

Lease Agreement

This Lease is made and entered into by and between the San Mateo County Harbor District, a public agency, located in the County of San Mateo, State of California, hereinafter referred to as "Lessor", and Keet Nerhan, dba KN Properties, hereinafter referred to as "Lessee".

IT IS AGREED between the parties hereto as follows:

1. LEASE DOCUMENTS

This Lease includes the Lease General Conditions (71 Pages), revised February 27, 1992 and the following Exhibits, which are also made a part hereof:

- Exhibit A - Parcel Map of San Mateo County Harbor District, Pillar Point Harbor.
- Exhibit B - Pillar Point Harbor Specific Plan.
- Exhibit C - Booklet entitled "Design Criteria for Construction by Lessees of the San Mateo County Harbor District - 1980"
- Exhibit D - Site Plan.

2. PROPERTY LEASED

District hereby Leases to Lessee and Lessee hereby Leases from Lessor, the property located at Pillar Point Harbor, El Granada, County of San Mateo, State of California, described as follows: The premises depicted in Exhibit A, a portion of Parcel 047-263-010, consisting of approximately 203,590 square feet of space (approximately 4.6 acres), together with the non-exclusive right of ingress and egress over such other properties of District not leased to or occupied by other lessees for purposes of access to and from the subject premises.

3. TERM OF LEASE

3.1 FIXED COMMENCEMENT AND TERMINATION DATES:

The term of this Lease ("Lease Term") shall commence on the earlier of (a) the first day of the month following the month in which the City of Half Moon Bay has issued the last of any necessary discretionary land use approvals permitting construction of all Improvements to be constructed by Lessee on the Premises or (b) October 1, 1998, and expire at midnight on the same day twenty-five (25) years subsequent, subject to any options to extend. Promptly following commencement of the Lease Term, Lessor and Lessee shall execute an amendment confirming the commencement and expiration dates of the Lease Term which amendment shall be recorded.

3.2 OPTION TO EXTEND LEASE TERM:

Provided Lessee is not then in default under any of the terms and conditions of this Lease, to the extend permitted by law, Lessee shall have the option to extend the Lease Term for an additional period of twenty-five (25) years from and after expiration of the original term upon the same terms and conditions contained in the Lease, as amended to date, including the rent.

To exercise this option, Lessee shall give written notice to Lessor no earlier than three hundred sixty days (360) and no later than one hundred eighty days (180) prior to the expiration of the original lease term. Failure to give said notice of exercising option shall result in relinquishing and forfeiting all further rights under this agreement. Termination of the lease term or any option period shall also cut off any further rights or options under this section.

4. USES AND SERVICES

4.1 USE OF PREMISES

4.1.1 Lessee shall have an exclusive right to operate and maintain an overnight camping area for recreational vehicles- ("the facilities") - including all activities related thereto, and a vehicle parking area for day use visitor parking only.

4.1.2 Subject to the prior written approval of the District, Lessee may provide additional uses and services which are ancillary to, and compatible with the required uses and services, and not incompatible with other uses and services allowed or required for other Lessees at Pillar Point Harbor.

4.1.3 The above listed uses and services, both required and optional, shall be the only uses and services permitted. Lessee agrees not to use the demised premises for any other purpose nor to engage in any other business activity within or from the demised premises.

4.1.4 The parties acknowledge that District is obligated, both generally and under its proposed Master Plan for Pillar Point Harbor, to control the volume and use of its facilities, particularly with respect to vehicular traffic, parking, and the use of other facilities. In that regard, the District reserves the right to make a finding that the availability of berthing and/or parking, and/or the public safety, is threatened due to third-party use of the facilities under this Lease. In that event, the District may limit the use of Lessee's facilities by third parties by providing a written thirty (30) day notice to the Lessee and to any known third-party users of said limitations.

4.1.5 The General Manager shall from time to time, or when specifically requested, report to the Board of Harbor Commissioners on the volume of activity and general use of and access to, the facilities, by pedestrian, vehicles and by vessels, with specific reference to and whether the facilities and access to them, and parking, are adequate for the volume, and whether the parking, vessel use, berthing use, and traffic flow can be controlled safely, or should be restricted,

4.1.6 Notwithstanding the provisions of this Lease, or any other regulation, lease, rule or document to the contrary, the parties agree that based on the considerations and reports referred to above, the District reserves to itself the right to restrict Lessees' customer parking by quantity and/or location, to accommodate all tenants and users of District controlled facilities.

4.1.7 Whenever the District, pursuant to Section 4.1 of this Lease, limits the normal activities of Lessee or of third parties being charged for goods and services by Lessee, District and Lessee shall negotiate a temporary adjustment of rental for the Premises. This said adjustment shall bear a reasonable relationship to the loss of revenue occasioned by Lessee.

4.2 SERVICE

4.2.1 Lessee shall not use or permit the leased premises or any part thereof to be used in whole or in part for any use in violation of any present or future laws, ordinances, general rules or regulations at any time applicable thereto of any public or governmental authority, including the San Mateo County Harbor District, and Lessee hereby expressly covenants and agrees at all times during the term of this lease, at Lessee's own cost and expense, to keep, maintain, use and operate all property owned, used or placed by Lessee in or on or about the leased premises and all property and equipment placed in or on or around the leased premises at Lessee's request in a clean, wholesome and sanitary condition and Lessee shall at all times faithfully obey and comply with all laws, rules and regulations applicable thereto adopted (or which shall during the term hereof be adopted) by federal, state, local or other governmental bodies or departments, including the San Mateo County Harbor District.

4.2.2 Lessee shall not use or occupy nor permit the leased premises or area, or any part thereof, to be used or occupied for any unlawful business, use, or purpose. In that connection, Lessee agrees to conduct its business and operations upon the leased premises and to use all necessary equipment so as to reduce to the minimum that is reasonably practicable the emanation from Lessee's facilities and operations of fumes, toxic substances, and odors, and to take all necessary precautions to avoid pollution.

4.2.3 Lessee shall not perform any acts or carry on any business or operations that may injure or damage the leased premises or be a nuisance or menace to the users of the San Mateo County Harbor District.

4.2.4 At all times, Lessee shall keep the leased premises allocated for the use of Lessee, clean and free of rubbish, trash, and debris. In the event, Lessee shall fail to keep said premises clean and free from rubbish trash and debris, Lessor reserves the right, among other remedies, to give written notice to Lessee of such obligations and upon failure of Lessee, within three (3) days of such written notice, to so clean the leased premises, service areas and the like allocated for the use of Lessee. Lessee may, at its option and with prior authorization by the Harbormaster, engage Harbor District personnel to clean the area and Lessee agrees to pay for the reasonable cost of said work. Lessee shall pay Lessor for the entire amount of such additional lease fee(s) for the cost of such cleaning work done by Harbor District personnel.

5. OPERATING SCHEDULE AND CONTROLLED PRICES.

5.1 Lessee shall provide full services on Leased premises as specified in paragraph 4.1.1 of this Agreement during regular business hours not less than six (6) days each week, with a minimum of eight (8) hours per day, of the Lease term, with the exception of New Year's Day, Thanksgiving Day, and Christmas Day. Lessee shall provide District with a schedule of operating hours and a revised schedule if changes are made. If Lessee requires to be closed for an extended period of time, then Lessee shall request in writing to Lessor, and at least thirty (30) days prior to closure, for permission to close the business.

5.2 Lessee shall, at all times maintain a schedule of prices to be charged for all products and services supplied to patrons on or from the Leased premises; whether the same are supplied by Lessee or by sublessees; assignees, concessionaires, permittees, or Lessees, and shall make said schedule available to the District.

5.2.1 All rates and charges to patrons served on or from the Leased premises shall be reasonable and consistent with the quality of services and facilities offered, and shall be no more than rates and charges for comparable services and facilities in the counties of San Francisco, Santa Clara, San Mateo, and Santa Cruz, which shall be annually reviewed by Lessor.

5.2.2 The fees charged to third parties shall be reviewed by Lessee and by the parties every six (6) months during the term of this Lease, and shall be adjusted, if necessary.

5.3 This Lease hereby specifically reserves to the San Mateo County Harbor District the power to fix and determine the rates to be charged by the Lessee for the use by the public of facilities developed or leased by the Lessee, as required by Harbors and Navigation Code, Sections 72 and 72.2. Consistent with the provisions of Harbors and Navigation Code, Sections 72 and 72.2, if and when the District exercises its right to fix and determine the rates to be charged by the Lessee, the District shall take into account comparable rates within the San Francisco Bay Area, Lessee's costs for providing the facilities and services at the Premises, and the amount of rent being paid by Lessee to the District.

6. LEASE RENTS

6.1 MINIMUM RENT

6.1.1 Commencing from the date of execution of the Lease until the commencement of operation of the Premises or the issuance of a Certificate of Occupancy for the Premises, whichever comes first, but in no case longer than nine (9) months from execution of the Lease, Lessee shall pay the Minimum Rent of one thousand dollars (\$1,000.00) per month to Lessor in equal monthly installments. Minimum Rent shall be paid in advance on or before the first day of each calendar month.

6.2 MINIMUM ANNUAL RENT

6.2.1 Minimum annual rent shall be paid to Lessor in equal monthly installments as follows:

\$15,000 per year or three percent (3%) of the gross annual revenues, whichever is the larger, for the first three (3) years commencing from the commencement of operation of the facilities following completion of physical improvements or six (6) months from execution of the lease, whichever comes soonest.

\$20,000 per year or three percent (3%) of the gross annual revenues, whichever is the larger, for the next five (5) years.

\$25,000 per year or three percent (3%) of the gross annual revenues, whichever is the larger, for the next ten (10) years.

\$30,000 per year or three percent (3%) of the gross annual revenues, whichever is the larger, for the next seven (7) years.

6.2.2 Minimum annual rent shall be adjusted annually thereafter each March 1st based on the CPI (SF-Oakland) for the previous calendar year.

6.3 PERCENTAGE RENT

6.3.1 Percentage rent for the demised premises shall be three percent (3%) of total gross receipts from business operations conducted on or from the demised premises and may be adjusted in accordance with the provisions of the Lease General Conditions.

Lessee shall pay the percentage rent to Lessor if the percentage rent exceeds the minimum annual rent at the conclusion of the calendar year. In any case, the minimum annual rent shall be the minimum paid to Lessor. Lessor shall make the adjustment to Lessee's account at the conclusion of the calendar year.

6.4 DUE AND PAYABLE

6.4.1 Minimum annual rent (adjusted or unadjusted) shall be due and payable in advance, in equal monthly installments, on or before the first day of each month for the term of this Lease.

6.4.2 Percentage rents shall be payable as follows:

6.4.2.1 At the end of each quarter, i.e. March 31, June 30, September 30, and December 31, percentage rentals shall be computed for the prior quarter and the differences between the minimum annual rent for said quarter shall be due and payable on the 30th day following the end of said quarter.

- 6.4.2.2 The percentage rent based upon receipts shall be recomputed at the end of each year using the applicable percentages and the balance of rents as computed for each year shall be due and payable on or before March 30 of the following year. Any overpayment of rent shall be credited toward future rents.

7. GROSS RECEIPTS

7.1 Gross receipts are the gross income derived, received, or charged by any sub-lessee, sub-tenant, concessionaire, Lessee, assignee, permittee or any other person, all of which are referred to hereafter as "sub-tenants"; or by Lessee, for sales for charges for service, for use of space made in or on Leased premises, or from any and all sources of income derived in whole or in part from any business transacted in, at or from the Leased premises; whether from sub-tenants, customers, or otherwise, whether for cash or credit, and whether payment is actually made or not.

7.2 Gross receipts shall include, without limitation, all:

7.2.1 Deposits not refunded;

7.2.2 Orders taken on or from the Leased premises to be filled or paid for elsewhere;

7.2.3 Sales or charges for all services performed, whether such sales are made, or such services are rendered at or arranged through occupied space at the Leased premises by long-distance communication, and whether initiated, performed, or completed at another location;

7.2.4 Consideration received by Lessee for value directly from customers, and from sub-tenants, including sub-rents.

7.3 Each sale or charge for service or use of space on credit or installments shall be treated as a sale or charge for the whole price in the calendar year for which the sale or charge is made, whether or not any payments are made within that year.

7.4 The following matters only may be excluded or deducted from gross receipts at the time they are ascertained, and where not ascertainable during the period covered by a statement of gross receipts, from time of subsequent statement when they are known:

7.4.1 Gratuities such as tips retained by employees, lessee or sub-tenant, for their personal benefit;

7.4.2 All sums collected and paid out for sales taxes, luxury taxes, excise taxes, and similar taxes required by law be added to the total purchase price, whether now or hereafter in force, to be collected from customers and paid by Lessee or sub-tenant;

7.4.3 Merchandise transferred or exchanged between other stores or warehouses owned by or affiliated with Lessee or any sub-tenant; if such transfers or exchanges are made solely for the convenient operation of Lessee's or sub-tenant's business and not for the purpose of consummating a sale previously made at, on or from the Leased premises or for the purpose of depriving District from the percentage of gross receipts of a sale that otherwise would be made at, on, or from Leased premises;

7.4.4 Merchandise returned to shippers or manufacturers;

7.4.5 All refunds made on any sale or charge for service or use of space previously included as gross receipts;

7.4.6 All cash or credit received in settlement of any claims for loss or damage;

7.4.7 Gift certificates or like vouchers, if not issued for value, until converted into a sale by redemption;

7.4.8 Bulk sales made by Lessee or sub-tenant not in the ordinary course of business and subject to prior written approval of District

7.4.9 Any income or receipts, under generally accepted accounting principles, which are derived from sale or disposal of any capital assets (excluding any assets normally sold during business conducted on Leased premises) or from retirement of any indebtedness; or from lessee's or sub-tenant's investments of any funds not invested in the Leased premises or the operation of Lessee's or sub-tenant's business on Leased premises;

7.4.10 Percentage rent collected by Lessee from sub-tenants for District's benefit.

7.4.11 Any income or moneys generated from the sale of fishing licenses or stamps on behalf of the State of California Department of Fish and Game.

7.5 None of the above exclusions or deductions from gross receipts shall be excluded or deducted if in substance it is a typical sale, charge for Service, or other source of gross income ordinarily the subject of percentage rent, but arranged only to avoid such rent, or if actually contracted for elsewhere on other premises such as a typical sale, charge for service or other source of gross income which is ordinarily the subject of percentage rent, but such sale, charge for service, or other gross income is for the Lessee's or sub-tenant's business benefit.

8. IMPROVEMENTS AND INVESTMENTS

8.1 All design and construction shall conform with the applicable requirements as set forth in "Design Criteria for Construction by Lessees - 1980", (Exhibit C.), adopted by District, all applicable codes and ordinances, including but not limited to District, City of Half Moon Bay, County of San Mateo, State and Federal. No construction shall be commenced without prior written approval of the District, including approval of all plans, and the granting of a permit by the City of Half Moon Bay for construction. Completion of construction will be in accordance with the time schedule submitted as part of the proposed construction approval by District.

8.2 Lessee shall design and construct or cause to be designed and constructed physical improvements to the Premises for a forty (40) space recreational vehicle overnight parking and camping facility and day use parking facility as stated in the following schedule and as set forth in "Site Plan" (Exhibit D):

1. Repair and extension of the existing restrooms to acceptable health and safety standards including Americans With Disabilities Act (ADA) standards and requirements including roof and partition replacement;
- 2. Installation of electrical service to the restrooms;
3. Pave and stripe the overnight parking and camping area;
4. Construct overnight camping sites to include numbered bollards, parking, picnic tables, barbecue pits and fire rings for overnight camping spaces;
5. Pave and stripe the day use parking area;
- 6. Construct barbeques, water fountains and trash receptacles for day use area;
7. Construct wheelchair-accessible access trail from Beach Hotel to "Surfer's Beach";
8. Install underground utilities to campsites as well as new drainage;
9. Install new fences, signs and lighting;
10. Landscape the entire Premises to Lessor's standards.

8.3 Lessee shall be responsible for and pay in full all costs of design and construction and associated permit and other costs for all physical improvements provided on the Premises pursuant to this Agreement.

9. SUBLEASE/ASSIGNMENT OR SALE OF LEASEHOLD

9.1 Article XVI of the General Conditions pertaining to Assignment, Subletting and Hypothecation are incorporated into this section.

9.2 Notwithstanding any other provision of this Lease to the contrary, should Lessee, or any affiliate of Lessee be allowed by District to sublet, assign or sell any portion or all of said Lessee's interest in this Leasehold to any other person, entity or group, said Lessee shall pay the District a minimum of \$1,000.00 to reimburse the District for the costs of effecting the transfer, or ten percent (10%) of the gross sales price, including the value of any traded property, Leasehold, equipment or services involved in the "purchase", whichever is greater, as a return to the District for the general maintenance, construction, improvement, advertising, and expansion of the Pillar Point Harbor area.

9.3 The "gross sales price" in the Sale of any above described interest in this Leasehold shall not include the sale of any fishing vessels or equipment on those vessels, nor any standard and removable stock on hand or other personal property which may normally be removed by a tenant at the end of a Leasehold, not having attained the status of fixtures. The "gross sales price" shall include the value of the Leasehold, any generalized goodwill associated with the Leasehold on the premises, the right to complete the terms of the Lease and utilize the structure involved, and any and all fixtures in place on site which are not excluded above.

9.4 It is contemplated by all the parties that Lessee may, in order to raise capital for the business, sell stock of the corporation should such entity exist or be created for this purpose by Lessee. Any transfer of shares, whether upon formation of corporation or subsequent thereto, which would result any single investor acquiring more than fifty-one (51%) of the equity and voting shares in the corporation shall be considered a transfer or assignment for purposes of this lease, and shall require the prior written consent of Lessee; and unless released in accordance with the provisions below or otherwise Lessee shall remain personally responsible for the obligations under this lease in accordance with California law.

10. LATE PAYMENTS

10.1 Payments not paid by the due date shall bear interest at 10.00% per annum until paid. Lessee shall have the right to charge interest to sub-tenants for monies not paid promptly when due and payable.

11. NON-SUFFICIENT FUNDS

11.1 Lessee shall be charged a fee pursuant to Section 1719 of the Civil Code for the State of California for each check that is returned to Lessor for lack of sufficient funds.

12. SECURITY DEPOSIT

12.1 Lessee shall be required to post a security deposit of \$5,000, which may be used by the District for payment of any Lease moneys, rents, fees or other charges due and payable to the District, but in arrears for over ninety (90) days.

12.2 The security deposit shall take one of the forms set out below and shall guarantee Lessee's full and faithful performance of all the terms, covenants, and conditions of this Lease:

1. The assignment to District of a savings deposit held in a financial institution in San Mateo County acceptable to District. Such assignment shall consist of delivery to District of the original passbook for such savings deposit and execution and delivery of a written assignment of said deposit and execution and delivery of a written assignment of said deposit to District on a form approved by District.
2. A renewable Time Certificate of Deposit from a financial institution in San Mateo County wherein the principal sum is made payable to District on order. Both the financial institution and the form of the certificate must be approved by District.
3. A renewable instrument or instruments of credit from one or more financial institutions, subject to regulation by the state or federal government, pledging that funds necessary to secure performance of the Lease terms, covenants, and conditions are guaranteed for payment, and agreeing that said funds shall secure Lessee's performance, and that all or any part shall be paid to District upon demand. Both the financial institution(s) and the form of the instrument(s) must be approved by District. The instrument of credit shall be renewed within thirty days of its expiration date; otherwise, the Lessor shall withdraw the funds to hold as a cash security deposit.

12.3 Lessee may change the form of security deposit only within thirty (30) days after any anniversary of the Lease term. Regardless of the form in which Lessee elects to make said security deposit, all or any portion of the principal sum shall be available unconditionally to District for correcting any default or breach of this Lease by Lessee, his successors or assigns, or for payment of expenses incurred by District as a result of the failure of Lessee, his successors or assigns, to faithfully perform all the terms, covenants, and conditions of this Lease.

12.4 Should Lessee elect to assign a savings deposit to District, provide a Time Certificate of Deposit, or provide an instrument of credit to fulfill the security deposit requirements of this Lease, the depository or issuer therein shall incur no liability because of the payment of any or all of the principal sum to District upon demand. The agreement entered into by Lessee with a financial institution to establish the deposit necessary to permit assignment or issuance of a certificate, as provided above, may allow the payment to Lessee of interest accruing on account of said deposit.

12.5 Lessee shall maintain the required security deposit throughout the Lease term. Failure to do so shall be deemed a default and shall be grounds for immediate termination of the Lease. If any portion of the security deposit is withdrawn by Lessor for payment of default monies owed Lessor, Lessor shall notify Lessee in writing and Lessee shall have thirty days to replenish the security deposit to its full amount.

12.6 The security deposit shall be rebated, reassigned, released or endorsed to Lessee to order, as applicable, at the end of the Lease term, provided Lessee is not then in default and has performed its obligations required to be performed upon termination of this Lease.

13. MAINTENANCE AND SERVICES TO PREMISES

13.1 Lessee shall during the term of this lease, at Lessee's own cost and expense, maintain the leased premises, and every part thereof, and including the exterior and interior of any structure leased or constructed and leased for the use of Lessee, all landscaping, and all trade fixtures, machinery, equipment, and other property situated in or upon the leased premises, owned, operated, installed or caused to be installed, or to be at, on or upon the leased premises by Lessee, including all utilities and fixtures, and appurtenances, owned, operated, installed or caused to be installed on or upon the leased premises in good, clean, safe and sanitary condition and repair.

13.2 Lessor shall not be required or obligated to make any changes, alterations, additions, improvements, or repairs in, on, or about the leased premises, or any part thereof, during the term of this lease.

13.3 If during the term of this lease any additions, alterations, repairs or improvements in or to the leased premises or any of the improvements thereon or equipment, machinery and other property in or on the leased premises, owned, operated, installed or caused to be installed by Lessor are required by any governmental authority or by any law, ordinance, or governmental regulation, it shall be made by Lessor at the sole cost and expense of Lessor.

13.4 Lessee shall maintain equipment leased from the District in good order, and shall repair leased equipment as necessary to keep it in good operating order. Any leased equipment Lessee replaces due to normal wear and tear becomes Lessee's property. The Lessor may by mutual consent purchase such equipment from the Lessee. All equipment under control of Lessee shall remain under control of Lessee and any third party shall not use said equipment without a prior agreement with the Lessor, Lessee, and the third party. Equipment that is rendered unusable due to Lessee's failure to properly maintain it shall be replaced by Lessee and shall belong to the District.

13.5 Upon termination of the lease agreement, Lessee shall return all equipment, machinery and other property of Lessor to Lessee in the original condition in which it was received except for normal wear and tear.

13.6 Lessee shall be responsible for the payment all utilities and services in connection with the Premises including the following:

- Garbage and trash disposal
- Electricity
- Water
- Sewer
- Telephone service
- Landscaping maintenance

14. LESSOR'S ACCESS

14.1 The duly authorized officers or representative of Lessor shall have the right to enter the leased area and premises during normal business hours and in emergencies at all times:

14.1.1 To inspect the area and premises for compliance with the terms of this lease;

14.1.2 For any other lawful purpose.

15. INSURANCE

15.1 Lessee, at Lessee's sole cost and expense, shall provide and maintain a Comprehensive General Liability policy with Broadform Endorsement (or comparable coverage) in an amount not less than \$1,000,000 per occurrence and \$2,000,000 in aggregate. Said policy shall insure Lessee's leased premises and operations for death, bodily injury, and property damage and name Lessor as an Additional Insured. In addition, where applicable, Lessee shall provide and maintain insurance for Workers' Compensation, United States Longshore and Harbor Workers' Compensation, Maritime Law Benefits, Pollution, Liquor Liability, and any other coverage the Lessor may require.

All policies, limits, and coverages are subject to the approval of Lessor and may be revised at any time if the circumstances so warrant.

15.2 During the lease term, or any renewals or extension thereof, Lessee shall at Lessee's own cost and expense, maintain in full force and effect a policy or policies of comprehensive liability insurance, including property damage, written by one or more responsible insurance companies licensed to do business in the State of California, that will insure Lessee and Lessor and Lessor's officers, agents, members of the governing body of Lessee and its employees, against liability for injury to persons and property and for death of any person or persons occurring on or about the leased premises or connected with Lessee's use and occupancy of the leased property or any of Lessee's operations or business conducted on, from or near the leased property, including operation of any vessels.. Said amount may include coverage by any umbrella liability coverage. Lessee shall provide the Lessor with a duplicate copy of such insurance policy or policies, including in each instance an endorsement providing that such insurance shall not be canceled except after thirty (30) days prior written notice to the Lessor. Notwithstanding any other provision in this section, this lease shall not take effect, nor shall Lessee take or maintain possession of the leased premises or commence or continue operations until Lessee provides proof of insurance to Lessor.

15.3 Notwithstanding the provisions above, no more than once every five (5) years during the term of this lease and any extensions thereof, Lessor may demand the amount of insurance coverage be renegotiated and thereafter adjusted to reflect any changes in needs due to inflation or potential liabilities contemplated within the following five (5) years. If Lessor and Lessee cannot agree on an amount of insurance to be carried, or they cannot otherwise agree to a method for determining the amount of said coverage, then either party is free to invoke the arbitration provisions of this lease to determine the amount of insurance coverage that is appropriate.

15.4 Lessor shall not be liable to Lessee or to any other person whomsoever for any damage occasioned by the bursting, exploding, or leaking of any tank, pipe or chamber in or about Pillar Point Harbor or for any damage, including pollution, arising from any acts or neglect of the public or of other Lessees, users, fishermen, or occupants of the San Mateo County Harbor District area and property.

15.5 Lessor shall not be liable in damages or otherwise for any failure to furnish, or for any interruption of service of any water, gas, or other utility services, or damage caused by fire, flood, rising water, tidal wave, tsunami, accident, riot, strike, labor disputes, acts of God, or for other acts, events, causes or conditions beyond the control of Lessor.

15.6 In that connection Lessee expressly represents and agrees that Lessee has thoroughly inspected and examined the site and area to be leased, used and occupied by Lessee and all risk or loss or damage to Lessee's equipment, machinery, personal property and supplies shall be and is hereby assumed by Lessee.

16. MECHANICS LIENS

16.1 PROHIBITION AGAINST MECHANICS LIENS

16.1.1 Lessee shall not suffer or permit to be enforced against the leased premises, or any part thereof, any mechanic's, materialman's, contractor's, or subcontractor's liens arising from construction, repair, restoration, replacement, or improvements furnished at Lessee's request, or any other claim or demand created by Lessee's act or omission. The Lessee shall pay or cause to be paid all of such liens claims or demand, or in the alternative supply a bond in the amount of one and one-half times the amount of the claim, before any action is brought to enforce the same, and Lessee agrees to indemnify and hold Lessor harmless, and the leased premises free and harmless from any liability for any and all such liens, claims, and demands, and to pay Lessor's attorneys fees and all costs and expenses incurred by Lessor in connection therewith. Lessor shall approve all construction, repair, restoration, replacement, or improvements furnished by Lessee prior to their execution.

16.1.2 Nothing in this lease shall be deemed or construed in any way as constituting the consent or request of Lessor, expressed or implied, by inference or otherwise, to any contractor, subcontractor, laborer, or materialman, for the performance of any labor or the furnishing of materials for any specific improvement, alteration, or repair of or to the leased premises, any buildings or improvements thereof, or any part thereof.

No construction work, repair, restoration, replacement, or improvements shall be allowed without prior written consent of Lessor and Lessor shall have the right to post notice of non-responsibility on the premises.

17. PROPERTY INSURANCE

17.1 LESSEE TO MAINTAIN INSURANCE

17.1.1 Lessee shall provide or cause to be provided, at Lessee's own cost and expense, insurance against any and all loss or damage to Lessor's property.

17.1.2 In the event the above described insurance is secured then Lessee agrees to deliver to the Lessor a duplicate policy or policies evidencing such insurance coverage, or to furnish certificates of insurance to the Lessor, evidencing that such insurance is in effect, and renewal policies, certificates or binders evidencing the renewal thereof shall be delivered to the Lessor by the Lessee not less than thirty (30) days prior to the expiration of such policy or policies. In the event any insurance coverage or policy is canceled or reduced, the Lessee shall, within thirty (30) days after receipt of written notice from the insurance company of such cancellation or reduction in coverage, file with the Lessor a certificate showing that the required insurance has been reinstated or provided through another insurance company or companies satisfactory to the Lessor. Any such policy shall provide that the policy shall not be canceled except upon thirty (30) days advance written notice to Lessee.

18. WORKERS' COMPENSATION INSURANCE

18.1 Lessee shall maintain in full force and effect during the term of this lease, Workers' Compensation Insurance and other employee insurance consistent with good business practices and as required by law with respect to Lessee's employees, including USL&H coverage. Evidence of such insurance coverage shall be filed with Lessor from time to time as requested. Lessee shall further maintain in full force and effect during the term of this lease, such other employee insurance as required by applicable federal and state laws.

19. INDEMNITY, LIABILITY AND OTHER INSURANCE

19.1 EXEMPTION OF LESSOR FROM LIABILITY

19.1.1 The Lessor and the Lessor's officers, agents and employees, including members of the Board of Harbor Commissioners of the San Mateo County Harbor District, shall be free from any and all liabilities and claims for damages or suits for or by reason of any death or injury to any person or persons or damages to property of any kind whatsoever, whether the person or property of Lessee, its agents or employees, Lessees, customers, contractors, or third persons, including property owned or controlled by or in the possession of the Lessor, any of its officers, agents or employees, that may in whole or in part arise from or be caused by any of the following:

- 19.1.1.1 The use, operation, maintenance or occupation of the leased property or any part thereof, or any surface areas above the leased premises;
- 19.1.1.2 The acts, omissions or negligence of Lessee, its officers, agents, employees, representatives, permittees or Lessees; or
- 19.1.1.3 The failure of Lessee to observe and comply with any of the terms or conditions of this lease or any applicable law, ordinance, rule or regulation.

19.1.2 Lessee shall indemnify, relieve, protect, defend and save harmless the Lessor and each of its officers, members of the governing body of Lessor, and employees from such liability and claims arising during the lease term and during any periods of occupancy by Lessee, or during any periods of holding over by Lessee, its agents, officers, employees or permittees beyond that expiration or other termination of this lease.

19.1.3 Lessor shall be named as an additional insured on all insurance policies of Lessee which are taken out under this Lease Agreement.

20. DAMAGE OR DESTRUCTION

20.1 DESTRUCTION DUE TO RISK COVERED BY INSURANCE

20.1.1 If a total destruction (the rendering totally unusable fifty percent (50%), or more of Lessee's improvements on the leased premises), or a partial destruction [less than fifty percent (50%)] occurs to Lessee-owned improvements, the loss is covered by the insurance described in this lease, Lessee shall within ninety (90) days thereafter commence and diligently prosecute the repair, restoration, or replacement such that the completed work, which may be different in design, shall be equal in value, quality and use to the condition of the improvements before the event giving rise to the work.

20.2 DESTRUCTION DUE TO RISK NOT COVERED BY INSURANCE

If any of the Lessee-owned improvements are damaged or destroyed by any casualty not covered by the insurance provisions of this lease and if the leased premises are hereby rendered unfit for the uses prescribed herein, Lessee shall have the option of clearing the land and returning it as it was at any time of the inception of this lease, in which event Lessee may terminate this lease, or of rebuilding the structure(s) in such a way that it would be comparable in use and value (but not necessarily design- to the structure(s) which had existed prior to the casualty.

21. DEFAULT AND REMEDIES

21.1 DEFAULT OF LESSEE

21.1.1 The Lessee has until March 31, 1999, to acquire and obtain all required permits for the operation and conduct of business associated with this lease. In the event permits are not obtained by this date, Lessee shall be relieved from this lease without any remedy owed to Lessor.

21.1.2 The Lessor may, at its option and without limiting Lessee in the exercise of any other right or remedy the Lessor may have on account of a default or breach by Lessee, exercise the right and remedies specified herein if:

21.1.2.1 The Lessee defaults in the payment of any money agreed to be paid by Lessee to the Lessee, for lease rent or otherwise, or to be paid by Lessee for taxes and utilities or for any other purpose under this lease, and if such default continues for thirty (30) days after written notice by the Lessor to the Lessee;

21.1.2.2 The Lessee defaults in the performance of any other of its agreements, conditions, or covenants under this lease and such default is not corrected as soon as practicable to do so, in no event more than thirty (30) days, after written notice thereof;

21.1.2.3 Lessee has not reinstated or otherwise replaced any insurance coverage, required under this agreement, that is canceled or not renewed prior to the earlier of: (a) lapse of the insurance coverage; or (b) twenty (20) days after written notice from Lessor.

21.2 REMEDIES ON DEFAULT

21.2.1 On any breach, or default, the Lessor may exercise any of the following rights after the periods of time stated in the foregoing section.

21.2.1.1 Lessor can continue this lease in full force and effect, and the lease will continue in effect as long as Lessor does not terminate Lessee's right to possession, and Lessor shall have the right to collect lease rent when due. No act by Lessor allowed by this paragraph shall terminate this lease unless Lessor notifies Lessee that Lessor elects to terminate this lease.

21.2.1.2 Lessor can terminate Lessee's right to possession of the premises at any time Lessee is in default. No act by Lessor other than giving notice to Lessee shall terminate this lease.

21.3 NO WAIVER OF DEFAULT:

21.3.1 The Lessor's failure to take advantage of any default or breach of covenant or agreement on the part of Lessee during the lease term or during any previous dealings between the parties shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may be established between the parties hereto in the course of administering this lease be construed to waive or to lessen the right of the Lessee to insist upon the performance by Lessee of any term, covenant, or condition hereof, or to exercise any rights given Lessor on account of any such default. A waiver of the particular breach, or default, shall not be deemed to be a waiver of the same or any other subsequent breach or default. The acceptance of lease rent hereunder shall not be, or be construed to be a waiver of any term, covenant, or condition of this lease.

21.4 REMEDIES AND CUMULATIVE:

21.4.1 The rights, powers, elections, and remedies of the Lessor contained in this lease shall be construed as cumulative and no one of them is or shall be considered exclusive of the other or exclusive of any rights or remedies allowed by law, and the exercise of one or more rights, powers, elections, or remedies shall not impair the Lessor's right to exercise any other.

22. SURRENDER AND REMOVAL

22.1 Ten (10) days after the expiration of the term of this lease or any earlier termination thereof, Lessee shall surrender to Lessor possession of the leased premises.

22.2 Upon expiration of this lease, or any earlier termination, Lessee may remove, or cause to be removed, all of Lessee's movable structures, trade fixtures, docks, rafts, machinery, equipment, and other personal property placed or installed on the leased premises. Any of said property, including any structure or building that Lessee may construct or install, that is not removed from said premises by expiration of the lease term shall belong to Lessor without the payment of any consideration.

22.3 Notwithstanding language in the preceding subsection, if Lessor shall terminate this lease agreement pursuant to provisions herein prior to the natural expiration of the lease term, Lessee's property shall not automatically belong to Lessor pursuant to the above subsection until thirty (30) days after termination of the leasehold interest. During the thirty (30) days, Lessee shall be allowed reasonable access to remove his property. Nothing in this lease shall in any way be construed to limit the Lessor's rights under law to seek a Writ of Attachment or other legal measures to enforce any rights it might have against said property as a result of any amount that Lessee may owe Lessor at that time.

23. ENVIRONMENTAL PROTECTION PROVISIONS

23.1 In addition to all other duties and obligations imposed upon Lessee by this lease with respect to care and maintenance of the leased premises, and the conduct of Lessee's business thereon, Lessee, by signing this lease agreement, further expressly covenants and agrees to comply with all applicable provisions of and amendments to governmental laws and regulations related to environmental protection, including any laws or regulations that may impose requirements upon the San Mateo County Harbor District as a governmental agency.

24. NONDISCRIMINATION

24.1 Lessee covenants and agrees for itself and for its successors and assigns that, in the use and occupancy of the leased area, property and premises and in the conduct and operation of Lessee's business, it shall not enter into any agreement which would restrict the leased area or any part thereof or the leasehold interest therein or Lessee's business, upon the basis of race, sex, religion, color, creed, national origin, or ancestry in the use and occupancy of the leased area, property, and premises or in the conduct and operation of Lessee's business.

24.2 Lessee further covenants by and for itself, its successors and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of any person or group of persons on account of race, color, creed, age, sex national origin, or ancestry in the use, occupancy, tenure, or enjoyment of the leased area and premises and property herein leased; nor in the operation of Lessee's business thereon; nor shall the Lessee itself or any person claiming under or through the Lessee establish or permit any such practice or practices of discrimination in the use, occupancy, tenure, or enjoyment of the leased area and premises, or in the conduct or operation of Lessee's business; nor shall the Lessee itself, or any person claiming under or through the Lessee, establish or permit any such practice or practices of discrimination or segregation with reference to the selection of Lessee's employees with respect to the use, occupancy and enjoyment of the leased premises, or in the conduct and operation of Lessee's business on the leased property and premises.

24.3 Lessee further agrees that the leased premises shall be open, to the extent the leased premises and Lessee's facilities thereon are open to the public, to all persons without discrimination on the basis of race, color, creed, age, sex, national origin, or ancestry, and there shall be no discrimination in public access and use of the leased area and premises or Lessee's business to the extent that it is open to the public.

25. ARBITRATION

25.1 If any question, dispute, controversy, or misunderstanding arises under or in connection with this lease, other than disputes with respect to the payment of lease rent, and Lessor and the Lessee cannot agree, then such questions, dispute, controversy, or misunderstanding shall on written request of one party served on the other be submitted to arbitration, and such arbitration shall comply with and be governed by the provisions of the California Arbitration Act, Sections 1280 et seq., as then in effect, of the California Code of Civil Procedure.

25.2 The parties may agree upon one arbitrator, but in the event that they cannot agree, there shall be three, one named in writing by each of the parties within five (5) days after demand for arbitration is given with notice of such appointment to the other party and a third chosen by the two appointed.

25.3 If the two arbitrators fail to select a third arbitrator within ten (10) days of their appointment, upon application of either party, the third arbitrator shall be promptly appointed by the then presiding Judge of the Superior Court of the State of California in and for the County of San Mateo, acting in his individual and not official capacity. The party making such application to such Judge shall give the other party to this lease five (5) days notice of his application.

25.4 The arbitrators shall proceed with due dispatch. If there is only one arbitrator, his decision shall be binding and conclusive on the parties. The decision of any two of the three arbitrators shall be binding, final, and conclusive on the parties to this lease. Such decision shall be in writing and delivered to the parties, and shall be in such form that a judgment may be entered on the decision in the Superior Court of the State of California in and for the County of San Mateo.

25.5 If either party fails to appoint an arbitrator as provided by this Section, then such arbitrator not so appointed shall be appointed by the presiding Judge of the Superior Court of the State of California in and for the County of San Mateo.

25.6 The expense of any such arbitration shall be borne in equal amounts by Lessor and Lessee.

25.7 In the event the subject matter of the arbitration involves any payments by Lessee then such payments shall be paid by Lessee when due but Lessee shall have the right to have such dispute or question resolved by arbitration pursuant to the foregoing provisions of this section.

26. PARTIAL INVALIDITY

26.1 If any term, covenant, condition, or provision of this lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

26.2 Lessor and Lessee enter into this agreement in the belief and with the expectation that Lessor is fully authorized and empowered to hire out the leased premises for the purposes, and under the terms, set forth herein. If for any reason Lessor is not, or during the term or any extension provided herein is no longer, authorized to continue the lease substantially as provided herein, Lessor may terminate this agreement without penalty. Lessee may not terminate this agreement without penalty.

27. RELATIONSHIP OF THE LESSOR AND LESSEE:

27.1 Nothing contained in this lease shall be deemed or construed by the parties or by any third person to create the relationship of principal and agent or of partnership or of joint venture or of any association between the Lessor and the Lessee, and neither the method of computation of lease rent nor any other provisions contained in this lease nor any acts of the parties shall be deemed to create any relationship between the Lessor and Lessee, other than the relationship of Lessor and Lessee.

28. INTERPRETATION AND DEFINITIONS:

28.1 The language in all parts of this lease shall in all cases be simply construed according to its fair meaning and not strictly for or against lessor or lessee, unless otherwise provided in this lease. Unless the context otherwise requires, the following definitions and rules of construction shall apply to this lease:

28.1.1 Number and Gender. In this lease the neuter gender includes the feminine and masculine, and the singular number includes the plural, and the word "person" includes corporation, partnership, firm, or association wherever the context so requires.

28.1.2 Mandatory and Permissive. "Shall," "Will," and "Agrees" are mandatory, "May" is permissive.

28.1.3 Captions. Captions of the articles, sections, and paragraphs of this lease are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify, or aid in the interpretation, construction, or meaning of the provisions of this lease.

28.1.4 Term Includes Extensions. All references to the "term" of this lease or the lease term shall include any extensions of such term

28.1.5 Parties. Parties shall include the lessor and lessee named in this lease.

28.1.6 Sublessee. As used herein, the word "sublessee" shall mean and include in addition to a sublessor and sublessee, a lessee, concessionaire, or other occupant or user of any portion of the leased premises or buildings or improvements thereon.

29. ATTORNEY' S FEES:

29.1 In the case of arbitration, the prevailing party shall be entitled to attorney's fees as determined by the arbitrators.

30. MODIFICATION

30.1 This lease may be modified only by written agreement by the Lessee and Lessor's Board of Harbor Commissioners.

31. FINAL APPROVAL

31.1 Approval of this lease shall be subject to final approval by the California Department of Boating and Waterways, or its successor; and approval of this lease by the District shall become final only after the Lease has been approved by said Department pursuant to the applicable provisions of the Harbors and Navigation Code.

32. NOTICES AND PAYMENTS

32.1 All notices, payments, statements, demands, requests, consents, approvals, authorizations, offers, agreements, appointments, and any other communications required under this lease by either party to the other shall be in writing and shall be sufficiently given and served upon the other party, if sent by Certified Mail, Return Receipt Requested, postage prepaid, and addressed as follows:

32.1.1 All notices and payments to District shall be given or mailed to:

General Manager
San Mateo County Harbor District
One Johnson Pier
P.O. Box 39
El Granada, CA 94018

32.1.2 All notices and payments to Lessee shall be given or mailed to:

Mr. Keet Nerhan
KN Properties
P.O. Box 158
Half Moon Bay, CA 94019

32.2 Either party may designate a different address by giving notice as set forth in this section.

32.3 All notices and communications referred to herein shall be deemed given on the date of service, if served personally; or on the date of delivery if such delivery is documented by a certified mail receipt; or the fifth day following date of mailing, if utilizing ordinary, first class mail.

32.4 If Lessee is not a resident of the County of San Mateo or is an association or partnership without a member or partner resident of said county, or is a foreign corporation, Lessee shall file with District a designation of agent, who must reside in San Mateo County. Said designation shall include the name, residence and business address of the agent, and shall designate the person as an agent of Lessee for the service of process in any court action between Lessee or Encumbrance Holder and District, arising out of or based on this Lease, and the delivery to such agent of written notice or a copy of any process in such action shall constitute a valid service upon Lessee.

33. ENTIRE AGREEMENT

This agreement contains the entire understanding between the parties with respect to the subject matter herein. There are no representations, agreement or understandings (whether oral or written) between the parties relating to the subject matter of this Agreement which are not fully expressed herein. This Agreement may not be amended except pursuant to a written instrument signed by all parties.

34. AGREEMENT JOINTLY PREPARED

This lease shall conclusively be presumed to have been drafted jointly by the parties hereto. This lease, consisting of twenty-three (23) pages, plus Exhibit "A", "B", "C", and "D", has been executed by the parties in several counterparts, each of which shall be deemed to be an original copy.

Approved and executed this twelfth day of May 1998.

LESSOR:
San Mateo County Harbor District

LESSEE:
Keet Nerhan, dba
KN Properties



Peter Grenell
General Manager



Keet Nerhan
Owner

APPROVAL:

DEPARTMENT OF BOATING AND WATERWAYS:

Don Waltz

Date