Council Meeting of
May 19, 2009

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

Members of the Council:

SUBJECT: City Manager – Approve Estoppel Certificate for Leasehold at 2909 Pacific Coast Highway in favor of the United States Treasury

RECOMMENDATION

Recommendation of the City Manager that City Council authorize the Mayor to Execute and the City Clerk Attest to an Estoppel Certificate certifying to the United States Treasury certain Lease terms for City-owned property located at 2909 Pacific Coast Highway.

FUNDING

Funding is not required for this item.

BACKGROUND

The subject Lease became effective November 1, 2003. The request for an Estoppel Certificate is being made by the United States Department of Treasury (Treasury) because the Master Tenant, Argonaut Holdings is a wholly owned subsidiary of General Motors. General Motors has accepted Troubled Asset Relief Funds (TARP) and therefore the Treasury wishes to ascertain that the Lease is current and not in any material default.

ANALYSIS

The Estoppel is a standard document required by Lender's that state basic facts about the Lease such as:

- An attached copy of the Lease is the Lease inclusive of all Amendments;
- Lessor is the record owner of the fee interest in the Property, subject to the Lease;
- Rent is current and up to date;
- The current term of the Lease expires on December 31, 2024 plus two five-year options in favor of the Tenant;
- There are no material defaults against the Lease or any Amendments;

- The City holds no liens, mortgages or other instruments against the property at this time and is authorized to sign the Agreement;
- The Treasury will hold the same benefits of an Approved Leasehold Mortgagee;

All are currently true and correct and the Estoppel is recommended for signature.

Respectfully submitted,

LeROY J. JACKSON
City Manager

By: Brian K. Sunshine
Assistant to the City Manager

CONCUR:

LeRoy J. Jackson
City Manager

Attachment:
A. Estoppel (Limited Distribution)

LANDLORD ESTOPPEL CERTIFICATE

May 19, 2009

The United States Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)
Facsimile: (202) 622-1974

Ladies and Gentlemen:

The undersigned, City of Torrance, a Municipal Corporation ("**Landlord**"), certifies to **THE UNITED STATES DEPARTMENT OF THE TREASURY** (the "**Lender**"), as of the date hereof, as follows:

1. Landlord is the landlord under that certain Lease, dated as of November 1, 2003, as amended by that certain Forbearance Agreement dated April 8, 2008, and further amended by that certain First Amendment to Forbearance Agreement dated November 18, 2008 (collectively, the "**Lease**"), by and between Landlord, as landlord, and Argonaut Holdings, Inc., a Delaware corporation, as tenant ("**Tenant**"), for the real property and improvements located at 2909 Pacific Coast Highway, in the City of Torrance, County of Los Angeles, State of California (the "**Property**"). All capitalized terms not otherwise defined herein shall have the meanings provided in the Lease.

2. The Lease is in full force and effect. The original Lease has not been amended, modified or supplemented except as indicated in Section 1 above. There are no other agreements or understandings, whether written or oral, between Tenant and Landlord with respect to the Lease or the Property.

3. The term of the Lease commenced on November 1, 2003, and expires on December 31, 2024, subject only to two (2) options in favor of Tenant to extend the term for five (5) years each.

4. The current monthly fixed, minimum or basic rent under the Lease is $ 41,136.26, and has been paid through the month of May, 2009. The next monthly fixed minimum or basic rent payment is due June 1, 2009. The fixed minimum or basic rent is subject to rental increases as set forth in Section 4 of the Lease. All additional rent and all other sums or charges due and payable under the Lease by Tenant have been paid in full and no such additional rents or other sums or charges have been paid for more than one (1) month in advance of the due date thereof. The obligation to pay rent began on November 1, 2003.

5. To the best of Landlord's knowledge, both Tenant and Landlord have performed all of their respective obligations under the Lease and Landlord has no knowledge of any event which with the giving of notice, the passage of time or both would constitute a default by Tenant under the Lease.

6. Landlord has no claim against Tenant and no offset or defense to enforcement of any of the terms of the Lease by Tenant.

7. All of the leasehold mortgagee protection provisions contained in the Lease that inure to the benefit of leasehold mortgagees or their successors and assigns are hereby incorporated into this letter by reference and restated and confirmed by Landlord for the benefit of Lender, its successors and assigns.

8. Notwithstanding anything in the Lease to the contrary, Landlord hereby agrees that any involuntary transfer of Tenant's interest in the Lease to Lender, its successors or assigns shall not constitute an event that terminates the Lease or entitles Landlord to terminate the Lease.

9. Landlord hereby covenants and agrees that, in the event that (i) the Lease is terminated for any reason including, without limitation, as a result of a rejection of the Lease in a bankruptcy proceeding, upon Lender's request, or (ii) Lender affects a foreclosure of Tenant's interest in the lease, or accepts a deed in lieu of such foreclosure, Landlord shall enter into a new ground lease with Lender and such new ground lease shall be upon the same terms and conditions of the unexpired term of the Lease immediately prior to such termination.

10. Attached hereto as Exhibit A is a true copy of the Lease, including all amendments, modifications and supplements to the original Lease.

The undersigned individual hereby certifies that he or she is duly authorized to sign, acknowledge and deliver this letter on behalf of Landlord.

Landlord acknowledges that you will rely on this letter in making a loan or otherwise extending credit to Tenant. The information contained in this letter shall be for your benefit and for the benefit of your successors and assigns.

LANDLORD:

CITY OF TORRANCE, a Municipal Corporation

By: _____
Name: _____
Title: _____

Attachment

Exhibit A Lease with Amendments

EXHIBIT A

Copy of Lease with all Amendments

Exhibit A

LEASE

CITY OF TORRANCE,

a Municipal Corporation,

lessor

and

ARGONAUT HOLDINGS, INC.,

a Delaware Corporation,

lessee

C-508

DATED: November 1, 2003
Approved by City Council October 14, 2003

ORIGINAL

LEASE

THIS LEASE is made and entered into in quadruplicate at Torrance, California, as of the 1st day of November 2003 (hereinafter referred to as the "Commencement Date"), by and between the CITY OF TORRANCE, a Municipal Corporation, as lessor, hereinafter referred to as the "City", and ARGONAUT HOLDINGS, INC., a Delaware corporation, as lessee, hereinafter referred to as "Lessee".

WITNESSETH:

(a) The City is the owner in fee of the real property constituting the "Leased Premises" (as hereinafter defined) consisting of approximately 3.40 acres of land (the "Land") located on Pacific Coast Highway in the City of Torrance, California. Said Leased Premises are a part of the Torrance Municipal Airport lands previously conveyed to the City of Torrance by the United States government, as described in that certain Quitclaim deed executed by the United States of America, dated March 5, 1948, recorded May 13, 1948, in Book 27145, Page 363, of Official Records in the Office of the County Recorder, County of Los Angeles, California.

(b) The Land is being leased hereby for business purposes pursuant to the authority contained in Section 37395 of the Government Code of the State of California, and pursuant to the powers conferred to the City by the provisions of Article XI of the Constitution of the State of California.

(c) Lessee is the owner of the improvements currently located on the Land. In accordance with the terms of a certain Agreement for the Termination of Leases, dated November 1, 2003 (the "Termination Agreement"), among the City, Lessee and Peninsula Pontiac GMC Buick, Inc., a Delaware corporation ("Peninsula"), the ownership of such improvements shall remain vested in Lessee, notwithstanding the termination or expiration of the lease, dated January 1, 1970, between the City and Peninsula, as the successor-in-interest to Ray Vane, the original lessee under said lease, pertaining to the Land (the "1970 Lease"), but shall become subject to the provisions of this Lease on and as of the Commencement Date.

(d) The City, acting by and through its City Council, has determined by Resolution No.2003-148, adopted on October 14, 2003, that the Land is not required for City purposes, and that it is in the public interest that this Lease be executed and delivered.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL COVENANTS HEREIN CONTAINED, IT IS HEREBY AGREED AS FOLLOWS:

1. PREMISES

For and in consideration of the payment by the Lessee of the rents, and Lessee's due and punctual performance of the other covenants of Lessee, herein contained, the City does hereby lease to Lessee the Land described in, and located as shown on, Exhibit "A", attached hereto and made a part hereof, which Land is hereinafter referred to as the "Leased Premises".

2. TERM & OPTIONS TO EXTEND TERM

A. Term

The term of this Lease shall commence on the Commencement Date, concurrently with the termination of the 1970 Lease pursuant to the Termination Agreement. The initial term of this Lease shall expire at Midnight, December 31, 2024.

B. Period of Extension

Lessee may, at Lessee's option (exercisable in Lessee's sole and absolute discretion), extend the term of this Lease for two additional periods of five (5) years (each of such periods being hereinafter referred to as an "Option Period"), subject to all the provisions of this Lease, including but not limited to provisions for adjustments to "Basic Rent" (as hereinafter defined). After the exercise of an option to extend, all references in this Lease to the term shall be considered to mean the term as extended, and all references to termination or to the end of the term shall be considered to mean the termination or end of the term as extended.

C. Conditions for Exercise

Lessee's right to exercise an option pursuant to this Paragraph 2 is subject to:

(1) The following conditions precedent:

(a) The Lease shall be in effect at the time notice of exercise is given (as provided below) and on the last day of the term.

(b) Lessee shall not be in default under any provision of this Lease at the time notice of exercise is given or on the last day of the term, if in either case it is beyond the time for curing same.

(2) Compliance with the following procedures for exercising the option:

(a) At least six (6) months, but not more than nine (9) months, before the last day of the term, Lessee shall give the City written notice of its exercise of an option to extend. Notice shall be deemed to have been given as of the date such written notice is received by Lessor. The giving of such notice shall be deemed conclusive proof of Lessee's irrevocable exercise of the relevant option.

(b) In lieu of executing a new lease, each party shall, at the request of the other, endorse on the original Lease or on a true copy of the original Lease that party's signature or signatures, the date an option to extend was exercised, and the words "option exercised" and specifying the new date upon which the term of this Lease, as extended, is to expire. Alternatively, each party shall, at the request of the other, execute a memorandum in recordable form acknowledging the fact that an option has been exercised and otherwise complying with the requirements of law for an effective memorandum or abstract of lease (the "Memorandum of Exercise of Option"). At the request of either party (and at the expense, including the expense of any documentary transfer tax (if applicable), of the requesting party), the Memorandum of Exercise of Option shall be recorded.

3. CONSTRUCTION PERIOD

During any period of construction, Lessee shall be responsible for any additional costs and expenses related to the construction of buildings and facilities on the Leased Premises, including without limitation insurance, taxes, utilities and "Additional Rent" (as hereinafter defined) payable by Lessee under the provisions of this Lease. For purposes of this Lease, the following terms shall have the meanings respectively set forth below:

A. Construction Period

The period beginning on the Commencement Date and ending on December 31, 2004, during which Lessee shall construct, or cause the then-existing sublessee of the Leased Premises (the "Sublessee") to construct, the "Project" (as hereinafter defined), shall be referred to as the "Construction Period."

B. Post-Construction Period

The period beginning on January 1, 2005, and continuing through the expiration date of this Lease shall be referred to as the "Post-Construction Period."

4. BASIC RENT

A. Amount

Lessee agrees to pay to the City as rent in respect of the Leased Premises ("Basic Rent") the sum of Seven Thousand Eight Hundred Thirty-seven Dollars ($7,837) per month commencing on the Commencement Date, and continuing through the Construction Period, to, and including, December 31, 2004. Lessee agrees to pay the City Basic Rent in the sum of Thirty-five Thousand Seven Hundred Eight Dollars ($35,708) per month commencing January 1, 2005, and continuing through the Post-Construction Period, as said sum may be recomputed in accordance with the formula contained in subsection B of this Paragraph 4.

B. Adjustment to Basic Rent

Commencing on January 1, 2006 (the "Initial Adjustment Date"), and on each anniversary of the Initial Adjustment Date throughout the balance of the term of this Lease and any Option Periods (the Initial Adjustment Date and each such anniversary being hereinafter referred to as an "Anniversary Date"), other than a "Fair Market Adjustment Date" (as hereinafter defined), Basic Rent shall be adjusted on and effective as of the relevant Anniversary Date to reflect changes, if any, in the cost of living, as follows:

(1) If the "Consumer Price Index for the Los Angeles-Riverside-Orange County area, All Urban Consumers" (the "Index") prepared by the United States Bureau of Labor Statistics, Department of Labor (the "Bureau"), for the month of October immediately preceding the applicable Anniversary Date shall stand at 185.2 (using prices prevailing during the year 1982-84 as a base of 100), then the amount of the Basic Rent payable on and after such Anniversary Date shall be equal to the sum of Thirty-five Thousand Seven Hundred Eight Dollars ($35,708) (the "Minimum Rent Payment").

(2) If the Index for said calendar month shall stand at other than 185.2, then the amount of Basic Rent payable to the City on and after such Anniversary Date shall vary from the Minimum Rent Payment in direct proportion as the Index has moved closer to or farther from 185.2; provided, however, that in no event shall the amount of the Basic Rent be reduced to an amount which is less than the amount of the Basic Rent which was payable in respect of the calendar month immediately preceding the subject Anniversary Date.

(3) If the Bureau shall revise or convert the Index, the parties hereto shall accept the method of revision or conversion recommended by the Bureau.

(4) If the Bureau shall discontinue the preparation of a "Consumer Price Index" using prices prevailing in the years 1982-84, as a base of 100, and if no transposition table prepared by the Bureau is available that is applicable to the years 1982-84, then the amount of each Basic Rent payment shall be the amount due as of the month preceding the discontinuance of the Index.

C. Fair Market Adjustment

As provided in Paragraph 5 below, on and effective as of January 1, 2015, and, if Lessee exercises an option to extend the term of this Lease pursuant to Paragraph 2 above, on and effective as of January 1, 2025 (each such date being referred to hereinafter as a "Fair Market Adjustment Date"), Basic Rent payable by Lessee on and as of the applicable Fair Market Adjustment Date shall be adjusted to the "Fair Market Rent" (as hereinafter defined), and the amount of such Fair Market Rent shall then become the Minimum Rent Payment under this Lease. The amount of Basic Rent payable during the 2015 calendar year and, if applicable, the 2025 calendar year, shall not be adjusted to reflect any change in the Index, and for each calendar year following the 2015 and 2025 calendar year, as applicable, the Index to be used to adjust Basic Rent shall be the Index in effect for the months of October, 2015 and 2025, as applicable; provided, however, that in no event shall the amount

of Basic Rent be lower than the amount of the Basic Rent which was payable in respect of the calendar month immediately preceding the relevant adjustment.

D. Hold-Over

In the event Lessee holds over after the expiration of the term of this Lease, as it may be extended, with the City's consent, Lessee's tenancy shall be on a month-to-month basis and the rental rate shall be the same as the last monthly rental rate applicable during the last month of the term of this Lease. Any holding over by Lessee after the expiration or any termination of this Lease shall not constitute a renewal or extension of the term of this Lease.

5. PROPERTY VALUE ADJUSTMENT TO MINIMUM RENT PAYMENT

A. Adjustment

On and effective as of each Fair Market Adjustment Date, Basic Rent shall be adjusted to the "Fair Market Rent" (as hereinafter defined).

B. Fair Market Rent

"Fair Market Rent" shall mean an amount calculated by multiplying (a) the fair market value of the Leased Premises, exclusive of the improvements thereon, based upon the use of the Leased Premises as an automobile sales and service facility, as of the date forty-five (45) days prior to commencement of any Option Period (as applicable), by (b) the annual capitalization rate of eight percent (8.0%) and dividing the product of (a) and (b) by twelve (12); provided, however, that in no event shall the amount of the Fair Market Rent, as of a particular Fair Market Adjustment Date, be less than the amount of the Basic Rent payable in respect of the calendar month immediately preceding that Fair Market Adjustment Date.

C. Basic Rent Prior to January 1, 2014

The parties hereto acknowledge that Basic Rent prior to January 1, 2014, has not been, and will not be, calculated in the manner described in the immediately preceding paragraph.

D. Appraisal

If the parties cannot agree on the Fair Market Rent of the Leased Premises for the relevant period(s) as described in Paragraph 5B above, then such Fair Market Rent shall be determined by appraisal in accordance with Subparagraph (E) of this Paragraph 5. Pending such determination by appraisal, Lessee shall continue to pay Basic Rent, and any Additional Rent in accordance with this Lease until the Fair Market Rent of the Leased Premises has been determined by the appraisers. The adjusted Basic Rent determined by the appraisers (which shall be equal to the Fair Market Rent of the Leased Premises) shall be retroactive to the date upon which the Option Period (as applicable) commenced, and on the first day of the second full calendar month following the date on which the appraisers determine the Fair Market Rent of the Leased Premises (the "Determination Date"), Lessee shall pay the difference between the amount of Basic Rent paid by Lessee since the commencement of the relevant Option Period and the amount of the adjusted Basic Rent for the period from the commencement of such Option Period to the Determination Date; provided, however, that if it is determined that Lessee has overpaid Basic Rent from the commencement of the Option Period to the Determination Date, Lessee shall receive a credit in such amount against the next payable installments of Basic Rent.

E. Appraisal Procedure

(1) Fair Market Rent shall be calculated for the Leased Premises (a) as an automobile sales and service facility, and not necessarily for its highest and best use, and (b) having regard for leases of automobile sales and service facilities similar to the Leased Premises in the market area in which the Premises are located. Fair Market Rent shall be determined as follows:

(2) The City and Lessee shall attempt, in good faith, to agree on Fair Market Rent for the Premises. If Lessee and the City fail, refuse, or are unable for any reason to agree on Fair Market Rent at least one hundred twenty (120) days prior to the commencement of the relevant Option Period, Lessee shall within fifteen (15) days thereafter select an appraiser and notify the City in writing of the name, address and qualifications of such appraiser. Within fifteen (15) days following its receipt of such notice, the City shall select an appraiser and notify Lessee of the name, address and

qualifications of such appraiser. Such two appraisers shall endeavor to agree upon Fair Market Rent. If such two appraisers shall agree upon Fair Market Rent, the amount of Fair Market Rent as so agreed shall be binding and conclusive upon the City and Lessee.

(3) If such two appraisers shall be unable to agree upon Fair Market Rent within thirty (30) days after the selection of an appraiser by the City, then such appraisers shall advise the City and Lessee of their respective determinations of Fair Market Rent. If the greater of the two determinations of Fair Market Monthly Rent is less than or equal to one hundred five percent (105%) of the lesser of the two determinations of Fair Market Rent, then Fair Market Rent shall equal the average of such two determinations of Fair Market Rent, which amount shall be binding and conclusive upon the City and Lessee. If the greater of the two determinations is more than one hundred five percent (105%) of the lesser of the two determinations, the two appraisers shall so advise the City and Lessee and shall select a third appraiser to make the determination of Fair Market Rent. If the third appraiser's determination of Fair Market Rent is equal to or greater than the lowest determination of Fair Market Rent made by the original two appraisers (the "Low Appraisal") and is equal to or less than the highest determination of Fair Market Rent made by the original two appraisers (the "High Appraisal"), then the determination of the third appraiser shall be binding upon the City and Lessee. If the determination of the third appraiser is less than the Low Appraisal, then the Fair Market Rent shall be equal to the Low Appraisal, and if the determination of the third appraiser is greater than the High Appraisal, then the Fair Market Rent shall be equal to the High Appraisal.

(4) If such two appraisers shall be unable to agree upon the designation of a third appraiser within ten (10) days after the expiration of the thirty (30) day period referred to in Subparagraph (3) above, or if such third appraiser does not make a determination of Fair Market Rent within thirty (30) days after his or her selection, then such third appraiser or a substituted third appraiser, as applicable, shall, at the request of either party hereto, be appointed by the United States District Court for the District in which the Land is located or, if this Lease is then the subject of litigation, by the court with jurisdiction thereof. The determination of Fair Market Rent made by the third appraiser appointed pursuant hereto shall be made within thirty (30) days after such appointment.

(5) All appraisers selected or appointed pursuant to this Subparagraph E shall (a) be independent qualified MAI appraisers active in the market in which the Leased Premises are located, with experience in appraising automobile sales and service facilities, (b) have no right, power or authority to alter or modify the provisions of this Lease, (c) utilize the definition of Fair Market Rent set forth above, and (d) be registered in the State of California if such state provides for or requires such registration. The costs and expenses of any appraiser selected by a party under this Subparagraph E shall be borne solely by such party, and the costs and expenses of a third appraiser, if any, shall be borne one-half by the City and one-half by Lessee.

6. PERCENTAGE RENT

A. Amount

Commencing January 1, 2005, in addition to the Basic Rent payable by Lessee, and as part of the total rent to be paid for each "Lease Year" (as hereinafter defined) or partial Lease Year, throughout the remaining term of this Lease, including Option Periods, if any, Lessee shall pay to the City a sum equal to one percent (1%) of "Gross Profit" (as hereinafter defined) from the motor vehicle dealership operations conducted at the Leased Premises (the "Percentage Rent"). For purposes of this Lease, the term "Lease Year" shall mean each calendar year commencing with the 2005 calendar year.

B. Payment

Tenant shall pay the amount of Percentage Rent due to the City in one (1) installment on or before the thirtieth (30^{th}) day of April after the close of the Lease Year to which such Percentage Rent applies.

C. Definition of Gross Profit

"Gross Profit" shall mean the profit derived from the new motor vehicle dealership business conducted at the Leased Premises after the "Cost of Goods Sold" is subtracted from the "Gross Sales" or "Receipts From All Sources," as stated on the Federal Income Tax forms submitted to the Internal Revenue Service by the person or entity conducting such business at the Leased Premises (the "Operator"). The City acknowledges that it is the intention of Lessee to sublease the Leased Premises to a Sublessee which will be the Operator of a new motor vehicle dealership at the Leased Premises, but that it is possible that during the term of this Lease, the Operator may be the Lessee hereunder or a sub-sublessee of the Leased Premises. It is understood and agreed that Gross Profit shall not include, and shall not be construed or interpreted to include, any rent which Lessee may receive from any Sublessee in respect of the Leased Premises, so long as Lessee is not the Operator of the Leased Premises.

D. Subtenants and Concessions

For purposes of this Paragraph 6, the term "Gross Profit" shall be deemed to include the Gross Profit of the Operator and all other persons and entities conducting business operations at the Leased Premises, including, without limitation, Operator's subtenants, concessionaires, licensees or any other occupant of the Leased Premises, whether or not affiliated with Lessee, such that their Gross Profits shall be calculated pursuant to this Lease so as to be included in Gross Profit, notwithstanding any different or inconsistent provisions in the sublease or other agreement or understanding pursuant to which such person or entity occupies all or a portion of the Leased Premises; provided, however, any rent which Lessee may receive from a Sublessee in respect of the Leased Premises shall not be encompassed or included in the term "Gross Profit," so long as Lessee is not the Operator of the Leased Premises.

E. Audit Provisions

1) Within ninety (90) days after the close of each calendar year during the term of this Lease, Lessee agrees to cause the Operator of the Leased Premises to submit to the City a written statement, signed and certified to be correct by such Operator (or by an authorized officer, if such Operator is a corporation, or general partner if such Operator is a partnership), showing the amount of Gross Profit derived from the dealership business conducted at, upon, or from the Leased Premises by such Operator (and all of its sub-subtenants, concessionaires, licensees, or any other occupant or person doing business on, the Leased Premises) and showing an itemization of all Gross Profit for the preceding calendar year.

2) On or before April 30th of each year during the term of this Lease, Lessee agrees to cause the Operator of the Leased Premises to submit a signed and certified written statement indicating the amount of Gross Profit for the immediately preceding calendar year (an "Annual Statement"), which statement shall also be audited by and duly certified to be true and correct and in compliance with the definition of Gross Profit contained in Paragraph 6C by an independent Certified Public Accountant in accordance with generally accepted accounting principles, consistently applied. The statements referred to in this paragraph shall be in such form and style and shall contain such further details and information as the City may reasonably require. If an Annual Statement is not received by the City on or prior to the tenth (10th) day after such Annual Statement was due hereunder, the Lessee shall pay as Additional Rent, together with the next succeeding installment of Basic Rent, the sum of (i) One Thousand Dollars ($1,000) for the delinquent Annual Statement, and (ii) One Hundred Dollars ($100) for each day in excess of eleven (11) days that the Annual Statement is not received by the City. If the date on which an Annual Statement is required to be submitted to the City falls on a Saturday, Sunday or holiday on which the City's offices are closed for business, such report shall be due on the immediately succeeding day on which the City's offices shall be open for business. The obligations of the Lessee set forth in this paragraph shall survive the expiration or sooner termination of the term of the Lease. The acceptance by the City of payments of Percentage Rent or reports thereof shall be without prejudice to, and shall in no event constitute a waiver of, the City's right to claim a deficiency in the payment of Percentage Rent or to audit the Operator's books and records, as hereafter set forth.

3) If any governmental authority shall increase the Gross Profit reported by the Operator on any federal income tax return, after audit for any Lease Year for which such sales have been reported, then Lessee shall cause the Operator to notify the City promptly of such increase, supply to the City a true copy of such audit and pay at that time any additional Percentage Rent due. Lessee shall cause the Operator to provide the City with a true and correct copy of all federal, state or local sales tax returns, report and schedules filed with any governmental authorities within ten (10) days following such filing with such authority.

4) For each calendar year, Lessee shall cause the Operator to keep in the State of California for a period of at least twenty four (24) months (which period shall commence only when the City has received a complete Annual Statement pertaining to a calendar year and all Percentage Rent payable hereunder for such calendar year based upon the amount of Gross Profit reflected on such Annual Statement (the "Financial Reports Submission Date"), complete and accurate books and records in accordance with generally-accepted accounting principles, consistently applied, sufficient to show all sales and other transactions from which Gross Profit during such calendar year thereof can be determined.

5) The City shall have the right to cause a complete audit of any one or more statements of Gross Profit submitted to the City by the Operator at any reasonable time, and from time to time, within a period of twenty-four (24) months after each Financial Reports Submission Date. In connection with such audit, the City shall have the right, at the City's sole cost and expense (except as hereinafter provided), to examine the Operator's books of accounts and records (including all supporting data and any other records from which Gross Profit may be tested or determined) of Gross Profit disclosed in any statement given to the City by the Operator; and Lessee shall cause the Operator to make all such books of accounts and records available for such examination at the office where the same are regularly maintained. The City shall have the option of having such audit performed either by its own personnel or by an independent Certified Public Accountant or firm of accountants. The City shall have the right to copy and duplicate such information as the City may require. If any such audit discloses that the actual amount of Gross Profit exceeds the amount reported, then Lessee shall pay the City all additional Percentage Rent due to the City; and if the excess of Gross Profit so disclosed shall be more than ten percent (10%) of that originally paid, Lessee shall also pay, or shall cause the Operator to pay, the cost of such audit and examination. Any failure to pay such amounts shall constitute a breach of this Lease, entitling the City to all the rights and remedies provided for hereunder.

6) If any audit shall be commenced by the City, of if there shall arise a difference or dispute concerning Gross Profit, then and in any such event, the Operator's books of accounts (including all supporting data and any other records) shall be retained by the Operator until such audit has been completed or a final resolution or final determination of the difference or dispute has been obtained in accordance with Paragraph 29 below. Any information obtained by the City as a result of such audit shall be treated as confidential, except in any litigation or proceeding between the parties or pursuant to any subpoena or judicial process or where otherwise required by law.

F. Effect of Sublease Termination

Notwithstanding any provision to the contrary which may be contained in this Lease, if during any Lease Year, an Operator's sublease of the Leased Premises should be terminated as the result of the Operator's default thereunder, and the terminated Operator does not comply with the provisions of this Paragraph 6, Lessee shall not be in default of its obligations under this Lease if Lessee is unable to determine the amount of Percentage Rent in respect of the Gross Profit of the terminated Operator for the Lease Year in which the termination of the Operator's sublease occurs, so long as Lessee pays to the City as Percentage Rent in respect of the Gross Profit of such terminated Operator for the Lease Year in which the termination of such Operator's sublease occurs, an amount which is equal to (i) the amount of the Percentage Rent paid by Lessee to the City in respect of such terminated Operator's Gross Profit for the immediately preceding Lease Year, (ii) divided by twelve (12), and (iii) then multiplied by the number of months (including partial months) that the terminated Operator was in possession of the Leased Premises during the Lease Year in which the termination of such Operator's sublease occurs. Such payment is in addition to any Percentage Rent which may be payable to the City in respect of the Gross Profit of a replacement Operator during the balance of such Lease Year. For example, if the Operator's sublease is terminated, and such Operator's possession of the Leased Premises ends on June 15 of a Lease Year, and the Percentage Rent paid by Lessee in respect of such Operator's Gross Profit in the immediately preceding Lease Year was Fifty Thousand Dollars ($50,000.00), then the amount which Lessee would be obligated to pay to the City pursuant to the preceding provisions of this Subparagraph F would be Twenty-two Thousand Nine Hundred Sixteen Dollars and Sixty-seven Cents ($22,916.67), determined as follows: $50,000.00 ÷ 12 x 5.5 months = $22,916.67. Notwithstanding the foregoing, if Lessee is able to obtain information from the terminated Operator which shows such Operator's Gross Profit as of either the date upon which such Operator's possession of the Leased Premises was terminated, or the end of the calendar month preceding such date of termination, then such information shall be used as the basis for any Percentage Rent payment due to the City in respect of the Gross Profit of such Operator for the portion of the Lease Year in which such Operator's sublease was terminated.

7. BUSINESS OPERATIONS

Lessee agrees that Lessee shall cause the Operator to:

(1) Continuously and uninterruptedly occupy and use during the entire Lease term the entire Leased Premises for the uses permitted hereunder during business

hours customary to the Operator's business and to conduct such business therein in a reputable manner consistent with first-class new and used motor vehicle sales and leasing establishments, and motor vehicle maintenance, repair and body shops of the finest quality and prestige. Subject to the provisions of Paragraph 38J below (concerning the effects of force majeure events), if for periods aggregating more than seven (7) consecutive business days the Operator shall fail to so conduct such business, it shall be a default within the meaning of Paragraph 27 below, upon the happening of which the City shall be entitled to any or all of the remedies provided in the Lease in the City's favor upon the happening of a default hereunder. No interruption of the Operator's business by reason of strikes, lockouts, fire or other damage, any enemy action, civil commotion, inability to obtain labor or materials at normal prices, or similar causes beyond the Operator's reasonable control shall constitute a default within the meaning of Subparagraph A of Paragraph 27. If a dispute shall arise whether the failure to operate the said business is due to the fault of the Operator, then such dispute shall be settled by judicial reference in accordance with Paragraph 29 below.

(2) Adequately staff the Leased Premises with sufficient employees to handle the reasonably anticipated sales and leasing business therein and the reasonably anticipated maintenance and repair business, and carry sufficient motor vehicles, parts, accessories, goods, wares and related merchandise to accomplish the same.

(3) Maintain displays of motor vehicles and related accessories in the display windows, if any, in a manner which is consistent with generally accepted practices for new motor vehicle sales and leasing businesses in the City of Torrance.

(4) Keep the display windows, if any, and signs well lighted during such hours and days that the Leased Premises are open for business.

(5) Keep and maintain the Leased Premises and the Operator's personal property therein or thereof and the exterior and interior portion of all buildings, structures and other improvements in a neat, clean, sanitary and safe condition consistent with the City's health and sanitation codes.

(6) Warehouse, store or stock in the Leased Premises only such motor vehicles, parts, accessories, goods, wares and merchandise as the Operator intends to offer for sale or lease from the Leased Premises, or in connection with the automobile maintenance and repair business at the Leased Premises.

(7) Apply for, secure, maintain and comply with all licenses or permits which may be required for the conduct by the Operator of the uses permitted hereunder and to pay, if, as, and when due, all license and permit fees and charges of a similar nature in connection therewith.

(8) Use for office or other nonselling purpose only such space as is reasonably required for the conduct by the Operator of the uses permitted hereunder in the Leased Premises, and such office or other nonselling space shall not be used to perform any functions for any other dealership or business establishment conducted by Lessee or by any other persons or firms. Service and repair areas which are of sizes which are usual and customary for the operation of a new motor vehicle dealership shall not be considered space used for "non-selling purposes."

(9) Not conduct any real or fictitious "going out of business" auction, distress, fire or bankruptcy or similar sale, but nothing contained herein shall preclude the conducting of periodic seasonal, promotional or clearance sales.

(10) Pay before delinquency any and all taxes, custom and import duties, assessments and public charges levied, assessed or imposed upon the Operator's business or upon the Operator's personal property, wherever located.

8. ADDITIONAL RENT

In addition to Basic Rent, all other charges and sums payable by Lessee hereunder, shall be deemed to be additional rent ("Additional Rent") hereunder, whether or not the same be designated as such, and shall be due and payable (if payable to a third party) not later than the dates on which the same are due and payable, or (if payable to the City) on demand or together with the next succeeding installment of Basic Rent, whichever shall first occur, and the City shall have the same rights and remedies upon Lessee's failure to pay the same as for the nonpayment of the Basic Rent.

9. PLACE OF PAYMENT AND LATE PAYMENT

A. Place of Payment

All rent payments required to be paid by Lessee to the City shall be paid, without deduction or offset, to the office of the Finance Director of the City at 3031 Torrance Boulevard, Torrance, California, 90503, or at such place as the City shall from time to time designate in writing.

B. Late Payment

The Basic Rent for the first two (2) full calendar months of the term of this Lease shall be paid on the first date of the second full calendar month following the Commencement Date. Thereafter, Basic Rent shall be due on the first day of each month throughout the term of this Lease. Date of payment shall be defined as the date payment by check, or at Lessee's option, by wire transfer deposit, is received by the City. In the event any Basic Rent or payment is late, Lessee agrees that the following schedule of late charges shall be applicable to that portion thereof which is overdue:

(1) Late ten (10) days but under thirty (30) days: Two percent (2%) of the amount due; plus

(2) For each additional thirty (30) days or fraction thereof over thirty (30) days: an additional Two percent (2%) of the amount due for each thirty (30) days or fraction thereof; provided, however, that interest charges payable hereunder shall in no event exceed the maximum per annum rate permitted under applicable law. To the extent any such payment of interest would exceed such maximum rate, such payment shall be deemed to be an advance against Basic Rent as to which Lessee shall be credited on the next installment(s) of Basic Rent payable hereunder.

C. No Relief from Default

The provisions herein for payment of late charges shall not be construed to extend the date for payment of any sums required to be paid by Lessee hereunder or to relieve Lessee of its obligation to pay all such sums at the time or times herein stipulated. Notwithstanding the imposition of such late charges, Lessee shall be in default under this lease if any or all payments required to be made by Lessee are not made at the time herein stipulated, and neither the demand for, nor collection by, the City of such late charges shall be construed as a curing of such default on the part of Lessee.

10. USE

A. New Motor Vehicle Dealership Business

The Leased Premises shall be used solely as an authorized dealership for the sale or lease of new General Motors motor vehicles and other new motor vehicles of comparable value and for the following other related purposes, but for no other purpose or purposes unless the prior written consent of the City Council thereto has been obtained, which shall not be unreasonably withheld or delayed. Such permitted related uses include, without limitation:

(1) The repair and maintenance of motor vehicles (including, but not limited to, a "body shop" and paint shop);

(2) The sale and leasing of used motor vehicles (so long as such sales and leasing are in conjunction with the sale and leasing of new General Motors motor vehicles), and the repair and maintenance of such other motor vehicles prior to the sale or lease thereof;

(3) The sale of parts and accessories for motor vehicles, (including but not limited to, parts and accessories manufactured by or for GM), vending machine items and snacks;

(4) The financing of the sale of said motor vehicles;

(5) The sale of liability, health and accident, and related insurance policies for motor vehicles sold from the Leased Premises;

(6) Short-term automobile rental services solely to customers while their motor vehicles are being repaired;

(7) Offices related to the use of the Leased Premises set forth herein; provided, however, that such use by Lessee and all persons or entities holding under Lessee shall be subject to any and all laws, ordinances, rules and regulations of any governmental entity now or hereafter enacted applicable to the use, occupancy or condition of the Leased Premises, and shall be subject to the other terms and conditions of this Lease; and

(8) Such other activities as are customarily pursued by new motor vehicle dealership businesses in the City.

B. Definition of "General Motor's Motor Vehicles"

As used in this Lease, the term "General Motors motor vehicles" shall mean any make of automobile currently sold or at any time in the future, sold in the United States by GM or any of its subsidiaries or affiliates.

C. Authorized GM Dealer

Lessee agrees that throughout the term of this Lease, unless the City shall have given its consent in writing to a change thereof, the Operator of the Leased Premises will be an authorized dealer of one or more brands of General Motors motor vehicles, pursuant to one or more Dealer Sales and Service Agreements between the Operator and GM, as such agreements may be amended, restated or replaced from time to time (hereinafter referred to collectively, if applicable, as "Dealer Agreements" and individually as a "Dealer Agreement").

D. Covenant Not to Rezone

The City covenants that during the term of this Lease, it will not rezone the Leased Premises to prohibit any uses permitted by the provisions of this Paragraph 10.

11. SITE PREPARATION

A. Risk of Lessee

If Lessee shall construct buildings, structures and other improvements on the Leased Premises Lessee shall do so at its own risk as to the condition of the soil.

B. Permits

Before commencement of grading, construction or development of any buildings, structures or other work of improvement upon the Leased Premises, the Lessee shall at its own expense secure or cause to be secured any and all permits which may be required by the City or any other governmental agency affected by such construction, development or work and shall pay all fees and taxes applicable to the development.

12. CONSTRUCTION

A. Set-Back Area

Lessee shall not construct any building, structure, parking accommodation or other improvement on any set-back area(s) required as a condition of any conditional use permit issued for the Project. Said set-back area(s) shall be landscaped and maintained by Lessee at its sole expense in accordance with the provisions of Paragraph 19 herein.

B. Covenant to Build

(1) Subject to the conditions hereinafter provided in this Paragraph 12, Lessee agrees to construct at its own cost and expense certain improvements and remodeling on the site, as generally set forth on the Illustrative Plan attached hereto as Exhibit "B." The improvements to be so constructed are referred to collectively herein as the "Project."

(2) Said Project construction shall be of all new materials, and shall conform to the Uniform Building Code.

(3) It is expressly understood and agreed that Lessee shall have the right, but not the obligation, to cause the Operator to perform Lessee's construction obligations under this Paragraph 12.

C. Conditions to Construction

(1) Conditions Precedent. Prior to any Project construction being commenced on the Leased Premises, and before any building materials have been delivered to the Leased Premises by Lessee (or the Operator) or under Lessee's (or the Operator's) authority, Lessee shall comply with all the following conditions, or procure the City Manager's written waiver of the condition or conditions specified in such waiver:

(a) Building Permits

Lessee (or the Operator, as the case may be) shall obtain building permits from the Director of Building and Safety of the City as required by the Torrance Municipal Code (which incorporates the City's Building and Fire Codes) and any amendments thereto and any other applicable laws; provided that if Lessee (or the Operator) shall elect to obtain a foundation permit, a grading permit or a steel permit prior to obtaining a building permit, Lessee (or the Operator) may carry out such work with respect to the Project as is permitted by such permits prior to obtaining all required building permits. Lessee agrees that if, in the reasonable opinion of the City Attorney of the City, this Lease, or any transaction contemplated by this Lease, requires the filing for record, in accordance with the Torrance Municipal Code and the California Subdivision Map Act, or a subdivision map with respect to this Lease, then upon request by the City Attorney, Lessee will cooperate with the City in the processing of any such Map, at no expense to Lessee.

(b) Plans and Specifications.

Lessee shall (or shall cause the Operator to) prepare and submit to the Planning Director of City for approval the final plans for the Project (substantially conforming to the preliminary plans previously approved by the City) one complete set as approved by all governmental agencies of the City having jurisdiction over the Project. Such plans and specifications shall be prepared by an architect or engineer licensed to practice in the State of California, and shall include (to the extent relevant to the Project) but not be limited to preliminary grading and drainage plans, site, elevation and phasing plans, soil tests, utilities, sewer service connections, location of ingress and egress to and from public thoroughfares, curbs, gutters, parkways, street lighting, designs and locations for outdoor signs, storage areas, and landscaping, all sufficient to enable potential contractors and subcontractors to make reasonably accurate bid estimates and to enable the City to make an informed judgment about the design and quality of construction and about any effect on the reversionary interest of the City in the Leased Premises. All improvements shall be constructed within the exterior property lines of the Leased Premises, provided that work beyond the Leased Premises on utilities and access and other matters required by the City

shall not violate this provision. Concurrently with its delivery of such final plans and specifications, Lessee shall deliver to the Planning Director the certificate of the person or persons who prepared the plans and specifications certifying that Lessee has fully paid for them or waiving payment, and waiving any right to a lien for preparing them, and permitting the City to use the plans without payment for purposes relative to and consistent with this Lease. Changes in the final plans from the preliminary plans (which had been previously approved by the City) shall be considered to be within the scope of the preliminary plans if they are not substantial or if they are made to comply with suggestions, requests or requirements of a governmental agency of the City in connection with the application for permit or approval, and if they do not depart substantially in size, utility or value from the minimum requirements of Paragraph 12.B hereof. After such final plans and specifications have been approved by the City's Department of Building and Safety, no changes shall be made thereto without the prior written approval of the City Council of the City, which shall not be unreasonably withheld or delayed.

(c) Construction Lender's Approval of Plans

Lessee shall deliver to the City the written approval of the plans and specifications by each financial institution that has made a commitment to finance construction of all or any portion of the Project, if any.

(d) Notice of Intent to Construct

Lessee shall notify, or cause the Operator to notify, the City Manager of Lessee's or the Operator's intention to commence construction at least twenty (20) days before commencement of any work or delivery of any materials. The notice shall specify the approximate location and nature of the intended improvements. The City shall have the right to post and maintain on the Leased Premises any notices of non-responsibility provided for under applicable law, and to inspect the Leased Premises in relation to the construction at all reasonable times.

D. Completion

(1) Subject to the provisions of Subparagraph 12J, the work of constructing the remodeling and all other work included within the Project, shall be completed within twelve (12) months after the commencement of construction of the Project but no later than December 31, 2004.

(2) The improvements for the Project shall be deemed to have been completed when, in accordance with said plans and specifications, they shall have been completed to the reasonable satisfaction of the City Manager following the execution of the Architect's Certificate of Completion and the filing of the Notice of Completion by the general contractor thereof in accordance with the provisions of Chapter 1 of Title 15 of Part 4 of Division 3 of the California Civil Code. Lessee shall furnish copies of the Architect's Certificate of Completion and Notice of Completion to the City Manager.

E. Acoustical Treatment

Lessee agrees that in the design of any building or buildings to be constructed as part of the Project, Lessee shall (or shall cause the Operator to) provide for acoustical treatment which will resist the airborne community noise equivalent level contours of 60 Db CNEL or greater. The contour map will be provided by the City.

F. Liquidated Damages

Subject to the provisions of Subparagraph J (Force Majeure) of this Paragraph 12, if Lessee or the Operator fails to comply with the foregoing requirements of Subparagraph D of this Paragraph 12 as to the completion of the construction of the Project, Lessee shall pay to the City, in addition to the Basic Rent as provided in Paragraph 4 herein, the sum of Three Thousand Dollars ($3,000) for each month, or a prorated portion of such amount for any fraction thereof, until such completion has occurred, as liquidated damages for such failure to complete construction.

The payment by Lessee of said liquidated damages is expressly conditional upon the City cooperating with Lessee in the construction of the building and other improvements of the Leased Premises, including, but not limited to, the prompt review and issuance of all permit applications and plans submitted by Lessee or agents of Lessee, or by the Operator or its agents, cooperating with Lessee's or the Operator's contractor and designer, and issuing building and related permits where appropriate. If the construction of the Project is delayed due to the City's breach of its covenants in the preceding sentence, Lessee shall be relieved of the duty pursuant to this paragraph to pay liquidated damages. Notwithstanding the foregoing, the City shall not be obligated to grant permits or take any action with respect to construction of the improvements to be constructed as part of the Project which would violate any law or regulation of the City or be contrary to, or inconsistent with, the exercise of the City's municipal powers and authority.

Lessee agrees and stipulates that it would be extremely difficult to fix the actual damages of the City that would result from Lessee's or the Operator's failure to timely comply with Subparagraph D of this Paragraph 12, and that, accordingly, the agreement of Lessee to pay the amounts specified above as liquidated damages in lieu thereof is reasonable under the circumstances existing as of the date hereof.

G. Title to Improvements

All buildings, structures or other improvements located on the Leased Premises on the Commencement Date, and any buildings, structures or other improvements which shall be constructed on the Leased Premises during the term of this Lease, shall be the property of Lessee for the term of this Lease, subject to the terms and conditions hereof, and shall become the property of the City upon the expiration or sooner termination of this Lease. Lessee shall be responsible for all maintenance of all buildings and improvements located on the Leased Premises in accordance with the provisions of this Lease.

H. Further Acts - Utilities

The City covenants and agrees that, upon written request of Lessee, the City will execute such instruments as may be reasonably necessary to subject City's fee interest in the Leased Premises to easements for the installation, maintenance, repair and replacement of normal utilities to service the Leased Premises as may be reasonably required in connection with the Project; provided, however, that all costs incurred in connection with the granting of such easements shall be borne by Lessee and the City shall incur no out-of-pocket costs, liabilities, obligations or expenses as a result of the granting of such easements for the installation, maintenance, repair or replacement of such utilities during the term of this Lease.

I. No Subdivision

Neither the Leased Premises nor Lessee's leasehold interest therein shall be subdivided, including, without limitation, the recording of any tentative or final subdivision or Leased Premises map without the prior written consent of the City Council.

J. Force Majeure

The time within which Lessee (or the Operator) is obligated hereunder to construct, repair or rebuild any building or other improvements constituting the Project shall be extended for a period of time equal in duration to, and performance in the meantime shall be excused on account of and for and during the period of, any delay in such performance caused by strikes, threats of strikes, lockouts, war, threats of war, insurrection, invasion, nuclear attack, acts of God, calamities, violent action of the elements or extended periods of inclement weather, fire, action or regulation of any governmental agency, law or ordinance, impossibility of obtaining materials, or other things beyond the reasonable control of Lessee; provided that Lessee gives the City written notice of such delay less than forty-eight (48) hours following the commencement thereof. Notwithstanding anything to the contrary set forth in this Lease, this subparagraph shall not apply to any delay resulting from Lessee's (or the Operator's) changes to the preliminary plans and specifications for the Project after their submission to the City Manager. For the purpose of this Lease, "extended periods of inclement weather" shall mean the aggregate number of days justified by "Excessive Rain Days" (as hereafter defined) and "Excessive Wind Days" (as hereafter defined). "Excessive Rain Days" shall mean the aggregate number of work days during which more than one-half (.5) inch of rain is recorded at the Torrance Municipal Airport (each such work day being a "Rain Day" for purposes of this Subparagraph J) in excess of ten (10) Rain Days, which shall be considered the normal number of Rain Days anticipated for the Construction Period. "Excessive Wind Days" shall mean the aggregate number of work days on which wind conditions prevent construction work on the Project at the Leased Premises for more than four (4) hours in any work day (each such work day being a "Wind Day" for purposes of this Subparagraph J). In order to claim "extended periods of inclement weather," within forty-eight (48) hours following a work day which Lessee (or the Operator) claims to be a Rain Day or a Wind Day, Lessee (or the Operator) shall have provided the City written notice of such Rain Day or Wind Day.

K. FAA Filing

Prior to the commencement of construction, if required, Lessee shall file Form 7460-1 and receive approval thereof from the Federal Aviation Administration ("FAA"). As long as Lessee timely applies for any FAA approvals, the construction completion deadline set forth in Subparagraph 12D, will be extended by any period of delay by the FAA in issuing the requested approvals. The City covenants that it will use good faith efforts to obtain the consent of the FAA to the construction of the Project, if such consent is required.

L. Interference with Aircraft

Lessee shall not light or operate, or cause or permit to be lighted or operated, any building, other structure or equipment which would interfere with the navigation, landing or takeoff of aircraft on the runways and in the aeronautical areas of the Airport.

M. Applicable Laws

The Leased Premises are now "Zone C-3." Any buildings, structures or other improvements constructed or placed thereon shall be constructed or placed in accordance with the laws and regulations of the state and City applicable to industrial development in Zone C-3.

13. **[No section with this number.]**

14. LIENS

A. Payment by Lessee

(1) Subject to Lessee's right to contest the same as hereinafter provided in Subparagraph D of this Paragraph 14, Lessee agrees that it will (or will cause the Operator to) pay as soon as due all mechanics', laborers', materialmen's, contractors', subcontractors' or similar charges, and all other charges of whatever nature which may become due, attached to or payable on said Leased Premises or any part thereof or any building, structure or other improvements thereon, from and after the Commencement Date.

(2) Nothing herein contained shall in any respect make Lessee (or the Operator) the agent of the City, or authorize Lessee (or the Operator) to do any act or to make any contract encumbering or in any manner affecting the title or rights of the City in or to the Leased Premises or the improvements thereon.

B. Notice

Before any buildings, structures or other improvements, repairs or additions thereto, of an aggregate cost, in each case of proposed construction or reconstruction, which is in excess of Twenty-Five Thousand Dollars ($25,000) are constructed or reconstructed upon the Leased Premises, Lessee shall (or shall cause the Operator to) serve written notice upon the City, in the manner provided for in Paragraph 33 herein, at least twenty (20) days prior to commencement, of Lessee's (or the Operator's) intention to perform such work for the purpose of enabling the City to post and record notices of non-responsibility under the

provisions of Section 3094 of the California Civil Code, or any other similar notices which may be required by law.

C. Bond

If any such mechanics' or other liens shall at any time be filed against the Leased Premises or any portion thereof or interest therein, Lessee shall (or shall cause the Operator to) commence the necessary action within thirty (30) days to cause the same to be discharged of record, or Lessee (or the Operator) shall promptly furnish to the City a bond in an amount and issued by a surety company satisfactory to the City, securing the City against payment of such lien and against any and all loss or damage whatsoever in any way arising from the failure of Lessee (or the Operator) to discharge such lien.

D. Contest

Lessee (or the Operator) shall have the right, but not the obligation, to contest the validity of amount of any such mechanic or other liens or claims of lien. Any contest by Lessee (or the Operator) of any such liens shall be made by Lessee (or the Operator) in good faith and with due diligence and Lessee (or the Operator) shall fully pay and immediately discharge the amount of any final judgment rendered against the City or Lessee (or the Operator) in any litigation involving the enforcement of such liens or the validity thereof.

E. Discharge by City

In the event of Lessee's failure to commence to discharge of record any such uncontested lien (or to cause the Operator to commence to so discharge such lien) within said thirty (30) day period or to pay and satisfy any such judgment as aforesaid, the City may, but shall not be obligated to, pay the amount thereof, inclusive of any interest thereon and any costs assessed against Lessee in said litigation, or may discharge such lien by contesting its validity or by another lawful means.

F. Repayment by Lessee

Any amount paid by the City for any of the aforesaid purposes, and all reasonable legal and other expenses of the City, including reasonable counsel fees, in defending any such action or in connection with procuring the discharge of such lien, with all necessary disbursements in connection therewith, together with interest thereon at the rate of one and one-half percent (1-1/2%) per month from the date of payment, shall be repaid by Lessee to the City on demand; provided that, interest payable hereunder shall in no event exceed the maximum per annum rate permitted under applicable law. To the extent any such

payment of interest hereunder would exceed such maximum rate, such payment shall be deemed to be an advance against Basic Rent as to which Lessee shall be credited on the next installment of Basic Rent payable hereunder.

15. TAXES, ASSESSMENTS AND UTILITY CHARGES

A. Net Lease.

It is the intention of City and Lessee that, except as otherwise provided in this Lease, all costs, expenses and obligations of every kind relating to the Leased Premises or the use, operation or occupancy thereof which may arise or become due during the term of this Lease shall be paid by Lessee and that City shall be indemnified by Lessee against such costs, expenses, and obligations.

B. Payment of Taxes

During the term of this Lease, Lessee shall pay (or shall cause the Operator to pay), prior to delinquency, all taxes which shall be levied against the Leased Premises, Lessee's interest therein or Lessee's property thereon including but not limited to any real estate or possessory interest taxes assessed against the Leased Premises, or against any improvements erected or constructed by the Lessee on said Leased Premises, or which become a lien against said Leased Premises or its interest therein or its property thereon or against any Improvements erected or constructed by the Lessee on said Leased Premises during the term of this Lease. Lessee, upon written request, shall provide proof of its payment of such taxes. If the term of this Lease commences or ends on a date other than the first day of a tax year, the taxes shall be prorated for the year in which the term commenced or ended, as the case may be.

C. Payment of Assessments

During the term of this Lease, Lessee shall pay (or shall cause the Operator to pay) before delinquent any assessments against the Leased Premises or against any improvements erected or constructed by the Lessee on the Leased Premises made for maintenance purposes, such as lighting. In the event that the assessing agency will permit payment of such assessments on an installment basis, Lessee may elect to make the assessment payments on such basis. Lessee's obligations under this Subparagraph 15C shall be limited to those assessments which are payable during the term of this Lease and any extension thereof.

D. Ad Valorem Taxes

If, during the term, federal or state taxes shall be imposed, assessed or levied on the fee interest of the City in the Leased Premises, or on or with respect to any real or personal property constituting a portion of the fee interest of the City in the Leased Premises, or on the rents derived by the City from the Leased Premises in lieu of or in addition to such real or personal property taxes, and such new tax would most fairly be characterized as in the nature of an ad valorem or use tax, as opposed to an income or franchise tax on the City's income, Lessee shall pay (or shall cause the Operator to pay) all such taxes, assessments, levies or charges imposed upon the City within thirty (30) days of demand therefor by the City, along with the City's calculations for such tax.

E. Utilities

Lessee shall pay (or shall cause the Operator to pay), as and when the same may become due and payables, all charges for water, gas, heat, electricity, power, sewer, telephone services, trash removal, and all other services and utilities used in, upon or about the Leased Premises.

F. Additional Rent

In addition to Basic Rent as described in Paragraph 4 above and Percentage Rent as described in Paragraph 6 above, all taxes, charges, and sums payable by Lessee hereunder are acknowledged and agreed by Lessee to constitute Additional Rent under this Lease, whether or not such charges and sums be designated as such. The City shall have the same rights and remedies upon Lessee's failure to pay Additional Rent, or any portion thereof, as for the nonpayment of Basic Rent or Percentage Rent.

G. Contests

Lessee (or the Operator) shall have the right, at Lessee's (or the Operator's) sole cost and expense, but not the obligation, to contest the amount or legality of any taxes, assessments, utility charges or any other item of Additional Rent which Lessee is obligated to pay pursuant to this Lease, and to make application for the reduction thereof, or of any assessments or valuations upon which the same may be based, provided that Lessee (or the Operator) first posts a bond with the City in an amount equal to the amount of such taxes, assessments or charges contested with interest and penalties, or by paying the amounts contested under protest and seeking the refund thereof. Lessee agrees that it will prosecute (or cause the Operator to prosecute) any such contest or application with due diligence and will within thirty (30) days after an adverse final determination thereof, pay the amount of

any such taxes, assessments or charges which may have been the subject of such contest or application as so determined, together with any interest, penalties, costs and charges which may be payable in connection therewith. Any refund or return of any taxes, assessments, utility charges or other item of Additional Rent paid by or on behalf of Lessee shall be the sole property of Lessee, and if such refund or return is paid to the City, as the owner of the Leased Premises, the City shall promptly deliver the amount thereof to Lessee.

16. OFF-STREET PARKING; AIRPORT DRIVE

A. Lessee must comply with the off-street parking requirements of all ordinances of the City and laws of the State, and shall use its best efforts to cause its employees, agents, licensees, and subtenants (including, without limitation, the Operator) to comply with the same.

B. Neither Lessee nor any of Lessee's employees, agents, licensees, or subtenants (including, without limitation, the Operator) can use any public street as a test track or for testing, repairing or maintaining motor vehicles in a manner which interferes with the normal flow of traffic along such street; and Lessee must cause its employees, agents, licensees, and subtenants to comply with all motor vehicle transportation laws while such persons drive along any public street in motor vehicles which are the subject of sale or lease or repair at, from or on the Leased Premises.

17. SIGNS

Lessee agrees that all signs or advertising material to be erected or maintained on or upon said Leased Premises or on or upon any buildings, structures or other improvements thereon, shall comply with all State laws and City ordinances.

18. ALTERATIONS AND ADDITIONAL IMPROVEMENTS

A. Construction Approval

Except as provided in Subparagraph B of Paragraph 12 herein, Lessee shall not construct any building or structure on the Leased Premises unless the plan showing the location thereof and construction plans and specifications are first approved by the Director of Building and Safety and the City Manager, and the giving of such approval shall not be unreasonably withheld or delayed and shall not be a waiver of any rights to object to further or future construction.

B. Alteration Approval

Lessee shall not make any exterior changes or alterations, structural or otherwise, to any building or structure on the Leased Premises unless the consent of the City Manager or his designee is first obtained, nor shall Lessee make any interior changes or alterations to any such building or structure if the cost thereof would be in excess of Fifty Thousand Dollars ($50,000) in any single calendar year. Such consent shall not be unreasonably withheld or delayed, and the giving of such consent shall not be a waiver of any rights to object to further or future alterations. Painting and similar activities with respect to existing buildings and structures shall not be deemed to constitute a change or alteration for purposes of this Subparagraph B.

C. Provisions Governing

Following the completion of the improvements required by Paragraph 12B above, in the event that (and in each case that) Lessee shall construct any additional or replacement buildings, structures or other improvements (including alterations or additions to the existing buildings) on the Leased Premises, Lessee shall construct such improvements and each of them in accordance with the provisions of this Lease governing construction by Lessee; provided, however, that:

(1) The completion date set forth in Subparagraph D of Paragraph 12 shall not apply to such construction (it being understood that a new completion date for such improvements shall be agreed on by the parties as a condition of the City's consent thereto); and

(2) The provisions of Subparagraphs B and F of Paragraph 12 shall not apply to such construction.

(3) Except as set forth above in subsection (1)above, the provisions of Paragraph 12 shall apply to such construction.

D. Demolition

If any building or structure is demolished during the term of this Lease, Lessee shall erect a new building or structure containing an area adequate for the conduct of the business operations contemplated by Paragraph 10A above, within twelve (12) months following such demolition in substitution therefor in accordance with the provisions of Subparagraph C of this Paragraph 18, but subject to the provisions of Paragraph 12J. Failure

of Lessee to comply with the provisions of this Subparagraph D shall constitute an "Event of Default" (as hereinafter defined).

E. Value and Utility

All changes and alterations shall be of such a character that when completed, the value and utility of the building, structure or other improvement changed or altered by such changes or alterations shall not be less than the value and utility thereof immediately before any such change or alteration.

F. Alterations Following Commencement

All work done in connection with any changes or alterations following the commencement thereof shall be performed in a good and workmanlike manner and with due diligence.

19. MAINTENANCE

A. Lessee to Maintain

Lessee, at its own expense, shall maintain (or shall cause the Operator to maintain) the Leased Premises in their entirety and all buildings, structures, roadways, landscaping, parking, sewer and other improvements thereon, and shall keep the same in good and sanitary condition and repair, all without cost or expense to the City.

B. Periodic - Structures

As often as necessary to properly maintain the appearance and at least once each five (5) years during the term of this Lease, Lessee (or the Operator) shall, at its own expense, paint or clean or otherwise preserve and beautify the surfaces of the interior and exterior of all buildings, structures, structural members and other improvements on said Leased Premises. The treatment applied shall restore the appearance of and act as a preservative of the building, structures, structural members and other improvements.

C. Periodic - Pavement

Lessee (or the Operator), at its own expense, shall at least once each five (5) years during the term of this Lease repair or replace any area of pavement or slabs on the Leased Premises as have spalled, weathered, alligatored, or otherwise failed, with like materials and workmanship, and shall as often as necessary promptly repair or replace any damaged areas thereof.

D. Landscaping; Irrigation

Lessee (or the Operator), at its own expense, shall landscape with flora, including trees, in an attractive manner and thereafter maintain said landscaping on the Leased Premises and shall construct and maintain a permanent irrigation system and perform such other related landscaping and maintenance as may be required by any conditional use permit associated with the Project.

20. SURRENDER

A. Structures

At the expiration of the term of this Lease, or upon the sooner termination thereof, this Lease shall terminate without further notice and Lessee shall surrender said Leased Premises to the City and all buildings, structures and other improvements thereof, including but not by way of limitation, any alterations, additions or improvements, all of which shall remain for the benefit of the City. Any holding over by Lessee after expiration shall not constitute a renewal or extension or give Lessee any rights in or to the Leased Premises.

B. Removal

No buildings, structures or other similar improvements shall be removed from the Leased Premises or voluntarily destroyed or damaged during the term of this Lease without the prior written consent of the City Manager whose consent shall not be unreasonably withheld or delayed.

C. Movable Structures

Machines, trade fixtures and similar installations which are installed in any building, structure or other improvement on the Leased Premises shall not be deemed to be part of the realty even though such installations are attached to the floors, walls or roof of any building or structure or to outside pavements, so long as such installation can be removed without structural damage to any building, structure or other improvement on the Leased Premises; provided, however, that if the removal of any such installation causes non-structural damage to any part of the building, structure, other improvement, pavements or Leased Premises, Lessee shall repair such damage and restore said building, structure, other improvement, pavements or Leased Premises to the same condition as originally existed upon the completion of construction, ordinary and usual wear and tear excepted; and provided further, that no holes or apertures, or unpainted or otherwise unfinished walls shall be left by Lessee in any building, structure or other improvement at the expiration of the term of this Lease.

D. Personal Property

Any and all personal property of every kind and nature whatsoever, not attached to or installed in any building, structure or other improvement which Lessee or its sublessee places in, upon or about the Leased Premises during the term hereof may be removed therefrom prior to the expiration of the term of this Lease and shall, as between the City and Lessee, be and remain the personal property of Lessee or its sublessees, as the case may be, provided that any such personal property left on the Leased Premises upon surrender to the City shall be presumed to be abandoned by Lessee.

E. Lighting, Etc.

Notwithstanding anything to the contrary contained in Subparagraphs C and D of this Paragraph 20, any and all lighting, plumbing, air cooling, air conditioning, heating and ventilating equipment shall be deemed to be a part of the realty, and regardless of whether or not any such item or equipment can be removed without structural damage to the building, structure or improvement in which it is installed, it shall not be removed from such building, structure or other improvement except for repairs, alterations and replacement with newer equipment, without the consent of the City Council of the City, and all such equipment shall remain as a part of the realty at the expiration of the term of this Lease.

21. AIRPORT PROVISIONS

A. FAA Provisions

Lessee acknowledges its acceptance of and its agreement to comply with all appropriate FAA provisions associated with this project.

B. Interference with Avigation

Lessee agrees that:

(1) It will not erect or permit the erection or growth of any building, structure, tree or other object on said Leased Premises above the mean sea level approved by the FAA for height on this project.

(2) It will not use said Leased Premises or permit said Leased Premises to be used in any manner which might interfere with the landing or taking off of aircraft from the airport, or which otherwise constitutes an air navigation obstruction, or which creates an interference; and

(3) It will not light or operate, or cause to be lighted or operated, any equipment which would interfere with the navigation, landing or takeoff of aircraft on the runways and in the aeronautical areas of the Airport.

C. Avigation Easements

(1) The City reserves the following easements from the leasehold estate created hereby:

(a) The right to take any action necessary to prevent the erection or growth of any building, structure, tree or other object into the air space above the elevations above mean sea level for height as approved for this project, and to remove from such air space, or mark and light as obstructions to air navigation, any and all buildings, structures, trees or other objects that may at any time project or extend above the elevation approved for this project, together with the right of ingress to, egress from, and passage over the said Leased Premises for such purposes;

(b) The right to enter onto the said Leased Premises for the purpose of causing the abatement of any interference with the landing and taking off of aircraft from said airport; and

(c) A right of flight for the passage of aircraft in the air space above the surface of the said Leased Premises, together with the right to cause in said air space such noise as may be inherent in the operation of aircraft, now known or hereafter used for navigation of, or flight in the air, using said air space or landing at, or taking off from, or operating at, or on said airport, provided that if the resultant noise levels exceed those provided for in Paragraph 12 hereof, Lessee shall not be required to modify said building or buildings to accommodate the changed levels.

(2) "Aircraft," as used in this Paragraph 21, includes aircraft now or hereafter developed which utilize the airport or such air space whether similar or dissimilar to existing aircraft.

(3) "Interference," as used in this Paragraph 21, includes without limitation any interference with radar, any electrical or other interference with radio or other communication between airport and aircraft, or any use or activity which makes it difficult for pilots to distinguish between airport and other lights, creates glare or otherwise impairs visibility or which otherwise endangers the landing, taking off or maneuvering of aircraft or the safety of those using the airport, or is hazardous thereto.

(4) In the event that the City exercises any of its rights pursuant to the above provisions of this Paragraph 21, the City shall not be liable to the Lessee for any damage suffered as a result thereof. Lessee shall reimburse the City for all reasonable and necessary expenses incurred by the City in the exercise of its rights pursuant to the provisions of Subparagraphs C(1)(a) and (b) of this Paragraph 21.

22. LIABILITY

Lessee agrees that its taking possession of the Leased Premises shall be an acceptance of the safety and condition thereof, and Lessee agrees to hold the City free and harmless from any and all liability and claim for damages by reason of any injury to any person or persons, including but not limited to Lessee, or property of any kind whatsoever and to whomsoever belonging, including but not limited to Lessee's, from any cause or causes whatsoever while in, upon or in any way connected with the said Leased Premises and any buildings constructed thereon during the term of this Lease, or any renewal or extension thereof, or any occupancy thereunder, except that resulting from the sole active negligence

or willful misconduct of the City, its agents or employees, or from incidents occurring prior to this Lease.

23. INSURANCE

A. Liability

(1) Lessee shall, at its sole cost and expense, obtain and maintain during the term of this Lease, Comprehensive General Liability Insurance, including Blanket Contractual Liability coverage, with limits of not less than Two Million Dollars ($2,000,000) Combined Single Limit for Personal Injury and Property Damage; Comprehensive Automobile Liability Insurance covering all owned, non-owned and hired vehicles with limits of not less than One Million Dollars ($1,000,000) Combined Single Limit for Personal Injury and Property Damage; and Statutory Workers' Compensation and Employers' Liability coverage with limits of not less than Two Hundred Fifty Thousand Dollars ($250,000). Lessee shall insure fixtures and contents against loss by fire and causes covered by standard extended coverage. Lessee shall deliver to the City, upon request, a certificate evidencing such coverages. Lessee shall endeavor to provide the City with thirty (30) days' prior written notice of cancellation. Lessee may self-insure any, or all, of the insurance requirements herein.

B. Property Damage

(1) Lessee agrees that at all times during the term of this Lease and any renewal or extension thereof, it will maintain in full force and effect at Lessee's expense an insurance policy which will inure to the benefit of and indemnify the Lessee and the City from loss occurring to buildings, structures, fixtures and other improvements (excluding grading and fill but including foundations) on the Leased Premises by reason of fire, extended coverage perils, and "all-risk" perils, including but not by way of limitation earthquake, flood, demolition, and increased cost of construction and contingent liability arising out of the operation of the building codes. During the period from the date of this Lease until the completion of construction contemplated under Paragraph 12 herein, and thereafter during any subsequent period of construction as contemplated under Paragraph 18 herein, such insurance shall include builder's risk insurance in so-called non-reporting form covering the total cost of work performed and equipment, supplies and materials furnished.

(2) The amount of such insurance shall be at least one hundred percent (100%) of the full replacement cost of the buildings, structures, fixtures or such other improvements located on the Leased Premises with an agreed amount endorsement. The City shall be named as a loss payee on said policy. The proceeds of said policy shall be paid to Lessee in furtherance of Lessee's repair and restoration of the Leased Premises pursuant to this Lease.

(3) Lessee may self-insure any or all of the insurance coverages described in Subparagraph B.

C. Carrier Rating and Cancellation

All policies enumerated in this Paragraph 23 shall be issued by an insurer admitted to do business in California, which qualifies as a member of the California Insurance Guaranty Fund, and which is rated in Best's Insurance Guide with a financial rating of A:V or better, or as may be accepted in writing by the City Manager. Said policies shall provide that the insurance coverage shall not be canceled or reduced by the insurance carrier without the City having been given thirty (30) days prior written notice thereof by such carrier. Lessee agrees that it will not cancel or reduce said insurance coverage and will replace any insurance canceled, reduced or nonrenewed by the insurance company during the term of this Lease.

D. Certificate of Insurance

At all times during the term of this Lease, and prior to taking possession of said Leased Premises, Lessee shall maintain on file with the City Clerk of the City an original Certificate of Insurance evidencing the existence and terms of each insurance policy required herein and all amendments thereto. Notwithstanding any other provisions to the contrary contained in this Lease, Lessee shall not have the right to take possession of said Leased Premises until such certificates are filed with the City Clerk.

E. Failure to Provide

Lessee agrees that if it does not keep the aforesaid insurance in full force and effect, the City may obtain the necessary insurance and pay the premium thereon, and the repayment thereof shall be deemed to be Additional Rent and payable as such on the next day after notice of the payment by the City for the said insurance policy upon which Basic Rent becomes due hereunder.

F. Lessee's Insurance Primary

The insurance provided in the policies of insurance required hereunder to be maintained by Lessee shall be primary and noncontributing with any insurance that may be carried by the City.

G. Subrogation

Lessee agrees to waive its right of subrogation against the City.

H. Cross Liability Endorsement

It is agreed that claims for personal injury or property damage made by an insured hereunder against another insured hereunder shall be covered in the same manner as if separate policies had been issued to each insured. Nothing contained herein shall operate to increase the insurance company's limit of liability as provided under such policy.

I. Operator Insurance Coverage

Lessee may satisfy its obligations under this Paragraph 23 by causing the Operator to obtain and maintain the insurance coverages required by this Paragraph 23.

24. CASUALTY: INSURANCE PROCEEDS

A. Statement of Costs

In the event of the partial or total destruction of any of the buildings, structures or other improvements on the Leased Premises where the cost of repair or replacement exceeds Ten Thousand Dollars ($10,000), as established jointly by Lessee and the Director of Building and Safety of the City, Lessee shall promptly furnish the City with:

(1) A statement of the original cost of the damaged structures; and

(2) An itemized statement setting forth the estimated cost of reconstruction thereof or repairs thereto, prepared by a California licensed architect or engineer.

B. Duty to Repair - Where Insurance

(1) In the event of the partial or total destruction of any of the buildings, structures or other improvements on the Leased Premises by any cause which is by the terms of this Lease required to be insured against (including any partial destruction where the cost of repair is less than Ten Thousand Dollars ($10,000)), Lessee shall repair or rebuild the affected buildings, structures or other improvements to the condition existing prior to the occurrence of such destruction or damage, and shall do so even though the proceeds of the insurance policies covering the loss shall be insufficient to reimburse Lessee therefor; provided, however, that if such proceeds of insurance are more than sufficient to pay the cost of any such rebuilding, Lessee shall be entitled to receive any surplus.

(2) Any insurance proceeds exceeding One Hundred Thousand Dollars ($100,000) shall be payable to an insurance trustee, acceptable to both parties, who shall disburse the funds for construction purposes as construction progresses and with such safeguards as said trustee may deem to be desirable to assure that workmen and materialmen are paid and that no mechanics liens may be recorded. If any Leasehold Mortgagee, as defined in Paragraph 26 of this Lease, agrees to disburse such proceeds for restoration as aforesaid, such Leasehold Mortgagee shall be acceptable to the City as the insurance trustee for purposes of this provision.

C. Duty to Repair - Where no Insurance

(1) In the event of the partial or total destruction of any of the buildings, structures or other improvements on the Leased Premises by any cause which is by the terms of this Lease not required to be insured against, then:

(a) If the cost to repair or restore such building, structure or other improvement is reasonably estimated to be less than fifty percent (50%) of the value of all improvements on the Leased Premises immediately prior to such damage or destruction, then Lessee shall proceed to repair and replace the same at its own expense; or

(b) If the cost to restore or repair such damage or destruction is reasonably estimated to exceed fifty percent (50%) of the replacement value of all such improvements immediately prior to such damage or destruction, then, if the inability to utilize such damaged building, structure or other improvement would have a material adverse effect on the operation of Lessee's business on the Leased Premises, Lessee may elect to demolish same, restore the Leased Premises to a neat and clean condition to the reasonable satisfaction of the City and terminate this Lease by notifying the City in writing of its intent to do so within thirty (30) days of the event causing such damage or destruction.

(2) If Lessee shall elect to cancel this Lease as provided for above, it shall have no further obligation for rental or other payments hereunder, nor any rights under this Lease, from and after the date that such demolition and restoration are completed.

D. Repair Work

Any reconstruction and repair work provided to be performed by Lessee hereunder shall be commenced and continued to completion promptly and diligently. Such reconstruction and repair work shall be performed, insofar as reasonably possible, in compliance with and pursuant to the original plans and specifications and in compliance with the provisions of Paragraph 12 herein. The City may require a payment bond from Lessee to assure the removal or bonding of any liens.

E. Rent

In the event of destruction or damage, whether total or partial, to the buildings, structures, or other improvements on the Leased Premises, the rent provided for hereunder shall not be abated by reason of the occurrence of any such destruction or damage as long as the term of this Lease continues and remains in existence and is not canceled in accordance with Subparagraph C of this Paragraph 24.

25. ASSIGNMENT AND SUBLETTING

A. Consent of City Required

Except as provided in this Paragraph 25, Lessee shall not, either voluntarily or by operation of law, sell, assign, or otherwise transfer this Lease (including by gift or will), or sublet the Leased Premises, or any part thereof, or permit the Leased Premises or any part thereof to be occupied by anyone other than Lessee or Lessee's employees, agents, contractors, patrons and business invitees, without the prior written consent of the City in each instance, which consent shall not be unreasonably withheld or delayed but shall, however, be subject to various terms and conditions set forth herein. Hypothecation of this Lease may only be made in accordance with the provisions of Paragraph 26 hereof; any other proposed hypothecation shall require the prior written consent of the City, whose consent may be granted or withheld in its sole and absolute discretion. Any sale, assignment, transfer or subletting not in compliance with the provisions of this Paragraph 25 shall be null and void and of no force or effect, and shall constitute a material default under this Lease.

B. Transfer of Ownership Interest in Lessee

If Lessee is a corporation, limited liability company, unincorporated association or partnership, any sale, assignment, transfer or hypothecation of any stock or other ownership interest in such corporation, limited liability company, unincorporated association or partnership which would, or upon foreclosure by any secured party could, result in a change in control of Lessee shall be deemed an assignment within the meaning and provisions of this Paragraph 25. A "Change in Control" shall mean the change in ownership of at least fifty-one percent (51%) of the issued and outstanding voting ownership interests of Lessee, either in one transaction or in a series of transactions. The provisions of this Subparagraph B shall not be applicable to any Sublessee of the Leased Premises.

C. Grounds for Refusal

The City's refusal to consent to any assignment, subletting or other proposed assignment, subletting or other transfer shall be considered reasonable if the proposed assignee, sublessee or transferee:

(1) Is not reasonably satisfactory to the City as to credit; or

(2) Intends to occupy the Leased Premises for purposes other than those specified in this Lease;

Provided, however, Lessee acknowledges and agrees that the City may have other reasonable grounds for withholding such consent including, without limitation, any proposed transferee's failure to agree to, or noncompliance with, the other terms and provisions hereof.

D. Effect of Consent

In no event shall the City's consent to an assignment or subletting relieve Lessee from the obligation to obtain the City's express written consent to any further assignment or subletting or release Lessee from any liability or obligation hereunder whether or not then accrued, and Lessee shall continue to be fully, jointly and severally liable hereunder.

E. Conditions of Consent

As further conditions to the City's consent to any subleasing, assignment or other transfer of part or all of the Leased Premises, or any part thereof:

(1) Each sublease shall provide that in the event the City gives any sublessee of a part or all of the Leased Premises notice that Lessee is in default under this Lease, such sublessee shall thereafter make all rental or other payments directly to the City, which payments will be received by the City without any obligation to honor the sublease or otherwise (except to credit such payments against sums due under the Lease);

(2) Any sublessee of part or all of the Leased Premises shall agree to attorn to the City, or its successors and assigns, at the City's request upon termination of this Lease for any reason, provided that in no event shall the City or its successors be obligated to accept such attornment;

(3) Any assignment, sublease or other transfer shall be effected on forms approved by the City (which approval shall not be unreasonably withheld or delayed); and

(4) Lessee shall not then be in default under this Lease in any respect. Lessee hereby agrees and acknowledges that the above conditions to the City's consent to any proposed sublease, assignment or other transfer by Lessee are an articulation of the standard of reasonableness applicable to such consent, and the City's imposition of such conditions shall under no circumstances impair or limit the City's rights and remedies under California Civil Code Section 1951.4 or any related, successor or similar provision of law.

F. Notice of Transfer

(1) Notwithstanding anything to the contrary herein contained, in the event that (i) Lessee makes a bona fide offer to assign, sublease or otherwise transfer all or any part of its rights, title or interest in this Lease and in the leasehold estate created hereby which a transferee proposes to accept, (ii) a transferee makes a bona fide offer to Lessee which Lessee proposes to accept, or (iii) such assignment, sublease or other transfer to a third party is going to occur involuntarily by operation of law or otherwise by a circumstance beyond the control of Lessee, Lessee shall give the City Manager prompt notice thereof, together with a copy of the proposed contract, or in the case of an involuntary conveyance, the relevant instruments of transfer.

(2) In the case of such an involuntary assignment, sublease (other than a sublease to an authorized GM dealer or other permitted transfer hereunder) or other transfer, the City shall have the right within thirty (30) days after receipt of such notice and a copy of the proposed contract or other instrument effectuating such transfer (or such shorter time as is required by such instruments) to purchase Lessee's right, title and interest being so transferred, at the same price and on the same terms and conditions as set forth in such contract or other instrument, or if such transfer is being made without consideration being given therefor, the City shall have the right to make such purchase by paying the fair market value of the Lessee's right, title and interest being transferred. If the parties are unable to agree on such fair market value, the same shall be determined by appraisal in the manner set forth in Paragraph 5 herein for determining the Fair Market Rent for the Leased Premises.

(3) In the case of any such proposed transfer, such purchase by the City shall be subject to the then existing encumbrances which are not paid off or accelerated as a result of such transfer.

(4) If the City shall not so elect to purchase the Lessee's interest, Lessee shall make application to the City for its approval of such assignment, sublease or other transfer as provided in Subparagraph A above.

(5) The provisions of this Subparagraph F shall not be applicable, either in whole or in part, to any proposed subletting of the Leased Premises to any corporation, limited liability company or other entity which is wholly-owned, either directly or indirectly through one or more intermediaries, by GM; provided, however, that the issuance by such corporation, limited liability company or other entity of any ownership interest therein to any person or entity which is not GM, or any entity which is directly or indirectly wholly-owned by GM, shall require the prior written consent of the City, which shall not be unreasonably withheld or delayed.

(6) Any proposed subletting of the Leased Premises to a person or entity which has been approved by GM to operate an authorized GM new motor vehicle dealership at the Leased Premises, which is not subject to Subparagraph F(5) above, shall be subject to the prior consent requirements of this Subparagraph (F), but shall not entitle the City to exercise any right to purchase Lessee's or any other person or entity's right, title or interest under this Lease or in the Leased Premises, whether pursuant to Subparagraph F(2) above or otherwise.

G. Voidability

Any sale, assignment, sublease or transfer which has been made in violation of or which is not in full compliance with the provisions of this Paragraph 25 shall be null and void and of no force or effect, and shall constitute an Event of Default under this Lease.

H. Vesting

As a condition to the vesting of any rights in this Lease or in the leasehold estate created hereby in any assignee or sublessee of the Lessee's interest thereunder, whether voluntary or involuntary, each such proposed assignee or sublessee shall first have delivered to the City Clerk of the City a written notice of such proposed assignment or sublease, which notice:

(1) Shall contain a statement that the proposed assignee or sublessee agrees to be bound by all the terms, covenants and conditions of this Lease which are to be performed by Lessee;

(2) Shall state the name and address of the proposed assignee or sublessee for the purpose of enabling notices to be given under Paragraph 33 herein; and

(3) Shall state whether the proposed assignee or sublessee is an individual, a corporation, a limited liability company, a partnership or another form of legal entity. If such assignee or sublessee is a corporation, such notice shall state the names of such corporation's principal officers and directors, its state of incorporation, the amount of capital stock authorized and the amount of capital stock outstanding at the time of the assignment, and if the proposed assignee or sublessee is not a publicly-held corporation, the number of shareholders and the name and address of every shareholder who directly or indirectly owns or controls five percent (5%) or more of such stock (stating the number of such shares). If such assignee or Sublessee is a limited liability company, such notice shall state the names and addresses of all managers of the limited liability company. If such assignee or sublessee is a partnership, such notice shall state the names and addresses of all general partners of such partnership. If such assignee or sublessee is another form of legal entity, it shall provide substantially the same information as is required for a partnership or limited liability company.

It shall be a further condition to such vesting that Lessee shall reimburse the City for all legal and accounting expenses reasonably incurred by the City in investigating each such proposed assignee's or sublessee's qualifications and reviewing, negotiating and drafting all documentation related to each such proposed assignment and/or sublease, including the cost, as reasonably determined by the City, of legal counsel who are employees of the City, but not to exceed Five Thousand Dollars ($5,000.00) in the aggregate.

I. Sublease to Peninsula Pontiac GMC Buick, Inc.

Notwithstanding any provision to the contrary which may be contained in this Lease, the City hereby consents to the sublease of the entire Leased Premises by Lessee to (i) Peninsula Pontiac GMC Buick, Inc., a Delaware corporation, which is an authorized dealer for GM ("Peninsula"). It is understood and agreed that the other provisions of this Paragraph 25 shall not be applicable to the sublease of the Leased Premises by Lessee to Peninsula; provided, however, that the City's consent to the sublease to Peninsula does not relieve Lessee of its obligations to obtain any required consent hereunder with respect to any future sublease of all or any portion of the Premises, or release Lessee from any liability or obligation of Lessee hereunder.

J. Permitted Assignments

Notwithstanding any provision to the contrary which may be contained in this Lease, the City hereby consents to the assignment of this Lease, and Lessee's interests hereunder, to GM or to any corporation, limited liability company or other legal entity which is wholly-owned by GM, either directly or indirectly through one or more intermediaries (each a "Permitted Assignee"), including, without limitation, GMAC Leasing Corporation, a Delaware corporation. It is understood and agreed that the other provisions of this Paragraph 25 shall not be applicable to an assignment of this Lease, and Lessee's interests hereunder, to a Permitted Assignee; provided, however, that the City's consent to the assignment of this Lease and Lessee's interests hereunder to a Permitted Assignee does not relieve the assignor of its obligations to obtain the City's consent with respect to any future assignment to a person or entity which is not a Permitted Assignee, or release the assignor from any liability or obligation of such assignor hereunder.

26. ENCUMBRANCES

A. Right to Encumber

During the term of this Lease, and any and all extensions thereof, Lessee or any Sublessee (including, without limitation, the Operator) shall have the right to assign for security purposes only, or to otherwise encumber or convey for security purposes, such party's leasehold estate and interest in the Leased Premises, and in the lease or sublease creating such estate and interest, in favor of a "Leasehold Mortgagee" (as hereinafter defined) to secure the indebtedness of such party to the Leasehold Mortgagee. In connection therewith, Lessee or any Sublessee may perform any and all acts and may execute, deliver and record any and all deeds, instruments and other documents (including, without limitation, a leasehold or subleasehold deed of trust) that are necessary or proper to consummate any loan transaction with, or to perfect and maintain the perfection of any security interest or lien given to, a Leasehold Mortgagee. However, neither Lessee nor any Sublessee shall have the right or power to convey or encumber, or to create any lien upon, the City's freehold estate in the Leased Premises or the City's reversionary interest in all buildings and other improvements on the Leased Premises.

B. Definitions

For purposes of this Lease, the following terms shall have the meanings respectively ascribed to them below:

(1) "Leasehold Mortgage" shall mean any mortgage, deed of trust, assignment of rents, assignment of leases, security agreement or other document or instrument encumbering (i) Lessee's interests under this Lease or the leasehold estate created by this Lease, or (ii) any Sublessee's interests under any sublease of the Leased Premises or the subleasehold estate created by such sublease.

(2) "Leasehold Mortgagee" shall mean an institutional lender (including, without limitation, any bank, savings and loan association, credit union, insurance company or other form of financial institution, and any subsidiary thereof) which shall take a Leasehold Mortgage as security for the repayment of indebtedness owed to such lender by Lessee or any Sublessee. Without limiting the generality of the foregoing, General Motors Acceptance Corporation shall be a Leasehold Mortgagee if it shall take a Leasehold Mortgage.

(3) "Approved Leasehold Mortgagee" shall mean a Leasehold Mortgagee which has been identified in writing to the City and as to which the City has been given an address for notices.

C. Agreements Regarding Leasehold Mortgagees

(1) Notices to Leasehold Mortgagee. Copies of all notices given or documents delivered by the City to Lessee under the terms of this Lease, including without limitation notices of Lessee's default under this Lease, shall be concurrently served by the City on an Approved Leasehold Mortgagee by United States mail, postage prepaid, registered or certified mail, return receipt requested, at the address last provided to the City in writing by such Approved Leasehold Mortgagee. No notice given by the City under this Lease shall be effective unless served as provided in this subparagraph.

(2) Approved Leasehold Mortgagee's Rights to Cure. The City shall not terminate this Lease or initiate any action or proceeding to terminate this Lease because of any default by Lessee or on the basis of any other event or circumstance which gives the City the right to terminate this Lease if the Approved Leasehold Mortgagee (acting in its sole discretion), within (i) ten (10) business days after its receipt of such notice from the City of a default by the Lessee under this Lease which can be cured by the payment of money required to be paid by Lessee under the terms of this Lease, or (ii) fifteen (15) business days after its receipt of such notice in the case of a non-monetary default, shall at its election either:

(a) cure such default if the default can be cured by the payment of money required to be paid by Lessee under the terms of this Lease or, if the default cannot be cured by the payment of money, commence to cure the default within such fifteen (15) business day period and thereafter diligently proceed to complete the cure; or

(b) if the Approved Leasehold Mortgagee holds a Leasehold Mortgage in respect of Lessee's leasehold estate in the Leased Premises (i) institute a trustee's sale or judicial foreclosure proceedings under the Approved Leasehold Mortgage and thereafter diligently proceed to complete such proceedings; (ii) cure such default within such ten (10) business days, if the default can be cured by the payment of money required to be paid by Lessee under the terms of this Lease; (iii) comply with all of the terms and conditions of this Lease requiring the payment or expenditure of money by Lessee until such time (the "Foreclosure Date") as this Lease has been sold by trustee's sale, judicial foreclosure or transfer in lieu of foreclosure or reconveyed under the Approved Leasehold Mortgage; and (iv) commence to cure all non-monetary defaults within fifteen (15) business days following the institution of a trustee's sale or judicial foreclosure proceeding, and thereafter diligently proceed to complete the cure, or if the Approved Leasehold Mortgagee must obtain access to the Leased Premises in order to commence to effect such cure, the Approved Leasehold Mortgagee shall, within such fifteen (15) business day period, initiate appropriate legal proceedings to obtain lawful access to the Leased Premises, and thereafter commence such cure within fifteen (15) business days after the Approved Leasehold Mortgagee has obtained lawful access to the Leased Premises; provided, however, that if the Approved Leasehold Mortgagee fails to comply with at least one of conditions (a) or (b) of this subsection (2) the City shall be released from the covenant of forbearance contained in this Subparagraph.

(3) Prosecution of Foreclosure. The Approved Leasehold Mortgagee shall be deemed to be diligently proceeding to complete a trustee's sale or judicial foreclosure notwithstanding the fact that such proceedings or the commencement of such proceedings are stayed by statute, rule, court order, bankruptcy stay, or other similar enactment or action, provided that, (a) such Approved Leasehold Mortgagee is at all times during such stay in compliance with the provisions of Subparagraph C(2)(b)(ii), (iii) and (iv) hereof, and (b) such trustee's sale or judicial foreclosure is completed within twenty-four (24) months following the institution of such proceedings.

(4) Mortgage Lease. If this Lease terminates because of a default by Lessee or any other event or circumstance which entitles the City to terminate this Lease, the City shall provide the Approved Leasehold Mortgagee with written notice of such termination. If within thirty (30) days after receiving notice of such termination, the Approved Leasehold Mortgagee by written notice to the City requests that the City enter into a new lease with such Approved Leasehold Mortgagee for the Leased Premises, then the City shall enter into a new lease (the "Mortgagee Lease") for the Leased Premises with the Approved Leasehold Mortgagee within thirty (30) days after the Approved Leasehold Mortgagee's request, provided that the Leasehold Mortgagee has delivered to the City at the time of such request the Approved Leasehold Mortgagee's written agreement to cure Lessee's defaults under this Lease, and provided further that if Lessee has defaulted under Paragraphs 11, 12, 14, or 19 of this Lease, the Approved Leasehold Mortgagee shall have entered into a written agreement with the City pursuant to which such Approved Leasehold Mortgagee has agreed to perform the remaining obligations of Lessee under said Paragraph in a manner and within a time period satisfactory to the City, or obtained the agreement of a third party satisfactory to the City to so perform such obligations. The Mortgagee Lease shall commence, and rent and all obligations of the Approved Leasehold Mortgagee shall begin to accrue, as of the date of termination of this Lease. The term of the Mortgagee Lease shall be for the period which would have constituted the remainder of the term of this Lease had this Lease not been terminated, and the Mortgagee Lease shall be upon all of the other terms and conditions of this Lease, as modified by all amendments, if any, entered into by the City and Lessee. The Mortgagee Lease shall be free of all rights of Lessee. Lessee shall provide in all subleases pertaining to the Leased Premises that each sublessee of the Leased Premises shall, at the Leasehold Mortgagee's option, attorn to the Approved Leasehold Mortgagee under the Mortgagee Lease, and the Approved Leasehold Mortgagee agrees to accept such an attornment, provided the sublessee is not in default under its sublease at the time of such attornment. Prior to or upon execution of the Mortgagee lease, the Approved Leasehold Mortgagee shall (a) pay to the City all rent and other amounts owing to the City by Lessee under this Lease as of the date of termination of this Lease; (b) shall pay to the City all rent and other amounts due under the Mortgagee Lease from the date of commencement of the term of the Mortgagee Lease to the date of execution of the Mortgagee Lease; (c) shall pay to the City all reasonable costs and expenses (including attorneys' fees) incurred by the City in connection with the Mortgagee Lease; and (d) shall provide in a manner satisfactory to the City for the cure of all non-monetary defaults of Lessee under this lease.

(5) Performance by Leasehold Mortgagee. The City agrees to accept performance by the Approved Leasehold Mortgagee of Lessee's obligations under this Lease with the same force and effect as if performed by Lessee. The Approved Leasehold Mortgagee shall not become liable for the performance of Lessee's obligations under this Lease unless and until the Approved Leasehold Mortgagee acquires title to the Lease, and shall be liable for the performance of Lessee's obligations hereunder only for so long as the Approved Leasehold Mortgagee holds title to this Lease. Notwithstanding the provisions of this Paragraph 26, if an Approved Leasehold Mortgagee acquires title to this Lease pursuant to Subparagraph C(4) above, within sixty (60) days after such Approved Leasehold Mortgagee shall have so acquired title to this Lease, such Approved Leasehold Mortgagee shall sell or otherwise transfer this Lease, and its title thereto, to a third party approved by the City pursuant to Paragraph 25 of this Lease, which third party shall be financially capable and experienced in operating a business similar to that conducted on the Leased Premises prior to the foreclosure of the Approved Leasehold Mortgagee; the approved Leasehold Mortgagee shall be released from any and all obligations of the Lesseehereunder. The City agrees that an Approved Leasehold Mortgagee may enter on the Leased Premises to perform any curative act.

(6) No Merger. Without the written consent of the Approved Leasehold Mortgagee, there shall be no merger of this Lease or of the leasehold estate created hereunder with the fee estate in the Leased Premises by reason of the fact that this Lease or the leasehold estate hereunder may be held directly or indirectly by or for the benefit of any person who owns the fee estate in the Leased Premises or any portion thereof.

(7) Estoppel Certificates. The City and Lessee shall at any time and from time to time upon not less than thirty (30) days prior written request by the other, deliver to the requesting party and executed and acknowledged written statement certifying (i) that this Lease is unmodified and in full force and effect (or if this Lease has been modified or if this Lease is not in full force or effect, stating the nature of the modification or the basis on which this Lease had been terminated, whichever is applicable; (ii) that to its knowledge, the requesting party is not in default under this Lease (or if any such default exists, stating the specific nature and extent of the default); and (iii) the dates to which the monthly rent and other monetary obligations under this Lease have been paid in advance. Each certificate delivered pursuant to this Subparagraph may be relied upon by any prospective purchaser, transferee or encumbrancer of the City's or Lessee's respective interests in the Leased Premises, including without limitation any prospective Approved Leasehold Mortgagee.

(8) No Voluntary Surrender. No voluntary surrender of this Lease by Lessee or amendment or mutual termination of this Lease shall be effective without the prior written consent of the Leasehold Mortgagee.

(9) Leasehold Foreclosure. The City's consent shall not be required for the transfer of this Lease to an Approved Leasehold Mortgagee by trustee's sale, judicial foreclosure or transfer in lieu of foreclosure; provided that, the provisions of this Subparagraph shall not amend or modify the obligations of such Approved Leasehold Mortgagee pursuant to Subparagraph C(5) above. However, any proposed purchase of the leasehold estate of Lessee hereunder by a third party pursuant to any trustee's sale or judicial foreclosure proceedings shall require the prior written consent of the City in accordance with Paragraph 25 hereof.

(10) Reasonable Acceptance of Additional Terms. If a proposed Leasehold Mortgagee shall propose any additional terms and conditions in respect of the proposed Leasehold Mortgage, so long as the City's interests in this Lease and its reversionary rights in the Leased Premises are not materially prejudiced thereby, the City agrees not to unreasonably withhold its consent and agreement to such additional terms.

27. BREACH OR DEFAULT

A. Event of Default

Any of the following shall constitute an event of default ("Event of Default") by Lessee under this Lease:

(1) Failure of Lessee to pay when due the Basic Rent, or Additional Rent payable by Lessee under this Lease, and the continuance of such failure for ten (10) days after written notice thereof from the City that such payment is due; or

(2) The occurrence of an event of default under the instruments or agreements evidencing or securing the indebtedness held by a Leasehold Mortgagee uncorrected for thirty (30) days after written notice thereof from the City; or

(3) The breach of the covenant of continuous operation set forth in Subparagraph A of Paragraph 7 herein and the continuance thereof for ten (10) days after written notice thereof by the City; or

(4) The abandonment or vacation of the Leased Premises for ten (10) days after written notice thereof from the City; or

(5) The failure of Lessee to perform any other obligation hereunder which shall not be remedied to the satisfaction of the City within thirty (30) days after written notice from the City specifying such failure to perform (or, if such failure cannot reasonably be remedied by Lessee within thirty (30) days, if Lessee shall not have commenced appropriate action to effect such remedy within said thirty (30) day period and thereafter prosecuted such action to completion with all due diligence); provided, however, that in no event will Lessee be in default hereunder if Lessee needs to recover possession of the Leased Premises from the Operator or any other Sublessee of the Leased Premises in order to cure a default hereunder and Lessee has commenced the appropriate legal action to recover possession of the Leased Premises; or

(6) Unless the City has given its consent to a change in the use of the Leased Premises, the expiration or termination of all of the then-existing Operator's GM Dealer Sales and Service Agreements authorizing such Operator to sell certain General Motors motor vehicles; or if the Leased Premises is then being used for the sale of General Motors motor vehicles, GM's cessation of all or substantially all sales of General Motors motor vehicles in the Torrance area.

(7) Except as otherwise provided by paramount law, the entry of any decree or order for relief by any court with respect to Lessee in any involuntary case under the Federal Bankruptcy Code or any other applicable federal or state law; of the appointment of or taking possession by any receiver, liquidator, assignee, trustee, sequestrator or other similar official, of the Leased Premises or of Lessee or of any substantial part of the property of Lessee or the ordering or winding up or liquidating of the affairs of Lessee and the continuance of such decree or order unstayed and in effect for a period of sixty (60) days; or the commencement by Lessee of a voluntary proceeding under the Federal Bankruptcy Code or any other applicable state and federal law or consent by Lessee to the entry of an order for relief in an involuntary case under any such law, or consent by Lessee to appointment of or taking of possession by a receiver, liquidator, assignee, trustee, sequestrator or other similar official, of Lessee or of any substantial part of the property of Lessee or the making by Lessee of any general assignment for the benefit of creditors; or the failure of Lessee to operate its business for ten (10) business days when such failure is due to any financial difficulty experienced by Lessee; or Lessee taking any other voluntary action related to the dissolution of Lessee or the winding up of Lessee's affairs.

B. City's Remedies

(1) If an Event of Default by Lessee shall occur and be continuing as aforesaid, then in addition to any other remedies available to the City at law or in equity, the City may, at its election, terminate this Lease, and bring suit against Lessee and recover as an award in such suit or arbitration proceeding the following:

(a) The worth at the time of award of the unpaid rent and all other sums due hereunder which had been earned at the time of termination;

(b) The worth at the time of award of the amount by which the unpaid rent and all other sums due hereunder which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided;

(c) The worth at the time of award of the amount by which the unpaid rent and all other sums due hereunder for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided;

(d) Any other amount necessary to compensate the City for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things could be likely to result therefrom; and

(e) Such amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

(2) "Unpaid rent" as used in subsections (a), (b) and (c) above shall include Basic Rent, and all Additional Rent payable by Lessee under the Lease. The "worth at the time of award" of the amounts referred to in subsections (a) and (b), above, shall be computed by allowing interest at the lesser of one and one-half percent (1-1/2%) per month or the maximum allowable rate under applicable law on the date of the award. The "worth at the time of award" of the amount referred to in subsection (c) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(3) If an Event of Default shall occur, and the City shall choose not to exercise the option to terminate this Lease as provided herein, this Lease shall continue in full force and effect for so long as the City chooses not to terminate Lessee's right to possession, and the City may enforce all its rights and remedies under this Lease, including the right to recover rent as it becomes due.

(4) For the purpose of this Subparagraph B, the following shall not constitute a termination of the Lessee's right to possession:

(a) Acts of maintenance or preservation or efforts to relet all or any part of the Leased Premises; or

(b) The appointment of a receiver upon initiative of the City to protect the City's interest under this Lease.

(5) After expiration of the applicable time for curing a particular default, or before the expiration of that time in the event action is reasonably deemed necessary by the City, the City may at the City's election (but is not obligated to) make any payment required of Lessee under this Lease, or perform or comply with any covenant or condition imposed on Lessee under this Lease, and the amount so paid plus the reasonable cost of any such performance or compliance, plus interest on such sum at the rate of one and one-half percent (1-1/2%) per month, or the maximum rate permissible under applicable law, whichever is less, from the date of payment, performance or compliance (in this Subparagraph (5) called "Act") shall be deemed to be Additional Rent, payable by Lessee with the next succeeding installment of Basic Rent. No such Act shall constitute a waiver of default or of any remedy for default or render the City liable for any loss or damage resulting from any such Act.

C. Receipt of Rent Not Waiver of Default

(1) The receipt by the City of any Basic Rent, or Additional Rent payment or any other charge due to the City, with knowledge of any breach of this Lease or of any default on the part of Lessee in the observance or performance of any of the conditions or covenants of this Lease, shall not be deemed to be a waiver of any provisions of this Lease. No acceptance by the City of a lesser sum than the full amount of the Basic Rent, or Additional Rent as provided in Paragraph 8 herein, or any other charges then due shall be deemed to be other than on account of the earliest installment of the Basic Rent, Additional Rent or other charges due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as the Basic Rent, or Additional Rent or charges due be deemed an accord and satisfaction, and the City may accept such check or payment

without prejudice to the City's right to recover the balance of such installment or pursue any other remedy provided in this Lease.

(2) No failure on the part of the City to enforce any covenant or provision herein contained, nor any waiver of any right thereunder by the City shall discharge or invalidate such covenant or provision or affect the right of the City to enforce the same in the event of any subsequent breach or default, unless expressly agreed to by the City Manager in writing.

(3) The receipt by the City of any Basic Rent, or Additional Rent payment or any other sum of money or any other consideration paid by Lessee after the termination in any manner of the term, or after notice by the City of any such termination, shall not reinstate, continue, or extend the term hereof, or destroy, or in any manner impair the efficacy of any such notice of termination as may have been given thereunder by the City to Lessee prior to the receipt of any such sum of money or other consideration, unless so agreed to in writing and signed by the City Manager. Neither acceptance of the keys nor any other act or thing done by the City or by its agents or employees during the term shall be deemed to be an acceptance of a surrender of the Leased Premises, excepting only an agreement in writing signed by the City Manager accepting or agreeing to accept such a surrender.

28. COMPLIANCE WITH LAW

Lessee agrees to comply with, and to cause all sublessees, licensees and concessionaires to comply with, all statutes, ordinances, rules, laws or regulations of any governmental agency (including, without limitation, those of the City) which are applicable to said Leased Premises or the operation of Lessee or such sublessees, licensees or concessionaires on the Leased Premises.

29. JUDICIAL REFERENCE

Any dispute arising under this Lease shall be resolved through the judicial reference process. In the event that a dispute arises between the parties in instances under this Lease which call for judicial reference, the City and Lessee agree to refer the dispute to judicial reference in accordance with the provisions of Section 638 et seq., of the California Code of Civil Procedure. The parties shall agree upon a single referee who shall then try all issues whether of fact or law, and report a finding in and a judgment thereon. If the parties are unable to agree upon a referee, either party may seek to have one appointed, pursuant to California Code of Civil Procedure Section 640. The cost of such proceeding shall initially be borne equally by the parties. However, the prevailing party in such proceeding, or in any

litigation between the parties, shall be entitled, in addition to all other costs reasonably incurred, to recover its reasonable attorneys' fees and its contribution for the cost of the reference as an item of damage or recoverable costs.

30. ENVIRONMENTAL COMPLIANCE

A. Lessee's Covenants; Indemnification

Without limiting the covenants of Lessee under Paragraph 28 above, Lessee agrees that it shall not use the Leased Premises or operate its businesses therefrom in any manner which would constitute a violation of any federal, state or local law, ordinance or regulation relating to industrial hygiene or to the environment on, under or about the Leased Premises, including, without limitation, soil and ground water conditions. In addition to its other obligations under this Lease, and without limitation thereof, Lessee specifically agrees (i) to return the Leased Premises to the City upon the expiration or termination of this Lease in a condition which is in compliance with all applicable laws, as such conditions would relate to the use of the Leased Premises by Lessee; (ii) to indemnify and hold the City and each of the persons indemnified under Paragraph 23; and (iii) to hold harmless from and against all judgments, damages, fines, penalties, costs (including clean-up costs, whether or not such costs arise from actions taken pursuant to judicial or administrative order) and expenses (including reasonable attorneys' fees and costs of all environmental consultants, contractors and subcontractors engaged by the City to advise it of the proper action to be taken due to the presence of any Hazardous Materials on the Leased Premises and the laws and regulations applicable thereto) (hereafter collectively, "Claims") resulting or arising from the breach by Lessee of its covenants under this Paragraph 30.

B. Notice

Each party covenants that it shall within two (2) "City Business Days" (as hereafter defined) of receiving any notice (whether oral or written) of any proceeding or inquiry by any governmental authority (including, without limitation, the California State Department of Health Services) with respect to the presence of "Hazardous Materials" (as hereinafter defined) on the property, or the migration thereof to or from other property, give written notice thereof to the other party. For purposes of this Lease, the term "City Business Day" shall mean a day during which the offices of the City are open for the conduct of business.

C. Definition of "Hazardous Materials"

For purposes of this Lease, "Hazardous Materials" shall mean those substances defined (or hereafter defined) as "Hazardous Substances," "Hazardous Materials, or "Toxic Substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq.; and those substances defined as "Hazardous Wastes" in Section 25117 of the California Health and Safety Code or as "Hazardous Substances" in Section 25316 of the California Health and Safety Code; and in the regulations adopted and publications promulgated pursuant to said laws.

D. The City's Covenants and Representations

The City represents and warrants to Lessee as follows: (i) The City has received no notices, complaints or orders of violations or non-compliance with any applicable environmental laws concerning the Leased Premises, and no federal, state or local environmental investigation is pending or has been threatened against the City with regard to the Leased Premises, any use thereof, or any alleged violation of environmental laws with respect thereto; (ii) the Leased Premises have not been used by the City, nor to the knowledge of the City, have the Leased Premises ever been used to manufacture, process, distribute, use, treat, store, dispose of, handle or transport thereto or therefrom any Hazardous Materials in any quantity or manner that violates or gives rise to liability under any environmental laws; and (iii) to the knowledge of the City, there are no Hazardous Materials present on the Leased Premises in any quantity or manner that violates or gives rise to liability under any environmental laws. The City shall indemnify, defend and hold Lessee harmless from and against any and all Claims resulting or arising from the breach of the City's representation herein or the condition of the Leased Premises existing prior to the commencement of this Lease; provided, however, that the City's indemnification shall not extend to any Claims arising in connection with the prior use and operations at the Leased Premises by Peninsula.

31. RIGHT OF ENTRY

The City and the City's officers, employees and agents shall at all times have the right to enter upon the Leased Premises or any buildings, structures or other improvements thereon upon reasonable notice, during business hours, except in case of an emergency, for the purposes of inspecting the same and posting notices of non-responsibility or any other notices the City may reasonably deem necessary or desirable, and for performing any act which the City is permitted to take pursuant to this Lease.

32. QUIET ENJOYMENT

The City covenants that (except as otherwise provided herein), Lessee, upon paying the Basic Rent and Additional Rent expressly reserved in Paragraphs 4 and 6 herein and observing and keeping the terms, covenants, and conditions of this Lease on its part to be kept and performed, shall lawfully and quietly hold, occupy and enjoy the Leased Premises during the term of this Lease.

33. NOTICES

A. Notices to the City

All notices thereunder given by Lessee to the City shall be in writing and delivered to the City Clerk of the City at 3031 Torrance Boulevard, Torrance, California, 90503, or at such other address or to such other person(s) as the City may from time to time designate in writing not less than thirty (30) days prior to the date that the change is to go into effect, or may be given by telephone facsimile at (310) 618-5813.

B. Notice to Lessee

All notices given by the City to Lessee thereunder shall be in writing and delivered to Lessee at the address specified below or at such other address as Lessee may from time to time designate in writing not less than thirty (30) days prior to the date that the change is to go into effect, or may be given by telephone facsimile at the telecopier number specified below.

Argonaut Holdings, Inc.
200 Renaissance Center
Mail Code #482-B38-C96
Detroit, Michigan 48265-2000
Attention:
Telecopier Number: (313) 665-6745

With concurrent copies to:

General Motors Corporation
Worldwide Real Estate
515 Marin Street, Suite 211
Thousand Oaks, CA 91360.
Attention: Project Manager
Telecopier Number: (805) 373-9701

General Motors Corporation
Legal Staff
300 Renaissance Center
Mail Code #482-C23-D24
P.O. Box 300
Detroit, Michigan 48265-3000
Attention: Gordon M. Ing, Esq.
Telecopier Number: (313) 974-7227

C. Effectiveness

Any such notice shall be given by depositing the same in the United States Post Office, properly addressed as aforesaid, postage fully prepaid, for delivery by certified mail, or by delivery to a recognized overnight courier service, such as Federal Express or United Parcel Service, with instructions to deliver to the addressee on the next business day; or by telecopier to the telecopier numbers specified above. Any notice given thereunder by certified mail shall be deemed, as between the City and Lessee, to have been fully given and delivered for all purposes at the expiration of seventy two (72) hours after the same is deposited in the United States Post Office for delivery as aforesaid. Any such notice sent by overnight courier shall be deemed delivered on the next business day following the delivery of the notice to the courier with instructions to deliver to the addressee on the next business day. Any such notice sent by telephone facsimile shall be deemed delivered upon confirmation of successful receipt at the receiving telephone.

34. AMENDMENTS AND MODIFICATIONS

This Lease shall not be amended or modified in any way, and no purported amendment or modification shall be effective, unless same has been (i) approved by the City Council and set forth in a written instrument, expressly purporting to amend this Lease, executed by the City Manager or the Mayor for the City, and (ii) executed by Lessee.

35. APPROVALS BY CITY

No consent, approval or satisfaction of the City provided for thereunder, and no waiver by the City of any provisions hereof, shall be effective unless given in writing specifically referring to this Lease and executed by the City Manager or the Mayor for the City as provided for in this Lease. No such consent, approval, satisfaction or waiver under or with respect to this Lease shall be inferred or implied from any other act or omission of the City or any agent or employee thereof. Similarly, unless otherwise expressly provided therein, no approval, consent or other action taken by the City under or pursuant to this Lease shall be deemed to waive any other rights or authority of the City in any capacity other than as the lessor under this Lease.

36. WARRANTY OF POWER TO LEASE

The City warrants and represents to Lessee that it has the power to lease the Leased Premises to Lessee for the purposes and for the term at the rent and on the covenants and conditions set forth in this instrument of Lease. If Lessee is a corporation, Lessee represents and warrants to the City that the execution of this Lease, and the performance of its obligations thereunder is within the authority of the officers of Lessee, as delegated to them by a resolution duly adopted by its Board of Directors. Concurrently with its execution and delivery of this Lease, Lessee shall deliver to the City a Certificate of the Secretary of GM certifying the incumbency and authority of the officers executing this Lease on behalf of Lessee.

37. CONDEMNATION

A. Definitions

The following definitions apply in construing provisions of this Lease relating to a taking of or damage to all or any part of the Leased Premises or the improvements thereon or any interest in them by eminent domain or inverse condemnation:

(1) "Taking" means a taking or damaging, including severance damages, by eminent domain or inverse condemnation or for any public or quasi public use under any statute. Transfer of title in respect thereof may be either a transfer resulting from the recording of a final order and condemnation or a voluntary transfer or conveyance to the condemning agent or entity under threat of condemnation, in avoidance of an exercise of eminent domain, or while condemnation proceedings are pending. The taking shall be deemed to have occurred on the date actual physical possession is taken by the condemnor.

(2) "Total taking" means the taking of the fee title to all of the Leased Premises and the improvements thereon, which shall be considered to include any off-site improvements which serve the Leased Premises or the improvements.

(3) "Substantial taking" means the taking of so much of the Leased Premises or improvements, or both, that the portion of the Leased Premises not so taken could not be so repaired or reconstructed, taking into consideration the amount of the award available for repair or reconstruction, as to constitute a facility or facilities for the sale and lease of new General Motors motor vehicles (with related repairs and service facilities and parking areas) capable of producing a proportionately fair and reasonable net annual income to Lessee or the Sublessee after payment of all operating expenses, the rent (including Basic Rent and Additional Rent), as rent may be reduced as a result of the taking, and all other charges payable under this Lease, and after performance of all covenants and conditions required of Lessee by law and under this Lease.

(4) "Partial taking" means any taking of the fee title or the improvements thereon that is not either a total or a substantial taking.

(5) "Improvements" means the improvements constructed on the Leased Premises , including all buildings, facilities, structures, parking areas, landscaping, fixtures, utility installations, excavations, tiedowns, surfacing, water banks or channels and grading.

(6) "Notice of intended taking" means any notice or notification which a reasonable person would interpret as expressing a present intention of taking, as distinguished from a mere preliminary inquiry or proposal. It includes but is not limited to service of a condemnation summons and complaint on a party to this Lease. Such notice shall be considered to have been received when a party to this Lease receives from the condemning agency or entity a notice of intent to take, in writing, containing a description or map of the taking reasonably defining the extent of the taking.

(7) "Award" means compensation paid for the taking, whether pursuant to judgment or by agreement or otherwise.

B. Notice to Other Party

(1) Promptly upon receipt of a notice specified in Subparagraph (2)(a) "Condemnation Notice"), the party receiving a Condemnation Notice shall give the other party written notice of the receipt, contents and date of notice received.

(2) The following shall constitute a Condemnation Notice:

(a) Notice of intended taking;

(b) Service of any legal process relating to condemnation of the fee interest of the City in land which includes the Leased Premises, the Leased Premises and/or the improvements;

(c) Notice relating to or given in connection with any proceedings or negotiations relating or pertaining to such a condemnation; or

(d) Notice of intent or willingness to make or negotiate a private purchase, sale or transfer in lieu of condemnation.

C. Representation of Interests

The City and Lessee shall each have the right to represent their respective interests in each proceeding or negotiation with respect to a taking or intended taking and to make full proof of their respective claims. No agreement, settlement, sale or transfer to or with any condemning authority shall be made without the consent of the City and Lessee. The City and Lessee agree to execute and deliver to the other any instruments that may be required to effectuate or facilitate the provisions of this Lease relating to condemnation.

D. Total Taking

On a total taking, Lessee's obligation to pay rent hereunder shall terminate on the date of taking, but Lessee's interest in the leasehold estate and the Leased Premises shall continue until the taking is completed by deed, contract or final order of condemnation.

E. Substantial Taking

If the taking is substantial with the meaning of subparagraph 37A(3), above, Lessee may, by written notice to the City given within thirty (30) days after Lessee receives written notice of an intended taking, elect to treat the taking as a substantial taking. If Lessee does not so notify the City, the taking shall be deemed a partial taking. If Lessee gives such notice and the City gives Lessee notice within thirty (30) days following Lessee's notice that it disputes Lessee's characterization of the taking, the dispute shall be promptly determined by judicial reference in accordance with the provisions of Paragraph 29 above. If the City gives no such notice, the taking shall be considered a substantial taking. A substantial taking shall be treated as a total taking.

Lessee may continue to occupy the Leased Premises and improvements until the condemnor takes physical possession. However, at any time following notice of intent of total taking Lessee may elect to deliver possession of the Leased Premises to the City before the actual taking. The election shall be made by notice declaring the election and covenanting to pay all rents and to perform all other obligations of Lessee under this Lease to the date of taking. Lessee's right to apportionment of compensation from the award shall then accrue as of the date that Lessee goes out of possession.

F. Apportionment and Distribution of Award for Total Taking

On a total taking, all sums, including damages and interests, awarded for the fee or the leasehold or both shall be deposited promptly with a trustee ("Trustee") acceptable to the City and Lessee (which may be the Leasehold Mortgagee) and shall be distributed and disbursed in the following order of priority:

(1) Payment (on an equitable pro-rata basis) of all real and personal property taxes constituting a lien on the Leased Premises or improvements;

(2) If required by any Leasehold Mortgagee, a payment of the balance due under any note and mortgage or deed of trust encumbering the leasehold estate of Lessee;

(3) To the City, a sum equal to the fair market value of the Land taken. Determination of the fair market value of the Land taken shall take into account the number of unexpired years of the term of the Lease remaining and the fact that the improvements revert to the City upon the expiration of the Lease such that the portion of all sums awarded which is allocated to the Land, as opposed to the interest of Lessee in the improvements thereon, shall be less in the early years of the Lease term and greater in the later years. In the event the parties are unable to agree on the fair market value of the Land, it shall be determined by appraisal, in accordance with Paragraph 5 above.

(4) To the City, the value of the reversionary interest in the improvements; and

(5) To Lessee, the balance of the award; provided that the Lessee shall in no event receive an amount which is greater than the value of its leasehold interest as of the date of taking, together with any award to Lessee for Lessee's personal property taken and for relocation.

G. Partial Taking

(1) Effect on Rent and Term.

On a partial taking, this Lease shall remain in full force and effect with respect to the remaining Leased Premises, except that Basic Rent shall be reduced in the same ratio as the value of the portion of the Leased Premises taken, including the improvements thereon bears to the value of the total Leased Premises, including improvements then in existence.

(2) Restoration of Improvements.

Promptly after a partial taking, at Lessee's expense and in the manner provided for in Paragraph 18 of this Lease, Lessee shall repair, alter, modify or reconstruct the improvements (hereinafter referred to as "restoring" or "restoration") so as to make them a practical improvement which is economically and feasibly usable by Lessee and which will provide to the City a reasonable return on the Land. If the reasonably estimated cost of the work represents more than twenty five percent (25%) of the then fair market value of the improvements before the taking, Lessee may, in the manner and subject to the rights of the City provided with respect to a substantial taking, elect to treat the taking as substantial. If Lessee does not repair, alter, modify or reconstruct as above ("repair"), the cost of such repair shall be deducted for Lessee's share of the award and paid to any Leasehold Mortgagee demanding it to the extent of any indebtedness of Lessee to such Leasehold Mortgagee which is secured by a mortgage or deed of trust covering the Leased Premises, with all remaining amounts being paid to the City.

(3) Apportionment and Distribution of Award for Partial

Taking. On a partial taking, all sums, including damages and interest, awarded for the fee title or the leasehold or both, shall be promptly deposited with the Trustee and shall be distributed and disbursed in the following order of priority:

(a) to Lessee, a sum equal to the cost of restoring the improvements, plus any amount assessed, awarded, paid or incurred to remove or relocate subtenants, plus any amount awarded for detriment to business;

(b) to the extent reasonably demanded by an Approved Leasehold Mortgagee, a sum equal to any decrease in its security resulting from the taking;

(c) to the City, a sum equal to the value of the Leased Premises taken valued as provided in Subparagraph 37F(3) above;

(d) to the Lessee, the balance of the award; provided that, the Lessee shall in no event receive an amount which is greater than the value of its leasehold interest in the portion of the Leased Premises taken as of the date of the taking plus compensation for Lessee's personal property taken and for relocation expenses.

H. Taking of Less Than Fee Title

On the taking, other than a temporary taking, of less than a fee title interest in the Leased Premises or the improvements, or both, the question of whether the taking is total, substantial or partial, and the effects on the term, rent and apportionment of award shall be determined by judicial reference.

38. GENERAL PROVISIONS

A. Remedies Cumulative

No remedy or election provided by any provision in this Lease shall be deemed exclusive unless so indicated, but shall whenever possible be cumulative with all other remedies in law or equity except as otherwise herein specifically provided.

B. Provisions as Covenants

Each provision hereof shall be deemed both a covenant and condition and all of the conditions and covenants contained herein shall be covenants running with the land and shall be construed as such.

C. Time

Time is of the essence of this Lease.

D. Headings

The paragraph headings in this Lease contained are for convenience and reference only, and are not intended to and shall not define, govern, limit, modify or in any manner affect the scope, meaning, or intent of any provision in this Lease contained.

E. Successors in Interest

Except as otherwise herein provided, each and every term, covenant and condition of this Lease shall inure to the benefit of and shall bind, as the case may be, not only the parties hereto, but each and every heir, executor, administrator, successor, assign and representative of the parties hereto.

F. Waivers

The waiver by either Lessee or the City of any breach of any of the covenants, agreements, obligations, conditions or provisions of this Lease shall not be construed to be a waiver of such covenant, agreement, obligation, condition, term or provision upon any subsequent breach of the same or of any other covenant, agreement, obligation, condition, term or provision contained herein .

G. Gender and Number

In this Lease, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the neuter gender includes the masculine and/or feminine, and the singular number includes the plural and the plural includes the singular.

H. Memorandum of Lease

Neither party will suffer or permit this Lease or a copy thereof to be recorded; provided, however, at the request of either party (and at the expense of the requesting party), a memorandum of this Lease in recordable form will be prepared, executed by both parties, and recorded.

I. No Brokers

Lessee and the City covenant and agree each to the other that no commission or fees are due and owing to any person or entity by reason of the execution of this Lease or the payment of rent thereunder, and Lessee and the City shall each indemnify and hold the other harmless from and against any demand, liability, claim or obligation for any such fees or commissions from any person or entity claiming to have dealt with Lessee or the City, as the case may be.

J. Force Majeure

If any party fails to perform its obligations because of strikes, lockouts, labor disputes, embargoes, acts of God, inability to obtain labor or materials or reasonable substitutes for labor or materials, governmental restrictions, governmental regulations, governmental control, judicial orders, enemy or hostile governmental action, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform, then that party's performance shall be excused for a period equal to the period of such cause for failure to perform.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Lease the date and year first written above.

CITY OF TORRANCE
A Municipal Corporation

By _____
Dan Walker, Mayor

ATTEST:

_____
Sue Herbers, City Clerk

APPROVED AS TO FORM:

John L. Fellows III
City Attorney

By _____

ARGONAUT HOLDINGS, INC.
A Delaware Corporation

By _____
Jay A. Malott, President

EXECUTION RECOMMENDED
WORLDWIDE REAL ESTATE
BY _____

TABLE OF EXHIBITS

Exhibit A	-	Legal Description and Depiction of the Leased Premises
Exhibit B	-	Illustrative Plan

Exhibit A
Legal Description

"Parcel 57 in the City of Torrance, County Los Angeles, State of California, as shown on a map filed in Book 5 Pages 44 through 51 inclusive, of Official Maps, in the office of the County Recorder of said County.

EXCEPT therefrom all uranium, thorium and all other materials determined pursuant to Section 5 (B) (1) of the Atomic Energy Act of 1946 (60 Stat. 761) to be peculiarly essential to the production of fissionable material, contained, in whatever concentration in deposits in said lands, together with the right at any time to enter upon said land and prospect for, in and remove the same, as reserved in the deed from the United States of America, recorded in Book 27145 Page 362, Official Records.

ALSO EXCEPT therefrom all minerals, other than those above mentioned and all petroleum in said land, together with the exclusive right at any and all times to enter upon the lands and prospect for, mine for, and remove such minerals or petroleum, with all necessary and convenient means of working and transporting materials and supplies, as reserved in the above mentioned deed from the United States of America, recorded in Book 27145 Page 362, Official Records.

By quitclaim deed executed by the United States of America and recorded May 31, 1961 as Instrument No. 2843 Official Records, all right, title and interest in and to all minerals and petroleum, to a depth of 500 feet was surrendered to the City of Torrance, a municipal corporation.

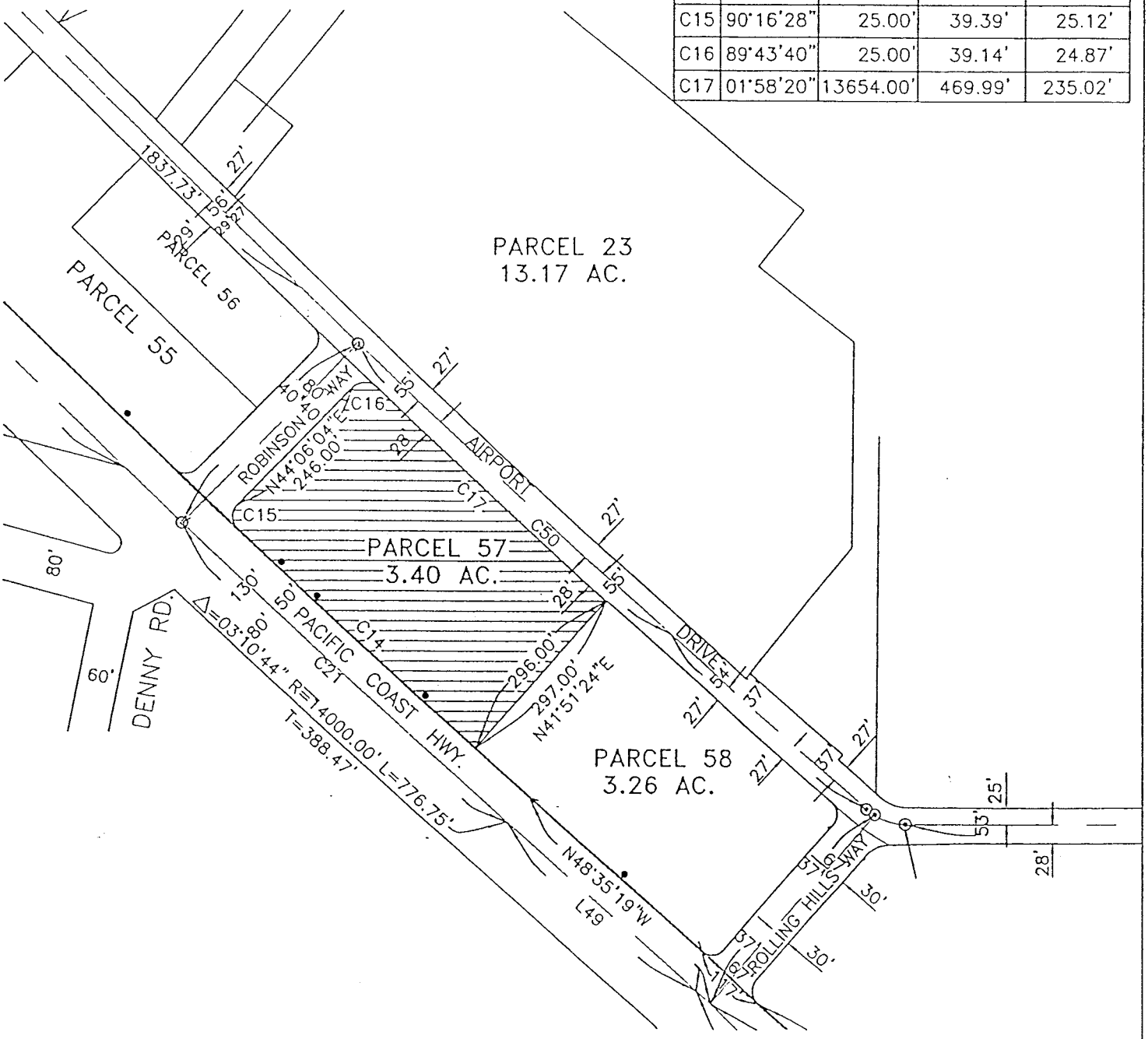
ALSO EXCEPT those 34 structures described in inventory marked Exhibit "A" and attached to deed from United States of America, recorded in Book 27145 Page 362, Official Records.

ALSO EXCEPT all right, title and interest in and to all property in the nature of equipment, furnishings and other personal property which can be removed from the land without material injury to the land or structures located thereon other than those chattels enumerated in Exhibit "B", attached to the deed from the United States of America, together with the right of removal from the premises within a reasonable period of time after March 5, 1948 which shall not be construed to mean any period less than 1 year after said date, by deed recorded in Book 27145 Page 362, Official Records.

Exhibit A
Depiction of the Leased Premises

GENERAL MOTORS AIRPORT LEASE

NO.	DELTA	RADIUS	LENGTH	TANGENT
C14	01°58'37"	13950.00'	481.33'	240.69'
C15	90°16'28"	25.00'	39.39'	25.12'
C16	89°43'40"	25.00'	39.14'	24.87'
C17	01°58'20"	13654.00'	469.99'	235.02'



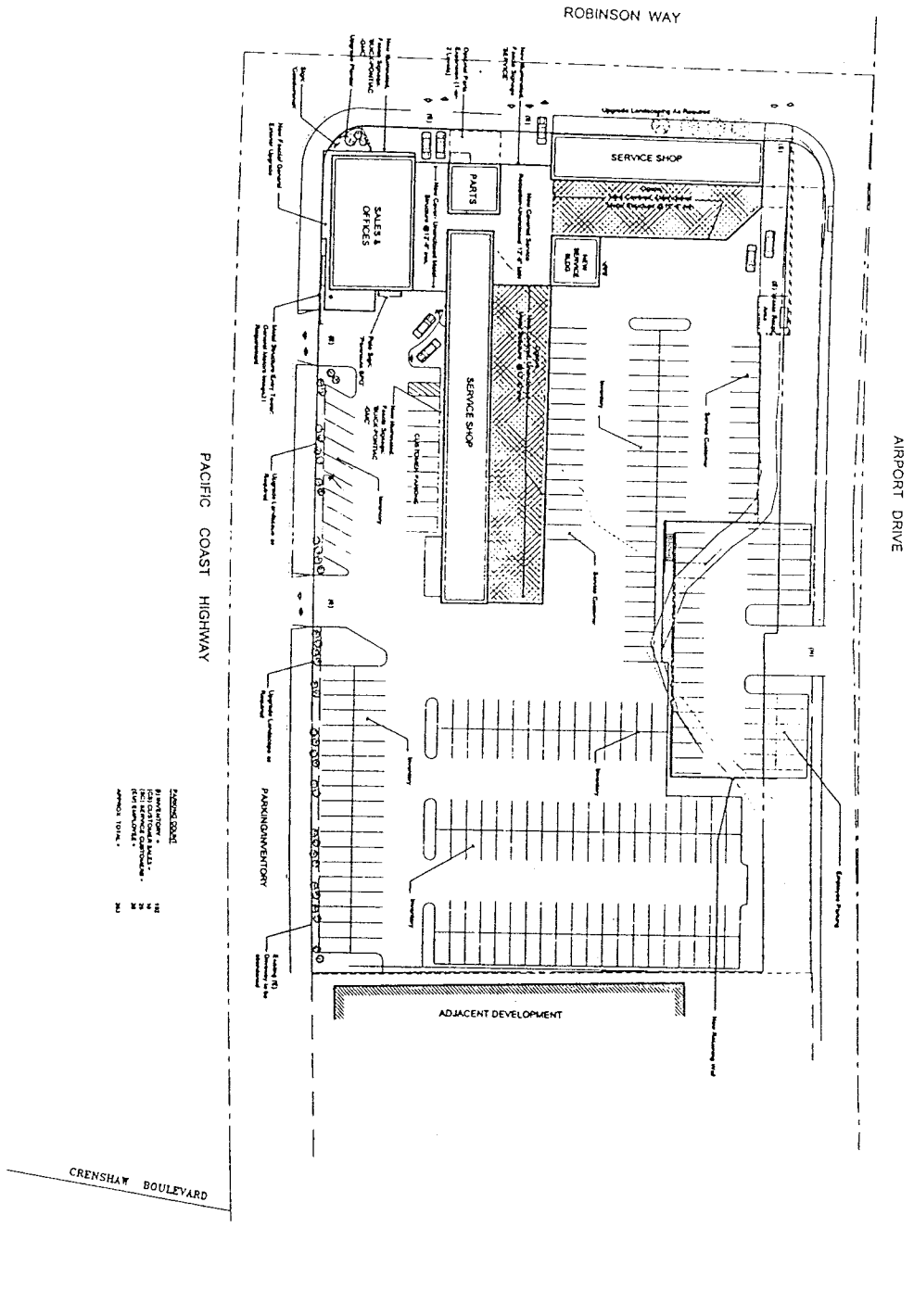
2909 Pacific Coast Highway

NOT TO SCALE

ENGINEERING DEPARTMENT
RICHARD W. BURTT
ENGINEERING DIRECTOR

TT\BHB\AP_GMOTOR(8/5/03)

Exhibit B
Illustrative Plan



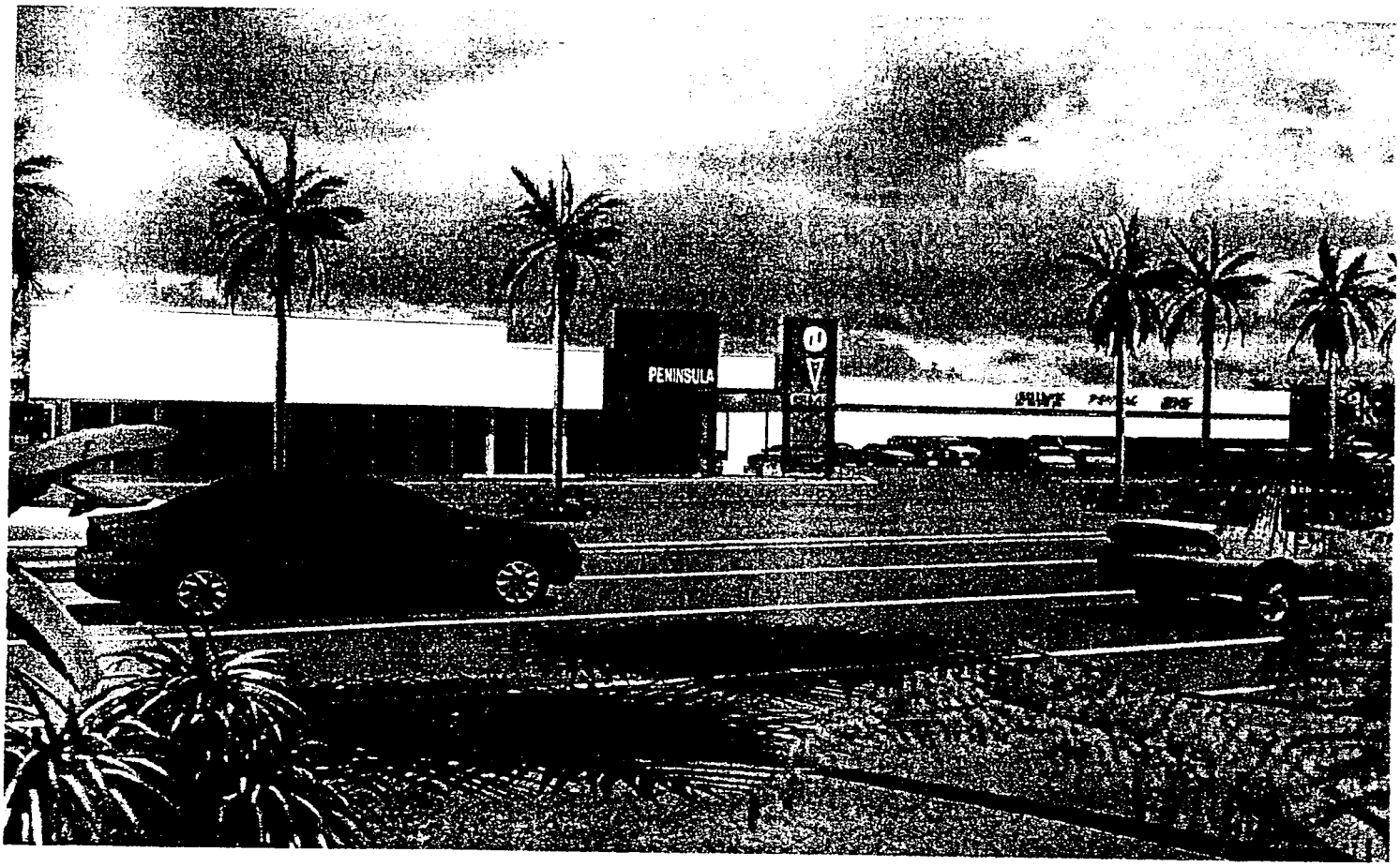
Project Progress Set: 31 Jan 2003
Design Intent Document - Not to be used for construction

Image21 Facility Upgrade for
Peninsula Buick-Pontiac-GMC
Torrance, California

Proposed Site Plan

image21
21st Century Retail Environment

EXHIBIT B
Illustrative Plan



FIRST AMENDMENT
TO
FORBEARANCE AGREEMENT

THIS FIRST AMENDMENT TO FORBEARANCE AGREEMENT (this "Amendment") is made and entered into as of the 18 day of November, 2008, by and between the **CITY OF TORRANCE**, a Municipal Corporation (hereinafter referred to as the "City"), and **ARGONAUT HOLDINGS, INC.**, a Delaware corporation (hereinafter referred to as "Lessee"). The City and Lessee are sometimes hereinafter referred to jointly as the "Parties" or individually as a "Party."

Recitals

This Agreement is being executed and delivered with reference to and in reliance upon the following facts:

A. The Parties have entered into a Forbearance Agreement, dated as of April 8, 2008 (the "Agreement"), pertaining to that certain Lease, dated as of November 1, 2003, between Lessee and the City, pursuant to which Lessee is currently leasing approximately 3.40 acres of land owned by the City and commonly known as "2909 Pacific Coast Highway, Torrance, California."

C-508

B. The Agreement established a "Forbearance Period," expiring on October 5, 2008. The Parties wish to amend the Agreement so as to extend the Forbearance Period for an additional period of one hundred eighty (180) days.

THEREFORE, the Parties hereby agree as follows:

1. **Extension of Forbearance Period**. Section 1 of the Agreement is hereby amended so as to read in its entirety as follows:

> "1. **Forbearance by the City**. The Parties acknowledge and agree that it would be beneficial for Lessee and the City for Lessee to obtain a new Operator, or a new lessee or sublessee of the Leased Premises. To facilitate Lessee's efforts to obtain a new Operator of the Leased Premises, or a new lessee or sublessee of the Leased Premises, the City hereby agrees that, so long as Lessee remains in compliance with its duties and obligations under the Lease, and no "Event of Default" (as defined in the Lease) under the Lease has occurred and is continuing, other than Lessee's failure to comply with the Operating Covenants as

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described herein and the occurrence of the Dealer Agreement Default, the City will forbear enforcement of its remedies in respect of Lessee's failure to comply with the Operating Covenants and the occurrence of the Dealer Agreement Default (whether such remedies are available to the City pursuant to the Lease, by law or in equity) for the period of four hundred fifty (450) calendar days following April 8, 2008, which is the date upon which this Agreement was approved by the City Council of the City (the "Forbearance Period"). If any Event of Default under the Lease (other than Lessee's non-compliance with the Operating Covenants and the occurrence of the Dealer Agreement Default) shall occur and be continuing, or Lessee shall fail to comply with Lessee's obligations under this Agreement for a period of ten (10) calendar days after receipt of a written notice thereof from the City, the City shall have the right, but not the obligation, to terminate the Forbearance Period upon the delivery of written notice of such termination and to thereupon pursue its remedies in respect of Lessee's failure to comply with the Operating Covenants, the occurrence of the Dealer Agreement Default, or the occurrence of such other Event of Default. It is expressly understood and agreed that the City's agreement to forbear enforcement of its remedies, as provided herein, is not intended to, and shall not be interpreted or construed so as to, constitute any waiver of the City's rights or remedies in respect of Lessee's non-compliance with the Operating Covenants or the occurrence of the Dealer Agreement Default, and all such rights and remedies are hereby expressly reserved and retained by the City."

2. **Effect of Amendment**. Except as and to the extent expressly amended hereby, the Agreement remains in full force and effect without other amendment or modification.

IN WITNESS WHEREOF, the Parties hereto have executed this Amendment as of the date and year first written above.

CITY OF TORRANCE
A Municipal Corporation

By: _____
Frank Scotto, Mayor

ATTEST:

_____
Sue Herbers, City Clerk

APPROVED AS TO FORM:

John L. Fellows III
City Attorney

By:_____
Ronald Pohl
Assistant City Attorney

ARGONAUT HOLDINGS, INC.
A Delaware Corporation

By:_____
Jay A. Malott, President

Execution Recommended
Worldwide Real Estate

By:_____
David W. Frederickson

[c:\data\Torrance\first amendment to forbearance agreement.doc]

FORBEARANCE AGREEMENT

THIS FORBEARANCE AGREEMENT (this "Agreement") is made and entered into as of the 8th day of April, 2008, by and between the **CITY OF TORRANCE**, a Municipal Corporation (hereinafter referred to as the "City"), and **ARGONAUT HOLDINGS, INC.**, a Delaware corporation (hereinafter referred to as "Lessee"). The City and Lessee are sometimes hereinafter referred to jointly as the "Parties" or individually as a "Party."

Recitals

This Agreement is being executed and delivered with reference to and in reliance upon the following facts:

A. Pursuant to the terms and conditions contained in that certain Lease, dated as of November 1, 2003, between Lessee and the City, Lessee is currently leasing approximately 3.40 acres of land owned by the City and commonly known as "2909 Pacific Coast Highway, Torrance, California" (the "Leased Premises").

C-508

B. The Lease provides that during its term, the Leased Premises are to be used solely as an authorized dealership for the sale or lease of new General Motors Corporation motor vehicles and other new motor vehicles of comparable value, and for other related purposes, as more particularly described in the Lease.

C. Paragraph 7(1) of the Lease provides that Lessee shall cause the person or entity conducting the new motor vehicle dealership business at the Leased Premises (referred to in the Lease as the "Operator") to "[c]ontinuously and uninterruptedly occupy and use during the entire Lease term the entire Leased Premises for the uses permitted hereunder during business hours customary to the Operator's business and to conduct such business there in a reputable manner, consistent with first-class new and used motor vehicles sales and leasing establishments, and motor vehicle maintenance, repair and body shops of the finest quality and prestige." In addition, Paragraph 7(1) provides that "if for periods aggregating more than seven (7) consecutive business days the Operator shall fail to so conduct such business, it shall be a default within the meaning of Paragraph 27 below [...]." The covenant of Lessee contained in Paragraph 7(1) of the Lease is hereinafter referred to as the "Continuous Operations Covenant."

D. Paragraph 27A(3) of the Lease provides that an "Event of Default" under the Lease will occur upon the breach of the Continuous Operations Covenant which continues for a period of ten (10) days after Lessee's receipt of written notice thereof from the City.

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E. By letter dated March 31, 2008, the City has notified Lessee that Lessee has not been in compliance with the Continuous Operations Covenant for a period of more than seven (7) consecutive business days.

F. Paragraph 7 of the Lease contains additional covenants of Lessee which are related to the Continuous Operations Covenant. The additional covenants (hereinafter referred to as the "Additional Operating Covenants") require Lessee to cause the Operator to (i) adequately staff the Leased Premises with sufficient employees to handle the reasonably anticipated sales and leasing business therein and the reasonably anticipated maintenance and repair business, and carry sufficient motor vehicles, parts, accessories, goods, wares and related merchandise to accomplish the same; and (ii) maintain displays of motor vehicles and related accessories in the display windows, if any, in a manner which is consistent with generally accepted practices for new motor vehicle sales and leasing businesses in the City of Torrance. The Continuous Operations Covenant and the Additional Operating Covenants are hereinafter collectively referred to as the "Operating Covenants."

G. From the commencement date of the term of the Lease, the Operator of the new motor vehicle dealership business conducted at the Leased Premises has been Peninsula Pontiac GMC Buick, Inc., a Delaware corporation ("Peninsula"), as the sublessee of the Leased Premises. On March 7, 2008, Peninsula ceased its business operations at the Leased Premises, resulting in Lessee's non-compliance with the Operating Covenants.

H. In addition to the foregoing, in conjunction with the cessation of Peninsula's business operations at the Leased Premises, the Dealer Sales and Service Agreement between General Motors Corporation and Peninsula was terminated, resulting in the occurrence of an "Event of Default" under Paragraph 27A(6) of the Lease (the "Dealer Agreement Default").

I. Lessee wishes to obtain a replacement Operator to conduct a new motor vehicle dealership business at the Leased Premises, or obtain a new lessee or sublessee to use the Leased Premises for another purpose which is acceptable to the City, and has requested that the City agree to temporarily forbear enforcement of the City's remedies under the Lease in respect of Lessee's non-compliance with the Operating Covenants and the occurrence of the Dealer Agreement Default, and the City is willing to forbear enforcement of such remedies, upon the terms, and subject to the satisfaction of the conditions, contained in this Agreement.

Terms and Conditions

Based upon the foregoing Recitals, in consideration of the covenants contained herein, and for other good and valuable consideration, the receipt and sufficient of which are hereby acknowledged, and intending to be legally bound hereby, the City and Lessee hereby mutually agree as follows:

1. **Forbearance by the City**. The Parties acknowledge and agree that it would be beneficial for Lessee and the City for Lessee to obtain a new Operator, or a new lessee or sublessee of the Leased Premises. To facilitate Lessee's efforts to obtain a new Operator of the Leased Premises, or a new lessee or sublessee of the Leased Premises, the City hereby agrees that, so long as Lessee remains in compliance with its duties and obligations under the Lease, and no "Event of Default" (as defined in the Lease) under the Lease has occurred and is continuing, other than Lessee's failure to comply with the Operating Covenants as described herein and the occurrence of the Dealer Agreement Default, the City will forbear enforcement of its remedies in respect of Lessee's failure to comply with the Operating Covenants and the occurrence of the Dealer Agreement Default (whether such remedies are available to the City pursuant to the Lease, by law or in equity) for the period of one hundred eighty (180) calendar days following the date upon which this Agreement is approved by the City Council of the City (the "Forbearance Period"). If any Event of Default under the Lease (other than Lessee's non-compliance with the Operating Covenants and the occurrence of the Dealer Agreement Default) shall occur and be continuing, or Lessee shall fail to comply with Lessee's obligations under this Agreement for a period of ten (10) calendar days after receipt of a written notice thereof from the City, the City shall have the right, but not the obligation, to terminate the Forbearance Period upon the delivery of written notice of such termination and to thereupon pursue its remedies in respect of Lessee's failure to comply with the Operating Covenants, the occurrence of the Dealer Agreement Default, or the occurrence of such other Event of Default. It is expressly understood and agreed that the City's agreement to forbear enforcement of its remedies, as provided herein, is not intended to, and shall not be interpreted or construed so as to, constitute any waiver of the City's rights or remedies in respect of Lessee's non-compliance with the Operating Covenants or the occurrence of the Dealer Agreement Default, and all such rights and remedies are hereby expressly reserved and retained by the City.

2. **Lessee's Right to Assign or Sublease**. The City hereby further agrees that during the Forbearance Period, the provisions of Paragraph 25E(4) of the Lease shall not be applicable, and Lessee shall have the right to effect an assignment, sublease or other transfer of its interests under the Lease or in and to the Leased Premises, as if Lessee's failure to comply with the Operating Covenants and the Dealer Agreement Default had not occurred, but in all cases, subject to the prior written consent of the City as provided in Paragraph 25 of the Lease (without reference to Paragraph 25E(4)).

3. **Lessee's Performance Obligations**. In consideration of the City's covenants in Sections 1 and 2 above, Lessee hereby confirms and agrees that during the Forbearance Period, Lessee shall:

(a) Perform and discharge fully when due all of the duties and obligations of Lessee under the Lease, including, without limitation: (i) the payment of all rent due and payable under Paragraphs 4 and 5 of the Lease (with the percentage rental provisions of Paragraph 6 of the Lease being operative only upon the commencement of business operations at the Leased Premises); (ii) the payment of the monthly liquidated damages amounts pursuant to Paragraph 12J of the Lease; (iii) the payment of all "Additional Rent" pursuant to Paragraph 8 of the Lease; (iv) the payment of all taxes, assessments and utility charges payable pursuant to Paragraph 15 of the Lease; and (v) the maintenance of all insurance coverages required by Paragraph 22 of the Lease; but excluding Lessee's compliance with the Operating Covenants;

(b) Exercise Lessee's diligent efforts to obtain a new Operator for the Leased Premises, or a replacement lessee or sublessee which will use the Leased Premises for a purpose acceptable to the City, in all cases subject to the City's consent and approval rights under the Lease;

(c) Keep the City informed of Lessee's efforts to locate a new Operator, lessee or sublessee for the Leased Premises, which shall include, without limitation, a report of such activities to the Office of the City Manager of the City at least once each month during the Forbearance Period;

(d) Take such actions as are reasonably required to provide for the security and maintenance of the Leased Premises and the improvements located thereon as a vacant property, which shall include the engagement of a property management service and may include the fencing of the perimeter of the Leased Premises for security purposes; and

(e) In the event that Lessee shall engage the services of a real estate broker, finder or other person or entity to assist Lessee with the identification of a new Operator, lessee or sublessee of the Leased Premises, Lessee shall be and remain solely responsible for the payment of any brokerage commission, finder's fee or other form of compensation payable to such broker, finder or other person or entity, and shall indemnify, defend and hold the City harmless from and against any claims related thereto.

4. **Extension of the Forbearance Period** So long as Lessee has complied with Lessee's obligations under the Lease, other than compliance with the Operating Covenants, and throughout the Forbearance Period has exercised diligent efforts to locate a new Operator, lessee or sublessee of the Leased Premises, the City agrees that upon the request of Lessee, the City will negotiate in good faith with respect to an extension of the Forbearance Period for an additional period of one hundred eighty (180) calendar days, upon the terms and conditions applicable to the initial Forbearance Period.

5. **Referral of Inquiries**. From and after the date of this Agreement until the expiration or earlier termination of the Forbearance Period, the City shall refer to a representative designated by Lessee all inquiries which may be made to the City in respect of the possible leasing or subleasing of the Leased Premises. The initial representative for Lessee shall be David W. Frederickson, Western Region Manager, General Motors Corporation, Worldwide Real Estate (805-373-9540). Lessee may change such representative upon written notice thereof to the City.

6. **Effect on Lease**. This Agreement is not intended to constitute any amendment or modification of the terms of the Lease, which shall remain in full force and effect, except as expressly provided herein.

7. **Limited Nature of Forbearance Covenant**. The City's agreement to forbear enforcement of its remedies under the Lease is expressly limited to the matters described in Section 1 above. The City's execution and delivery of this Agreement does not create or imply any obligation of the City to forbear enforcement of its remedies under the Lease in respect of any other Event of Default which may occur and be continuing under the Lease.

8. **Notices**. Any notice given by either of the Parties shall be given in the manner specified in Paragraph 33 of the Lease.

9. **Judicial Reference**. Any dispute arising under this Agreement shall be resolved through the judicial reference process described in Paragraph 29 of the Lease.

10. **Construction**. This Agreement shall be construed and enforced in accordance with the laws of the State of California, without reference to conflict of laws principles.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date and year first written above.

CITY OF TORRANCE
A Municipal Corporation

By: Frank Scotto
Frank Scotto, Mayor

ATTEST:

Sue Herbers, City Clerk

APPROVED AS TO FORM:

John L. Fellows III
City Attorney

By: _____
Ronald Pohl
Assistant City Attorney

ARGONAUT HOLDINGS, INC.
A Delaware Corporation

By: _____
Jay A. Malott, President

Execution Recommended
Worldwide Real Estate

By: _____
David W. Frederickson

[c:\data\Torrance\forbearance agreement.doc]

AGREEMENT FOR THE TERMINATION OF LEASES

THIS AGREEMENT FOR THE TERMINATION OF LEASES (this "Agreement") is made and entered into as of the 1st day of November, 2003, by and among: (i) the **CITY OF TORRANCE**, a municipal corporation (the "City"); (ii) **PENINSULA PONTIAC GMC BUICK, INC.**, a Delaware corporation ("Lessee"); and (iii) **ARGONAUT HOLDINGS, INC.**, a Delaware corporation ("Argonaut").

Recitals

This Agreement is being executed and delivered with reference to and in reliance upon the following facts:

C-508

A. Pursuant to a certain Lease, dated January 1, 1970 (the "Ground Lease"), between the City, as lessor, and Ray Vane, an individual ("Vane"), as lessee, the City leased to Vane certain real property commonly known as "2909 Pacific Coast Highway, Torrance, California," as more particularly described in the Ground Lease (the "Premises"). The term of the Ground Lease commenced on January 1, 1970 and is to expire on December 31, 2004.

B. In accordance with the terms and requirements of the Ground Lease, Vane constructed certain buildings on the Premises (the "Buildings") for use in the automobile dealership business conducted by Vane on the Premises.

C. On or about February 11, 1985, all of the rights and interests of Vane under the Ground Lease were assigned to Peninsula Pontiac, Inc., a Delaware corporation ("Peninsula").

D. On or about August 18, 1994, Peninsula sold, assigned and transferred to Torrance Holdings, Inc., a Delaware corporation ("Holdings") all of its right, title and interest in and to the Buildings. Pursuant to a certain Lease, dated August 18, 1994 (the "Improvements Lease"), Holdings leased the Buildings to Peninsula.

E. On or about May 31, 1998, Holdings sold, assigned and transferred all of its rights, title and interests in, under and to the Buildings and the Improvements Lease to Argonaut, which is the current lessor under the Improvements Lease.

F. On or about December 18, 1997, Peninsula assigned, transferred and conveyed to Lessee all of Peninsula's rights, title and interests in, under and to both the Ground Lease and the

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Improvements Lease, and Lessee is the current lessee under both the Ground Lease and the Improvements Lease.

G. Lessee and Argonaut have made a proposal to the City pursuant to which the Ground Lease would be terminated and concurrently with such termination: (i) Argonaut would enter into a new lease with the City in respect of the Premises (the "New Ground Lease"); and (ii) Argonaut would enter into a sublease with Lessee in respect of the Premises, pursuant to which Lessee would continue to conduct its new motor vehicle dealership business at the Premises. The City is willing to terminate the Ground Lease in accordance with the terms, and subject to the satisfaction of the conditions contained in this Agreement.

Terms and Conditions

Based upon the foregoing Recitals, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound hereby, the City, Lessee and Argonaut hereby mutually agree as follows:

1. Termination of Ground Lease. On and as of the "Effective Date" (as hereinafter defined), the Ground Lease and the leasehold estate created thereby shall be terminated in their entirety; *provided, however*, that all terms and provisions of the Ground Lease which expressly state that such terms and provisions shall survive the expiration or earlier termination of the Ground Lease shall survive the termination of the Ground Lease.

2. Termination of Improvements Lease. On and as of the Effective Date, the Improvements Lease and the leasehold estate created thereby shall be terminated in their entirety; *provided, however*, that all terms and provisions of the Improvements Lease which expressly state that such terms and provisions shall survive the expiration or earlier termination of the Improvements Lease shall survive the termination of the Improvements Lease.

3. Title to the Buildings. The City hereby agrees that, notwithstanding the provisions of Paragraph 5G and Paragraph 16 of the Ground Lease concerning the vesting of title in, and surrender to, the City of the Buildings upon the termination or expiration of the Ground Lease, at such time as the Ground Lease is terminated pursuant to this Agreement, title to the Buildings shall not vest in the City, but instead the Buildings shall remain the property of Argonaut and shall become the Property of the City only upon the expiration or earlier termination of the New Ground Lease. The City and Lessee hereby agree that the Ground Lease shall be deemed amended so as to be consistent with the provisions of this Section 3. The City hereby agrees to execute and deliver such other documentation as Argonaut may reasonably request to confirm that title to the Buildings is retained by Argonaut notwithstanding the termination of the Ground Lease.

4. Surrender Provisions Inapplicable. Since Argonaut's possession of the Premises (and, derivatively, Lessee's possession of the Premises under its sublease) shall commence simultaneously with the termination of the Ground Lease, the City hereby agrees notwithstanding any provisions to the contrary which may be contained in the Ground Lease, upon the termination of the Ground Lease pursuant to this Agreement, Lessee shall not be required to vacate the Premises, surrender possession of the Premises to the City or remove any of Lessee's personal property from the Premises.

5. Effective Date. For purposes of this Agreement, the "Effective Date" shall be the "Commencement Date" specified in the New Ground Lease. It is the express intent of the parties that the termination of the Ground Lease and the Improvements Lease occur immediately prior to the commencement of the lease term under the New Ground Lease. Accordingly, in the event the New Ground Lease term does not commence, for any reason whatsoever, this Agreement shall not be effective for any purpose and neither the Ground Lease nor the Improvements Lease shall be terminated.

6. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without reference to conflict of laws principles.

7. Counterparts. This Agreement may be executed in several counterparts, but all such counterparts shall constitute one agreement which shall be binding on the parties notwithstanding that all parties are not signatories to the same counterpart or counterparts.

8. Further Assurances. The parties hereby agree to execute, acknowledge and deliver such other statements, certificates, affidavits, instruments and other documents as may be reasonably required by any other party in order to confirm, perfect, evidence or otherwise effectuate the intent and purposes of this Agreement.

IN WITNESS WHEREOF, the City, Lessee and Argonaut have executed this Agreement for delivery as of the date first written above.

"LESSEE"

PENINSULA PONTIAC GMC BUICK, INC.
A Delaware Corporation

By: _____
Name: _____
Title: _____

"ARGONAUT"

ARGONAUT HOLDINGS, INC.
A Delaware Corporation

By: _____
Name: JAY MALOTT
Title: PRESIDENT

EXECUTION RECOMMENDED
WORLDWIDE REAL ESTATE
BY _____

"THE CITY"

CITY OF TORRANCE
A Municipal Corporation

By:_____
Name: Dan Walker
Title: Mayor

ATTEST:

_____
Sue Herbers
City Clerk

APPROVED AS TO FORM:

John L. Fellows III
City Attorney

By:_____
Ronald T. Pohl
Deputy City Attorney

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