

3. Governmental Permits.

Lessee shall comply with all applicable codes, ordinances, regulations and requirements for permits and approvals, including, without limitation, a grading permit, building permit, zoning and planning requirements, and approvals from various governmental agencies and bodies having jurisdiction.

4. Builder's Risk and Other Insurance.

Lessee shall deliver to Lessor: (1) certificates of insurance evidencing coverage for "builder's risk", (2) evidence of worker's compensation insurance covering all persons employed in connection with the work and with respect to whom death or bodily injury claims could be asserted against Lessor or the Property, and (3) evidence that Lessee has paid, or caused to be paid, all premiums for the coverage described above. Lessee shall maintain and keep in force all insurance above at all times during which such work is in progress.

5. Completion-Protection of Lessor Against Costs or Claims.

Lessee shall pay or cause to be paid the total cost and expense of all work of improvement, as that phrase is defined in Mechanics' Lien Law of the State of California. No such payments shall be construed as rent. Lessee shall not suffer or permit to be enforced against the Property or any part of it, any mechanics' or materialmen's lien arising from any work or improvement, however it may arise. However, Lessee may in good faith and at Lessee's own expense contest the validity of any such asserted lien, claim or demand, provided Lessee has furnished the bond required in California Civil Code Section 3143, (or any comparable statutes hereafter enacted for providing a bond freeing the Property from the effect of such a lien claim).

Lessee shall defend and indemnify Lessor against all liabilities and loss of any type arising out of work performed on the Property by Lessee, together with reasonable attorneys' fees and costs and expenses incurred by Lessor in negotiating, defending, settling or otherwise protecting against such claims.

6. Lessee's Right To Grant Easement.

Lessor grants to Lessee the right to grant to public entities or public service corporations, for the purpose of serving only the Property, rights of way or easements on or over the Property, for telephone, electricity, water, sanitary or storm sewers or both and for other utilities and municipal or special district services.

7. Dedication, Zone Changes, Variance.

The Property is now zoned R2. Lessee may apply for and obtain any zone changes and variances he may desire and the widening of either Heil Avenue or Bolsa Chica, or both, but all expenses, costs and fees shall be borne by Lessee. Lessor's only obligation hereunder is to join in the application and the dedication of the land for the widening of Heil Avenue, but not to exceed twenty (20) feet, and the widening of Bolsa Chica, but not to exceed thirty (30) feet. No dedication will be made by Lessor at 16583 Bolsa Chica, which is already widened, nor for any other or additional location.

8. Diligent Prosecution to Completion.

Once the work is begun, Lessee shall with reasonable diligence prosecute to completion all construction, improvements, additions or alterations.

9. Lessor's Right to Discharge Lien.

If Lessee does not cause to be recorded the bond described in California Civil Code Section 3143 or otherwise protect the Property under any alternative or successor statute and a final judgment has been rendered against Lessee by a court of competent jurisdiction for the foreclosure of a mechanics' or materialmen's lien claim and if Lessee fails to stay the execution of the judgment by lawful means or to pay the judgment, Lessor shall have the right but not the duty to pay, or otherwise discharge, stay or prevent the execution of any such judgment or lien or both. Lessee shall reimburse Lessor for all sums paid by Lessor under this paragraph together with all Lessor's reasonable attorney fees and costs, plus interest on those sums, fees and costs at the rate of eight percent (8%) per year from the date of payment until the date of reimbursement.

10. Notice of Completion.

On completion of any substantial work of improvement during the term Lessee shall file or cause to be filed a notice of completion. Lessee hereby appoints Lessor as Lessee's attorney in fact to file the notice of completion on Lessee's failure to do so after the work of improvement has been substantially completed.

11. Ownership at Termination.

Lessor disclaims any interest in, or ownership of, any improvements from time to time constructed installed or placed by Lessee on the Property during the term of this Lease. All improvements on the Property at the expiration of the term or sooner termination of this Lease shall, without compensation to Lessee, then become Lessor's property, free and clear of all claims to or against them by Lessee or any third person. Lessee shall defend and indemnify Lessor against all liability and loss arising from such claim or from Lessor's exercise of the rights conferred by this paragraph.

V. Maintenance: Repairs, Alterations, Reconstruction

A. Lessee Required to Maintain the Property.

Throughout the term, Lessee shall, at no cost or expense to Lessor, maintain, or cause to be maintained, the Property and all improvements in first-class condition and repair and in accordance with all applicable laws, rules, ordinances, orders and regulations (1) federal, state, county, municipal and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus and officials; (2) the Insurance Underwriting Board or Insurance Inspection Bureau having or claiming jurisdiction, and (3) all insurance companies insuring all or any part of the Property or improvements or both. Lessee shall promptly and diligently perform, or cause to be performed, any necessary repair, restoration and replacement required to comply with the provisions hereof.

B. Right to Contest Government Order.

Lessee has the right to contest by appropriate judicial or administrative proceedings without cost or expense to Lessor the validity or application of any law, ordinance, order, rule, regulation or requirement (hereafter called law) that Lessee repair, maintain, alter or replace the improvements in whole or in part, and Lessee shall not be in default for failing to do such work until a reasonable time following final determination of Lessee's contest. If Lessor gives notice of request, Lessee shall first furnish Lessor a bond satisfactory to Lessor in form, amount and insurer guaranteeing compliance by Lessee with the contested law and indemnifying Lessor against all liability that Lessor may sustain by reason of Lessee's failure or delay in complying with the law.

VI. Encumbrance, Assignment and Subletting

A. Financing.

Lessor and Lessee acknowledge that Lessee may from time to time encumber Lessee's leasehold estate hereunder as to all or any portion of the Property by the lien of a mortgage, deed of trust or other instrument (herein referred to as "encumbrances") given by Lessee as security for indebtedness. Lessor agrees, from time to time if requested by Lessee, to execute its written consent to an assignment of Lessee's interest under this Lease by one or more encumbrances in favor of any "institutional lender" (including any bank, life insurance company, savings and loan association or other lending institution) as security for sums borrowed from time to time for the development of the Property as a residential Condominium project and the construction of improvements thereon as provided in this Lease, provided, however, that such assignment shall be subject to each and all of the covenants, conditions and restrictions as set forth in this Lease and to all the rights and interests of the Lessor hereunder, and in the event of any conflict between the provisions of this Lease and the provisions of any such encumbrances, the provisions of this Lease shall control.

For the express benefit of any such approved mortgagee, beneficiary under a deed of trust or other secured party (hereinafter referred to as "Lender"), Lessor and Lessee agree as follows:

1. Upon default by Lessee under any of the terms of an approved encumbrance, the Lender shall furnish Lessor copies of any Notice of Default sent to Lessee and Lender may exercise any rights provided in such approved encumbrance; provided that before any sale of the leasehold, whether under power of sale or foreclosure, the Lender shall give to Lessor notice of the same character and duration as is required to be given to Lessee by either or both such encumbrance or the laws of the State of California.

2. If Notice of Default shall be given and any default shall continue, Lessor, prior to sale of the leasehold or any fractional part thereof under power of sale or foreclosure, shall have the right to correct such default and initiate action to terminate this Lease, provided, that prior to any termination hereunder, Lessor shall either (1) pay to the encumbrancer the amount of the principal and accrued interest which remains unpaid or (2) execute to the encumbrancer a new promissory note for the balance of the approved encumbrance, payable upon the same terms and conditions as originally provided by the approved encumbrance. In the event that such new promissory note is executed, such note shall be secured by a new encumbrance approved by Lessor on the leasehold estate and any improvements thereon upon which the approved encumbrance is a lien, and Lessor shall deliver to the encumbrancer a policy of title insurance in the amount of the balance of the encumbrance, issued by a reputable title insurance company, and insuring that the new encumbrance is a first encumbrance on such property, subject only to current taxes and to conditions, restrictions and reservations of record at the time of recording the approved encumbrance, and subject, further, to any agreements for utility lines entered into by Lessee and rights-of-way lawfully granted by Lessor in connection with the development of the Property pursuant to this Lease.

3. This Lease shall not be modified without the prior written consent of any Lender which has given notice to Lessor in accordance with this Lease.

4. The execution of any encumbrance, or the foreclosure thereof or sale thereunder either by judicial proceedings or through any power reserved therein, or conveyance by Lessee in lieu of foreclosure, or the exercise of any right, power or privilege reserved therein, shall not constitute a violation of any of the terms or conditions of this Lease or an assumption by Lender, personally of the obligations of Lessee under this Lease except as provided in Subparagraph 6 below.

5. Lender, at its option, may at any time before termination of this Lease, perform any of the covenants and conditions required to be performed hereunder by Lessee, to the extent that such covenants and conditions are applicable and pertain to and affect the portion of the Property encumbered by such lien, and such performance by Lender shall be as effective to prevent the termination of this Lease as to the portion of the Property so encumbered as the same would have been if done and performed by Lessee.