is regularly quoted in recognized national quotation services;

(v) a mere change in the form, method or status of ownership, as long as there is no change in the actual beneficial ownership and such transfer does not involve an intent to avoid Lessee's obligations under this Lease with respect to Appreciation Rent;

(vi) any transfer resulting from a condemnation;

(vii) any assignment of the Lease by Lessee to a parent, subsidiary or affiliate of Lessee; or

(viii) the transfer by the lender pursuant to Section 13.4(b), provided that the transferee (1) has sufficient financial capability to perform its remaining obligations under this Lease as they come due, (ii) the lessee either is an experienced operator of hotels of the type meeting the Required Hotel Standard or has entered into a management or operating agreement with a management company that possesses such experience and (iii) such transferee shall expressly agree in writing to assume and to perform all of the obligations under this Lease.

## **15.2 Assignments Pursuant to the Bankruptcy Code**

(a) The restrictions on assignments of this Lease and other terms and conditions set forth in Section 15.1, and the provisions relating to Appreciation Rent set forth in Article 18, below, shall, to the extent allowed by law, apply to any assignment, transfer, conveyance or sale of this Lease, or any interest of Lessee under this Lease, pursuant to the Bankruptcy Code, or by operation of law. In addition, the following restrictions shall be conditions precedent to the effectiveness of the assignment or other transfer, conveyance or sale of this Lease:

(b) Any person or entity to which this Lease, or any interest herein, is so assigned, transferred, conveyed or sold, shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of such assignment. Any such assignee shall, upon demand by Lessor, execute and deliver to Lessor a written document confirming such assumption, in a form reasonably acceptable to Lessor.

(c) Such assignee shall provide Lessor with cash deposits, appropriate bond or bonds, personal guarantees or other forms of security acceptable to Lessor to ensure the future

performance of the obligations of Lessee remaining to be performed under this Lease, provided such cash, bond or security is in commercially reasonable amounts, taking into account Lessee's past performance under this Lease and the extent and nature of the proposed assignee's future obligations hereunder.

(d) Any and all money, cash equivalents, or other consideration payable or otherwise to be delivered in connection with each assignment, shall be paid or delivered to Lessor, shall be and remain the exclusive property of Lessor and shall not constitute property of Lessee or of the estate of Lessee within the meaning of the Bankruptcy Code. Any and all money or other consideration constituting Lessor's property under the preceding sentence not paid or delivered to Lessor, shall be held in trust for the benefit of Lessor and be promptly paid or delivered to Lessor.

### **15.3 Restrictions on Subletting**

Lessee shall not sublet the Premises, or any portion thereof, or any right or privilege appurtenant thereto, and shall not sublet any buildings, or other structures on the Premises, without the prior written consent of Lessor; provided, however, no such approval is required for and the requirements of this Section 15.3 shall be inapplicable to, the ordinary rental hotel rooms, rooms for group meetings and events, and apartments. Lessor shall act reasonably and promptly in reviewing and granting or denying its approval of subleases pursuant to this Section. Lessor need not approve any sublease if, among other reasons, Lessee is in default under any provision of this Lease at the time Lessor's consent is requested or at the time the sublease is to be or become effective, or if Lessor has a reasonable belief that the sublease has been so structured and negotiated to avoid the sublease being considered as an assignment under Section 15.1, nor must Lessor approve any sublease which does not, as a minimum, submit to the following criteria:

(a) Lessee shall give Lessor reasonable advance written notice of the proposed sublease, providing appropriate documentation to Lessor as Lessor may reasonably require relating to the financial capacity and reputation of the proposed sublessee (excluding limited partners and shareholders), including but not limited to a statement of pending litigation involving the proposed sublessee, past employment and business history of sublessee and its managing agents or officers, and a listing of felony convictions of sublessee, or each separate entity or person making up sublessee.

(b) Sublessee must acknowledge in writing that sublessee has had an opportunity to review and has reviewed the terms and provisions of this Lease.

(c) Sublessee must acknowledge in writing that the sublease is subordinate and subject to this Lease and that sublessee shall attorn to Lessor in the event Lessor succeeds to the interests of Lessee/sublessor. All subleases entered into after the Commencement Date shall include a provision that expressly makes the Sublease and Sublessee subject and subordinate to this Lease, including without limitation the provisions regarding reporting Gross Receipts and the keeping of Records related thereto; provided, however, at Lessor's option this subordination may be waived by Lessor. For clarity, a sublease provision as required by the preceding sentence shall mean that in the event of termination of this Lease, at the option of the Lessor,

Sublessee's sublease may be terminated by Lessor even where Sublessee is not in default under its sublease.

(d) By consenting to the sublease, regardless of whether or not the sublease contains provisions for the renegotiation of the rental to be paid by sublessee to Lessee/sublessor, Lessor shall not be deemed to have waived its right to renegotiation of rentals under this Lease and Lessee/sublessor shall be bound by all rent renegotiation provisions of this Lease applicable to Gross Receipts generated pursuant to each sublease. All subleases entered into by Lessee as sublessor shall provide that:

(i) the sublessee shall be subject to all rental revisions arising out of any rental renegotiation between Lessor and Lessee under Article 5 above, as applied to the business operations of the sublessee and all Gross Receipts derived therefrom; or

(ii) effective upon any attornment by the sublessee to Lessor, the sublease will be deemed to have expressly provided for the renegotiation of rentals, both minimum and percentage, if applicable, concurrently with the time period when Lessor and Lessee would be required to renegotiate said rentals under this Lease and the procedures for the conduct of such renegotiations between sublessee and Lessor shall be those specified in Article 5 above.

(e) If the business activities of the proposed sublessee to be conducted on the sublet portion of the Premises will generate Gross Receipts as that term is defined in this Lease, the sublease shall contain an express provision obligating the proposed sublessee to conduct its business activities as a continuous operation during all normal business hours as required by Article 24 below.

(f) No sublease term shall exceed or extend beyond the Lease Term (as the Lease Term may be reduced pursuant to Section 4 hereof.

(g) The sublessee must acknowledge in writing that sublessee waives all claims against Lessor for damages to goods, wares, merchandise, buildings, installations or other Improvements in, upon, or about the sublet portion of the Premises, and agrees that sublessee shall indemnify and save harmless Lessor Parties from and against any and all claims, demands, loss or liability of any kind or nature which Lessor Parties may sustain or incur or which may be imposed upon them or any of them (i) for injury or death of persons, or damage to property as a result of, arising out of, or in any manner connected with the sublease or with the occupancy and use of any portion of the Premises by sublessee, its officers, agents, employees, contractors, concessionaires, licensees, patrons or visitors, and (ii) in connection with any and all liens for labor, services, supplies or materials arising out of the design, construction, repair, alteration or installation of structures, Improvements, equipment or facilities within the Premises caused by sublessee.

(h) Any mortgage, pledge, hypothecation, encumbrance, transfer, sublease or assignment of sublessee's interest in the Premises, or any portion thereof, whether voluntarily or by operation of law, shall first be approved in writing by Lessor, and if not so approved, shall be void.

(i) Sublessee shall not discriminate against any person or class of persons by reason of sex, race, color, religious creed, ancestry, national origin, age, disability, physical handicap, sexual orientation, medical condition or marital status, and shall make its accommodations and services available to all persons on a non-discriminatory basis.

(j) No alterations, Improvements, or erecting of signs may be accomplished by sublessee on the Premises without the prior written approval of Lessor and such other governmental agencies as may have jurisdiction over said work.

(k) Lessee shall pay a non-refundable fee to Lessor for processing each request for consent to a sublease in an amount which under the circumstances in light of the size, nature, complexity and expertise required to review said proposed sublease, plus Lessor's reasonable out-of-pocket expenses paid to unrelated third parties such as attorneys, accountants and other consultants connected with the processing of the request for consent to sublease, and the value of services provided by employees of Lessor, its elected officials, in-house counsel and lease administrators.

(l) Under the sublease, sublessee shall expressly agree in writing to maintain and make available for inspection by Lessor all Records required by Article 5 above, in the manner set forth in that Article.

(m) Lessee/sublessor shall grant sublessee only non-exclusive rights for the conduct of any business activities and operations on the Premises, unless Lessor shall expressly agree otherwise in writing.

#### **15.4 Sublease Form**

Lessee may prepare, and submit to Lessor for Lessor's approval, a standard form of sublease to be used by Lessee in subletting any portion of the Premises. Upon approval of such standard form by Lessor, nothing shall relieve Lessee of the requirement to provide Lessor with such information about the proposed sublease and sublessee as required in Section 15.3. Lessor may, acting in good faith and for legitimate business reasons require that said sublease form previously approved by Lessor, be modified or changed to reflect new or different circumstances connected with the Premises or changes in Lessor's subleasing requirements or procedures. Lessee shall pay a non-refundable fee to Lessor for processing the initial review of Lessee's sublease form and for each modification to Lessee's sublease form thereafter under this Section 15.4 in an amount which is reasonable under the circumstances in light of the size, nature, complexity and expertise required to review said proposed lease, plus Lessor's out-of-pocket expenses paid to third parties such as attorneys, accountants and other consultants connected with the processing of Lessor's review, and the value of services provided by employees of Lessor, its elected officials, in-house counsel and lease administrators.

#### **15.5 Restrictions on Sublessees' Right to Encumber**

(a) No Sublessee shall mortgage, pledge, hypothecate, encumber, sublet or assign its interest in the Premises as security, whether voluntarily or by operation of law, without obtaining Lessor's and Lessee's prior written consent. Lessor and Lessee each reserve the right to consent or withhold its consent to any such proposed encumbrancing as Lessor and Lessee shall

determine, in their respective commercially reasonable discretion. Any such encumbrancing shall only be on such terms as may be satisfactory to Lessor and Lessee. Lessee shall submit to Lessor the proposed terms and conditions of any such encumbrancing by a Sublessee, including the terms of any loan connected therewith, and shall deliver to Lessor any other documents and information Lessor may reasonably request in determining whether or not to consent or withhold its consent to such encumbrance.

(b) Lessee shall pay a non-refundable fee to Lessor for processing each request for consent to an encumbrancing of a subleasehold estate in an amount which is reasonable under the circumstances in light of the size, nature, complexity and expertise required to review said proposed encumbrance, plus Lessor's out-of-pocket expenses paid to third parties such as attorneys, accountants and other consultants connected with the processing of the request for consent, and the value of services provided by employees of Lessor, its elected officials, in-house counsel and lease administrators.

#### **15.6 Lessor's Discretion**

(a) In granting its consent to any sublease or related encumbrancing, Lessor shall have the right to impose upon the proposed sublessee, as a condition to its consent, compliance with all terms, covenants, conditions and agreements in this Lease that may be applicable to the subleased premises. Any subletting or encumbrancing of a subleasehold estate by a sublessee, or by Lessee as sublessor, without such consent, shall be considered an event of default under this Lease.

(b) Lessee acknowledges and understands that Lessor cannot closely monitor all activities of Lessee and its Sublessees connected with their operations on the Premises and must depend on Lessee's good faith monitoring and reports of such activities.

#### **15.7 Assignment and Sublease Documents**

It shall be the sole responsibility of Lessee to ensure that all documents relating to any assignment or sublease of all or any portion of the Premises shall be consistent with the terms and provisions of this Lease, and particularly this Article 15.

#### **15.8 Consent Not a Waiver**

(a) Any consent by Lessor to one assignment, transfer, conveyance, sale, subletting, occupation or use by any person shall not be deemed to be a consent to any subsequent assignment, transfer, conveyance, sale, subletting, occupation or use, nor shall such consent constitute or operate as a waiver, release, modification or abandonment by Lessor of any rights or claims of Lessor under this Lease.

(b) Notwithstanding any provisions herein to the contrary, for purposes of this Article 15, the terms "assignment" and "subletting" shall not be construed or interpreted to mean or include the renting or leasing of motel or hotel accommodations, meeting or event space, apartments on the Premises. However, the renting or leasing of apartment, motel, or hotel accommodations, or meeting space shall come under any applicable operating rules and regulations of Lessor. If Lessee rents or subleases any apartment, motel, or hotel

accommodations or meeting spaces contrary to the rules and regulations of Lessor, or in violation of any other applicable rules or regulations, Lessor reserves the right to require that Lessee cancel the lease of any such apartment, motel, or hotel accommodations or, meeting space or boat slip rented contrary to such operating rules and regulations by delivering written notice of required cancellation to Lessee. Lessee shall thereafter cancel the rental within ten (10) days after delivery of said notice. If Lessee fails to effect the cancellation within said ten-day period, such failure shall be considered an event of default under this Lease.

(c) Lessee acknowledges and understands that Lessor cannot closely monitor all activities connected with the renting or leasing of apartment, motel, or hotel accommodations on the Premises, or any month-to-month rental, and must depend on Lessee's good faith monitoring and reports of such activities.

## **16. DEFAULT**

### **16.1 Definition of Default**

Subject to the rights of any Lender as stated in Section 16.2, the following shall be deemed a default by Lessee and, subject to Section 16.2, a material breach of this Lease:

(a) Failure to pay Minimum Monthly Rental, Percentage Rental, Appreciation Rent, taxes of any type or nature connected with the Premises or the possession, use or occupation of the Premises, or any other sum, fee, or assessment specified under this Lease to be paid by Lessee to Lessor;

(b) Failure to furnish any Monthly Financial Statement or Annual Financial Statement pursuant to Article 5 above, within the time required;

(c) Failure to reimburse Lessor within the time required for the cost of auditing any Monthly Financial Statement or Annual Financial Statement pursuant to Article 5, above;

(d) Permitting the Premises, or any portion thereof, to be used for any purpose or purposes not authorized by or in violation of Article 6, above or causing a violation of the trust referenced in Article 6.3 above;

(e) Failure to submit schematics, preliminary plans, working drawings, environmental assessments or draft supplemental or subsequent environmental impact reports for the required Improvements to be constructed on the Premises pursuant to Article 7, above, within the time required;

(f) Failure to complete construction of the required improvements to be constructed on the Premises pursuant to Article 7, above, within the time required;

(g) Failure to replenish or increase the Deposit pursuant to Article 8, above, within the time required;

(h) Failure to provide any bond required to be provided by Lessee under Article 8, above, according to all terms, provisions and conditions specified therein;

- (i) Failure to provide any additional Deposit, or any sums required for the annual adjustment thereof, pursuant to Article 8, above;
- (j) Failure to keep, maintain and repair the Premises, and all improvements on the Premises pursuant to the requirements specified in Section 9.1, above;
- (k) Failure of Lessee to complete Renovation 2013-14 in the manner required by Article 7 of this Lease;
- (l) Failure to pay Lessor for the cost of repairs and replacements made by Lessor pursuant to Section 10.1 above, within the time required;
- (m) Encumbering, or attempting to encumber, Lessee's interest in the Premises, or any part thereof, or in the improvements on the Premises, or any part thereof, without first obtaining Lessor's prior written consent to such encumbrance pursuant to Article 13, above;
- (n) Encumbering, or attempting to encumber the tide and submerged lands or fee simple title to the Premises, or any part thereof;
- (o) Failure to reimburse Lessor for all costs associated with a Hazardous Substance contamination of the Premises caused or contributed to by Lessee, or its Sublessees, pursuant to subsection 14.3(f) above, within the time required;
- (p) Failure to maintain required insurance or insurance coverages, or to implement changes in such insurance or insurance coverages, pursuant to Article 14, above, within the time required;
- (q) Voluntarily assigning, or attempting to voluntarily assign, Lessee's interest under this Lease in the Premises, or any part thereof, or Improvements thereon, without first obtaining Lessor's prior written consent to such assignment, pursuant to Article 15, above.
- (r) Subletting, or attempting to sublet, all or any portion of the Premises, or Improvements thereon, without first obtaining Lessor's prior written consent to such subletting pursuant to Section 15 above within the time required;
- (s) Permitting any Sublessee to encumber its subleasehold estate without Lessor's prior written consent in violation of Article 15, above within the time required;
- (t) Failing to cancel or cause the cancellation of any hotel or motel arrangement pursuant to Article 15 above, which is contrary to Lessor's rules and regulations therefore, within the time required;
- (u) Failure to maintain and use the Renovation Fund in accordance with Section 9.2 above;
- (v) Abandonment of the Premises by Lessee at any time during the Lease Term;



(w) Failure of Lessee to commence the repair, construction, reconstruction, replacement or restoration of the Premises, or any part thereof, or any building, structure or other improvement thereon, within the time required, and/or to diligently prosecute such work to completion, pursuant to Articles 19 or 20 below;

(x) Failure of Lessee or its Sublessees to conduct business operations on the Premises in full compliance with the effective schedules and procedures therefore, pursuant to Article 24 below;

(y) Failure to maintain and use the Capital Improvement Fund in accordance with Section 7.7 above;

(z) Failure to maintain membership in any association for lessees within the Harbor Area and/or failure to pay dues or other charges or assessments as may be imposed on Lessee by said association;

(aa) Failure to do, observe, keep and perform any of the other covenants, conditions and agreements of this Lease to be done, observed, kept or performed by Lessee not specifically listed in subsections of this Section 16.1;

(bb) Intentional submission by Lessee to Lessor of any financial statement, balance sheet, income statement or other financial information including, without limitation, any schedule of aged accounts payable, containing any materially misleading or materially false information;

(cc) Failure to commence curing of any default involving action other than the payment of money within the time periods provided in Section 16.2, and promptly to proceed in good faith to rectify the same and prosecute the same to completion with diligence;

(dd) Any involuntary assignment or transfer of Lessee's interest in the Premises under this Lease or any part thereof, or Improvements thereon, without first obtaining the prior written consent of Lessor;

(ee) Appointment of a receiver of the business or assets of Lessee, except a receiver appointed at the instance and request of an approved Lender; and

(ff) The making of a general assignment or an assignment for the benefit of creditors, whether voluntarily or involuntarily, by Lessee.

(gg) As used in this Lease, the word "default" includes the word "breach."

## **16.2 Lessee's Right to Cure a Default**

(a) As to any default identified in Section 16.1, above, which can be cured by the payment of money to Lessor, a Lender or other governmental entity or agency, Lessee may cure such default by making the required payment within ten (10) days after receiving written notice from Lessor to remedy or cure such default.

(b) As to any default identified in Section 16.1, above, which cannot be cured by the payment of money, and excluding the events of default identified in subsection 16.1.(ee), above, Lessee may cure such default by promptly taking such action and doing such things as may be necessary to cure such default within thirty (30) calendar days after receipt of written notice from Lessor; provided that in the event the cure shall take more than thirty (30) days, the time shall be extended for a reasonable time so long as Lessee continuously pursues the cure.

(c) As to any default identified in subsection (ee), above, Lessee may cure such default by obtaining and delivering to Lessor, a dismissal of the legal proceedings upon which the event of default is based within sixty (60) calendar days after receipt of written notice from Lessor to remedy or cure such default.

(d) Except with respect to breaches or defaults with respect to the payment of money, Lessee shall not be considered in default as to any provision of this Lease (and no late fees or interest will be incurred) to the extent such default is the result of or pursuant to, any process, order, or decree of any court or regulatory body with jurisdiction, or any other circumstances which are physically or legally impossible to cure provided Lessee uses due diligence in pursuing whatever is required to obtain release from or reversal of such process, order, or decree or is attempting to remedy such other circumstances preventing its performance.

### **16.3 Lessor Remedies**

(a) If Lessee fails to cure a default within the time and in the manner specified in Section 16.2 above, then, in addition to any other remedy Lessor may have by operation of law, including all rights available to Lessor under Sections 1951.2 and 1951.4 of the Civil Code of the State of California (where a lessor is given the right, among others, to continue the lease in effect after a lessee's breach and abandonment and recover rent as it becomes due, if the lessee has a right to sublet or assign, subject to reasonable limitations), or otherwise provided herein, Lessor shall have the right and option, upon notice, to:

(i) Declare this Lease at an end, in which event Lessee shall immediately pay Lessor a sum of money equal to the amount, if any, by which the then cash value of the rent reserved under this Lease for the balance of the Lease Term exceeds the then cash reasonable rental value of the Premises for the balance of the Lease Term; or

(ii) Without terminating this Lease, Lessor may give the Sublessees written notice of default and collect all rents, issues, profits, fees, charges, deposits and other sums from the Sublessees otherwise due, owing and payable to Lessee and to apply said sums against obligations owing to Lessor by Lessee under this Lease; and/or

(iii) Without terminating this Lease, relet the Premises, or any part of the Premises, as the agent for and for the account of Lessee, upon such terms and conditions as Lessor may deem advisable, in which event the rents received on such reletting shall be applied first to the expenses of Lessor in such reletting and collection, including the cost of advertising, any necessary renovation and alterations of the Premises to accommodate the requirements of the new tenant, reasonable attorneys' fees, the reasonable value of services provided by Lessor's employees, officers, elected officials, lease administrators and in-house counsel, any real estate

commissions paid, and thereafter to payment of all sums due or to become due Lessor under this Lease. If a sufficient sum is not realized to pay all such costs and expenses and other charges, Lessee shall immediately pay Lessor, upon demand, any deficiency, even though Lessor may have received rental in excess of the rental stipulated to in this Lease in previous or subsequent months. Lessor may bring an action therefor as such monthly deficiency shall arise. Lessor shall in no event be liable in any way whatsoever for failure to relet the Premises, or in the event that the Premises are relet, for failure to collect the rent therefor under such reletting; or

(iv) At the option of Lessor, this Lease shall continue in effect for the remainder of the Lease Term so long as Lessor does not terminate Lessee's right to possession, and Lessor may enforce all of the rights and remedies under this Lease, including, but not by way of limitation, the right to recover from Lessee the rent, and all other sums and amounts as they become due hereunder.

#### **16.4 Right of Re-Entry**

The exercise of any right of re-entry by Lessor under Section 16.3 above, shall be allowed by Lessee without hindrance, and Lessor shall not be liable in damages to Lessee or its Sublessees for any such re-entry, or be guilty of trespass or forcible entry.

#### **16.5 Percentage Rental upon Default**

For purposes of this Article 16 and in addition to the Minimum Monthly Rental otherwise payable to Lessor, the additional Percentage Rental for any period after default payable to Lessor by Lessee shall be at a monthly rate, equal to the one-twelfth (1/12) of the Percentage Rental that Lessee was obligated to pay Lessor during the twelve (12) months immediately preceding the month during which the default occurs (taking into account Minimum Monthly Rentals paid by Lessee during that period) or the actual Percentage Rental due hereunder, whichever amount is greater.

#### **16.6 Lessor's Right to Cure Default**

In the event of Lessee's breach or default of any term, covenant or condition in this Lease, Lessor may, at any time after ten (10) calendar days written notice of default to Lessee and Lessee's failure to cure within the applicable cure period, act to cure such default for the account of and at the expense of Lessee. If Lessor at any time by reason of such breach or default is compelled to pay, or elects to pay, any sum of money or to do any act which will require the payment of any sum of money, or is compelled to incur any expense, including fees on account of services rendered or work performed by accountants or consultants, or reasonable attorneys' fees in instituting, prosecuting, or defending any actions or proceedings to enforce Lessor's rights under this Lease or otherwise, the sum or sums paid by Lessor shall bear interest at the lesser of ten percent (10%) per year or the maximum rate then allowed by law, and all such interest, costs and damages shall be deemed to be additional rent under this Lease and shall be due from Lessee to Lessor on the first day of the month following the incurring of such expenses

#### **16.7 Attorneys' Fees**

In the event of the bringing of any action by either party hereto against the other by reason of the breach of any covenant or condition on the part of the other party or arising out of this Lease, then the prevailing party in whose favor final judgment shall be entered shall be entitled to recover attorneys' fees and costs.

#### **16.8 Right to Legal and Equitable Remedies, Waiver and Judicial Reference**

(a) In the event of a default or threatened default by either party of any term, covenant, condition or agreement of this Lease the other party shall have the right of injunction and the right to invoke any remedy allowed by law or in equity. Mention in this Lease of any particular remedy shall not preclude either party from any other remedy at law or in equity.

(b) If Lessor commences any summary proceeding for nonpayment of rent or other sums due under this Lease, Lessee will not interpose (and waives the right to interpose if any such right exists) any counterclaim in any such proceeding.

#### **16.9 Rights of Sublessee**

Subject to subsection 15.3(c), any Sublessee shall have the right, at its election, to cure a curable default under this Lease. If any such Sublessee cures all defaults then existing which are capable of being cured by such Sublessee and relate to the subleased premises, Sublessee's possession and use shall not be disturbed by Lessor as long as (a) Sublessee performs in accordance with the terms of its sublease, and (b) Sublessee attorns to Lessor.

#### **16.10 No Lessee Rights After Termination**

Except as otherwise provided in Sections 16.3 and 16.4, above, should Lessor exercise rights available to it by law, specifically granted to it under this Article 16 or reserved or granted to it elsewhere under this Lease, to terminate this Lease and all of Lessee's rights and interest in and to this Lease, the Premises, or the Improvements on the Premises, such termination shall be without compensation to Lessee for any remaining value of this Lease or the leasehold Improvements now existing or hereafter constructed on the Premises by or under the authority of Lessee, and title to such Improvements will automatically revert to Lessor as provided in Section 11.2, above. Lessee shall execute such documents as may be necessary to effectuate the transfer of title to the Improvements and hereby appoints Lessor as its attorney-in-fact to execute such documents on Lessee's behalf.

#### **17. [RESERVED]**

#### **18. APPRECIATION RENT**

##### **18.1 Intention of the Parties.**

The parties agree that upon the occurrence of certain events as set forth in Sections 18.2 and 18.3, if Lessee receives cash proceeds as a result of such events, Lessor shall receive a portion of such proceeds as Appreciation Rent. For these purposes, receipt by Lessee of value in a form other than cash will be treated as receipt by Lessee of the cash equivalent of such value based on the fair market value of what is received by Lessee.

### **18.2 Payment Upon Financing.**

If Lessee borrows money whose repayment is secured, directly or indirectly, by Lessee's leasehold interest hereunder in a transaction that does not involve an Assignment as described in Section 18.3 below, Lessee shall pay Lessor a sum equal to twenty percent (20%) of the Net Financing Proceeds as Appreciation Rent. Such Appreciation Rent shall be due and payable immediately upon the funding of the loan, and shall be payable in addition to any other sums payable by Lessee under this Lease. If the refinancing closes during the first seven (7) years of the Lease Term, payment of Appreciation Rent shall be at the rate of ten percent (10%) of the Net Financing Proceeds. The origination of the initial construction loan for the construction of the Renovation 2013-14 (the "Initial Construction Loan") shall be excluded from the obligation to pay Appreciation Rent. Lessee shall provide Lessor a complete accounting of the Net Financing Proceeds.

### **18.3 Payment Upon Assignment.**

If Lessee sells or assigns its interest in this Lease, directly or indirectly, Lessee shall pay Lessor a sum equal to the greater of (a) twenty percent (20%) of the Net Sale Proceeds, or (b) 3% of Gross Sale Proceeds, as Appreciation Rent; provided that if the sale or assignment closes during the first seven (7) years of the Lease Term, payment of Appreciation Rent shall be at the greater of (a) ten percent (10%) of Net Sale Proceeds, or (b) 3% of Gross Sale Proceeds. Such Appreciation Rent shall be due and payable immediately upon the closing of the sale or assignment, and shall be payable in addition to any other sums payable by Lessee under this Lease. Lessee shall provide Lessor a complete accounting of the Net Sale Proceeds and Gross Sale Proceeds. Notwithstanding the foregoing, if Gross Sales Proceeds are less than or equal to Base Value at the time of sale or assignment, then Lessee shall not be responsible to pay Lessor Appreciation Rent with respect to such sale or assignment.

### **18.4 Arbitration of Appreciation Rent Disputes.**

(a) The arbitration procedure for determination of Appreciation Rent disputes between Lessor and Lessee following a refinancing, sale or assignment of this Lease pursuant to Sections 18.1 or 18.2 above, shall be the same procedure specified for resolution of Percentage Rental renegotiation disputes set forth in Section 5.9 above, except that the period as provided above within which the parties are to jointly appoint a single neutral arbitrator, shall be thirty (30) days commencing to run from the Appreciation Rent Deadline. Further, the arbitrator(s) shall determine the Lessee's interest in the Premises and thereafter calculate the Appreciation Rent.


(b) The amount owing to Lessor as Appreciation Rent shall be paid out of escrow upon joint instructions of Lessor and Lessee using the arbitrators' decision as the basis of the instruction, within ten (10) days following delivery of the arbitrators' written decision to Lessee and Lessor.

**NOTICE: BY INITIALING IN THE SPACE BELOW, YOU  
ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT  
OF THE MATTERS INCLUDED IN THE "ARBITRATION**

**OF APPRECIATION RENTS DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR BY JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF VALUATION DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.**

**WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF APPRECIATION RENT DISPUTES" PROVISION TO NEUTRAL ARBITRATION.**

  
Lessor's Initials

  
Lessee's Initials

## **19. CONDEMNATION**

### **19.1 Termination on Total Taking**

If title to all of the Premises is taken for any public or quasi-public use under any statute, or by right of eminent domain, by any duly empowered public entity, including Lessor, then this Lease shall terminate on the date that possession of the Premises is taken.

### **19.2 Termination on Partial Taking**

Subject to Article 35 below, if title to so much of the Premises is taken for any public or quasi-public use under any statute or by right of eminent domain by any duly empowered public entity, including Lessor, such that it is economically infeasible for Lessee to use and operate the remaining portion of the Premises for the purposes contemplated by this Lease, Lessee may, at its option, terminate this Lease as of the date that possession of such part of the Premises is taken, provided Lessee shall give written notice to Lessor of its intention, within thirty (30) days following the date that possession of such part of the Premises is taken.

### **19.3 Adjustment of Rent on Partial Taking**

Subject to Article 35 below, if any part of the Premises shall be so taken and this Lease is not terminated pursuant to the provisions of Section 19.2, above, then this Lease shall, as to the

part so taken, terminate as of the date that possession of such part is taken, and the Minimum Monthly Rental payable hereunder shall be abated in the proportion which the Percentage Rental applicable to the portion of the Premises so taken, payable hereunder for the full twelve (12) month period immediately preceding the month in which such part of the Premises is taken, bears to the total Percentage Rental payable hereunder for said twelve (12) month period. Pursuant to Section 9.1 above, Lessee shall make all necessary repairs or alterations to the buildings and Improvements on that portion of the Premises not taken which is reasonably suitable for Lessee's continued occupancy for the purposes and uses for which the Premises are leased, at its own expense and subject to Lessor's prior approval. Any plans, designs or specifications for such work shall be promptly submitted to Lessor for its review and approval prior to commencement of work by Lessee and Lessee shall secure, at its own expense, all permits and other approvals required for said work from the Harbor Commission, Lessor and any other agency or governmental authority with jurisdiction over said work, including all actions, studies, assessments and reports that may be required in order to comply with all requirements of CEQA and the California Coastal Act. Further in the carrying out of all such work, Lessee shall comply with and abide by all laws, ordinances, rules and regulations applicable thereto.

#### **19.4 Allocation of Award**

Lessor shall be entitled to receive and shall receive all compensation for the condemnation of all or any portion of the Premises by exercise of eminent domain as may be allowed by the law then in force, except as hereinafter provided. Subject to Article 35 below, Lessee shall be entitled to that portion of the compensation which is granted for (A) costs associated with necessary repairs or alterations as stated in Section 19.3 above and (B) the loss of use of the Premises and/or Improvements (i) constructed by Lessee and its affiliates (or a prior Lessee) pursuant to this Lease and the Old Lease or (ii) acquired by Lessee or its affiliates from former tenants of the Premises, for the remainder of the Lease Term, plus any amount specifically awarded for costs or losses Lessee may sustain or incur in the relocation or removal of Lessee's trade fixtures. The amount allocated to Lessee for the loss of use of the Premises and/or Improvements as above provided shall not be less than the greater of (x) the actual amounts stated in (A) and (B) above reduced in the percentage that the proportion of the expired Lease Term bears to the original Lease Term or (y) the debt secured by any Lender's security interest in the Premises.

#### **19.5 Proration of Rent and Repayment of Security Deposit.**

(a) If Lessor is the condemning authority in connection with a total taking or a partial taking that results in the termination of the Lease, and such taking pertains to only Lessee's interest, then Lessee shall be entitled to the entire amount of any awards and payments.

(b) If this Lease is terminated pursuant to this Article 19, the rent and all other obligations of Lessee hereunder shall be prorated to the date of termination, including in the event of any partial taking. If Lessee has paid, performed and observed all of Lessee's covenants and obligations hereunder, Lessor shall repay to Lessee the Deposit and any refundable fees and other payments hereunder paid by Lessee for any period beyond the date of termination,

including for any partial taking (i.e. Lessee shall be entitled to a partial refund of the Deposit due to a partial taking).

## **20. DESTRUCTION**

### **20.1 Destruction by Non-Insurable Peril**

In the event of the destruction, whether total or partial, of any building, structure or other improvement on the Premises, which destruction results from a peril for which Lessee is not required to secure and maintain insurance under the provisions of Article 14 above, and against which Lessee has no or insufficient insurance in effect at the time of such destruction, hereafter referred to as a "non-insurable peril", Lessee shall be under no obligation to repair, construct, reconstruct or restore said building, structure or other improvement.

### **20.2 Destruction of Lessor Owned, Controlled or Maintained Improvement**

In the event of the destruction of an improvement or facility owned, controlled or maintained by Lessor, of which the Premises or Improvements on the Premises are a part, and which results in the destruction of the Premises, or all or a portion of any building, structure or other improvement on the Premises, Lessor shall be under no obligation to repair, construct, reconstruct, rebuild, or restore its improvement or facility. If Lessor elects not to rebuild or restore its Improvements, then, for purposes of this Article 20, the destruction applicable to the Premises shall be deemed to have been caused by a non-insurable peril. Conversely, if Lessor elects to rebuild or restore its Improvements and gives written notice of its intention to do so within thirty (30) calendar days from the date of such destruction and, further, provided that the destruction applicable to the Premises was as a result of a peril for which Lessee has insurance or for which Lessee is required to secure and maintain insurance under Article 14, above, then the destruction as to the Premises, whether total or partial, shall be deemed to be by an insurable peril subject to Section 20.6 below.

### **20.3 Termination or Destruction by Non-Insurable Peril**

(a) Subject to Article 35 below, if the Premises are destroyed as a result of a non-insurable peril to such an extent that it is economically infeasible for Lessee to operate and use the remaining portion of the Premises for the purposes contemplated by this Lease, Lessee may, at its option, terminate this Lease as of the date of such destruction, upon Lessee giving written notice to Lessor of its intention. Such notice must be given, if at all, within one hundred twenty (120) days following the date on which such destruction occurs (or such additional time that may reasonably be requested by Lessee, but in no event to exceed sixty (60) additional days, in order to secure available governmental financing or other aid that is made available to victims of any such non-insurable peril).

### **20.4 Proration of Rent and Repayment of Security Deposit and Fees on Termination**

If this Lease is terminated pursuant to the provisions of Section 20.3 above, or Article 35, below, the rent and all other obligations of Lessee hereunder shall be prorated to the date of termination. If Lessee has paid, performed and observed all of Lessee's covenants and



obligations hereunder, Lessor shall repay to Lessee the Deposit referred to in Article 8, above, and any refundable fees and other payments to Lessor hereunder paid by Lessee for any period beyond the date of termination.

#### **20.5 Adjustment of Rent Upon Less Than Total Destruction by Non-Insurable Peril**

If any part of the Premises shall be destroyed by a non-insurable peril and this Lease is not terminated pursuant to this Article 20 or Article 35, below, then this Lease shall, as to the part so destroyed, terminate as of the date of such destruction and the Minimum Monthly Rental payable hereunder shall be abated in the proportion which the Percentage Rental applicable to the portion of the Premises so destroyed, payable hereunder for the full twelve (12) month period immediately preceding the month in which such destruction occurs, bears to the total percentage rental payable hereunder for such twelve (12) month period immediately preceding the month in which such destruction occurs. In such event, Lessee shall, at its own expense, promptly make all necessary repairs or alterations to the buildings or Improvements on the Premises which were not destroyed and which are reasonably suitable for Lessee's continued occupancy for the purposes and uses for which the Premises are leased. In so doing, Lessee shall comply with all applicable laws, rules, regulations and procedures, and shall obtain all necessary permits and governmental approvals and the plans for such work shall be submitted to and approved by the Harbor Commission in accordance with the procedure set forth in Section 7.2 above.

#### **20.6 Destruction by Insurable Peril**

Subject to Article 35, below, in the event of the destruction, whether total or partial, of any building, structure or Improvements on the Premises as a result of a peril for which Lessee has insurance or for which Lessee is required to secure and maintain insurance under Article 14 above, Lessee, within one hundred twenty (120) days from the date of such destruction, or within one hundred twenty (120) days from the date Lessor substantially completes its restoration or rebuilding work if the provisions of Section 20.2 are applicable to the destruction, shall commence the repair, construction, reconstruction or restoration of said building, structure or other improvement and shall prosecute the same diligently to completion. Such repair, construction, reconstruction or restoration shall be completed in accordance with plans prepared by Lessee and submitted to and approved by the Harbor Commission pursuant to procedures set forth in Section 7.2, above, and for which Lessee shall have obtained all necessary permits and governmental approvals. Any such destruction, whether total or partial, shall in no way annul or void this Lease, except that Lessee may be entitled to a reduction of the minimum monthly rental from the date of such destruction and continuing to the completion of such repair, construction, reconstruction or restoration, not to exceed thirty-six (36) months. Such reduction shall be based upon the extent to which the making of such repair, construction, reconstruction or restoration shall interfere with the business conducted by Lessee on the Premises. Lessor shall determine the amount of the rent reduction, if any, in its commercially reasonable discretion, taking into account all rental insurance benefits connected with the Premises and payable to the parties. If the rental insurance required under Section 14.6 above is not in effect at the time of such destruction for any reason, Lessee shall not be entitled to any rent reduction under this Section 20.6.

## **20.7 Controlling Agreement**

This Lease shall be considered an express agreement governing any case of damage to or destruction of buildings, structures or Improvements on the Premises by fire or other casualty, and any law which purports to govern the rights of Lessor and Lessee in such a contingency in the absence of express agreement, and any successor or other law of like import, shall have no application.

## **21. ABANDONMENT**

Lessee shall not abandon the Premises at any time during the Lease Term. If Lessee shall abandon the Premises, or be dispossessed by process of law or otherwise, any personal property, including trade fixtures, belonging to Lessee and left on the Premises, or in any building, structure, or other Improvements previously existing or made by Lessee on the Premises, shall, at the option of Lessor, be deemed to have been abandoned within the meaning of the California Civil Code and Code of Civil Procedure and, in addition to all rights and remedies allowed by law, Lessor shall have the right to recover from Lessee all costs and expenses incurred and paid by Lessor in disposing of such property, including attorneys' fees and the reasonable value of all services provided by Lessor's employees, elected officials, lease administrators and/or auditors and in-house counsel, connected therewith.

## **22. WAIVER OF BREACH**

No waiver of any breach or default by Lessor or Lessee shall constitute a waiver of any other breach or default, whether of the same or any other covenant or condition. No waiver, benefit or privilege voluntarily given or performed by Lessor or Lessee shall give Lessee or Lessor, as the case may be, any contractual right by custom, estoppel or otherwise. The subsequent acceptance of rent or any other payment pursuant to this Lease shall not constitute a waiver of any preceding default by Lessee other than the default in the payment of the particular rental or other payment so accepted, regardless of Lessor's knowledge of the preceding breach at the time of accepting said payment. Nor shall the acceptance of rent or any other payment due hereunder after termination constitute a reinstatement, extension or renewal of this Lease or revocation of any notice or other act by Lessor, except as expressly agreed to in writing and signed by Lessor.

## **23. COMPLIANCE WITH THE LAW**

### **23.1 Rules, Statutes and Ordinances**

Lessee and all of its Sublessees shall, in all activities on or in connection with the Premises and in all uses thereof, including the making of any Improvements, alterations or changes and the installation of any equipment, abide by and conform to all rules and regulations prescribed by Lessor, the City Charter of Lessor, any ordinances of Lessor, including, but not limited to, the Building Code, any general rules of the Harbor Department of Lessor, the Harbor Commission, Fire Department and Police Department of Lessor, and any applicable federal or state statutes or municipal laws now in force or which may hereafter be in force. Further, in the event a violation of any such rule, regulation, ordinance, statute or other law is attributable to actions or conduct of any Sublessee of Lessee, Lessee shall not be deemed to be in default under

this Lease so long as Lessee acts with diligence to obtain compliance or, if unable to do so, promptly takes steps necessary to remove such Sublessee or cure the violation.

### **23.2 Judicial Decrees**

The final judgment of any court of competent jurisdiction, or the admission of Lessee in any action or proceeding, including arbitrations or administrative proceedings to which Lessee is a party, whether Lessor is a party thereto or not, that Lessee has violated such rules and regulations, ordinance, statute, or other law in the use or occupancy of the Premises, shall be conclusive of the fact as between Lessor and Lessee.

## **24. OPERATIONS**

### **24.1 Continuous Operation**

Lessee and its Sublessees shall continuously conduct business operations on the Premises and shall keep the Premises open for business and cause such businesses to be conducted thereon during usual business hours of each business day that is customary for businesses of like character in Southern California (except to the extent that Lessee is prevented from doing so due to Force Majeure, temporary interruption as necessary for maintenance and repair, or temporary interruption as necessary to accommodate renovation, alteration or other improvement work required or permitted to be performed by Lessee under this Lease. All businesses conducted on the Premises shall maintain adequate stocks of merchandise and shall employ sufficient personnel on the Premises to operate all businesses in accordance with sound business practices.

### **24.2 Public Purpose**

In implementing this Article 24, the Harbor Director shall give primary consideration to the public purposes for which Redondo Beach King Harbor and the Harbor Area were established and are maintained.

### **24.3 Operating Rules**

Lessee agrees that it will operate and manage the services and facilities offered on, from or in connection with the Premises in a competent and efficient manner in accordance with the Required Hotel Standard. Lessee shall at all times retain active, qualified, competent and experienced personnel to supervise Lessee's operation and to represent and act for Lessee. Lessee shall further require its attendants and employees to be properly dressed, clean, courteous, efficient and neat in appearance at all times while on the Premises. Lessee shall not employ any person(s) in or about the Premises who shall use offensive language or act in a loud, boisterous or otherwise improper manner. Lessee shall maintain a close check over attendants and employees to insure the maintenance of a high standard of service to the public and shall replace any employee whose conduct is detrimental to the best interests of the public. Further, Lessee shall indemnify, defend and hold Lessor free and harmless from any and all claims, suits, demands, actions and causes of action arising out of this Lease and which may be made or asserted against Lessor by any employee, or former employee, agent, representative or other person, firm or entity connected with Lessee; provided, however, no obligation of Lessee to

defend or indemnify Lessor shall exist to the extent Lessor requires, over the reasonable objection of Lessee, the termination, demotion, or punishment of Lessee's employee .

## **25. CONTROLLED PRICES**

(a) One of the purposes of this Lease is to promote development of the Premises to serve public uses by providing needed facilities available to the public at fair and reasonable prices. Prices charged at the Premises shall be commercially fair and reasonable.

(b) Lessee is entitled to a fair and reasonable return upon its investment pursuant to the Lease.

(c) Consistent with subsections (a) and (b) above, Lessee shall utilize commercially reasonable efforts to maximize profits generated on and from the Premises and Improvements, and cause the activities at and uses of the Premises and Improvements to be conducted in a businesslike manner for the mutual benefit of both Lessor, and Lessee.

## **26. TAXES**

Lessee shall pay or cause to be paid before delinquency all taxes, assessments or fees levied, assessed or charged upon Lessee or the Premises including those levied, assessed or charged by reason of any buildings, structures, equipment, appliances or other Improvements of any nature whatever utilized, erected, installed, or maintained on the Premises, or by reason of the business or other activities of Lessee or its Sublessees upon or in connection with the Premises. Lessee shall further pay or cause to be paid any fees imposed by law for licenses or permits for any business or activity of Lessee or its Sublessees upon or in connection with the Premises or under this Lease. Lessor states and Lessee acknowledges that the interest created in favor of Lessee under this Lease may be a possessory interest subject to taxation under the California Revenue and Taxation Code. Lessee shall have the right to contest the amount of any assessment imposed against the Premises or the possessory interest therein; provided, however, the entire expense of any such contest (including interest and penalties which may accrue in respect of such taxes) shall be the responsibility of Lessee.

## **27. LESSEE'S ASSOCIATION**

(a) Lessee agrees to maintain membership and pay dues, fees, and other charges (hereafter "Fees") in any organization that may be organized, formed or sponsored by Lessor for substantially all lessees within the Harbor Area ("Association") and to pay such Fees, if any, as may be established by the membership, to be used at the direction of the officers of such organization for the promotion of the business and public operations located within the Harbor Area; provided, that under the bylaws of such organization, no matters (including, without limitation, the election of officers and the establishment of Fees) shall be deemed to have been adopted by such organization for purposes of this Article 27 unless approved by a majority of the members of the Association at the time of adoption.

(b) The percentage of payment of Fees to be made by Lessor and Lessee shall be reasonable and the voting power of Lessor or Lessee shall be computed pursuant to the policy set

forth by the Association, which policy is subject to modification and amendment from time to time upon the majority vote of the Association members and with Lessor's consent.

## **28. WASTE**

Lessee and Lessor shall not commit, or suffer to be committed, any waste or nuisance upon the Premises.

## **29. HOLDING OVER**

This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over after the expiration of the Lease Term, or extension thereof, without the prior written consent of Lessor which shall be exercised with commercially reasonable discretion, shall be construed to be a tenancy from month to month, on the terms and conditions herein specified, so far as applicable, provided that the Minimum Monthly Rental shall be equal to three (3) times the minimum monthly rental rate in effect at the expiration of this Lease. Such holding over shall not include any time reasonably employed by Lessee in the removal of trade fixtures in the manner provided in Section 11.2 for such removal. Any holding over by Lessee after expiration of the Lease Term shall not constitute a renewal or extension of this Lease or give Lessee rights in or to the Premises, except as otherwise expressly provided in this Lease.

## **30. EXTENSION OF LEASE TERM**

Unless otherwise expressly agreed in a writing signed by the parties, and except as provided in Section 4 of this Lease, Lessee shall have no right or option to extend the Lease Term.

## **31. NON-DISCRIMINATION**

Lessee shall not discriminate against any person or class of persons by reason of sex, race, color, religion, creed, national origin, ancestry, age, disability, physical handicap, sexual orientation, medical condition or marital status. Lessee shall make its accommodations, services and facilities available to the public on fair and reasonable terms.

## **32. NOTICES**

(a) Any and all notices or demands by or from Lessor to Lessee, or Lessee to Lessor, shall be in writing. They shall be served either personally, by pre-paid commercial courier providing receipt (such as FedEx) or by certified mail, postage prepaid, return receipt requested. If personally served, service shall be conclusively deemed made at the time of service. If served by certified mail or commercial courier, service shall be conclusively deemed upon delivery addressed to the party to whom such notice or demand is to be given, as hereinafter provided. Any notice or demand shall be given as follows:

If to Lessor:

City of Redondo Beach  
415 Diamond Street  
Redondo Beach, CA 90277  
Attention: City Clerk

If to Lessee:

Sunrise-Harbor, Ltd.  
c/o Invest West Financial Management  
1933 Cliff Drive, Suite 1  
Santa Barbara, CA 93109  
Attention: Dale J. Marquis

With copies to the following at the same  
address: City Attorney and Harbor Department  
Director

With a copy to the following at the same  
address: General Counsel

(b) Any notice or demand given to Lessee by Lessor shall also be given contemporaneously to any Lender of Lessee at such addresses as Lessee shall specify to Lessor in writing. All addresses provided herein may be changed by written notice given in the manner provided herein. Any such written notice may provide that notices may be delivered by email to a specified email address in addition to the form of notice otherwise provided in this Article 32.

### **33. COASTAL COMMISSION PERMITS**

Upon surrender, expiration or termination of this Lease, Lessee shall assign to Lessor all of Lessee's right and interest in and to any coastal permits issued in connection with the Premises and Improvements and shall execute any and all documents required by Lessor or any other governmental entity to complete said assignment.

### **34. RESERVATIONS TO LESSOR**

(a) The Premises are accepted by Lessee subject to any and all existing easements, encumbrances, trusts, covenants and restrictions of record. Lessor reserves the right to install, lay, construct, maintain, repair and operate such sanitary sewers, drains, storm water sewers, pipelines, manholes and connections; water, oil and gas pipelines; telephone, telegraph, cable television and power lines; and the appliances and appurtenances necessary or convenient in connection therewith, in, over, upon, through, across and along the Premises or any part thereof, and to enter the Premises for any and all such purposes; provided however any such installation shall not be located in any manner to unreasonably interfere with the Improvements and any such installation or use shall not materially interfere with Lessee's quiet possession as provided above in Section 12.2. Lessor also reserves the right to grant franchises, easements, rights of way and permits in, over, upon, through, across and along any and all portions of the Premises, including all rights to air space above the Premises, provided the same do not materially interfere with Lessee's quiet possession as provided above in Section 12.2.

(b) Lessor agrees that rights granted to third parties by reason of this clause shall contain provisions, among others provided for herein, that the surface shall be restored as nearly as practicable to its original condition upon the completion of any construction.

(c) Lessor reserves to itself, for the benefit of the public, an easement over any walkways, bikeways, roadways, waterways, parking areas and other portions of the Premises which must be open and accessible to the public in order to facilitate and promote the public's use and patronage of the Premises and Harbor Area.

### **35. LESSOR'S REVERSIONARY OPTION DURING LAST FIVE YEARS**

(a) In the event of a taking of the Premises, or any part thereof under Article 19, above, or a total destruction of the Premises, or a partial destruction of the Premises or any Improvements thereon, as described in Article 20, above, to the extent that it is economically infeasible for Lessee to continue to operate and use the remaining portion of the Premises pursuant to this Lease, which condemnation or destruction occurs within the last five (5) years of the Lease Term, Lessee or Lessor may declare a reversion of the leasehold by delivering written notice thereof to Lessee within ninety (90) days from the date of such condemnation or destruction. Should a reversion be declared pursuant to this Article 35, Lessor shall be entitled to the immediate possession and control of the entire Premises, subject to Lessee's right to remove its trade fixtures pursuant to Section 11.2 above. Further, this Lease shall be cancelled and terminated upon transfer of possession or entitlement to possession of the Premises to Lessor and the parties agree that all compensation for the condemnation and all insurance proceeds payable to either party arising out of or connected with the destruction shall belong to and be the property and entitlement of Lessor after payment of all sums then due any Lender, including any loan balance secured by a security instrument on the Premises. Lessee shall thereafter be excused from any further performance under this Lease except for cooperating with and assisting Lessor in taking such action as may be necessary or appropriate to obtain prompt and timely payment of the condemnation award or any insurance proceeds due as a result of the destruction, and compliance with any other provisions of this Lease which expressly survive the expiration or termination of this Lease.

### **36. SUCCESSORS**

Subject to the provisions herein relating to assignment and subletting, each and all of the terms, conditions, and agreements herein contained shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of any and all of the parties hereto, and all of the parties hereto shall be jointly and severally liable hereunder.

### **37. CAPTIONS**

The titles or headings to the Articles/Sections of this Lease and Table of Contents of this Lease are not a part of this Lease, and shall have no effect upon the construction or interpretation of any part hereof.

### **38. TIME**

Time is of the essence of this Lease. Any reference in this Lease to "days" shall refer to calendar days, and not business days or working days unless otherwise specified.

### **39. CONSTRUCTION**

(a) With respect to all words used herein, the masculine, feminine or neuter gender, and the singular or plural number shall each be deemed to include the others whenever the context so indicates.

(b) The use of the terms "including," "include," and "includes" followed by one or more examples is intended to be illustrative and shall not be deemed or construed to limit the scope of the classification or category to the examples listed.

(c) All exhibits that are referenced as "attached hereto" are incorporated in this Lease and made part of this Lease for all purposes.

(d) This Lease has been prepared by Lessor and its professional advisors and reviewed by Lessee and its professional advisors. The parties and their advisors believe this Lease is the product of all of their efforts, that it expresses their agreements and that it should not be interpreted in favor of either Lessor or Lessee merely because of their efforts in preparing it.

(e) The laws of the State of California shall govern the validity, interpretation, performance and enforcement of this Lease, without giving effect to its conflicts of laws principles.

#### **40. SAVINGS CLAUSE**

In the event that any provision or provisions of this Lease are, or are hereafter adjudged to be, for any reason, invalid or unenforceable, the remaining provisions of this Lease shall continue to exist and remain in full force and effect provided the material intent of the parties is not frustrated by such invalidity or unenforceability.

#### **41. RECORDATION OF MEMORANDUM OF LEASE**

This Lease need not be recorded. A Memorandum of Lease may be recorded in lieu of the recording of the entire Lease. If the Lease is not recorded, the parties agree to execute a Memorandum of Lease in the form attached hereto as **Exhibit "E,"** or as the parties may otherwise agree, which shall be recorded upon or prior to the Commencement Date of this Lease.

#### **42. ESTOPPEL CERTIFICATE**

(a) Within twenty (20) days after notice from Lessor, Lessee agrees to execute and deliver to Lessor a certificate addressed to such person as Lessor shall specify, stating (i) that this Lease is in full force and effect, (ii) the modifications, if any, to this Lease, (iii) all other agreements between Lessor and Lessee, (iv) whether Lessee claims any default or breach of this Lease on the part of Lessor, and (v) any other information reasonably requested by Lessor. The certificate shall also state (vi) the amount of Minimum Monthly Rental then in effect, (vii) the dates to which Minimum Monthly Rental and Percentage Rental have been paid, (viii) the amount of any security deposits or prepaid rent, and (ix) the fact that percentage rental payments are subject to audit under Section 5.7 above. If Lessee fails to deliver the certificate within twenty (20) days, it shall be conclusively presumed for the benefit of Lessor and the addressee that this Lease is in full force and effect and has not been modified except as may be represented by Lessor, and Lessee shall be deemed to have waived any breach or default of Lessor. Lessor



shall reimburse Lessee for all costs and expenses incurred in connection with the processing of any estoppel certificate.

Lessor shall, at any time and from time to time hereafter, within forty-five (45) days after written notice from Lessee, execute, acknowledge and deliver to any holder or proposed holder, or any other person, or entity specified in such request, a statement certifying that (i) this Lease is in full force and effect, (ii) the modifications, if any, to this Lease, (iii) all other agreements between Lessor and Lessee, and (iv) whether Lessor claims any default or breach of this Lease on the part of Lessee. The certificate shall also state (v) the amount of Minimum Monthly Rental then in effect, (vi) the dates to which Minimum Monthly Rental and Percentage Rental have been paid, (vii) the amount of any security deposits or prepaid rent, (viii) the fact that Percentage Rental payments are subject to audit under Section 5.7 above, (ix) the existence of any offsets, counterclaims or defenses on the part of Lessor, (x) the commencement and expiration dates of the term of the Lease, and (xi) any other matters that may reasonably be requested. Lessee shall reimburse Lessor for all costs and expenses incurred in connection with the processing of any estoppel certificate.

#### **43. AMENDMENTS**

This Lease sets forth all of the agreements and understandings of the parties and supersedes all prior agreements, if any, between the parties concerning the Premises. Any amendments must be written and signed by the parties and Lessor reserves the right to require that Lessee reimburse Lessor for all costs and expenses incurred in connection with the processing of any amendment to this Lease requested or required by Lessee, including any accounting, auditing, bookkeeping and computer fees, and expenses, administrative, financial and economic consultant fees, legal fees and the reasonable value of the services provided by Lessor's employees, elected officials, lease administrators, and/or lease auditors and in-house counsel.

#### **44. SIGNATURES**

This Lease shall be signed by the Mayor and City Clerk of Lessor and by Lessee following due authorization thereof.

#### **45. EXECUTION IN COUNTERPARTS**

This Lease may be executed in two (2) or more counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

#### **46. FORCE MAJEURE**

No delay or failure in performance by either Lessee or Lessor shall constitute default hereunder or give rise to any claim for damages, if, and to the extent, such delay or failure is Force Majeure. Unless such Force Majeure substantially and materially frustrates performance of this contract, it shall not operate to excuse but only delay performance hereunder.

#### **47. [RESERVED]**

#### **48. ADJUSTMENT OF INSURANCE COVERAGES**

The amounts of liability insurance required under Subsections 14.4(a) and Section 14.5 (and any other liability insurance required by Lessor) shall be subject to adjustment as of each fifth (5th) anniversary of the Commencement Date (each, an "Insurance Renegotiation Date"), consistent with the amounts of such liability insurance then being required by Lessor under similar ground leases for comparable developments and uses in the Redondo Beach Harbor area, including any adjustments then being approved by Lessor (if any), based on differences in size, scope, uses or risks between the Premises and such other developments.

#### **49. PAYMENTS AS ADDITIONAL RENT**

All fees, payments, assessments, charges, deposits, damages and other sums payable to Lessor by Lessee under this Lease, including any interest due or accruable thereon, shall be deemed to be additional rent due and payable to Lessor hereunder. The failure to make payment of any such sum when due shall be a default under subsection 16.1(a) above, in addition to being a breach of the provision of this Lease wherein the obligation to make said payment is specified. Upon such breach or default beyond applicable cure period specified in Section 16.2, Lessor shall have available to it all rights and remedies provided by law and under this Lease, including the right to terminate this Lease.

#### **50. NO BROKER**

Lessor and Lessee represent that they have not dealt with or through a broker or other agent with respect to the negotiation and entering into this Lease, and that neither party is aware of any such person or entity who claims or is entitled to a finder's fee or commission arising out of this Lease.

#### **51. AUTHORITY**

If Lessee is a corporation, limited liability company, or a partnership, those persons executing this Lease for and on behalf of Lessee represent that they have been authorized and directed to execute this Lease for and on behalf of such corporation, limited liability company, or partnership. Further, if Lessee is a corporation or limited liability company, Lessee shall provide Lessor with a certified copy of the resolution approving this Lease and authorizing the persons signing this Lease to do so for and on behalf of Lessee.

#### **52. VENUE**

Unless otherwise agreed by Lessor and Lessee, venue for any litigation between the parties shall be exclusively in the federal or state courts with subject matter jurisdiction in Los Angeles County, California.

#### **53. ASSUMPTION OF RISK**

As a condition of acceptance of the issuance of the Coastal Commission Permit, the Coastal Commission requires Lessee to include in this Lease, in a form and content acceptable to the Executive Director, an acknowledgement and agreement of Permit Holders with regard to

assumption of risks associated with development covered by the Permit. As so required, Lessee hereby acknowledges and agrees on behalf of Permit Holders, that (i) the Premises may be subject to hazards from waves, storm waves, flooding and erosion, (ii) Permit Holders assume the risks to the applicant and the Premises of injury or damage from such hazards in connection with the development which is the subject of the Coastal Commission Permit, (iii) Permit Holders unconditionally waive any claim of damage or liability against Coastal Commission, its officers, agents and employees for injury or damage from such hazards, (iv) Permit Holders indemnify and hold harmless the Commission, its officers, agents, and employees with respect to the Commission's approval of the project covered by the Permit against any and all liability, claims, demands, damages, costs (including costs and fees incurred in defense of such hazards, and (v) Permit Holders agree to include a provision in any subsequent sublease or assignment of the development authorized by the Coastal Commission Permit requiring the sublessee or assignee to submit a written agreement to Coastal Commission for the review and approval of the Executive Director incorporating all of the forgoing restrictions identified in (i) through (iv) above.

#### **54. EXHIBITS**

The following are exhibits to this Lease and are incorporated herein:

<i><b>Exh. #</b></i>	<i><b>Paragraph First Appearing</b></i>	<i><b>Description</b></i>
Exh. A	§7.1(a)	Description of Renovation 2013-14
Exh. B	Def. of Premises (§3)	Legal Description of Property
Exh. C	Def. of Percentage Rental (§5.2)	Percentage Rental Categories
Exh. D	§6.1	Permitted Uses
Exh. E	§41	Form of Memorandum of Lease

IN WITNESS WHEREOF, Lessor and Lessee have duly authorized and signed this Lease as of the date first hereinabove written.

LESSOR:

CITY OF REDONDO BEACH, a chartered city and municipal corporation

By:  \_\_\_\_\_

 Michael A. Chin, Mayor

ATTEST:

By:  \_\_\_\_\_

Eleanor Manzano, City Clerk

APPROVED AS TO FORM:

By:  \_\_\_\_\_

Michael W. Webb, City Attorney

LESSEE:

SUNRISE-HARBOR, LTD.,  
a California limited partnership

By: Invest West Financial III, LLC, a  
California limited liability company,  
a general partner

By:  \_\_\_\_\_

Dale J. Marquis, Manager

By: Abel Realty Co., Inc., a California  
corporation, a general partner

By:  \_\_\_\_\_

Harry R. Abelson, President

## **EXHIBIT "A"**

### **DESCRIPTION OF RENOVATION 2013-14**

#### **Public Areas:**

- Demolition of existing public areas
- New rear entry from parking lot
- New lobby/front desk (including relocation and removal of existing kitchen)
- New Business Center
- New Breakfast Room & Terrace
- New Prep Pantry at Breakfast Room
- Relocated Public Restrooms
- Façade Rework
- New water feature and Rotunda
- Exterior deck and trellis over new Porte-cochere
- New Stamped Concrete under Porte-cochere
- Expanded meeting rooms
- New HVAC
- Site work and restriping of parking lot
- New ADA ramps at hotel entry
- New Landscaping

#### **Guestroom Areas**

- New guest balconies
- Façade Rework
- New soft goods and case goods
- New Corridor lighting and finishes
- Minor ADA remediation

**EXHIBIT "B"**

**LEGAL DESCRIPTION OF PROPERTY**

**[See Attached]**

Legal Description

*HARBOR PARCEL #25*

That portion of the Rancho San Pedro, in the City of Redondo Beach, County of Los Angeles, State of California described as follows:

Beginning at the southwesterly corner of that parcel of land described in the deed to the Salvation Army, recorded in Book 6072, page 102 Official Maps of said county, said point lying in the northerly line of Beryl Street 60 feet wide as described in the deed to the City of Redondo Beach, recorded in Book 3142, Page 56 of Deeds, records of said county; thence South  $74^{\circ}53'09''$  West 165.72 feet along last said northerly line to a point lying North  $74^{\circ}53'09''$  East 17.50 feet along said northerly line of Beryl Street from last said line's intersection with the east line of Harbor Drive, 70 feet wide as last said street presently exists; thence North  $66^{\circ}02'05''$  West 27.17 feet to a point in the east line of last said street, said point lying on a curve concave westerly and which has a radius of 2869.68 feet, last said point being 17.50 feet northerly, measured along last said line, from the northerly line of Beryl Street, a radial bears North  $62^{\circ}51'51''$  East to last said point; thence northerly along said easterly line 133.52 feet through a central angle of  $2^{\circ}39'57''$ ; thence tangent to last said curve North  $29^{\circ}48'06''$  West 214.76 feet to the southerly line of property conveyed to the Southern California Edison Company; thence North  $67^{\circ}04'04''$  East 325.98 feet along said Edison Company property to an angle point therein; thence South  $25^{\circ}53'47''$  East 169.34 feet along said Edison Company property to the northwesterly line of said land deeded to the Salvation Army; thence southwesterly and southerly along last said line to the following courses and distances: South  $37^{\circ}13'35''$  West 45.60 feet; South  $16^{\circ}40'30''$  West 64.38 feet; South  $10^{\circ}15'01''$  East 151.30 feet to the point of beginning.

Contains 2.31 acres

Subject to the following easements and exceptions:

DESCRIPTION APPROVED

By *[Signature]*

(a) An easement for street purposes

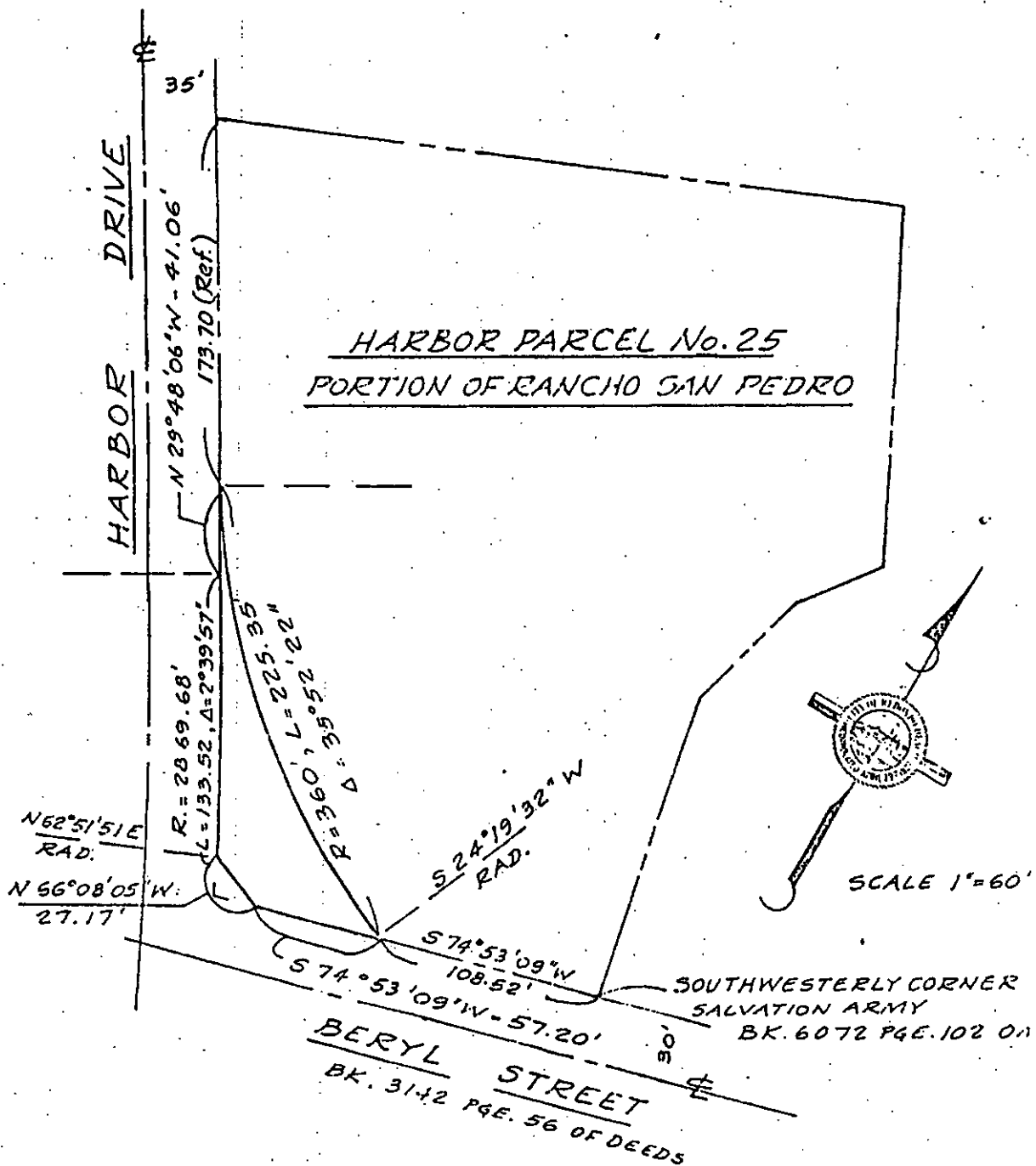
upon and across that portion of Rancho San Pedro in the City of Redondo Beach, County of Los Angeles, State of California, described as follows:

Beginning at a point in the Northerly line of Beryl Street, 60 feet wide as described in the deed to the City of Redondo Beach, recorded in Book 3142, page 56 of deeds, records of said County, said point being distant South  $74^{\circ}53'09''$  West 108.52 feet measured along said Northerly line of Beryl Street from the Southwesterly corner of that parcel of land described in the deed to the Salvation Army, recorded in Book 6072, page 102, Official Maps of said County, thence South  $74^{\circ}53'09''$  West 57.20 feet, thence North  $66^{\circ}08'05''$  West 27.17 feet to a point in the Easterly line of Harbor Drive, 70 feet wide, as last said street presently exists, said point lying on a curve concave Westerly which has a radius of 2869.68 feet on a radial that bears North  $62^{\circ}51'51''$  East, thence Northerly along said Easterly line of Harbor Drive, 133.52 feet measured along the arc of said curve through a central angle of  $2^{\circ}39'57''$ , thence tangent to last said curve North  $29^{\circ}48'06''$  West 41.06 feet to a point of cusp in the Easterly line of said Harbor Drive, said point lying on a curve concave Northeasterly which has a radius of 360.00 feet tangent to the Easterly line of said Harbor Drive, thence Southerly 225.35 feet measured along the arc of said curve through a central angle of  $35^{\circ}52'22''$  to the point of beginning, which easement is more specifically shown on the plat attached hereto as Exhibit '1' and by this reference incorporated herein.



(b) Those rights and easements granted to Southern California Edison Company by Lessor under that certain Lease dated December 28, 1964.

(c) Covenants, conditions, restrictions, reservations, rights and rights of way of record.



EASEMENT FOR STREET PURPOSES

CITY OF REDONDO BEACH

EC. OCT. 22,

Exhibit 1

## EXHIBIT "C"

### PERCENTAGE RENTAL CATEGORIES

1. Hotel and Related Services; Meeting Rooms - SEVEN AND ONE-HALF PERCENT (7.5%) of Gross Receipts or other fees charged for the rental, occupancy or use of the following structures: (1) hotel and/or motel accommodations, and (2) meeting rooms; provided, however, until the completion of Renovation 2013-14 the applicable percentage shall be EIGHT PERCENT (8%);
2. Restaurant and Bar - THREE AND ONE-HALF PERCENT (3½%) of Gross Receipts from the operation of a restaurant, restaurant/cocktail lounge combination or coffee shop;
3. Cocktail Lounge - TEN PERCENT (10%) of Gross Receipts from the operation of a bar, tavern, cocktail lounge, discotheque, night club or other facilities engaged primarily in the on-premises sale of alcoholic beverages, except as provided for in category 2; and
4. Lessee Retail Operations – for Lessee’s operations of all stores, shops or boutiques selling items at retail, FIVE PERCENT (5%) of the Gross Receipts from the operation;
5. Sublessee/Concessionaire Retail – for operations conducted by a sublessee or concessionaire, the greater of FIVE PERCENT (5%) of the Gross Receipts from the operation or TWENTY PERCENT (20%) of the rent received by Lessee from such sublessee or concessionaire.

## **EXHIBIT "D"**

### **PERMITTED USES**

Operation of a high quality hotel and associated restaurant and bar, all in accordance with the Required Hotel Standard as defined in the Lease,

# FORM OF MEMORANDUM OF LEASE

[illegible]

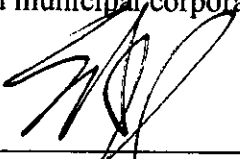
*Space above this line for Recorder's use*

6. Execution. This Memorandum of Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

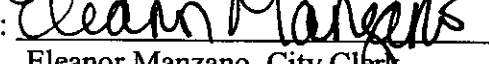
IN WITNESS WHEREOF, the parties hereto have executed this Memorandum of Lease Agreement by their officers thereunto duly authorized as of the day and year first written above.

LESSOR:

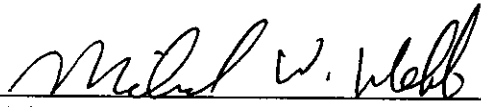
CITY OF REDONDO BEACH, a chartered city and municipal corporation

By:   
Michael A. Gm, Mayor

ATTEST:

By:   
Eleanor Manzano, City Clerk

APPROVED AS TO FORM:

By:   
Michael W. Webb, City Attorney

LESSEE:

SUNRISE-HARBOR, LTD.,  
a California limited partnership

By: Invest West Financial III, LLC, a  
California limited liability company,  
a general partner

By:   
Dale J. Marquis, Manager

By: Abel Realty Co., Inc., a California  
corporation, a general partner

By:   
Harry R. Abelson, President

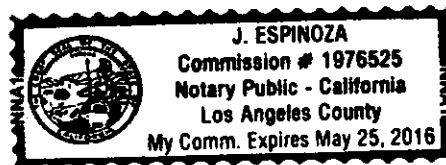
STATE OF CALIFORNIA )  
COUNTY OF Los Angeles ) ss.

On December 26, 2013 before me, J. Espinoza, Notary Public, personally appeared Steve Aspa, who proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacity, and that by their signature on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

[Signature]  
Notary Public



STATE OF CALIFORNIA )  
COUNTY OF \_\_\_\_\_ ) ss.

On \_\_\_\_\_, 201\_\_ before me, \_\_\_\_\_, Notary Public, personally appeared \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacity, and that by their signature on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

\_\_\_\_\_  
Notary

Public

STATE OF CALIFORNIA                     )  
   ) ss.  
COUNTY OF Santa Barbara             )

On Dec 3<sup>rd</sup>, 2013 before me, Micheline Hughes, Notary Public, personally appeared Dale J. Marquis, who proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacity, and that by their signature on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



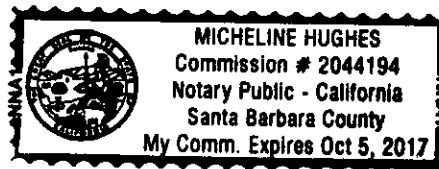
Micheline Hughes  
Notary Public

STATE OF CALIFORNIA                     )  
   ) ss.  
COUNTY OF Santa Barbara             )

On Dec 3<sup>rd</sup>, 2013 before me, Micheline Hughes, Notary Public, personally appeared Harry R. Abelson, who proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacity, and that by their signature on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Micheline Hughes  
Notary

Public



RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:

City of Redondo Beach  
415 Diamond Street  
Redondo Beach, CA 90277  
Attention: City Clerk

### GROUND LEASE ESTOPPEL CERTIFICATE AND CONSENT

This GROUND LEASE ESTOPPEL CERTIFICATE AND CONSENT (this "**Estoppel and Consent**") is made as of December 17, 2013, by the CITY OF REDONDO BEACH ("**Lessor**") and BUSINESS FIRST BANK A DIVISION OF HERITAGE OAKS BANK ("**Lender**"), and acknowledged by SUNRISE-HARBOR, LTD., a California limited partnership ("**Lessee**").

#### RECITALS:

A. Lessor, as lessor, and Lessee, as lessee, entered into that certain Amended Lease dated February 14, 1978, as amended (the "**Pre-Existing Lease**") which Pre-Existing Lease related to that certain parcel of real property in the City of Redondo Beach, County of Los Angeles, State of California which is described in more detail in Exhibit A attached hereto (the "**Premises**") and is commonly known as 400 North Harbor Drive, Redondo Beach, California.

B. Prior to the date hereof, Lessor and Lessee have entered into a Lease dated December 17, 2013 for the Premises that fully replaces the Pre-Existing Lease (the "**Lease**"). Under the terms of the Lease, the Pre-Existing Lease was terminated and the Lease superseded the Pre-Existing Lease.

C. The Lease contemplates that the Lessee shall make various improvements to the Premises which improvements are defined as "**Renovation 2013-14**" in the Lease and this Estoppel and Consent.

D. Lender desires to make a construction loan to Lessee in the principal amount of \$5,000,000 (the "**Construction Loan**") which Construction Loan shall convert to a permanent loan upon completion of Renovation 2013-14 and other conditions (the "**Permanent Loan**") which together with the Construction Loan is referred to herein as the "**Loan**"). The Construction Loan and the Permanent Loan are or will be secured by all of Lessee's right, title and interest in the Premises, the improvements located thereon, and the Lease (the "**Leasehold Estate**") pursuant to a certain Construction Deed of Trust and any replacement deed of trust upon conversion of the Construction Loan to the Permanent Loan (in either case, the "**Deed of Trust**"), and such other security as is described in other loan documents delivered in connection with the Loan (the "**Loan Documents**").

E. As a condition to the consummation of the Construction Loan and with knowledge that Lessee and Lender are relying hereon, Lessor has been requested to deliver this Estoppel and Consent.

### **ESTOPPEL:**

In consideration of the foregoing recitals, Lessor hereby represents and warrants as follows:

1. Immediately prior to the execution and delivery of the Lease, the Pre-Existing Lease was in full force and effect. The Lease replaced the Pre-Existing Lease and is in full force and effect. The Lessor has not assigned its interests in the Lease, either in whole or in part.

2. The term of the Lease commenced on December 18, 2013 and will terminate on the fifty fifth (55<sup>th</sup>) anniversary thereof; provided, however, if Lessee fails to timely complete Renovation 2013-14, the term shall be automatically amended to expire on February 13, 2028, with a 5-year extension option.

3. Rents and other charges have been fully paid under the Lease through November 1, 2013 (subject to audit rights of Lessor). The current Monthly Minimum Rent payable under Section 5.1 of the Lease is \$20,405 per month. Payment of Percentage Rent (as defined in the Lease), to the extent required pursuant to Section 5.2 of the Lease, has been made for gross receipts of all months through and including October, 2013 (subject to audit rights of Lessor).

4. To the best knowledge of Lessor, there are no existing defaults under the Lease with respect to any monetary or non-monetary provision of the Lease and no event has occurred which, with the passage of time or giving of notice, or both, would constitute a default with respect to any non-monetary provision of the Lease.

5. A security deposit in the amount of \$40,810 is currently being held by the Lessor.

6. The address for Lender as an Institutional Lender (as defined in the Lease) for written notice under the terms of the Lease is:

Business First Bank, a Division of Heritage Oaks Bank  
State Street Branch  
1035 State Street  
Santa Barbara, CA 93101  
Attn: Dolores M. Amenta

7. Lessor agrees that (i) Lender is an "**Institutional Lender**" as defined in Section 1.1(ii) of the Lease, and is entitled to all of the rights and privileges provided to an Institutional Lender in Article 13 and any other applicable provisions of the Lease.

8. Neither Lender nor any purchaser at a foreclosure of a Deed of Trust (a "Foreclosure Transferee") shall be liable for any obligations of the Lessee under the Lease, unless and until Lender or such Foreclosure Transferee acquires the leasehold, whether by foreclosure of the Deed of Trust or otherwise. Lender or such Foreclosure Transferee shall be

responsible for the continued performance of said obligations only to the extent and for the applicable time period provided for in the Lease.

9. The Lessor acknowledges that the Loan Documents, as defined below, require that Lessee obtain Lender's consent before Lessee executes any amendment to, or modification of, the Lease.

10. The provisions of this Estoppel and Consent shall be binding upon Lessor's successors and assigns, and may be relied upon, and shall inure to the benefit of Lender and its successors and assigns and to Lessee.

#### **CONSENT:**

The Lessor hereby consents to the Construction Loan and the Permanent Loan by Lender to Lessee and to the encumbrance of the Leasehold Estate pursuant to the Loan Documents, and the execution of those related documents in connection therewith, subject to the following conditions:

11. Lender acknowledges to the Lessor by execution and return of the enclosed copy of this Estoppel and Consent its agreement to the matters set forth in the Consent portion of the Estoppel and Consent.

12. Notwithstanding anything in any Deed of Trust or the Loan Documents to the contrary, the Lender's security interest under any Deed of Trust or any other Loan Documents does not include the tide or submerged lands or the fee simple title to the Premises and is limited solely to the Leasehold Estate and the Improvements (as such term is defined in the Lease) and no other property.

13. While the Loan Documents executed by Lessee and Lender in connection with the Loan shall be determinative of the rights and obligations between Lessee and Lender with respect to the Loan, they do not, and shall not enlarge upon any rights of Lessee or Lender, as against the Lessor, under the Lease, except as expressly provided in the Lease and this Estoppel and Consent.

14. Any Deed of Trust and other Loan Document, and all rights thereunder, shall be subject and subordinate to the covenants, conditions and restrictions set forth in the Lease and to all rights and interests of Lessor, except as may be expressly provided in the Lease or this Consent and Estoppel; the terms and provisions of the Lease and this Consent and Estoppel shall prevail, govern and control in any instance where an inconsistency or conflict exists between the terms and provisions of the Lease or this Consent and Estoppel and the terms and provisions of any Deed of Trust or Loan Documents;

15. Notwithstanding anything in the Deed of Trust or the Loan Documents to the contrary, Lender agrees as follows (and the Loan Documents shall be deemed to be amended by the following):

a) any proceeds from fire or extended coverage insurance shall first be used for the repair, rebuilding, restoration or reconstruction of the Improvements (as such term is defined in the Lease) and only the remaining proceeds, if any, may then be used to repay any part of the outstanding indebtedness secured by any Deed of Trust;

b) should the Lender or any successor-in-interest to it, succeed to the interests of Lessee in the Premises or under the Lease by any means or proceedings whatsoever, and regardless of whether or not the Lender actually enters into and takes possession of the Premises, then the Lender shall be obligated to keep and perform all of the covenants and conditions of this Lease required to be kept and performed by Lessee during its ownership of the Lessee's interest in the Premises and Improvements;

(c) Any Deed of Trust shall not be modified, extended, renewed or otherwise revised (other than such extension permitted by its terms), nor shall any Deed of Trust, or any interest therein, be further mortgaged, pledged, encumbered, hypothecated or any security otherwise granted therein, without the prior written consent of Lessor, which consent shall not be unreasonably withheld, conditioned or delayed;

(d) The Deed of Trust shall not, by its terms or effect, be used to transfer ownership of the Lease or Lessee's interest therein, or in the Improvements on the Premises (except a security interest therein) nor to change control of Lessee, except in connection with the exercise of Lender's rights and remedies thereunder;

(e) the Lender, regardless of whether or not a request for notice shall have been recorded by Lessor, shall give Lessor written notice of any default under any Deed of Trust or other Loan Document, which notice shall be given within twenty (20) calendar days after the Lender declares an event of default or otherwise commences the exercise of its rights and remedies under the applicable security instrument.

16. Upon full payment and performance by Lessee under the Loan, Lender's rights under the Loan Documents, including any assignment of the Leasehold Estate it has obtained in connection with the Loan, shall terminate without the necessity of any further action by the Lessor.

17. Notwithstanding anything in the Lease to the contrary, the Lessee shall have no obligation to (i) pay Appreciation Rent (as defined in the Lease) pursuant to Section 18.2 of the Lease or any other provision of the Lease, in connection with the Construction Loan or the Permanent Loan or (ii) obtain Lender's consent to the Permanent Loan or any deed of trust recorded in connection with the Permanent Loan, it being agreed that the Consent by the City contained herein is applicable to both the Construction Loan and the Permanent Loan and the Loan Documents which evidence the Construction Loan and the Permanent Loan.

18. This Estoppel and Consent may be executed in counterparts, and when all counterpart documents are executed, the counterparts shall constitute a single integrated document.

19. This Estoppel and Consent is provided instead of (and replaces) the “Non-Disturbance Agreement” called for under the Lease.

[Signatures begin on following page]

G:\16857\0072\DOCS\Estoppel 1.doc

IN WITNESS WHEREOF, this Ground Lease Estoppel Certificate and Consent has been executed and given by Lessor, through its duly authorized representative, as of the date first set forth above.

LESSOR:  
CITY OF REDONDO BEACH, a chartered  
city and municipal corporation

By: [Signature]

Its: [Signature]

LENDER  
BUSINESS FIRST BANK A DIVISION OF  
HERITAGE OAKS BANK

By: [Signature]

Its: Patricia Moorehead  
Senior Vice President

ATTEST:

By: [Signature]  
Eleanor Manzano, City Clerk

APPROVED AS TO FORM:

By: [Signature]  
Michael W. Webb, City Attorney

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

IN WITNESS WHEREOF, this Ground Lease Estoppel Certificate and Consent has been executed and given by Lessor, through its duly authorized representative, as of the date first set forth above.

LESSOR:  
CITY OF REDONDO BEACH, a chartered  
city and municipal corporation

LENDER  
BUSINESS FIRST BANK A DIVISION OF  
HERITAGE OAKS BANK

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: 

Its: Phil Morenas  
Senior Vice President

ATTEST:

By: \_\_\_\_\_  
Eleanor Manzano, City Clerk

APPROVED AS TO FORM:

By:   
Michael W. Webb, City Attorney

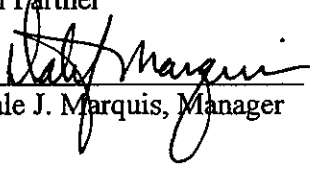
[SIGNATURES CONTINUED ON FOLLOWING PAGE]

**Acknowledgment As To Receipt of Estoppel and Agreement as to the Consent:**

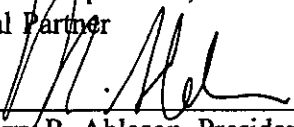
LESSEE:

SUNRISE-HARBOR, LTD.,  
a California limited partnership

By: INVEST WEST FINANCIAL III,  
LLC, a California limited  
liability company,  
General Partner

By:   
Dale J. Marquis, Manager

By: ABEL REALTY CO., INC., a  
California corporation,  
General Partner

By:   
Harry R. Ableson, President



State of California

County of Santa Barbara )

On December 18, 2013, before me, M. Dolores Armenta,

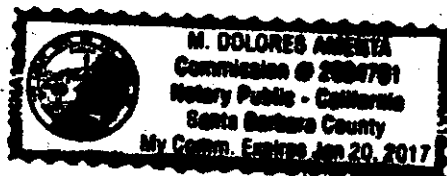
(insert name and title of the officer)

Notary Public, personally appeared Phil Morreale,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature



State of California )  
County of Santa Barbara )

On December 13, 2013, before me, Micheline Hughes, Notary Public  
(insert name and title of the officer)

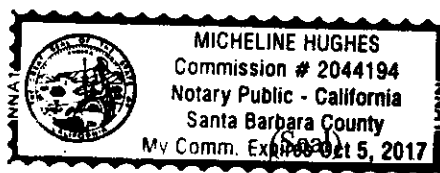
Notary Public, personally appeared Dale J. Marquis,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that  
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature

Micheline Hughes



State of California )  
County of Santa Barbara )

On December 13, 2013, before me, Micheline Hughes,  
(insert name and title of the officer)

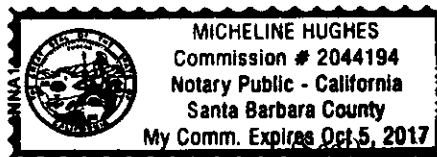
Notary Public, personally appeared Harry R. Ableson,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that  
the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature

Micheline Hughes



State of California )  
County of Los Angeles )

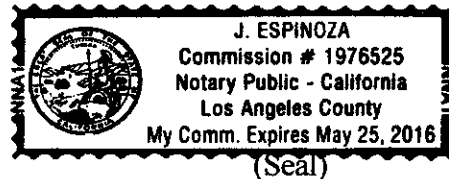
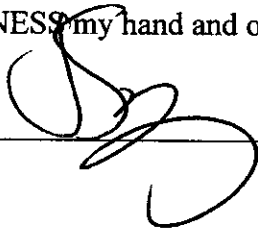
On December 26, 2013, before me, J. Espinoza  
(insert name and title of the officer)

Notary Public, personally appeared Steve Apel,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature



State of California )  
County of \_\_\_\_\_ )

On \_\_\_\_\_, before me,  
(insert name and title of the officer)

Notary Public, personally appeared \_\_\_\_\_,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

State of California )  
County of \_\_\_\_\_ )

On \_\_\_\_\_, before me,

(insert name and title of the officer)

Notary Public, personally appeared \_\_\_\_\_,  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same  
in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument  
the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)

**EXHIBIT A**  
**DESCRIPTION OF PROPERTY**

Legal Description

*HARBOR PARCEL #25*

That portion of the Rancho San Pedro, in the City of Redondo Beach, County of Los Angeles, State of California described as follows:

Beginning at the southwesterly corner of that parcel of land described in the deed to the Salvation Army, recorded in Book 6072, page 102 Official Maps of said county, said point lying in the northerly line of Beryl Street 60 feet wide as described in the deed to the City of Redondo Beach, recorded in Book 3142, Page 56 of Deeds, records of said county; thence South  $74^{\circ}53'09''$  West 165.72 feet along last said northerly line to a point lying North  $74^{\circ}53'09''$  East 17.50 feet along said northerly line of Beryl Street from last said line's intersection with the east line of Harbor Drive, 70 feet wide as last said street presently exists; thence North  $66^{\circ}02'05''$  West 27.17 feet to a point in the east line of last said street, said point lying on a curve concave westerly and which has a radius of 2869.68 feet, last said point being 17.50 feet northerly, measured along last said line, from the northerly line of Beryl Street, a radial bears North  $62^{\circ}51'51''$  East to last said point; thence northerly along said easterly line 133.52 feet through a central angle of  $2^{\circ}39'57''$ ; thence tangent to last said curve North  $29^{\circ}48'06''$  West 214.76 feet to the southerly line of property conveyed to the Southern California Edison Company; thence North  $67^{\circ}04'04''$  East 325.98 feet along said Edison Company property to an angle point therein; thence South  $25^{\circ}53'47''$  East 169.34 feet along said Edison Company property to the northwesterly line of said land deeded to the Salvation Army; thence southwesterly and southerly along last said line to the following courses and distances: South  $37^{\circ}13'35''$  West 45.60 feet; South  $16^{\circ}40'30''$  West 64.38 feet; South  $10^{\circ}15'01''$  East 151.30 feet to the point of beginning.

Contains 2.31 acres

Subject to the following easements and exceptions:

DESCRIPTION APPROVED

By *[Signature]*

(a) An easement for street purposes

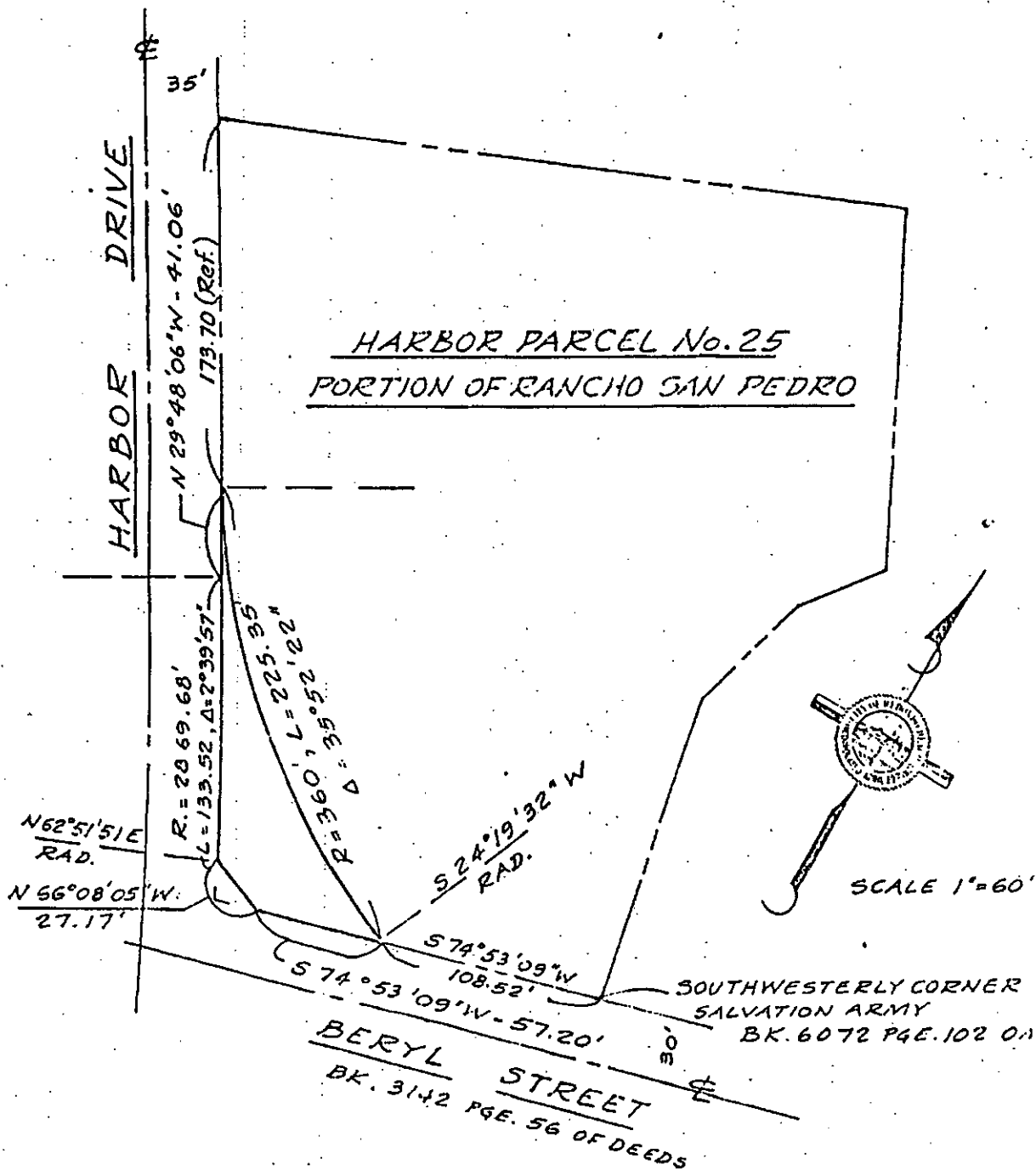
upon and across that portion of Rancho San Pedro in the City of Redondo Beach, County of Los Angeles, State of California, described as follows:

Beginning at a point in the Northerly line of Beryl Street, 60 feet wide as described in the deed to the City of Redondo Beach, recorded in Book 3142, page 56 of deeds, records of said County, said point being distant South  $74^{\circ}53'09''$  West 108.52 feet measured along said Northerly line of Beryl Street from the Southwesterly corner of that parcel of land described in the deed to the Salvation Army, recorded in Book 6072, page 102, Official Maps of said County, thence South  $74^{\circ}53'09''$  West 57.20 feet, thence North  $66^{\circ}08'05''$  West 27.17 feet to a point in the Easterly line of Harbor Drive, 70 feet wide, as last said street presently exists, said point lying on a curve concave Westerly which has a radius of 2869.68 feet on a radial that bears North  $62^{\circ}51'51''$  East, thence Northerly along said Easterly line of Harbor Drive, 133.52 feet measured along the arc of said curve through a central angle of  $2^{\circ}39'57''$ , thence tangent to last said curve North  $29^{\circ}48'06''$  West 41.06 feet to a point of cusp in the Easterly line of said Harbor Drive, said point lying on a curve concave Northeasterly which has a radius of 360.00 feet tangent to the Easterly line of said Harbor Drive, thence Southerly 225.35 feet measured along the arc of said curve through a central angle of  $35^{\circ}52'22''$  to the point of beginning, which easement is more specifically shown on the plat attached hereto as Exhibit '1' and by this reference incorporated herein.

(b) Those rights and easements granted to Southern California Edison Company by Lessor under that certain Lease dated December 28, 1964.

(c) Covenants, conditions, restrictions, reservations, rights and rights of way of record.





EASEMENT FOR STREET PURPOSES

CITY OF REDONDO BEACH

EC. OCT. 22,

Exhibit 1