

COPY

THE CITY OF SAN DIEGO

**LHO MISSION BAY HOTEL, L.P.,
a California Limited Partnership
DBA SAN DIEGO PARADISE POINT RESORT**

Percentage Lease

Dated for reference purposes as of

May 15, 2000

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**CITY OF SAN DIEGO
PERCENTAGE LEASE**

THIS LEASE AGREEMENT is executed between the CITY OF SAN DIEGO, a municipal corporation, hereinafter called "CITY," and LHO MISSION BAY HOTEL, L.P., a California Limited Partnership, DBA SAN DIEGO PARADISE POINT RESORT, hereinafter called "LESSEE."

SECTION 1: USES

1.1 Premises. CITY hereby leases to LESSEE and LESSEE leases from CITY all of that certain real property situated in the City of San Diego, County of San Diego, State of California, described in Exhibit "A" attached hereto and by this reference made part of this agreement. Said real property is hereinafter called the "premises" or "leased premises."

1.2 Uses. It is expressly agreed that the premises are leased to LESSEE solely and exclusively for the purposes of operation and maintenance for the use by the general public of a hotel, and all related uses including but not limited to restaurants, convention and conference rooms, banquet rooms, cocktail lounges, automobile renting, tennis club and fitness spa, snack bars, lobby shops for the sale of clothing, jewelry, novelties, sundries, off-sale liquor, and personal services including massage, physical training instruction, facials, and child care camps and for construction and operation of a Marina for boat and slip rentals, and for such other related or incidental purposes as may be first approved in writing by the City Manager and for no other purpose whatsoever.

LESSEE covenants and agrees to use the premises throughout the term hereof for the above-specified purposes and to diligently conduct the business thereon to produce the most gross income that can be reasonably expected. Failure to continuously use the premises for said purposes, or the use thereof for purposes not expressly authorized herein, shall be grounds for termination by CITY.

The knowing use of the premises for any unauthorized purpose shall constitute a substantial default and subject this lease to termination at the sole option of the CITY.

1.3 Related Council Actions. By the granting of this lease, neither CITY nor the Council of CITY is obligating itself to any other governmental agent, board, commission, or agency with regard to any other discretionary action relating to development or operation of the premises. Discretionary action includes but is

not limited to rezonings, variances, environmental clearances, or any other governmental agency approvals which may be required for the development and operation of the leased premises.

- 1.4 Quiet Possession: LESSEE, paying the rent and performing the covenants and agreements herein, shall at all times during the term peaceably and quietly have, hold, and enjoy the premises. If CITY for any reason cannot deliver possession of the premises to LESSEE at the commencement of the term, or if during the lease term LESSEE is temporarily dispossessed through action or claim of a title superior to CITY'S, then and in either of such events, this lease shall not be voidable nor shall CITY be liable to LESSEE for any loss or damage resulting therefrom, but there shall be determined and stated in writing by the City Manager of CITY a proportionate reduction of the minimum or flat rate rent for the period or periods during which LESSEE is prevented from having the quiet possession of all or a portion of the premises.

1.5 Easements and Reservations.

- a. CITY hereby reserves all rights, title, and interest in any and all subsurface natural gas, oil, minerals, and water on or within the premises. In no event shall drilling be conducted on or near the premises.
- b. CITY reserves the right to grant and use easements or to establish and use rights-of-way over, under, along, and across the leased premises for utilities, thoroughfares, or access as it deems advisable for the public good.
- c. CITY has the right to enter the premises for the purpose of making repairs to or developing municipal resources and services.

However, CITY shall not unreasonably or substantially interfere with LESSEE'S use of the premises and will reimburse LESSEE for physical damages, if any, to the permanent improvements located on the leased premises resulting from CITY exercising the rights reserved in this section. Such reimbursement may include a reduction in the rent proportionate to the amount of physical damage as determined by CITY. CITY will pay the costs of maintenance and repair of all CITY installations made pursuant to these reserved rights.

- 1.6 Competent Management. Throughout the term of this lease agreement, LESSEE shall provide competent management of the leased premises to the reasonable satisfaction of the City Manager. For the purposes of this paragraph, "competent management" shall mean demonstrated ability in the management and operation of a hotel and related activities in a fiscally responsible manner.

SECTION 2: TERM

- 2.1 Commencement. The term of this agreement shall be fifty (50) years commencing on the first day of the calendar month following execution by the City Manager. "Lease year" as used in this lease shall mean the 12-month period commencing on the first day of the calendar month following the execution of this lease by the City Manager.
- 2.2 Holdover. Any holding over by LESSEE after expiration or termination shall not be considered as a renewal or extension of this lease. The occupancy of the premises after the expiration or termination of this agreement constitutes a month-to-month tenancy, and all other terms and conditions of this agreement shall continue in full force and effect; provided, however, CITY shall have the right to apply a reasonable increase in rent to bring the rent to fair market value and to terminate the holdover tenancy at will.
- 2.3 Surrender of Premises. At termination of this lease for any reason, LESSEE shall execute, acknowledge, and deliver to CITY, within five (5) days after written CITY demand, a valid and recordable quitclaim deed covering all of the premises. The premises shall be delivered free and clear of all liens and encumbrances and in a clean and safe condition.

If LESSEE fails or refuses to deliver the required deed, CITY may prepare and record a notice reciting LESSEE'S failure to execute this lease provision, and the notice will be conclusive evidence of the termination of this lease and all LESSEE'S rights to the premises.

SECTION 3: RENTS

- 3.1 Time and Place of Payment. All rents required herein must be made payable to the City Treasurer and mailed to the Office of the City Treasurer, City of San Diego, P.O. Box 2289, San Diego, California, 92112-4165, or delivered to the Office of the City Treasurer, City Operations Building, 1222 First Avenue, Third Floor, San Diego, California.

The place of payment may be changed at any time by CITY upon thirty (30) days' written notice to LESSEE. Mailed rental payments shall be deemed paid upon the date such payment is postmarked by the postal authorities. If postmarks are illegible, the payment shall be deemed paid upon actual receipt by the City Treasurer. LESSEE assumes all risk of loss and responsibility for late payment charges if payments are made by mail.

3.2 Rent.

- a. Minimum Rent. The annual minimum rent established for the first three (3) years following the effective date of this lease is One Million Five Hundred Ninety-One Thousand Six Hundred Forty-Five Dollars (\$1,591,645).

For each lease year the LESSEE shall pay monthly installments of rent which on a year-to-date basis equal the greater of (a) the prorated year-to-date annual minimum rent or (b) the year-to-date percentage rent (percentage rent is described in Section 3.2c below). Any overpayments of rent, whether made through error or otherwise, shall be applied to the next payment due.

To determine the rent due for a given month, the following procedure shall be followed:

- (1) Determine the prorated year-to-date annual minimum rent (including the given month) by multiplying the number of months elapsed since the beginning of the applicable lease year by 1/12 of the annual minimum rent.
- (2) Calculate the year-to-date percentage rent, including the given month.

From the higher of (1) or (2) above, subtract all previous rent payments made during the applicable lease year. The remainder amount is the monthly rent due.

[THEREFORE: if the year-to-date minimum rent calculated in (1) above is greater than the year-to-date percentage rent due calculated in (2) above, then an additional amount of minimum rent will be paid in the amount by which the prorated year-to-date annual minimum rent, (1) above, exceeds the total year-to-date rent paid;

OR: if the year-to-date percentage rent calculated in (2) above is greater than the prorated year-to-date minimum rent due calculated in (1) above, then an additional amount of percentage rent will be paid in the amount by which the year-to-date percentage rent, (2) above, exceeds the total year-to-date rent paid.

If the total of rent payments made during any year-to-date period of a lease year exceeds (a) the prorated year-to-date annual minimum rent for such prorated period and (b) the year-to-date

percentage rent due, then the excess over the greater of (a) or (b) shall be applied against the next rent payment due].

Minimum rents, if payable according to the terms hereof, are to be paid in monthly installments on or before the day of the calendar month when percentage rents are due pursuant to Section 3.3 Payment Procedure, hereof.

- b. Minimum Rent Adjustment. Effective at the beginning of the first day of the fourth lease year of this lease and at the beginning of each three year period thereafter during the term, the annual minimum rent shall be eighty percent (80%) of the annual average of actual rents paid or accrued during the three (3) years preceding the adjustment date. Said annual minimum rent shall then be divided by twelve (12) to establish the new monthly minimum rent. It is recognized that such adjustments shall be calculated by CITY upon completion of payments due for the preceding rental period in order to determine the amount of the adjustment to be effective on the dates stated herein. Until such calculations are completed, LESSEE shall continue paying monthly minimum rents at the prior rate. Any additional rents determined by the adjustment to be due for the months previously paid at the prior rate shall be paid to CITY within thirty (30) days following written notice of such new minimum rent containing a detailed calculation thereof. IN NO EVENT SHALL ANY SUCH MINIMUM RENT ADJUSTMENT RESULT IN A DECREASE IN THE MINIMUM RENT REQUIREMENT IN EFFECT IMMEDIATELY PRIOR TO THE ADJUSTMENT DATE.
- c. Percentage Rents. Percentage rents will be calculated on a calendar month basis and will consist of the following percentages of the gross income resulting from the use of the premises:

Percentages	Business Activities
Three percent (3%)	Of all gross income from food and non-alcoholic beverages prepared and/or dispensed on the lease premises. The percentage rate for this activity will increase to three and one-half percent (3.5%) on January 1, 2008.
Three percent (3%)	Of all gross income from non-alcoholic beverages prepared at/or dispensed from all bar facilities. The percentage rate for this activity will increase to five percent (5%) on January 1, 2008.

Six percent (6%)

Of all gross income from the sale of alcoholic beverages. The percentage rate for this activity will increase to six and one-half percent (6.5%) on January 1, 2008.

Seven percent (7%)

Of all gross income from the rental of rooms and other living accommodations. The percentage rate for this activity will increase to seven and one-half percent (7.5%) on January 1, 2008.

For the rental of rooms and other accommodations, LESSEE may deduct from such gross income before computing the rent due CITY, any commission or fee paid to a travel agency or other rental agent as a result of procurement or attempted procurement by said agency or agent of tenants for said rooms and other accommodations (the "Travel Agent Deduction"); provided however, that the total of such deductions shall not exceed five percent (5%) of such gross annual income. The aforementioned deduction shall not exceed five percent (5%) per annum, from January 1, 2000 to January 1, 2008. The amount of this deduction will be reviewed every ten (10) years by mutual consent or through a market appraisal as set forth in section 3.2e, the first such review being effective January 1, 2008, but in no event shall such deduction be increased or decreased by more than one half of one percent (.5%) at each ten (10) year adjustment. There shall be included in the calculation of gross income from the rental of rooms the equivalent value of room rentals exchanged by LESSEE for goods and services provided by third parties (the "Trade Out Room Value"). CITY and LESSEE agree that the initial Trade Out Room Value for each room so exchanged shall equal Seventy-Five Dollars (\$75.00) per night and CITY shall be entitled to receive percentage rent on the deemed gross income from such exchanges at such rates. The Trade Out Room Value will be reviewed every ten (10) years by mutual consent or through a market appraisal in accordance with Section 3.2e, the first such review being effective January 1, 2008. The adjusted Trade Out Room Value will not, as a result of the process, be increased or decreased by more than one percent (1%) as of each such adjustment.

Five percent (5%)

Of all gross income from the operation of lobby shops.

Three percent (3%)

Of all gross income from mandatory banquet service charges or mandatory gratuities. The percentage rate for this activity will increase to three and one-half percent (3.5%) on January 1, 2008.

Seven percent (7%)	Of all gross income from the operation of an auto rental office on lease premises.
Ten percent (10%)	Of all gross income from the operation of a boat rental concession.
Twenty percent (20%)	Of all gross income from the operation and rental of marina boat slips. The percentage rate for this activity will increase to 25% on January 1, 2015.
Twenty-five percent (25%)	Of commissions or any other compensation paid to LESSEE or sublessees for the right to install or operate coin-operated vending, game, or service machines or devices on the premises or ten percent (10%) of the gross income from any such coin-operated machines or devices owned, rented or leased at fair market rent by LESSEE or sublessee for use on the premises.
Fifty percent (50%)	Of commissions or any other compensation paid to LESSEE or sublessees for the right to install or operate coin-operated telephones or in-room movies or ten percent (10%) of the gross income from any such coin-operated machines or devices owned, rented or leased at fair market rent by LESSEE or sublessees for use on the premises.
Ten percent (10%)	Of gross income from "all other authorized activities."

LESSEE derives gross income from items that, according to the LESSEE, are goods and services provided from third parties to guests or consumers by the LESSEE in its normal course of business, as an accommodation to groups and individual guests at LESSEE'S cost. The gross income derived from these goods and services shall be excluded from the gross income prior to the calculation of the percentage rent. It is understood that the exchange account list herein attached as Exhibit 9.5, Exchange Account List, will be reviewed on an annual basis and new items added and old items deleted, subject to the prior written approval and reasonable determination of the City Manager. In no event shall LESSEE be allowed to deduct more than two percent (2%) from gross income for goods and services in the exchange account list, with all income above such two percent (2%) to be included in gross income.

The City Manager, based on his reasonable determination, may approve another percentage rate or flat rate of rent for each other incidental service or operation supplementary to the permitted use(s) set forth under Section 1.2, Uses, hereof as may be approved in writing by the City Manager prior to commencement of such other service(s) or operation(s). Any unauthorized activity conducted on the premises without prior approval by the City Manager shall be subject to the requirements of Section 3.7, Unauthorized Use Charge, hereof.

d. Percentage Rate Adjustment.

- (1) At least twelve (12) months prior to January 1, 2008, the parties hereto, by mutual consent or through a percentage rate market appraisal as hereinafter set forth, will adjust the percentage rates for the categories of auto rentals, boat rentals, vending machines, coin-operated telephones, movies, game rooms and "all other authorized activities" of LESSEE'S gross income to be paid CITY effective on January 1, 2008 and during the succeeding ten-year period. Said adjustment will be made to the degree necessary to provide a fair rent to CITY as determined by the City Manager and LESSEE; taking into consideration the criteria set forth in Section 3.2e below. The adjusted rates will not, as a result of the process, be increased by more than one-half of one percent (.5%) also, the adjusted percentage rates will not be less than the percentage rates in existence at the time of the adjustment. In the event that such adjustment is not made by mutual consent prior to three (3) months before January 1, 2008, then the parties hereto will refer the matter to appraisal under the terms hereinafter set forth.
- (2) At least twelve (12) months prior to January 1, 2018, the parties hereto, by mutual consent or through a percentage rate market appraisal as hereinafter set forth, will adjust the percentage rates for the categories of food and non-alcoholic beverages prepared and dispensed on the leased premises, non-alcoholic beverages prepared and dispensed from all bar facilities, alcoholic beverages, rooms and other living accommodations, lobby shops, mandatory banquet service charges and gratuities and auto rentals of LESSEE'S gross income to be paid CITY effective on January 1, 2018 and during the succeeding 10-year period. The adjusted rates will not, as a result of the process, be increased by more than one-half of one percent (.5%) or conversely be decreased by more than one-half of one percent (.5%). In the event that such adjustment is not made by mutual consent prior to three (3) months before January 1, 2018, then the parties hereto will refer the matter to appraisal under the terms hereinafter set forth.

- (3) At least twelve (12) months prior to January 1, 2018, the parties hereto, by mutual consent or through a percentage rate market appraisal as hereinafter set forth, will adjust the percentage rates for the categories of vending machines, game rooms, coin-operated telephones, movies of LESSEE'S gross income to be paid CITY effective on January 1, 2018 and during the succeeding ten-year period. The adjusted rates will not, as a result of the process, be increased by more than two and one-half percent (2.5%) of gross income or conversely be decreased by more than two and one-half percent (2.5%) of gross income. In the event that such adjustment is not made by mutual consent prior to three (3) months before January 1, 2018, then the parties hereto will refer the matter to appraisal under the terms hereinafter set forth.
- (4) At least twelve (12) months prior to January 1, 2018, the parties hereto, by mutual consent or through a percentage rate market appraisal as hereinafter set forth, will adjust the percentage rates for the categories of boat rentals, marina boat slips and "all other authorized activities" for LESSEE'S gross income to be paid CITY effective on January 1, 2018 and the succeeding ten-year period. The adjusted rates will not, as a result of the process, be increased by more than one and one-half percent (1.5%) or conversely be decreased by more than one and one-half percent (1.5%) . In the event that such adjustment is not made by mutual consent prior to three (3) months before January 1, 2018, then the parties hereto will refer the matter to appraisal under the terms hereinafter set forth.
- (5) At least twelve (12) months prior to January 1, 2028 and at least six (6) months prior to the end of each ten-year period thereafter, the parties hereto, by mutual consent or through a percentage rate market appraisal will adjust the percentage rates of all categories of LESSEE'S gross income to be paid CITY effective on January 1 of the succeeding ten-year period. Said adjustment will be made to the degree necessary to provide a fair rent to CITY as determined by the City Manager and LESSEE, taking into consideration the criteria set forth in Section 3.2e below. The adjusted rates will not, as a result of the process, be increased by more than one-half of one percent (.5%) or conversely be decreased by more than one-half of one percent (.5%) for each adjustment. Also, the adjusted percentage rates will not be less than the percentage rates in existence at the time of lease commencement. In the event that such adjustment is not made by mutual consent prior to three (3) months before January 1, 2028, or three months before the end of each succeeding 10-year period, then the parties hereto will refer the matter to appraisal under the terms hereinafter set forth.

- e. Appraisal. In the event the parties do not agree upon the amount of adjustment to said percentage rates as provided for in the previous section or the adjustment (if any) to the Travel Agent Deduction or the Trade Out Room Value, then the applicable adjustment shall be determined by a qualified professional independent real estate appraiser selected by mutual consent of the parties to this agreement from the list of appraisers approved by CITY. CITY and LESSEE agree to equally share the cost of the mutually selected appraiser. In the event the parties do not reach agreement as to selection of a mutually acceptable appraiser, then CITY and LESSEE shall each select a qualified professional independent real estate appraiser, from the City's list of approved appraisers, (if LESSEE cannot find an acceptable appraiser on the CITY's list of approved appraisers, then LESSEE may suggest additional appraisers for CITY approval, and CITY agrees to not unreasonably withhold approval of such suggested appraisers) who in turn will select a third qualified professional independent real estate appraiser, which third appraiser, acting alone, will be employed to set the percentage rates to be applied to LESSEE'S percentage rate adjustment or the adjustment, if any, to the Travel Agent Deduction or the Trade Out Room Value. In the event a mutually acceptable third appraiser is not agreed upon between the two selected appraisers within ten (10) days, then the third appraiser will be appointed by the presiding judge of the Superior Court of the State of California, County of San Diego, acting in his or her individual capacity, upon application by either CITY or LESSEE with prior notice thereof to the other party. In the event that the Superior Court judge declines to make the appointment, the parties hereto agree that the third appraiser shall be promptly determined in accordance with the rules of the American Arbitration Association. Said third appraiser shall complete the assignment within sixty (60) days of appointment. Each party shall pay the cost of its own selected appraiser, and both CITY and LESSEE agree to equally share the cost of the third mutually selected or court-appointed appraiser. CITY and LESSEE agree to accept and be bound, subject to the limits on increases and decreases to percentage rates as set forth in this lease, by the percentage rates and/or adjustments to the Travel Agent Deduction or the Trade Out Room Value, as applicable, determined by the appraiser selected or appointed to complete the assignment.

In establishing the items under controversy, the appraiser shall consider CITY'S property as a fee simple absolute estate, and as vacant and available for a full lease term equal to the initial full term of lease on the open market for the authorized purposes of this lease at the commencement of the rental period under review. The appraiser will be guided by prevailing market rates for similar operations primarily within the Southern California area, if available. The appraisal shall be subject to limits on increases and decreases to percentage rates as set forth in this lease. In the event the appraisal is not completed in time to permit the

applicable adjustment to be made upon the applicable commencement of the ten-year period, LESSEE agrees to continue to pay rent in accordance with the then-existing lease rates, and the adjustment, when determined, will be retroactive to said effective date of adjustment as hereinabove established. Any deficiency shall be paid by LESSEE to CITY within sixty (60) days after determination of the new percentage rate(s) without penalty to LESSEE if such deficiency payment to CITY is delayed through no fault of LESSEE. Any refund from CITY to LESSEE shall be credited to the next rent payment.

- f. Additionally, with regards to the foregoing percentage rate adjustments and/or appraisals, the parties may agree that the percentage rates then in effect are appropriate and mutually agree to waive the adjustment process.

3.3 Payment Procedure. On or before the last day of the calendar month following the calendar month in which the gross income subject to rents was earned, LESSEE shall provide CITY with a correct statement together with a payment of rent on all applicable gross receipts in a form selected by CITY. The statement will be signed by LESSEE or its authorized agent, attesting to the accuracy thereof, which shall be legally binding upon LESSEE. Each statement will indicate or include:

- a. One-twelfth of the annual minimum rent until the full annual rent is achieved in any lease year.
- b. Total gross receipts for the subject month, itemized as to business categories for which separate percentage rents are established. A gross receipts breakdown of each business conducted on the premises must be included when a reported category shows gross income to be from more than one business operation.
- c. The percentage rental due CITY, computed and totaled.
- d. The accumulated total of all rents previously paid for the current lease year.
- e. Payment in the greater of the two following amounts:

One-twelfth of the annual minimum rent or the total percentage rent due CITY computed as described in Section 3.2a.
- f. Any rents due CITY from sublease activities or operations will begin with the earliest of the following dates (whether or not prior approval was given by CITY as required by this lease; and whether or not a separate percentage rent was established by CITY):

- (1) Sublease commencement date.
- (2) Physical occupancy date.
- (3) Earliest activity date (i.e., sale of goods, solicitation of business, construction or alterations, etc.).

3.4 Gross Income. "Gross income" or "gross receipts", as used in this lease, shall include all income resulting from occupancy of the leased premises from whatever source derived whether received or to become due. Provided, however, gross income shall not include federal, state, or municipal taxes collected from the consumer (regardless of whether the amount thereof is stated to the consumer as a separate charge) and paid over periodically by LESSEE to a governmental agency accompanied by a tax return or statement as required by law. Possessory interest taxes or other property taxes shall not be deducted by LESSEE in computing gross income. Gross income shall not include refunds for goods returned for resale on the premises or refunds of deposits. The amount of such taxes and refunds shall be clearly shown on the books and records of LESSEE. The percentage rent shall be calculated and paid by LESSEE on the basis of said gross income whether the income is received by LESSEE or by any sublessee, permittee, licensee or other user of the leased premises, or their agents, and all gross income received by any sublessee, permittee, licensee, or other party as a result of occupancy of said premises or the operation thereof shall be regarded as gross income of LESSEE for the purpose of calculating the percentage rent hereunder required to be paid by LESSEE to CITY, except as may be otherwise specified by or pursuant to this lease, or except as may be approved in writing in advance by the City Manager.

3.5 Inspection of Records.

- a. Records. LESSEE shall, at all times during the lease term, keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities conducted upon and financial transactions resulting from the use of the premises. The records shall be supported by source documents such as sales slips, daily cash register tapes, purchase invoices, or other documents as necessary to allow CITY to easily determine the total gross income.

Any retail sales or charges will be recorded by means of cash registers or other comparable devices which display to the customer the amount of the transaction and automatically issue a receipt. The registers will be equipped with devices that lock in sales totals and other transaction numbers and sales details that are not resettable. Totals registered shall be read and recorded at the beginning and end of each business day.

In the event of admission charges or rentals, LESSEE shall issue serially numbered tickets for each such admission or rental and shall keep an adequate record of such tickets, as well as a record of unissued tickets.

All retail sales and charges may be recorded by a system other than cash registers or other comparable devices provided such system is approved by CITY.

b. Financial Statements. Within sixty (60) days after the end of each calendar year, LESSEE will, at its expense, submit to CITY a statement in which the total gross receipts and the corresponding amounts of rents paid CITY for the year are classified according to the categories of business established for any percentage rental and for any other business conducted on or from the premises. Said statement shall be signed by LESSEE or its authorized agent attesting to the accuracy thereof, which shall be legally binding upon LESSEE.

c. Right to Inspect. All LESSEE'S books of account, records, and supporting documentation, as described under Section 3.5a hereinabove, will be kept for at least five (5) years and made available to CITY in one location within the City of San Diego. Said books and records shall be maintained separate from all other accounts not relating to the leased premises. The CITY, at its discretion, shall have the reasonable right to inspect and audit the business of LESSEE; its agents, sublessees, concessionaires, and licensees operating on and in connection with the premises as necessary and appropriate for CITY to determine the amounts of rent due CITY in compliance with the requirements of this lease.

At CITY'S request, LESSEE shall promptly provide, at LESSEE'S expense, any necessary data to enable CITY to fully comply with all requirements of the state or federal government for lease information or reports concerning the premises. Such data will include, if required, a detailed breakdown of LESSEE'S receipts and expenses.

d. Audit Cost. The full cost of CITY'S audit(s) will be borne by CITY unless one or both of the following conditions exists, in which case LESSEE hereby agrees to pay CITY'S cost of audit(s):

- (1) The audit(s) reveal an underpayment of more than five percent (5%) between the rent due as reported and paid by LESSEE pursuant to this lease and rent due as determined by the audit(s); or

- (2) LESSEE has failed to maintain complete and true books, records, accounts, and supporting source documents in material accordance with this section hereof.

LESSEE shall pay any deficiency determined by the audit(s) plus interest on such amount as defined in Section 3.6, Delinquent Rent and Audit Fees hereof, within thirty (30) days of notice thereof by CITY. CITY will credit any overpayment against incoming rents. Any overpayment determined after the end of this lease will be refunded by CITY within thirty (30) days of confirmation by the City Manager of the audit(s) findings.

- e. Default. LESSEE'S failure to keep complete and accurate records by means of double-entry bookkeeping and make them available for CITY inspection is, like all other failures to comply with covenants of this lease, a breach of this lease and cause for termination.

- 3.6 Delinquent Rent and Audit Fees. If LESSEE fails to pay the rent when due, LESSEE will pay, in addition to the unpaid rents, five percent (5%) of the delinquent rent. If the rent is still unpaid at the end of fifteen (15) days, LESSEE shall pay an additional five percent (5%) [being a total of ten percent (10%)], which is hereby mutually agreed by the parties hereto to be appropriate to compensate CITY for loss resulting from rental delinquency, including lost interest, opportunities, legal costs, and the cost of servicing the delinquent account. Notwithstanding the foregoing, in no event shall the charge for late payments of rent be less than Twenty-five Dollars (\$25).

In the event CITY audit(s), if applicable, discloses that the rent for the audited period(s) has been underpaid in excess of five percent (5%) of the total required rent, then LESSEE shall pay CITY the cost of the audit(s) plus ten percent (10%) per year on the amount by which said rent was underpaid, in addition to the unpaid rents as shown to be due CITY, as compensation to CITY for administrative costs and loss of interest as previously described herein. In the event CITY audit(s) discloses that the unpaid rent is less than five percent (5%) of the total rent, and should LESSEE fail to pay said unpaid rent within thirty (30) days after written notice from CITY, an additional fee of ten percent (10%) of said unpaid amount shall be added to the unpaid amount to compensate CITY for costs and losses due to such nonpayment. LESSEE agrees to pay such amounts and further agrees that the specific late charges represent a fair and reasonable estimate of the costs that CITY will incur from LESSEE'S late payment. Acceptance of late charges and any portion of the late payment by CITY shall in no event constitute a waiver of LESSEE'S default with respect to late payment, nor prevent CITY from exercising any of the other rights and remedies granted in this lease.

- 3.7 Unauthorized Use Charge. LESSEE shall pay CITY twenty percent (20%) of the gross receipts for any service or use that is not permitted by this lease. This payment is subject to the due date provided in this lease for rental payments and the provision for delinquent rent. The existence of the twenty percent (20%) charge in this clause and the payment of this charge or any part of it, does not constitute an authorization for a particular service or use, and does not waive any CITY rights to terminate a service or use or to default LESSEE for participating in or allowing any unauthorized use of the leased premises. If LESSEE in good faith believes that a use was authorized, and a previous audit of a period in which use existed does not identify such use as unauthorized, and LESSEE paid percentage rent in accordance with its good faith classification of the activity, then the unauthorized use charge shall not apply for the period prior to CITY'S notification of the unauthorized activity.

SECTION 4: ASSIGNMENT

- 4.1 Time is of Essence; Provisions Binding on Successors. Time is of the essence of all of the terms, covenants, and conditions of this lease, and, except as otherwise provided herein, all of the terms, covenants, and conditions of this lease shall apply to, benefit, and bind the successors and assigns of the respective parties, jointly and individually.
- 4.2 Assignment and Subletting. Except as set forth in Addendum 1 attached hereto, LESSEE shall not assign this lease or any interest therein and shall not sublet the premises or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person, except employees, agents, and guests of LESSEE, to use or occupy the premises or any part thereof, without the prior written consent of the City Manager in each instance. A consent to assignment, subletting, occupation, or use by any other person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation, or use by another person. Any such assignment or subletting without such consent shall be void and shall, at the option of CITY, terminate this lease. Except as set forth in Addendum 1 attached hereto, this lease shall not, nor shall any interest therein, be assignable as to the interest of LESSEE by operation of law, without the written consent of the City Manager. "Assignment" for the purposes of this clause shall include any transfer of any ownership interest in this lease by LESSEE or by any partners, principals, or stockholders, as the case may be, from the original LESSEE, its general partners, or principals, provided, however, a transfer of partnership interests in LESSEE shall not be a violation hereof as long as the current general partners of LESSEE remains the general partners of LESSEE and continues to hold a majority of the economic interests in LESSEE.

Approval of any assignment shall be conditioned upon the assignee agreeing in writing that it will assume the rights and obligations thereby assigned and that it will keep and perform all covenants, conditions, and provisions of this agreement which are applicable to the rights acquired. Pursuant to City Charter Section 225,

the City Manager must review and approve every person or entity which will have an interest in this lease as a sublessee or assignee. The City Manager's approval to any proposed assignment or sublease will not be unreasonably withheld or delayed, provided all such persons and entities are of good character and reputation.

- 4.3 Encumbrance. Subject to prior consent by CITY, which shall not be unreasonably withheld, LESSEE may, on the terms and conditions set forth in Addendum 1 attached hereto, encumber this lease, its leasehold estate, and its improvements thereon by deed of trust, mortgage, chattel mortgage, or other security instrument to assure the payment of a promissory note or notes of LESSEE.

Proceeds from subsequent encumbrances may be used to reduce LESSEE'S equity so long as LESSEE pays additional consideration to CITY as set forth in Addendum 1 attached hereto.

In the event any such approved deed of trust or mortgage or other security-type instrument should at any time be in default and be foreclosed; or transferred in lieu of foreclosure; CITY will accept the approved mortgagee or beneficiary thereof as its new tenant under this lease with all the rights, privileges, and duties granted and imposed in this lease, all on the terms and conditions set forth in Addendum 1 attached hereto. Said mortgagee or beneficiary may assign this lease on the terms and conditions set forth in Addendum 1 attached hereto.

4.4 Defaults and Remedies.

a. Default. In the event that:

- (1) LESSEE shall default in the performance of any covenant or condition required by this lease to be performed by LESSEE and shall fail to cure said default within thirty (30) days following written notice thereof from CITY; or if any such default is not curable within thirty (30) days, and LESSEE shall fail to commence to cure the default(s) within said thirty-day period and diligently pursue such cure to completion; or
- (2) LESSEE shall voluntarily file or have involuntarily filed against it (and fail to have such involuntary filing dismissed within 60 days after filing) any petition under any bankruptcy or insolvency act or law; or
- (3) LESSEE shall be adjudicated a bankrupt; or
- (4) LESSEE shall make a general assignment for the benefit of creditors;

then CITY may, at its option, without further notice or demand upon LESSEE or upon any person claiming rights through LESSEE, immediately terminate this lease and all rights of LESSEE and of all persons claiming rights through LESSEE to the premises or to possession thereof; and CITY may enter and take possession of the premises. Provided, however, in the event that any default described in Section 4.4a(1), hereinabove is not curable within thirty (30) days after notice to LESSEE, CITY shall not terminate this lease pursuant to the default if LESSEE immediately commences to cure the default and diligently pursues such cure to completion.

In the event there is a deed of trust or mortgage on the leasehold interest, CITY shall give the mortgagee or beneficiary written notice of the default(s) complained of, and the same mortgagee or beneficiary shall have thirty (30) days from such notice to cure the default(s) or, if any such default is not curable within thirty (30) days, to commence to cure the default(s) and diligently pursue such cure to completion. The thirty-day period may be extended during such time as mortgagee or beneficiary pursues said cure with reasonable diligence.

Anything herein to the contrary notwithstanding, in the event of default, LESSEE shall be given written notice of default and the opportunity to cure such default as hereinabove provided. This right to notice and cure applies to all defaults under this lease, however denominated and includes lease provisions which gives CITY the right to "terminate the lease", "unilaterally terminate" or any other LESSOR termination rights. The intent of the parties in all circumstances being to notify LESSEE of such defaults and give LESSEE an opportunity to cure.

- b. Remedies of Lender. Should the default(s) be noncurable by LESSEE, then any lender holding a beneficial interest in the leasehold, whose qualifications as an assignee have been approved by CITY, shall have the absolute right to substitute itself to the estate of LESSEE hereunder and to commence performance of this lease on the terms and conditions set forth in Addendum 1 attached hereto. If such mortgagee or beneficiary shall give notice in writing of its election to so substitute itself within the thirty-day period after receiving written notice by CITY of the default, and the default, if curable, is cured by such mortgagee or beneficiary, then this lease shall not terminate pursuant to the default. In that event, CITY expressly consents to the substitution and authorizes the mortgagee or beneficiary to perform under this lease with all the rights, privileges, and obligations of LESSEE, subject to cure of the default, if possible, by mortgagee or beneficiary. LESSEE expressly agrees to assign all its interest in and to its leasehold estate to mortgagee or beneficiary in that event.

- c. Abandonment by LESSEE. Even though LESSEE has breached the lease and abandoned the property, this lease shall continue in effect for so long as CITY does not terminate this lease, and CITY may enforce all its rights and remedies hereunder, including but not limited to the right to recover the rent as it becomes due, plus damages.
- d. Waiver. Any CITY waiver of a default is not a waiver of any other default. Any waiver of a default must be in writing and be executed by the City Manager in order to constitute a valid and binding waiver. CITY delay or failure to exercise a remedy or right is not a waiver of that or any other remedy or right under this lease. The use of one remedy or right for any default does not waive the use of another remedy or right for the same default or for another or later default. CITY'S acceptance of any rents is not a waiver of any default preceding the rent payment. CITY and LESSEE specifically agree that the property constituting the premises is CITY-owned and held in trust for the benefit of the citizens of the City of San Diego and that any failure by the City Manager or CITY staff to discover a default or take prompt action to require the cure of any default shall not result in an equitable estoppel, but CITY shall at all times have the legal right to require the cure of any default when and as such defaults are discovered or when and as the City Council directs the City Manager to take action or require the cure of any default after such default is brought to the attention of the City Council by the City Manager or by any concerned citizen.

4.5 Eminent Domain. If all or part of the premises are taken through condemnation proceedings or under threat of condemnation by any public authority with the power of eminent domain, the interests of CITY and LESSEE (or beneficiary or mortgagee) will be as follows:

- a. In the event the entire premises are taken, this lease shall terminate on the date of the transfer of title or possession to the condemning authority, whichever first occurs.
- b. In the event of a partial taking, if, in the reasonable determination of LESSEE and CITY, the remaining part of the premises is unsuitable for the lease operation, this lease shall terminate on the date of the transfer of title or possession to the condemning authority, whichever first occurs.
- c. In the event of a partial taking, if, in the reasonable determination of LESSEE and CITY, the remaining part of the premises is suitable for continued lease operation, this lease shall terminate in regard to the portion taken on the date of the transfer of title or possession to the condemning authority, whichever first occurs, but shall continue for the portion not taken. The minimum rent shall be equitably reduced to reflect the portion of the premises taken.

- d. Award. All monies awarded in any such taking shall belong to CITY, whether such taking results in diminution in value of the leasehold or the fee or both; provided, however, LESSEE shall be entitled to any award attributable to the taking of, or damages to LESSEE'S then remaining leasehold interest in installations or improvements of LESSEE. CITY shall have no liability to LESSEE for any award not provided by the condemning authority.
- e. Transfer. CITY has the right to transfer CITY'S interests in the premises in lieu of condemnation to any authority entitled to exercise the power of eminent domain. If a transfer occurs, LESSEE shall retain whatever interest it may have in the fair market value of any improvements placed by it on the premises in accordance with this lease.
- f. No Inverse Condemnation. The exercise of any CITY right under this lease shall not be interpreted as an exercise of the power of eminent domain and shall not impose any liability upon CITY for inverse condemnation.

SECTION 5: INSURANCE RISKS/SECURITY

- 5.1. Indemnity. LESSEE agrees to defend, indemnify, protect, and hold the CITY, its agents, officers, and employees harmless from and against any and all claims asserted or liability established for damages or injuries to any person or property, including injury to LESSEE'S employees, invitees, guests, agents, or officers, which arise out of or are in any manner directly or indirectly connected with the development or operation of the leasehold or the work and operations to be performed under this agreement, and all expenses of investigating and defending against same; provided, however, that LESSEE'S duty to indemnify and hold harmless shall not include any claims or liability arising from the established active negligence, sole negligence, or sole willful misconduct of the CITY, its agents, officers, or employees.
- 5.2. Insurance.
 - a. LESSEE shall take out and maintain at all times during the term of this lease the following insurance at its sole expense:
 - (1) Public liability and property damage insurance in the amount of not less than Five Million Dollars (\$5,000,000) Combined Single Limit Liability with an occurrence claims form. This policy shall cover all injury or damage, including death, suffered by any party or parties from acts or failures to act by CITY or LESSEE or by authorized representatives of CITY or LESSEE on or in connection with the use or operation of the premises.

- (2) Fire, extended coverage, and vandalism insurance policy on all insurable property on the premises in an amount to cover 100 percent of the replacement cost. Any proceeds from a loss shall be payable jointly to CITY and LESSEE. The proceeds shall be placed in a trust fund to be reinvested in rebuilding or repairing the damaged property. If there is a mortgage or trust deed on the leasehold in accordance with Section 4.3, Encumbrance, hereof, the proceeds may be paid to the approved mortgagee or beneficiary so long as adequate provision reasonably satisfactory to CITY has been made in each case for the use of all proceeds for repair and restoration of damaged or destroyed improvements on the premises.

b. LESSEE'S responsibility to maintain said insurance also includes the following:

- (1) Additional Insured. All insurance policies will name CITY as an additional insured, protect CITY against any legal costs in defending claims, and will not terminate without thirty (30) days' prior written notice to CITY. All insurance companies must be satisfactory to CITY and licensed to do business in California. All policies will be in effect on or before the first day of the lease, except "course of construction fire insurance" shall be in force on commencement of all authorized construction on the premises, and full applicable fire insurance coverage shall be effective upon completion of each insurable improvement. A copy of the insurance policy will remain on file with CITY during the entire term of the lease. At least thirty (30) days prior to the expiration of each policy, LESSEE shall furnish a certificate(s) showing that a new or extended policy has been obtained which meets the terms of this lease.
- (2) Modification. CITY, at its discretion, may reasonably require the revision of amounts and coverages to those consistent with good business practices for comparable properties at any time during the term by giving LESSEE sixty (60) days' prior written notice. CITY'S requirements shall be designed to assure protection from and against the kind and extent of risk existing on the premises. LESSEE also agrees to obtain any additional insurance required by CITY for new improvements, in order to meet the requirements of this lease.
- (3) Accident Reports. LESSEE shall report to CITY any accident causing more than Twenty Five Thousand Dollars (\$25,000) worth of property damage or any serious injury to persons on the premises. This report shall contain the names and addresses of the

parties involved, a statement of the circumstances, the date and hour, the names and addresses of any witnesses, and other pertinent information.

- (4) Failure to Comply. If LESSEE fails or refuses to take out and maintain the required insurance; or fails to provide the proof of coverage, CITY has the right to obtain the insurance. LESSEE shall reimburse CITY for the premiums paid with interest at the maximum allowable legal rate then in effect in California. CITY shall give notice of the payment of premiums within thirty (30) days of payment stating the amount paid, names of the insurer(s), and rate of interest. Said reimbursement and interest shall be paid by LESSEE on the first (1st) day of the month following the notice of payment by CITY.

Notwithstanding the preceding provisions of this Subsection (4), if LESSEE fails or refuses to take out or maintain insurance as required in this lease or fails to provide the proof of insurance, CITY has the right to declare this lease in default without further notice to LESSEE, and CITY shall be entitled to exercise all legal remedies in the event of such default.

- 5.3 Waste, Damage, or Destruction: LESSEE agrees to give notice to CITY of any fire or other damage causing more than Twenty Five Thousand Dollars (\$25,000) damage that may occur on the leased premises within ten (10) days of such fire or damage. LESSEE agrees not to commit or suffer to be committed any waste or injury or any public or private nuisance, to keep the premises clean and clear of refuse and obstructions, and to properly dispose of all garbage, trash, and rubbish in a manner satisfactory to CITY. If the leased premises shall be damaged by any cause which puts the premises into a condition which is not clean and safe, LESSEE agrees to make or cause to be made full repair of said damage and to restore the premises to the condition which existed prior to said damage; or, at CITY'S option, LESSEE agrees to clear and remove from the leased premises all debris resulting from said damage and rebuild the premises in accordance with plans and specifications previously submitted to CITY and approved in writing in order to replace in kind and scope the operation which existed prior to such damage, using for either purpose the insurance proceeds as set forth in Section 5.2, Insurance, hereof.

LESSEE agrees that preliminary steps toward performing repairs, restoration, or replacement of the premises shall be commenced by LESSEE within thirty (30) days, and the required repairs, restoration, or replacement shall be completed within a reasonable time thereafter. CITY may determine an equitable deduction in the minimum annual rent requirement for such period or periods that said premises are untenantable by reason of such damage.

If facilities outside the lease premises are necessary to the use of the leased premises (e.g., the access bridges) are partially or totally destroyed, and the income from the lease premises is negatively affected, then the minimum rent may be equitably reduced during the period such condition exists.

SECTION 6: IMPROVEMENTS/ALTERATIONS/REPAIRS

- 6.1 Acceptance of Premises. By signing this lease, LESSEE represents and warrants that it has independently inspected the premises and made all tests, investigations, and observations necessary to satisfy itself of the condition of the premises. LESSEE agrees it is relying solely on such independent inspection, tests, investigations, and observations in making this lease. LESSEE further acknowledges that the premises are in the condition called for by this lease, that CITY has performed all work with respect to the premises, and that LESSEE does not hold CITY responsible for any defects whether apparent or latent, in the premises, including the presence of any hazardous wastes.
- 6.2 Entry and Inspection. CITY reserves and shall always have the right, with reasonable notice unless an emergency, but not the obligation, to enter said premises for the purpose of viewing and ascertaining the condition of the same, or to protect its interests in the premises, or to inspect the operations conducted thereon provided CITY shall not unreasonably interfere with LESSEE'S operations. In the event that such entry or inspection by CITY discloses that said premises are not in a clean and safe condition, CITY shall have the right, after ten (10) days written notice to LESSEE, to have any necessary maintenance work done at the expense of LESSEE, and LESSEE hereby agrees to pay promptly any and all costs incurred by CITY in having such necessary maintenance work done, in order to keep said premises in a clean and safe condition. Further, if at any time CITY determines that said premises are not in a clean and safe condition, CITY may at its sole option, without additional notice, require LESSEE to file with CITY a faithful performance bond to assure prompt correction of any condition which is not clean and safe. Said bond shall be in an amount adequate in the opinion of CITY to correct the said unsatisfactory condition. LESSEE shall pay the cost of said bond. The rights reserved in this section shall not create any obligations on CITY or increase obligations elsewhere in this lease imposed on CITY.
- 6.3 Maintenance. LESSEE agrees to assume full responsibility and cost for the operation and maintenance of the premises throughout the term. LESSEE will make all repairs and replacements necessary to maintain and preserve the premises in a clean and safe condition satisfactory to CITY and in compliance with the Development Plan described in Section 6.12, Development Plan, hereof and with all applicable laws.

- 6.4 Improvements/Alterations. No improvements, structures, or installations shall be constructed on the premises, and neither the building exteriors nor the perimeter landscaping visible from Ingraham Boulevard or Mission Bay Park may be altered by LESSEE without prior written approval by the City Manager. Further, LESSEE agrees that major structural or architectural design alterations to approved improvements, structures, or installations may not be made on the premises without prior written approval by the City Manager and that such approval shall not be unreasonably withheld. This provision shall not relieve LESSEE of any obligation under this lease to maintain the premises in a clean and safe condition, including structural repair and restoration of damaged or worn improvements. CITY shall not be obligated by this lease to make or assume any expense for any improvements or alterations.
- 6.5 Utilities. LESSEE agrees to order, obtain, and pay for all utilities and service and installation charges in connection with the development and operation of the leased premises. All utilities will be installed underground.
- 6.6 Construction Bond. Whenever there is any construction to be performed on the premises, LESSEE shall deposit with CITY, prior to commencement of said construction, a faithful performance bond in the amount of 100 percent of the estimated construction cost of the work to be performed. The bond may be in cash or may be a corporate surety bond or other security reasonably satisfactory to CITY. The bond shall insure that the construction commenced by LESSEE shall be completed in accordance with the plans approved by CITY or, at the option of CITY, that the uncompleted construction shall be removed and the premises restored to a condition satisfactory to CITY. The bond or cash will be held in trust by CITY for the purpose specified above or at CITY'S option it may be placed in an escrow or other trust approved by CITY.
- 6.7 Liens. LESSEE shall at all times save CITY free and harmless and indemnify CITY against all claims for labor or materials in connection with operations, improvements, alterations, or repairs on or to the premises and the costs of defending against such claims, including reasonable attorney's fees.

If improvements, alterations, or repairs are made to the premises by LESSEE or by any party other than CITY, and a lien or notice of lien is filed, LESSEE shall within five (5) days of such filing either:

- a. take all actions necessary to record a valid release of lien, or
- b. file with CITY a bond, cash, or other security acceptable to CITY sufficient to pay in full all claims of all persons seeking relief under the lien.

Provided however, in the event that a "notice of lien" is filed by a contractor but there is no default under the contract with such contractor, and the contractor has

filed a "notice of lien" merely to give notice of a possible future claim, the provisions of "a" and "b" above shall not apply to that case.

- 6.8 Taxes. LESSEE agrees to pay, before delinquency, all taxes, assessments, and fees assessed or levied upon LESSEE or the premises, including the land, any buildings, structures, machines, equipment, appliances, or other improvements or property of any nature whatsoever erected, installed, or maintained by LESSEE or levied by reason of the business or other LESSEE activities related to the leased premises, including any licenses or permits. LESSEE'S agreement to pay such taxes before delinquency shall in no way prevent LESSEE from contesting such taxes in accordance with law. LESSEE recognizes and agrees that this lease may create a possessory interest subject to property taxation, and that LESSEE may be subject to the payment of taxes levied on such interest, and that LESSEE shall pay all such possessory interest taxes. LESSEE further agrees that payment for such taxes, fees and assessments will not reduce any rent due CITY.
- 6.9 Signs. LESSEE agrees not to erect or display any banners, pennants, flags, posters, signs, decorations, marquees, awnings, or similar devices or advertising without the prior written consent of CITY. If any such unauthorized item is found on the premises, LESSEE agrees to remove the item at its expense within 24 hours notice thereof by CITY, or CITY may thereupon remove the item at LESSEE'S cost.
- 6.10 Ownership of Improvements and Personal Property.
- a. Any and all improvements, trade fixtures, structures, and installations or additions to the premises now existing or constructed on the premises by LESSEE shall at lease expiration or termination be deemed to be part of the premises and shall become, at CITY'S option, CITY'S property free of all liens and claims, except as otherwise provided in this lease.
 - b. If CITY elects not to assume ownership of all or any improvements, trade fixtures, structures, and installations, CITY shall so notify LESSEE thirty (30) days prior to termination or one hundred eighty (180) days prior to expiration, and LESSEE shall remove all such improvements, structures and installations as directed by CITY at LESSEE'S sole cost on or before lease expiration or termination. If LESSEE fails to remove any improvements, structures, and installations as directed, LESSEE agrees to pay CITY the full cost of any removal.
 - c. LESSEE-owned machines, appliances, equipment (other than trade fixtures), and other items of personal property shall be removed by LESSEE by the date of the expiration or termination of this lease. Any said items which LESSEE fails to remove will be considered abandoned and become CITY'S property free of all claims and liens, or CITY may, at its option, remove said items at LESSEE'S expense.

- d. If any removal of such personal property by LESSEE results in damage to the remaining improvements on the premises, LESSEE agrees to repair all such damage.
 - e. Any necessary removal by either CITY or LESSEE which takes place beyond said expiration or termination hereof shall require LESSEE to pay rent to CITY at the rate in effect immediately prior to said expiration or termination.
 - f. Notwithstanding any of the foregoing, in the event LESSEE desires to dispose of any of its personal property used in the operation of said premises upon expiration or termination of this lease, then CITY shall have the first right to acquire or purchase said personal property.
- 6.11 Unavoidable Delay. If the performance of any act required of CITY or LESSEE is directly prevented or delayed by reason of strikes, lockouts, labor disputes, unusual governmental delays, acts of God, fire, floods, epidemics, freight embargoes, or other causes beyond the reasonable control of the party required to perform an act, said party shall be excused from performing that act for the period equal to the period of the prevention or delay. Provided, however, this provision shall not apply to obligations to pay rental as required pursuant to this lease. In the event LESSEE or CITY claims the existence of such a delay, the party claiming the delay shall notify the other party in writing of such fact within ten (10) days after the beginning of any such claimed delay.
- 6.12 Development Plan. LESSEE agrees to develop the leased premises substantially in accordance with the General Development Plan approved by the City Manager and filed in the Office of the City Clerk which plan is hereby incorporated by this reference. The general contents and provisions of the Development Plan are described in Section 9.3 hereof. The City Manager or his designee shall have the authority to authorize changes to the plan provided that the basic concept may not be modified without City Council approval and a document evidencing any approved changes shall be filed in the Office of the City Clerk. Except as limited by section 6.14 below, failure by LESSEE to substantially comply with the General Development Plan as required herein, to the reasonable satisfaction of the City Manager, shall constitute a major default and subject this lease to termination by CITY. The City Manager, in his sole discretion, may approve an extension to the date specified for completion in the Development Plan of up to one (1) year without further City Council approval.
- 6.13 Hazardous/Toxic Waste. LESSEE will not allow the installation of additional underground storage tanks or release of hazardous substances in, on, under, or from the premises. For the purposes of this provision, a release shall include but not be limited to any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leeching, dumping, or otherwise disposing of hazardous substances. "Hazardous substances" shall mean those hazardous

substances listed by the Environmental Protection Agency in regularly released reports and any other substances incorporated into the State's list of hazardous substances. A copy of the presently effective EPA and the State lists is on file in the Office of the City Clerk as Document 769704 and by this reference is incorporated herein.

In the event of any release of a hazardous substance not in accordance with applicable laws, LESSEE shall be responsible for all costs of remediation and removal of such substances in accordance with all applicable rules and regulations of governmental authorities.

LESSEE agrees to assume the defense of, indemnify, and hold CITY harmless from any and all claims, costs, and expenses related to environmental liabilities resulting from LESSEE'S operations on the premises, including but not limited to costs of environmental assessments, costs of remediation and removal, any necessary response costs, damages for injury to natural resources or the public, and costs of any health assessment or health effect studies.

If LESSEE knows or has reasonable cause to believe that any hazardous substance has been released on or beneath the premises, LESSEE shall give written notice to the City Manager within ten (10) days of receipt of such knowledge or cause for belief. Provided, however, if LESSEE knows or has reasonable cause to believe that such substance is an imminent and substantial danger to public health and safety, LESSEE shall notify the City Manager immediately upon receipt of this knowledge or belief and shall take all actions necessary to alleviate such danger. LESSEE will notify the City Manager immediately of any notice of violation received or initiation of environmental actions or private suits relative to the premises. In addition, LESSEE and LESSEE'S sublessees shall not utilize or sell any hazardous substance on the property without the prior written consent of CITY, except for ordinary and customary cleaning products, office supplies and other products used in compliance with all laws.

At any time within the twelve (12) months before the expiration or earlier termination of this lease, LESSEE, at CITY'S sole option, shall cause an environmental assessment of the premises to be completed by a professional environmental consultant registered with the State of California as a Professional Engineer, Certified Engineering Geologist, or Registered Civil Engineer. Said environmental assessment shall be obtained at the sole cost and expense of LESSEE and shall establish what, if any, hazardous substances exist on, in, or under the premises, and in what quantities. If any hazardous substances exist in quantities greater than that allowed by CITY, county, state, or federal laws, statutes, ordinances, or regulations, then said environmental assessment shall include a discussion of these substances with recommendations for remediation and removal necessary to effect compliance with those laws or statutes and estimates of the cost of such remediation or removal. LESSEE shall cause the remediation and/or removal recommended in the environmental assessment such

that compliance with environmental law is achieved and shall be solely responsible for all costs and expenses incurred, provided the problem was caused by LESSEE or LESSEE'S predecessor, employee, officer or subtenant.

- 6.14 Failure to Meet Development Schedule. Subject to force majeure, should LESSEE fail to substantially complete construction within one (1) full year of the date for final completion of improvements in accordance with the schedule of development of the General Development Plan hereof, it is specifically agreed by LESSEE and CITY that CITY will be entitled to damages in the amount of One Hundred Fifty Thousand Dollars (\$150,000.00) per year (prorated on a daily basis) thereafter for failure to meet said schedule of development until completion of development, said amount representing liquidated damages therefor. The liquidated damages set forth herein shall be CITY'S sole and exclusive remedy for LESSEE'S failure to timely complete the development plan. The City Manager, in his sole discretion, may approve an extension to the development schedule of up to one (1) year without further City Council approval.
- 6.15 Coastal Commission. LESSEE shall comply with the California Coastal Act, at its sole cost, and apply to the San Diego Coast Regional Commission or other such authorized state body for any necessary coastal development permit authorizing the construction of improvements in the Coastal Zone. LESSEE will proceed with diligence to obtain such permit, but if unable to do so within twenty-four (24) months after the effective date of this lease, this lease will terminate at either CITY'S or LESSEE'S option expressed by written notice to the other party. In the event of failure to obtain Coastal Commission approval, and termination of this lease, the prior lease, Document 00-18129, revives.

SECTION 7: GENERAL PROVISIONS

7.1 Notices

- a. Any notice required or permitted to be given hereunder shall be in writing and may be served personally or by United States mail, postage prepaid, addressed to LESSEE at the leased premises or at such other address designated in writing by LESSEE as follows;

LHO Mission Bay Hotel, L.P.
4800 Montgomery Lane
Suite M25
Bethesda, MD 20814
Attention: Chief Operating Officer

and to CITY as follows:

City Manager
Attention Real Estate Assets Director
City Administration Building
202 "C" Street, M.S. 9B
San Diego, CA 92101-4155

or to any mortgagee, trustee, or beneficiary, as applicable, at such appropriate address designated in writing by the respective party.

- b. Any party entitled or required to receive notice under this lease may by like notice designate a different address to which notices shall be sent.

7.2 Compliance with Law. LESSEE shall at all times in the construction, maintenance, occupancy, and operation of the premises comply with all applicable laws, statutes, ordinances, and regulations of CITY, county, state, and federal governments at LESSEE'S sole cost and expense. In addition, LESSEE shall comply with any and all notices issued by the City Manager or his authorized representative under the authority of any such law, statute, ordinance, or regulation.

7.3 CITY Approval. The approval or consent of CITY, wherever required in this lease, shall mean the written approval or consent of the City Manager unless otherwise specified, without need for further resolution by the City Council.

7.4 Nondiscrimination. LESSEE agrees not to discriminate in any manner against any person or persons on account of race, color, religion, gender, sexual orientation, medical status, national origin, age, marital status, or physical disability in LESSEE'S use of the premises, including but not limited to the providing of goods, services, facilities, privileges, advantages, and accommodations, and the obtaining and holding of employment.

7.5 Compliance with CITY'S Equal Opportunity Contracting Program.

- a. Equal Opportunity Contracting. LESSEE acknowledges and agrees that it is aware of, and will comply with, City Council Ordinance No. 18173 (San Diego Municipal Code Sections 22.2701 through 22.2708, as amended), EQUAL EMPLOYMENT OPPORTUNITY OUTREACH PROGRAM, a copy of which is on file in the Office of the City Clerk and by this reference is incorporated herein. LESSEE and all of its subcontractors are individually responsible to abide by its contents.

LESSEE will comply with Title VII of the Civil Rights Act of 1964, as amended; Executive Orders 11246, 11375, and 12086; the California Fair Employment Practices Act; and any other applicable federal and state laws and regulations hereafter enacted. LESSEE will not discriminate against any employee or applicant for employment on any basis prohibited by law.

LESSEE submitted and CITY acknowledges receipt of a current Work Force Report or a current Equal Employment Opportunity (EEO) Plan as required by Section 22.2705 of the San Diego Municipal Code, which sets forth the actions that LESSEE will take to achieve the CITY'S commitment to equal employment opportunities.

LESSEE agrees to insert the foregoing provisions in all subcontracts for any work covered by this lease agreement so that such provisions will be binding upon each subcontractor. LESSEE agrees that compliance with EEO provisions flowing from the authority of both parties will be implemented, monitored, and reviewed by the CITY'S Equal Opportunity Contracting Program staff.

- b. Local Business and Employment. LESSEE acknowledges that the City of San Diego seeks to promote employment and business opportunities for local residents and firms in all CITY contracts. LESSEE will, to the extent reasonably feasible, solicit applications for employment, and bids and proposals for subcontracts, for work associated with this lease agreement from local residents and firms as opportunities occur. LESSEE agrees to attempt to hire qualified local residents and firms whenever reasonably feasible.

LESSEE understands that failure to comply with the above requirements and/or submitting false information in response to these requirements may result in termination of this lease agreement and debarment from participating in CITY contracts for a period of not less than one (1) year.

- 7.6 Partial Invalidity. If any term, covenant, condition, or provision of this lease is found invalid, void, or unenforceable by a court of competent jurisdiction, the remaining provisions will remain in full force and effect.
- 7.7 Legal Fees. In the event of any litigation regarding this lease, the prevailing party shall be entitled to an award of reasonable legal costs, including court and attorneys' fees.
- 7.8 Number and Gender. Words of any gender used in this lease shall include any other gender, and words in the singular number shall include the plural, when the tense requires.
- 7.9 Captions. The section headings and captions for various articles and paragraphs shall not be held to define, limit, augment, or describe the scope, content, or intent of any or all parts of this lease. The numbers of the paragraphs and pages of this lease may not be consecutive. Such lack of consecutive numbers is intentional and shall have no effect on the enforceability of this lease.

- 7.10 Entire Understanding. Except as set forth in Addendum 1, this lease contains the entire understanding of the parties. Except as set forth in Addendum 1, LESSEE, by signing this agreement, agrees that there is no other written or oral understanding between the parties with respect to the leased premises. Each party has relied on its own examination of the premises, advice from its own attorneys, and the warranties, representations, and covenants of the lease itself. Each of the parties in this lease agrees that no other party, agent, or attorney of any other party has made any promise, representation, or warranty whatsoever which is not contained in this lease.

The failure or refusal of any party to read the lease or other documents, inspect the premises, and obtain legal or other advice relevant to this transaction constitutes a waiver of any objection, contention, or claim that might have been based on these actions. No modification, amendment, or alteration of this lease will be valid unless it is in writing and signed by all parties.

- 7.11 CITY Employee Participation Policy. It is the policy of CITY that all CITY contracts, agreements, or leases with consultants, vendors, or LESSEES shall include a condition that the contract, agreement, or lease may, at the sole option of CITY, be unilaterally and immediately terminated by CITY if the contractor or LESSEE employs an individual who, within the twelve months immediately preceding such employment, did in his/her capacity as a CITY officer or employee participate in negotiations with or otherwise have an influence on the recommendation made to the City Council in connection with the selection of the contractor or LESSEE. It is not the intent of this policy that these provisions apply to members of the City Council.

- 7.12 Drug-free Workplace. LESSEE shall be required to abide by the omnibus drug legislation passed by Congress on November 18, 1988, by adopting and enforcing a policy to maintain a drug-free workplace by doing all of the following:

- a. Publish a statement notifying employees that the unlawful manufacture, distribution, dispensation, possession, or use of controlled substances are prohibited on the leasehold and specifying the actions that will be taken against employees for violations of the prohibition.
- b. Establishing a drug-free awareness program to inform employees about all of the following:
 - (1) The dangers of drug abuse in the workplace.
 - (2) The LESSEE'S policy of maintaining a drug-free workplace.
 - (3) Any available drug counseling, rehabilitation, and employees assistance programs.

(4) The penalties that may be imposed upon employees' for drug abuse violations.

- c. LESSEE shall include in each sublease agreement language which indicates the sublessee's agreement to abide by the provisions of a drug-free workplace. LESSEE and sublessees shall be individually responsible for their own drug-free workplace programs.

7.13 Disabled Access Compliance. LESSEE agrees to comply with Title 24 of the California Code of Regulations (Building Code) as defined in California Health and Safety Code (Title 24), the Americans with Disabilities Act of 1990 (ADA); and any other applicable state and federal laws and regulations hereafter enacted protecting the rights of people with disabilities. LESSEE'S compliance shall include but not necessarily be limited to the following:

- a. LESSEE shall not discriminate against qualified persons with disabilities in any aspects of employment, including recruitment, hiring, promotions, conditions and privileges of employment, training, compensation, benefits, discipline, layoffs, and termination of employment, to the extent required under the applicable law.
- b. No qualified individual with a disability may be excluded on the basis of disability from participation in, or be denied the benefits of, services, programs, or activities of LESSEE; to the extent required under the applicable law.
- c. LESSEE shall post a statement addressing the requirements of Subsections a. and b. above in a prominent place at the work site.
- d. Where required by law, LESSEE shall comply with CITY'S disabled access requirements by bringing up to code and making accessible any areas of the premises which deny access to disabled persons. All such improvements and alterations shall be at the sole cost of LESSEE.
- e. LESSEE shall include language in each sublease agreement which indicates the sublessee's agreement to abide by the foregoing provisions. LESSEE and sublessees shall be individually responsible for their own compliance with ADA.

LESSEE understands that failure to comply with the above requirements and/or submitting false information in response to these requirements shall constitute a default under this lease.

7.14 Authority. Each individual executing this lease on behalf of LESSEE represents and warrants that he/she is duly authorized to execute and deliver this lease on behalf of LESSEE in accordance with a duly adopted resolution of LESSEE or in

accordance with the partnership agreement of LESSEE, and that this lease is binding upon the limited partnership in accordance with its partnership agreement, and that LESSEE is a duly qualified limited partnership and all steps have been taken prior to the date hereof to qualify LESSEE to do business in the state where the premises are situated.

- 7.15 Standard of Employees. LESSEE and its employees shall at all times conduct themselves and the operations on the leased premises in a professional manner.
- 7.16 Supersedure. It is mutually agreed that this lease, upon commencement, supersedes and annuls that certain lease filed in the Office of the City Clerk on the 28th day of November, 1994, with VVH Resorts, Ltd., as Document 00-18129, which is hereafter void and of no effect except as to any rentals and fees which may have accrued or any rights and remedies accrued or granted to CITY under such agreement.
- 7.17 Damaged Equipment. LESSEE shall salvage within 24 hours any property, real or personal, of LESSEE'S declared by CITY to be a menace to navigation or a nuisance within Mission Bay and to salvage or cause to be salvaged any sunken vessel or property upon the leased premises, irrespective of ownership. CITY may require that any boats not kept in a clean and operable condition be removed from the leased premises.
- 7.18 Enforcement of Live-Aboard Regulation. LESSEE shall be responsible for the enforcement, both within and in connection with the leased premises, of the following live-aboard regulation:
- No person shall remain overnight on board any watercraft or houseboat in Mission Bay Park unless the watercraft or houseboat has a self-contained toilet on board that does not discharge into the waters of the Bay. No owner of any watercraft or houseboat shall allow it to be occupied overnight in Mission Bay Park for a period of more than ninety (90) days, whether successive or cumulative, during any one calendar year. A watercraft or houseboat is presumed to be occupied overnight when there are one or more persons on board after midnight. The lessees of Mission Bay Park lands are primarily responsible for the enforcement of this subsection on the water abutting their leased premises.
- The above Live-Aboard Regulation is presently set forth in the San Diego Municipal Code Section 63.25.71 and is subject to amendment or modification by the City Council. LESSEE also agrees to comply or secure compliance with any such amendment or modification.
- 7.19 Additional Consideration to CITY. LESSEE acknowledges that CITY expends considerable sums for maintenance of Mission Bay Park areas adjacent to the leasehold. LESSEE further acknowledges that the expenditure of such funds enhances the value of the leasehold. LESSEE and CITY agree that the exact

amount of such enhancement is impossible to ascertain. However, CITY desires to be reimbursed to a reasonable extent in consideration for the continued maintenance of adjacent park areas. Therefore, subject to the limitations contained in Addendum 1 attached hereto, LESSEE and CITY agree that in the event of an assignment; in the event of a subletting of the majority portion of the leasehold; or in the event of a refinancing creating an encumbrance against the leasehold after the permanent improvements have been constructed, pursuant to the Development Plan as described in Section 6.12 hereof, LESSEE shall pay to CITY one percent (1%) of the gross amount paid for the leasehold in connection with an approved assignment of the lease, one percent (1%) of any amount paid LESSEE in consideration of a sublease of all or a majority portion of the leasehold, or one percent (1%) of the amount of any increased loan or encumbrance against the property over and above the amount of the encumbrance needed to finance the improvements. The amount upon which the one percent (1%) shall be based shall be the total consideration resulting from the transaction including total cash payments and the market value of noncash consideration, including but not limited to stocks, bonds, deferred payments, secured and unsecured notes, and forbearances regarding claims and judgements. In determining the one percent (1%) transfer fee, costs of closing the transaction (i.e., commissions, title policies, appraisal and survey costs) shall be excluded from the gross amount paid provided that such amounts shall not exceed two percent (2%) of the proceeds of the subject transaction, and such closing costs shall be the only exclusions from such gross proceeds in determining the one percent (1%) transfer fee. Existing debt against the leased premises, whether internal or third party, shall not be excluded from gross proceeds in determining the one percent (1%) transfer fee. Prior to CITY'S consent to any assignment, majority subletting, or refinancing, LESSEE shall deliver to CITY a written statement of all sums due and owing to CITY from LESSEE pursuant to the provisions of this paragraph, together with an acknowledgment from the proposed assignee, sublessee, or refinancing agency as to the amount due CITY. The sum due CITY shall be payable in full to CITY concurrent with the completion of the transaction, be it an assignment, a sublease, or a refinancing. Any assignment, subletting, or refinancing in violation of the terms and conditions of this paragraph shall be void. The provisions of this paragraph shall not apply to:

- a. An assignment or transfer of a beneficial interest in the leasehold resulting from devise, bequest, intestate succession, or by operation of law for the benefit of the spouse or descendants (i) of LESSEE (if an individual) or (ii) of LESSEE'S principal owner or chief executive officer (if LESSEE is other than an individual);
- b. Such other assignment for which the City Manager reasonably determines that the legal and equitable ownership interests in the leasehold have remained unchanged, such as a change in the legal or fictitious name of the LESSEE without any other change in the equity in beneficial use of, or legal title to, the leasehold as an asset or the income produced thereby.

7.20 Trash and Refuse. LESSEE shall provide containers on or immediately adjacent to the leased premises to receive trash and refuse generated aboard vessels using LESSEE'S docking or launching facilities. Refuse containers shall be located so as to be conveniently used by occupants of vessels using LESSEE'S facilities and shall be of sufficient size and number to contain the refuse generated aboard all vessels using LESSEE'S facilities. The containers shall be covered and emptied regularly enough to prevent them from overflowing or creating unhealthful, unsightly, or unsanitary conditions. The contents of the containers shall be disposed of by LESSEE or others acting pursuant to LESSEE'S direction at authorized landfills or other garbage reception areas as provided under law applicable at the time of collection.

7.21 Plastic Food Containers.

- a. LESSEE shall not, after the effective date of this lease, provide to its customers any prepared food in polystyrene foam food packaging; nor shall LESSEE obtain or keep any polystyrene foam food packaging of a type, design, and condition suited for providing prepared food to its customers for consumption off the leased premises.
- b. LESSEE'S food packaging for prepared food to be consumed on the premises or for takeout food shall be biodegradable, and LESSEE shall provide upon demand evidence in the form of paid invoices to indicate the purchase of biodegradable containers in amounts sufficient to indicate compliance with this section. LESSEE'S food packaging for prepared food to be consumed off the premises shall be biodegradable unless LESSEE demonstrates to the satisfaction of CITY that biodegradable food packaging materials are not available for purchase in the quantities required by LESSEE. In the event that biodegradable food packaging materials are not available for purchase in the quantities required by LESSEE, LESSEE may limit its use of such packaging to the amount actually available.
- c. For purposes of this lease, the following definitions are applicable:
 - (1) "Prepared food" means foods or beverages which are prepared on the leased premises by cooking, chopping, slicing, mixing, freezing or squeezing, and which require no further preparation to be consumed.
 - (2) "Food packaging" means all bags, sacks, wrapping, containers, bowls, plates, trays, cartons, cups, straws and lids which are not intended for reuse, on or in which any foods or beverages are placed or packaged on the leased premises.

- (3) "Takeout food" means prepared foods or beverages requiring no further preparation to be consumed and which are purchased in order to be consumed off the leased premises.

7.22 Boat Rentals. For purposes of this lease, "vessels" include ships of all kinds, motorboats, sailboats, personal watercraft, and every structure adapted to be navigated from place to place upon the water for recreation or for the transportation of merchandise or persons. LESSEE shall be permitted to rent vessels to the general public subject to prior written approval from the City Manager as to the number and type of vessels available for rent. The City Manager may, upon written notice to LESSEE and with reasonable cause, modify any approval previously given. LESSEE shall carry commercial general liability insurance, the amounts and coverages of which shall be based upon the City Manager's assessment of the risk associated with the rental operation.

All vessels for rent which are required by law to be registered with the California Department of Motor Vehicles shall be currently registered as rental vessels and carry proper registration numbers and stickers. All vessels for rent shall be identified by LESSEE through the use of distinctive markings or logos. Each rental vessel shall be equipped with a waterproof map detailing all current regulations and activity zones for Mission Bay, along with all safety equipment required by law. At any time that LESSEE is renting a vessel or vessels, LESSEE shall have at least one operational chase boat and staff to operate it available on the waters of Mission Bay. No rental vessel may be stored on public property outside the leasehold. LESSEE agrees that the City Manager or his designees shall have the authority to immediately terminate any rental activities which are not in conformance with the stipulations of this lease or current boating regulations.

7.23 Local Coastal Program. Should a local coastal program (hereinafter the "Local Coastal Program") ever be adopted for the Mission Bay Park segment of the CITY Local Coastal Program, and should the Local Coastal Program provide for the collection of a traffic impact mitigation fee from commercial lessees in Mission Bay Park in order to fund all or a portion of the cost of a beach shuttle or other substantially similar public access improvements, LESSEE agrees to contribute its fair and equitable share, as calculated pursuant to the Local Coastal Program, to such a traffic impact mitigation program; provided that the amount payable by LESSEE shall be reasonable and shall not exceed the amount LESSEE would have paid had the entire amount to be funded by traffic impact mitigation fees been reasonably, equitably, and fairly apportioned among all of the commercial lessees in Mission Bay Park. This section shall not be altered or amended without the prior written approval of the California Coastal Commission or an amendment to California Coastal Permit No. 6-93-75/EL.

SECTION 8: SIGNATURES

8.1 Signature Page.

IN WITNESS WHEREOF, this lease agreement is executed by CITY, acting by and through its City Manager, and by LESSEE, acting by and through its lawfully authorized officers.

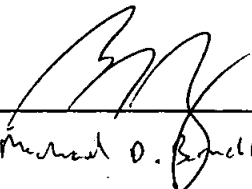
THE CITY OF SAN DIEGO

Date 05/22/00

By 
Real Estate Assets Director

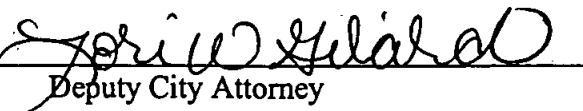
LESSEE: LHO MISSION BAY HOTEL, L.P., a
California Limited Partnership,
DBA SAN DIEGO PARADISE POINT RESORT

Date _____

By 
Michael O. Farrell, Attorney at Law
By _____

APPROVED as to form and legality this 25th day of May, 2000.

CASEY GWINN, CITY ATTORNEY

By 
Deputy City Attorney

LMF:jmj
04/06/00
I:\WPO\2000\Fierro\LEASE-LHO MISSION BAY HOTEL.wpd

R-293127

MAY 15 2000

SECTION 9: EXHIBITS

9.1 Legal Description.

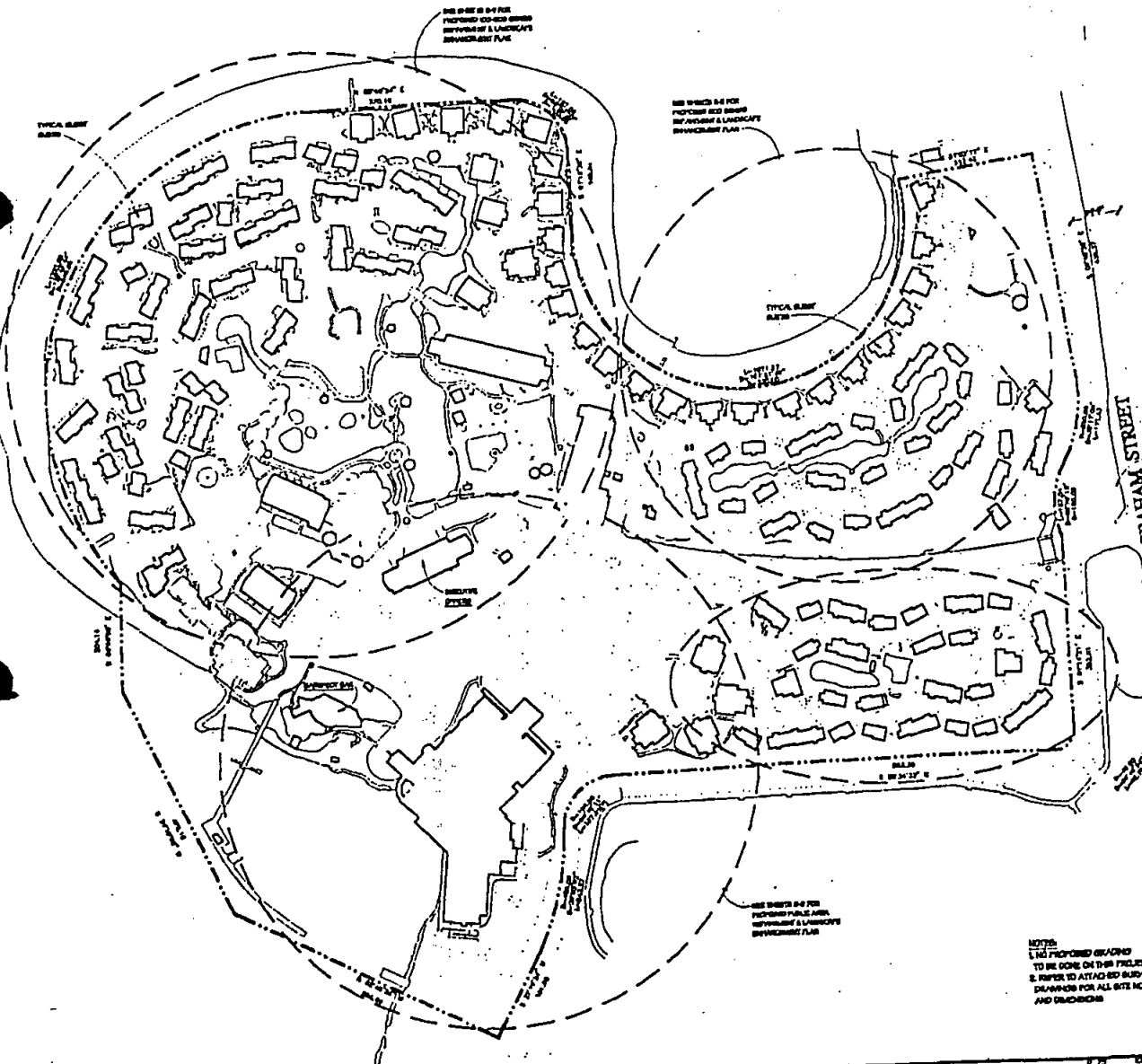
See Exhibit "A"

EXHIBIT "A"

THAT PORTION OF THE TIDE LANDS AND SUBMERGED OF FILLED LANDS OF FALSE BAY, ALSO KNOWN AS MISSION BAY, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE UNITED STATES COAST AND GEODETIC SURVEY TRIANGULATION STATION "OLD TOWN"; THENCE NORTH 90°16'50" WEST 16,684.70 FEET TO POINT "A" OF THIS DESCRIPTION, HAVING A NORTH AMERICAN DATUM OF 1983 VALUE OF NORTHING 1863490.33 AND EASTING 6257218.18; THENCE NORTH 67°00'21" EAST 28.32 FEET TO POINT "Z" OF THIS DESCRIPTION, HAVING A NORTH AMERICAN DATUM OF 1983 VALUE OF NORTHING 1863501.40 AND EASTING 6257244.26; THENCE NORTH 1°19'36" WEST 540.00 FEET TO THE TRUE POINT OF BEGINNING; THENCE NORTH 88°40'24" EAST 370.10 FEET TO THE BEGINNING OF A TANGENT 100.00 FOOT RADIUS CURVE CONCAVE SOUTHWESTERLY; THENCE ALONG SAID CURVE SOUTHEASTERLY 157.08 FEET THROUGH A CENTRAL ANGLE OF 90°00'00"; THENCE TANGENT TO SAID CURVE SOUTH 1°19'36" EAST 160.04 FEET TO THE BEGINNING OF A TANGENT 320 FOOT RADIUS CURVE CONCAVE NORTHEASTERLY; THENCE ALONG SAID CURVE SOUTHEASTERLY 1071.57 FEET THROUGH AN ANGLE OF 191°51'49"; THENCE NORTH 81°03'17" EAST 263.43 FEET; THENCE SOUTH 9°40'52" EAST 439.37 FEET TO THE BEGINNING OF A TANGENT 250.0 FOOT RADIUS CURVE CONCAVE WESTERLY; THENCE ALONG SAID CURVE SOUTHERLY 171.42 FEET THROUGH A CENTRAL ANGLE OF 39°17'09" TO THE BEGINNING OF A REVERSE CURVE CONCAVE EASTERLY AND HAVING A RADIUS OF 150.00 FEET, A RADIAL LINE TO SAID CURVE BEARS SOUTH 60°23'43" EAST; THENCE ALONG SAID CURVE SOUTHERLY 157.04 FEET THROUGH A CENTRAL ANGLE OF 59°59'10"; THENCE SOUTH 1°14'21" EAST 352.61 FEET TO THE BEGINNING OF TANGENT 40.00 FOOT RADIUS CURVE CONCAVE NORTHWESTERLY; THENCE ALONG SAID CURVE SOUTHWESTERLY 62.70 FEET THROUGH AN ANGLE OF 89°48'54"; THENCE TANGENT TO SAID CURVE SOUTH 88°34'33" WEST 853.30 FEET TO THE BEGINNING OF A TANGENT CURVE CONCAVE SOUTHEASTERLY AND HAVING A RADIUS OF 100.00 FEET; THENCE ALONG SAID CURVE SOUTHWESTERLY 157.97 FEET THROUGH A CENTRAL ANGLE OF 90°18'11" TO A POINT ON A 480.00 FOOT RADIUS CURVE CONCAVE WESTERLY TO WHICH POINT A RADIAL LINE BEARS NORTH 88°16'22" EAST; THENCE ALONG SAID CURVE SOUTHERLY 243.37 FEET THROUGH A CENTRAL ANGLE OF 29°03'02"; THENCE TANGENT TO SAID CURVE SOUTH 27°19'24" WEST 181.99 FEET; THENCE NORTH 62°40'36" WEST 555.00 FEET; THENCE NORTH 24°10'06" WEST 478.16 FEET; THENCE NORTH 204.14 FEET TO A POINT ON A 540.00 FOOT RADIUS CURVE, CONCAVE EASTERLY WITH A RADIAL CENTER AT SAID POINT "Z", THE RADIUS OF WHICH BEARS SOUTH 48°50'39" WEST; THENCE NORTHERLY ALONG SAID CURVE 1223.61 FEET THROUGH AN ANGLE OF 129°49'45" TO THE TRUE POINT OF BEGINNING.

9.2 Parcel Map



SITE PLAN

City of San Diego
Development Summary
Submitted Pursuant to the Unified Planning Ordinance

1. SUMMARY OF PROJECT:
1. DEMO AND RECONSTRUCTION OF EXISTING LODGING, 2. DEMO AND RECONSTRUCTION OF EXISTING RESTAURANT, 3. DEMO AND RECONSTRUCTION OF EXISTING FITNESS BUILDING, 4. DEMO AND RECONSTRUCTION OF EXISTING POOL, 5. DEMO AND RECONSTRUCTION OF EXISTING MEETING CENTER, 6. DEMO AND RECONSTRUCTION OF EXISTING GOLF COURSE.

2. SHEET SUMMARY:
SHEET NO. 8-4 OF 8
SHEET TITLE: PROPOSED PUBLIC AREA IMPROVEMENTS & LANDSCAPE DEVELOPMENT PLAN

3. SITE DATA:
Total Site Area (Acres): 1.11
Total Site Area (Sq. Ft.): 47,800
Total Site Area (Sq. Yds.): 1,060,000

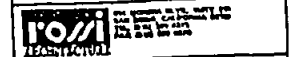
4. PROJECT DATA:
Project Name: Paradise Point Resort Renovations
Project Address: 1400 West Vacation Road, San Diego, CA 92108
Project Owner: Paradise Point Resort
Project Manager: [Name]
Project Engineer: [Name]

5. PROJECT DESCRIPTION:
The project consists of the demolition and reconstruction of the existing lodging, restaurant, fitness building, pool, meeting center, and golf course. The project is located on a 1.11-acre site in San Diego, California.

6. PROJECT SCOPE:
The project scope includes the demolition and reconstruction of the existing lodging, restaurant, fitness building, pool, meeting center, and golf course. The project is located on a 1.11-acre site in San Diego, California.

7. PROJECT BUDGET:
Total Project Cost: \$1,000,000
Total Project Revenue: \$1,000,000
Total Project Profit: \$0

PARADISE POINT RESORT RENOVATIONS



STRUCTURE KEY

- LOBBY REFER TO SHEET 8-1
EXISTING FLOOR AREA: 1,000 S.F.
FLOOR AREA ADDED: 0 S.F.
 - FITNESS & POOL REFER TO SHEET 8-2
EXISTING FITNESS BUILDING RENOVATED
EXISTING POOL REMOVED AND REPLACED WITH NEW POOL
EXISTING FLOOR AREA: 1,000 S.F.
FLOOR AREA ADDED: 4,500 S.F.
TOTAL FLOOR AREA: 5,500 S.F.
 - DELIVERY & GOLF REFER TO SHEET 8-3
EXISTING LOBBY TO BE CONVERTED TO DELI AND GOLF AREA OF EXISTING GOLF & GOLF
EXISTING FLOOR AREA: 1,000 S.F.
FLOOR AREA ADDED: 1,000 S.F.
TOTAL FLOOR AREA: 2,000 S.F.
 - CONVENTION CENTER REFER TO SHEET 8-4
EXISTING BUILDING RESTAURANT AND LOBBY TO BE CONVERTED TO MEETING SPACE
EXISTING FLOOR AREA FOR INTERIOR REMODEL: 1,770 S.F.
 - RESTAURANT REFER TO SHEET 8-5
EXISTING RESTAURANT BUILDING TO BE CONVERTED TO RESTAURANT
EXISTING FLOOR AREA: 4,487 S.F.
FLOOR AREA ADDED: 1,000 S.F.
TOTAL FLOOR AREA: 5,487 S.F.
 - RESTAURANT BUILDING REFER TO SHEET 8-6
EXISTING 84 BUILDING TO BE CONVERTED TO FOUR RESTAURANT BUILDING
EXISTING FLOOR AREA: 3,380 S.F.
FLOOR AREA ADDED: 0 S.F.
 - RECREATION GOLF REFER TO SHEET 8-7
EXISTING 84 BUILDING TO BE CONVERTED TO FOUR RESTAURANT BUILDING
EXISTING FLOOR AREA: 3,380 S.F.
FLOOR AREA ADDED: 0 S.F.
- TOTAL EXISTING FLOOR AREA CONVERTED: 15,147 S.F.
TOTAL NEW FLOOR AREA: 6,350 S.F.

SITE PLAN

PREPARED BY: ROSS ARCHITECTURE
ADDRESS: 814 MORENA BLVD., STE 310
SAN DIEGO, CA 92110
PHONE: (619) 261-8272
PROJECT ADDRESS: 1400 WEST VACATION ROAD
SAN DIEGO, CA 92108
PROJECT NAME: PARADISE POINT RESORT RENOVATIONS
SHEET TITLE: SITE PLAN & GENERAL SCOPE OF WORK

REVISION 14: _____
REVISION 13: _____
REVISION 12: _____
REVISION 11: _____
REVISION 10: _____
REVISION 9: _____
REVISION 8: _____
REVISION 7: _____
REVISION 6: _____
REVISION 5: _____
REVISION 4: _____
REVISION 3: _____
REVISION 2: _____
REVISION 1: _____
ORIGINAL DATE: 5-12-88
SHEET 2 OF 31

9.2 General Development Plan.

As required by Section 6.12 of the lease, the following General Development Plan is agreed to by CITY and LESSEE as material consideration for this lease.

- A. Site Plan (Attachment A).
- B. Financial Plan (Attachment B)
- C. Development Plan (further detailed in LESSEE'S proposal to City dated October 6, 1999):

Phase 1. Renovation of existing facilities to create a "campus like" resort to include the following:

- 1. Architectural modifications to all buildings;
- 2. A complete renovation of all guestrooms;
- 3. A complete renovation of the existing 4,000 sq.ft. coffee shop;
- 4. The current lobby will be converted into a concierge/business center facility upon completion of Phase 2.
- 5. Plant 200 palm trees and other additional landscaping throughout the leasehold;
- 6. Parking lot renovations and restriping of all parking spaces.

The total cost of the renovations in Phase 2 of the Development Plan is estimated to be \$3,000,000.

Phase 2. Leasehold expansion of 2.5 acres of contiguous parkland to facilitate the addition of 80 guestrooms, a new 5,000 square foot lobby (including gift shop and lounge) a new 6,000 square foot meeting/banquet facility, an additional pool and all required parking for the additional facilities.

The total estimated cost of Phase 2 is approximately \$7,500,000. The total estimated cost of the Development Plan is \$10,500,000.

D. Development Schedule:

Construction is to start within 12 months after obtaining a Coastal Development Permit. Phase 1 will be completed on or before December 31, 2003. Phase 2 will be completed on or before December 31, 2006. The CITY will be entitled to damages as CITY sole and exclusive remedy specified in Section 6.14 Failure to Meet Development Schedule of this lease if LESSEE fails to complete the project in accordance with the Development Plan.

EXHIBIT 9.3

9.3 General Development Plan.

As required by Section 6.12 of the lease, the following Development Plan is agreed to by CITY and LESSEE as material consideration for this lease.

A. Site Plan (Attachment A)

B. Section III - Proposed \$23.0 Million Capital Plan (Attachment B)
- itemized scope, cost and time line

C. Project Description:

The Development Plan (Plan) consists of interior and exterior renovations of the entire leasehold. The Plan entails fully upgrading the interior and exterior of all rooms, as well as dramatically expanding and relocating the existing facilities while adding amenities. The scope of work proposed for the exterior of the facilities includes new trellises, painting, revised parking layout and considerable landscaping and hardscape upgrades. The parking is being re-engineered throughout the facility to create and maintain a 20-foot wide fire lane while eliminating approximately 50,000-120,000 square feet of asphalt. In addition, LESSEE will relocate parking spaces away from guest room entrances and create new parking pods to allow for additional landscaping and an enhanced resort feel. Landscaping will include an upgrade of horticulture throughout the entire property with a grand tree-lined entrance drive. Throughout all elements of the project hardscape and landscape enhancements will embellish on the theme of a tropical paradise in the form of an upscale California beach resort.

All improvements are within the existing leasehold boundary. All uses are permitted uses under the existing lease and comply with the Mission Bay Park Master Plan Update.

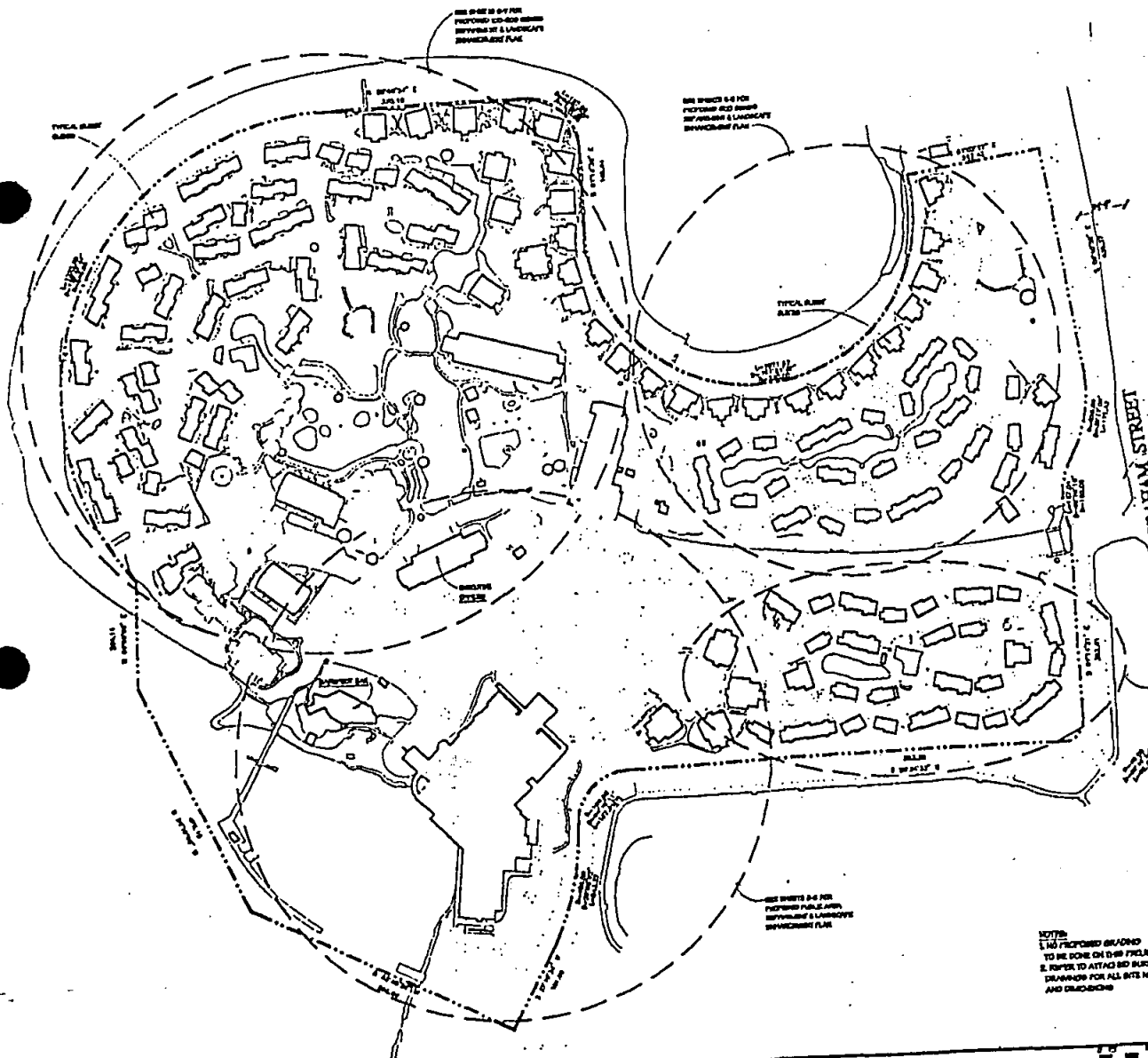
The various elements of the plan are as follows:

1. All 462 guest rooms will be upgraded to include soft goods, case goods, marble floors and countertops in bathrooms and upgraded electrical;
2. A new 4,500 square foot expansive lobby overlooking the main lagoon with circular porte cochere will replace the current Village Cafe Restaurant;
3. A new upscale restaurant featuring water front dining will replace the current Presidential Suite;

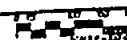
4. A new four bedroom Presidential Suite will be converted from six existing guestrooms;
5. Five new bungalow guest rooms will be constructed on the northwest side and overlooking the main lagoon. This will result in the room count remaining at 462 total rooms.
6. The current lobby will be converted into a new food and beverage deli, and the adjacent gift shop will be expanded. Outside patio casual dining will be provided;
7. The existing pool will be removed and replaced with a new, expanded pool. The adjacent fitness building will be remodeled and expanded to provide more services to include fitness room, massage rooms and spa services;
8. The current Dockside Restaurant and Bay Lounge will be converted into 3,000 square feet of additional meeting space;
9. Finally, the 52 slip marina development authorized in the previous lease will not be completed. As authorized by this lease, the existing boat dock will be refurbished in the same configuration to maintain the boat rental concession and provide for minimal guest docking facilities.

Any of the foregoing notwithstanding, LESSEE and CITY acknowledge and agree that the foregoing is LESSEE'S current development plan, and LESSEE may change any element thereof (subject to obtaining all necessary governmental approvals) without the consent of CITY provided that LESSEE renovates the leasehold in a manner consistent with the scope and flavor of the foregoing plan.

E. Project Timeline - the entire project referred to in sections above will be completed by January 1, 2003.



NOTES:
1. NO PROPOSED BRACING
TO BE DONE ON THIS PROJECT
2. POWER TO ATTACH BID SURVEY
DRAWINGS FOR ALL SITE NOTES
AND DIMENSIONS



rossi
DESIGNER FURNITURE

STRUCTURE KEY

- (1) LOBBY-REFLECTOR TO SHEETS 10-18
EXISTING WALLAGE CASE CONVERT TO LOBBY
EXISTING FLOOR AREA 8,884 S.F.
FLOOR AREA ADDED 0 S.F.
 - (2) MEETING & POOL-REFLECTOR TO SHEETS 10-18
EXISTING BUILDING BUILT AND RENOVATED
EXISTING POOL REMOVED AND REPLACED WITH
NEW POOL
EXISTING FLOOR AREA 3,698 S.F.
FLOOR AREA ADDED 4,300 S.F.
TOTAL FLOOR AREA 8,098 S.F.
 - (3) DELIVERY & OFF-REFLECTOR TO SHEETS 10-18
EXISTING LOBBY TO BE CONVERT TO DELI AND
DELIVERY OF CATERING SUPPLIES
EXISTING FLOOR AREA 1,000 S.F.
FLOOR AREA ADDED 644 S.F.
TOTAL FLOOR AREA 3,644 S.F.
 - (4) CONVENTION CENTER-REFLECTOR TO SHEETS 10-18
EXISTING ROOMS TO BE REMOVED AND LAYOUT
TO BE CONVERTED TO MEETING SPACE
EXISTING FLOOR AREA FOR
INTERIOR REMODEL 8,779 S.F.
 - (5) RESTAURANT-REFLECTOR TO SHEETS 10-18
EXISTING RESTAURANT BUILT TO BE
CONVERTED TO RESTAURANT
EXISTING FLOOR AREA 4,457 S.F.
FLOOR AREA ADDED 1,494 S.F.
TOTAL FLOOR AREA 5,951 S.F.
 - (6) PERFORMANCE BUILT-REFLECTOR TO SHEETS 10-17
EXISTING 64 SUITES TO BE CONVERTED TO FOUR
PERFORMANCE BUILT
EXISTING FLOOR AREA 8,880 S.F.
FLOOR AREA ADDED 0
 - (7) BEACH/LOW RISE BUILT-REFLECTOR TO SHEETS 10-18
FIVE NEW SUITES
EXISTING FLOOR AREA 2,800 S.F.
- TOTAL EXISTING FLOOR AREA CONVERTED 38,841 S.F.
TOTAL NEW FLOOR AREA 6,945 S.F.

SITE PLAN

1

PREPARED BY: ROSS ARCHITECTURE
NAME: 811 MORENA BLVD., STE 310
ADDRESS: SAN DIEGO, CA 92110
(619) 281-8272
PHONE: _____
PROJECT ADDRESS: 1408 WEST VACATION ROAD
SAN DIEGO, CA 92108
PROJECT NAME: PARADISE POINT RESORT RENOVATIONS
SHEET TITLE: SITE PLAN & OVERALL SCOPE OF WORK

REVISION 14:	_____
REVISION 13:	_____
REVISION 12:	_____
REVISION 11:	_____
REVISION 10:	_____
REVISION 9:	_____
REVISION 8:	_____
REVISION 7:	_____
REVISION 6:	_____
REVISION 5:	_____
REVISION 4:	_____
REVISION 3:	_____
REVISION 2:	_____
REVISION 1:	_____

ORIGINAL DATE: 3-12-88
SHEET 2 OF 31
EXP.

ATTACHMENT B

Section III - Proposed \$23.0 Million Capital Plan

San Diego Paradise Point Resort

8/3/99 9:23

F:\HOTELGP\CORPFIN\PRINCESS\CAPX\CITY_TRM\EXHBT_3.XLS]Sheet1

Renovation Categories	1999	2000	2001	2002	Total for 2000 - 2002
Guest Rooms	4,217,677	3,717,950	1,000,000	-	8,935,627
Telephone System	809,062	144,938	-	-	954,000
Architectural and Engineering	285,372	699,628	40,000	-	1,025,000
Developers Overhead	261,935	503,065	135,000	-	900,000
Hardscape	139,054	760,946	-	-	900,000
Cable TV	126,372	-	-	-	126,372
General Conditions	65,127	510,873	324,000	-	900,000
Landscape	14,415	1,035,585	300,000	-	1,350,000
Pre-opening	12,944	401,056	-	-	414,000
New Restaurant		1,250,000	-	-	1,250,000
Lobby		637,000	-	-	637,000
Executive Suites		604,500	-	-	604,500
Sunset Ballroom		456,500	-	-	456,500
Meeting Pavilion		416,000	-	-	416,000
Presidential Suite		367,000	-	-	367,000
Site Lighting		350,000	-	-	350,000
Mission Bay Meeting Room		306,500	-	-	306,500
Exec Office / Reservations / Gift Shop		305,000	-	-	305,000
Deli		287,500	-	-	287,500
Pavilion		200,000	-	-	200,000
Gift Shop		195,000	-	-	195,000
Governors Suite		170,000	-	-	170,000
Directional Signage		100,000	-	-	100,000
Contingency		750,000	250,000	-	1,000,000
Barefoot Bar		-	150,000	-	150,000
Kitchen		-	100,000	-	100,000
Business Center		-	50,000	-	50,000
Super Pool		-	-	550,000	550,000
Total	5,931,960	14,169,040	2,349,000	550,000	23,000,000

Costs are estimates, and costs may be reallocated among line items.

9.4 Intentionally Omitted.

9.5 Exchange Account List

Exchange charges are all those charges wherein the Resort is paying an outside vendor for a service or product provided to a guest or group, for which the Resort in turn charges the guest or group. The mark-up to the guest or group, if any, is not part of the exchange charge, but is considered "other income" for lease purposes.

Examples of exchange charges are:

Tickets to area attractions including the Zoo, Sea World, Wild Animal Park, Grayline Tours, Circle Bus, San Diego Harbor Excursion, Airport Transportation Services, Car rentals (excluding any located directly on the Resort's property), limo services, Bahia Belle, San Diego Mini Tours or other tour companies, golf, fishing, and any other attractions requested by guests and groups from time to time.

Special requests by guests or groups including flowers, hats, party favors, decorations, photography, typewriters, copies by outside companies, rentals or purchases from outside companies of items such as chairs, dance floors, tents, pianos, coat racks, table linen, computer equipment, audio visual equipment, special equipment, piano tuning, signs, electrical cords, printing, postage, ice carvings, entertainment, casino nights, security guards, secretarial services, shipping charges, and entertainment.

ADDENDUM 1

This Addendum is attached to and incorporated in that certain Percentage Lease dated as of May 15, _____, 2000, by and between the City of San Diego, as lessor, and LHO Mission Bay Hotel, L.P., as lessee. Capitalized terms not otherwise defined herein shall have the same meanings as set forth in the lease.

1. CITY's Approval: CITY hereby reaffirms its approval of Westgroup San Diego Associates, Ltd., a California limited partnership ("Sublessee"), as a sublessee pursuant to that certain Lease Agreement dated June 1, 1998, as the same has been amended by an amendment dated ~~June 1, 1998 and~~ the date hereof (as so amended, the "Sublease"), and Noble House San Diego, Ltd., a California limited partnership ("Manager"), as the manager and operator of the premises pursuant to that certain Management Agreement dated June 1, 1998 ~~as the same has been amended by an amendment dated _____ (as so amended,~~ as amended May 29, 1998 and the date hereof, the "Management Agreement"). Lessee shall have the right to assign any sublease and/or management agreement.

2. Fee. No fee or other consideration is due and payable to CITY as a result of the reaffirmation of approval by CITY of the Sublease and the Management Agreement as set forth above.

3. Assignments. Except as expressly permitted under the lease, LESSEE shall not assign the leasehold without the prior written consent of CITY. In the event LESSEE seeks such consent, and as a condition precedent thereto, LESSEE shall provide to CITY (a) the name and identity of the persons involved in the assignment of the lease and the nature of the interests of such persons, and (b) the additional consideration due to CITY pursuant to Section 7.19 of the lease. Upon receipt and review of the foregoing, and upon a determination by the CITY that the assignee is an "Accredited Institutional Investor" (as defined in Section 8 below) or another person reasonably approved by CITY, CITY shall not withhold its consent to such assignment. In the event such conditions have not been met, CITY may withhold its consent. Upon any such assignment, the assignor shall be released from any and all obligations or liability under the lease arising from and after the date of such assignment; provided, however, in the event that an audit by the CITY after the date of assignment discovers a discrepancy in the rent paid prior to the date of assignment, the assignor shall remain responsible therefor. Upon any such assignment, CITY may revise the noneconomic terms of the lease to comply with then standard current lease requirements; provided, however, the CITY shall not require that the rent due under the lease be adjusted to reflect the then current market rent nor shall any other economic terms of the lease be changed. Upon approval of any such assignment, CITY shall, upon request of LESSEE, promptly execute and deliver to LESSEE a consent and estoppel in substantially the form previously provided to LESSEE dated May, 1998 (the "Prior Certificate").

4. Publicly Traded Lessee. Notwithstanding any provision of the lease, including but not limited to Section 4.2 or 7.19 thereof, in the event the ownership interests in LESSEE or in any shareholder, partner or member of LESSEE are publicly traded, the transfer of such publicly traded interests shall not be deemed to be an assignment of the lease.

5. Encumbrance. LESSEE shall not encumber the leasehold without the prior written consent of CITY. In the event LESSEE seeks such consent, and as a condition thereto, LESSEE shall provide to CITY (a) the name and identity of the persons involved in such encumbrance and the nature of the interests of such persons, and (b) a true copy of the loan documents. Upon receipt and review of the foregoing and a determination by the CITY that the following conditions have been met, (a) the transferee is a "Qualified Regulated Financial Institution" (as defined in Section 8 below) or another person reasonably approved by CITY, (b) the proposed encumbrance will be a first mortgage on the premises, (c) the principal amount of the proposed loan encumbering the leasehold (or the release price thereof, in the case of a "blanket" encumbrance) does not exceed eighty percent (80%) of the value of the leasehold (including improvements) as determined by an appraisal prepared by an appraiser selected by CITY and reasonably approved by LESSEE at the time of such encumbrance (which appraisal shall be paid for by LESSEE), and (d) such loan is on terms and conditions which are commercially reasonable at the time of the loan, CITY shall not withhold its consent to such encumbrance nor shall CITY require that the lease be revised upon any such encumbrance nor shall CITY require that the rent due under the lease be adjusted to reflect the then current market rent. If such conditions have not been met, CITY may withhold its consent to such encumbrance and/or condition such consent upon an adjustment of rent or a change in the lease terms. Upon approval of any such encumbrance, CITY shall, upon request of Assignee, promptly execute and deliver to Assignee a consent and estoppel in substantially the form of the Prior Certificate upon any such encumbrance approved by CITY. Any fee payable to the CITY pursuant to the lease upon such encumbrance shall be calculated as set forth in Section 9 below.

6. Sale of Loan. CITY acknowledges that CITY's consent is not needed for a sale of a loan, or any portion thereof, secured by an encumbrance on the premises. Furthermore, CITY acknowledges that CITY may not require that the lease be revised upon any such sale, nor shall the rent due under the lease be adjusted to reflect the then current market rent. CITY shall, upon reasonable request of Assignee, promptly execute and deliver to Assignee a consent and estoppel in substantially the form of the Prior Certificate in the event of any such sale or assignment of a loan or a portion of a lender's interest in a loan. Any fee payable to the CITY pursuant to the lease upon such sale or assignment of such loan or any portion thereof shall be calculated as set forth in Section 9 below.

7. Leasehold Mortgage Protection. CITY agrees that as long as any mortgage approved by CITY shall remain unsatisfied of record or until written notice of satisfaction is given by the Holder (as defined in Section 8 below) to CITY, the following provisions shall apply:

a. There shall be no termination (except in the event of a default which shall be subject to the notice and cure rights set forth in Section 7.d hereof), cancellation, surrender or modification of the lease by LESSEE or by joint action of CITY and LESSEE without the prior consent in writing of each Holder.

b. CITY shall, upon serving LESSEE with any notice pursuant to the provisions of the lease, simultaneously serve a copy of the same upon each Holder who has previously provided its address to CITY.

c. Each Holder shall have the right, but not the obligation, at any time prior to termination of the lease and without payment of any penalty, to pay all of the rents due thereunder, to effect any insurance, to pay any taxes or assessments, to make any repairs or improvements, to do any other act or thing required of LESSEE under the lease, and to do any act or thing which may be necessary and proper to be done in the performance and observance of the agreements, covenants and conditions under the lease to prevent termination of the lease. Each Holder and its agents and contractors shall have the full access to the premises for purposes of accomplishing any of the foregoing. Any of the foregoing done by any Holder shall be as effective to prevent a termination of the lease as the same would have been if done by LESSEE.

d. Anything contained in the lease to the contrary notwithstanding, if any default shall occur which, pursuant to any provision of the lease, entitles CITY to terminate the lease, CITY shall not be entitled to terminate the lease, and any notice of termination shall be rendered void, unless (i) CITY, following the expiration of any periods of time given LESSEE in the lease to cure such default or breach, shall have given written notice to each Holder stating CITY's intent to terminate the lease, and (ii) within thirty (30) days after such written notice is given, no Holder shall either:

(1) cure the default or breach if the same consists of the nonperformance by LESSEE of a covenant or condition of the lease requiring the payment of money by LESSEE to CITY; or

(2) if the default or breach does not involve a covenant or condition of the lease requiring the payment of money by LESSEE to CITY, either (A) cure such default or breach, or (B) commence, or cause any trustee under the mortgage to commence, steps and proceedings to foreclose on the interests covered by the mortgage (either judicially or nonjudicially), and thereafter diligently pursue to completion such foreclosure and perform or cause the performance of all of the covenants and conditions of the lease requiring the payment of money by LESSEE to CITY until such time as the leasehold shall be sold upon foreclosure pursuant to the mortgage or shall be transferred upon foreclosure or by deed or assignment in lieu of foreclosure. In the event any default or breach is not susceptible of being cured by Holder within such thirty (30) day period, such period shall be extended pursuant to Section 4.4(a) of the lease for such time as Holder shall diligently pursue to completion a judicial or nonjudicial foreclosure of its interest under its deed of trust, and thereafter diligently pursue to completion all steps in proceeding to cure all defaults or breaches under the lease which are susceptible of being cured by Holder, and upon such cure, CITY shall not exercise any rights with respect to defaults or breaches (such as LESSEE's bankruptcy) which are not capable of being cured by Holder.

e. All right of CITY to terminate the lease as the result of the occurrence of any default shall be subject to, and conditioned upon, CITY having first given to each Holder the written notices as required under Section 4.4 of the lease, and all Holders having failed to remedy such default or acquire the leasehold or commence foreclosure or other appropriate proceedings in the nature thereof as set forth in Section 7.d, above.

f. If any Holder is prohibited from commencing or prosecuting foreclosure or other appropriate proceedings in the nature thereof by any process or injunction issued by any court or by reason of any action by any court having jurisdiction of any

bankruptcy or insolvency proceeding involving LESSEE, the times specified in Section 7.d, above, for commencing or prosecuting foreclosure or other proceedings shall be extended for the period of the prohibition; provided that the Holder shall have fully cured any default in the payment of any monetary obligations of LESSEE under the lease and shall continue to pay currently those monetary obligations as and when the same fall due.

g. CITY agrees that the name of the senior most Holder may be added jointly with CITY (pursuant to Section 5.2(b)(1) of the lease) as the primary loss payee to the "**Loss Payable Endorsement**" attached to any and all insurance policies required to be carried by LESSEE under the lease.

h. In the event of termination of the lease for any reason (including, without limitation, by reason or any default by LESSEE or by reason of the disaffirmance thereof by LESSEE, as a debtor-in-possession, or by a receiver, liquidator or trustee for LESSEE or its property), CITY, if requested by any Holder, will enter into a new lease of the premises with the most senior Holder requesting a new lease, which new lease shall commence as of the date of termination of the lease and shall run for the remainder of the lease term, at the same rent, percentage rent and additional rent and upon the same terms, provisions, covenants and agreements, and subject to the rights, if any, of any parties then in possession of any part of the premises, provided:

(1) The Holder shall make written request upon CITY for the new lease within thirty (30) days after the date of termination;

(2) The Holder shall pay to CITY at the time of the execution and delivery of the new lease any and all sums which would, at the time of the execution and delivery thereof, be due and unpaid pursuant to the lease but for its termination, and in addition thereto any expenses, including reasonable attorney's fees, to which CITY shall have been subjected by reason of LESSEE's default, provided that no additional consideration shall be due pursuant to Section 7.19 of the lease;

(3) The Holder shall perform and observe all covenants in the lease to be performed and observed by LESSEE, and shall further remedy any other conditions which LESSEE under the terminated lease was obligated to perform under its terms, to the extent the same are curable or may be performed by the Holder; and

(4) The tenant under the new lease shall have the same right, title and interest in and to the buildings and improvements on the premises as LESSEE had under the terminated lease immediately prior to its termination.

i. Any new lease made pursuant to Section 7.h above shall be prior to any mortgage, deed of trust, or other lien, charge or encumbrance on the fee of the premises and shall be accompanied by a quitclaim conveyance of title to the improvements (free of any mortgage, deed of trust, lien, charge or encumbrance created by CITY), subject to the reversion in favor of CITY upon expiration or sooner termination of the new lease.

j. Nothing herein contained shall require any Holder to enter into a new lease pursuant to Section 7.h above, nor to cure any default of LESSEE referred to above.

k. No amendment or modification of the mortgage or other documents evidencing or securing a Holder's loan, shall require the consent of CITY, or constitute a breach of any provision of, or a default under, the lease or entitle the CITY to amend any provision of the lease, or require payment to the CITY of any additional consideration under Section 7.19 of the lease.

l. Neither foreclosure of any mortgage (or any sale thereunder), whether by judicial proceedings or by virtue of any power contained in the mortgage, nor any conveyance of the leasehold from LESSEE to any Holder or its designee through, or in lieu of, foreclosure or other appropriate proceedings in the nature thereof; shall require the consent of CITY, or constitute a breach of any provision of, or a default under, the lease, or require payment to the CITY of any additional consideration under Section 7.19 of the lease, and upon such foreclosure, sale or conveyance, CITY shall recognize such Holder or its designee as the LESSEE under the lease if such Holder was expressly approved by CITY pursuant to Section 5 or 6 of this Addendum.

m. If any Holder or any designee of it becomes the LESSEE under the lease or under any new lease obtained pursuant to Section 7.h above; the Holder or its designee shall be personally liable for the obligations of LESSEE under the lease or new lease only to the extent that they arise during the period of time that the Holder or its designee constitutes the actual beneficial holder of the leasehold estate.

n. If a Holder shall elect to request a new lease of the premises and such Holder has a right to request a new lease pursuant to Section 7.h above, CITY agrees, at the request of, on behalf of and at the expense of the Holder, upon an indemnity or other assurance from it satisfactory to the CITY in its sole discretion, to institute and pursue diligently to conclusion the appropriate legal remedy or remedies to oust or remove the original LESSEE from the premises, but not any subtenant actually occupying the premises or any part thereof.

o. Unless and until CITY has received notice from the Holder that the Holder elects not to request a new lease as provided in Section 7.h above, or until the period therefor has expired, CITY shall not cancel or agree to the termination or surrender of any existing subleases nor enter into any new subleases without the prior written consent of the Holders.

p. The proceeds from any insurance policies and the proceeds arising from the condemnation shall be paid to and held by the Holder of the senior most mortgage and applied in accordance with the provisions of the lease.

q. CITY shall give all Holders notice of any arbitration or condemnation proceedings, or of any pending adjustment of insurance claims, and any Holder shall have the right to intervene therein and shall be made a party to such proceedings. CITY does hereby consent to such intervention. If any Holder shall not elect to intervene or become a party to the proceedings, that Holder shall receive notice and a copy of any award or decision made in connection therewith.

r. If CITY shall mortgage or otherwise encumber its interest in the premises, such mortgage or encumbrance shall at all times be subject and subordinate to the lease.

8. Defined Terms.

a. The term "**mortgage**," whenever used herein, shall include whatever security instruments are used in the locale of the premises, such as; without limitation, deeds of trust, security deeds and conditional deeds, as well as financing statements, security agreements and other documentation required pursuant to the Uniform Commercial Code.

b. The term "**mortgage**," whenever used herein, shall also include any instruments required in connection with a sale-leaseback transaction.

c. The term "**mortgagee**" shall include the Holder of the secured position under each of the foregoing types of instruments, including, but not limited to, the beneficiary under a deed of trust, the secured party under a security agreement and the lessor in a sale-leaseback transaction.

d. The term "**Holder**," whenever used herein, shall mean and include (i) any institutional or non-institutional lender making any loan or loans secured by a mortgage on the leasehold estate of LESSEE, and (ii) the lender's successors and assigns.

e. The term "**Accredited Institutional Investor**" means a publicly traded institutional investor or a private investor of good character and reputation in the community with assets of not less than One Hundred Fifty Million Dollars (\$150,000,000), with business experience owning and/or operating hotel projects similar to this project, or an affiliate of such an investor; or if such investor does not have such experience, such investor has entered into a management agreement reasonably acceptable to CITY with a hotel operator of good character and reputation in the community experienced in operating hotels similar to the project.

f. The term "**Qualified Regulated Financial Institution**" means:

(1) an insurance company subject to regulation by the insurance commissioner (or similar agency) of any state of the United States; a bank, savings bank, or savings and loan association chartered by the United States of America, any state thereof or any foreign nation or political subdivision thereof; or a pension or retirement fund operated for the employees and former employees of, and regulated and controlled by, the United States of America or any state thereof or any agency of the United States or any state thereof; or a special purpose entity established by one of the foregoing entities or another reputable institution with substantial experience in financial markets (including but not limited to national brokerage companies) for the purpose of participating in the securitization of mortgages; or any affiliate of any of the foregoing; in each case, in good standing under the laws of the jurisdiction of its incorporation, and having assets equal to the greater of One Hundred Million Dollars (\$100,000,000) or three (3) times the amount of the loan or portion thereof held by such lender; or

(2) the United States of America, or any state thereof, or any agency of the United States or any state thereof.

In each of the foregoing cases, such entity shall constitute a regulated institutional lender regardless of whether it holds the loan, or any interest therein, for itself or as a trustee.

g. The term "affiliate" shall have the same meaning as set forth in Rule 405 promulgated under the Securities Act of 1933 and shall refer to a party directly or indirectly, through one or more intermediate parties, controlling, or controlled by, or under common control of such other party.

9. Payment of Fees to CITY. Notwithstanding anything to the contrary contained in the lease:

a. In the case of an assignment of the lease pursuant to Section 3 above, and a simultaneous mortgaging of the leasehold in connection therewith, CITY shall be paid consideration pursuant to Section 7.19 of the lease with respect to the assignment only and not the simultaneous mortgaging of the leasehold.

b. In the case of a sale of a loan pursuant to Section 6 above, no consideration shall be due the CITY in connection therewith.

c. In the case of an encumbering of the leasehold in connection with a financing or refinancing after an assignment of the lease, a fee shall be due to CITY in connection with such financing or refinancing only to the extent that LESSEE voluntarily reduces the amount of equity LESSEE has in the premises. A reduction in such equity resulting from a decrease in the value of the premises shall not be deemed to be a voluntary reduction. The fee shall be calculated at one percent (1%) of such voluntary reduction.

10. Successors and Assigns. All rights herein granted to LESSEE shall also apply to every successor and assign of LESSEE and all rights herein granted to Lender shall also apply to every successor and assign of Lender. All rights herein granted to any Holder of LESSEE shall also apply to any Holder of any successor or assign of LESSEE.

11. Miscellaneous. The agreements contained herein shall be deemed to be covenants running with the premises and the leasehold and shall be binding upon and shall inure to the benefit of CITY and LESSEE and their respective successors and assigns. In the event of any conflict between the provisions of this Addendum and the provisions of the lease, this Addendum shall control.

Wiggins 51A
LHO - LEGAL

(R-98-229)

RESOLUTION NUMBER R- 289153

ADOPTED ON SEP 08 1997

WHEREAS, in 1994, the City Council approved a 50 year lease with VVH, Ltd., for the San Diego Princess Resort; and

WHEREAS, one of the requirements of this lease is for the lessee to improve the property with a new marina and dockmaster's facility; and

WHEREAS, the lessee is currently proposing constructing a 53-slip marina and dockmaster's facility within the existing leasehold; and

WHEREAS, lessee has completed a successful off-site mitigation of impacted eelgrass beds in excess of the requirements for the project; NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that the marina improvements as required in the lease agreement are hereby approved.

BE IT FURTHER RESOLVED, by the Council of The City of San Diego, that it is hereby certified that Mitigated Negative Declaration No. 94-0511, on file in the office of the City Clerk, has been completed in compliance with the California Environmental Quality Act of 1970, as amended, and the State guidelines thereto (California Code of Regulations section 15000 et seq.), that the Declaration reflects the independent judgment of The City of San Diego as Lead Agency and that the information contained in said report, together with any comments received during the public review process, has been reviewed and considered by this Council in connection with the approval of San Diego Princess Resort - Marina Improvements and Environmental Document.

BE IT FURTHER RESOLVED, that the Council finds that project revisions now mitigate potentially significant effects on the environment previously identified in the Initial Study and therefore, that said Mitigated Negative Declaration, a copy of which is on file in the office of the City Clerk and incorporated herein by reference, is hereby approved. /

BE IT FURTHER RESOLVED, that pursuant to California Public Resources Code section 21081.6, the Council hereby adopts the Mitigation, Monitoring and Reporting Program, or alterations to implement the changes to the project as required by this body in order to mitigate or avoid significant effects on the environment, a copy of which is attached hereto and incorporated herein by reference.

APPROVED: CASEY GWINN, City Attorney

By 
William T. Griffith
Deputy City Attorney

WTG:mr
08/25/97
Or.Dept:REA
R-98-229
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EXHIBIT A

MITIGATION MONITORING AND REPORTING PROGRAM

SAN DIEGO PACIFIC PRINCESS RESORT MARINA CITY COUNCIL APPROVAL

LDR NO. 94-0511

This Mitigation Monitoring and Reporting Program is designed to ensure compliance with Public Resources Code Section 21081.6 during implementation of mitigation measures. This program identifies at a minimum: the department responsible for the monitoring, what is to be monitored, how the monitoring shall be accomplished, the monitoring and reporting schedule, and completion requirements. A record of the Mitigation Monitoring and Reporting Program will be maintained at the offices of the Land Development Review Division, 1222 First Avenue, Fifth Floor, San Diego, CA 92101. All mitigation measures contained in the Mitigated Negative Declaration (Dep No. 94-0511) shall be made conditions of the City Lease Amendment as may be further described below.

Biological Resources and Water Quality

In anticipation of the significant impact to eelgrass habitat, the applicant and the biological consultant have established a transplant mitigation site within the Ventura Cover Belgrass Mitigation Area in Mission Bay. The California Department of Fish and Game (CDFG) issued a letter of authorization dated May 31, 1996 for the transplant program. The restoration made use of biodegradable soft anchors to fasten bare-root units of turions to the bottom substrate. Eelgrass was harvested from existing donor beds located at North Cove on Vacation Isle, just outside of the San Diego Princess Resort leasehold. To preclude adverse impacts to the donor beds, not more than 20 percent of any bed was harvested. Eelgrass was salvaged by hand and processed into planting units of eight to 12 turions per unit. Once processed, eelgrass was either planted directly or held submerged overnight.

SCUBA divers planted eelgrass along underwater transect lines over the bay bottom and along parallel planting transects to ensure equal planting coverage; planting units were placed on approximately three-foot centers. The planting area consisted of two connected oval-shaped plateau areas created by the excavation of excess sand accumulation within Ventura Ave. The bayward transplant boundaries are located at the toe of the excavation area where the bay bottom slopes up to the plateau. The bottom of the slope is roughly delineated by existing native eelgrass beds. The mitigation team completed the restoration of eelgrass habitat on June 19, 1996.

The original restoration area encompassed 1.58 acres. The most recent follow-up survey (March 5, 1997) indicates that the mitigation site currently supports 1.40 acres of eelgrass, which exceeds the 1.20 acres anticipated to be needed to adequately mitigate impacts to eelgrass associated with the San Diego Princess Resort project. The plantings have coalesced and grown to such an extent that they cannot be distinguished from abutting native eelgrass beds. Outside of a few bare spots, the transplanted beds appeared to be healthy and of high quality and density.

The following are additional measures to be completed as indicated:

1. The biological consultant shall conduct the 9-month survey in June, 1997 and the 12-month survey in September, 1997. Annual monitoring of the

transplant program shall continue annually for an additional four years (to September, 2001) to ensure adequate establishment of the created eelgrass beds.

2. Success criteria shall be based on total eelgrass cover and density, sustaining a coverage of at least 25 percent at the mitigation site.
3. Monitoring reports shall be submitted to the California Coastal Commission, California Department of Fish and Game, National Marine Fisheries Service, U.S. Fish and Wildlife Service, City of San Diego Park and Recreation Department and EAS within 30 days following each monitoring period. These reports shall detail conditions for the revegetation site.
4. Should the revegetation effort fail at the mitigation site to achieve the success criteria within the five year monitoring period, the applicant shall establish another revegetation mitigation site within Mission Bay at least 1.20 acres in area, satisfactory to the agencies listed in Measure No. 3.
5. Construction of the concrete pilings shall entail the use of silt curtains, to minimize water turbidity.
6. These measures shall be incorporated into the City Lease Amendment and noted on building plans. EAS shall review the plans to ensure the notes have been provided

Implementation of the mitigation program would reduce the impact to below a level of significance.

The above mitigation monitoring and reporting program will require \$450 in additional fees and/or deposits to be collected prior to the issuance of building permits, certificates of occupancy and/or final maps to ensure the successful completion of the monitoring program.

NOTICE OF DETERMINATION

TO: ☒ Recorder/County Clerk
1600 Pacific Hwy, Room 260
San Diego, CA 92101-2422

FROM: Development Services
1222 First Avenue MS 501
San Diego, CA 92101

☒ Office of Planning and Research
1400 Tenth Street, Room 121
Sacramento, CA 95814

LDR Number: No. 94-0511

State Clearinghouse Number: 97061070

Permit Number: City Council Approval No. 94-0511

Project Title: San Diego Pacific Princess Resort Marina

Project Location: The project is part of the San Diego Princess Resort (Vacation Isle), a 50.68-acre leasehold located at 1404 West Vacation Road, west of Ingraham Street within Mission Bay Park, California Coastal Zone, Coastal Commission Jurisdiction. Applicant: Pacific Developments c/o Merkel & Associates, 3944 Murphy Canyon Road, Suite C106, San Diego, CA 92123. (619) 560-5465

Project Description: CITY COUNCIL APPROVAL to construct a new marina with 53 "wet" boat slips and docks, and construct a 2,500-square-foot, two-story dockmaster building, which would contain 1,500 square feet of office/administrative space and a 1,000-square-foot meeting/banquet room. The existing 61-space rental dock is proposed to be removed and replaced with the new marina.

This is to advise that the City of San Diego City Council on SEP 08 1997 approved the above described project and made the following determinations:

1. The project in its approved form will, ☒ will not, have a significant effect on the environment.
2. — An Environmental Impact Report was prepared for this project and certified pursuant to the provisions of CEQA.
- ☒ A Mitigated Negative Declaration was prepared for this project pursuant to the provisions of CEQA.
- An addendum to Mitigated Negative Declaration No. was prepared for this project pursuant to the provisions of CEQA.

Record of project approval may be examined at the address above.

3. Mitigation measures ☒ were, — were not, made a condition of the approval of the project.
4. (EIR only) Findings — were, — were not, made pursuant to CEQA Guidelines Section 15091.
5. (EIR only) A Statement of Overriding Considerations — was, — was not, adopted for this project.

It is hereby certified that the final environmental report, including comments and responses, is available to the general public at the office of the Land Development Review Division, Fifth Floor, City Operations Building, 1222 First Avenue, San Diego, CA 92101.

Analyst: McHenry/Cameron

Telephone: (619) 236-6528

Filed by:

Lori A. Witzel
Signature
Deputy Clerk

Title

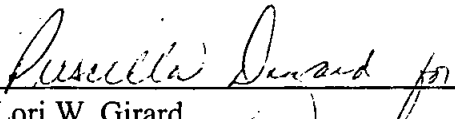
RESOLUTION NUMBER R-_____

ADOPTED ON _____

WHEREAS, the City and LHO Mission Bay Hotel, L.P., have negotiated a 50-year Percentage Lease at the initial rental rate of \$1,591,645 per year, the fair market rate as determined by City valuation staff; NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that the City Manager is authorized to execute, for and on behalf of The City of San Diego, a percentage lease agreement with LHO Mission Bay Hotel, L.P., a California Limited Partnership, dba San Diego Paradise Point Resort, for the 50-year lease of hotel property, at an initial annual rent of \$1,591,645, under the terms and conditions set forth in that lease agreement on file in the office of the City Clerk as Document No. RR-_____.

APPROVED: CASEY GWINN, City Attorney

By 
Lori W. Girard
Deputy City Attorney

LWG:cdk
04/10/00
Or.Dept:REA
Aud.Cert:N/A
R-2000-1181
Form=leaser.frm

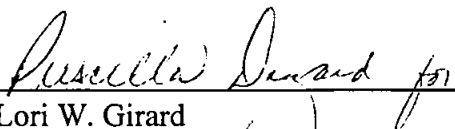
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APPROVED: CASEY GWINN, City Attorney

By 
Lori W. Girard
Deputy City Attorney

LWG:cdk
04/10/00
Or.Dept:REA
Aud.Cert:N/A
R-2000-1181
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THE CITY OF **SAN DIEGO**
EQUAL OPPORTUNITY CONTRACTING PROGRAM
1010 SECOND AVENUE • SUITE 500 • SAN DIEGO, CA 92101
(619) 533-4464 • FAX: 533-4474

WORK FORCE REPORT

The objective of the Equal Employment Opportunity Program is to ensure that contractors doing business with the City, or receiving funds from the City, will not engage in unlawful discriminatory employment practices prohibited by State and Federal law. Such employment practices include, but are not limited to the following: employment, promotion or upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rate of pay or other forms of compensation, and selection for training, including apprenticeship.

NO OTHER FORMS WILL BE ACCEPTED

CONTRACTOR IDENTIFICATION

Type of Contractor: ☐ Construction ☐ Vendor/Supplier ☐ Financial Institution ☒ Lessee/Lessor
☐ Consultant ☐ Grant Recipient ☐ Insurance Company ☐ Other

Name of Company: LHO MISSION BAY HOTEL, LP
AKA/DBA: SAN DIEGO PARADISE POINT RESORT
Address (Corporate Headquarters, where applicable): 1404 WEST VACATION ROAD
City SAN DIEGO County SAN DIEGO State CALIFORNIA Zip 92109
Telephone Number: (858) 274-4630 FAX Number: (858) 581-5919
Name of Company CEO: PHIL BROWN
Address(es), phone and fax number(s) of company facilities located in San Diego County (if different from above):
Address: _____
City _____ County _____ State _____ Zip _____
Telephone Number: () _____ FAX Number: () _____
Type of Business: HOTEL Type of License: _____
The Company has appointed: VICKI CORDERO
as its Equal Employment Opportunity Officer (EEOO). The EEOO has been given authority to establish, disseminate, and enforce equal employment and affirmative action policies of this company. The EEOO may be contacted at:
Address: (SAME)
Telephone Number: () _____ FAX Number: () _____

For Firm's: ☐ San Diego Work Force and/or ☐ Managing Office Work Force

I, the undersigned representative of

SAN DIEGO

(County)

LHO MISSION BAY HOTEL, LP DBA SAN DIEGO PARADISE POINT RESORT

(Firm Name)

CALIFORNIA

(State)

hereby certify that information provided herein is true and correct. This document was executed on this day of

APRIL 3 2000

(Authorized Signature)

STEVE SANBORN, CONTROLLER

(Print Authorized Signature Name)

WORK FORCE REPORT - Page 2

NAME OF FIRM: SAN DIEGO PARADISE POINT RESORTDATE: APRIL 3, 2000

INSTRUCTIONS: For each occupational category, indicate number of males and females in every ethnic group. Total columns in row provided. Sum of all totals should be equal to your total work force.

Include all those employed by your company on either a full or part-time basis. The following groups are to be included in ethnic categories listed in columns below:

- | | |
|--|--|
| (1) African-American, Black | (5) Filipino |
| (2) Latino, Hispanic, Mexican-American, Puerto Rican | (6) Caucasian |
| (3) Asian, Pacific Islander | (7) Other Ethnicities; not falling into other groups |
| (4) American Indian, Eskimo | |

* INCLUDED IN ASIAN CATEGORY

OCCUPATIONAL CATEGORY	(1) African-American, Black		(2) Latino, Hispanic, Mexican-American, Puerto Rican		(3) Asian, Pacific Islander		(4) American Indian, Eskimo		(5) Filipino		(6) Caucasian		(7) Other Ethnicities; not falling into other groups	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Executive, Administrative, Managerial	1	0	1	3	1	1	0	0			25	16		
Professional Specialty	0	0	0	0	0	0	0	0			0	1		
Engineers/Architects	0	0	0	0	0	0	0	0			0	0		
Technicians and Related Support	0	0	0	0	0	0	0	0			0	1		
Sales	0	1	0	5	0	4	0	0			1	8		
Administrative Support/Clerical	1	2	1	7	1	2	1	0			8	26		
Services	11	4	120	76	8	13	0	0			81	58		
Precision Production, Craft and Repair	1	0	2	0	0	0	0	0			1	0		
Machine Operators, Assemblers, Inspectors	0	0	0	0	0	0	0	0			0	0		
Transportation and Material Moving	0	0	0	0	0	0	0	0			0	0		
Handlers, Equipment Cleaners, Helpers and Nonconstruction Laborers*	0	0	24	0	1	0	0	0			3	0		

*Construction laborers and other field employees are not to be included on this page

TOTALS EACH COLUMN	14	7	148	91	11	20	1	0			119	110		
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GRAND TOTAL ALL EMPLOYEES

521

INDICATE BY GENDER AND ETHNICITY THE NUMBER OF ABOVE EMPLOYEES WHO ARE DISABLED:

DISABLED														
----------	--	--	--	--	--	--	--	--	--	--	--	--	--	--

NON-PROFIT ORGANIZATIONS ONLY:

BOARD OF DIRECTORS														
VOLUNTEERS														
ARTISTS														

EQUAL OPPORTUNITY AGREEMENT

NON-DISCRIMINATION CLAUSE: Contractor shall not discriminate against any employee or applicant for employment on any basis prohibited by law. Contractor shall provide equal opportunity in all employment practices. Contractor shall ensure that its subcontractors comply with the City of San Diego's Equal Employment Opportunity Program.

EQUAL EMPLOYMENT OPPORTUNITY (EEO): Contractor has received, read, understands and agrees to be bound by the City of San Diego *Municipal Code*, Chapter II, Article 2, Division 27 (Equal Employment Opportunity Program) provided with the proposal package.

Contractor has submitted either a *Work Force Report* or an *Equal Employment Opportunity Plan* as required by Section 22.2705 of the City of San Diego *Municipal Code*.

City and Contractor agree that compliance with EEO provisions will be implemented, monitored, and reviewed by the City's Equal Opportunity Contracting Program (EOCP) staff.

EQUAL OPPORTUNITY CONTRACTING: Contractor has received, read, understands and agrees to be bound by the Equal Opportunity Contracting Program requirements described in the proposal package.

If requested, Contractor shall submit the *Outreach and Teaming Survey*. Contractor agrees to provide updated reports as requested by the City.

Contractor agrees to insert equal opportunity compliance language in all subcontracts for any work covered by this Agreement so that such provisions will be binding upon each subcontractor.

Project Name: PARADISE POINT RESORT LEASE Bid No.: _____

Company Name: LEHO MISSION BAY HOTEL, L.P. Date: APR 03, 2000



Authorized Signature

STEVE SANBORN, CONTROLLER

Print Authorized Signature Name

ORIGINAL

AGREEMENT OF LIMITED PARTNERSHIP
OF
NOBLE HOUSE HOTELS & RESORTS, LTD.,
A TEXAS LIMITED PARTNERSHIP

--AGREEMENT OF LIMITED PARTNERSHIP
OF
NOBLE HOUSE HOTELS & RESORTS, LTD.,
A TEXAS LIMITED PARTNERSHIP

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--AGREEMENT OF LIMITED PARTNERSHIP
OF
NOBLE HOUSE HOTELS & RESORTS, LTD.,
A TEXAS LIMITED PARTNERSHIP

THIS AGREEMENT OF LIMITED PARTNERSHIP ("Agreement") is made and executed as of the 1st day of January, 1994, by and between WESTGROUP PARTNER, INC., a California corporation ("General Partner"), and PATRICK R. COLEE ("Limited Partner"). The General Partner and the Limited Partner are sometimes hereinafter collectively referred to as the "Partners" and individually as a "Partner".

1. FORMATION.

The Partners do hereby form a limited partnership ("Partnership") under and pursuant to the provisions of the Texas Revised Limited Partnership Act ("Act"), and do hereby make and execute this Agreement for the purpose of setting forth the rights, duties and obligations of the General Partner, as well as the limit of liabilities of the Limited Partner, and setting forth the rights of the Partners with respect to the assets of the Partnership and the profits which the Partners shall receive from the Partnership by reason of their being General or Limited Partner, as the case may be.

2. PURPOSE.

The express, limited and only purpose for which the Partnership is to exist is to engage in all activities appropriate to the conduct of the management and operation of hotels including, acting as a partner in partnerships ("Investment Partnerships") which are in the business of managing and operating hotels.

3. NAME.

The name of the Partnership shall be NOBLE HOUSE HOTELS & RESORTS, LTD.

4. CERTIFICATE OF LIMITED PARTNERSHIP.

The Partners hereby agree that in addition to the execution of this Agreement, the General Partner shall execute one or more copies of a Certificate of Limited Partnership ("Certificate"), which shall be duly recorded forthwith in the office of the Secretary of the State of Texas, and a certified copy of which may be, in the General Partner's discretion, recorded in the Office of the Recorder of the County in which the principal executive office of the Partnership is situated, and in each County or other jurisdiction in which the Partnership has additional executive offices and/or holds title to real property, directly or

(JBSLL/94396/81043/BLB/128856.1)

indirectly, if different from the county or jurisdiction of its principal executive offices.

5. PRINCIPAL EXECUTIVE OFFICES.

The principal executive offices of the Partnership shall be at 821 Second Avenue, Suite 2100, Seattle, Washington 98104, or at such other place or places as the Partners shall hereafter determine.

6. TERM.

The Partnership shall commence as of the date the Certificate is filed in the Office of the Secretary of the State of Texas and shall continue until December 31, 2050, unless sooner dissolved pursuant to Article 15, below; provided, however, that if the Partnership is continued after such date for any reason, the terms, covenants and conditions of this Agreement shall remain in full force and effect and no Partner shall, by virtue of such continuance, become entitled to, interest on repayments which might otherwise become due at the time for termination of the Partnership set forth in this Article.

7. NAMES AND ADDRESSES OF THE GENERAL AND LIMITED PARTNER.

(a) The name and address of the General Partner are as follows:

WESTGROUP PARTNER, INC.
821 Second Avenue, Suite 2100
Seattle, WA 98104

(b) The name and address of the Limited Partner are as follows:

Patrick R. Colee
821 Second Avenue, Suite 2100
Seattle, WA 98104

8. MANAGEMENT.

8.1 Powers of the General Partner. In addition to the specific rights and powers herein granted, the General Partner shall possess, enjoy and may exercise all of the rights and powers of a general partner as more particularly provided by the Act. The General Partner alone shall have the full and complete charge of all affairs of the Partnership, and the management and control of the Partnership business shall rest exclusively with the General Partner, subject to the terms and conditions of this Agreement. The General Partner shall use its best efforts to carry out the business of the Partnership and shall devote such time to the

Partnership as is necessary, in its sole discretion, for the efficient operation of the Partnership business. Nothing herein contained shall prevent the General Partner or any of its representatives from devoting time to other businesses, whether or not similar in nature to the business of the Partnership. Without limiting the generality of the foregoing, the General Partner shall have full power and authority to manage all facets of the business of the Partnership including, without limitation, full power and authority to (i) represent the Partnership in voting any interest in or making any decision relative to an Investment Partnership and (ii) generally bind the Partnership and execute and deliver any and all documents and instruments on the Partnership's behalf. The provisions of this Section shall not be construed to bar the General Partner from delegating responsibility for day-to-day management of the Partnership's assets and business to any persons employed by the Partnership or the General Partner or any affiliate thereof.

The General Partner may appoint such officers as the business of the partnership may require, each of whom shall hold office for such period, have such authority and perform such duties as the General Partner may from time to time determine.

Until such time as they are removed from office by the General Partner and their successors are duly appointed by the General Partner, the persons listed on Exhibit "A" attached hereto are hereby appointed to the offices set forth opposite their respective names.

8.2 Restrictions on the General Partner. Notwithstanding the provisions of Section 8.1 above, the General Partner shall not, without the prior written consent of the Limited Partner:

(a) Do any act which would make it impossible or unreasonably burdensome to carry on the business of the Partnership;

(b) Confess a judgment against the Partnership or submit a Partnership claim to arbitration;

(c) Possess property of the Partnership or assign rights of the Partnership in any property of the Partnership for other than a Partnership purpose; or

(d) Admit any person or entity as an additional partner to the Partnership except as otherwise expressly provided in this Agreement.

8.3 Restrictions and Limitations on the Limited Partner. The Limited Partner shall have no right, power or authority to act for or bind the Partnership. The Limited Partners shall take no part in the conduct or control of the Partnership business, except that the Limited Partner shall have the power to vote upon the

following matters affecting the basic structure of the Partnership, to wit: (a) election of a successor general partner as herein provided; (b) termination of the Partnership; (c) amendment of this Agreement; and (d) the matters set forth in Section 8.2 hereof. All matters so voted upon must receive the affirmative vote of all Partners, except for the election of successor general partner which shall only require the affirmative vote of the Limited Partner.

8.4 Competition. The Partners may, in their own name or in other capacities, own competing properties and pursue business opportunities similar to the business of this Partnership.

8.5 Meetings. An annual meeting of the Partners shall be held on a date and at a time designated by the General Partner. Special meetings may be called by a majority-in-interest of the Partners by notice conforming to the provisions of this Article and signed by the Partners calling such meeting. Meetings shall be held at the principal place of business of the Partnership. Notice of the annual meeting or any special meeting shall specify the date, time and place of the meeting, a telephone number which Partners may use to attend such meeting telephonically, and the nature of the business to be transacted. Such notice shall be in writing and shall be given in accordance with Article 15, below, within 15 days but not more than 30 days before the date for the meeting specified in such notice. Partners may attend and vote at annual or special meetings in person or telephonically. Any action taken at such annual or special meeting on any matter described in Section 8.2 shall require the vote of both Partners.

9. CONTRIBUTIONS TO CAPITAL; PARTNERSHIP OWNERSHIP.

9.1 Contributions to Capital.

(a) Initial Capital Contribution of the General Partner. The General Partner shall not be required to initially contribute to the capital of the Partnership.

(b) Initial Capital Contribution of the Limited Partner. Concurrent with the execution of this Agreement, the Limited Partner shall contribute to the capital of the Partnership, in cash, One Thousand Dollars (\$1,000).

(c) Additional Capital Contributions. In the event the General Partner determines that the Partnership is, or is reasonably expected to be, unable to pay its cash obligations as they come due and, therefore, has an actual or projected cash flow deficit ("Cash Flow Deficit"), the General Partner shall cause the Partnership to borrow funds in the amount of such Cash Flow Deficit to the extent such funds can be borrowed at reasonable market rates of interest and on reasonable market terms and conditions. To the extent funds in the amount of such Cash Flow Deficit cannot be so

borrowed, the General Partner shall be required to contribute same to the capital of the Partnership on behalf of the Partnership.

(d) Capital Contributions in General. Except as otherwise expressly provided in this Agreement or as otherwise agreed, in writing, by all the Partners (a) no part of the contributions of any Partner to the capital of the Partnership may be withdrawn by such Partner, (b) unless otherwise agreed in writing between the Parties, no Partner shall be entitled to receive interest on such Partner's contributions to the capital of the Partnership, and (c) no Partner shall have the right to demand or receive property other than cash in return for such Partner's contribution to the Partnership. Subject to the provisions of Section 14.6, it is expressly understood and agreed that the General Partner shall not be personally liable for the return of the capital or any other contributions of the Limited Partner, or any portion thereof, but, on the contrary that any such return shall be made solely from Partnership assets.

9.2 Liability of the Limited Partner. The interest of the Limited Partners in the assets of the Partnership shall at all times be subject to the valid obligations and liabilities of the Partnership. The Limited Partner shall not otherwise have any liability for the Partnership's debts, obligations and liabilities. Notwithstanding anything contained herein to the contrary, the Limited Partner shall not be liable to the Partnership, the General Partner or any third party for the debts, obligations or liabilities of the Partnership or any other losses thereof, it being expressly understood and agreed that the liability of the Limited Partner for such debts, obligations, liabilities and losses shall be limited to their initial capital contribution to the Partnership.

9.3 Partnership Ownership. Each Partner's interest in the Partnership, for voting and all other purposes, shall be the percentage interest ("Percentage Interest") set forth opposite its name below:

<u>Partner</u>	<u>Percentage Interest</u>
General Partner	1%
Limited Partner	99%

10. PROFITS AND LOSSES.

10.1 Definitions. For the purpose of this Agreement, the terms "Net Profits" and "Net Losses" shall mean the net profits or net Losses of the Partnership for each fiscal year, as determined in accordance with generally accepted accounting principles consistently applied.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-13145

LASALLE PARTNERS INCORPORATED

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of corporation or organization)

36-4150422
(IRS Employer Identification No.)

200 East Randolph Drive, Chicago, IL
(Address of principal executive office)

60601
(Zip Code)

Registrant's telephone number, including area code 312/782-5800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at August 28, 1997</u>
Common Stock (\$0.01 par value)	16,200,000

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PART I. Financial Information

Item 1. Financial Statements

**LA SALLE PARTNERS LIMITED PARTNERSHIP AND SUBSIDIARIES
LA SALLE PARTNERS MANAGEMENT LIMITED PARTNERSHIP AND SUBSIDIARIES**

Combined Balance Sheets

**June 30, 1997 and December 31, 1996
(in thousands)
(unaudited)**

	<u>June 30, 1997</u>	<u>December 31, 1996</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 12,875	7,207
Trade receivables, net	52,796	87,283
Other receivables	3,497	3,005
Prepaid expenses	<u>1,283</u>	<u>1,228</u>
Total current assets	70,451	98,723
Property and equipment, at cost, less accumulated depreciation of \$25,313 and \$23,310 in 1997 and 1996, respectively	16,276	14,549
Intangibles resulting from business acquisitions, net of accumulated amortization of \$3,783 and \$2,287 in 1997 and 1996, respectively	51,025	23,735
Investments in real estate ventures	14,885	13,687
Long-term receivables, net	7,256	5,052
Other assets, net	<u>1,786</u>	<u>868</u>
	<u>\$ 161,679</u>	<u>156,614</u>
<u>Liabilities and Partners' Capital</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 22,192	34,228
Accrued compensation	17,715	26,016
Borrowings under short-term credit facility	16,900	6,500
Current maturities of long-term notes payable	<u>8,854</u>	<u>9,064</u>
Total current liabilities	65,661	75,808
Long-term notes payable (note 7):		
Subordinated loans, less current maturities	34,107	34,106
Long-term credit facility, less current maturities	<u>17,555</u>	<u>21,445</u>
	51,662	55,551
Other long-term liabilities	<u>1,497</u>	<u>1,008</u>
Commitments and contingencies		
Total liabilities	118,820	132,367
Partners' capital	<u>42,859</u>	<u>24,247</u>
	<u>\$ 161,679</u>	<u>156,614</u>

See accompanying notes to combined financial statements.

LA SALLE PARTNERS LIMITED PARTNERSHIP AND SUBSIDIARIES
LA SALLE PARTNERS MANAGEMENT LIMITED PARTNERSHIP AND SUBSIDIARIES

Combined Statements of Earnings

Three and Six Months Ended June 30, 1997 and 1996
(in thousands except share data)
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Revenue:				
Fee based services	\$ 62,539	33,337	96,783	60,071
Equity in earnings from unconsolidated ventures	345	784	1,739	873
Construction operations, net	205	311	410	622
Other income	<u>322</u>	<u>299</u>	<u>498</u>	<u>450</u>
Total revenue	63,411	34,731	99,430	62,016
Expenses:				
Compensation and benefits	38,341	24,346	65,558	47,673
Operating, administration and other	13,687	8,831	23,987	16,883
Depreciation and amortization	<u>2,180</u>	<u>1,134</u>	<u>3,954</u>	<u>2,245</u>
Total expenses	<u>54,208</u>	<u>34,311</u>	<u>93,499</u>	<u>66,801</u>
Operating profits (loss)	9,203	420	5,931	(4,785)
Interest expense	<u>1,881</u>	<u>1,104</u>	<u>3,576</u>	<u>2,041</u>
Earnings before provision (benefit) for income taxes	7,322	(684)	2,355	(6,826)
Net provision (benefit) for income taxes	<u>382</u>	<u>(39)</u>	<u>134</u>	<u>(389)</u>
Net earnings (loss)	<u>\$ 6,940</u>	<u>(645)</u>	<u>2,221</u>	<u>(6,437)</u>

See accompanying notes to combined financial statements.

LA SALLE PARTNERS LIMITED PARTNERSHIP AND SUBSIDIARIES
LA SALLE PARTNERS MANAGEMENT LIMITED PARTNERSHIP AND SUBSIDIARIES

Combined Statements of Partners' Capital (Deficit)

Periods Ended June 30, 1997 and December 31, 1996

(in thousands)

(unaudited)

	<u>General Partners</u>	<u>Limited Partners</u>	<u>Other</u>	<u>Total</u>
Partners' capital (deficit), January 1, 1996	\$ (49,627)	64,624	--	14,997
Net earnings	11,093	8,871	--	19,964
Distributions	(6,563)	(5,250)	--	(11,813)
Effect of cumulative translation adjustments	<u>--</u>	<u>--</u>	<u>1,099</u>	<u>1,099</u>
Partners' capital (deficit), December 31, 1996	(45,097)	68,245	1,099	24,247
Net earnings	1,142	1,079	--	2,221
Distributions	(6,702)	(5,634)	--	(12,336)
Acquisition of Galbreath common stock	--	29,292	--	29,292
Effect of cumulative translation adjustments	<u>--</u>	<u>--</u>	<u>(565)</u>	<u>(565)</u>
Partners' capital (deficit), June 30, 1997	<u>\$ (50,657)</u>	<u>92,982</u>	<u>534</u>	<u>42,859</u>

See accompanying notes to combined financial statements.

LA SALLE PARTNERS LIMITED PARTNERSHIP AND SUBSIDIARIES
LA SALLE PARTNERS MANAGEMENT LIMITED PARTNERSHIP AND SUBSIDIARIES

Combined Statements of Cash Flows

Six Months Ended June 30, 1997 and 1996
(in thousands)
(unaudited)

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Net earnings (loss)	\$ 2,221	(6,437)
Reconciliation of net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,954	2,245
Equity in earnings from unconsolidated ventures	(1,739)	(873)
Provision for loss on receivables and other assets	1,497	7
Distributions from real estate ventures	1,569	1,259
Loss (gain) on disposition of property and equipment	(14)	7
Changes in:		
Receivables	39,744	18,431
Prepaid expenses and other assets	(934)	124
Accounts payable, accrued liabilities and accrued compensation	<u>(36,311)</u>	<u>(17,535)</u>
Net cash provided by (used in) operating activities	9,987	(2,772)
Cash flows provided by (used in) investing activities:		
Capital additions - property and equipment	(2,004)	(7,603)
Proceeds from dispositions - property and equipment	33	57
Cash balances assumed in Galbreath acquisition	3,209	--
Investments in real estate ventures:		
Capital contributions and advances to real estate ventures	(2,305)	(4,126)
Distributions, repayments of advances and sale of investments	<u>2,777</u>	<u>256</u>
Net cash provided by (used in) investing activities	1,710	(11,416)
Cash flows provided by (used in) financing activities:		
Net borrowings under short-term credit facility	10,400	18,900
Net borrowings under long-term credit facility	(4,099)	2,200
Distributions to partners	<u>(12,336)</u>	<u>(10,611)</u>
Net cash provided by (used in) financing activities	(6,035)	10,489
Effects of foreign currency translation on cash balances	<u>6</u>	<u>--</u>
Net increase (decrease) in cash and cash equivalents	5,668	(3,699)
Cash and cash equivalents, beginning of period	<u>7,207</u>	<u>8,322</u>
Cash and cash equivalents, end of period	<u>\$ 12,875</u>	<u>4,623</u>

Supplemental disclosure of cash flow information:

Combined interest paid was \$1,325 and \$53 for the periods ended June 30, 1997 and 1996, respectively.

On April 22, 1997, the Company acquired the common stock of Galbreath (note 3) in exchange for a 17.5% limited partnership interest valued at \$29,292. Identifiable operating assets and liabilities and investments in real estate ventures totaled \$11,681, \$15,921 and \$1,500, respectively, in addition to cash of \$3,209 as of the acquisition date. The Company incurred transaction related expenses of \$436. The increase in these assets and liabilities, excluding cash acquired, and the resulting goodwill of \$29,259 have not been reflected in the changes in cash flow above.

See accompanying notes to combined financial statements.

LA SALLE PARTNERS LIMITED PARTNERSHIP AND SUBSIDIARIES
LA SALLE PARTNERS MANAGEMENT LIMITED PARTNERSHIP AND SUBSIDIARIES

Notes to Combined Financial Statements

June 30, 1997 and 1996
(in thousands)
(unaudited)

Readers of this quarterly report should refer to the Company's audited financial statements for the year ended December 31, 1996, which are included in the Prospectus which constitutes a part of the Registrant's Registration Statement on form S-1 (333-25741) filed with the Securities and Exchange Commission, as certain footnote disclosures which would substantially duplicate those contained in such audited financial statements have been omitted from this report.

(1) Organization

LaSalle Partners Limited Partnership ("LPL") and LaSalle Partners Management Limited Partnership ("LPML"), two Delaware limited partnerships (collectively, the "Company"), were formed on June 29, 1988 to provide real estate services to clients including leasing, brokerage, construction and development management, real property asset management and real estate investment advice. Prior to June 29, 1988, these real estate services were provided by the general partners of the Company, DEL-LPL Limited Partnership and DEL-LPAML Limited Partnership (collectively "DEL"), respectively.

Prior to November 30, 1994, the sole limited partners of LPL and LPML were DSA-LSPL, Inc. and DSA-LSAM, Inc. (collectively "DSA"), respectively. On that date, the Company admitted Alex. Brown Kleinwort Benson Realty Advisors Corporation ("ABKB") as an additional limited partner. Effective March 31, 1995, ABKB changed its name to KB-LPL, Inc. In August 1995, Dresdner Bank AG ("Dresdner") purchased the parent company of KB-LPL, Inc. As a result of bank regulatory requirements, Dresdner was required to sell its interests in the Company. Pursuant to an agreement reached with Dresdner in May, 1996, DEL re-purchased KB-LPL, Inc.'s ownership in the Company through DEL/LaSalle Finance Company, L.L.C. ("DEL/LaSalle"), a wholly-owned subsidiary, during the first quarter of 1997.

On April 22, 1997, the Company acquired the outstanding common stock of The Galbreath Company and The Galbreath Company of California, Inc. (collectively, "Galbreath") in exchange for a 17.5% limited partner interest (note 3). As of June 30, 1997, following the Galbreath merger, DEL, directly and through DEL/LaSalle, and DSA had ownership interests of approximately 62.3% and 20.2%, respectively.

Under the provisions of the partnership agreements, LPL and LPML partnership interests are paired on a one-for-one basis and may only be purchased or sold in tandem. Partnership interests in DEL are also paired on a one-for-one basis. Further, the partnership agreements provide for changes in ownership interests. DEL has the right to increase their ownership interest by making additional capital contributions to the Company. Such additional capital would be used by the Company to repay subordinated notes payable, including Class A and Class B notes ("Dai-ichi Notes"), to DSA. If DEL does not exercise their right, DSA has the right to convert any unpaid principal on the subordinated notes into an additional capital contribution thus increasing their ownership interests. Provisions in the partnership agreements provide for the repayment of the Class

A notes payable to DSA to be made directly by the Company. The Company's net cash flow, after appropriate reserves, is generally distributed to the partners in accordance with their ownership interests. The partnership agreements permit distributions during each year to the partners in connection with estimated federal income tax payments owed by the partners. Net profits and losses of the Company are generally allocated to the partners in accordance with their ownership interests in effect during each year.

In connection with the initial public offering of 4,000,000 shares of LaSalle Partners Incorporated ("LPI") common stock, all of the partnership interests in the Company were contributed to LPI, pursuant to agreements among the general and limited partners, in exchange for an aggregate of 12,200,000 shares of common stock. The contribution occurred immediately prior to the closing of the offering which occurred on July 22, 1997. The 4,000,000 shares were offered at \$23 per share, aggregating \$83,560, net of offering costs. \$63,490 of the proceeds were used to retire the Dai-ichi Notes and the long-term credit facility along with related interest.

The Company will be subject to a reorganization as part of the incorporation of LPI. Due to the existence of a paired share arrangement between LPL and LPML and between the DEL partnerships, as well as the existence of identical ownership before and after the incorporation of the Company, such transactions will be accounted for in a manner similar to the accounting used for a pooling of interests. Thus, LPI's financial statements will include the financial positions and results of operations of the Company at their historical cost basis.

(2) Interim Information

The combined financial statements as of June 30, 1997 and for the three and six month periods ended June 30, 1997 and 1996 are unaudited; however, in the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the combined financial statements for these interim periods have been included. The results for the interim periods ended June 30, 1997 and 1996 are not necessarily indicative of the results to be obtained for the full fiscal year.

(3) Acquisition

On April 22, 1997, the Company acquired all of the common stock of Galbreath, a property management, facility management and development management company. In consideration for the stock, the Company issued a 17.5% limited partnership interest in the Company to the former stockholders of Galbreath. The acquisition was accounted for as a purchase and accordingly, operating results of this business subsequent to the date of acquisition are included in the accompanying Combined Statements of Earnings. The excess purchase price over the fair value of the identifiable assets and liabilities acquired was \$29,259, including transaction costs, of which \$5,852 was allocated to management contracts which are being amortized on a straight line basis over 8 years and \$23,407 was allocated to goodwill which is being amortized on a straight line basis over 40 years based on the Company's estimate of useful lives. Intangibles resulting from business acquisitions in the accompanying Combined Balance Sheets includes \$29,016 at June 30, 1997 related to the Galbreath acquisition.

(4) Business Segments

The Company's operations have been classified into three business segments: Management Services, Corporate and Financial Services and Investment Management. The Management Services segment provides three primary service capabilities: (i) property management and leasing for property owners, (ii) facility management for properties occupied by corporate owners and users; and (iii) development management for both investors and real estate users seeking to develop new buildings or renovate existing facilities. The Corporate and Financial Services segment provides transaction and advisory services through three primary service capabilities, including: (i) tenant representation for corporations and professional services firms; (ii) investment

banking services to address the financing, acquisitions and disposition needs of real estate owners; and (iii) land acquisitions and development services for owners, users and developers of land. The Investment Management segment provides real estate investment management services to institutional investors, corporations and high net worth individuals.

Total revenue by industry segment includes revenue derived from services provided to other segments. Operating income represents total revenue less direct and indirect allocable expenses. The Company's allocate all expenses, other than interest and income taxes, as substantially all expenses incurred benefit one or more of the segments.

Summarized unaudited financial information by business segment for the three and six month periods ended June 30, 1997 and 1996 is as follows:

	Segment Operating Results			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Management Services:				
Segment revenue:				
Property management fees	\$ 11,873	9,244	20,539	17,018
Leasing fees	6,240	2,240	7,413	2,683
Facility management fees	3,747	2,699	7,164	5,397
Development management fees	1,628	1,022	2,743	2,060
Intersegment sales	25	--	50	100
Other income	<u>82</u>	<u>127</u>	<u>129</u>	<u>187</u>
	23,595	15,332	38,038	27,445
Operating expenses:				
Operating and administrative expenses . . .	23,288	14,044	39,137	27,436
Depreciation and amortization	<u>929</u>	<u>329</u>	<u>1,441</u>	<u>666</u>
Operating income (loss)	<u>\$ (622)</u>	<u>959</u>	<u>(2,540)</u>	<u>(657)</u>
Corporate & Financial Services:				
Segment revenue:				
Tenant representation	\$ 8,094	4,227	11,503	7,108
Investment banking	5,300	771	5,912	1,064
Land fees	1,088	1,195	1,795	1,493
Construction operations	205	311	410	622
Equity in earnings (losses)	182	363	182	452
Intersegment sales	392	--	392	--
Other income	<u>53</u>	<u>66</u>	<u>86</u>	<u>106</u>
	15,314	6,933	20,280	10,845
Operating expenses:				
Operating and administrative expenses . . .	10,741	7,796	19,505	14,834
Depreciation and amortization	<u>329</u>	<u>226</u>	<u>547</u>	<u>444</u>
Operating income (loss)	<u>\$ 4,244</u>	<u>(1,089)</u>	<u>228</u>	<u>(4,433)</u>

	Segment Operating Results			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	1997	1996	1997	1996
Investment Management:				
Segment revenue:				
Advisory fees	\$ 24,410	11,183	39,050	22,187
Acquisition fees	159	756	664	1,061
Equity in income (losses)	163	421	1,557	421
Other income	<u>187</u>	<u>106</u>	<u>283</u>	<u>157</u>
	24,919	12,466	41,554	23,826
Operating expenses:				
Operating and administrative expenses . . .	18,416	11,337	31,345	22,386
Depreciation and amortization	<u>922</u>	<u>579</u>	<u>1,966</u>	<u>1,135</u>
Operating income (loss)	<u>\$ 5,581</u>	<u>550</u>	<u>8,243</u>	<u>305</u>
Total segment revenue	\$ 63,828	34,731	99,872	62,116
Intersegment revenue eliminations	<u>(417)</u>	<u>--</u>	<u>(442)</u>	<u>(100)</u>
Total revenue	<u>\$ 63,411</u>	<u>34,731</u>	<u>99,430</u>	<u>62,016</u>
Total segment operating expenses	\$ 54,625	34,311	93,941	66,901
Intersegment operating expense eliminations	<u>(417)</u>	<u>--</u>	<u>(442)</u>	<u>(100)</u>
Total operating expenses	<u>\$ 54,208</u>	<u>34,311</u>	<u>93,499</u>	<u>66,801</u>
Total operating income (loss)	<u>\$ 9,203</u>	<u>420</u>	<u>5,931</u>	<u>(4,785)</u>

(5) Pro Forma Financial Information

The following pro forma combined statements of earnings give effect to the acquisition of the common stock of Galbreath, the incorporation of the Company and the initial public offering, including the receipt and application of the net proceeds therefrom to repay long-term indebtedness and related interest, as if these events occurred on January 1, 1997. The pro forma combined balance sheet gives effect to the incorporation of the Company and the initial public offering, including the receipt and application of the net proceeds therefrom to repay long-term indebtedness and related interest, as if these events occurred on June 30, 1997.

The pro forma adjustments are based upon available information and certain assumptions that management of the Company believes are reasonable. The pro forma combined financial statements are not necessarily indicative of what the actual financial position and results of operations would have been as of June 30, 1997 and for the three and six months periods ended June 30, 1997 had the Company completed the acquisition of the Galbreath common stock and consummated the incorporation and offering transactions as of the dates indicated nor does it purport to represent the future financial position or results of operations of the Company.

Combined Balance Sheet
June 30, 1997

	<u>Actual Partnerships (1)</u>	<u>Incorporation Transaction (2)</u>	<u>Offering Adjustments (3)</u>	<u>Pro Forma</u>
Assets				
Current assets:				
Cash and cash equivalents . . .	\$ 12,875		21,043	33,918
Trade receivables, net	52,796			52,796
Other receivables	3,497			3,497
Prepaid expenses	<u>1,283</u>			<u>1,283</u>
Total current assets . . .	70,451	--	21,043	91,494
Property and equipment	16,276			16,276
Intangibles resulting from business acquisitions	51,025			51,025
Investments in real estate ventures	14,885			14,885
Long-term receivables, net . . .	7,256			7,256
Other assets, net	<u>1,786</u>			<u>1,786</u>
	<u>\$161,679</u>	<u>--</u>	<u>21,043</u>	<u>182,722</u>
Liabilities and Partners' Capital				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 22,192		(2,001)	20,191
Accrued compensation	17,715			17,715
Borrowings under short-term credit facility	16,900			16,900
Current maturities of long-term notes payable . .	<u>8,854</u>		<u>(8,854)</u>	<u>--</u>
Total current liabilities . .	65,661	--	(10,855)	54,806
Long-term notes payable (note 7):				
Subordinated loans, less current maturities	34,107		(34,107)	--
Long-term credit facility, less current maturities	<u>17,555</u>		<u>(17,555)</u>	<u>--</u>
	51,662	--	(51,662)	--
Other long-term liabilities . . .	1,497			1,497
Commitments and contingencies	--			--
Total liabilities	118,820	--	(62,517)	56,303
Partners' capital/stockholders' equity:				
Common stock	--	122	40	162
Additional paid in capital . .	--	42,737	83,520	126,257
Partners' capital	<u>42,859</u>	<u>(42,859)</u>		<u>--</u>
Total partners' capital/ stockholders' equity . .	<u>42,859</u>	<u>--</u>	<u>83,560</u>	<u>126,419</u>
	<u>\$161,679</u>	<u>--</u>	<u>21,043</u>	<u>182,722</u>

- (1) Reflects the historical combined balance sheets of LaSalle Partners Limited Partnership and its subsidiaries and LaSalle Partners Management Limited Partnership and its subsidiaries as of June 30, 1997.
- (2) These adjustments give effect to the issuance of 12,200,000 shares of common stock in exchange for all of the outstanding partnership interests of the Company.
- (3) These adjustments give effect to the receipt of \$83,560 of net proceeds from the issuance of 4,000,000 shares of common stock in the initial public offering which was effective July 16, 1997 and the use of those proceeds to repay the Company's long-term notes payable including interest thereon.

Combined Statement of Earnings
Three Months Ended June 30, 1997

	<u>Actual Partner- ships (1)</u>	<u>Galbreath Merger (2)</u>	<u>Incorpor- ation Adjust- ments (3)</u>	<u>Offering Adjust- ments</u>	<u>Pro Forma</u>
Revenue:					
Fee based services	\$ 62,539	1,633			64,172
Equity in earnings from unconsolidated ventures	345	--			345
Construction operations, net	205	--			205
Other income	<u>322</u>	<u>121</u>	<u> </u>	<u> </u>	<u>443</u>
Total revenue	63,411	1,754	--	--	65,165
Expenses:					
Compensation and benefits	38,341	1,425			39,766
Operating, administra- tion and other	13,687	653		188 (4)	14,528
Depreciation and amortization	<u>2,180</u>	<u>151</u>	<u> </u>	<u> </u>	<u>2,331</u>
Total expenses	<u>54,208</u>	<u>2,229</u>	<u>--</u>	<u>188</u>	<u>56,625</u>
Operating profits	9,203	(475)	--	(188)	8,540
Interest expense	<u>1,881</u>	<u>--</u>	<u> </u>	<u>(1,417)(5)</u>	<u>464</u>
Earnings before provision for income taxes	7,322	(475)	--	1,229	8,076
Net provision for income taxes	<u>382</u>	<u>--</u>	<u>2,254</u>	<u>473 (3)</u>	<u>3,109</u>
Net earnings	<u>\$ 6,940</u>	<u>(475)</u>	<u>(2,254)</u>	<u>756</u>	<u>4,967</u>
Earnings (loss) per common share					<u>\$ 0.31</u>
Shares used in computation of earnings (loss) per share					<u>16,200,000</u>

Combined Statement of Earnings
Six Months Ended June 30, 1997

	<u>Actual Partner- ships (1)</u>	<u>Galbreath Merger (2)</u>	<u>Incorpor- ation Adjust- ments (3)</u>	<u>Offering Adjust- ments</u>	<u>Pro Forma</u>
Revenue:					
Fee based services	\$ 96,783	8,259			105,042
Equity in earnings from unconsolidated ventures	1,739	73			1,812
Construction operations, net	410	--			410
Other income	<u>498</u>	<u>787</u>			<u>1,285</u>
Total revenue	99,430	9,119	--	--	108,549
Expenses:					
Compensation and benefits	65,558	5,993			71,551
Operating, administration and other	23,987	2,363		375 (4)	26,725
Depreciation and amortization	<u>3,954</u>	<u>663</u>			<u>4,617</u>
Total expenses	<u>93,499</u>	<u>9,019</u>	--	<u>375</u>	<u>102,893</u>
Operating profits	5,931	100	--	(375)	5,656
Interest expense	<u>3,576</u>	--	--	<u>(2,847)(5)</u>	<u>729</u>
Earnings before provision for income taxes	2,355	100	--	2,472	4,927
Net provision for income taxes	<u>134</u>	<u>33</u>	<u>778</u>	<u>952 (3)</u>	<u>1,897</u>
Net earnings	<u>\$ 2,221</u>	<u>67</u>	<u>(778)</u>	<u>1,520</u>	<u>3,030</u>
Earnings (loss) per common share					<u>\$ 0.19</u>
Shares used in computation of earnings (loss) per share					<u>16,200,000</u>

- (1) Reflects the historical combined statements of earnings of LaSalle Partners Limited Partnership and its subsidiaries and LaSalle Partners Management Limited Partnership and its subsidiaries for the three month and six month periods ended June 30, 1997.
- (2) These adjustments give effect to the merger of Galbreath with the Company on April 22, 1997, as adjusted for the tenant representation and investment banking units which were not acquired, as if the merger occurred on January 1, 1997.
- (3) The adjustment gives effect to the provision (benefit) for income taxes as though the Company and Galbreath were taxable entities as of January 1, 1997 at an effective tax rate of 38.5%.
- (4) The adjustment gives effect to the estimated incremental general and administrative costs associated with operations as a public company as if the initial public offering occurred on January 1, 1997.
- (5) The adjustment gives effect to the repayment of the Company's long-term notes payable, including interest thereon, out of the proceeds of the initial public offering as if the initial public offering occurred on January 1, 1997.

PART I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LaSalle Partner Limited Partnership ("LPL"), LaSalle Partners Management Limited Partnership ("LPML") and their subsidiaries are referred to herein collectively as the "Company". See note 1 to the financial statements included in this report.

Results of Operations

Three and Six Months Ended June 30, 1997 Compared to the Three and Six Months Ended June 30, 1996.

Consolidated Results

The Company's total revenue grew \$28.7 million, or 82.6%, to \$63.4 million and \$37.4 million, or 60.3%, to \$99.4 million for the three and six months ended June 30, 1997 from the prior year periods. The increases are attributable to the continued improvement in real estate market conditions which resulted in significant performance fees being generated by the Investment Management segment on the disposition of certain assets and a higher level of transactions in the Corporate and Financial Services segment, as well as to the acquisition of CIN Property Management in October 1996 and the merger with Galbreath in April 1997.

The Company's operating expenses grew \$19.9 million, or 58.0%, to \$54.2 million, and \$26.7 million, or 40.0%, to \$93.5 million for the three and six months ended June 30, 1997 from the prior year periods. These increases are attributable to the acquisition of CIN Property Management, the merger of Galbreath with the Company, increased staffing levels and additional bonus accruals in connection with increased revenue generation. In addition, corporate overhead and infrastructure costs of approximately \$2.0 million have been incurred in excess of the prior year six month period as a result of new accounting systems implementation, increased staffing to meet public company reporting requirements, and firmwide technology services and system enhancements. These costs are allocated to the segments based on a combination of headcount and usage factors.

During the second quarter of 1997, the Company continued its migration to a centralized client billing and receivable system. The new system provides management with additional resources to monitor and analyze the client billing cycle and related client accounts. In connection with the system conversion, the Company took charges of \$1.5 million of non-billable fees and commissions, \$.4 million of uncollectible accounts and \$.5 million of non-billable expenses.

The Company's operating profits increased \$8.8 million to \$9.2 million for the three months ended June 30, 1997 and increased \$10.7 million to \$5.9 million for the six months ended June 30, 1997 compared to the prior year periods.

Interest expense increased \$.8 million to \$1.9 million for the three months ended June 30, 1997 and increased \$1.5 million to \$3.6 million for the six months ended June 30, 1997 from the prior year periods. These increases are substantially a result of increased borrowings under the long-term facility to fund the CIN Property Management acquisition, technology and infrastructure investments and co-investments.

Net earnings increased \$7.6 million to \$6.9 million for the three months ended June 30, 1997 from a loss of \$.6 million for the prior year period. Net earnings increased \$8.7 million to \$2.2 million for the six months ended June 30, 1997 from a loss of \$6.4 million in the prior year period.

Segment Operating Results

Management Services. The Management Services segment revenues, which represented 37.2% and 38.2% of the Company's total revenue for the three and six months ended June 30, 1997, increased \$8.3 million to \$23.6 million for the three months ended June 30, 1997 and increased \$10.6 million to \$38.0 million for the six months ended June 30, 1997 from the prior year periods. The increase is related to the acquisition of Galbreath in April 1997 which generated second quarter property management fees of \$2.0 million, leasing fees of \$2.5 million and facility management fees of \$.4 million on approximately 71.3 million square feet under management. In addition, property management fees and leasing fees increased \$1.4 million and \$2.0 million, respectively, for the three months ended June 30, 1997 and increased \$2.3 million and \$2.7 million, respectively, for the six months ended June 30, 1997 compared to the prior year periods. These increases are a result of the net addition of 6.1 million square feet of new property management assignments, excluding the Galbreath portfolio in 1997. These increases were offset, in part, by the one time charge for non-billable property management fees and leasing fees of \$.8 million and \$.5 million, respectively, in conjunction with the implementation of a centralized client billing and receivable system as discussed earlier.

Operating expenses increased \$9.8 million to \$24.2 million for the three months ended June 30, 1997 and \$12.5 million to \$40.6 million for the six months ended June 30, 1997 from the prior year periods. Of the second quarter increase, \$7.4 million is attributable to the acquisition of Galbreath common stock, including personnel costs, amortization of the excess purchase price and transition and integration costs. One time charges of \$.5 million were also taken in the three months ended June 30, 1997 related to the implementation of the centralized client billing and receivable system. Increased corporate infrastructure costs of approximately \$.9 million for the six months ended June 30, 1997 were also incurred as a result of increased staffing and technology enhancements. The remaining increase is a result of increased compensation, relocation, travel and marketing expenses associated with a national leasing and business development group established during the latter half of 1996 as well as increased staffing levels to manage the additional property and facility management assignments.

The Management Services segment's operating results decreased \$1.6 million to a loss of \$.6 million for the three months ended June 30, 1997 and decreased \$1.9 million to a loss of \$2.5 million for the six months ended June 30, 1997 from the prior year periods. Compared to its first quarter results, the Management Services segment's operating results strengthened by \$1.3 million, even after total one time charges of \$1.8 million and the Galbreath integration costs.

Corporate and Financial Services. The Corporate and Financial Services segment revenues, which represented 23.5% and 20.0% of the Company's total revenue for the three and six months ended June 30, 1997, increased \$8.4 million to \$15.3 million for the three months ended June 30, 1997 and increased \$9.4 million to \$20.3 million for the six months ended June 30, 1997 from the prior year periods. The increase is attributable to an increased level of transactions in each of the tenant representation and investment banking units.

Operating expenses for the Corporate and Financial Services segment increased \$3.0 million to \$11.1 million for the three months ended June 30, 1997 and increased \$4.8 million to \$20.1 million for the six months ended June 30, 1997 from the prior year periods. These increases in operating expenses primarily represent an increased accrual for anticipated year end bonuses for the tenant representation and investment banking units, consistent with increased levels of revenue generated, increased staffing levels in the Company's tenant representation unit and a \$.4 million charge associated with the implementation of a centralized client billing and receivable system, as discussed earlier. In addition, increased corporate infrastructure costs of approximately \$.5 million for the six months ended June 30, 1997 were incurred as a result of increased staffing and technology enhancements.

The Corporate and Financial Services segment's operating income increased \$5.3 million to \$4.2 million for the three months ended June 30, 1997 and increased \$4.7 million to \$.2 million for the six months ended June 30, 1997 from the prior year periods.

Investment Management. The Investment Management segment revenues, which represented 39.3% and 41.8% of the Company's total revenue for the three and six months ended June 30, 1997, increased \$12.5 million to \$24.9 million for the three months ended June 30, 1997 and increased \$17.7 million to \$41.6 million for the six months ended June 30, 1997 from the prior year periods. The increase for the three months ended June 30, 1997 is primarily attributable to performance fees generated on the disposition of certain assets under management totaling \$9.7 million, in addition to revenues associated with the acquisition of CIN Property Management in October 1996 which had revenue of \$3.5 million in each of the two quarters in 1997.

Operating expenses increased \$7.4 million to \$19.3 million for the three months ended June 30, 1997 and increased \$9.8 million to \$33.3 million for the six months ended June 30, 1997 from the prior year periods. These increases are primarily attributable to the additional compensation and other direct operating expenses associated with the acquisition of CIN Property Management totaling \$5.8 million and an increased accrual for anticipated year end bonuses, consistent with increased levels of revenue generated. In addition, corporate infrastructure costs of approximately \$.6 million for the six months ended June 30, 1997 were incurred as a result of increased staffing and technology enhancements.

The Investment Management segment's operating income increased \$5.0 million to \$5.6 million for the three months ended June 30, 1997 and increased \$7.9 million to \$8.2 million for the six months ended June 30, 1997 from the prior year periods. These increases are attributable to the performance fees generated and the net income generated from CIN Property Management.

Pro Forma Results

On a pro forma basis, the Company's total revenue for the three months ended June 30, 1997 was \$65.2 million compared to actual results of \$63.4 million in the prior year period. Pro forma total revenue for the six months ended June 30, 1997 was \$108.5 million compared to \$99.4 million for the prior year period. Pro forma total revenue of Galbreath includes fees generated primarily from management services activities, such as property management and leasing, facility management and development management assignments, consistent with the Company's Management Services segment.

Pro forma operating profits for the three months ended June 30, 1997 were \$8.5 million compared to \$9.2 million for the prior year period. Pro forma operating profits for the six months ended June 30, 1997 were \$5.7 million compared to \$5.9 million for the prior year period. These decreases in operating profits on a pro forma basis are a result of an operating loss for Galbreath for the three months ended June 30, 1997 and incremental expense associated with public ownership for the three and six months ended June 30, 1997.

Pro forma net earnings for the three months ended June 30, 1997 were \$5.0 million compared to actual net earnings of \$6.9 million for the prior year period. Pro forma net earnings for the six months ended June 30, 1997 were \$3.0 million compared to actual net earnings of \$2.2 million for the prior year period. The pro forma net earnings reflects the decrease in net operating profits, the decrease in interest expense as a result of the repayment of the Company's long term debt out of the proceeds of the initial public offering and the tax effect as though the Company and Galbreath were taxable entities for the entire period. Pro forma earnings per share were \$.31 and \$.19 for the three and six month periods ended June 30, 1997 based on 16,200,000 shares outstanding.

Liquidity and Capital Resources

Net cash flows provided by operations totaled \$10.0 million for the six months ended June 30, 1997 compared to cash flows used in operations of \$2.8 million for the prior year period. The \$12.8 million increase is primarily attributable to the stronger earnings experienced in the six months ended June 30, 1997 as discussed in the Results of Operations above. Another significant factor is the increase in leasing commissions generated in the fourth quarter of 1996 for both the Management Services and Corporate and Financial Services segments which resulted in cash collections in early 1997. The increase in cash related to these collections has been partially offset by steady increases in year end accounts payable and accrued compensation which were paid in early 1997. In addition, with the sale of the construction operations on December 31, 1996, receivables of \$21.8 million and accounts payable of \$20.1 million as of December 31, 1996 related to subcontractor expenses paid on behalf of clients were collected or paid as of June 30, 1997. The resulting increase in net cash flows of \$1.7 million compares to a net use of cash for the six months ended June 30, 1996 of \$3.5 million.

As of June 30, 1997, the Company had a total net investment of \$14.9 million in 33 separate property or fund co-investments. The holding period for co-investments typically ranges from three to seven years. Such co-investments are typically represented by non-controlling general partner and limited partner interests. In addition to its share of investment returns, the Company may earn property management, leasing, and advisory fees on these investments. The equity earnings from these co-investments have had a relatively small impact on the Company's current earnings and cash flow. However, the Company's increased participation as a principal in real estate investments could increase fluctuations in the Company's net earnings and cash flow as a result of the timing and magnitude of the gains or losses and potential incentive participation fees, if any, to be recognized on the disposition of the assets. In certain of these investments, the Company will not have complete discretion to control the timing of the disposition of such investments.

Actual earnings before interest, taxes, depreciation and amortization ("EBITDA") increased \$9.8 million to \$11.4 million for the three months ended June 30, 1997 and increased \$12.4 million to \$9.9 million for the six months ended June 30, 1997 compared to the prior year periods. Calculated on a pro forma basis, EBITDA was \$10.9 million and \$10.3 million for the three and six months ended June 30, 1997.

Net cash provided by investing activities was \$1.7 million for the six months ended June 30, 1997 compared to a use of cash of \$11.4 million for the prior year period. The increase in net cash provided by investing activities is a result of a \$2.5 million increase in distributions from real estate investments and a decrease in capital additions from the prior year period of \$5.6 million as a result of expenditures on furniture and fixtures at the Company's new corporate headquarters in early 1996. Investments made in real estate ventures for the six months ended June 30, 1997, which totaled \$2.3 million, were \$1.8 million lower than the prior year period. In addition, the Company had committed \$10.5 million for future fundings of coinvestments. Finally, as a result of the merger of Galbreath with the Company in April 1997, the Company experienced an increase in cash balances of \$3.2 million.

Historically, the Company has financed its operations, acquisitions and co-investments with internally generated funds, partnership equity and borrowings under revolving credit facilities. In September 1996, the Company replaced its \$30 million revolving line of credit with a \$70 million credit agreement terminating on September 6, 1999. The agreement, as amended, consists of a short-term facility and a long-term facility totaling \$30 million and \$40 million, respectively. The agreement is secured by certain of the Company's receivables, fixed assets and investments in ventures. The agreement requires that the Company maintain a certain level of net worth and meet earnings before interest, taxes, depreciation and amortization targets. The Company's are further prohibited, without the lenders' prior approval, from incurring certain indebtedness (including certain levels of indebtedness in connection with co-investments),

guaranteeing certain obligations or disposing of a significant portion of its assets. The facilities bear variable rates of interest based on market rates. The Company is in the process of establishing a new facility through its existing lenders or a new lender. There can be no assurance as to the terms and conditions of such new facility.

The short-term facility is a revolving line of credit which must be paid down annually for a 30-consecutive-day period and is restricted as to use for general business purposes. Amounts outstanding on the short-term facility at June 30, 1997 totaled \$16.9 million. The long-term facility is limited in use to investments in real estate ventures, business acquisitions and certain capital expenditures, subject to lender approval. Principal payments on borrowings under the long-term facility are payable annually on June 15 for amounts outstanding as of March 31 based on a defined amortization schedule. Principal payments made on June 15 of each year increase the available balance on the facility from which to borrow. Amounts outstanding on the long-term facility as of June 30, 1997 totaled \$23.3 million.

At June 30, 1997, the Company also had outstanding \$37.2 million in subordinated debt owed to DSA in the form of \$6.2 million in Class A Notes and \$31 million in Class B Notes (the "Dai-ichi Notes"), each bearing interest at 10% payable annually on December 31st. Principal payments on the Class A Notes are \$3.1 million due on June 30, 1997 and 1998. Principal payments on the Class B Notes are due in ten equal payments of \$3.1 million on June 30th of each year beginning in 1999. The Dai-ichi Notes are prepayable without penalty.

Net cash used in financing activities was \$6.0 million for the six months ended June 30, 1997 compared to net cash provided of \$10.5 million for the prior year period. The change is primarily attributable to the increased cash flow provided by operations resulting in a decrease in borrowing needs. Distributions to partners increased by \$1.7 million in 1997 compared to 1996. Consistent with prior practice, the Company made distributions to its partners to cover the partners' estimated tax payment obligations, in accordance with the Partnership agreements. The increase in distributions over the prior year period is a result of increased earnings for the period ended June 30, 1997 over the prior year period. An additional distribution was made prior to the contribution of partnership interests to LPI of \$2.5 million for the estimated tax payment obligations for partnership income earned prior to July 22, 1997.

Upon completion of the initial public offering, the Company repaid the full amount of the indebtedness outstanding under the Dai-ichi Notes and the long-term facility, including accrued interest. The Company plans to increase its long-term debt periodically in order to continue to pursue international expansion, strategic acquisitions and co-investments. Additionally, the Company paid down outstanding balances under its short-term facility subsequent to the initial public offering. The Company believes, based on its current operating plans, that cash generated from operations and available borrowings will be sufficient to meet its capital and liquidity requirements for at least the next two years.

Disposition

On December 31, 1996, the Company completed the sale of its construction management business to a former member of the Company's management. This business, which specialized in the interior build-out of office and retail space for tenants in the Chicago and Los Angeles markets, had 1996 revenue, which is shown net of related expenses on the Company's combined statements of earnings, of \$1.3 million. The business was sold in exchange for a note of \$9.1 million. The note, which is secured by the current and future assets of the business, is due December 31, 2006. For financial reporting purposes, the Company has not treated the transaction as a divestiture. Principal and interest to be received under the note will be treated as a reserve, if necessary, for any anticipated financial exposure under the terms of the asset purchase agreement, with the remainder recognized as income as principal and interest payments are received.

Seasonality

Historically, the Company's revenue, operating income and net earnings in the first three calendar quarters are substantially lower than in the fourth quarter. This seasonality is due to a calendar year-end focus on the completion of transactions, which is consistent with the real estate industry generally. In addition, an increasing percentage of the Company's management contracts contain clauses providing for fees to be received if the Company achieves certain performance targets. Such incentive payments are generally earned in the fourth quarter or when an asset is sold. In contrast, the Company's non-variable operating expenses, which are treated as expenses when incurred during the year, are relatively constant on a quarterly basis. Therefore, the Company typically sustains a loss in the first quarter of each calendar year, reports a small profit or loss in the second and third quarters and records a substantial majority of the Company's earnings in the fourth calendar quarter. The second quarter results for 1997 were unusually strong compared to the second quarter results of prior years as a result of performance fees recognized by the Investment Management segment on the disposition of certain assets under management as well as a higher level of transactions completed by the tenant representation and investment banking units as compared to prior years.

Inflation

The Company's operations are directly affected by various national and economic conditions, including interest rates, the availability of credit to finance real estate transactions and the impact of tax laws. To date, the Company does not believe that general inflation has had a material impact on its operations, as revenue, commissions and other variable costs related to revenue are primarily impacted by real estate supply and demand rather than general inflation.

Other Matters

In connection with the initial public offering and the incorporation of the Partnerships, the Company will become subject to Federal and additional state and local income taxes as it converts from partnership to corporate form. Concurrently with the incorporation, the Company will record deferred tax assets and liabilities in accordance with the provisions of SFAS No. 109. Such amounts are not expected to have a material effect on the Company's financial condition (see pro forma combined financial statements contained elsewhere herein).

PART II. Other Information

Item 2. Changes in Securities

Immediately prior to the closing of the Offering, each of the general and limited partners of LaSalle Partners Limited Partnership and LaSalle Partners Management Limited Partnership contributed all of their respective general and limited partnership interests in such partnerships to the Company in exchange for an aggregate of 12,200,000 shares of Common Stock. The issuances of Common Stock constituted a "transaction by any issuer not involving any public offering" and thus was exempt from the registration requirements of the Securities Act of 1933 (the "Act") under Section 4(2) thereof.

Item 4. Submission of Matters to a Vote of Security Holders

Prior to the initial public offering the Registrant was a wholly-owned subsidiary of LaSalle Partners Limited. Pursuant to a written consent dated July 15, 1997, the sole shareholder of the Registrant took the following actions: (i) elected Mr. Darryl Hartley-Leonard and Mr. Thomas C. Theobald to serve as Class I and Class III Directors, respectively, (ii) approved the Articles of Amendment and Restatement amending and restating the Articles of Incorporation of the Corporation, and (iii) approved the Company's 1997 Stock Award and Incentive Plan, Employee Stock Purchase Plan and Stock Compensation Plan. The term of office of each of the other directors (Stuart L. Scott, Robert C. Spoerri, William E. Sullivan, Daniel W. Cummings, Charles K. Esler, Jr., Lizanne Galbreath, M.G. Rose, Lynne C. Thurber and Earl E. Webb) continued after such consent.

Item 5. Other Matters

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995:

Certain statements in this filing and elsewhere (such as in other filings by the Registrant with the Securities and Exchange Commission, press releases, presentations and communications by the Registrant or its management and written and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, achievements, plans and objectives of the Registrant to be materially different from any future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements. Such factors are discussed in the Registrant's Registration Statement (No. 333-25741), under "Risk Factors" and elsewhere, and in other reports filed by the Registrant with the Securities and Exchange Commission and include, among other things, the following: (i) the impact of general economic conditions and the real estate economic climate on the Registrant's business and results of operations; (ii) the risk that property management and investment management agreements will be terminated prior to expiration or not renewed; (iii) the dependence of the Registrant's revenue from property management and leasing services on the performance of the properties managed by the Registrant; (iv) the risks inherent in pursuing a selective acquisition strategy; (v) the concentration of the Registrant's business in properties in central business districts; (vi) the risks associated with the co-investment activities of the Registrant; (vii) the seasonal nature of the Registrant's revenue, operating income and net earnings; and (viii) the competition faced by the Registrant in a variety of business disciplines within the commercial real estate industry. The Registrant expressly disclaims any obligation or undertaking to update or revise any forward-looking statements to reflect any change in Registrant expectations or results or any changes in events.

Use of Proceeds:

On July 16, 1997, the Registrant's Registration Statement on Form S-1 (333-25741) relating to 4,600,000 shares of the Registrant's common stock, \$.01 par value per share ("Common Stock"), including 600,000 shares of Common Stock subject to an over-allotment option granted to the underwriters by a shareholder of the Registrant, was declared effective by the Securities and Exchange Commission. The offering of 4,600,000 shares of Common Stock at \$23.00 per share (including the 600,000 shares subject to the over-allotment option granted by a shareholder of the Registrant) was completed on July 22, 1997. The Registrant did not receive any proceeds from the sale of the shares subject to the over-allotment option. The managing underwriters for the offering were Morgan Stanley & Co. Incorporated, William Blair & Company and Montgomery Securities. Total underwriting discounts and commissions paid by the Registrant were \$6,440,000. The Registrant estimates that the other costs and expense incurred in connection with the offering will be approximately \$2.0 million. No expense payments were made, directly or indirectly, to directors or officers of the Registrant or their associates, persons owning ten percent or more of the Common Stock or affiliates of the Registrant. The net proceeds of the offering are estimated to be approximately \$83.5 million. At the closing of the offering, \$63.5 million of the net proceeds were used to repay in full the Registrant's outstanding long-term notes payable, including interest thereon. Subsequently, the Registrant used \$14.5 million to repay amounts outstanding on its working capital line of credit. In addition, approximately \$2.6 million of the net proceeds were used for direct co-investment in real estate. The remaining net proceeds were temporarily invested in Eurodollar time deposits. Except with respect to the repayment of the Dai-ichi Notes (the holder of which is the owner of greater than ten percent of the outstanding Common Stock) described in Part I, Item 2, no proceeds were paid, directly or indirectly, to directors or officers of the Registrant, persons owning ten percent or more of the Common Stock or affiliates of the Registrant, except with respect to the registration fee and related expenses in connection with the sale of the shares subject to the over-allotment option.

Use of Proceeds:

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

A list of exhibits is set forth in the Exhibit Index which immediately precedes the exhibits and which is incorporated by reference herein.

(b) No reports on Form 8-K have been filed for the quarter covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LASALLE PARTNERS INCORPORATED

Dated: August 29, 1997

BY: /S/ WILLIAM E. SULLIVAN
William E. Sullivan
Executive Vice President and
Chief Financial Officer
(Authorized Officer,
Principal Financial Officer and
Principal Accounting Officer)



Peat Marwick LLP

3100 Two Union Square
601 Union Street
Seattle, WA 98101-2327

INDEPENDENT AUDITORS' REPORT

The Partners
Noble House Hotels and Resorts, Ltd.:

We have audited the accompanying consolidated balance sheet of Noble House Hotels and Resorts, Ltd. (a Texas limited partnership) and subsidiaries as of December 31, 1995, and the related consolidated statements of operations, partners' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Noble House Hotels and Resorts, Ltd. and subsidiaries as of December 31, 1995, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

March 22, 1996



Member Firm of
Klynfield Peat Marwick Goerdeler

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 1995

<u>Assets</u>	
Current assets:	
Cash	\$ 114,226
Accounts receivable	30,829
Accounts receivable from affiliates (note 3)	337,080
Prepaid expenses and other current assets	10,128
Note receivable from limited partner (note 3)	<u>675,000</u>
Total current assets	1,167,263
Furniture and equipment, net accumulated depreciation of \$8,376	<u>11,469</u>
Total assets	\$ <u>1,178,732</u>
 <u>Liabilities and Partners' Equity</u>	
Current liabilities:	
Accounts payable	78,004
Accounts payable to affiliates (note 3)	138,480
Notes payable to bank (note 2)	<u>675,000</u>
Total current liabilities	891,484
Minority interest in net assets of subsidiaries	1,965
Partners' equity	285,283
Commitments (notes 3, 4 and 5)	
Total liabilities and partners' equity	\$ <u>1,178,732</u>

See accompanying notes to consolidated financial statements.

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statement of Operations

Year ended December 31, 1995

Revenues:	
From affiliates (note 3):	
Management fees	\$ 2,201,328
Development and renovation fees	8,182
Technical service fees	<u>266,760</u>
Total revenues from affiliates	<u>2,476,270</u>
From nonaffiliates:	
Management fees	174,424
Development and renovation fees	351,900
Technical service fees	3,600
Other income	<u>19,455</u>
Total revenues from nonaffiliates	<u>549,379</u>
Total revenues	<u>3,025,649</u>
Expenses (note 3):	
Payroll and related expenses	830,237
Travel and entertainment	219,940
Professional and consulting fees	180,808
Office and other expenses (note 4)	140,896
Unrecovered incremental costs associated with unfavorable projects	<u>143,473</u>
Total expenses	<u>1,515,354</u>
Income from operations before other expenses and minority interest	<u>1,510,295</u>
Other income (expense):	
Interest income from limited partner	14,406
Depreciation	(4,911)
Interest expense	<u>(24,201)</u>
Total other expense	<u>(14,706)</u>
Minority interest in net income of subsidiaries	<u>20,484</u>
Net income	<u>\$ 1,475,105</u>

See accompanying notes to consolidated financial statements.

NOBLE HOUSE HOTEL AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statement of Partners' Equity (Deficit)

Year ended December 31, 1995

	Westgroup Partners, Inc.	Patrick R. Colee	Total partners' equity (deficit)
Balances at January 1, 1995	\$ 48,750	(88,231)	(39,481)
Distributions	(11,503)	(1,138,838)	(1,150,341)
Net income	14,751	1,460,354	1,475,105
Balances at December 31, 1995	\$ 51,998	233,285	285,283

See accompanying notes to consolidated financial statements.

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended December 31, 1995

Cash flows from operating activities:	
Net income	\$ 1,475,105
Adjustments to reconcile net income to net cash provided by operating activities:	
Minority interests in net income of subsidiaries	20,484
Depreciation	4,911
Change in certain assets and liabilities:	
Increase in accounts receivable	(30,829)
Increase in accounts receivable from affiliates	(78,282)
Increase in prepaid expenses and other current assets	(4,253)
Increase in accounts payable	7,466
Decrease in accounts payable to affiliates	<u>(151,618)</u>
Net cash provided by operating activities	<u>1,242,984</u>
Cash flows from investing activities:	
Additions to furniture and equipment	(12,924)
Additions to note receivable from limited partner	(975,000)
Repayment of note receivable from limited partner	<u>300,000</u>
Net cash used in investing activities	<u>(687,924)</u>
Cash flows from financing activities:	
Proceeds from notes payable to bank	1,350,000
Repayments of notes payable to bank	(675,000)
Cash distributions to partners	(1,150,341)
Cash distribution to minority interest in net assets of subsidiaries	<u>(19,607)</u>
Net cash used in financing activities	<u>(494,948)</u>
Net increase in cash	60,112
Cash at beginning of year	<u>54,114</u>
Cash at end of year	\$ <u>114,226</u>
 Supplementary disclosure of cash flow information - cash paid during the year for interest	 \$ 21,701

See accompanying notes to consolidated financial statements.

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1995

(1) Description of Business and Summary of Significant Accounting Policies

(a) Description of Business

Noble House Hotels and Resorts, Ltd. (Partnership) is a Texas limited partnership between Westgroup Partners, Inc., a California corporation (general partner) with 1% ownership and Patrick R. Colee (limited partner) with 99% ownership. The Partnership was formed on January 1, 1994 for the purpose of managing and operating hotels and commercial office buildings, including acting as a partner or owner in subsidiary partnerships and limited liability companies which are in the business of managing and operating hotels. In 1995, the Partnership and its subsidiary partnerships and limited liability companies managed hotels and commercial office buildings located in Florida, Texas, Southern California, Arizona and Washington.

On January 1, 1995, Westgroup Partners (a California limited partnership between Westgroup Partners, Inc. and Patrick R. Colee) merged with the Partnership with the Partnership being the surviving entity. This merger was a combination of entities under common control and therefore the opening balances at January 1, 1995 include the historical cost amounts for the Partnership and Westgroup Partners. This merger increased the previously reported Partnership's total partner's equity by \$160,523 on January 1, 1995. The accompanying consolidated financial statements include operations subsequent to this merger with Westgroup Partners.

(b) Basis of Presentation

In accordance with generally accepted accounting principles, the Partnership presents its financial statements on a consolidated basis due to its majority ownership, in the form of 99% limited partnership interests or equity interests in seven subsidiary partnerships or limited liability companies, one of which was formed in 1995. The 1% general partner in these partnerships, Westgroup Partners, Inc., acts as the managing partner responsible for the day-to-day operations of the subsidiary partnerships and limited liability companies.

All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Partnership Agreement

Key elements of the Partnership agreement are as follows:

- The formation of the Partnership represents a continuation of ongoing activity from Westgroup Hotels, the original hotel management company that began business in 1984.
- The day-to-day business and affairs of the Partnership will be managed by the general partner.
- The net profits and losses of the Partnership, as defined in the Partnership agreement, shall be allocated, for all purposes, among the partners in accordance with their Partnership interests.

(Continued)

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Distributions by the Partnership of cash available for distribution, as defined in the Partnership agreement, shall be allocated between and distributed to the partners in accordance with their Partnership interests.
- The term of the Partnership shall last until December 31, 2050 unless sooner terminated, as provided by the Partnership agreement.

(d) Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.

(e) Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

(f) Income Taxes

No provision has been made for Federal or state income taxes since any such taxes are the responsibility of the individual partners.

(g) Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Fair Value of Financial Instruments

At December 31, 1995, the fair value of cash, accounts receivable, accounts receivable from affiliates, note receivable from limited partner, accounts payable, accounts payable to affiliates and notes payable to bank are estimated to approximate their carrying amount because of the short maturity of these instruments and management's best estimate of their current borrowing rate.

Estimates of the fair values of financial instruments are subjective in nature and involve uncertainties and judgments and, as such, cannot be determined with precision. Any change in assumptions would effect these estimates.

(Continued)

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Note Payable to Bank

At December 31, 1995, the Partnership has an unsecured \$1,250,000 line of credit with a bank which expires on March 31, 1997. Borrowings of \$675,000 were outstanding under the line of credit at December 31, 1995 which bear interest at a rate equal to the bank's prime rate plus 1.5%. Monthly interest only payments are due beginning January 31, 1996. Repayment of the principal amount outstanding is due on demand or if no demand is made on March 31, 1997 with all accrued but unpaid interest. The limited partner of the Partnership is a co-borrower for this line of credit.

(3) Related Party Transactions

(a) Note Receivable from Limited Partner

At December 31, 1995, the Partnership has a note receivable from Patrick R. Colee with an outstanding balance of \$675,000. The note is payable on demand or if no demand is made in monthly installments of interest only at a rate equal to a certain bank's prime rate plus 1.5% beginning February 1, 1996 with the remaining principal balances and accrued interest due at maturity on March 31, 1997. The Partnership has committed to fund borrowings up to \$1,250,000 under these same terms.

(b) Hotel and Commercial Office Building Management Agreements

The Partnership and its subsidiary partnerships and limited liability companies have management agreements with certain affiliated partnerships which own certain hotels and commercial office buildings (Property Partnerships) to manage the properties for a fee based primarily on a percentage of gross receipts of the properties, as defined in the agreements. These management agreements will terminate at stated dates through December 31, 1999.

(c) Technical Services Revenue

The Partnership and its subsidiary partnerships and limited liability companies earn revenue from the Property Partnerships in exchange for industry related technical services beyond the scope of the management agreements discussed in (b) above.

(d) Development and Renovation Revenue

The Partnership earns revenue from the Property Partnerships in exchange for development and renovation services beyond the scope of the management services discussed above. All development and renovation agreements have expired on or before December 31, 1995.

(e) Operating Expenses

Certain operating expenses included on the accompanying statement of operations represent expense allocations from certain affiliates based upon estimates by management of time and expenses incurred by the Partnership.

(Continued)

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Management Services

A subsidiary partnership has agreed to pay 20% of the annual fees earned for the management of a certain hotel to a related party for their assistance in the management of this hotel. The Partnership paid approximate \$83,000 of the management fees earned to this related party for services in 1995. This agreement terminates upon the termination of the management agreement with the hotel.

(g) Gift Shop Management Agreements

The subsidiary partnerships have management agreements with a corporation owned by an affiliate of the limited partner of the Partnership for the management of gift shops in certain of the properties. These agreements provide for the subsidiary partnership to pay a fee based on 4% of gross receipts of the gift shops and expire on December 31, 1996. The subsidiary partnerships paid approximately \$22,000 to this related party under these agreements in 1995.

(h) Guarantee

The Partnership is a guarantor for a \$5,250,000 note payable borrowed by a certain Property Partnership.

(4) Lease Commitment

In December 1995, the Partnership leased office space under a noncancelable operating lease that expires on December 31, 1996 with an option for two additional one-year terms. The lease provides for monthly lease payments of \$6,672.

Rental expense for operating leases for 1995 amounted to approximately \$32,000 and is included in office and other expenses in the accompanying consolidated statement of operations.

(5) Subsequent Events

(a) Lines of Credit

On January 29, 1996, the Partnership signed two agreements for unsecured revolving lines of credit of \$300,000 and \$250,000, respectively. The lines of credit require payment of all principal amounts drawn under the lines plus accrued interest to be paid by September 30, 1997 and October 1, 1998, respectively. The lines provide for interest at the bank's prime rate plus 1-1/2% on any outstanding principal balances provided under these lines of credit.

(b) Additional Subsidiary Limited Liability Company

In February 1996, the Partnership acquired an ownership interest in an additional subsidiary limited liability company which operates and manages a hotel in Arizona. This subsidiary limited liability company signed a management agreement with the hotel that provides management fee revenue similar to the other management contracts executed by the Partnership.

**PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY**

**NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBIDIARIES**

Consolidated Financial Statements

December 31, 1996 and 1995

(With Independent Auditors' Report Thereon)

DEC 1 9 1997

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1996 and 1995

	1996	1995
<u>Assets</u>		
Current assets:		
Cash	\$ 138,610	114,226
Accounts receivable	36,446	30,829
Accounts receivable from affiliates	674,573	337,080
Prepaid expenses and other current assets	10,665	10,128
Notes receivable from limited partner	6,860,000	675,000
Total current assets	7,720,294	1,167,263
Furniture and equipment, net of accumulated depreciation of \$23,578 in 1996 and \$8,376 in 1995	33,929	11,469
Total assets	\$ 7,754,223	1,178,732
<u>Liabilities and Partners' Equity</u>		
Current liabilities:		
Accounts payable	314,868	78,004
Accounts payable to affiliates	-	138,480
Notes payable to bank	5,660,000	675,000
Total current liabilities	5,974,868	891,484
Long-term notes payable to affiliate	1,200,000	-
Total liabilities	7,174,868	891,484
Minority interest in net assets of subsidiaries	2,632	1,965
Partners' equity	576,723	285,283
Commitments		
Total liabilities and partners' equity	\$ 7,754,223	1,178,732

See accompanying notes to consolidated financial statements.

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 1996 and 1995

	1996	1995
Revenues:		
Hotel management revenue:		
Hotel management fees	\$ 3,234,963	2,258,259
Technical service fees	440,119	270,360
Total hotel management revenue	<u>3,675,082</u>	<u>2,528,619</u>
Other revenues:		
Office building and other management fees	-	117,493
Development and renovation fees	143,100	360,082
Other income	20,312	19,455
Total other revenues	<u>163,412</u>	<u>497,030</u>
Total revenues	<u>3,838,494</u>	<u>3,025,649</u>
Expenses:		
Payroll and related expenses	1,213,872	830,237
Travel and entertainment	352,475	219,940
Professional and consulting fees	167,663	180,808
Office and other expenses	264,276	140,896
Total expenses	<u>1,998,286</u>	<u>1,371,881</u>
Income before other expenses and minority interest	<u>1,840,208</u>	<u>1,653,768</u>
Other income (expense):		
Unrecovered incremental costs associated with unfavorable projects	(355,947)	(143,473)
Executive bonuses	(355,675)	-
Interest income from limited partner	455,783	14,406
Depreciation	(15,211)	(4,911)
Interest expense	(455,409)	(24,201)
Total other expense	<u>(726,459)</u>	<u>(158,179)</u>
Minority interest in net income of subsidiaries	29,621	20,484
Net income	<u>\$ 1,084,128</u>	<u>1,475,105</u>

See accompanying notes to consolidated financial statements.

JUN 10 1998

NOBLE HOUSE HOTEL AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statements of Partners' Equity (Deficit)

Years ended December 31, 1996 and 1995

	Westgroup Partners, Inc.	Patrick R. Colee	Total partners' equity (deficit)
Balances at January 1, 1995	\$ 48,750	(88,231)	(39,481)
Distributions	(11,503)	(1,138,838)	(1,150,341)
Net income	14,751	1,460,354	1,475,105
Balances at December 31, 1995	51,998	233,285	285,283
Distributions	(7,927)	(784,761)	(792,688)
Net income	10,841	1,073,287	1,084,128
Balances at December 31, 1996	\$ 54,912	521,811	576,723

See accompanying notes to consolidated financial statements.

JUN 10 1998

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Net income	\$ 1,084,128	1,475,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests in net income of subsidiaries	29,621	20,484
Depreciation	15,211	4,911
Change in certain assets and liabilities:		
Increase in accounts receivable	(5,617)	(30,829)
Increase in accounts receivable from affiliates	(337,493)	(78,282)
Increase in prepaid expenses and other current assets	(537)	(4,253)
Increase in accounts payable	236,864	7,466
Decrease in accounts payable to affiliates	(138,480)	(151,618)
Net cash provided by operating activities	883,697	1,242,984
Cash flows from investing activities:		
Additions to furniture and equipment	(37,671)	(12,924)
Additions to notes receivable from limited partner	(7,865,000)	(975,000)
Repayment of note receivable from limited partner	1,680,000	300,000
Net cash used in investing activities	(6,222,671)	(687,924)
Cash flows from financing activities:		
Proceeds from notes payable to bank	6,665,000	1,350,000
Repayments of notes payable to bank	(1,680,000)	(675,000)
Proceeds from notes payable to affiliate	1,200,000	-
Cash distributions to partners	(792,688)	(1,150,341)
Cash distribution to minority interest in net assets of subsidiaries	(30,443)	(19,607)
Cash contributions from minority interest in net assets of subsidiaries	1,489	-
Net cash used in financing activities	5,363,358	(494,948)
Net increase in cash	24,384	60,112
Cash at beginning of year	114,226	54,114
Cash at end of year	\$ 138,610	114,226
Supplementary disclosure of cash flow information - cash paid during the year for interest	\$ 395,761	21,701

See accompanying notes to consolidated financial statements.

JUN 10 1997

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1996 and 1995

(1) *Description of Business and Summary of Significant Accounting Policies*

(a) *Description of Business*

Noble House Hotels and Resorts, Ltd. (Partnership) is a Texas limited partnership between Westgroup Partners, Inc., a California corporation (general partner) with 1% ownership and Patrick R. Colee (limited partner) with 99% ownership. The Partnership was formed on January 1, 1994 for the purpose of managing and operating hotels and commercial office buildings, including acting as a partner or owner in subsidiary partnerships and limited liability companies which are in the business of managing and operating hotels. The Partnership and its subsidiary partnerships and limited liability companies managed hotels and commercial office buildings located in Florida, Texas, Southern California, Arizona, New Mexico and Washington.

On January 1, 1995, Westgroup Partners (a California limited partnership between Westgroup Partners, Inc. and Patrick R. Colee) merged with the Partnership with the Partnership being the surviving entity. This merger was a combination of entities under common control and therefore the opening balances at January 1, 1995 include the historical cost amounts for the Partnership and Westgroup Partners. This merger increased the previously reported Partnership's total partner's equity by \$160,523 on January 1, 1995. The accompanying consolidated financial statements include operations subsequent to this merger with Westgroup Partners.

(b) *Basis of Presentation*

In accordance with generally accepted accounting principles, the Partnership presents its financial statements on a consolidated basis due to its majority ownership, in the form of 99% limited partnership interests or equity interests in ten subsidiary partnerships or limited liability companies, one of which was formed in 1995 and three of which were formed in 1996. The 1% general partner in these partnerships, Westgroup Partners, Inc., acts as the managing partner responsible for the day-to-day operations of the subsidiary partnerships and limited liability companies.

All significant intercompany balances and transactions have been eliminated in consolidation.

(Continued)

JAN 10 1998

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(c) Partnership Agreement

Key elements of the Partnership agreement are as follows:

- The formation of the Partnership represents a continuation of ongoing activity from Westgroup Hotels, the original hotel management company that began business in 1984.
- The day-to-day business and affairs of the Partnership will be managed by the general partner.
- The net profits and losses of the Partnership, as defined in the Partnership agreement, shall be allocated, for all purposes, among the partners in accordance with their Partnership interests.
- Distributions by the Partnership of cash available for distribution, as defined in the Partnership agreement, shall be allocated between and distributed to the partners in accordance with their Partnership interests.
- The term of the Partnership shall last until December 31, 2050 unless sooner terminated, as provided by the Partnership agreement.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Partnership considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.

(f) Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

(g) Income Taxes

No provision has been made for Federal or state income taxes since any such taxes are the responsibility of the individual partners.

(Continued)

JUN 10 1998

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

Notes to Consolidated Financial Statements

(2) *Notes Receivable from Limited Partner*

Notes receivable from limited partner at December 31 consists of the following:

	1996	1995
Unsecured note receivable with interest accruing at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). This note is due on demand, and if no demand is made, in monthly interest only payments beginning on February 1, 1996 with all outstanding principal and accrued interest due on March 31, 1997.	\$ 1,250,000	675,000
Unsecured note receivable with interest accruing at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). This note is due on demand, and if no demand is made, in monthly interest only payments beginning on December 13, 1996 with principal payments of \$33,333 due quarterly beginning February 15, 1997 and all remaining principal and accrued interest due on November 15, 1999.	400,000	-
Unsecured note receivable with interest accruing at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). This note is due on demand, and if no demand is made, in monthly interest only payments beginning February 29, 1996 with principal payments of \$100,000 due on September 30, 1996, June 30, 1997 and September 30, 1997.	200,000	-
Unsecured note receivable with interest accruing at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). The note is due on demand, and if no demand is made, monthly interest only payments beginning March 1, 1996 with principal payments of \$20,000 due each July 1 and October 1 beginning July 1, 1996 with all remaining principal and accrued interest due October 1, 1998.	210,000	-
Unsecured note receivable with interest accruing at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). The note is due on demand, and if no demand is made, monthly interest only payments beginning November 30, 1996 with quarterly principal payments of \$175,000 in 1997, \$200,000 in 1998, \$250,000 in 1999 and \$275,000 in 2000 with all remaining principal and accrued interest due on December 31, 2000.	3,600,000	-
Unsecured note receivable with interest accruing at a rate of 11.5%. This note is due on demand, or if no demand is made, monthly interest only payments beginning December 1, 1996 with all unpaid principal and accrued interest due on November 4, 2001.	1,200,000	-
Total notes receivable from limited partner	\$ 6,860,000	675,000

(Continued)

JUN 10 1997

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

4

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) *Notes Payable to Bank*

Notes payable to bank at December 31 consists of the following:

	1996	1995
Unsecured revolving line of credit with a bank of \$1,250,000. The balance outstanding on this line of credit accrues interest at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996) and is payable on demand, and if no demand is made, in monthly interest only payments with all outstanding principal and accrued interest due on March 31, 1997. The limited partner is a co-borrower for this line of credit.	\$ 1,250,000	675,000
Unsecured revolving line of credit of \$ _____ with a bank. The balance outstanding on this line of credit is payable on demand, and if no demand is made, in monthly interest only payments with principal payments of \$33,333 due quarterly beginning February 15, 1997 and all remaining principal and accrued interest due on November 15, 1999. The limited partner is a co-borrower for this line of credit.	400,000	-
Unsecured note payable to bank due on demand, and if no demand is made, interest only payments due beginning February 29, 1996 with principal payments of \$100,000 due on September 30, 1996, June 30, 1997 and September 30, 1997. Interest accrues at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). The limited partner is a co-borrower for this note.	200,000	-
Unsecured note payable to bank due on demand, and if no demand is made, monthly interest only payments due beginning March 1, 1996 with principal payments of \$20,000 due each July 1 and October 1 beginning July 1, 1996 and ending October 1, 1998. Interest accrues at a rate equal to a certain bank's prime rate plus 1-1/2% (9.75% at December 31, 1996). The limited partner is a co-borrower for this note.	210,000	-
Note payable to bank due on demand, and if no demand is made, monthly interest only payments due beginning November 30, 1996 with quarterly principal payments of \$175,000 in 1997, \$200,000 in 1998, \$250,000 in 1999 and \$275,000 in 2000. Interest accrues at a rate equal to a certain bank's prime rate plus 2% (10.25% at December 31, 1996). This note is secured by a Deed of Trust on real property owned by the limited partner. The limited partner is a co-borrower for this note.	3,600,000	-
Total notes payable to bank	\$ 5,660,000	675,000

(4) *Notes Payable to Affiliates*

At December 31, 1996, the Partnership had unsecured notes payable to affiliates with outstanding principal balances of \$200,000 and \$1,000,000. These notes accrue interest at 11-1/2% and are payable in monthly interest only payments beginning December 1, 1996 with the outstanding principal balances due in full on November 4, 2001. These notes may not be prepaid prior to November 4, 2001. These notes are convertible, at the option of the affiliate, into equity securities or other assets of the Partnership or its affiliates.

(Continued)

JUN 10 1997

Notes to Consolidated Financial Statements

(5) Related Party Transactions**(a) Hotel and Commercial Office Building Management Agreements**

The Partnership and its subsidiary partnerships and limited liability companies have management agreements with certain affiliated partnerships which own certain hotels and commercial office buildings (Property Partnerships) to manage the properties for a fee based primarily on a percentage of gross receipts of the properties, as defined in the agreements. These management agreements will terminate at stated dates through December 31, 2006. Management fee revenue from affiliates totaled \$2,947,516 in 1996 and \$2,201,328 in 1995.

(b) Development and Renovation Revenue

The Partnership earns revenue from the Property Partnerships in exchange for development and renovation services beyond the scope of the management services discussed above. Development and renovation revenue from affiliates totaled \$0 in 1996 and \$8,182 in 1995.

(c) Technical Services Revenue

The Partnership and its subsidiary partnerships and limited liability companies earn revenue from the Property Partnerships in exchange for industry related technical services beyond the scope of the management agreements discussed in (a) above. Technical services revenue from affiliates totaled \$440,119 in 1996 and \$266,760 in 1995.

(d) Operating Expenses

Certain operating expenses included on the accompanying statement of operations represent expense allocations from certain affiliates based upon estimates by management of time and expenses incurred by the Partnership.

(e) Management Services

A subsidiary partnership has agreed to pay 20% of the annual fees earned for the management of a certain hotel to a related party for their assistance in the management of this hotel. The Partnership paid approximately \$87,000 and \$83,000 of the management fees earned to this related party for services in 1996 and 1995, respectively. This agreement terminates upon the termination of the management agreement with the hotel.

(f) Gift Shop Management Agreements

The subsidiary partnerships have management agreements with a corporation owned by an affiliate of the limited partner of the Partnership for the management of gift shops in certain of the properties. These agreements provide for the subsidiary partnership to pay a fee based on 4% of gross receipts of the gift shops and continue until terminated. The subsidiary partnerships paid approximately \$42,000 and \$22,000 to this related party under these agreements in 1996 and 1995, respectively.

(Continued)

JUN 10 1998

NOBLE HOUSE HOTELS AND RESORTS, LTD.
(A Texas Limited Partnership)
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) *Guarantee*

The Partnership is a guarantor for a \$5,250,000 note payable borrowed by a certain Property Partnership. Principal outstanding on this note was \$4,637,750 and \$5,203,250 at December 31, 1996 and 1995, respectively.

(6) *Lease Commitment*

The Partnership leases office space under a noncancelable operating lease that expires on December 31, 1997 with an option to renew for an additional one-year term. The lease provides for monthly lease payments of \$6,672.

Rental expense for operating leases for 1996 and 1995 amounted to approximately \$83,000 and \$32,000, respectively, and is included in office and other expenses in the accompanying consolidated statement of operations.

(7) *401(k) Profit Sharing Plan (Plan)*

The Partnership sponsors a defined contribution benefit plan for its and its subsidiaries' employees and certain affiliates' employees. Eligible employees include individuals employed as of April 1, 1996 who have completed at least 1,000 hours of service between April 1, 1995 and March 31, 1996. Individuals not employed on April 1, 1996 become eligible to participate in the Plan after completing one year of service and attaining age 21. The Plan allows participants to make pretax contributions and the Partnership to make discretionary matching contributions for its employees. For the year ended December 31, 1996, the employer matching contribution was approximately \$5,600 for its employees.

(8) *Subsequent Events*

(a) *Additional Subsidiary Limited Liability Company*

On January 1, 1997, the Partnership acquired an ownership interest in an additional subsidiary limited liability company which operates and manages three hotels in Washington. This subsidiary limited liability company signed management agreements with the hotels that provides management fee revenue similar to the other management contracts executed by the Partnership.

The Partnership has agreed to pay \$100,000 for the assignment of the management agreements.

(b) *Consulting Contract*

On January 1, 1997, the Partnership entered into a consulting agreement with an individual. This individual will provide consulting services related to development, operation and maintenance of the additional subsidiary limited liability company discussed in (a) above. This agreement expires December 31, 1997 and consulting fees related to the agreement approximate \$24,000 to be paid in 1997.

DETERMINATION OF: ENVIRONMENTAL EXEMPTION

Pursuant to The California Environmental Quality Act (CEQA) and State CEQA Guidelines

Agency: CITY OF SAN DIEGO

LDR FILE NO. 99-0554

DATE: 9/08/99

"Paradise Point Resort"

Action/Permit(s) CEQA Determination

Permit No. 99-0554

Description of Activity: Modifications to the existing Paradise Point Resort on Vacation Island in Mission Bay, including:

- * Modifications to parking stall and drive aisle layout;
- * Additional landscaping and enhancement to existing landscaping;
- * Renovation of main swimming pool;
- * Renovation and expansion of Fitness Center;
- * Expansion of existing gift shop;
- * Five additional new bungalow suites; and
- * Interior conversion of: Village Cafe to lobby space, lobby space to deli, dockside restaurant to meeting space, presidential suites to restaurant and six existing suites to presidential suites.

Location of Activity: 1404 West Vacation Road

1. ☐ This activity is EXEMPT FROM CEQA pursuant to:

☐ Section 15061(b)(1) of the State CEQA Guidelines (the activity is not a project as defined in Section 15378).

☐ Section 15061(b)(3) of the State CEQA Guidelines ("General Rule").

2. ☒ This project is EXEMPT FROM CEQA pursuant to State CEQA Guidelines Section checked below:

ARTICLE 19 of GUIDELINES CATEGORICAL EXEMPTIONS (Incomplete list)

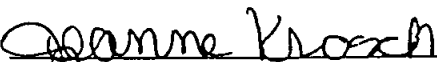
Sec.	Short Name
☒ 15301 1	Existing Facilities
☐ 15302 2	Replacement or Reconstruction
☐ 15303 3	New Construction or Conversion of Small Structures
☐ 15304 4	Minor Alterations to Land
☐ 15305 5	Minor Alterations in Land Use Limitations
☐ 15306 6	Information Collection
☐ 15311 11	Accessory Structures
☐ 15312 12	Surplus Government Property Sales
☐ 15315 15	Minor Land Divisions
☐ 15317 17	Open Space Contracts or Easements
☐ 15319 19	Annexation of Existing Facilities and Lots for Exempt Facilities
☐ 15325 25	Transfer of Ownership of Interest in Land to Preserve Open Space
☐ Other	

ARTICLE 18 of GUIDELINES STATUTORY EXEMPTIONS (Incomplete list)

Sec.	Short Name
☐ 15261	Ongoing Project
☐ 15262	Feasibility and Planning Studies
☐ 15265	Adoption of Coastal Plans and Programs
☐ 15268	Ministerial Projects
☐ 15269	Emergency Projects
☐ Other	

It is hereby certified that the City of San Diego has determined the above activity to be exempt:

Distribution:
Juan Baligad, Dev. Project Manager
Jeanne Krosch, LDR/PDR
Environmental File


Jeanne Krosch, Senior Planner
Planning & Development Review
Environmental Analysis Section

**WESTGROUP SAN DIEGO ASSOCIATES, LTD.,
A CALIFORNIA LIMITED PARTNERSHIP**

AGREEMENT OF LIMITED PARTNERSHIP

This Agreement of Limited Partnership is entered into as of the _____ day of May, 1998, by and between **WESTGROUP PARTNER, INC.**, a California corporation, as the General Partner (the "General Partner"), and **PATRICK R. COLEE**, as the Limited Partner (the "Limited Partner"); (the General Partner and Limited Partner are sometimes herein collectively referred to as the "Partners").

WHEREAS, the Partners desire to form a limited partnership pursuant to the terms hereof;

NOW, THEREFORE, the Partners hereby agree as follows:

**ARTICLE I
FORMATION OF LIMITED PARTNERSHIP**

Section 1.1 Formation of Partnership and Business Purposes. The General Partner and the Limited Partner hereby form the Partnership pursuant to the California Corporations Code for the purpose of leasing and operating the real property and improvements currently referred to as the Princess Resort in San Diego, California, hereinafter referred to as "Hotel", and to do all things incident thereto.

Section 1.2 Name and Location. The name of the Partnership is **WESTGROUP SAN DIEGO ASSOCIATES, LTD.** The principal office of the Partnership shall be at 25 Central Way, Suite 430, Kirkland, WA 98033. The Partnership may also maintain an office at such other places as the General Partner may determine.

Section 1.3 Agent for Service of Process. The registered office for service of process in the State of California is CSC Lawyers Incorporating Service, 2730 Gateway Oaks Drive, #100, Sacramento, CA 95833.

Section 1.4 Term of the Partnership. The Partnership shall continue in existence until December 31, 2096, unless sooner terminated as hereinafter set forth in Article IX.

Section 1.5 Name and Address of Partner; Percentage Interests. The names and addresses of the Partners and their respective Percentage Interests are specified in Exhibit A, attached hereto.

ARTICLE II DEFINITIONS

As used herein, the following definitions have the meanings ascribed:

Section 2.1 "Affiliate". "Affiliate" of a Partner shall mean (i) any corporation, partnership, trust or other entity controlling, controlled by or under common control with a Partner; and (ii) any officer, director, trustee or holder of 10% or more of the outstanding voting securities of a Partner or of any corporation, partnership, trust or other entity controlling, controlled by or under common control with a Partner.

Section 2.2 "Bankruptcy or Insolvency". "Bankruptcy or Insolvency" shall be deemed to have occurred with respect to any Partner if such Partner shall file in any court pursuant to any statute of the United States or of any state a petition in bankruptcy or insolvency, or shall file for reorganization or for the appointment of a receiver or a trustee of all or a material portion of such Partner's property, or if any such Partner shall make an assignment for the benefit of creditors, admit in writing its inability to pay its debts as they fall due or seek, consent to or acquiesce in, the appointment of a trustee, receiver or liquidator of any material portion of its property. If there shall be filed against any Partner in any court pursuant to any statute of the United States or of any state, a petition in bankruptcy or insolvency, or for reorganization, or for the appointment of a receiver or trustee of all or a substantial portion of such Partner's property, and within sixty days after the commencement of any such proceeding, such petition shall not have been dismissed, then such Partner against whom such petition has been filed shall be bankrupt or insolvent for purposes of this Agreement. In addition, if the whole or any portion of the interest of any Partner in the Partnership is subject to levy or attachment, and such levy or attachment is not released or discharged within sixty days, such Partner shall be deemed bankrupt or insolvent for purposes of this Agreement.

Section 2.3 "Capital Account". "Capital Account" shall mean the account maintained for each Partner in accordance with tax accounting principles, which account (i) is increased by the amount of cash and the fair market value of property contributed to the Partnership as shown on the books of the Partnership upon such contribution (net of liabilities assumed by the Partnership and liabilities to which such contributed property is subject) by such Partner and such Partner's share of Partnership Profits (including income exempt from tax), and (ii) is decreased by the amount of cash and the fair market value of property

distributed to such Partner as shown on the books of the Partnership (net of liabilities assumed by such Partner and liabilities to which such distributed property is subject) and such Partner's share or Partnership Losses.

Section 2.4 "Capital Contributions". "Capital Contributions" shall mean in the case of each Partner, any cash contributed to the capital of the Partnership by such Partner, including any Initial Capital Contributions and any Additional Contributions.

Section 2.5 "Capital Contribution Account". "Capital Contribution Account" shall mean each Partner's total Capital Contributions, as adjusted by Section 3.2.

Section 2.6 "Net Cash Flow". "Net Cash Flow" shall mean, with respect to any fiscal period, all cash revenue and funds received by the Partnership (other than funds received as capital contributions) in such period, including funds received from the sale or refinancing of the Hotel, less the sum of the following (to the extent not made from funds received as capital contributions): (i) all sums paid to lenders in such period, (ii) all cash expenditures (including capital expenditures) made by or on behalf of the Partnership in such period, and (iii) cash reserves deemed appropriate by the General Partner.

Section 2.7 "Dissolution or Termination". "Dissolution or Termination" shall be deemed to have occurred (i) in the case of a corporate Partner upon the earlier of the adoption of a plan of liquidation by such Partner or the effective date of dissolution in accordance with applicable statutory law and (ii) in the case of a partnership Partner, upon the date of dissolution or termination of such partnership in accordance with the provisions of the governing partnership agreement or applicable statutory law.

Section 2.8 "Interest". "Interest" shall mean the entire ownership interest of a Partner in the Partnership at any particular time, including the right of such Partner to any and all benefits to which such Partner may be entitled as provided in this Agreement, together with the obligations of such Partner to comply with all terms and provisions of this Agreement.

Section 2.9 "Partnership". "Partnership" means the limited partnership formed hereunder pursuant to the Revised Uniform Limited Partnership Act of the State of Illinois.

Section 2.10 "Partnership Property". "Partnership Property" shall mean all the property, real and personal, at any time owned by the Partnership.

Section 2.11 "Percentage Interests". "Percentage Interests" shall mean the interest of a Partner as set forth in Exhibit A, as such percentage interest may be adjusted pursuant to Section 3.2 below.

Section 2.12 "Profits" or "Losses". "Profits" or "Losses" shall mean the profits or losses of the Partnership for Federal income tax purposes including, without limitation, each item of Partnership income, gain, loss or deduction.

ARTICLE III CAPITAL

Section 3.1 Contributions of General Partner and Limited Partner. The General Partner and Limited Partner have contributed to the capital of the Partnership the amounts set forth in Exhibit A (the "Initial Capital Contributions")

Section 3.2 Additional Capital Contributions. No Partner shall be obligated to make any additional capital contribution ("Additional Capital Contributions") to the Partnership. If a Partner (the "Non Contributing Partner") fails to make the full amount of its pro rata share of any Additional Capital Contributions, however, the Partners (each, a "Contributing Partner") who have made all of their prorata share of any Additional Capital Contributions in connection with the outstanding call may, but shall not be required to:

(i) make all or part of the Additional capital contribution (for its own Capital Account and Capital Contribution Account) which the Non-Contributing Partner has elected not to make and cause the Capital Account and Capital Contribution Account of the Non-Contributing Partner to be reduced (in addition to the adjustments that shall automatically occur by virtue of such Contributions) by twenty-five percent (25%) of the Additional Capital Contributions funded by such Contributing Partner on behalf of such Non-Contributing Partner. The corresponding capital Account and Capital Contribution Account of each Contributing Partner shall be increased (in addition to the adjustments that shall automatically occur by virtue of such Contributions) in the amount that the corresponding Capital Account and Capital Contribution Account of the Non-Contributing Partner is so reduced or a prorata share of such amount if there is more than one contributing Partner. There shall be corresponding adjustments in the Percentage Contribution Accounts; or

(ii) make a loan to the Non-Contributing Partner (the proceeds of which shall be paid to the Partnership as a contribution by the Non-Contributing Partner) for all or part of the amount of the Additional Capital Contribution the Non-Contributing Partner elected not to make and have such loan secured by the security interest in the Non-Contributing

Partner's Partnership interest granted pursuant to this Agreement (or pro-rata portion thereof in the event there is more than one Contributing Partner). The Partnership, in such circumstances, shall use the first distributions otherwise payable or distributable to such Non-Contributing Partner hereunder to repay any such borrowings. Such loan shall be non-recourse and shall have an interest rate equal to two percent (2%) over the corporate base rate of Citibank, N.A. in effect from time to time.

To the extent more than one Partner wishes either to contribute or to loan funds in the amount not contributed by a Non-Contributing Partner in accordance with this Section, each Partner may lend or contribute funds pro rata in proportion to its Percentage Interest; provided, however, no such Partner will be permitted to contribute capital or make a loan pursuant to this Section hereof unless it has already contributed the full amount of its Additional Capital Contribution called for at such time. In the event the Partners are unwilling to contribute or lend funds to the Partnership in the total amount not so contributed by the Non-Contributing Partner, the General Partner may obtain capital contributions from non-partners (in which case such persons shall become limited partners in the Partnership) or obtain loans from non-partners, in either case on the same basis as the Partners may make contributions or loans as provided above.

ARTICLE IV DISTRIBUTIONS

Section 4.1 Distributions of Net Cash. The Net Cash Flow of the Partnership for each calendar year shall be distributed to the Partners not less often than annually in accordance with their Percentage Interests as of the date of distribution.

ARTICLE V ALLOCATION OF PROFITS OR LOSSES AND CREDITS

Section 5.1 Profits or Losses or Credits from Operations. The Profits and Losses and tax credits of the Partnership shall be allocated to the Partners in the same proportion as Net Cash Flow distributed for the year in question were distributed. All Profits or Losses and tax credits from the Partnership for a fiscal year allocable with respect to any Interests which may have been assigned during such fiscal year shall be allocated between the assignor and assignee based upon the number of days in the year that each was recognized (pursuant to Section 8.2) as the owner of the Interest, without regard to results of the operations of the Partnership during such fiscal year and without regard to whether cash distributions were made to the assignor or assignee.

ARTICLE VI CONDUCT OF OPERATIONS

Section 6.1 Management. The General Partner shall have full and exclusive management and control of the business of the Partnership. The General Partner shall devote such time to the business of the Partnership as it deems necessary. In addition to other rights and powers, the General Partner is expressly authorized to (a) employ, engage or contract with entities, including its Affiliates, in the operation and management of the Partnership; (b) borrow money for Partnership purposes; (c) purchase, sell, pledge, hypothecate and mortgage Partnership property; (d) cause the Partnership to take any actions which the General Partner deems appropriate as the owner of the Hotel; and (e) make calls to the Partners for Additional Capital Contributions.

Section 6.2 Accounting and Tax Matters. The General Partner shall keep proper and usual books and records pertaining to the Partnership's business in accordance with generally accepted accounting principles. The books and records and all files of the Partnership shall be kept at its principal office. The General Partner shall prepare and furnish to the Limited Partner promptly after the close of each fiscal year an unaudited statement, certified by the General Partner, showing the operations of the Partnership for such fiscal year, including a balance sheet and statement of income or loss and changes in financial position for such fiscal year, the balance of the Limited Partner's capital account, the unpaid balance due under all obligations of the Partnership and all other information reasonably requested by any partner. The Limited Partner, and the authorized agents thereof, shall have the right at all reasonable times to audit, examine and make copies or extracts from the Partnership books of account. Federal, state and local income tax returns of the Partnership shall be prepared and timely filed by the General Partner. Copies of the tax returns shall be furnished to the Limited Partner prior to filing thereof. The General Partner is hereby designated the tax matters partner of the Partnership.

Section 6.3 Other Permissible Activities. Neither the General Partner nor the Limited Partner are prevented hereby from engaging in other activities for profit whether similar to the purpose of the Partnership or otherwise and whether or not competitive with the business of the partnership.

ARTICLE VII RIGHTS AND OBLIGATIONS OF THE LIMITED PARTNER

Section 7.1 Limited Liability. The Limited Partner shall not be personally liable for any of the debts of the Partnership or any of the losses thereof beyond

the amount contributed or contracted to be contributed by the Limited Partner to the capital of the Partnership.

Section 7.2 Management Responsibility. The Limited Partner, as such, shall not take part in the management of the business or transact any business for the Partnership, nor shall the Limited Partner have the right to approve or disapprove any actions taken by the Partnership.

Section 7.3 No Authority to Act. The Limited Partner shall not have the power to act on behalf of or bind the Partnership.

Section 7.4 Amendments to Partnership Agreement. Amendments to the Partnership Agreement, including the admission of new partners to the Partnership, shall be approved solely by the General Partner, provided that no amendment which materially adversely affects the Limited Partner shall be adopted without the written approval of the Limited Partner.

ARTICLE VIII TRANSFERABILITY OF PARTNERS' INTERESTS

Section 8.1 Transferability of General Partner's Interest. The General Partner may sell, transfer, assign, pledge or otherwise alienate its Interest in the Partnership without the prior written consent of the Limited Partner.

Section 8.2 Transferability of Limited Partner's Interest. The Limited Partner may not sell, transfer, assign, pledge or otherwise alienate the whole or any portion of its Interest in the Partnership without the prior written consent of the General Partner; provided, however, the General Partner shall not unreasonably withhold its consent to any assignment or transfer of the Limited Partner's interest in the Partnership to an Affiliate of the Limited Partner. No transferee of all or any part of the Limited Partner's interest in the Partnership shall become a substituted Limited Partner unless the transferee consents in writing, in a form prepared by or reasonably satisfactory to the General Partner, to be bound by the terms and conditions of this Agreement in the place and stead of the transferor Limited Partner.

ARTICLE IX DISSOLUTION AND LIQUIDATION

Section 9.1 Dissolution. The partnership shall be dissolved upon the occurrence of any of the following events:

- (a) The expiration of the term of the Partnership;

(b) The withdrawal, Bankruptcy or Insolvency, or Dissolution or Termination, of the General Partner, if no substituted General Partner is elected by the Limited Partner; or

(c) The sale of the Hotel by the Partnership.

Section 9.2 Winding Up and Liquidation of the Partnership. Upon the dissolution of the Partnership, the General Partner, or if it is not available, a liquidator selected by the Limited Partner, shall proceed to wind up the Partnership business. The General Partner or such liquidator, as the case may be, shall apply the Partnership assets, after payment of Partnership debts and liabilities, and the creation of such reserves as the liquidator deems appropriate, to the Partners in accordance with their Percentage Interests.

ARTICLE X MISCELLANEOUS PROVISIONS

Section 10.1 Notices. Any notices or communications hereunder shall be sent by mail to the Partners at their addresses set forth in Exhibit A, as amended from time to time. Notices shall be considered given, and any applicable time shall run, from the date such notice is mailed.

Section 10.2 Applicable Law. Notwithstanding the place where this Agreement may be executed by any party, all the terms and provisions of this Agreement and the validity hereof shall be interpreted under the laws of the State of Illinois.

Section 10.3 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the Partners had signed the same document. All counterparts shall be construed together and shall constitute one instrument.

Section 10.4 Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of each of the parties, their heirs, devisees, personal representatives, successors and assigns.

THE REMAINDER OF THIS PAGE IS BLANK

IN WITNESS WHEREOF, this Agreement is executed and sworn to by the parties whose signatures appear below.

GENERAL PARTNER:

WESTGROUP PARTNER, INC.
A California corporation.

Philip A. Brown, Vice President

SOLE LIMITED PARTNER

Patrick R. Colee

LHO MISSION BAY HOTEL, L.P.

AGREEMENT OF LIMITED PARTNERSHIP

This Agreement of Limited Partnership is entered into as of the ____ day of May, 1998, by and between LASALLE HOTEL OPERATING PARTNERSHIP, L.P., a Delaware limited partnership, as the General Partner (the "General Partner"), and WESTGROUP SAN DIEGO PARTNERS, LTD, a California limited partnership, as the Limited Partner (the "Limited Partner"); (the General Partner and Limited Partner are sometimes herein collectively referred to as the "Partners").

WHEREAS, the Limited Partner has agreed to provide its expertise and advice with respect to the San Diego Beach Resort in San Diego, California (the "Hotel"), including, without limitation, with respect to strategic planning, renovation and repositioning of the Hotel; and

WHEREAS, in consideration thereof, the Partners desire to form a limited partnership pursuant to the terms hereof for the purpose of owning the Hotel;

NOW, THEREFORE, the Partners hereby agree as follows:

ARTICLE I
FORMATION OF LIMITED PARTNERSHIP

Section 1.1 Formation of Partnership and Business Purposes. The General Partner and the Limited Partner hereby form the Partnership pursuant to the California Revised Uniform Limited Partnership Act for the sole purpose of owning and operating the Hotel, and to do all things incident thereto.

Section 1.2 Name and Location. The name of the Partnership is LHO MISSION BAY HOTEL, L.P. The registered office for service of process in the State of California and the principal office of the Partnership shall be at the Hotel. The Partnership may also maintain an office at such other places as the General Partner may determine.

Section 1.3 Agent for Service of Process. Process may be served upon the General Partner at the Partnership's principal office.

Section 1.4 Term of the Partnership. The Partnership shall continue in existence until December 31, 2096, unless sooner terminated as hereinafter set forth in Article IX.

Section 1.5 Name and Address of Partner; Percentage Interests. The names and addresses of the Partners and their respective Percentage Interests are specified in Exhibit A, attached hereto.

ARTICLE II DEFINITIONS

As used herein, the following definitions have the meanings ascribed:

Section 2.1 "Affiliate". "Affiliate" of a Partner shall mean (i) any corporation, partnership, trust or other entity controlling, controlled by or under common control with a Partner; and (ii) any officer, director, trustee or holder of 10% or more of the outstanding voting securities of a Partner or of any corporation, partnership, trust or other entity controlling, controlled by or under common control with a Partner.

Section 2.2 "Bankruptcy or Insolvency". "Bankruptcy or Insolvency" shall be deemed to have occurred with respect to any Partner if such Partner shall file in any court pursuant to any statute of the United States or of any state a petition in bankruptcy or insolvency, or shall file for reorganization or for the appointment of a receiver or a trustee of all or a material portion of such Partner's property, or if any such Partner shall make an assignment for the benefit of creditors, admit in writing its inability to pay its debts as they fall due or seek, consent to or acquiesce in the appointment of a trustee, receiver or liquidator of any material portion of its property. If there shall be filed against any Partner in any court pursuant to any statute of the United States or of any state, a petition in bankruptcy or insolvency, or for reorganization, or for the

appointment of a receiver or trustee of all or a substantial portion of such Partner's property, and within sixty days after the commencement of any such proceeding, such petition shall not have been dismissed, then such Partner against whom such petition has been filed shall be bankrupt or insolvent for purposes of this Agreement. In addition, if the whole or any portion of the interest of any Partner in the Partnership is subject to levy or attachment, and such levy or attachment is not released or discharged within sixty days, such Partner shall be deemed bankrupt or insolvent for purposes of this Agreement.

Section 2.3 "Capital Account". "Capital Account" shall mean the account maintained for each Partner in accordance with tax accounting principles, which account (i) is increased by the amount of cash and the fair market value of property contributed to the Partnership as shown on the books of the Partnership upon such contribution (net of liabilities assumed by the Partnership and liabilities to which such contributed property is subject) by such Partner and such Partner's share of Partnership Profits (including income exempt from tax), and (ii) is decreased by the amount of cash and the fair market value of property distributed to such Partner as shown on the books of the Partnership (net of liabilities assumed by such Partner and liabilities to which such distributed property is subject) and such Partner's share of Partnership Losses.

Section 2.4 "Capital Contributions". "Capital Contributions" shall mean in the case of each Partner, any cash contributed to the capital of the Partnership by such Partner, including any Initial Capital Contributions and any Additional Contributions.

Section 2.5 "Capital Contribution Account". "Capital Contribution Account" shall mean each Partner's total Capital Contributions, as adjusted by Section 3.2.

Section 2.6 "Dissolution or Termination". "Dissolution or Termination" shall be deemed to have occurred (i) in the case of a corporate Partner upon the earlier of the adoption of a plan of liquidation by such Partner or the effective date of dissolution in accordance with applicable statutory law and (ii)

in the case of a partnership Partner, upon the date of dissolution or termination of such partnership in accordance with the provisions of the governing partnership agreement or applicable statutory law.

Section 2.7 "Interest". "Interest" shall mean the entire ownership interest of a Partner in the Partnership at any particular time, including the right of such Partner to any and all benefits to which such Partner may be entitled as provided in this Agreement, together with the obligations of such Partner to comply with all terms and provisions of this Agreement.

Section 2.8 "Net Cash Flow". "Net Cash Flow" shall mean, with respect to any fiscal period, all cash revenue and funds received by the Partnership from operations or rent loss insurance (excluding funds received as capital contributions and funds received from the sale or refinancing of the Hotel) in such period, less the sum of the following (to the extent not made from funds received as capital contributions): (i) all interest and principal amortization paid to lenders in such period, (ii) all cash expenditures (including capital expenditures) made by or on behalf of the Partnership in such period, and (iii) cash reserves deemed appropriate by the General Partner.

Section 2.9 "Net Sale and Refinancing Proceeds". "Net Sale and Refinancing Proceeds" shall mean all cash proceeds received by the Partnership from the sale or refinancing of the Hotel and all insurance and condemnation proceeds (excluding rent loss insurance), less the sum of the following: (i) the principal amount of any loans repaid in connection with such sale or refinancing, (ii) all costs incurred in the sale or refinancing of the Hotel, including the transfer fee payable to the City of San Diego, financing fees, mortgage taxes, transfer taxes, title insurance premiums, attorneys' fees and other costs typically paid by borrowers or sellers of similar properties in the San Diego metropolitan region, (iii) any fee paid to terminate any lease of the Hotel, (iv) a market brokerage fee for the sale of the Hotel, regardless of whether a fee is actually paid, and (v) cash reserves deemed appropriate by the General Partner.

Section 2.10 "Partnership". "Partnership" means the limited partnership formed hereunder pursuant to the Revised Uniform Limited Partnership Act of the State of California.

Section 2.11 "Partnership Property". "Partnership Property" shall mean all the property, real and personal, at any time owned by the Partnership.

Section 2.12 "Percentage Interests". "Percentage Interests" shall mean the interest of a Partner as set forth in Exhibit A, as such percentage interest may be adjusted pursuant to Section 3.2 below.

Section 2.13 "Profits" or "Losses". "Profits" or "Losses" shall mean the profits or losses of the Partnership for Federal income tax purposes including, without limitation, each item of Partnership income, gain, loss or deduction.

ARTICLE III CAPITAL

Section 3.1 Contributions of General Partner and Limited Partner. The General Partner and Limited Partner have contributed to the capital of the Partnership the amounts set forth in Exhibit A (the "Initial Capital Contributions").

Section 3.2 Additional Capital Contributions. No Partner shall be obligated to make any additional capital contribution ("Additional Capital Contributions") to the Partnership. If a Partner (the "Non Contributing Partner") fails to make the full amount of its pro rata share of any Additional Capital Contributions, however, the Partners (each, a "Contributing Partner") who have made all of their prorata share of any Additional Capital Contributions in connection with the outstanding call may, but shall not be required to:

(i) make all or part of the Additional Capital Contribution (for its own Capital Account and Capital Contribution Account) which the Non-Contributing Partner has elected not to make and cause the Capital Account and Capital Contribution Account of the Non-

Contributing Partner to be reduced (in addition to the adjustments that shall automatically occur by virtue of such Contributions) by twenty-five percent (25%) of the Additional Capital Contributions funded by such Contributing Partner on behalf of such Non-Contributing Partner. The corresponding Capital Account and Capital Contribution Account of each Contributing Partner shall be increased (in addition to the adjustments that shall automatically occur by virtue of such Contributions) in the amount that the corresponding Capital Account and Capital Contribution Account of the Non-Contributing Partner is so reduced or a prorata share of such amount if there is more than one Contributing Partner. There shall be corresponding adjustments in the Percentage Contribution Accounts; or

(ii) make a loan to the Non-Contributing Partner (the proceeds of which shall be paid to the Partnership as a contribution by the Non-Contributing Partner) for all or part of the amount of the Additional Capital Contribution the Non-Contributing Partner elected not to make and have such loan secured by the security interest in the Non-Contributing Partner's Partnership interest granted pursuant to this Agreement (or pro-rata portion thereof in the event there is more than one Contributing Partner). The Partnership, in such circumstances, shall use the first distributions otherwise payable or distributable to such Non-Contributing Partner hereunder to repay any such borrowings. Such loan shall be non-recourse and shall have an interest rate equal to two percent (2%) over the corporate base rate of Citibank, N.A. in effect from time to time.

To the extent more than one Partner wishes either to contribute or to loan funds in the amount not contributed by a Non-Contributing Partner in accordance with this Section, each Partner may lend or contribute funds pro rata in proportion to its Percentage Interest; provided however, no such Partner will be permitted to contribute capital or make a loan pursuant to this Section hereof unless it has already contributed the full amount

of its Additional Capital Contribution called for at such time. In the event the Partners are unwilling to contribute or lend funds to the Partnership in the total amount not so contributed by the Non-Contributing Partner, the General Partner may obtain capital contributions from non-partners (in which case such persons shall become limited partners in the Partnership) or obtain loans from non-partners, in either case on the same basis as the Partners may make contributions or loans as provided above.

ARTICLE IV DISTRIBUTIONS

Section 4.1 Distributions of Net Cash Flow. The Net Cash Flow of the Partnership for each calendar year shall be distributed at such times and in such amounts as determined by the General Partner in its sole discretion in the following order and priority:

- (a) First, to the General Partner until the General Partner has received a cumulative return equal to fifteen percent (15%) per annum on the total capital contributions which have been made by the General Partner and which would have been made by the General Partner to the Partnership assuming the Partnership had no debt; and
- (b) Second, 95.1% to the General Partner and 4.9% to the Limited Partner.

Section 4.2 Distributions of Net Sale and Refinancing Proceeds. Any Net Sale and Refinancing Proceeds of the Partnership shall be distributed at such times and in such amounts as determined by the General Partner in its sole discretion in the following order and priority:

- (a) First, to the Limited Partner until the Limited Partner has received a return of its Initial Capital Contribution;
- (b) Second, to the General Partner until the General Partner has received a fifteen percent (15%)

internal rate of return on the total capital contributions which have been made by the General Partner and which would have been made by the General Partner to the Partnership assuming the Partnership had no debt; and

- (c) Third, eighty-five percent (85%) to the General Partner and fifteen percent (15%) to the Limited Partner.

ARTICLE V ALLOCATION OF PROFITS OR LOSSES AND CREDITS

Section 5.1 Profits or Losses or Credits from Operations.

The Profits and Losses and tax credits of the Partnership shall be allocated to the Partners in the same proportion as Net Cash Flow and Net Sale and Refinancing Proceeds are distributed for the year in question; provided that if there are no distributions of Net Cash Flow or Net Sale and Refinancing Proceeds, all Profits and Losses and tax credits shall be allocated solely to the General Partner. All Profits or Losses and tax credits from the Partnership for a fiscal year allocable with respect to any Interests which may have been assigned during such fiscal year shall be allocated between the assignor and assignee based upon the number of days in the year that each was recognized (pursuant to Section 8.2) as the owner of the Interest, without regard to results of the operations of the Partnership during such fiscal year and without regard to whether cash distributions were made to the assignor or assignee.

ARTICLE VI
CONDUCT OF OPERATIONS

Section 6.1 Management. The General Partner shall have full and exclusive management and control of the business of the Partnership. The General Partner shall devote such time to the business of the Partnership as it deems necessary. In addition to other rights and powers, the General Partner is expressly authorized to (a) employ, engage or contract with entities, including its Affiliates, in the operation and management of the Partnership; (b) borrow money for Partnership purposes; (c) purchase, sell, pledge, hypothecate and mortgage Partnership property; (d) cause the Partnership to take any actions which the General Partner deems appropriate as the owner of the Hotel; and (e) make calls to the Partners for Additional Capital Contributions.

Section 6.2 Accounting and Tax Matters. The General Partner shall keep proper and usual books and records pertaining to the Partnership's business in accordance with generally accepted accounting principles. The books and records and all files of the Partnership shall be kept at its principal office. The General Partner shall prepare and furnish to the Limited Partner promptly after the close of each fiscal year an unaudited statement, certified by the General Partner, showing the operations of the Partnership for such fiscal year, including a balance sheet and statement of income or loss and changes in financial position for such fiscal year, the balance of the Limited Partner's capital account, the unpaid balance due under all obligations of the Partnership and all other information reasonably requested by any partner. The Limited Partner, and the authorized agents thereof, shall have the right at all reasonable times to audit, examine and make copies or extracts from the Partnership books of account. Federal, state and local income tax returns of the Partnership shall be prepared and timely filed by the General Partner. Copies of the tax returns shall be furnished to the Limited Partner prior to filing thereof. The General Partner is hereby designated the tax matters partner of the Partnership.

Section 6.3 Other Permissible Activities. Neither the General Partner nor the Limited Partner are prevented hereby from engaging in other activities for profit whether similar to the purpose of the Partnership or otherwise and whether or not competitive with the business of the Partnership.

**ARTICLE VII
RIGHTS AND OBLIGATIONS OF THE LIMITED PARTNER**

Section 7.1 Limited Liability. The Limited Partner shall not be personally liable for any of the debts of the Partnership or any of the losses thereof beyond the amount contributed or contracted to be contributed by the Limited Partner to the capital of the Partnership.

Section 7.2 Management Responsibility. The Limited Partner, as such, shall not take part in the management of the business or transact any business for the Partnership, nor shall the Limited Partner have the right to approve or disapprove any actions taken by the Partnership.

Section 7.3 No Authority to Act. The Limited Partner shall not have the power to act on behalf of or bind the Partnership.

Section 7.4 Single-Purpose Entity. The Limited Partner shall at all times remain a single-purpose entity whose sole asset shall be its interest in the Partnership. In no event shall the Limited Partner incur any liabilities or debts without the prior written consent of the General Partner.

Section 7.5 Amendments to Partnership Agreement. Amendments to the Partnership Agreement, including the admission of new partners to the Partnership, shall be approved solely by the General Partner, provided that no amendment which materially adversely affects the Limited Partner shall be adopted without the written approval of the Limited Partner.

**ARTICLE VIII
TRANSFERABILITY OF PARTNERS' INTERESTS**

Section 8.1 Transferability of General Partner's Interest. The General Partner may sell, transfer, assign, pledge or otherwise alienate its Interest in the Partnership without the prior written consent of the Limited Partner.

Section 8.2 Transferability of Limited Partner's Interest. The Limited Partner may not sell, transfer, assign, pledge or otherwise alienate the whole or any portion of its Interest in the Partnership without the prior written consent of the General Partner; provided, however, the General Partner shall not unreasonably withhold its consent to any assignment or transfer of the Limited Partner's interest in the Partnership to an Affiliate of the Limited Partner. No transferee of all or any part of the Limited Partner's interest in the Partnership shall become a substituted Limited Partner unless the transferee consents in writing, in a form prepared by or reasonably satisfactory to the General Partner, to be bound by the terms and conditions of this Agreement in the place and stead of the transferor Limited Partner.

Section 8.3 Options to Purchase and Sell the Limited Partnership Interest. At any time during the sixth (6th) year following the acquisition of the Hotel by the Partnership, the Limited Partner can elect to put its Interest in the Partnership to the General Partner provided the Limited Partner gives the General Partner notice of such election (the " Put Notice") at least thirty (30) days prior to the date on which it has elected to put its interest. The price at which the Limited Partner puts its Interest in the Partnership to the General Partner (the " Put Price") will equal the amount the Limited Partner would have received if the Hotel was sold and the proceeds distributed in accordance with the terms of this Agreement, including Sections 2.9 and 4.2, calculated as if there was no debt on the Project; and the Put Price shall be paid on the date the Limited Partner puts its Interest to the General Partner. For purposes of this Section, the Hotel shall be deemed to have been sold for a price equal to ten (10) times the net operating income from the Hotel (the " NOI") for the twelve (12) months immediately preceding the put. The NOI shall be determined after adjustment for any operating and fixed costs for the Hotel and after deduction of four percent (4%) of revenue for addition to the FF&E reserve,

whether or not any money is actually deposited into the FF&E reserve; and the sales price shall be determined after deduction for costs typically incurred in the sale of similar properties as set forth in Section 2.9 above. In determining the Put Price, however, no credit shall be given for any reserves being held by the Partnership, including any capital expenditure reserves.

The General Partner shall have the right to acquire the Interest of the Limited Partner in the Partnership either (a) within sixty (60) days after the lease for the Hotel being entered into concurrently herewith between the Partnership and the Limited Partner's Affiliate is terminated, or (b) at any time during the period from six and one-half (6-1/2) years following the purchase of the Hotel by the Partnership until the end of the tenth (10th) year following the purchase of the Hotel by the Partnership if the Limited Partner does not exercise the foregoing right to put its Interest to the General Partner by the end of the sixth (6th) year set forth above; provided, however, the General Partner shall give the Limited Partner notice of such election (the "Call Notice") at least thirty (30) days prior to the date on which it has elected to purchase such Interest. The price for the purchase of the Limited Partner's Interest (the "Call Price") shall be calculated using the same formula for calculating the Put Price and shall be paid on the date the General Partner acquires the Limited Partner's Interest.

The Put Price or the Call Price, as the case may be, shall, at the General Partner's election, be made either in cash or in common shares of beneficial interest in LaSalle Hotel Properties ("LHP Shares"). If the General Partner elects to make the payment in LHP Shares, the Limited Partner shall receive the number of LHP Shares, rounded to the nearest whole, equal to the Put Price or the Call Price, as the case may be, divided by the average closing price for LHP Shares on the New York Stock Exchange on the first fifteen trading days of the thirty (30) day period immediately preceding the payment.

ARTICLE IX
DISSOLUTION AND LIQUIDATION

Section 9.1 Dissolution. The Partnership shall be dissolved upon the occurrence of any of the following events:

- (a) The expiration of the term of the Partnership;
- (b) The withdrawal, Bankruptcy or Insolvency, or Dissolution or Termination, of the General Partner, if no substituted General Partner is elected by the Limited Partner; or
- (c) The sale of the Hotel by the Partnership.

Section 9.2 Winding Up and Liquidation of the Partnership. Upon the dissolution of the Partnership, the General Partner, or if it is not available, a liquidator selected by the Limited Partner, shall proceed to wind up the Partnership business. The General Partner or such liquidator, as the case may be, shall apply the Partnership assets, after payment of Partnership debts and liabilities, and the creation of such reserves as the liquidator deems appropriate, to the Partners in accordance with their Percentage Interests.

ARTICLE X
MISCELLANEOUS PROVISIONS

Section 10.1 Notices. Any notices or communications hereunder shall be sent by mail to the Partners at their addresses set forth in Exhibit A, as amended from time to time. Notices shall be considered given, and any applicable time shall run, from the date such notice is mailed.

Section 10.2 Applicable Law. Notwithstanding the place where this Agreement may be executed by any party, all the terms and provisions of this Agreement and the validity hereof shall be interpreted under the laws of the State of California.

Section 10.3 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the

Partners had signed the same document. All counterparts shall be construed together and shall constitute one instrument.

Section 10.4 Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of each of the parties, their heirs, devisees, personal representatives, successors and assigns.

IN WITNESS WHEREOF, this Agreement is executed and sworn to by the parties whose signatures appear below.

GENERAL PARTNER:

LASALLE HOTEL OPERATING
PARTNERSHIP, L.P., a Delaware
limited partnership

By: LaSalle Hotel Properties, its
general partner

By _____
Its _____

LIMITED PARTNER:

WESTGROUP SAN DIEGO PARTNERS, LTD.,
a California limited partnership

By: Westgroup Partners, Inc., its
general partner

By _____
Its _____

EXHIBIT A

<u>Name and Address</u>	<u>Capital Contribution</u>	<u>Percentage Interest</u>
General Partner:		
LASALLE HOTEL OPERATING PARTNERSHIP, L.P. 200 East Randolph Drive Chicago, Illinois 60601	\$ _____	95.1%

Limited Partner:

Westgroup San Diego Partners, Ltd.	\$10,000	4.9%
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