



Agenda Report

File #: 19-0085

**AGENDA REPORT
REQUEST FOR CITY COUNCIL ACTION**

DATE: 2/6/2019

TO: Honorable Mayor and City Council Members

FROM: Maintenance Services

SUBJECT:

City Council consideration of First Amendment to Corona Municipal Airport Master Sub-Lease Agreement with Diamond Aero Corporation for Parcels II and VI.

RECOMMENDED ACTION:

That the City Council:

1. Approve the First Amendment ("Amendment") to Corona Municipal Airport Master Sub-Lease Agreement with Diamond Aero Corporation for Parcels II and VI.
2. Authorize the Mayor to execute the Amendment.
3. Recommend approval to the U.S. Army Corps of Engineers ("USACE"), the City's master lessor for the Corona Municipal Airport, that they approve the Amendment.

ANALYSIS:

As Diamond Aero Corporation ("Diamond Aero") has been a long-term master sub-lease holder in good standing, the City entered into an extension of their agreements on May 16, 2018, which combined the Parcel II and VI Agreements into a single agreement.

Parcel II: Diamond Aero has been the City's Master Sub-Lease holder since 04-01-92. The original term of the lease agreement was for 15 years through 03-31-07. As allowed under the lease, Diamond Aero twice exercised its unilateral right to extend the term for 5 years each through 03-31-12 and then 03-31-17. Thus, the current lease agreement expired on 03-30-17 and the City has allowed Diamond Aero to be a "holdover" tenant since that time.

Parcel VI: Fred Peters, individually and through his corporate entity, Diamond Aero, has been

the City's Master Sub-Lease holder since 02-15-06, when SVS Development assigned the lease agreement to Fred Peters (Fred Peters subsequently assigned the lease agreement to Diamond Aero on 01-05-11). The City's original lease holders were Gary Shelton, Richard Van Frank and David Smith (they assigned the lease agreement to their corporate entity, SVS Development, by a document dated 04-18-74). The original lease agreement was for 35 years, from 10-15-73 through 10-14-08, with one unilateral right to extend for a little more than 8 years to 01-31-17. Since the unilateral right to extend was implemented, the current lease agreement expired on 01-31-17 and the City has allowed Diamond Aero to be a "holdover" tenant since that time.

Upon USACE review and sign-off of the Corona Municipal Airport Master Sub-Lease Agreement with Diamond Aero Corporation for parcels II & VI ("Master Sub-Lease"), the USACE required that the City remove any optional extensions, or reference as to such, from the agreement.

The term(s) of the May 16, 2018 approved Master Sub-Lease and the optional additional terms included the following:

Initial Term	Appx 20yrs	07-01-17 to 01-31-37
1st Optional Term (Mutual)	10yrs	01-31-47
2nd Optional Term (Mutual)	10yrs	01-31-57

The extension of the new Master Sub-Lease for 20 years to 2037 allows Diamond Aero to secure funding to make desired improvements to the current facilities on these parcels. The optional terms could be denied by the City or refused by Diamond Aero.

The following amendments to the term(s) and Conditions of the Master Sub-Lease Agreement have been reviewed and approved by the USACE and shall reflect the following:

Term	Appx 20yrs	07-01-17 to 01-31-37
No Additional Term(s)		

Right of First Refusal - In the event that the Airport is allowed to continue to operate under a subsequent lease to the Master Lease Agreement approved by the USACE, Lessee will be provided a right of first refusal to enter into a new master sub-lease for parcels II and VI beginning on February 1, 2037.

Hold Over Prohibited - Upon the expiration of the Term of this Master Sub-Lease or the early termination of this Master Sub-Lease, Lessee shall have no right to hold over and remain in possession of the Premises.

Survival of Payment Obligations - The obligation to pay all payments required under this Master Sub-Lease, including the rents and fees provided for in Section 3.4 of the Agreement. The amount provided for under Section 3.4 shall be increased by three hundred percent (300%) of the amount due and owing upon expiration of the Term or early termination of this Master Sub-Lease."

COMMITTEE ACTION:

Not applicable.

STRATEGIC PLAN:

Not applicable.

FISCAL IMPACT:

There is no fiscal impact as a result of the recommended actions. The Amendment confirms the U.S. Army Corps of Engineers Master Lease Agreement expires on January 31, 2037 and that no extensions will be accommodated beyond this date, as it pertains to the Airport Facilities.

ENVIRONMENTAL ANALYSIS:

No environmental review is required because the proposed action is not a project governed by the California Environmental Quality Act.

PREPARED BY: CURTIS SHOWALTER, ADMINISTRATIVE SERVICES MANAGER

REVIEWED BY: TOM MOODY, GENERAL MANAGER

REVIEWED BY: DEAN DERLETH, CITY ATTORNEY

REVIEWED BY: KERRY D. EDEN, ASSISTANT CITY MANAGER/ADMINISTRATIVE SERVICES DIRECTOR

REVIEWED BY: MICHELE NISSEN, ASSISTANT CITY MANAGER

SUBMITTED BY: DARRELL TALBERT, CITY MANAGER

Attachments:

- Map of the leased premises
- Corona Municipal Airport Master Sub-Lease Agreement with Diamond Area Corporation (Parcels II & VI)
- First Amendment to Corona Municipal Airport Master Sub-Lease Agreement for with Diamond Aero Corporation for Parcels II and VI

EXHIBIT "A"
MAP OF LEASED PREMISES
(PARCELS II AND VI AT THE CORONA MUNICIPAL AIRPORT)



CITY OF CORONA
CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)

1. PARTIES AND DATE.

This Corona Municipal Airport Master Sub-Lease Agreement ("Sub-Lease") is made and entered into this 16th day of May, 2018 ("Effective Date") by and between the CITY OF CORONA, a municipal corporation organized under the laws of the State of California with its principal place of business at 400 South Vicentia Avenue, Corona, California 92882 ("Lessor") and DIAMOND AERO CORPORATION, a California corporation with its principal place of business at 706 E. Walnut Street, Orange, CA 92867 ("Lessee"). Lessor and Lessee are sometimes individually referred to as "Party" and collectively as "Parties" in this Sub-Lease.

2. RECITALS.

1.1 United States ACOE Land. Lessor operates the Corona Municipal Airport ("Airport") on property Lessor leases from the United States Army Corps of Engineers ("USACOE") pursuant to Lease No. DACW 09-1-67-60, dated May 26, 1967, and all supplemental agreements thereto ("Master Lease Agreement").

1.2 Purpose of Sub-Lease. Subject to the terms of this Sub-Lease, Lessee desires to lease the Parcel described in Section 3.2 below at the Airport for the uses described in Section 3.7 (Uses) in this Sub-Lease.

3. TERMS.

3.1 Master Lease Agreement. Lessor represents to Lessee that: (a) it has a possessory interest in the parcels described in Section 3.2 (Premises) below ("Premises"); and (b) that it has the full power and authority to sub-lease the Premises to Lessee subject to the terms and conditions of the Master Lease Agreement and subject to approval of this Sub-Lease by the USACOE.

3.2 Premises. Lessor, in consideration of the covenants and conditions herein set forth, hereby leases to Lessee, and Lessee leases from Lessor, in the condition existing at the inception of this Sub-Lease, the Premises as legally described in Exhibit "A" attached hereto and incorporated herein by reference.

3.3 TERM. The Initial Term, First Additional Term and Second Additional Term provided for herein may be collectively referred to as the "Term" throughout this Sub-Lease.

3.3.1 Initial Term. Subject to the approval of the USACOE, the initial term of this Sub-Lease shall commence on July 1, 2017 ("Commencement Date") and shall continue

thereafter for a period of almost twenty (20) years until January 31, 2037 ("Initial Term").

3.3.2 First Additional Term. Provided that Lessee is not then in default under this Sub-Lease and subject to all other terms and conditions of this Sub-Lease, including, without limitation, Section 3.14.2 (Cancellation Through Termination or Expiration of Master Lease Agreement), the term of this Sub-Lease will be automatically extended for one additional term of ten (10) years until January 31, 2047 ("First Additional Term"), unless either Party provides the other Party with written notice of non-renewal not less than thirty (30) calendar days before the expiration of the Initial Term.

3.3.3 Second Additional Term. Provided that Lessee is not then in default under this Sub-Lease and subject to all other terms and conditions of this Sub-Lease, including, without limitation, Section 3.14.2 (Cancellation Through Termination or Expiration of Master Lease Agreement), the term of this Sub-Lease will be automatically extended for one additional term of ten (10) years until January 31, 2057 ("Second Additional Term"), unless either Party provides the other Party with written notice of non-renewal not less than thirty (30) calendar days before the expiration of the First Additional Term.

3.3.4 Holding Over. If, after the expiration of the Term of this Sub-Lease, Lessee shall hold over and remain in possession of the Premises without the written consent of Lessor, this Sub-Lease shall be extended on a month-to-month basis only, subject to all the provisions of this Sub-Lease, including that all payments required under this Sub-Lease, including the rents and fees provided for in Section 3.4 below, shall be increased by three hundred percent (300%) of the amount due and owing upon expiration of the Term. If, after the expiration of the Term of this Sub-Lease, Lessee shall hold over and remain in possession of the Premises with the written consent of Lessor, this Sub-Lease shall be extended on a month-to-month basis only, subject to all the provisions of this Sub-Lease, as well as any additional terms required by Lessor in its sole, but reasonable discretion.

3.4 Rent and Fees.

3.4.1 Basic Rent - Hangar Fee.

(A) Amount of Monthly Basic Rent. The Rate Sheet attached hereto as Exhibit "B" and incorporated herein by reference details the highest rent applicable to each category of space Lessee maintains on the Premises ("Rate Sheet"). Beginning on June 1, 2018 and thereafter throughout the Term of this Sub-Lease, for each space that Lessee has on the Premises, each month Lessee shall pay to Lessor twenty-two percent (22%) of the highest rent scheduled for each category, as also described on the attached Rate Sheet ("Lessor Monthly Basic Rent"). The Lessor Monthly Basic Rent has no relation to any amounts actually charged or received by Lessee, but relates only to the highest rent scheduled for each category. Lessor shall not do either of the following unless and until the Rate Sheet is amended accordingly and documented through a duly authorized and executed amendment to this Sub-Lease: (1) charge to any person or entity an amount greater than the highest rent scheduled for each category on the Rate Sheet; or (2) change the configuration of any category which involves multiple types of space (e.g. the Academy).

(B) Automatic Annual Increase. Beginning in 2018, on or before December 1st of each year, Lessee shall provide to Lessor an updated Rate Sheet which details the highest rent to be applicable to each space category as of January 1st of the upcoming calendar year. The new Lessor Monthly Basic Rent for the upcoming January 1st through December 31st time period shall also be included on the Rate Sheet and it shall be equal to the greater of the following: (1) twenty-two percent (22%) of the highest rent to be applicable to each space category as of January 1st of the upcoming calendar year; or (2) the Lessor Monthly Basic Rent for the current period, as increased by the annual percentage change in the Consumer Price Index, all Urban Consumers, for the Los Angeles-Orange-Riverside County Area, as determined by the United States Department of Labor Statistics, or its successor, measured using the most recent October to October data. In no event shall the Lessor Monthly Basic Rent for a given January 1st through December 31st time period be less than the Lessor Monthly Basic Rent applicable during the prior time period.

(C) Adjustment at End of Terms. At the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, if applicable, Lessor shall have the right, at Lessor's sole option, to revise the amount of the Lessor Monthly Basic Rent to reflect a fair market rental rate ("Revised Lessor Monthly Basic Rent"). At least ninety (90) calendar days before the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, as applicable, Lessor shall offer to meet and confer in good faith with Lessee concerning the amount of the proposed Revised Lessor Monthly Basic Rent. If Lessee disagrees with the proposed Revised Lessor Monthly Basic Rent and if the Parties are unable to agree upon a mutually acceptable Revised Lessor Monthly Basic Rent, either Party shall be entitled to exercise its discretion not to extend this Sub-Lease for an additional term as provided for in Section 3.3 (Term) above. If agreed upon, the Revised Lessor Monthly Basic Rent revised in accordance with this Section shall still be subject to adjustment pursuant to Section 3.4.1(B) (Automatic Annual Increase).

(D) Lessor Monthly Basic Rent Abatement - Runway Closures of 8 Consecutive Days or More Due to Flooding. If, in the determination of Lessor in its sole but reasonable discretion, the Airport runway is prevented from being used in its entirety for at least eight (8) consecutive calendar days by aircraft due to flooding, Lessor shall declare a rent abatement period for the Lessor Monthly Basic Rent ("Rent Abatement Period"). The Rent Abatement Period shall equal the number of days from the eighth (8th) consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft until the last consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft. As used herein, the term "full day" shall mean from 12:00 AM through 11:59 PM of the same day. During the Rent Abatement Period, Lessee is not obligated to pay to Lessor the Lessor Monthly Basic Rent which would have been paid for any space for which Lessee has a written lease agreement and for which Lessee fails to collect rent due solely to the fact that the sub-lessee refuses to pay rent due to the flooding. Accordingly, Lessee shall remain obligated to pay to Lessor the Lessor Monthly Basic Rent for any space for which Lessee does not have a written lease agreement or for which Lessee collects rent during the Rent Abatement Period.

3.4.2 Aircraft Tie-Down Fee.

(A) Amount of Monthly Aircraft Tie-Down Fee. The Rate Sheet attached hereto as Exhibit "B" also details the highest tie-down rent applicable to tie-down space Lessee maintains on the Premises. Beginning on June 1, 2018 and thereafter throughout the Term of this Sub-Lease, for each aircraft stored, parked or tied down on the Premises on the date the monthly report provided for in Section 3.10.4 of this Sub-Lease is required to be submitted to Lessor, each month Lessee shall pay to Lessor the greater of the following: (1) the Tie-Down Flat Rate defined herein; or (2) twenty-two percent (22%) of the highest tie-down rate described in the Rate Sheet ("Aircraft Tie-Down Fee"). As used herein, the initial "Tie-Down Flat Rate" shall be equal to seven dollars and fifty cents (\$7.50) and shall be subject to adjustment in accordance with this Section 3.4.2(B) (Automatic Annual Adjustment – Tie Down Flat Rate) below. The Aircraft Tie-Down Fee has no relation to any amounts actually charged or received by Lessee, but relates only to the Tie-Down Flat Rate or the highest tie-down rate described in the Rate Sheet. In no event shall Lessee charge to any person or entity an amount greater than the highest tie-down rate described in the Rate Sheet, unless and until the Rate Sheet is amended to reflect such higher amount, which amended Rate Sheet shall be documented through a duly authorized and executed amendment to this Sub-Lease.

(B) Automatic Annual Increase - Tie-Down Flat Rate. Beginning in 2019, the Tie-Down Flat Rate shall be increased on January 1st of each year by the annual percentage change in the Consumer Price Index, all Urban Consumers, for the Los Angeles-Orange-Riverside County Area, as determined by the United States Department of Labor Statistics, or its successor, measured using the most recent October to October data. In no event shall the Tie-Down Flat Rate for a given January 1st through December 31st time period be less than the Tie-Down Flat Rate during the prior time period. The new Tie-Down Flat Rate shall be included on the Rate Sheet applicable for the upcoming January 1st through December 31st time period.

(C) Automatic Annual Increase – Aircraft Tie-Down Fee. Beginning in 2018, on or before December 1st of each year, Lessee shall provide to Lessor an updated Rate Sheet which details the highest tie-down rent applicable to tie-down space as of January 1st of the upcoming calendar year. The new Aircraft Tie-Down Fee for the upcoming January 1st through December 31st time period shall also be included on the Rate Sheet and it shall be equal to the greater of the following: (1) twenty-two percent (22%) of the highest rent to be applicable to each space category as of January 1st of the upcoming calendar year; (2) the Tie-Down Flat Rate as adjusted pursuant to Section 3.4.2(B) (Automatic Annual Adjustment – Tie Down Flat Rate); or (3) the Aircraft Tie-Down Fee for the current period, as increased by the annual percentage change in the Consumer Price Index, all Urban Consumers, for the Los Angeles-Orange-Riverside County Area, as determined by the United States Department of Labor Statistics, or its successor, measured using the most recent October to October data.

(D) Adjustment at End of Terms. At the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, if applicable, Lessor shall have the right, at Lessor's sole option, to revise the amount of the Aircraft Tie-Down Fee to reflect a fair market rental rate ("Revised Aircraft Tie-Down Fee"). At least ninety (90) calendar

days before the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, as applicable, Lessor shall offer to meet and confer in good faith with Lessee concerning the amount of the proposed Revised Aircraft Tie-Down Fee. If Lessee disagrees with the proposed Revised Aircraft Tie-Down Fee and if the Parties are unable to agree upon a mutually acceptable Revised Aircraft Tie-Down Fee, either Party shall be entitled to exercise its discretion not to extend this Sub-Lease for an additional term as provided for in Section 3.3 (Term) above. If agreed upon, the Revised Aircraft Tie-Down Fee revised in accordance with this Section shall still be subject to adjustment pursuant to Section 3.4.2(C) (Automatic Annual Increase – Aircraft Tie-Down Fee).

(E) Aircraft Tie-Down Fee Abatement - Runway Closures of 8 Consecutive Days or More Due to Flooding. If, in the determination of Lessor in its sole but reasonable discretion, the Airport runway is prevented from being used in its entirety for at least eight (8) consecutive calendar days by aircraft due to flooding, Lessor shall declare a fee abatement period for the Aircraft Tie-Down Fee ("Aircraft Tie-Down Fee Abatement Period"). The Aircraft Tie-Down Fee Abatement Period shall equal the number of days from the eighth (8th) consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft until the last consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft. As used herein, the term "full day" shall mean from 12:00 AM through 11:59 PM of the same day. During the Aircraft Tie-Down Fee Abatement Period, Lessee is not obligated to pay to Lessor the Aircraft Tie-Down Fee which would have been paid for any tie-down space for which Lessee has a written lease agreement and for which Lessee fails to collect tie-down or similar rent due solely to the fact that the sub-lessee refuses to pay such rent due to the flooding. Accordingly, Lessee shall remain obligated to pay to Lessor the Aircraft Tie-Down Fee for any space for which Lessee does not have a written lease agreement or for which Lessee collects rent during the Aircraft Tie-Down Fee Abatement Period.

3.4.3 Common Use Fee.

(A) Amount of Monthly Common Use Fee. The Rate Sheet attached hereto as Exhibit "A" also details the highest tie-down rent applicable to tie-down space Lessee maintains on the Premises. Beginning on June 1, 2018 and thereafter throughout the Term of this Sub-Lease, for each aircraft stored, parked, tied-down or hangared on the Premises, each month Lessee shall pay to Lessor twenty percent (20%) of the highest tie-down rate described in the Rate Sheet ("Common Use Fee"). The Common Use Fee has no relation to any amounts actually charged or received by Lessee, but relates only to the highest tie-down rate described in the Rate Sheet. In no event shall Lessee charge to any person or entity an amount greater than the highest tie-down rate described in the Rate Sheet, unless and until the Rate Sheet is amended to reflect such higher amount, which amended Rate Sheet shall be documented through a duly authorized and executed amendment to this Sub-Lease.

(B) Application to Lessee's Aircraft. The Common Use Fee shall not apply to any aircraft owned or leased by Lessee.

(C) Automatic Annual Increase. Beginning in 2018, on or before

December 1st of each year, Lessee shall provide to Lessor an updated Rate Sheet which details the highest tie-down rent applicable to tie-down space as of January 1st of the upcoming calendar year. The new Common Use Fee for the upcoming January 1st through December 31st time period shall also be included on the Rate Sheet and it shall be equal to the greater of the following: (1) twenty percent (20%) of the highest rent to be applicable to each space category as of January 1st of the upcoming calendar year; or (2) the Common Use Fee for the current period, as increased by the annual percentage change in the Consumer Price Index, all Urban Consumers, for the Los Angeles-Orange-Riverside County Area, as determined by the United States Department of Labor Statistics, or its successor, measured using the most recent October to October data. In no event shall the Common Use Fee for a given January 1st through December 31st time period be less than the Common Use Fee applicable during the prior time period.

(D) Adjustment at End of Terms. At the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, if applicable, Lessor shall have the right, at Lessor's sole option, to revise the amount of the Common Use Fee to reflect a fair market rental rate ("Revised Common Use Fee"). At least ninety (90) calendar days before the end of the Initial Term, First Additional Term, Second Additional Term and any other additional terms, as applicable, Lessor shall offer to meet and confer in good faith with Lessee concerning the amount of the proposed Revised Common Use Fee. If Lessee disagrees with the proposed Revised Common Use Fee and if the Parties are unable to agree upon a mutually acceptable Revised Common Use Fee, either Party shall be entitled to exercise its discretion not to extend this Sub-Lease for an additional term as provided for in Section 3.3 (Term) above. If agreed upon, the Revised Common Use Fee revised in accordance with this Section shall still be subject to adjustment pursuant to Section 3.4.3(C) (Automatic Annual Increase).

(E) Common Use Fee Abatement - Runway Closures of 8 Consecutive Days or More Due to Flooding. If, in the determination of Lessor in its sole but reasonable discretion, the Airport runway is prevented from being used in its entirety for at least eight (8) consecutive calendar days by aircraft due to flooding, Lessor shall declare a fee abatement period for the Common Use Fee ("Common Use Fee Abatement Period"). The Common Use Fee Abatement Period shall equal the number of days from the eighth (8th) consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft until the last consecutive full day on which the flooding prevented the Airport runway from being used in its entirety by aircraft. As used herein, the term "full day" shall mean from 12:00 AM through 11:59 PM of the same day. During the Common Use Fee Abatement Period, Lessee is not obligated to pay to Lessor the Common Use Fee which would have been paid for any space used to store, park, tie-down or hangar aircraft on the Premises and for which Lessee has a written lease agreement and for which Lessee fails to collect tie-down or similar rent due solely to the fact that the sub-lessee refuses to pay such rent due to the flooding. Accordingly, Lessee shall remain obligated to pay to Lessor the Common Use Fee for any space for which Lessee does not have a written lease agreement or for which Lessee collects rent during the Common Use Fee Abatement Period.

3.4.4 Payment Provisions.

(A) Payment Date. Lessee shall make all payments in advance on the tenth (10th) day of each and every calendar month and without demand, deduction, offset or abatement. Payments for any partial calendar month shall be prorated appropriately, and for a partial calendar month at the beginning of the Initial Term, such partial month's payment shall be paid to Lessor on the first day of the first full calendar month following the Commencement Date.

(B) Place of Payment. All payments shall be made payable to the City of Corona and shall be paid at the Corona City Hall located at 400 South Vicentia Avenue, Corona, California or at such other address as provided by Lessor pursuant to Section 3.16.6 (Notices).

(C) Late Payments. Any required payment that is not paid to Lessor within the timeframes set forth herein shall commence to bear interest at the rate of ten percent (10%) per annum from the date due until fully paid. Neither the accrual nor Lessee's payment of interest shall be deemed to cure any default by Lessee under this Sub-Lease.

3.4.5 July 1, 2017 Through May 31, 2018. Since Lessee is a current holdover tenant with the consent of Lessor, from the Commencement Date through May 31, 2018, the rental rates and other fees paid by Lessee to Lessor under their existing lease agreements for the Premises shall continue to apply.

3.5 Taxes, Fees & Other Financial Obligations.

3.5.1 Lessee Obligations. Lessee shall pay before delinquency any and all property or other taxes, assessments, fees, or charges, including, but not limited to, possessory interest taxes, which may be levied or assessed upon any personal property, improvements or fixtures located on the Premises which have been installed by, which belonging to or for which Lessee is responsible. Lessee shall also pay all license or permit fees necessary or required by applicable federal, state or local laws, rules or regulations for the conduct of its operation and/or levied in accordance with Section 107 of the California Revenue and Taxation Code. Lessee recognizes and understands that this Sub-Lease may create a possessory interest subject to taxation and that Lessee shall be solely responsible for the payment thereof. Lessee shall provide an annual list of all aircraft hangars and/or tie down on the Premises and any additional information needed by Riverside County for tax purposes.

3.5.2 Tax or Other Contests. If Lessee contests the legal validity or amount of any taxes, assessments, fees, or charges for which Lessee is responsible under this Sub-Lease or applicable federal, state or local laws, rules or regulations, Lessee shall ensure that no lien is levied or recorded against the Premises and shall take all steps necessary to protect against such liens.

3.5.3 Payment by Lessor for Lessee. Should Lessee fail to pay such taxes,

assessments, fees or charges, Lessor may, at its option, pay such taxes, assessments, fees or charges, together with all penalties and interest which may have been added thereto by reason of Lessee's delinquency or default, and may likewise redeem the Premises, or any part thereof, from any tax sale or sales; provided, however that Lessor shall not have this right if Lessee has formally and lawfully appealed its obligation to pay any such taxes, assessments, fees or charges and the imposing taxing agency has declared in writing that such taxes, assessments, fees or charges are not due and payable during the pendency of the appeal. Any such amounts so paid by Lessor shall become immediately due and payable by Lessee to Lessor, together with interest thereon at the rate of ten percent (10%) per annum from the date of payment by Lessor until paid by Lessee, and Lessee shall defend, indemnify and hold harmless the City, as provided for in Section 3.12 (Indemnity), from and against any and all costs or expenses incurred by City to collect such amounts owed by Lessee to Lessor. Notwithstanding the foregoing, Lessor shall not pay any such taxes, assessments, fees, charges, penalties or interest without first having provided Lessee with thirty (30) calendar days written notice and an opportunity to fully pay such taxes, assessments, fees, charges, penalties or interest as required by any applicable laws, rules or regulations within the same thirty (30) calendar day period.

3.6 Utilities. Lessee shall pay without abatement, deduction or offset any and all utility bills of whatever kind or nature incurred upon the Premises during the term of this Sub-Lease, including, but not limited to, charges for lights, water, gas, telephone, including facsimile and internet service, sewage, heating, garbage disposal, electricity, power, janitorial service, security and/or alarm services, or any other utility or other similar charges for the Premises.

3.7 Uses. Lessee shall use the Premises solely for the parking, storing, tying down, maintenance and repair of aircraft, as well as other lawful aviation-based purposes incidental thereto which are acceptable to Lessor and the USACOE in their proprietary capacity. Lessor's proprietary approval shall be subject to its sole but reasonable discretion.

3.8 Maintenance, Repairs & Improvements.

3.8.1 As Is Condition. Lessee represents that it has inspected and examined the Premises, that no statements or representations as to the condition or repair of the Premises have been made by Lessor, and Lessee accepts the Premises in their present condition.

3.8.2 Maintenance & Repairs. Lessee, at Lessee's sole cost and expense, shall maintain and repair the Premises and any buildings or improvements on the Premises in good and safe condition and in compliance with all applicable laws, ordinances, rules and regulations. Without limiting the foregoing, Lessee agrees to keep the grass mowed, weeds cut and potholes repaired. Lessee specifically waives all rights to make repairs at the expense of Lessor as provided in Section 1942 of the California Civil Code, or by any other law, statute or ordinance.

3.8.3 Surfacing & Landscaping. Lessee, at its sole cost and expense, shall maintain the hardscape surfaces and landscaping of the area of the Airport between the south edge of the Airport Taxi way and the northern asphalt edge of Aviation Drive. The materials and configuration of said landscaping and surfacing shall be subject to the approval of the Airport Manager and shall be completed within a reasonable period of time as determined by the Airport

Manager.

3.8.4 Tie Down Surface Covering. Lessee, at its sole cost and expense, shall provide and maintain surface covering (Asphalt Concrete) for the tie down areas of the Premises. Such surface covering shall be of sufficient quality and composition to satisfactorily prevent unraveling, cracking or potholing of the tie down areas.

3.8.5 Waste or Nuisance. Lessee shall not use or allow any of its licensees or subtenants to use the Premises in any manner or for any purpose that will constitute waste, nuisance, or unreasonable annoyance to other occupants of the Airport or to the owners or occupants of adjacent properties. Lessee's responsibility is limited to doing everything within its power to have its licensees and subtenants to adhere to the provisions of this Paragraph or to initiate eviction proceedings; provided, however, that as provided for in Section 3.15.2 (Events of Default) Lessor may hold Lessee in breach of this Sub-Lease if Lessee fails to have its licensees or subtenants adhere to the provisions of this Paragraph or fails to successfully evict the offending licensee or subtenant.

3.8.6 Hazardous Substances. Lessee agrees that any and all handling, transportation, generation, storage, treatment, disposal, release or use of Hazardous Substances by Lessee or its officers, members, agents, servants, employees, permittees, sub-lessees, invitees, or guests (collectively, the "Lessee Responsible Parties") in or about the Premises shall strictly comply with all applicable federal, state and local environmental laws, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act of 1976, the Clean Water Act, and the Toxic Substances Control Act, as well as any rules or regulations, such as any applicable Best Management Practices ("BMPs"), implemented thereto ("Hazardous Substances Laws"). As used herein, "Hazardous Substances" shall include, but shall not be limited to, petroleum or any petroleum product, lead, asbestos, polychlorinated biphenyl, any substance known by the State of California to cause cancer and/or reproductive toxicity, any substance, chemical or waste that is defined as a "hazardous substance," "hazardous material," "toxic substance," "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," in any applicable federal, state or local law or regulation, and/or any substance, chemical or waste that is identified as hazardous, toxic or dangerous in any applicable Hazardous Substances Laws.

(A) Best Management Practices Required. Lessee shall not cause, contribute to, permit, or facilitate any discharge of Hazardous Substances to the municipal storm drain systems or flood control channel and shall ensure that Hazardous Substances do not directly or indirectly impact "Receiving Waters" (as used herein, Receiving Waters include, but are not limited to, rivers, creeks, streams, estuaries, lakes, harbors, bays and oceans). Lessee and all of the Lessee Responsible Parties shall employ BMPs to ensure compliance with all applicable Hazardous Substances Laws. BMPs are schedules of activities, prohibitions of practices, maintenance procedures, techniques, measures, or structural controls used for a given set of conditions to prevent or reduce the release of Hazardous Substances and to manage Hazardous Substances. Lessee shall select and implement BMPs appropriate to the conditions and activities conducted on the Premises, which BMPs may vary as conditions, activities, and regulatory standards change, including, without limitation, any BMPs required by any permit applicable to Lessee's activities on the Premises. Lessor retains authority to review and approve

all BMPs, to require Lessee to implement BMPs designed to ensure compliance with all applicable Hazardous Substances Laws, and to require Lessee to describe all operations, activities, BMPs and any other information in the written Hazardous Substances program provided for in Section 3.8.7(D) below.

(B) Remedial Actions; Current Awareness. If the presence of Hazardous Substances on the Premises caused or permitted by Lessee or the Lessee Responsible Parties results in the contamination or deterioration of the Premises or any water or soil, Lessee shall promptly take all action necessary to investigate and remedy that contamination. Lessor represents that it is unaware of any contamination at the time of the execution of this Sub-Lease, based on its own prior use of the Premises and the letter from the County of Riverside, Community Health Agency, Department of Environmental Health, dated August 25, 2003.

(C) Permitted Uses. Lessee and the Lessee Responsible Parties shall not handle, transport, generate, store, treat, dispose, release or use any Hazardous Substances on, under, or about the Premises, except that they may use: (i) small quantities of common chemicals, such as adhesives, lubricants, and cleaning fluids associated with permitted uses of the Premises; and (ii) other Hazardous Substances that are necessary for the permitted uses of the Premises and for which Lessor gives written consent prior to the Hazardous Substances being brought onto the Premises. At any time during the term of this Sub-Lease, Lessee shall, within ten (10) days after written request from Lessor, disclose in writing all Hazardous Substances that are being used by Lessee or the Lessee Responsible Parties on the Premises, the nature of the use, and the manner of handling, transportation, generation, storage, treatment, disposal, release and use.

(D) Training and Qualification. Lessee will ensure that Lessee and all Lessee Responsible Parties are properly trained and qualified on the use of Hazardous Substances. Lessee shall provide, at its sole cost, all education and training to itself and the Lessee Responsible Parties, and must have an updated written program for the handling, transportation, generation, storage, treatment, disposal, release or use of Hazardous Substances on the Premises throughout the term of this Sub-Lease.

(E) Right of Access. In addition to any other right of access contained in this Sub-Lease, Lessor may enter the Premises and/or review Lessee's records at all reasonable times to ensure that the activities conducted on the Premises comply with this Section 3.8.7. Lessor may require, and if required, Lessee shall implement a self-evaluation program to demonstrate compliance with the requirements of this this Section 3.8.7.

(F) Lessor Maintenance at Lessee's Expense. In the event Lessee or the Lessee Responsible Parties fail to properly comply with the Hazardous Substances Laws, including, but not limited to, implementing or maintaining any BMPs required by the nature of the conditions or activities on the Premises, within five (5) calendar days after receiving written notice from Lessor, or in the event of an emergency determined by Lessor, after twenty-four (24) hours' written notice, Lessor is hereby authorized to take any necessary actions to gain compliance and charge the entire cost and expense to the Lessee. Any such costs and expenses may include any administrative costs and attorneys' fees, as well as interest thereon at the rate of

ten percent (10%) per annum from the date of the notice of expense until paid in full. Nothing in this Sub-Lease creates an obligation by Lessor to maintain or repair any compliance methods, including BMPs, nor does this Sub-Lease prohibit Lessor from pursuing other legal recourse against Lessee.

(G) Indemnity. Lessee agrees to defend, indemnify and hold harmless the Lessor Indemnity Parties, pursuant to the provisions of Section 3.12 (Indemnity), resulting from or arising out of the use, storage, treatment, transportation, release or disposal of Hazardous Substances on or about the Airport, including the Premises, by Lessee or the Lessee Responsible Parties. Lessor reserves the right to defend any enforcement action or civil action brought against Lessor resulting from or arising out of the use, storage, treatment, transportation, release or disposal of Hazardous Substances on or about the Airport, including the Premises. Lessee hereby agrees to be bound by, and to reimburse Lessor for all damages, liabilities, losses, costs, expenses or obligations associated with any such enforcement action or civil action, including, but not limited to, any settlement reached between Lessor and any third party.

3.8.7 Construction. Lessee may, subject to the prior written approval of Lessor in its proprietary capacity, construct buildings, restrooms and other improvements upon the Premises, as well as otherwise improve or modify the Premises. Lessor's proprietary approval shall be subject to its sole but reasonable discretion. In addition, all construction shall be performed pursuant to all applicable federal, state and local laws, rules and regulations, including, but not limited to, all City of Corona standard plan submission and approval procedures.

3.8.8 Signs. Lessee may, subject to the prior written approval of Lessor in its proprietary capacity, erect and maintain signs on the Premises at its sole cost and expense. Lessor's proprietary approval shall be subject to its sole but reasonable discretion. In addition, all signs shall be performed pursuant to all applicable federal, state and local laws, rules and regulations, including, but not limited to, all City of Corona standard plan submission and approval procedures. Finally, all signs must be approved by the USACOE.

3.8.9 Title to Improvements. Title to all existing improvements and the improvements placed on the Premises by Lessee shall be held by Lessee. All of the improvements shall remain the property of Lessee and shall not be deemed to be fixtures.

3.8.10 Removal of Improvements. Within one hundred and eighty (180) calendar days after the expiration or early termination of this Sub-Lease, Lessee shall remove any and all buildings, improvements, fixtures and equipment from the Premises, including any buildings, improvements, fixtures and equipment on the Premises as of the date of this Sub-Lease, and shall restore the Premises to the condition of asphalt and/or concrete and in approximately level condition and free from all nuisance and dangerous and defective conditions. Removal of improvements shall be done in a manner as not to physically injure or damage the Premises, and in the event of unavoidable injury or damage, Lessee agrees, at its own cost and expense, to repair such injury or damage and restore the Premises. Should Lessee fail to remove any buildings, improvements, fixtures or equipment from the Premises after such one hundred and eighty (180) calendar day period, title to such buildings, improvements, fixtures and equipment,

Section 3.8.9 (Title to Improvements) notwithstanding, shall transfer to Lessor who shall at its option retain them for itself or remove and dispose of them in a reasonable manner at the expense of Lessee. Lessee shall reimburse Lessor for such expenses within thirty (30) calendar days of a written demand for payment. Lessee's obligations pursuant to this Section 3.8.10 (Removal of Improvements) shall survive the expiration or other termination of this Sub-Lease.

3.8.11 Compliance with National Pollution Discharge Elimination System Rules. Lessee and all Lessee Responsible Parties (as defined in Section 3.8.7 above) shall comply with all requirements of the federal Water Pollution Control Act ("Clean Water Act") (33 U.S.C. § 1251 et seq.), the Porter-Cologne Water Quality Control Act (Water Code, § 13000 et seq.), Chapter 13.27 of the Corona Municipal Code, and any and all regulations, policies or permits issued pursuant to any such authority, including, but not limited to, the City's Drainage Area Management Plan ("DAMP"), Local Implementation Plan ("LIP"), General Permit for Storm Water Discharges Associated with Industrial Activities issued by the State Water Resources Control Board (currently, Order No. NPDES CAS000001) and any other federal, state, or local law, regulation, permit, order or regulatory action relating to the discharge of pollutants to waters of the United States or State, as they currently exist or may hereafter be amended (collectively, "Water Quality Laws").

(A) **Best Management Practices Required.** Lessee shall not cause, contribute to, permit, or facilitate any discharge of pollutants to the municipal storm drain systems or flood control channel and shall ensure that pollutants do not directly or indirectly impact "Receiving Waters" (as defined in Section 3.8.7(A) above). Lessee and all of the Lessee Responsible Parties (as defined in Section 3.8.7 above) shall employ best management practices ("BMPs") to ensure compliance with Water Quality Laws. BMPs are schedules of activities, prohibitions of practices, maintenance procedures, techniques, measures, or structural controls used for a given set of conditions to prevent or reduce the discharge of pollutants and to manage the quantity and improve the quality of stormwater runoff. Lessee shall select and implement BMPs appropriate to the conditions and activities conducted on the Premises, which BMPs may vary as conditions, activities, and regulatory standards change, including, without limitation, any BMPs required by any permit applicable to Lessee's activities on the Premises. BMPs may be found in the LIP in the form of BMP Fact Sheets, which may be modified during the term of the Sub-Lease. Lessor retains authority to review and approve all BMPs, to require Lessee to implement BMPs designed to ensure compliance with all Water Quality Laws, and to require Lessee to develop a water quality management plan ("WQMP") describing all operations, activities, BMPs and any other information that Lessor may require. Lessee agrees to maintain copies of the current BMP Fact Sheets or WQMP on the Premises throughout the term of this Sub-Lease. The BMP Fact Sheets or WQMP shall be readily available upon request from Lessor. Lessor may modify the required BMPs as the conditions and activities on the Premises change without requiring an amendment to this Sub-Lease.

(B) **Training and Qualification.** Lessee will ensure that Lessee and all Lessee Responsible Parties are properly trained and qualified in water quality control measures to ensure compliance with Water Quality Laws. Lessee shall provide, at its sole cost, all education and training to itself and the Lessee Responsible Parties necessary to ensure compliance with all Water Quality Laws and proper implementation of BMPs.

(C) Right of Access. In addition to any other right of access contained in this Sub-Lease, Lessor may enter the Premises and/or review Lessee's records at all reasonable times to ensure that the activities conducted on the Premises comply with the requirements of all Water Quality Laws. Lessor may require, and if required, Lessee shall implement a self-evaluation program to demonstrate compliance with the requirements of this Section 3.8.12.

(D) Lessor Maintenance at Lessee's Expense. In the event Lessee or the Lessee Responsible Parties fail to properly comply with the Water Quality Laws, including, but not limited to, implementing or maintaining any BMPs required by the nature of the conditions or activities on the Premises, within five (5) calendar days after receiving written notice from Lessor, or in the event of an emergency determined by Lessor, after twenty-four (24) hours' written notice, Lessor is hereby authorized to take any necessary actions to gain compliance and charge the entire cost and expense to the Lessee. Any such costs and expenses may include any administrative costs and attorneys' fees, as well as interest thereon at the rate of ten percent (10%) per annum from the date of the notice of expense until paid in full. Nothing in this Sub-Lease creates an obligation by Lessor to maintain or repair any compliance methods, including BMPs, nor does this Sub-Lease prohibit Lessor from pursuing other legal recourse against Lessee.

(E) Indemnity. Lessee agrees to defend, indemnify and hold harmless the Lessor Indemnity Parties, pursuant to the provisions of Section 3.12 (Indemnity), resulting from or arising out of the noncompliance with the Water Quality Laws on or about the Airport, including the Premises, by Lessee or the Lessee Responsible Parties. Lessor reserves the right to defend any enforcement action or civil action brought against Lessor for the failure of Lessee or any of the Lessee Responsible Parties to comply with any Water Quality Law. Lessee hereby agrees to be bound by, and to reimburse Lessor for all damages, liabilities, losses, costs, expenses or obligations associated with any such enforcement action or civil action, including, but not limited to, any settlement reached between Lessor and any third party.

3.9 Common Rights of Use. Lessee shall have in common with all current and future users of the Airport the use of other Airport facilities as are necessary and convenient for Lessee's operation, subject to full compliance by Lessee with all rules and regulations of Lessor and the USACOE pertaining to the Airport.

3.10 Records & Accounts.

3.10.1 Retention of Records. Lessee agrees to and shall keep records and reports and books of account substantially in accordance with generally accepted accounting principles to reflect accurately the gross receipts, expenditures, and net income to Lessee concerned with and related to its operations and activities on the Premises. Lessee further agrees that all of its gross receipts from every source related to said operation and activity shall be accurately recorded on its books and records and books of accounts, and that said books, records and books of account may be audited from time to time by such person or persons as Lessor designates.

3.10.2 Annual Report. If requested by the USACOE, Lessee agrees to and shall furnish Lessor within thirty (30) days after the end of each fiscal year a statement of all of its gross receipts, expenditures and net income concerning and related to its operation and activities on the Premises.

3.10.3 Inspection of Records. Lessee agrees to and shall give to Lessor and its duly authorized representatives, including, but not limited to, a reputable independent accountant, the right of reasonable access to inspection and examination of its books, records and reports concerning and related to income from and expenditures for its operations and activities on the Premises. Lessee further agrees that its financial books, records and accounts pertaining to its operations and activities on the premises shall be maintained intact for a period of not less than five (5) years.

3.10.4 Monthly Report. Lessee agrees to and shall for the term of this Sub-Lease submit to the Airport Manager of Lessor, no later than the tenth (10th) day of each and every month, a monthly report concerning certain phases of Lessee's operations on the Premises, including, but not limited to, an inventory of all aircraft based on the Premises and copies of insurance policies for each, an inventory of all aircraft with a tie-down agreement on the Premises, and a list of the number of students being trained by Lessee or its representatives, if applicable. The form and required content of said monthly operating report shall be subject to modification from time to time by Lessor after Lessor's consultation with Lessee concerning any proposed modifications.

3.11 Insurance.

3.11.1 Time for Compliance. Lessee shall not commence work under this Sub-Lease until it has provided evidence satisfactory to the Lessor that it has secured all insurance required under this section. In addition, Lessee shall not allow any sub-lessee to commence work on any sublease until it has provided evidence satisfactory to Lessor that the sub-lessee has secured all insurance required under this section.

3.11.2 Minimum Requirements. Lessee shall, at its expense, procure and maintain insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the Sub-Lease by the Lessee, its agents, representatives, employees or sub-lessees. Except as provided for in Section 3.11.5 below, Insurance shall be maintained for the duration of the Sub-Lease. Such insurance shall meet at least the following minimum levels of coverage:

(A) Minimum Scope of Insurance. Coverage shall be at least as broad as the following: (1) Airport Liability Insurance: Since Lessee and its sub-lessees are or would be fixed-based operators (FBO), an occurrence based airport liability insurance policy shall be provided to cover products and completed operations, property damage and bodily injury, including owned and non-owned aircraft coverage; (2) Commercial General Liability (CGL): Insurance Services Office Form CG 00 01 covering CGL on an "occurrence" basis, including bodily injury, property damage, products and completed operations, personal and advertising injury; (3) Automobile Liability: Insurance Services Office Form CA 0001, Code 1 (any auto) or,

if Lessee has no owned autos, Code 8 (hired autos) and Code 9 (non-owned autos); (4) Workers' Compensation and Employer's Liability: Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance; (5) Pollution Legal Liability and Remediation and/or Errors & Omissions: Coverage applicable to underground or above ground fuel storage tanks, fueling or refueling operations. This policy shall include coverage for bodily injury, property damage, personal injury and environmental site restoration, including fines and penalties in accordance with applicable EPA or state regulations; (6) Hangerkeepers Liability: Coverage for damage to non-owned aircraft in the care, custody or control of Lessee or its agents, representatives, employees or sub-lessees; (7) Property Insurance: Fire Legal Liability coverage on all real property being leased, including improvements and betterments owned by the Lessor, and shall name the Lessor as loss payee. Lessee shall also provide fire insurance on all personal property contained within or on the Premises. The policy must be written on an "all risks" basis, excluding earthquake and flood; and (8) Interruption of Business Insurance: Coverage if the Premises are destroyed or rendered inaccessible by a risk insured against by a policy of standard fire and extended coverage insurance, with vandalism and malicious mischief endorsements.

(B) Minimum Limits of Insurance. Lessee shall maintain limits no less than: (1) Airport Liability Insurance: \$5,000,000 per occurrence; (2) Commercial General Liability (CGL): \$2,000,000 per occurrence for bodily injury, personal injury, advertising injury and property damage. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this Sub-Lease/location or the general aggregate limit shall be twice the required occurrence limit; (3) Automobile Liability: \$1,000,000 per accident for bodily injury and property damage; (4) Workers' Compensation and Employer's Liability: Workers' Compensation limits as required by the Labor Code of the State of California. Employer's Liability limits of \$1,000,000 per accident for bodily injury or disease; (5) Pollution Legal Liability and Remediation and/or Errors & Omissions: \$1,000,000 per claim or occurrence and \$2,000,000 aggregate per policy period of one (1) year; (6) Hangerkeepers Liability: Not less than \$1,000,000 combined single limit per occurrence and \$1,000,000 aggregate; (7) Property Insurance: The policy shall insure for not less than 90% of the actual cash value of the personal property; and (8) Interruption of Business Insurance: Coverage by which the minimum monthly Basic Rent (Hangar Fee), Aircraft Tie-Down Fee and Common Use Fee will be paid to Lessor for up to one (1) year.

3.11.3 Insurance Endorsements. The insurance policies shall contain the following provisions, or Lessee shall provide endorsements on forms supplied or approved by Lessor to add the following provisions to the insurance policies.

(A) General Liability. The general liability policy shall be endorsed to state that: (1) Lessor and the United States Army Core of Engineers (USACOE), their directors, officials, officers, employees, agents, and volunteers shall be covered as additional insureds with respect to liability arising out of work or operations performed by or on behalf of the Lessee, including materials, parts or equipment furnished in connection therewith (the endorsement form shall be at least as broad as ISO Form CG 20 10 11 85 or both CG 20 37 and one of the following: CG 20 10, CG 20 26, CG 20 33 or CG 20 38); and (2) the insurance coverage shall be primary insurance as respects Lessor and the USACOE, their directors, officials, officers,

employees, agents, and volunteers (the endorsement form shall be at least as broad as ISO CG 20 01 04 13). Any insurance or self-insurance maintained by Lessor, its directors, officials, officers, employees, agents, and volunteers shall be excess of the Lessee's insurance and shall not be called upon to contribute with it in any way.

(B) Automobile Liability. The automobile liability policy shall be endorsed to state that: (1) Lessor and the USACOE, their directors, officials, officers, employees, agents, and volunteers shall be covered as additional insureds with respect to the ownership, operation, maintenance, use, loading or unloading of any auto owned, leased, hired or borrowed by the Lessee or for which the Lessee is responsible; and (2) the insurance coverage shall be primary insurance as respects Lessor and the USACOE, their directors, officials, officers, employees, agents, and volunteers, or if excess, shall stand in an unbroken chain of coverage excess of the Lessee's scheduled underlying coverage. Any insurance or self-insurance maintained by Lessor, its directors, officials, officers, employees, agents, and volunteers shall be excess of the Lessee's insurance and shall not be called upon to contribute with it in any way. If applicable, the Automobile Liability policy shall be endorsed to include Transportation Pollution Liability insurance, covering materials to be transported by Lessee pursuant to the Agreement. This coverage may also be provided by the Pollution Legal Liability and Remediation policy.

(C) Waiver of Subrogation – Workers' Compensation and Employer's Liability Coverage. The insurer shall agree to waive all rights of subrogation against Lessor and the USACOE, their directors, officials, officers, employees, agents, and volunteers for losses paid under the terms of the insurance policy which arise from work performed by the Lessee.

(D) Property Insurance: The property insurance policy shall be endorsed to state that Lessor and the USACOE, their directors, officials, officers, employees, agents, and volunteers shall be covered as additional insureds. Any insurance or self-insurance maintained by Lessor, its directors, officials, officers, employees, agents, and volunteers shall be excess of the Lessee's insurance and shall not be called upon to contribute with it in any way.

(E) All Coverages. If Lessee maintains broader coverage and/or higher limits than the minimums shown above, Lessor and the USACOE shall be entitled to the broader coverage and/or higher limits maintained by Lessee. Thus, any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to Lessor and the USACOE.

3.11.4 Other Provisions; Endorsements Preferred. Lessee shall endeavor to provide endorsements regarding the following provisions, but nonetheless understands, acknowledges and agrees that the following provisions shall apply and that failure to comply shall be considered to be a breach of this Sub-Lease by Lessee:

(A) Waiver of Subrogation – All Other Policies. Lessee hereby waives all rights of subrogation any insurer of Lessee's may acquire against the Lessor and the USACOE, their directors, officials, officers, employees, agents, and volunteers for losses paid under the terms of any insurance policy which arise from work performed by the Lessee. Lessee understands, acknowledges and agrees that this provision is in full force and effect even if the

Lessor does not receive a waiver of subrogation endorsement from the insurer.

(B) Notice. Lessee shall either: (1) require its insurer to provide thirty (30) days prior written notice to the Lessor before coverage is suspended, voided, or canceled; or (2) notify Lessor in writing that such notice is not available and forward any notice of such actions to the Lessor within two (2) business days from date of receipt by Lessee. Lessee understands, acknowledges and agrees that this provision is in full force and effect even if the Lessor does not receive a waiver of subrogation endorsement from the insurer.

3.11.5 Claims Made Policies. The following provisions shall apply to all policies that provide coverage on a claims-made basis: (A) the retroactive date must be shown and must be before the Commencement Date of this Sub-Lease; (B) the insurance must be maintained and evidence of insurance must be provided for at least five (5) years after expiration or termination of the Sub-Lease; and (C) if coverage is canceled or not renewed and is not replaced with another claims-made policy with a retroactive date prior to the Commencement Date of this Sub-Lease, Lessee must purchase "extended reporting" coverage for a minimum of five (5) years after expiration or termination of the Sub-Lease.

3.11.6 Deductibles and Self-Insurance Retentions. Any deductibles or self-insured retentions must be declared to and approved by the Lessor. The Lessor may require the Lessee to provide proof of ability to pay losses and related investigation, claims administration and defense expenses within the deductible or self-insured retention. The deductible or self-insured retention may be satisfied by either the named insured or the Lessor.

3.11.7 Acceptability of Insurers. Unless under the circumstances a different rating is otherwise acceptable to the Lessor in its sole and absolute discretion, insurance is to be placed with insurers which are satisfactory to the Lessor and which meet either of the following criteria : (1) an insurer with a current A.M. Best's rating no less than A-:VII and licensed as an admitted insurance carrier in California; or (2) an insurer with a current A.M. Best's rating no less than A-:X and authorized to issue the required policies in California.

3.11.8 Verification of Coverage. Lessee shall furnish Lessor with original certificates of insurance, as well as amendatory endorsements or copies of the applicable policy language effecting coverage required by this Sub-Lease. All documents must be received and approved by the Lessor before the Commencement Date; provided, however, that failure to obtain the required documents prior to the Commencement Date shall not waive Lessee's obligation to provide them. The Lessor reserves the right to require complete, certified copies of all required insurance policies, at any time.

3.11.9 Reporting of Claims. Lessee shall report to the Lessor, in addition to Lessee's insurer, any and all insurance claims submitted by Lessee in connection with this Sub-Lease.

3.11.10 Sub-Lessees.

(A) FBO's or Business Operators. Except as provided for in Section 3.11.10(B) below, all sub-lessees shall comply with each and every insurance provision of this Section 3.11. Lessee shall therefore not allow any sub-lessees to commence work on any sub-sub-lease until it has provided evidence satisfactory to the Lessor that the sub-lessee has secured all insurance required under this Sub-Lease.

(B) Personal Aircraft Storage. Any person or entity which is not a fixed-based operator (FBO) or its not otherwise conducting a business on the Premises, and thus whose only connection to Lessee is an agreement to store their personal aircraft on the Premises, shall be obligated only to provide evidence of the following insurance: (1) Aircraft and Passenger Liability Insurance: minimum limits of no less than \$1,000,000 per occurrence for property damage and bodily injury, including owned and non-owned aircraft coverage, as well as no less than \$100,000 sublimit per person; and (2) Automobile Liability: personal or business automobile coverage with minimum limits of no less than \$300,000 per accident for bodily injury and property damage.

3.11.11 Special Risk or Circumstances. The Lessor reserves the right, in its sole and absolute discretion, to modify the requirements of this Section 3.11, including limits, based on any of the following: (A) the nature of the risk of the Sub-Lease or any sub-sub-lease; (B) the prior experience of the insured; (C) the rating or other quality or characteristic of the insurer; (D) any special or unique coverage issues; and (E) any other special or unique circumstances.

3.11.12 Review of Coverage Limits. Not more frequently than every two (2) years, if, in the reasonable opinion of Lessor's Risk Manager, the amount of the insurance policies provided for in this Article is not reasonably adequate, Lessee shall increase the insurance coverage as recommended by Lessor's Risk Manager. Lessor will use its reasonable best efforts to implement substantially the same insurance provisions included in this Sub-Lease in its other airport sub-leases.

3.11.13 Failure to Maintain Insurance. If Lessee at any time during the term of this Sub-Lease shall fail to secure or maintain the foregoing insurance, Lessor shall be permitted to obtain such insurance in Lessor's name or as the agent of Lessee. Any amount so paid by Lessor as insurance premiums shall become immediately due and payable as rent by Lessee to Lessor, together with interest on such paid insurance premiums at the rate of ten percent (10%) per annum computed from the date written notice is received that the premiums have been paid.

3.12 Indemnity.

3.12.1 General. This Sub-Lease is made on the express condition that Lessor and the USACOE are to be free from all liability or loss by reason of injury to any person or property, from whatever cause, while in or on the Premises, or in any way connected with the Airport or Premises or with the improvements or personal property therein or thereon, including, but not limited to, any liability for injury to the person or property of Lessee or its officers, members, agents, servants, employees, permittees, sub-lessees, invitees, or guests (collectively,

the "Lessee Indemnity Parties"), except where prohibited by law.

3.12.2 Defend and Hold Harmless. Lessee hereby agrees to and shall indemnify, defend (with counsel of Lessor's choosing) and hold harmless Lessor and the USACOE, their officers, employees, agents and volunteers (collectively, the "Lessor Indemnity Parties") from any and all claims, actions, damages, liability, losses, costs, expenses or obligations on account of, or arising out of, this Sub-Lease from any cause whatsoever, including the acts, errors or omissions of any person and for any costs or expenses incurred by Lessor and the Lessor Indemnity Parties on any claim therefore, except where such indemnification is prohibited by law. Without limiting the foregoing, to the fullest extent permitted by law this obligation shall: (1) apply to damage or injury of any kind, in law or equity, to property or persons, including wrongful death; (2) survive the expiration or termination of this Sub-Lease; and (3) not be restricted to insurance proceeds, if any, received by Lessor and/or the Lessor Indemnity Parties.

3.12.3 Flood Control. Lessee specifically agrees to hold Lessor and the Lessor Indemnity Parties harmless from any and all claims or rights of action for damages which may or might arise or accrue to Lessee, the Lessee Indemnity Parties and/or others who may be on the Premises at Lessee's invitation or the invitation of any one of the Lessee Indemnity Parties, by reason of injuries to the property or the person of any of them resulting from the reasonable entry upon or the use of the Premises by Lessor or the Lessor Indemnity Parties, or any of them, at any time, for any purpose necessary or convenient in connection with river and flood control work, or for the removal of timber required or necessary for such work, or by reason of the flooding of the Premises, or any part thereof, at any time and for any reason, including, but not limited to, when such flooding is deemed necessary in connection with flood control work in the judgment of Lessor or the Lessor Indemnity Parties, or any of them. Lessee acknowledges the Premises are in a flood plain and can flood at any time, and releases Lessor and the Lessor Indemnity Parties of any and all liability, claims or damages, as further provided for in this Section 3.12 caused by flooding.

3.12.4 Liabilities for Injuries to a Person or Property. Without limiting anything provided for in this Section 3.12.4, to the fullest extent permitted by law Lessee agrees and covenants that its obligation provided for in this Section 3.12 apply to any and all claims or causes of action by Lessee, the Lessee Indemnity Parties and/or others who may be on the Premises at Lessee's invitation or the invitation of any one of the Lessee Indemnity Parties, for any damage caused to their persons or property caused by or resulting from: (1) fire, smoke, steam, electricity, gas, water, rain, snow, or ice which may leak or flow from or into any part of the Premises, (2) breakage, leakage, obstruction or other defects of the pipes, wires, appliances, tanks, plumbing, lighting fixtures or drainage, heating, ventilation and air conditioning systems of or serving the Premises, (3) storms, earthquakes, floods, or other Acts of God, (4) vandalism, riots, civil commotion or malicious mischief. Nor shall Lessor or the Lessor Indemnity Parties be liable for any injury to property of Lessee or the Lessee Indemnity Parties by reason of the occupation and enjoyment of the Premises by Lessee or the Lessee Indemnity Parties, except where such indemnification is prohibited by law.

3.13 Assignment and Subletting.

3.13.1 Assignment, Mortgage or Sublease. Lessee shall not voluntarily assign, mortgage, sublet or encumber all or any part of the Premises, or allow any other person or entity (except Lessee's authorized representatives) to occupy or use all or any part of the Premises. Lessee shall not assign, hypothecate, mortgage or pledge this Sub-Lease except as provided herein, without the prior written consent of Lessor, which consent shall not be unreasonably withheld. Any assignment, encumbrance or sublease without Lessor's prior written consent shall be voidable and, at Lessor's election, shall constitute a default. A consent to one assignment, subletting, occupation, or use by another person or entity shall not be deemed to be a consent to any subsequent assignment, subletting, occupation or use by another person or entity.

3.13.2 License Agreements. Lessee shall be entitled to enter into individual license agreements with private aircraft owners for parking, storing or tying down of aircraft; provided, such agreements shall be in writing.

3.13.3 Construction. Lessee is authorized to encumber its leasehold incidental to construction of improvements on the Premises, subject to prior written notice to Lessor. If a sale or foreclosure under an approved encumbrance occurs, or if the lender acquires the property by assignment in lieu of foreclosure, said purchaser or assignee, as successor-in-interest to Lessee, will be bound by the terms of this Sub-Lease and will assume all the obligations of Lessee hereunder.

3.13.4 Subletting. In the event Lessor gives written consent and approval to any subletting, the transferee(s) and assignee(s) shall, in writing, assume all obligations of this Sub-Lease and agree to be bound by all terms of the Sub-Lease without in any way limiting, releasing, or discharging the original Lessee from any liability under any provision of this Sub-Lease on account of such transfer or assignment.

3.13.5 Assignment. In the event Lessor gives written consent and approval to any transfer or assignment, the transferee(s) and assignee(s) shall, in writing, assume all obligations of this Sub-Lease and agree to be bound by all terms of the Sub-Lease without in any way limiting, releasing, or discharging the original Lessee from any liability under any provision of this Sub-Lease preexisting or arising out of and incidental to such transfer or assignment. In other words, with the exception of any liability preexisting or arising out of and incidental to such transfer or assignment by Lessee, Lessee shall not remain obligated or otherwise liable under the Sub-Lease.

3.13.6 Written Instrument. No subletting of any interest, or of any portion of the Premises, or any transfer or assignment of any sublease hereunder, whether voluntary or involuntary, by operation of law or otherwise, shall be valid unless the same is accomplished by written instrument, in a form prepared and approved by Lessor, wherein the sub-lessee and/or assignee of the sublease shall expressly agree that said sublease and/or assignment is subject and subordinate thereto, and said sub-lessee and/or assignee of said sublease shall expressly agree to be governed thereby.

3.13.7 Assignment of Rent. Lessee immediately and irrevocably assigns to Lessor, as security for Lessee's obligations under this Sub-Lease, all rent from any subletting of all or a part of the Premises as permitted by this Sub-Lease, and Lessor, as assignee and as attorney-in-fact for Lessee, or a receiver for Lessee appointed on Lessor's application, may collect such rent and apply it toward Lessee's obligations under this Sub-Lease; except that, until the occurrence of an act of default by Lessee, Lessee shall have the right to collect such rent.

3.13.8 Shop Facilities. Lessor hereby agrees the Lessee shall have the right, subject to the conditions enumerated herein including the requirement of Lessor's prior written consent, to sublease or rent for shop facilities not more than fifteen percent (15%) of the total hangar space constructed on the Premises, said facilities to be used solely for providing services for the customary aviation business operations of Lessee and to be constructed, installed and used in conformity and in compliance with all laws, ordinances, rules and regulations of any duly authorized governmental body relating directly or indirectly to such construction, installation and use. The term "hangar space," for purposes of such fifteen percent (15%) calculation, shall not include office or building space other than hangar space, and also shall not include the office or storage area at each end of the nested "T" hangar building.

3.14 Cancellation of Sub-Lease.

3.14.1 Cancellation by Lessor. It is understood and agreed by the Parties hereto that Lessor shall have and hereby does reserve the right to cancel or terminate this Sub-Lease at any time should it be reasonably determined by the City Council of Lessor that the public necessity and convenience require it to do so, by serving upon Lessee, in the manner hereinafter provided, a written notice of its election to cancel and terminate, which notice shall be served at least one hundred eighty (180) days prior to the date stated in said notice of cancellation or termination. In the event such termination is effected pursuant to this Section 3.14.1, Lessee or its assigns shall be entitled to such damages, if any, arising therefrom, as may be mutually agreed upon by the Parties hereto, or in the event mutual agreement is not possible, such dispute shall be resolved in an action filed and maintained in the superior court in Riverside County; provided, however, that representatives of each Party, who have reasonable settlement authority, shall first engage in non-binding mediation. The Parties may also consider non-binding or binding arbitration upon the mutual agreement of the Parties.

3.14.2 Cancellation Through Termination or Expiration of Master Lease Agreement. As provided for in Section 3.16.13 (Subordinate to Master Lease Agreement) below, this Sub-Lease is expressly subordinate to the Master Lease Agreement and therefore shall be automatically cancelled, without damages or other consideration being owed by either Party to the other Party, upon the termination, cancellation or expiration of the Master Lease Agreement for any or no reason.

3.14.3 Cancellation by Lessee. It is understood and agreed by the Parties hereto that Lessee shall have, and is hereby given, the right to cancel or terminate this Sub-Lease, upon thirty (30) days' advance notice in writing to Lessor, in the event that during the term of this Sub-Lease Lessee is prohibited by statute, ordinance, administrative rule or regulation, as any

statute, ordinance, rule or regulation now exists or may hereafter provide, from conducting on the Premises the business for which the Premises are leased as hereinbefore provided.

3.14.4 No Further Objections. It is understood and agreed by the Parties hereto that upon the effective date of a cancellation or termination of this Sub-Lease as provided in this Section, they shall be under no further obligation or liability to each other by reason of this Sub-Lease; provided, however, that Lessee shall be liable to Lessor for the breach of any term, covenant or condition of this Sub-Lease occurring prior to the date of Lessee's surrender of the Premises as herein provided. In addition, Lessee shall be required to comply with Section 3.8.11 (Removal of Improvements) regarding the condition of the Premises following early termination of this Sub-Lease.

3.15 Termination of Sub-Lease for Default.

3.15.1 Termination. Lessor is entitled to terminate and end this Sub-Lease if Lessee is deemed to be in "default" under this Sub-Lease and said default shall continue for a period of thirty (30) days after Lessor serves upon Lessee written notice of default, if it is curable within such thirty (30) days, or if Lessee fails to institute and diligently pursue reasonable corrective or ameliorative acts for defaults not reasonably curable within such thirty (30) days.

3.15.2 Events of Default. Each of the following events shall be a breach of this Sub-Lease by Lessee:

(A) Failure or refusal to pay when due any installment of rent, or any Aircraft Fee, fuel flowage fee, utility charge, tax, assessment, insurance premium, lien, claim, charge or demand provided in this Sub-Lease to be paid.

(B) Abandonment or surrender of the Premises or the Sub-Lease. In such event, Lessor may, subject to the rights of third Parties therein, take possession of any personal property left on the Premises and dispose of the same at the election of Lessor at the time and in the manner provided by law.

(C) The failure to commence or complete construction of any improvement on the Premises within the time and manner specified in this Sub-Lease.

(D) The failure to use, maintain and operate the Premises as required in this Sub-Lease.

(E) The failure to perform any other covenant, condition, or term of this Sub-Lease herein provided to be kept or performed by Lessee, including, but not limited to, those provided in Section 3.5 (Taxes, Fees & Other Financial Obligations), Section 3.8 (Maintenance, Repairs & improvements), Section 3.10 (Records & Accounts), Section 3.11 (Insurance), Section 3.12 (Indemnity), Section 3.13 (Assignment & Subletting) and Section 3.16.12 (Compliance With All Laws).

(F) The appointment of a receiver to take possession of the Premises or improvements or of Lessee's interest in the leasehold estate or of Lessee's operations on the Premises for any reason, including, but not limited to, assignment for the benefit of creditors or voluntary or involuntary bankruptcy proceedings; excluding, however, receivership (1) pursuant to administration of the estate of any deceased or incompetent Lessee or (2) pursuant to any mortgage permitted by the provisions of this Sub-Lease relating to purchase or construction of improvements.

(G) An assignment by Lessee for the benefit of creditors or the filing of a voluntary or involuntary petition by or against Lessee under any law for the purpose of adjudicating Lessee as bankrupt; or for extending time for payment, adjustment or satisfaction of Lessee's liabilities; or for reorganization, dissolution or arrangement on account of or to prevent bankruptcy or insolvency; unless the assignment or proceeding, and all consequent orders, adjudications, custodies and supervisions are dismissed, vacated or otherwise permanently stayed or terminated within forty-five (45) days after the assignment, filing or other initial event.

3.15.3 Lessor's Remedies. Lessor's rights provided for herein are in addition to all of the rights and remedies provided by law or equity to which Lessor may resort cumulatively or in the alternative, and no one right or remedy shall be exclusive of the other; provided, however, that representatives of each Party, who have reasonable settlement authority, shall first engage in non-binding mediation. The Parties may also consider non-binding or binding arbitration upon the mutual agreement of the Parties. In case of default by Lessee (as defined in Section 3.15.2 above), Lessor has the following remedies:

(A) Lessor may, at Lessor's written election following the passage of time indicated in Section 3.15.1 (Termination) above, declare this Sub-Lease and all and any rights created by it to be terminated. Upon such termination, Lessor may, without further notice, demand or legal process, reenter and take possession of the Premises and all improvements thereon (if any) and remove therefrom Lessee and all persons claiming under Lessee, and Lessee and all such persons shall quit and surrender possession of the Premises and all improvements thereon (if any) to Lessor. Lessee may remove its improvements per Section 3.8.11 (Removal of Improvements).

Lessor may thereupon re-lease the Premises for and on account of Lessee on such terms, conditions and rents as Lessor may deem appropriate, and apply all sums collected thereby, less the expense of such reletting, including broker's and agent's expenses and the expense of collecting rent, upon the rent to be paid by Lessee. Lessee does hereby agree to pay monthly to Lessor the difference between the monthly rental so procured, and the amount of the rental hereunder provided.

In the event Lessor shall re-lease the Premises for a term equal to or in excess of the unexpired term of this Sub-Lease, Lessee does hereby agree to pay to Lessor the difference between the amount agreed to be paid for the unexpired portion of the term, and the rental agreed to be paid for the unexpired portion of the term by the new Tenant, less all costs and expenses as herein provided.

(B) Lessor shall be entitled at Lessor's election to damages in the following sums:

(1) The worth at the time of award of the unpaid rent which had been earned at the time of termination;

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

(3) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for such period that Lessee proves could be reasonably avoided;

(4) Any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under this Sub-Lease, or which in the ordinary course of things would be likely to result therefrom;

(5) The "worth at the time of award" of the amounts referred to in Subsections (1) and (2) above is computed by allowing interest at the rate of seven percent (7%) per annum. The worth at the time of award of the amount referred to in Subsection (3) above 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%).

(C) At Lessor's election, Lessor can continue this Sub-Lease in effect for so long as it does not terminate Lessee's right to possession, provided that it has given no notice of termination. In such case, Lessor may enforce all its rights and duties under this Sub-Lease, including but not limited to the right to recover rent as it becomes due.

3.15.4 Effects of Termination. A termination of this Sub-Lease shall not relieve Lessee from the payment of any sum or sums that shall be then due and payable to Lessor hereunder or any claim for damages against Lessee arising from this Sub-Lease. Any such termination shall not prevent Lessor from enforcing the payment of any such sum or sums or claim for damages by any remedy provided by law or from recovering damages from Lessee for a default hereunder.

3.15.5 Lessor's Default. Lessor shall not be considered to be in default under this Sub-Lease unless: (a) Lessor is given notice specifying the default; and (b) Lessor has failed for thirty (30) days to cure the default, if it is curable within such thirty (30) days, or if Lessee fails to institute and diligently pursue reasonable corrective or ameliorative acts for defaults not reasonably curable within such thirty (30) days. Lessee shall have the right of termination for Lessor's default only after notice to and consent by all mortgagees under mortgages then existing under provisions of this Sub-Lease relating to purchase or construction of improvements. Lessee waives the protections of Sections 1932 and 1933 of the California Civil Code. Lessee's sole right or remedy as a result of any default by Lessor is to cancel this Sub-Lease pursuant to Section 3.14.3 (Cancellation by Lessee) above, and Lessee shall not be entitled to any damages

or other financial consideration from Lessor as a result of such default.

3.15.6 Waiver. No waiver of any default hereunder shall constitute a waiver of any other breach or default, whether of the same term or any other covenant or condition. No waiver, benefit, privilege or service voluntarily given or performed by another Party shall give the other any contractual right by custom, estoppel or otherwise. The subsequent acceptance of rent or fees, or both pursuant to this Sub-Lease shall not constitute a waiver of any preceding default by Lessee other than default in the payment of the particular rental payment so accepted, regardless of Lessor's knowledge of the preceding breach at the time of accepting the rent, nor shall acceptance of rent or any other payment after termination constitute a reinstatement, extension or renewal of the Sub-Lease or revocation of any notice or any other act by Lessor.

3.16 General Provisions.

3.16.1 Attorney's Fees. In the event that either Party shall commence any legal action or proceeding, including an action for declaratory relief, against the other by reason of the alleged failure of the other to perform or keep any term, covenant or condition of this Sub-Lease, the Party prevailing in said action or proceeding shall be entitled to recover, in addition to its court costs, expert witness fees and reasonable attorney's fees to be fixed by the court, and such recovery shall include court costs and attorney's fees on appeal, if any.

3.16.2 Provide Access. Lessee shall allow access to the Premises by authorized representatives of Lessor and the USACOE in all cases of emergency and during all normal business hours for the purpose of examination or inspection of the Premises, without requirement of prior notice.

3.16.3 Time of Essence. Time is hereby expressly declared to be of the essence of this Sub-Lease, and all of the covenants and agreements herein made and of the obligations agreed to be performed by the Lessee, are conditions precedent to be fulfilled and faithfully performed and observed by the Lessee to entitle it to continue in the possession of the Premises.

3.16.4 Lessor - Lessee Relationship. It is expressly understood and agreed that by entering into this Sub-Lease, Lessor does not, in any way or for any purpose, become a partner of Lessee or a joint venturer with Lessee.

3.16.5 Equal Opportunity. Neither Lessee, nor any of its agents shall discriminate against any employee or applicant for employment because of race, religion, color, national origin or other classification protected under federal, state or local laws, rules or regulations. Lessee shall not discriminate because of race, religion, color, national origin or other classification protected under federal, state or local laws, rules or regulations against any person by refusing to furnish such person any accommodations, facility, service or privilege offered to or enjoyed by the general public. Nor shall Lessee, or any of its agents, publicize the accommodations, facilities, services or privileges provided on the Premises in any manner that would directly or inferentially reflect upon or question the acceptability of the patronage of any person because of race, religion, color, national origin or other classification protected under federal, state or local laws, rules or regulations.

3.16.6 Notices. Any notices which are required hereunder, or which either Lessor or Lessee may desire to serve upon the other, shall be in writing and either personally served or sent by registered or certified mail.

(A) Notices and demands to Lessor shall be addressed as follows:

City of Corona
400 South Vicentia Avenue
Corona, California 92882-3238
Attn: Airport Manager

(B) Notices and demands to Lessee shall be addressed as follows:

Diamond Aero Corporation
706 E. Walnut Street
Orange, California 92867
Attn: James Young

Any such notice or demand shall be deemed served at the time of delivery if delivered in person or on the business day following deposit thereof in the U.S. Mail where sent by registered or certified mail.

3.16.7 Faithful Performance. Lessor has executed this Sub-Lease on the terms, covenants and agreements specified and set forth in this Sub-Lease and not otherwise, and Lessor and Lessee covenant and agree faithfully to keep and perform each and every covenant of this Sub-Lease, and the true and faithful performance of each and every term, covenant and agreement is hereby declared to be a condition of the term hereof.

3.16.8 Binding Effect. This Sub-Lease, its terms, conditions, covenants and agreements shall inure to the benefit of and be binding upon the successors and assigns of Lessor and upon the heirs, successors, administrators, executors and/or assigns of Lessee, and all of the provisions hereof shall be deemed covenants running with the Premises.

3.16.9 National Emergency. In the event a national emergency is declared by the President of the United States and, as a result thereof, private aircraft flights are restricted, Lessee may utilize the private aircraft hangars on the Premises for purposes other than storing and parking private aircraft, subject to said purposes complying with all applicable laws, ordinances and regulations of any duly constituted governmental body, agency, board or department.

3.16.10 Entire Agreement. This Sub-Lease constitutes the entire agreement and understanding between the Parties, and supersedes all offers, negotiations and other agreements concerning the subject matter contained herein, including, but not limited to, any existing lease agreements between Lessor and Lessee for the Premises (except as provided for in Section 3.4.5 of this Sub-Lease regarding rental rates and other fees paid by Lessee to Lessor

under their existing lease agreements for the Premises, which shall apply from the Commencement Date through May 31, 2018). Any amendments to this Sub-Lease must be in writing and executed by both Parties.

3.16.11 Excuse of Performance. If either Party shall be delayed or prevented from the performance of any act required by this Sub-Lease, including the payment of rent, by reason of acts of God, strikes, walkouts, labor troubles, inability to procure materials, restrictive governmental laws or regulations, civil disobedience or riot, labor disputes or other cause, without fault and beyond the reasonable control of the Party obligated (financial inability excepted), performance of such acts shall be excused for the period of the delay; and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay; provided, further, Lessor may in its discretion waive the payment of any rent required of Lessee during such period. Any such waiver shall not be construed to be a waiver of any succeeding or preceding breach in the payment of rentals.

3.16.12 Compliance with All Laws. Lessee covenants and agrees that all operations and enterprises conducted on the Premises shall comply with all laws, ordinances, rules and regulations of the federal government, State of California, County of Riverside, City of Corona, and any other duly constituted governmental body, including the Corona Municipal Airport administration, pertaining directly or indirectly to the operations and activities conducted on the Premises. Lessee shall not knowingly commit or allow any violation of law on the Premises.

3.16.13 Subordinate to Master Lease Agreement. The provisions, conditions and terms of this Sub-Lease and of any written sublease of the Premises and/or of an assignment, hypothecation, pledge, mortgage or any transfer of this Sub-Lease shall be subject to all terms, conditions and provisions of any executed agreement and/or lease between Lessor and the USACOE concerning the Premises described herein, including but not limited to the following Leases and Agreements, as executed:

The Master Lease Agreement, as described in Section 3.2 above
(Lease DACW 09-1-67-60 dated May 26, 1967, and all
supplemental agreements thereto.

Lessor shall promptly notify Lessee of receipt by Lessor of any notice or correspondence from the USACOE that affects or may affect the continuation, duration or extension of the Master Lease Agreement.

3.16.14 Approval by USACOE. This Sub-Lease shall not be effective until its terms and conditions have been approved by the District Engineer of the USACOE.

3.16.15 Severability. If any provision of this Sub-Lease shall be declared invalid or unenforceable, the remainder invalid or unenforceable, the remainder of the Sub-Lease shall continue in full force and effect.

3.16.16 Headings. Article and section headings are for convenience only and

shall have no effect in the construction of interpretation of any provision herein.

(SIGNATURES ON THE FOLLOWING TWO PAGES)

LESSOR'S SIGNATURE PAGE FOR

CITY OF CORONA

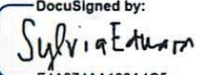
CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)

CITY OF CORONA
a California municipal corporation


DocuSigned by:

By: 492021B1D79F41C
Karen Spiegel
Mayor

Attest:

DocuSigned by:

—E4A374AA199A4C5—
Sylvia Edwards
City Clerk

Approved as to Form:

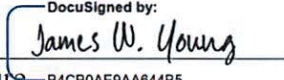
DocuSigned by:

—A7BD5842828D4DE—
DS
Mc
Dean Derleth
City Attorney

LESSEE'S SIGNATURE PAGE FOR

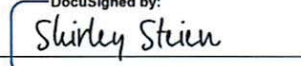
CITY OF CORONA

**CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)**

DIAMOND AERO COPORATION
a California Corporation

By: 
Signature B4CB0AE9AA644B5...
Chief Executive Officer
Name (Print)

Title (Print)

By: 
Signature 63E33ADE26E6497...
shirley steien
Name (Print)

Secretary
Title (Print)

EXHIBIT "A"
LEGAL DESCRIPTION OF PREMISES

PARCEL II

That portion of Lots 3 and 4 of the portion of Rancho La Sierra Yorba allotted to the Prudencio Yorba Estate, in the County of Riverside, State of California, as shown on map recorded in Book 2, page 21 of Maps, Records of said County, described as follows:

Beginning at the most northeasterly corner of Lot 24, Block 69, Book 2, page 3 of Maps, Riverside County, California, said point being the west boundary line of Smith Avenue and the south boundary line of the abandoned Atchison, Topeka and Santa Fe Railway right-of-way; thence on a circular curve with a radius of 5679.65 ft. and a central angle of 09°15'28" concave to the south and on the Atchison, Topeka and Santa Fe right-of-way line, with a length of 917.71 ft. to a point of tangency; thence north 86°03'03" west a distance of 1165.98 ft.; thence north 03°56'57" east a distance of 100 ft., said point being on the north boundary line of the Atchison, Topeka and Santa Fe Railway right-of-way; thence north 03°56'57" east a distance of 202.22 ft.; thence north 46°31'03" west a distance of 24.23 ft.; thence north 86°04'18" west a distance of 1226.66 ft. to the true point of beginning; thence north 86°04'18" west a distance of 697.80 ft.; thence north 03°55'42" east a distance of 421.72 ft.; thence south 89°04'18" east a distance of 698.76 ft.; thence south 03°55'42" west a distance of 458.28 ft.; to the true point of beginning, containing 7.05 acres.

PARCEL VI

That portion of Lots 2 and 3 of the portion of Rancho La Sierra Yorba allotted to the Prudencio Yorba estate, in the County of Riverside, State of California, as shown on map recorded in Book 2, Page 21 of Maps, Records of said County, described as follows:

Beginning at the most northeasterly corner of Lot 24, Block 69, Book 2, Page 3 of Maps, San Bernardino County, California, said point being the West boundary line of Smith Avenue and South boundary line of the abandoned Atchison, Topeka and Santa Fe Railway right-of-way; thence on a circular curve with a radius of 5679.65 feet and a central angle of 09°15'28" concave to the south and on the Atchison, Topeka and Santa Fe right-of-way line, with a length of 917.71 feet, to a point of tangency; thence North 86°03'03" West, a distance of 1165.98 feet; thence North 03°56'57" East, a distance of 100 feet, said point being on the North boundary line of the Atchison, Topeka and Santa Fe Railway right-of-way; thence North 3°56'57" East, a distance of 202.22 feet; thence North 46°31'03" West, a distance of 241.23 feet; thence North 86°04'18" West, a distance of 100.00 feet to the true point of beginning; thence North 86°04'18" West, 183.66 feet; thence North 3°55'42" East, 507.18 feet; thence South 89°04'18" East, 292.02 feet; thence South 0°03'37" West, 242.11 feet; thence, South 89°04'18" East, 76.71 feet; thence South 0°55'42" West, 345.39 feet; thence North 86°04'18" West, 218.97 feet; thence North 3°55'42" East, 60.00 feet to the True Point of Beginning, containing approximately 4.44 acres.

EXHIBIT "B"

RATE SHEET

Corona Municipal Airport Diamond Aero Corporation (Parcels II & VI) 2018 Rate Sheet

BASIC RENT

<u>Space Category</u>	<u>This Year's Highest Rent</u>	<u>This Year's Basic Rent¹</u>	<u>Last Year's Basic Rent x CPI²</u>	<u>Number of Spaces</u>	<u>Amount Paid to City</u>
T-Hangar (Small)	\$357.00	\$78.54	n/a	106	\$8,325.24
T-Hangar (Large)	\$415.00	\$91.30	n/a	24	\$2,191.20
Hangar Offices	\$194.00	\$42.68	n/a	3	\$128.04
Box Hangar (Small)	\$704.00	\$154.88	n/a	2	\$309.76
Box Hangar (Large)	\$1,155.00	\$254.10	n/a	7	\$1,778.70
Box Hangar (Bi-Fold)	\$1,155.00	\$254.10	n/a	4	\$1,016.40
Box Hangar (Rectangle)	\$1,271.00	\$279.62	n/a	2	\$559.24
Office (#201) ³	\$0.00	\$0.00	n/a	1	\$0.00
Office (#202)	\$300.00	\$66.00	n/a	1	\$66.00
Office (#203)	\$500.00	\$110.00	n/a	1	\$110.00
Office (#204 & 205)	\$1,400.00	\$308.00	n/a	1	\$308.00
Office (#206)	\$800.00	\$308.00	n/a	1	\$308.00
Cafe (#1903-A)	\$2,625.00	\$577.50	n/a	1	\$577.50
Academy (#1903-B & C)	\$3,000.00	\$660.00	n/a	1	\$660.00
					\$16,206.08

AIRCRAFT TIE-DOWN FEE

<u>Description</u>	<u>This Year's Per Unit Amt</u>	<u>This Year's T-D Fee⁴</u>	<u>Last Year's T-D Fee x CPI⁵</u>	<u>Number of Spaces</u>	<u>Amount Paid to City</u>
Tie-Down Flat Rate	\$7.50				
Highest Tie-Down Rent	\$47.00	\$10.34	n/a	TBD Monthly	TBD Monthly

COMMON USE FEE

<u>Description</u>	<u>This Year's Highest Rent</u>	<u>This Year's CU Fee⁶</u>	<u>Last Year's CU Fee x CPI⁷</u>	<u>Number of Aircraft</u>	<u>Amount Paid to City</u>
Highest Tie-Down Rent	\$47.00	\$9.40	n/a	TBD Monthly	TBD Monthly

¹ In 2018, basic rent is 22% of the highest rent for each category of space maintained by Lessee. (See ¶ 3.4.1(A))

² In 2018 and beyond, basic rent will be the higher of: (1) 22% of the highest rent for each category of space maintained by Lessee that year; or (2) last year's basic rent as increased by the CPI. (See ¶ 3.4.1(B)) The rent listed in *Italics* is the lesser and is not being used this year.

³ Unit #201 consists of Lessee's offices.

⁴ In 2018, the tie-down fee is the higher of: (1) the Tie-Down Flat Rate; or (2) 22% of the highest tie-down rent charged by Lessee. (See ¶ 3.4.2(A))

⁵ In 2018 and beyond, the tie-down fee is the higher of: (1) that year's Tie-Down Flat Rate; (2) 22% of the highest tie-down rent charged by Lessee that year; or (3) last year's tie-down rate as increased by the CPI. (See ¶ 3.4.2(B) & (C)) The tie-down fee listed in *Italics* is the lesser and is not being used this year.

⁶ In 2018, the common use fee is 20% of the highest tie-down rent charged by Lessee. (See ¶ 3.4.3(A))

⁷ In 2019 and beyond, the common use fee is the higher of: (1) 20% of the highest tie-down rent charged by Lessee that year; or (2) last year's common use as increased by the CPI. (See ¶ 3.4.3(C)) The common use fee listed in *Italics* is the lesser and is not being used this year.

**FIRST AMENDMENT TO
CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)**

1. PARTIES AND DATE.

This First Amendment to the Corona Municipal Airport Master Sub-Lease Agreement with Diamond Aero Corporation ("First Amendment") is made and entered into this 6th day of February, 2019 by and between the City of Corona ("Lessor") and Diamond Aero Corporation ("Lessee"). Lessor and Lessee are sometimes individually referred to as "Party" and collectively as "Parties" in this First Amendment.

2. RECITALS.

2.1 Agreement. Lessor and Lessee entered into that certain Corona Municipal Airport Master Sub-Lease Agreement dated May 16, 2018 ("Sub-Lease"), whereby Lessee sub-leased Parcels II & VI at the Corona Airport from Lessee.

2.2 United States ACOE Land. Lessor operates the Corona Municipal Airport ("Airport") on property Lessor leases from the United States Army Corps of Engineers ("USACOE") pursuant to Lease No. DACW 09-1-67-60, dated May 26, 1967, and all supplemental agreements thereto ("Master Lease Agreement"). As provided in the Sub-Lease, including, but not limited to, Sections 3.16.13, 3.16.14 and 13.14.2, the Sub-Lease is expressly contingent upon approval by the USACOE, is subordinate to the Master Lease Agreement and cannot extend beyond the term of the Master Lease Agreement. On or about July 18, 2018, USACOE advised Lessor that its Master Lease Agreement will not be renewed after January 31, 2037 and directed that Lessor amend the Sub-Lease to reflect this fact.

2.3 First Amendment. To comply with the obligations under the Master Lease Agreement, Lessor and Lessee desire to amend the Sub-Lease for the first time to delete the renewal options for additional terms after January 31, 2037.

3. TERMS.

3.1 Term. Section 3.3 (Term) of the Sub-Lease is hereby deleted in its entirety and replaced with the following:

"3.3 Term.

3.3.1 Term. Subject to the approval of the USACOE, the term of this Sub-Lease shall commence on July 1, 2017 ("Commencement Date") and shall continue thereafter for a period of almost twenty (20) years until January 31, 2037 ("Term").

3.3.2 No Additional Terms; Right of First Refusal; Notice if ACOE Changes Plans. According to the USACOE, the Master Lease Agreement will not be renewed after January 31, 2037. Accordingly, unless the USACOE indicates otherwise and a sub-lease is entered into with USACOE approval, this Sub-Lease will expire as of January 31, 2037.

In the event that the Airport is allowed to continue to operate under a subsequent lease to the Master Lease Agreement approved by the USACOE, and in the event that Lessee is then in good standings under its current Sub-Lease with Lessor, Lessee will be provided a right of first refusal to enter into a new sub-lease for Parcels II and VI beginning on February 1, 2037.

On October 22, 2018, Lessor provided written notice to Lessee of the USACOE's written notice dated August 30, 2018 that it will no longer allow the Airport to operate as of January 30, 2037. Lessor will provide prompt notification to Lessee in the event that Lessor becomes aware of any written definitive change in plans by the USACOE (or any other agency) to allow operation of the Airport on or after February 1, 2037. Lessor will also provide prompt notification to Lessee in the event that Lessor becomes aware of any written definitive plans by the USACOE (or any other agency) that would significantly impact Lessee's on-going operations at the Airport.

3.3.3 Hold Over Prohibited; Survival of Payment Obligations. Upon the expiration of the Term of this Sub-Lease or the early termination of this Sub-Lease, Lessee shall have no right to hold over and remain in possession of the Premises. Certain provisions of this Sub-Lease shall survive such expiration or early termination, including those provisions which expressly provide for such survival, as well as the obligation to pay all payments required under this Sub-Lease, including the rents and fees provided for in Section 3.4 below; provided, however, that such amounts provided for in Section 3.4 shall be increased by three hundred percent (300%) of the amount due and owing upon expiration of the Term or early termination of this Sub-Lease."

3.2 Continuing Effect of Agreement. Except as amended by this First Amendment, all provisions of the Sub-Lease shall remain unchanged and in full force and effect. From and after the date of this First Amendment, whenever the term "Sub-Lease" appears in the Sub-Lease, it shall mean the Sub-Lease as amended by this First Amendment.

3.3 Adequate Consideration. The Parties hereto irrevocably stipulate and agree that they have each received adequate and independent consideration for the performance of the obligations they have undertaken pursuant to this First Amendment.

3.4 Counterparts. This First Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute but one and the same instrument.

[SIGNATURES ON FOLLOWING PAGE]

LESSOR'S SIGNATURE PAGE FOR
FIRST AMENDMENT TO
CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)

CITY OF CORONA
a California municipal corporation

By: _____
Jason Scott
Mayor

Attest: _____
Sylvia Edwards
City Clerk

Approved as to Form:

Dean Derleth
City Attorney

LESSEE'S SIGNATURE PAGE FOR
FIRST AMENDMENT TO
CORONA MUNICIPAL AIRPORT
MASTER SUB-LEASE AGREEMENT WITH
DIAMOND AERO CORPORATION
(PARCELS II & VI)

DIAMOND AERO CORPORATION
a California Corporation

By: _____
James W. Young
Chief Executive Officer

By: _____
Shirley Steien
Secretary