

CONSENT TO SUBLEASE AGREEMENT

The City of San Diego (CITY), as LESSOR under that certain Lease Agreement (MASTER LEASE) entered into with RIJO ENTERPRISES, dated June 23, 1986 and filed in the Office of the City Clerk as Document 266057, assigned to Mercury Street Investors, Ltd., a California limited partnership on May 21, 1987, and subsequently assigned to

ARNOLD BELINSKY and ESTHER BELINSKY (LESSEE),

which assignment and consent is filed in the Office of the City Clerk as Document 02482 on May 16, 1988, consents to that certain Lease Agreement (SUBLEASE) between the above LESSEE (SUBLESSOR) and

**KYU HWANG AND BYUNG G. MOON,
d.b.a. ZION MARKETPLACE**

(SUBLESSEE) dated August 16, 2001 on the following terms and conditions:

1. **SUBORDINATION**: The SUBLEASE shall be subordinate to the MASTER LEASE in all respects, notwithstanding any provision of this consent or the MASTER LEASE contrary to or in conflict with the SUBLEASE. The CITY is not bound by any term or condition in the SUBLEASE which in any way conflicts with or is additional to the provisions of the MASTER LEASE.

2. **ASSIGNMENT AND SUBLETTING**: SUBLESSEE shall not assign the SUBLEASE or sublet the premises or any part thereof without the prior written consent of the CITY. An assignment by operation of law shall automatically terminate the SUBLEASE.

3. **HOLD HARMLESS**: SUBLESSEE shall assume the defense of, indemnify and hold harmless the CITY from all claims, expenses and liability of every nature, directly or indirectly arising from, or alleged to have arisen from operations conducted on the subleased premises, the condition of the premises or from any act or omission of SUBLESSEE, its agents or invitees; provided, however, SUBLESSEE'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.

4. **INSURANCE**: SUBLESSEE shall be insured by an insurance carrier acceptable to the CITY against loss from public liability arising from the use or condition of or operation conducted on the leased premises. Minimum coverage shall be two million dollars (\$2,000,000) Combined Single Limit Liability. SUBLESSEE shall file with CITY a copy of the policy of insurance which shall name "THE CITY OF SAN DIEGO" as an additional insured. Said policy shall specify that the policy may not be terminated, altered or canceled without thirty (30) days prior written notice to CITY by the insurance company.

5. **LEGAL PROCEEDING**: Should it become necessary for the CITY to commence legal proceedings to collect rent, to recover possession or enforce any other provision of this SUBLEASE, the prevailing party shall be entitled to an award of reasonable legal costs, including court costs and attorney's fees.

THE CITY OF SAN DIEGO

Dated 4-18-02

By [Signature]
for the City Manager

SUBLESSEE

Dated 1/15/02

By [Signature]
Name: ARNOLD BELINSKY
Title:

Dated 1/15/02

By [Signature]
Name: ESTHER BELINSKY
Title:

SUBLESSOR

Dated 1/24/02

By [Signature]
Name: KYU M. HWANG
Title:

Dated 1/24/02

By [Signature]
Name: BYUNG K. MOON
Title:

APPROVED AS TO FORM AND LEGALITY:

CASEY GWINN, City Attorney

Dated _____

By [Signature]
Deputy City Attorney

CEH/jmj
12/18/01

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**STANDARD INDUSTRIAL / COMMERCIAL
SINGLE-TENANT LEASE - TRIPLE NET**

by and between

**ARNOLD BELINSKY AND ESTHER BELINSKY, as Trustees of the Arnold Belinsky
and Esther Belinsky Trust No. 1
("Lessor")**

and

**KYU HWANG AND BYUNG G. MOON, dba: ZION MARKETPLACE
("Lessee")**

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STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE — TRIPLE NET

1. Basic Provisions ("Basic Provisions")

1.1 **Parties.** This Lease ("Lease"), dated for reference purposes only August 16, 2001, is made by and between Arnold Belinsky and Esther Belinsky, as Trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1 ("Lessor"), and Kyu Hwang and Byung G. Moon, dba: Zion Marketplace ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 **Property and Premises.** The Premises are located in that certain real property commonly known as 4611 Mercury Street, City of San Diego, County of San Diego, State of California (the "Property"). The Property consists of a free-standing building of approximately 33,064 square feet. Lessee to lease an approximate 29,158 square foot portion of the Property. The portion of the Property to be leased to Lessee is hereafter referred to as "the Premises."

1.3 **Term.** The term of this Lease shall be one hundred twenty (120) months. Lessor shall deliver possession of the Premises to Lessee on or about January 1, 2002. The term of this Lease shall commence on the date of delivery of the Premises. The delivery of possession date shall be established by Lessor's written notice to Lessee indicating the Premises are available for occupancy. The delivery date specified in the notice or the actual date on which Lessee occupies the Premises, whichever is earlier, shall be deemed the possession Date of the Premises for all purposes under this Lease. If Lessor is unable to deliver possession of the Premises to Lessee within ninety (90) days following January 1, 2002, either Lessor or Lessee may thereafter cancel or terminate this Lease by notice in writing to the other at any time prior to actual delivery of the Premises to Lessee. The first ninety (90) days of the term of the Lease shall be Base Rent free and payment of Base Rent shall commence on January 1, 2002 provided, however, if there is a delay in delivery of possession of the Premises to Lessee the Rent Commencement Date shall be deferred for a time period equal to the delay so that the date of commencement of Base Rent shall begin ninety (90) days after actual delivery of possession. Beginning on April 1, 2002 (or on any deferred Rent Commencement Date resulting from a delay in delivery of possession of the Premises) and thereafter on the first day of each and every succeeding month throughout the term of this Lease, Lessee shall pay to Lessor the Base Monthly Rent provided for herein, in advance, in accordance with the Schedule set forth in paragraph 1.4.

1.4 **Base Rent.** Lessee shall pay Lessor as monthly Base Rent for the Premises in accordance with the Schedule specified in this paragraph, which sum shall be paid in advance on the first day of each and every calendar month from the Rent Commencement Date and thereafter throughout the term of this Lease. First month's rent shall be pre-paid upon Lease execution. All such Base Rent shall be paid by Lessee to Lessor in lawful money of the United States of America and shall be paid without deduction or offset except as expressly permitted herein and without prior notice or demand and at such place or places as designated from time to time by Lessor. Initially, Base Rent should be paid by Lessee to: Arnold and Esther Belinsky Trust, 7071 Consolidated Way, San Diego, CA 92121.

The initial monthly Base Rent is computed as follows:

Ground Floor Space: Approximately 27,493 square feet @ \$1.13 per: \$31,067.090

Mezzanine Space: Approximately 1,665 square feet @ \$.80 per: \$ 1,332. 00

Total Base Year Monthly Base Rent: \$32,399.09

The Monthly Base Rent shall increase annually in accordance with the following Rent Schedule:

Rent Schedule

<u>Year</u>	<u>Months</u>	
1	1-12	\$ 32,399.09
2	13-24	33,371.06
3	25-36	34,372.19
4	37-48	35,403.36
5	49-60	36,465.46
6	61-72	37,559.43
7	73-84	38,686.21
8	85-96	39,846.79
9	97-108	41,042.20
10	109-120	42,273.46

1.5 **Guarantor.** The obligations of the Lessee under this Lease are to be guaranteed by Kyu Hwang and Byung G. Moon ("Guarantors").

1.6 **Exhibits.** Attached hereto are Exhibits "A", "B", "C" and "D", which constitute a part of this Lease.

1.7 **Agreed Use.** Lessee may use and occupy the Premises for the management and operation of a food market and any other lawful use (the "Agreed Use").

1.8 **Triple Net.** This is a Triple Net Lease. Real property taxes and assessments, repairs and maintenance, insurance, and the duty to restore the Premises in the event of damage or destruction are all the exclusive obligation of Lessee, except as expressly provided to the contrary in this Lease, and any and all costs and expenses associated therewith shall be timely paid by Lessee or reimbursed to Lessor if Lessor advances the same. Nothing herein contained is intended or shall be construed as requiring Lessor to make such advancements. All obligations of Lessee under this paragraph shall be paid timely and in all events before the due date. If not timely paid, such obligations shall bear interest at the rate specified in Paragraph 12.5 until paid. All of the amounts payable by Lessee hereunder shall constitute additional Base Rent to Lessor.

1.9 **Security Deposit.** Lessee shall pay a security deposit equal to one month's rent. Total deposit of \$42,273.46 due upon lease execution.

2. Premises.

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date and warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "**Building**") shall be free of material defects.

2.3 Compliance. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("**Applicable Requirements**") in effect on the Commencement Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee or to the mezzanine. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within one (1) month following the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Commencement Date, which is addressed in Paragraph 6.3(a) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("**Capital Expenditure**"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(b) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as governmentally mandated seismic modifications), then Lessor shall be responsible for payment of such costs.

(c) Notwithstanding the above, the provisions of subparagraph (b) concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 Acknowledgements. Lessee acknowledges that: (a) it has been advised by Lessor to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and

compliance with Applicable Requirements), and their suitability for Lessee's intended use, and (b) neither Lessor nor Lessor's agents, have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

3. Term.

3.1 Term. The Commencement Date of this lease is January 1, 2002. The term is for a ten (10) year period.

3.2 Early Possession. Lessee may not occupy or take possession of the Premises prior to the Commencement Date of January 1, 2002. Lessee shall occupy the Premises Base Rent free for ninety (90) days thereafter. All other terms of this Lease (including but not limited to the obligation to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall commence as of the date Lessor delivers possession of the Premises to Lessee. All such payments shall constitute Additional Rent to Lessor and payment of these amounts shall commence as of the date of delivery of possession notwithstanding the waiver of Base Rent during the first ninety (90) days. On delivery of possession of the Premises to Lessee, Lessor and Lessee shall jointly execute an acknowledgement in writing of the possession date.

3.3 Lessee Compliance. Promptly upon execution of this Lease, Lessee shall procure and deliver to Lessor evidence of its compliance with its obligation to provide evidence of insurance (Paragraph 8.5). Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with this obligation. Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Rent Commencement Date, including the payment of Rent (both Base Rent and Additional Rent), notwithstanding Lessor's election or withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Rent Commencement Date, the Rent Commencement Date shall occur but Lessor may elect to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Rent Commencement Date, the Rent Commencement Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent ("Rent").

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. Use.

5.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use. Lessor shall cooperate with Lessee to the extent necessary or appropriate in connection with Lessee's efforts to apply for and obtain any permits required for the Agreed Use.

5.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall mean the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefore. Lessee shall not install any underground tanks on the Premises. Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements).

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give

written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) **Lessee Remediation.** Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee.

(d) **Lessee Indemnification.** Lessee shall indemnify, defend and hold Lessor harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(e) **No Warranty By Lessor.** Lessor makes no warranty or representation regarding the nonexistence of hazardous substances on the Premises as of the effective date of this Lease, except that Lessor represents it has no actual knowledge of the presence of any such hazardous substances and no reason to believe that such hazardous substances are in fact present. Lessee is authorized to make at Lessee's sole cost and expense such reasonable investigation prior to the Lease Commencement Date as may be required, in Lessee's sole business judgment. Should Lessee discover the presence of hazardous substances on the Premises prior to the Lease Commencement Date, Lessee shall have the right at Lessee's election to remediate the same at its expense, or to terminate this Lease. If Lessee elects to terminate on this basis, it must give notice of such termination to Lessor prior to the Commencement Date of this Lease, and any failure to do so waives any right on Lessee's part to terminate.

(f) **Legal Use of Premises.** Notwithstanding any other provision herein contained to the contrary, during the term of this Lease Lessee shall use the Premises only for such purpose and in such manner as is permitted by law and Lessee shall use the Premises only for such purpose and in such manner as is permitted by law and Lessee shall affirmatively comply with all legal requirements of federal, state, and local law, in each and every use and activity engaged in by Lessee on the subject Premises

5.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Commencement Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with

any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

5.4 Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 29 below) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, after reasonable prior notice to Lessee, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease.

6. Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.

6.1 Lessee's Obligations.

(a) Subject to the provisions of Paragraph 2.2 (Condition), 2.2 (Compliance), 5.3 (Lessee's Compliance with Applicable Requirements), 6.2 (Lessor's Obligations), 8 (Damage or Destruction), and 13 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, heating, ventilating, air-conditioning, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair, ordinary wear and tear excepted. Lessee shall during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

6.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

6.3 Utility Installations; Trade Fixtures; Alterations.

(a) **Definitions; Consent Required.** The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term

"Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. **"Lessee Owned Alterations and/or Utility Installations"** are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 6.4(a). Lessee shall not make any Alterations to the exterior of the Premises without Lessor's prior written consent. Lessee may, however, make any non-structural Utility Installations and any Alterations to the interior of the Premises without such consent; provided, however, that at the expiration or other termination of this Lease Lessee shall at its sole cost and expense, but only at Lessor's written election made within thirty (30) days following Lease expiration or other termination and Lessor's recovery of possession and written notice of such election to Lessee, restore the Premises to a broom clean, interior shell condition by removing any such nonstructural Utility Installations and Alterations to the interior of the Premises made by lessee. Lessor shall give notice to Lessee within the thirty (30) day period above referred to of the restoration work to be done by Lessee..

(b) **Consent.** Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to or more than one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) **Indemnification.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

6.4 Ownership; Removal; Surrender; and Restoration.

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. All Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Surrender/Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 6.4(b) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below. All restoration work required by Paragraph 7.3(a) shall be completed by Lessee not later than the expiration of ninety (90) days following receipt from Lessor of the notice required in Paragraph 7.3(a).

7. Insurance; Indemnity.

7.1 **Payment For Insurance.** Lessee shall pay directly for all insurance required under this Paragraph 7, section 7.2, liability Insurance, and section 7.4, Lessee's Property. Lessor shall pay for insurance required under section 7.3, Building and Improvements. Lessee will reimburse Lessor for Lessee's portion of section 7.3 which relates to this lease. Payments to reimburse Lessor will be made within 30 days after receipt of request for reimbursement from Lessor.

7.2 **Liability Insurance.** Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$2,000,000 per occurrence. The Policy shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

7.3 Property Insurance - Building, Improvements.

(a) **Building and Improvements.** Lessee shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, and to any Lender(s) insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lenders, but in no event more than the commercially reasonable and available insurable value thereof. No such policy shall include any deductible amount unless approved by Lessor in writing.

(b) **Adjacent Premises.** If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

7.4 Lessee's Property.

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **No Representation of Adequate Coverage.** Lessor makes no representation, that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

7.5 Insurance Policies. Insurance required herein shall be by companies duly licensed or admitted to transact business in California, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Commencement Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less.

7.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other; and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

7.7 Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises and Lessor from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

7.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury

or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

8. Damage or Destruction.

8.1 Definitions.

(a) **"Premises Partial Damage"** shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 7.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) **"Hazardous Substance Condition"** shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 5.2(a), in, on, or under the Premises.

8.2 Insured Loss. If a Premises Partial Damage or Premises Total Destruction that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; except (a) Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose, and (b) if Premises Total Destruction occurs during the last three (3) years of the term of this Lease, as extended or renewed, Lessor and Lessee shall each have the right to terminate this Lease by giving written notice of termination to the other party within sixty (60) days after the date of Premises Total Destruction. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Lessee shall promptly contribute the shortage in proceeds (including any deductible amount, which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to

the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefore. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect; or (ii) have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Rent shall be abated to the extent Lessee's use of the Premises is impaired during the period required for the repair of the Premises under this Paragraph, but only after the first 180 days of such impairment.

8.3 Uninsured Loss. If a Premises Partial Damage or Premises Total Destruction that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessor (in which event Lessor shall make the repairs or rebuild at Lessor's expense), Lessee shall, at Lessee's sole cost and expense, repair such damage or rebuild, as applicable, as soon as reasonably possible. If Lessee fails to commence and pursue such repairs or rebuilding to completion with a reasonable period of time, Lessor shall have the right and option to terminate this Lease on thirty (30) days' notice to Lessee and such other rights as are provided for breach of this Lease. To the extent that Premises Partial Damage or Premises Total Destruction occurs which is not an Insured Loss, the risk shall be born by Lessee, unless the uninsured Loss is caused by the negligence or intentional act of Lessor. The foregoing sentence shall not limit Lessee's insurance obligations, as set forth in this Lease. Rent shall be abated to the extent Lessee's use of the Premises is impaired during the period required for the repairs to or rebuilding of the Premises under this Paragraph, but only after the first 180 days of such impairment.

8.4 Damage Near End of Term. If at any time during the last six (6) months of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to Lessee within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

8.5 Abatement of Rent; Lessee's Remedies.

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) **Remedies.** If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "Commence" shall mean the beginning of the actual work on the Premises.

8.6 Termination-Advance Payments. Upon termination of this Lease pursuant to Paragraph 8, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor.

8.7 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

9. Real Property Taxes.

9.1 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income there from, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises.

9.2 Payment of Taxes. Lessor shall pay directly the Real Property Taxes applicable to the Premises during the term of this Lease. Lessee will reimburse Lessor for Lessee's portion of section 9.1 Real Property Taxes which relate to the leased Premises. Payments to reimburse Lessor shall be made within thirty (30) days of receipt of request for reimbursement from Lessor and if not timely paid, said amounts shall bear interest as provided in Paragraph 12.5. If any such taxes shall cover any period of time prior to or after the expiration or

termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment.

(a) **Advance Payment.** In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. All moneys paid to Lessor under this Paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may at the option of Lessor, be treated as an additional Security Deposit.

9.3 **Joint Assessment.** If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

9.4 **Personal Property Taxes.** Lessee shall pay directly, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

10. **Utilities.** Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to Lessee's portion of the Premises, together with any taxes thereon.

11. **Assignment and Subletting.**

11.1 **Lessor's Consent Required.**

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) An assignment or subletting without consent shall be a Default curable after notice per Paragraph 12.1(c). Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

11.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Any rent or bonus collected by Lessee from any subletting or assignment in excess of the Rent then payable by Lessee hereunder, less the costs and expenses directly incurred by Lessee in connection with the subletting or assignment of thirty percent (30%) or more of Lessee's Premises, including brokerage commissions, renovations, tenant improvement allowances, etc., shall be promptly remitted by Lessee to Lessor, and shall constitute Lessor's property.

11.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the

performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

12. Default; Breach; Remedies.

12.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of five (5) business days following Lessee's receipt of written notice.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the rescission of an unauthorized assignment or subletting, (iii) a Estoppel Certificate, (iv) a requested subordination, or (v) evidence concerning any guaranty and/or Guarantor, where any such failure continues for a period of ten (10) business days following Lessee's receipt of written notice.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within sixty (60) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

12.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The reasonable costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss

that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

12.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

12.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and

accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to five percent (5%) of each such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

12.5 Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the thirty-first (31st) day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus four percent (4%), but shall not be less than ten percent (10%) per annum or exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 12.4.

12.6 Breach by Lessor.

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within thirty (30) days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

13. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building portion of the premises, or more than twenty-five percent (25%) of the land area portion of the premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the

condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that to the extent the law permits a separate award to Lessee for Lessee's relocation expenses, loss of business goodwill, and/or Trade Fixtures, Lessee shall be entitled to any such separate compensation obtained by such a separate award made either by settlement, under threat of Condemnation, or in a court proceeding, so long as such award to Lessee is separately identified. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefore. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

14. Brokers/Representation.

The following real estate brokers and brokerage relationships exist in this transaction. CB Richard Ellis represents Lessor exclusively (Lessor's Broker); IPC Commercial Real Estate represents Lessee exclusively (Lessee's Broker). Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed in their separate written agreement.

15. Estoppel Certificates.

(a) Each Party (as "**Responding Party**") shall within ten (10) days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "**Estoppel Certificate**" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrances may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

16. Definition of Lessor. The term "**Lessor**" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. Upon such transfer or assignment the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor, provided that the transferee or assignee agrees to be bound by all such obligations and covenants. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible

with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

17. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

18. Days. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

19. Limitation on Liability. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

20. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. No Prior or Other Agreements. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective.

22. Notices.

22.1 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

22.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given seventy-two (72) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

23. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or

similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

24. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees applicable thereto.

25. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred twenty-five percent (125%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

26. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

27. Covenants and Conditions; Construction of Agreement. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the parties, but rather according to its fair meaning as a whole, as if both parties had prepared it.

28. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their heirs, personal representatives, successors and assigns and be governed by the laws of the State of California. Any litigation between the Parties hereto concerning this Lease shall be initiated in San Diego County, California.

29. Subordination; Attornment; Non-Disturbance.

29.1 Subordination. This Lease shall be subject and subordinate to any mortgage, deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "**Lender**") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

29.2 Attornment. Subject to the non-disturbance provisions of Paragraph 29.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to

events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

29.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "**Non-Disturbance Agreement**") from the Lender, which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Within sixty (60) days after the date of this Lease, Lessor shall obtain and deliver to Lessee commercially reasonable Non-Disturbance Agreements from Lenders with respect to any preexisting Security Device which is secured by the Premises. The Non-Disturbance Agreement(s) shall be reasonably satisfactory to Lessee, and shall be recorded with the County Recorder of San Diego County.

29.4 Self-Executing. The agreements contained in this Paragraph 29 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises. Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

30. Attorneys' Fees. If any Party brings an action or proceeding involving the Premises to enforce the terms hereof or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "**Prevailing Party**" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

31. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

32. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to

specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

33. Guarantor.

33.1 Execution. The Guarantor shall execute a guaranty in the form of **Exhibit "B"** hereto.

33.2 Default. It shall constitute a Default of the Lessee if Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, (b) an Estoppel Certificate, or (c) written confirmation that the guaranty is still in effect.

34. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

35. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

36. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

37. Authority. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within thirty (30) days after request, deliver to the other party satisfactory evidence of such authority.

38. Offer. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

39. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. **Multiple Parties.** If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

40. Choice of Law and Forum. The parties agree that all of their respective rights and obligations under the pursuant to the terms of this Lease shall be governed by California law and that in the event of any action brought by or against either party to this Lease or by or against any Guarantor of this Lease, the same shall be filed and prosecuted exclusively in the state courts of the State of California. The parties hereby waive any right to remove any such action to the federal courts.

41. Lease Extensions. Lessee shall have the right, provided Lessee has never been in default of this Lease for the Premises, to extend the Initial Lease Term for two (2) additional five (5) year terms at fair market value, but in no case less than three percent (3%) more than the previous year's rate. If Lessee and Lessor are unable to agree on a "fair market" lease rate, both parties shall split (50%/50%) the cost of a mutually agreed third party appraiser who will determine a "fair market" lease rate.

42. Tenant Improvements. Lessee will accept the Premises in an "as is" condition and shall construct its improvements to the Premises using a contractor mutually approved by Lessee and Lessor. All improvements to the Premises shall be submitted as plans initially to be reasonably approved by Lessor. All tenant improvement costs are the sole responsibility of the Lessee.

43. Right of First Opportunity. Lessor, provided Lessee has never been in default of this Lease for the Premises, shall grant Lessee the opportunity to expand into the adjacent portion of the Premises currently occupied, provided that the adjacent tenant in the Premises vacates that space prior to the end of their lease. Lessee shall have thirty (30) days from Lessor's notification to agree to expand into the contiguous space at the current market rent and in no case less than Lessee's current rent for its portion of Premises.

44. Parking. Inasmuch as it is Lessee's right to sublease its portion of the Premises, it is Lessor's right to reasonably approve or disapprove any sublessee. In particular, Lessor will disapprove any sublessee that would detrimentally affect the parking of vehicles at the Premises. The Lessor's parking ratio for leasing the Premises is 3/1,000 (three (3) parking spaces per 1,000 square feet leased) which is eighty-seven (87) spaces, the location of which shall be designated by Lessor to not interfere with adjacent tenants' parking.

45. City Approval. This property is on leased land from the City of San Diego, This lease is subject to City approval.

LESSOR:

Arnold Belinsky

Arnold Belinsky as trustee of the Arnold
Belinsky and Esther Belinsky Trust No. 1

Esther Belinsky

Esther Belinsky as trustee of the Arnold
Belinsky and Esther Belinsky Trust No. 1

ADDRESS OF LESSOR:

Arnold & Esther Belinsky Trust No. 1
7071 Consolidated Way
San Diego, California 92121

Phone: (858) 549-3800

Fax: (858) 547-1255

LESSEE:

Kyo Hwang and Byung G. Moon, dba:
Zion Marketplace

By:

Kyu Hwang

By:

Byung G. Moon

ADDRESS OF LESSEE:

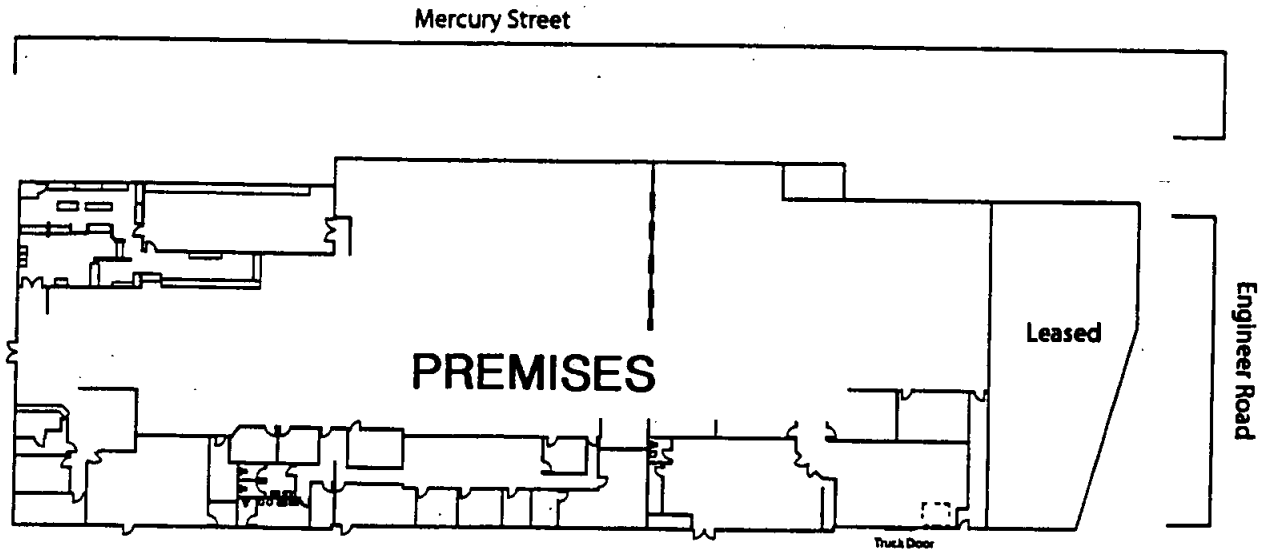
8849 Villa La Jolla Drive, Suite 305

La Jolla, CA 92037

Phone: (858) 336-7919

Fax: (858) 268-0299

EXHIBIT "A"



[Signature]
INITIAL

[Signature]
INITIAL

EXHIBIT "B"

GUARANTY

Kyu Hwang and Byung G. Moon ("Guarantors"), hereby unconditionally guarantees to Arnold Belinsky and Esther Belinsky as trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1; the payment and performance of the obligations of Byung G. Moon and Kyo Hwang dba: Zion Marketplace ("Lessee") under the foregoing Lease, dated August 16, 2001, by and among Arnold Belinsky and Esther Belinsky as trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1, ("Lessor") and Lessee (the "Lease") at the same and in the manner and in accordance with the terms of the Lease.

Guarantor covenants and agrees that neither its obligations to make payment in accordance with the terms of this Guaranty nor any remedy for the enforcement hereof shall be impaired, modified, changed, released or limited in any manner whatsoever by any impairment, modification, change, release or limitation of the liability of Lessee, or any remedy for the enforcement thereof resulting from the operation of any present or future provisions of the Bankruptcy Reform Act of 1978 or other statute, or from the decision of any court, nor shall any obligation or remedy for enforcement be impaired, modified, changed, released or limited in any manner by such event of bankruptcy. In addition, Guarantor waives any right to require the Lessor to (a) proceed against Lessee, (b) proceed against or exhaust any security held by Lessor, or (c) pursue any other remedy in the power of the Lessor whatsoever. Guarantor waives all presentments, demands for performance, notices of non-performance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Guaranty. If it is necessary to enforce this Guaranty, Guarantor will also be liable for the costs of enforcement, including attorney's fees.

Until all of Kyu Hwang and Byung G. Moon dba: Zion Marketplace's or its successors' obligations to Lessor have been discharged in full, Guarantor has no right of subrogation against Zion Marketplace or its successors. Guarantor's obligations under this Guaranty shall be binding upon Guarantor's successors.

Kyu Hwang and Byung G. Moon dba: Zion Marketplace

By:

Its:

Date:

Kyu Hwang and Byung G. Moon
Kyu Hwang, Byung G. Moon
8/29/01 8/29/01

EXHIBIT "C"

LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of San Diego, and is described as follows:

PARCEL A:

All buildings and improvements situated on Parcel 1 of Parcel Map No. 13058, in the City of San Diego, County of San Diego, State of California, filed in the office of the County Recorder of San Diego County, December 19, 1983 as File No. 83-461162 of Official Records, which buildings are and shall remain real property.

PARCEL B:

Parcel 1 of Parcel Map No. 13058, in the City of San Diego, County of San Diego, State of California, filed in the office of the County Recorder of San Diego County, December 19, 1983 as File No. 83-461162 of Official Records, excepting all buildings and improvements situated thereon.

D:\Office\WpWin61\Clients\Date\Exhibit.A

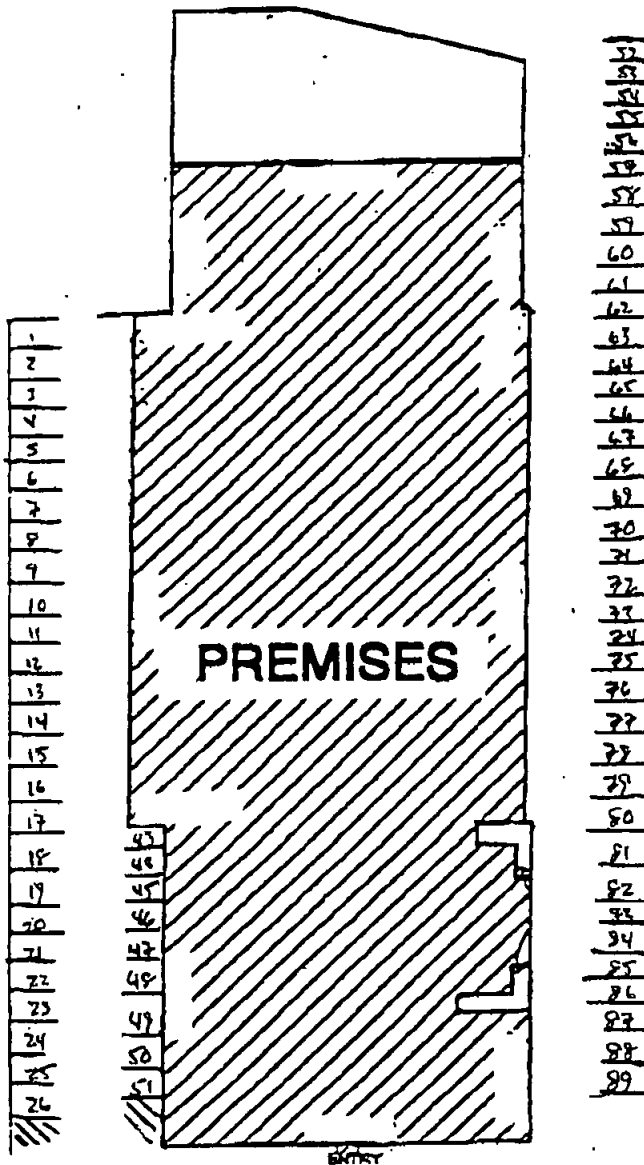
Kyer
INITIAL

E.B.
INITIAL

EXHIBIT "D"

PARKING PLAN

*****NOT TO SCALE****



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INITIAL

AMENDMENT TO LEASE

AMENDMENT TO LEASE (this "Amendment"), dated October __, 1996, by and between ARNOLD'S ACQUISITION CORP., a Delaware corporation with offices at 7069 Consolidated Way, San Diego, California 92121 ("Tenant"), and ARNOLD BELINSKY AND ESTHER BELINSKY AS TRUSTEES OF THE ARNOLD BELINSKY AND ESTHER BELINSKY TRUST NO. 1., each with an address for notices c/o Arnold Belinsky, Legacy Home Furnishings, 7077 Consolidated Way, Suite E, San Diego, California 92121 ("Landlord").

W I T N E S S E T H

WHEREAS, Landlord and Arnold's Furniture Corporation, as tenant, entered into a lease, dated November 22, 1991, which lease was assigned by Arnold's Furniture Corporation to Arnold's Furniture Company, L.P. pursuant to an assignment and assumption agreement dated June 26, 1992, and further assigned by Arnold's Furniture Company, L.P. to Tenant pursuant to an assignment and assumption of lease dated June __, 1996 (as so assigned, the "Lease"), for certain Premises in the San Diego Home Furnishing Center - Annex in the City of San Diego, County of San Diego and State of California and as more particularly identified on Exhibit A-1 attached to the Lease,

WHEREAS, Breuner's Home Furnishings Corporation ("Guarantor") has agreed to guaranty the Lease pursuant to a Guaranty of even date herewith attached hereto as Exhibit A and made a part hereof,

WHEREAS, Landlord and Tenant mutually intend and desire to modify the Lease on the and subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, Landlord and Tenant, in consideration of the foregoing premises and other good and valuable consideration, the receipt and legal sufficiency of which is hereby acknowledged, hereby agree as follows:

1. Landlord and Tenant agree that the Lease is hereby modified and amended as follows:

A. Notwithstanding anything to the contrary contained in the Lease, including, but not limited to, Article A and Section 4 of Article C, excepting, however, subsection 4.3, effective as of May 1, 1996, Tenant's Minimum Monthly Rent payable for the periods commencing (a) May 1, 1996 through and including April 30, 1997 is reduced by twenty percent (20%) and (b) commencing May 1, 1997 through and including April 30, 1999 is reduced by fifteen percent (15%) upon the express condition that Tenant shall promptly pay, strictly in accordance with the Lease provisions, the Tenant's Minimum Monthly Rent as reduced by this Amendment. In the event Tenant fails to strictly comply

with the foregoing condition, the rent under the Lease shall be automatically reinstated to the amount called for by the Lease, without reduction, but only if Landlord has given Tenant the 15 day default notice provided for in subsection 17.1(a) of the Lease and Tenant has failed to pay the overdue monthly rental payment(s) to Landlord during said 15 day period. Any such notice concerning a failure to pay rent shall be given by return receipt mail to Tenant with a copy to Tenant's counsel. The 15 day notice period shall commence upon mailing. Tenant shall not have the right to cure more than two (2) defaults in any consecutive 12 month Lease period. The fifteen percent (15%) reduction for the period commencing May 1, 1997 through and including April 30, 1999 shall be offset up to and not in excess of the amount of such reduction actually credited to Tenant, dollar for dollar, by \$.50 of each dollar of net income earned by Tenant for that period, as shown on Tenant's profit and loss statement for the period, as certified by Tenant's Chief Financial Officer. Any additional rent payment required by the last clause of the preceding sentence shall be paid by Tenant to Landlord within 90 days following April 30, 1999.

B. The term of the Lease is extended to December 31, 2001. *(w/ four (4) consecutive five (5) year options to renew @ Market = Exp on 12/30/2011 @ earliest + 12/30/2031 @ latest) See orig Agmt.*

2. The laws of the State of California shall govern the validity, performance and enforcement of this Amendment. The invalidity or unenforceability pursuant to applicable law of any provision of this Amendment shall not affect or impair any other provision.

3. All negotiations, considerations, representations and understandings between the parties with respect to the amendment of the Lease are incorporated in this Amendment. This Amendment may not be amended, modified, or otherwise changed without the mutual agreement in writing of the parties hereto.

4. Landlord and Tenant each mutually covenants, represents and warrants to the other that it has had no dealings or communications with any broker or agent in connection with this Amendment and each covenants and agrees to pay, hold harmless and indemnify the other from and against any and all cost, expense (including reasonable attorneys' fees) or liability for any compensation, commission or charges to any broker or agent claiming through the indemnifying party with respect hereto.

5. This Amendment shall be binding upon and inure to the benefit of the successors, legal representatives, heirs and assigns of the parties hereto.

6. Capitalized terms not defined herein shall have the meanings given such terms in the Lease.

7. Except as expressly modified and amended hereby, Landlord and Tenant each ratifies, adopts and affirms the Lease, as previously amended, and acknowledges the same to be in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Amendment as of the date first written above.

TENANT:

ARNOLD'S ACQUISITION CORP.

By: Joseph Albanese
Name: Joseph Albanese
Title: Executive Vice President

LANDLORD:

ARNOLD BELINSKY, AS TRUSTEE OF THE
ARNOLD BELINSKY AND ESTHER BELINSKY
TRUST NO. 1

ESTHER BELINSKY, AS TRUSTEE OF THE
ARNOLD BELINSKY AND ESTHER BELINSKY
TRUST NO. 1

EXHIBIT A

GUARANTY OF LEASE

FOR VALUE RECEIVED, and in consideration for Arnold Belinsky and Esther Belinsky as Trustees of The Arnold Belinsky and Esther Belinsky Trust No. 1, with an address for notices c/o Arnold Belinsky, Legacy Home Furnishings, 7077 Consolidated Way, Suite E, San Diego, California 92121 ("Landlord") entering into the Amendment to the Lease with respect to the Lease of the San Diego Home Furnishing Center - Annex, the undersigned, BREUNER'S HOME FURNISHINGS CORPORATION, a Delaware corporation having an office at 7069 Consolidated Way, San Diego, California 92121 ("Guarantor"), guarantees to Landlord the full and punctual performance and observance by Tenant of all terms, covenants conditions contained in the Lease which are the obligations of Tenant, including, without limitation, the payment in full of all Minimum Monthly Rent (as such capitalized term is defined in the Lease) and all other rents and charges which accrue under the Lease during the Lease Term (as such capitalized term is defined in the Lease) and any renewals or extensions thereof that remains due and owing after the giving of any requisite notice to Tenant and the expiration of all applicable grace periods under the Lease. If, at any time, Tenant shall be in breach of any of such obligations in the Lease, Guarantor shall keep, perform and observe same in place and instead of Tenant.

Guarantor hereby waives all rights to require Landlord to proceed against Tenant or against any other predecessor tenant and/or Guarantor and waives all rights of subrogation and/or reimbursement against Tenant and/or any other predecessor tenant or Guarantor until the obligations of Guarantor to Landlord under this instrument are satisfied in full.

Guarantor further waives all rights and defenses arising out of an election of remedies by Landlord, even though the election of remedies has destroyed or impaired guarantor's rights of subrogation and/or reimbursement against Tenant or against any third party liable for the payments to Landlord which are the subject matter of this Guarantee.

Guarantor further waives and expressly consents to the following, none of which shall affect, change or discharge the obligations of Guarantor: i) the granting of any indulgences or extensions of time or times under the Lease to Tenant; ii) the giving and delivery of any consent to any Tenant under the Lease; iii) the waiving by Landlord of any of the terms, covenants or conditions contained in the Lease; iv) the acceptance by Landlord of any security of any kind; v) any renewal or extension of the

Lease; vi) any assignment, transfer or conveyance by either Landlord or Tenant of its right, title, interest and estate in and to the Lease, including any subletting by Tenant; vii) the giving and delivery of any notice of breach to Tenant with respect to any breach by Tenant of any terms, covenants, and conditions contained in the Lease; and viii) any notice of any further amendment of the Lease. Guarantor hereby expressly waives all other notices to which Guarantor might otherwise be entitled in connection with this Guarantee or the Lease or to which Tenant might be entitled in connection with the Lease.

The liability and obligations of Guarantor hereunder shall in no way be affected by: i) the release or discharge of Tenant in any creditor's receivership, bankruptcy or other proceeding; ii) payment limitations or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or any remedy for the enforcement of Tenant's said liability under this Lease, resulting from the operation of any present or future provision of the Federal Bankruptcy Act, as amended, or any other statute or from the decision of any other court; or iii) objection or disaffirmance of the Lease in any such proceeding; or iv) the cessation from any cause whatsoever of the liability of Tenant.

No action to enforce or recover upon this Guaranty shall be construed to be an action for the recovery or enforcement of the Lease. Guarantor waives any defense, right, privilege or entitlement it may possess i) to require any action to be commenced or remedy to be exercised or exhausted as against Tenant; ii) to require Landlord to reasonably avoid rental loss and/or mitigate damages by Tenant's breach under the Lease or to require Landlord to re-let the Lease premises; iii) to require Landlord to terminate Tenant's rights to possession in the event of a breach by the Tenant rather than permitting Landlord the right to recover rent as it becomes due, and all other rights of Landlord under the Lease to continue the same in full force and effect or to terminate the same.

This Guaranty i) is an absolute Guaranty of payment and performance, and not of collection; ii) shall be construed under the laws of the State of California; iii) shall inure to the benefit of Landlord and its successors and assigns and shall be binding upon Guarantor and its successors and assigns.

If any action is brought by Landlord to enforce any of the provisions of this Guaranty, Landlord shall have the right to recover, as part of the costs of suit, his reasonable attorneys' fees incurred in the prosecution of such action.

GUARANTOR:

BREUNER'S HOME FURNISHINGS
CORPORATION

By: _____
Name:
Title:

ASSIGNMENT AND ASSUMPTION AGREEMENT

In connection with the formation of Arnold's Furniture Company, L.P., a California limited partnership (the "Partnership"), pursuant to the terms and conditions of that certain Agreement of Limited Partnership dated as of even date herewith by and among Arnold's Furniture Corporation, a California corporation ("AFC"), the Brunton Corporation, a California corporation, and John Comrie, an individual, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, AFC hereby transfers, assigns, conveys and delivers to the Partnership all of AFC's right, title and interest in and to the Assets (as hereinafter defined), subject to any and all liens, charges, options, adverse claims or security interests related thereto, to hold the same with rights thereto unto the Partnership, its successors and assigns forever to its and their own use. The Partnership shall have the benefit of, and AFC's transfer and assignment to the Partnership of the Assets include, all of AFC's existing rights and remedies pursuant to any representations, warranties, indemnifications, covenants or agreements made by any other party pursuant to any assigned contract or lease.

The Partnership hereby assumes and agrees to perform, pay or otherwise satisfy in accordance with their terms as and when due all of the Obligations. The Partnership shall not assume nor be liable for any other obligations, debts, contracts or liabilities of AFC. To the extent that AFC has a right on the date hereof to be indemnified or reimbursed by an insurer for any Obligations, or for costs or expenses incurred in connection with them, such Obligations shall not be assumed by the Partnership unless the insurer shall have agreed that this assumption will not create any cause of action in the insurer's favor against the Partnership by rights of subrogation. However, to the extent that AFC is not ultimately indemnified or reimbursed for an Obligation at the conclusion of any attempts to enforce its rights against the insurer, the Partnership will assume and perform, pay or otherwise satisfy such Obligation.

"Assets" shall mean all of the assets of AFC as of the close of business on the date hereof, including, without limitation, all cash, accounts receivable, inventory, prepaid expenses, equipment, personalty, trademarks, contract rights, leases and the goodwill associated with the business of AFC. "Obligations" shall mean all the obligations (whether accrued, absolute, contingent or otherwise) of AFC as of the close of business on the date hereof, including, without limitation, all accounts payable, notes payable, payroll obligations, lease obligations, shareholder loans and tax obligations, but expressly shall not include any federal or state income or franchise tax obligations of AFC.

DCH00154,UP

*Never got City's Consent for
this Assign.*

Notwithstanding the foregoing, in the event that the assignment attempted to be made hereunder of any right, title or interest in, to or under any assigned contract or lease which requires the consent to assignment of a party to such contract or lease other than AFC (a "Consent Contract") would be ineffective as between AFC and the Partnership without the consent of such party, or would serve as a cause for modifying, terminating or invalidating such Consent Contract, or would cause or serve as a cause for the loss, or the modification of the terms, of ownership thereof or the right, title or interest therein, then, such Consent Contract shall be temporarily excluded from the aforesaid conveyance and assignment; provided, however, that, in any such event, AFC shall, to the greatest extent permitted under the Consent Contract, hold such right, title or interest for the exclusive use and benefit of the Partnership and its successors and assigns until such consent has been obtained or until, following the exhaustion of all challenges and appeals, it is finally determined that no such consent will be obtained, at which time such right, title or interest shall automatically and with no further action or consideration in respect thereof be excluded from this Assignment and Assumption Agreement; and provided further, that, without further consideration therefor, AFC shall execute such other documents, and shall take such other actions (other than the performance of services or the payment of money or other valuable consideration), as shall be reasonably necessary to transfer to the Partnership the benefits of such excluded Consent Contract. AFC shall indemnify and hold harmless the Partnership from and against any losses caused by the exclusion of a Consent Contract from this Assignment and Assumption Agreement. Upon obtaining such consent or written notice from AFC to the Partnership so electing, no further conveyance or assignment shall be required, but such right, title or interest shall automatically and with no further action or consideration therefor become fully and completely vested in the Partnership by virtue of this Assignment and Assumption Agreement.

AFC does hereby constitute and appoint the Partnership, its successors and assigns the true and lawful attorney-in-fact of AFC with full power of substitution for it and in its name, place and stead or otherwise by or on behalf of AFC, its successors and assigns and for the benefit of the Partnership, its successors and assigns, (i) to demand and receive from time to time any and all moneys, property and assets, real, personal and mixed, hereby conveyed and assigned or intended so to be, (ii) to make, execute, acknowledge, swear to and file in the name of AFC and its successors and assigns any deeds, assignments, notices, filings, applications, registrations and other instruments of further assurance and transfer and registration of same, (iii) to give receipts and releases in respect of the same, (iv) from time to time to institute and prosecute in the name of the Partnership, or AFC for the benefit of the Partnership, any

and all proceedings at law, in equity or otherwise which the Partnership, its successors and assigns may deem proper in order to collect, assert, perfect, improve or enforce any claims, rights, interest or title of any kind in and to the intangible Assets, (v) to defend and compromise any and all actions, suits or proceedings in respect of any of the intangible Assets and (vi) to do any and all such acts and things in furtherance of the purposes of this Assignment and Assumption Agreement as the Partnership, its successors or assigns shall deem advisable. AFC hereby declares that the appointment hereby made and the powers hereby granted are coupled with an interest and are and shall be irrevocable and perpetual and shall not be terminated by any act of AFC or its successors or assigns, by the bankruptcy, insolvency or dissolution of AFC or any successor thereto or assign thereof or otherwise by operation of law.

This Assignment and Assumption Agreement shall be construed and enforced in accordance with the laws of the State of California (without giving effect to conflict of laws.)

From time to time after the date of this Assignment and Assumption Agreement, AFC shall, without further consideration, execute and deliver to the Partnership such other instruments (in recordable form or as otherwise reasonably required) and take such other action as the Partnership may reasonably request to carry out the terms and provisions of this Assignment and Assumption Agreement.

IN WITNESS WHEREOF, AFC and the Partnership have caused their names to be subscribed hereunto as of this 26th day of June, 1992, by their duly authorized officers.

ARNOLD'S FURNITURE CORPORATION,
a California corporation

By: _____
Fred Comrie, President

ARNOLD'S FURNITURE COMPANY, L.P.,
a California Limited Partnership

By: _____
Fred Comrie on behalf of
Arnold's Furniture
Corporation, the General
Partner

ASSIGNMENT AND ASSUMPTION OF LEASE

10th day of June, 1996 by and between ARNOLD'S FURNITURE COMPANY, L.P., a California limited partnership ("Assignor") and ARNOLD'S ACQUISITION CORP., a Delaware corporation ("Assignee").

WITNESSETH:

WHEREAS, Assignor is the current tenant under those certain leases (collectively, the "Leases") described on Schedule A attached hereto and made a part hereof; and

WHEREAS, Assignor and Assignee desire that Assignor assign its interest as tenant under the Leases to Assignee and that Assignee assume all of the obligations of tenant under the Leases.

KNOW THAT Assignor, in consideration of Assignee's assumption of all of the obligations of Assignor arising on and after the date hereof under the Leases, hereby assigns unto Assignee all of the right, title and interest of Assignor as tenant in, to and under the Leases.

TO HAVE AND TO HOLD the same unto Assignee on and from the date hereof, for all of the remaining term under each of the Leases, subject to the terms, covenants, conditions and provisos therein contained.

This Assignment is made without any representation or warranty whatsoever by Assignor and without recourse to Assignor, for any cause whatsoever, by Assignee, or by any successor to the interest of Assignee.

In consideration of the assignment provided for herein, Assignee hereby assumes all of Assignor's obligations and covenants under the Leases on and after the date hereof to the end of the term of each of the Leases and agrees to perform and be bound by all of the terms, covenants and conditions thereof to be performed by Assignor arising on or after the date hereof, as if Assignee signed the Leases originally as tenant.

IN WITNESS WHEREOF, the undersigned have executed this Assignment as of the day and year first above written.

ARNOLD'S FURNITURE COMPANY, L.P.

By: Arnold's Acquisition Corp., as Managing General Partner

By: _____

Name: _____

Title: _____

By: Arnold's Furniture Corporation, as Operating General Partner

By: _____

Name: _____

Title: _____

ARNOLD'S ACQUISITION CORP.

By: _____

Name: _____

Title: _____

Schedule A

1. Lease, dated November 22, 1991, for store no. 2, store no. 4 and store no. A in the San Diego Home Furnishing Center between Arnold Belinsky and Esther Belinsky, both individually and as trustees of the Arnold and Esther Belinsky Trust No. 1, Edward R. Pollak and Joan S. Pollak, as trustees of the Edward R. Pollak and Joan S. Pollak Trust and Ralph Louis Isensee and Richard I. Singer as executors of the Estate of James R. Isensee, as lessor, and Arnold's Furniture Corporation ("AFC"), as lessee.

2. Lease, dated November 22, 1991, for store no. 3 and store no. B in the North County Home Furnishing Center between North County Home Furnishing Center, as lessor, and AFC, as lessee.

3. Lease, dated November 22, 1991, for suites C-G in the San Diego Home Furnishings Center - Annex between Arnold Belinsky and Esther Belinsky as trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1, as lessor, and AFC, as lessee.

4. Lease dated March __, 1992, for Suite no. 5 in the San Diego Home Furnishing Center between Arnold Belinsky and Esther Belinsky, both individually and as trustees of the Arnold and Esther Belinsky Trust No. 1, Edward R. Pollak and Joan S. Pollak, as trustees of the Edward R. Pollak and Joan S. Pollak Trust and Ralph Louis Isensee and Richard I. Singer as executors of the Estate of James R. Isensee, as lessor, and AFC, as lessee.

5. Lease, dated November 22, 1991, for two warehouses totaling approximately 135,941 square feet in the Miramar Business Park between Belinsky Management Company, Arnold's Interiors, Inc. and Arnold Belinsky and Esther Belinsky as trustees of the Belinsky Management Combination Retirement Trust, as lessor, and AFC, as lessee.

The foregoing leases were assigned by AFC to Arnold's Furniture Company, L.P. pursuant to the Assignment and Assumption Agreement dated June 26, 1992 between Arnold's Furniture Company, L.P. and AFC.

AMENDMENT TO SUBLEASE

That certain Lease covering the San Diego Home Furnishing Center - Annex by and between Arnold Belinsky and Esther Belinsky, as trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1 as Landlords ("Sublessor") and Arnold's Furniture Corporation as Tenant ("Sublessee") dated November 22, 1991 is hereby amended as of the effective date as follows:

1. Paragraph 15 entitled "Assignment and Sublease" is deleted and the following provision substituted in lieu thereof:

"15. Assignment and Sublease.

15.1 Sublessor Approval. Tenant shall not voluntarily or by operation of law assign, license, transfer, mortgage or otherwise encumber all or any part of Tenant's interest in this Lease or in the Premises, and shall not sublet or license all or any part of the Premises, without the prior written consent of Landlord in each instance, and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be wholly void. Without in any way limiting Landlord's right to refuse to give such consent for any other reason or reasons, Landlord reserves the right to refuse to give such consent if in Landlord's sole discretion and opinion the business of any such proposed assignee, licensee or sublessee is not consistent with or is incompatible with the businesses then being conducted by other tenants in the Home Furnishing Center or if the quality of merchandising operation is or may be in any way adversely affected during the term of the Lease or the financial worth of the proposed new tenant is less than that of Tenant executing this Lease or if the proposed assignee, licensee or sublessee would, for any reason, detract from or adversely affect the business of the other tenants of the Home Furnishing Center.

Notwithstanding the foregoing, Tenant shall have the right to assign its interest in this Lease or sublease the Premises without the consent of Landlord either (i) to a transferee of all or substantially all of the business assets of Tenant or (ii) to an "affiliate" of Tenant (as hereinafter defined). For purposes hereof, "affiliate" of Tenant shall mean any person directly or indirectly controlling, controlled by or under common control with Tenant. For purposes of the preceding sentence, the term "control" means ownership of not less than fifty percent (50%) of the voting stock of all classes of stock entitled to vote for the election of directors or not less than fifty percent (50%) of the beneficial interests in any other business entity, and the term "person" means natural persons, corporations, business trusts, association, companies, partnerships and joint ventures.

No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provisions of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

15.2 City of San Diego Approval. Sublessee shall not assign this Lease or sublet the premises or any part thereof without the prior written consent of the City of San Diego, hereinafter, "City". An assignment by operation of law shall automatically terminate this Lease."

2. The following paragraph 11.3 is added to the Lease:

"11.3 Sublessee's Additional Indemnity. Sublessee shall assume the defense of, indemnify and save harmless Landlord and the City of San Diego from all claims, expenses and liability of every nature, directly or indirectly arising from, or alleged to have arisen from the operations conducted on the leased premises or from any act or omission of Sublessee, its agents and invitees. This indemnity shall be in addition to the indemnity provided in Paragraph 11.1 hereof."

3. Paragraph 12.7 is hereby added to the Sublease as follows:

"12.7 Sublessee's Additional Insurance Obligations. Sublessee shall be insured by an insurance carrier acceptable to the City of San Diego against loss from public liability arising from the use or condition of or operation conducted on the leased premises. Minimum coverage shall be \$1,000,000 COMBINED SINGLE LIMIT LIABILITY. A copy of the policy of insurance shall be filed with the City of San Diego and shall name "the City of San Diego" as an additional insured. Said policy shall specify that the policy may not be terminated, altered or cancelled without 30 days prior written notice to the City of San Diego by the insurance company. The provisions of this paragraph 12.7 are in addition to all other insurance obligations of Sublessee herein provided for."

4. Paragraph 23.7 entitled "Cost of Suit" is deleted and the following paragraph 23.7 substituted in lieu thereof:

"23.7 Cost of Suit.

(a) If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, or any arbitration proceeding, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and such sum shall be paid whether or not such action is prosecuted to judgment.

(b) Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises, by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys' fees, incurred by Landlord or in connection with such litigation.

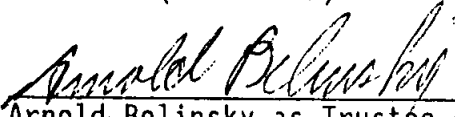
(c) Should it become necessary for Landlord or the City of San Diego to commence legal proceedings to collect rent, to recover possession or enforce any other provision of this Lease, Sublessee agrees to pay all legal costs in connection therewith, including a reasonable sum as attorneys' fees. The provisions of this Paragraph 23.7(c) shall be in addition to all other provisions of Paragraph 23.7 of this Lease.

5. Paragraph 16.4 entitled "Subordination" is hereby added as follows:

"16.4 Subordination. This Agreement is in effect a Sublease of a portion of premises covered by that certain Lease Agreement dated June 23, 1986, as amended between the Sublessor herein and the City of San Diego. The Sublease is subject and subordinate to the covenants and conditions of said Lease Agreement notwithstanding any provision hereof contrary to or in conflict with said agreement."

IN WITNESS WHEREOF, Landlord (Sublessor) and Tenant (Sublessee) have executed this Amendment to Sublease effective the date and year above specified.

LANDLORD (Sublessor):


Arnold Belinsky as Trustee of
the Arnold Belinsky and Esther
Belinsky Trust No. 1


Esther Belinsky as Trustee of
the Arnold Belinsky and Esther
Belinsky Trust No. 1

TENANT (Sublessee):

Arnold's Furniture Corporation

By: 

Title: President

CONSENT TO SUBLEASE AGREEMENT

The City of San Diego (CITY), as LESSOR under that certain Lease Agreement (Master Lease) entered into with

RIJO ENTERPRISES (LESSEE), filed in the Office of the City Clerk as Document 266057;

later assigned to ARNOLD BELINSKY and ESTHER BELINSKY (LESSEE), filed in the Office of the City Clerk as Document 02482,

hereby consents to that certain Sublease Agreement between the above LESSEE (SUBLESSOR) and

ARNOLD'S FURNITURE CORPORATION (SUBLESSEE), a California corporation,

dated November 22, 1991. Said Sublease shall be subordinate to the Master Lease in all respects. The CITY is merely approving the SUBLESSEE and the proposed use, and all terms and conditions of the Master Lease shall control and supersede any inconsistent or contrary provisions in the Sublease. The CITY is not bound by any term or condition in the Sublease which in any way conflicts with or is additional to the provisions of the Master Lease.

In addition, this consent is subject to the following conditions: None.

THE CITY OF SAN DIEGO

Dated 11-10-92

By Jane E. Vickers
Jane E. Vickers
Supervising Property Agent

APPROVED AS TO FORM:

JOHN W. WITT, City Attorney

Dated 11/12/92

By [Signature]
Deputy

LMF:jw(1)
6-15-92

cc: James L. Spotts, Property Director

LEASE
(SAN DIEGO HOME FURNISHING CENTER--ANNEX)

between

LANDLORD: **ARNOLD BELINSKY AND ESTHER BELINSKY, as Trustees of
the Arnold Belinsky and Esther Belinsky Trust No. 1**

and

TENANT: **ARNOLD'S FURNITURE CORPORATION,
a California corporation**

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SAN DIEGO HOME FURNISHING CENTER- ANNEX LEASE

In consideration of the rents and covenants hereinafter set forth, Landlord hereby leases to Tenant, and Tenant hereby rents from Landlord, the following described premises upon the following terms and conditions:

ARTICLE A

FUNDAMENTAL LEASE PROVISIONS

Lease Date: November 22, 1991

Suite Numbers: C to G, inclusive of the Building*

*Identified on attached plot plan marked Exhibit A-1

Landlord: ARNOLD BELINSKY and ESTHER BELINSKY, as
Trustees of the Arnold Belinsky and Esther
Belinsky Trust No. 1

Tenant: ARNOLD'S FURNITURE CORPORATION

Tenant's Trade Name: ARNOLD'S

Use of Premises: retail sale of furniture and related
uses

Lease Term: Ten (10) Years (from November 22, 1991 to
November 21, 2001 (with four (4) consecutive
five (5) year options to renew at market
rent as set forth in Addendum 1 hereto.))

Minimum Monthly Rent: \$30,061
(Initial Lease Term)

subject to cost of living adjustment as provided in
Paragraph 4.2 plus Tenant's prorata share of taxes
and assessments as provided in Paragraph 5 plus
prorata share of insurance premiums as specified in
Paragraph 12 and prorata common area expenses as
provided in Paragraph 18.

Approximate size: 30,061 square feet

Address for Notices:

TO LANDLORD: ARNOLD BELINSKY

P.O. Box 9344

Rancho Santa Fe, Ca 92067

COPY TO: Richard I. Singer

SINGER & CRAWFORD, A.P.C.

2437 Second Avenue, San Diego, CA 92101-1592

TO TENANT:

Arnold's Furniture Corporation

7077 Consolidated Way

San Diego, CA 92121

*Copy to: Trell + Manella
1800 Avenue of the Stars, Suite 900
Los Angeles, CA 90067
attention: Joan L. Lesser, Esq.*

Initials:

AB & EB

Landlord

[Signature]

Tenant

Reference to this Article A to Lease . paragraphs are for convenience and designate some of the paragraphs where references to the particular Fundamental Lease Provisions appear. Each reference in the following Lease to any of the Fundamental Lease Provisions contained in this Article A shall be construed to incorporate all of the terms set forth under each such Fundamental Lease Provision. In the event of any conflict between any Fundamental Lease Provision and the balance of this Lease, the Fundamental Lease Provision shall control.

NOTE: SEE ADDENDA 1 AND 2 FOR ADDITIONAL FUNDAMENTAL LEASE PROVISIONS.

ARTICLE B

EXHIBITS

The following drawings and special provisions are attached hereto as exhibits and made a part of this Lease:

EXHIBITS "A" and "A-1" - Legal Description and General site plan of a home furnishing center known as "San Diego Home Furnishing Center--Annex" in the City of San Diego, County of San Diego, State of California and being located at 4611 Mercury Street, San Diego, CA 92111, hereinafter referred to as the "Home Furnishing Center." Said site plan shows, among other things, the principal improvements which comprise said Home Furnishing Center.

EXHIBIT "B" - Guarantee of Lease.

EXHIBIT "C" - Tenant's Certificate.

EXHIBIT "D" - Sign Criteria.

EXHIBIT "E" - Common Area Rules and Regulations

EXHIBIT "F" - Exceptions to Landlord's Representations and Warranties

ARTICLE C

LEASE TERMS AND CONDITIONS

1. First Right to Lease

If any of the existing or future tenants of the Home Furnishing Center occupying premises not covered by this Lease vacate the premises occupied by them during the term of this Lease and Tenant is not then in default, Tenant shall have the first right to lease such vacated premises. Landlord shall offer said vacated premises to Tenant by notice in writing to Tenant specifying the rent and other terms requested by Landlord. If Tenant elects to exercise this right, Tenant shall notify Landlord of such election, in writing, within seven (7) days of Landlord's notice of the opportunity to lease the vacated premises. In the event Landlord fails to

Initials:

MB LBY
Landlord

[Signature]
Tenant

receive an election by Tenant to lease the vacated premises, Landlord shall thereafter be free to lease such premises to third parties; provided, however, that Landlord shall not offer to lease such premises to third parties on terms materially more favorable than those offered to Tenant without first reoffering the first right to lease said vacated premises to Tenant on the revised terms.

2. Premises

2.1 Premises. Landlord hereby leases to Tenant and Tenant hereby rents from Landlord those certain Premises (hereinafter referred to as "the Premises") consisting of the suite numbers identified in Article A (Fundamental Lease Provisions) situated in the Home Furnishing Center in the City of San Diego, County of San Diego, State of California, described on Exhibit "A" and identified on Exhibit "A-1". The Premises, together with and including other property owned by Landlord, comprise the Home Furnishing Center (hereinafter "Home Furnishing Center"). A general site plan of the Home Furnishing Center, showing among other things, the principal improvements and/or amenities which comprise the Home Furnishing Center is attached hereto as Exhibit "A" and a plot plan designating the suites in the Home Furnishing Center leased to Tenant is attached hereto as Exhibit "A-1". Landlord reserves the right to effect such other tenancies in the Home Furnishing Center as Landlord in the exercise of his business judgment shall determine to best promote the interest of the Home Furnishing Center; subject, however, to Tenant's approval of such other tenancies, which approval shall not be unreasonably withheld or delayed; further, provided, however, that Tenant shall have no right to disapprove renewal or extensions of the tenancies of existing tenants in the Home Furnishing Center. In connection with Tenant's approval of proposed future tenancies, Tenant shall have the right to consider whether the business of a proposed Tenant is consistent or incompatible or directly competitive with Tenant's business, or whether it might have an adverse effect on the businesses then existing in the Home Furnishing Center. In the exercise of Tenant's right to disapprove, it is expressly understood that there shall not be any other retail furniture stores in the Home Furnishing Center (other than existing tenants) unless Tenant specifically approves of the proposed new tenant. Any disagreement between Landlord and Tenant of the exercise of Tenant's right to disapprove of proposed new tenants shall be resolved by arbitration in accordance with the provisions of Paragraph 22 hereof. In adjudicating any such dispute the arbitrator shall be required to apply the standards and criteria specified in this paragraph.

3. Term

This Lease shall be for the term specified in the Fundamental Lease Provisions, as modified by Addendum 1. The term of this Lease shall commence on the date specified in the Fundamental Lease Provisions and Tenant's obligation to pay rent shall commence on December 1, 1991. Commencing on December 1, 1991 and thereafter on the first day of each and every succeeding month throughout the term of this Lease, Tenant shall pay the minimum monthly rent provided for herein, in advance, in equal monthly installments.

4. Rent

4.1 Minimum Monthly Rent. Tenant shall pay Landlord as minimum monthly rent for the Premises the sum specified in the Fundamental Lease Provisions, which sum shall be paid in advance on the first day of each calendar month from the commencement of the term and thereafter throughout the terms of the Lease. All rent to be paid by Tenant to Landlord shall be in lawful money of the United States of

America and shall be paid without deduction or offset except as expressly permitted herein, and without prior notice or demand, and at such place or places as designated from time to time by Landlord.

4.2 Cost of Living Adjustment. The minimum monthly rent provided for in Paragraph 4.1 shall be subject to adjustment at the commencement of the fourth (4th) year of the term and each year thereafter (the "Adjustment Date") as follows:

The base for computing the adjustment is the Consumer Price Index ("CPI") - all items, San Diego Metropolitan Area, published by the United States Department of Labor, Bureau of Labor Statistics ("Index"), which is published for the month nearest the date of commencement of the term ("Beginning Index"). If the index published nearest the adjustment date ("Extension Index") has increased over the Beginning Index, the minimum monthly rent for the following year (until the next rent adjustment) shall be set by multiplying the minimum monthly rent set forth in the Fundamental Lease Provisions by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the minimum monthly rent be less than the minimum monthly rent set forth in the Fundamental Lease Provisions. On adjustment of the minimum monthly rent as provided in this Lease, the parties shall immediately execute an amendment to the Lease stating the new minimum monthly rent.

If the index is changed so that the base year differs from that used to establish the Beginning Index, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

4.3 Interest on Unpaid Rent. Rent not paid within ten (10) days following the date due shall bear interest at the rate of ten percent (10%) per annum from the date due until the date paid.

5. Taxes

5.1 Real Property and Possessory Interest Taxes. In addition to the rent provided for in the Fundamental Lease Provisions, Tenant shall pay the Landlord, as additional rent, the amount of taxes and assessments levied and assessed upon the Premises and the underlying realty and/or upon any separately taxable possessory interest therein prorated for any partial years based upon the portion of the taxable year covered by the Lease term. Payment shall be made by Tenant to Landlord in the manner hereinafter provided in this Paragraph 5.1. The term "floor area" as used throughout this Lease shall be deemed to mean and include all areas for the exclusive use and occupancy by a tenant of Landlord, measured from the exterior surface of exterior walls (and from the extensions thereof, in the case of openings) and from the center of interior demising partitions, including mezzanines, warehousing or storage areas, clerical or office areas and employee areas.

If the Premises and underlying realty are not separately assessed, but are part of a larger parcel for assessment purposes (hereinafter referred to as the "larger

See Addendum 1 for additional provisions pertaining to rent adjustment.

parcel"), "taxes and assessments levied and assessed upon the Premises and the underlying realty and/or upon any separately taxable possessory interest therein" shall mean a fractional portion of said taxes and assessments on the larger parcel (excluding taxes and assessments on any common areas thereon) the numerator of which shall be the floor area of the Premises and the denominator of which shall be the floor area of all the areas available for exclusive use and occupancy by tenants of the larger parcel, whether or not actually rented, occupied or open for business. However, an equitable adjustment may be made for any premises which has outside sales areas or driveways as an integral part of its business operation. Such portion as adjusted from time to time shall be referred to as Tenant's "prorata share". With respect to any assessments which may be levied against or upon the Premises and the underlying realty and/or upon any separately taxable possessory interest therein, or which under the laws then in force may be evidenced by improvement or other bonds, or may be paid in annual installments, only the amount of such annual installment (with appropriate proration for any partial year) and statutory interest shall be included within the annual computation of such taxes and assessments.

If at any time during the Lease term under the laws of the United States Government, State of California, or any political subdivision thereof in which the Premises are situated, a tax or excise on rent or any other tax however described is levied or assessed by any such political body, against Landlord on account of rentals payable to Landlord hereunder, such tax or excise shall be considered "taxes levied and assessed upon the Premises and the underlying realty and/or upon any separately taxable possessory interest therein" for the purposes of this Paragraph 5.

Notwithstanding the foregoing, the term "taxes levied and assessed upon the Premises and the underlying realty and/or upon any separately taxable possessory interest therein" shall exclude all franchise, estate, inheritance, value-added, gift, succession, transfer or corporation taxes of Landlord as well as any gross receipts, gross rentals, net income or excess profits tax of Landlord, and excluding penalties imposed for late payment of any taxes.

Notwithstanding the foregoing provisions of Paragraph 5.1, Tenant shall not be required to pay any increase in taxes or assessments levied or assessed upon the Premises as a consequence of any "change in ownership" of the Premises and any underlying realty or any portion thereof, as such term is defined in any of Sections 60, 61, 64 or 65 of the California Revenue and Taxation Code during the initial term of this Lease.

A. Tenant shall pay to Landlord Tenant's prorata share of any such taxes and assessments levied and assessed upon the Premises and the underlying realty and/or upon any possessory interest therein in the following manner:

(i) Landlord shall pay all taxes and assessments due on the Premises and the underlying realty prior to delinquency.

(ii) Landlord shall furnish Tenant a copy of the relevant tax bills showing the amount of the taxes and assessments against the Premises, or if the Premises and underlying realty are not separately assessed, showing the amount of the taxes and assessments against the larger parcel and a computation showing the amount of Tenant's prorata share of such taxes and assessments (the "Tax Notice"). Landlord shall fairly determine Tenant's prorata share of such taxes and assessments based upon the most current tax and other information available to Landlord, and provided to Tenant. Any dispute between Landlord and Tenant concerning Tenant's

prorata share of such taxes and assessments shall be resolved by arbitration in accordance with the provisions of Paragraph 22 hereof. Before the later of ten (10) days prior to delinquency or ten (10) days after Tenant's receipt of the Tax Notice, Tenant shall be obligated to send its prorata share of such taxes and assessments to Landlord as shown in Landlord's computation; and Landlord, within thirty (30) days after Tenant's payment, shall be obligated to submit to Tenant proof of Landlord's payment of such taxes and assessments. Tenant's payment of the amount set forth in the Tax Notice shall not waive Tenant's right to arbitrate any disputes in accordance with Paragraph 22 hereof.

B. Failure of Tenant to pay any of the taxes and assessments required by Tenant to be paid, as provided in this Paragraph 5.1, shall constitute a default under the terms hereof in like manner as failure to pay rental when due.

5.2 Personal Property Taxes. Tenant shall pay, before delinquency, all taxes, assessments, license fees and public charges levied, assessed or imposed upon or measured by the value of its business operation, including but not limited to the furniture, fixtures, leasehold improvements, equipment and other property of Tenant at any time situated on or installed in the Premises by Tenant. If any time during the term of this Lease any of the foregoing are assessed as a part of the real property of which the Premises are a part, Tenant shall pay to Landlord prior to delinquency the amount of such additional taxes as may be levied against said real property by reason thereof. For the purpose of determining said amount, figures supplied by the County Assessor as to the amount so assessed shall be conclusive; provided, that this shall not prevent Tenant from contesting any such taxes, assessments and other charges.

5.3 New Taxes. In addition to rent and other charges to be paid by Tenant hereunder, Tenant shall reimburse to Landlord, in the manner provided below, any and all taxes and assessments payable by Landlord (other than franchise, estate, inheritance, value-added, gift, succession, transfer, corporation, gross receipts, gross rental, net income and excess profits taxes) whether or not now customary or within the contemplation of the parties hereto; (a) upon, allocable to, or measured by the area of the Premises or on the rent payable hereunder, including without limitation, any gross income tax or excise tax levied by the State, any political subdivision thereof, City or Federal Government with respect to the receipt of such rent; or (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; or (c) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Landlord of the larger parcel of which the Premises are a part, but in such event Tenant shall only be responsible for his prorata share thereof computed in the manner provided in Paragraph 5.1; or (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

In the event any such new taxes are enacted or imposed subsequent to the commencement of the term of this Lease, Landlord shall furnish Tenant with a copy of all relevant tax bills or returns and a computation showing the amount of Tenant's prorata share thereof (the "New Taxes Notice"). Landlord shall fairly determine Tenant's prorata share thereof. Any dispute concerning such taxes or Tenant's prorata shares thereof shall be resolved by arbitration in accordance with Paragraph 22 hereof. Tenant shall pay to Landlord his prorata share thereof before the later of ten (10) days prior to delinquency or ten (10) days after receipt of the New Taxes Notice. Tenant's payment of the amount set

forth in the New Taxes Notice shall not waive Tenant's right to arbitrate any disputes in accordance with Paragraph 22 hereof. Tenant's prorata share of any such new taxes shall be computed and adjusted in the same manner as real property taxes also as provided in Paragraph 5.1.

6. Use

6.1 Use. Tenant shall use the Premises solely for the purpose and under the trade name, if any, specified in the Fundamental Lease Provisions. Tenant shall not use or permit the Premises to be used for any other purpose or purposes or under any other trade name whatsoever without the prior written consent of the Landlord.

6.2 Suitability. Tenant acknowledges that, except as provided in this Lease, neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or with respect to the suitability of the Premises or the Home Furnishing Center for the conduct of Tenant's business, nor has Landlord agreed to undertake any modification, alteration, or improvement to the Premises except as provided in this Lease.

6.3 Landlord's Representations, Warranties and Covenants.

A. Landlord hereby represents and warrants to Tenant that the Home Furnishing Center, including the Premises and the common area improvements, were constructed and comply in all material respects with all laws, ordinances and regulations applicable thereto, except as disclosed in Exhibit "F" hereto.

B. Landlord will not do or permit anything to be done in or about the Premises or the Home Furnishing Center nor bring or keep anything therein which will in any way increase the existing rate or affect any fire or other insurance upon the Premises or any building of which the Premises may be a part or any of its contents or any of the common areas (unless Landlord shall pay any increased premium as a result of such use or acts), or cause a cancellation of any insurance policy covering the Premises or any building of which the Premises may be a part or any of its contents or any of the common areas, nor shall Landlord sell or permit to be kept used or sold in or about the Home Furnishing Center including the Premises and the common area any articles which may be prohibited by a standard form policy of fire insurance.

C. Landlord shall not do or permit anything to be done in or about the Home Furnishing Center which will in any way obstruct or interfere with the rights of Tenant or use or allow the Home Furnishing Center to be used for any unlawful purpose, nor shall Landlord cause, maintain or permit any nuisance in, on or about the Home Furnishing Center.

6.4 Uses Prohibited

A. Tenant further covenants and agrees that it will not use or suffer or permit any person or persons to use the Premises or any part thereof for conducting therein a second-hand store, auction, distress or fire sale or bankruptcy or going-out-of-business sale, or for any use or purpose in violation of the laws of the United States of America or the State of California or the ordinances, regulations and requirements of the City of San Diego or the County of San Diego wherein the Premises are situated, or other lawful authorities, and that during said term the Premises, and every part thereof, shall be kept by the Tenant in a clean and wholesome condition, free of any objectionable noises, odors or nuisances, and that all health and police

regulations shall, in all respects and at all times, be fully complied with by the Tenant.

B. Tenant may not display or sell merchandise or allow carts, portable signs, devices or any other objects to be stored or to remain outside the defined exterior walls and permanent doorways of the Premises without Landlord's approval in writing in advance.

C. Tenant shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate or affect any fire or other insurance upon the Premises or any building of which the Premises may be a part or any of its contents (unless Tenant shall pay any increased premium as a result of such use or acts), or cause a cancellation of any insurance policy covering the Premises or any building of which the Premises may be a part or any of its contents, nor shall Tenant sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by a standard form policy of fire insurance.

D. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the building of which the Premises may be a part or any other building in the Home Furnishing Center, or use or allow the Premises to be used for any unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises.

E. Tenant shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation or requirement of duly constituted public authorities now in force or which may hereinafter be enacted or promulgated.

6.5 Covenants to Operate

A. Tenant covenants and agrees that, continuously and uninterruptedly from and after its initial opening for business, and for a period of not less than three (3) years thereafter, it will operate and conduct within the Premises the business which it is permitted to operate and conduct under the provisions hereof, except while the Premises are untenable by reason of fire or other casualty or while Tenant is remodeling or refurbishing the Premises or is closed for any other valid business purpose. Tenant agrees that all trash and rubbish of Tenant shall be deposited within receptacles to be emptied and trash removed at its own cost and expense.

7. Utilities Services

Landlord agrees that it will cause to be made available to Tenant at the exterior of the Premises facilities for the delivery to the Premises of water, electricity, sprinkler mains, and telephones. All such utilities shall be separately metered if it is reasonably feasible and not unreasonably costly for Landlord to do so. Otherwise, Landlord shall allocate utility costs of the Home Furnishing Center based on Tenant's "prorata share" (as defined in Paragraph 5.1 hereof), as equitably adjusted to take into account extraordinary utility usage by any tenant of the Home Furnishing Center. Tenant agrees to use such utilities with respect to the Premises.

Tenant agrees, at its own expense, to pay for all water, telephone and electric current and all other similar utilities used by Tenant on the Premises from and after the

delivery of possession thereof by Landlord, subject to the allocation provisions of the immediately preceding paragraph to the extent that utilities are not separately metered. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility service being furnished the Premises, and no such failure or interruption shall entitle Tenant to terminate this Lease.

8. Maintenance and Repairs; Alterations and Additions; Fixtures

8.1 Maintenance and Repairs

A. Repairs by Landlord. Landlord shall keep in good order, condition and repair the foundations, exterior walls (excluding the interior surface of exterior walls, floor coverings, all windows, doors, plate glass and showcases), any concealed plumbing or wiring, canopy, downspouts, gutters and roof of the Premises, and as necessary, or when required by governmental authority, make modifications or replacements thereof, except that Tenant shall make all such repairs, modifications or replacements which becomes necessary or desirable by reason of Tenant's use of the property or the negligence of Tenant, its customers, invitees or employees, unless and to the extent the damage or loss resulting is covered under any policy of insurance of the Landlord and such loss or damage is paid to or on behalf of Landlord, pursuant to such insurance policy. In the event repairs are required with respect to any of the matters which Landlord is required to keep in good order, condition and repair, as specified in this paragraph, then upon written notice from Tenant to Landlord stating the necessity for such repairs and the nature of the required repairs, Landlord with reasonable promptness shall make the specified repairs; provided, however, that in the event Landlord disputes its obligation to make such repairs or the need for the same, Landlord shall nonetheless make such repairs but may submit the question of its obligation to do so to arbitration pursuant to the provision of Paragraph 22 hereof, and the making of such repairs by Landlord shall not be deemed a waiver of its right to arbitrate the dispute. If Landlord fails to commence the making of the required repairs or the performance of maintenance Landlord is obligated to do by the provisions of this paragraph within ten (10) days after written notice from Tenant, Tenant shall have the right (but shall not be obligated) to cause such repairs to be made or such maintenance to be performed; and upon demand by Tenant, Landlord shall be obligated to promptly pay Tenant the reasonable cost and expense thereof, with interest at the rate of ten percent (10%) per annum from the date of each payment therefor by Tenant, and should Landlord fail to promptly pay such amount to Tenant, Tenant shall have the right to deduct and offset that amount from the rent payable under this Lease, all subject to the parties' arbitration rights pursuant to Paragraph 22 hereof. Tenant expressly agrees that the use of roof areas shall be limited to ingress for maintenance purposes only, and that said roof areas shall not be used for storage, inventory, signs or advertising or other similar uses.

B. Repairs by Tenant. Tenant shall maintain and keep in good order, condition and repair the interior of the Premises (excluding the structure thereof to the extent Landlord is responsible therefor pursuant to this Lease), including all heating and electrical equipment, air conditioning equipment, plumbing, wiring and sprinkler systems, if any, installed therein, and the improvements and equipment installed by Tenant in the Premises, and shall replace all broken glass, including exterior show windows, with glass of the same or similar quality. Tenant shall make all other repairs, whether of a like or different nature, except those which Landlord is specifically obligated to make

under the provisions of Subparagraph 8.1(A), above. Notwithstanding the foregoing provisions of this paragraph, Landlord shall make all such repairs, modifications or replacements which otherwise would have been required to have been made by Tenant if such repairs, modifications or replacements become necessary or desirable by reason of Landlord's use of the property or the negligence of Landlord, or its invitees including other tenants of the Home Furnishing Center, unless and to the extent the damage or loss resulting is covered under any policy of insurance of the Landlord or Tenant and such loss or damage is paid to or on behalf of Tenant, pursuant to such insurance policy. Tenant shall maintain and keep in good order exterior and interior of Tenant's store front.

C. Tenant's Failure to Maintain. In the event Tenant fails to maintain the Premises in good order, condition and repair as required by Paragraph 8.1B, Landlord shall give Tenant notice stating the necessity for such maintenance and repairs and the nature of the required maintenance or repairs. Tenant with reasonable promptness shall undertake the specified maintenance or make the specified repairs; provided, however, that in the event Tenant disputes its obligation to undertake such maintenance or make such repairs or the need for the same, Tenant shall nonetheless undertake such maintenance or make such repairs but may submit the question of its obligation to do so to arbitration pursuant to the provisions of Paragraph 22 hereof, and the undertaking of such maintenance or the making of such repairs by Tenant shall not be deemed a waiver of its right to arbitrate the dispute. If Tenant fails to commence the performance of maintenance or the making of the required repairs Tenant is required to do pursuant to Paragraph 8.1B within ten (10) days after written notice from Landlord, Landlord shall have the right (but shall not be obligated) to cause such repairs to be made or such maintenance to be performed; and upon demand by Landlord, Tenant shall be obligated to promptly pay Landlord the reasonable cost and expense thereof, with interest at the rate of ten percent (10%) per annum from the date of each payment therefor by Landlord. Landlord shall use its best efforts to minimize any damage, inconvenience or interference with Tenant's use of the Premises in making such repairs; provided, however, that subject to the foregoing provisions of this sentence, Landlord shall have no liability to Tenant for any damage, inconvenience, or interference with the use of the Premises by Tenant as a result of performing any such work except to the extent that such damage, inconvenience or interference was reasonably avoidable and Landlord failed to take appropriate steps to avoid the same.

D. Condition Upon Expiration of Term. Upon the expiration or termination of the term, Tenant shall cease doing business and surrender the Premises to Landlord. Tenant may remove all trade fixtures, equipment, signs and personal property from the Premises. Tenant will repair any damage caused by such removal and will deliver the Premises and any improvements thereon that Tenant is obligated to repair under this Lease to Landlord, in the same condition as received, ordinary wear and tear and damage by earthquake, act of God, or the elements excepted.

E. Emergency Repairs. Notwithstanding any contrary provision of this Paragraph 8, if any repair or maintenance for which Landlord is responsible is of an emergency nature which, if not attended to immediately, will or might result in injury or damage to persons or property, or interfere with the conduct of Tenant's business at the Premises, then Tenant without prior notice to Landlord may make such emergency repairs or perform such maintenance as is necessary to meet the emergency; and upon demand by Tenant, Landlord shall be obligated promptly to pay Tenant the

reasonable cost and expense thereof plus interest at the rate of ten percent (10%) per annum from the date of payment and, should Landlord fail to promptly pay the reasonable cost and expense, plus interest, Tenant shall have the right to deduct and offset that amount from the rent payable under the Lease.

F. Required Alterations. In the event that during the term hereof any alteration, addition, or change be required by law, regulation, rule, or the requirements of any insurance company (as a condition to the issuance or continuation of insurance coverage) to be made to the Premises, or any portion thereof, then and in that event:

(i) If such alteration, addition, or change be required by reason of the omission or lack of care or maintenance of portions of the Premises which Tenant is by the terms hereof required to care for and maintain, or is required by reason of a change in the manner or mode of use of the Premises by Tenant, then said alteration, addition, or change shall be made and paid for by Tenant;

(ii) If such alteration, addition, change, or otherwise be required by reason of the existence or nonexistence of anything a part of the Premises at the time of the execution hereof, or by reason of any defect in the structural portions of the building of which the Premises are a part, said defect not being caused by the manner or mode of use of any portion of the Premises, or if such be required as to any portion of the Premises which Landlord has expressly agreed to care for or maintain, then said alteration, addition, change, or otherwise shall be made and paid for by Landlord.

8.2 Alterations

A. Tenant may, from time to time, make any interior, non-structural alterations, additions or improvements to the Premises. Any other alterations may be made only with Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Landlord shall be informed of any proposed other alterations at least ten (10) days in advance of their commencement so that it can post notices of non-responsibility in accordance with Paragraph 9 below. Any such work done by Tenant shall be done in a workmanlike manner without impairing the structural soundness of the Premises. Landlord shall cooperate, at no cost to Landlord, with Tenant in securing the necessary permits and authority to perform any such work.

B. Any such changes, alterations and improvements shall be performed and done strictly in accordance with the laws and ordinances relating thereto. In performing the work of any such alterations, additions or changes, Tenant shall have the work performed in such a manner as not to obstruct the access to the Premises of any other tenant in the Home Furnishing Center.

8.3 Installation of Fixtures. Tenant, at Tenant's expense, may install any necessary trade fixtures, equipment and furniture in the Premises. Said trade fixtures, equipment and furniture shall remain Tenant's property and may be removed by Tenant upon expiration of the term of the Lease. Tenant shall repair, at Tenant's sole expense, all damage caused by the installation or removal of trade fixtures, equipment, furniture or temporary improvements. If Tenant fails to remove the foregoing items on termination of this Lease, Landlord may keep and use them or remove any or all of them and cause them to be stored or sold in accordance with applicable law. The term "trade fixtures," as used herein, shall include without limitation removable wall panels, removable decorations, mirrors, decorative hardware and decorative lighting fixtures, area rugs and carpeting,

merchandise, supplies and other personal property of Tenant (including but not limited to counters, shelving and showcases).

9. Entry by Landlord

Upon reasonable, prior written notice delivered to Tenant, Landlord may enter the Premises to inspect the same, to perform Landlord's maintenance and repairs, to post notices of non-responsibility (in places not conspicuous to customers), to display the Premises to prospective buyers, lenders and lessees and for any other purpose reasonably related to Landlord's ownership of the Home Furnishing Center. Except in emergencies, such entry shall be subject to Tenant's reasonable regulation as to time, place and manner. While on the Premises, Landlord will act so as to minimize interference with the operations of Tenant and will indemnify Tenant against liability arising from its activities.

10. Liens

Landlord and Tenant each agree that the party performing any work on the Premises will pay or cause to be paid all costs for such work and will keep the Premises free and clear of mechanics' liens on account of such work. Landlord and Tenant each agree to indemnify and save the other free and harmless against liability, loss, damage, costs, attorneys' fees, and all other expenses on account of claims of lien of laborers or materialmen or others for work performed or materials or supplies furnished at the request of such indemnifying party for the Premises by persons claiming under such indemnifying party for the work performed or materials or supplies furnished.

If Tenant shall desire to contest any claim of lien, it shall furnish Landlord reasonably adequate security of the value or in the amount of the claim, plus estimated costs and interest, or a bond of a responsible corporate surety in such amount conditioned on the discharge of the lien. If a final judgment establishing the validity or existence of a lien for any amount is entered, Tenant shall pay and satisfy the same at once.

If Tenant shall be in default in paying any charge for which a mechanics' lien claim and suit to foreclose the lien has been filed, and shall not have given Landlord security to protect the property and Landlord against such claim of lien, Landlord may, following ten (10) days notice to Tenant, if Tenant has not paid such charge or provided such security, (but shall not be so required to) pay the claim and any costs, and the amount so paid, together with reasonable attorneys' fees incurred in connection therewith, shall be immediately due and owing from Tenant to Landlord, and Tenant agrees to and shall pay the same with interest at the rate of ten percent (10%) per annum from the dates of Landlord's payments.

Should any claims of lien be filed against the Premises or any action affecting the title to such property be commenced, the party receiving notice of such lien or action shall forthwith give the other party written notice thereof.

11. Hold Harmless; Indemnity

11.1 Tenant's Hold Harmless; Indemnity. Tenant shall protect and defend, indemnify and hold harmless Landlord and its authorized representatives from and against any and all claims arising from Tenant's use of the Premises or the conduct of its business or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or the Home Furnishing Center, and shall further protect, defend, indemnify and hold harmless Landlord and its

authorized representatives from and against any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act or negligence of Tenant, or its authorized representatives, and from and against all costs, attorneys' fees, expenses and liabilities incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding be brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend same at Tenant's expense by counsel reasonably satisfactory to Landlord. Tenant assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause and Tenant hereby waives all claims in respect thereof against Landlord except as to damage or injury caused by Landlord's or its authorized representatives' negligence or willful misconduct.

11.2 Landlord's Hold Harmless; Indemnity. Landlord shall protect and defend, indemnify and hold harmless Tenant from and against any and all claims arising from any activity, work or thing done, permitted or suffered by Landlord in or about the Home Furnishing Center, and shall further protect, defend, indemnify and hold harmless Tenant from and against any and all claims arising from any breach or default in the performance of any obligation on Landlord's part to be performed under the terms of the Lease, or arising from any act or negligence of Landlord, or its authorized representatives, and from and against all costs, attorneys' fees, expenses and liabilities incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding be brought against Tenant by reason of any such claim, Landlord upon notice from Tenant shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant.

12. Insurance

12.1 Waiver of Subrogation. Landlord and Tenant hereby waive any rights each may have against the other on account of any loss or damage occasioned to the Landlord or Tenant, as the case may be, their respective property, the Premises, or its contents or to other portions of the Home Furnishing Center, arising from any risk generally covered by fire and extended coverage insurance; and the parties each, on behalf of their respective insurance companies insuring the property of either Landlord or Tenant against any such loss, waive any right of subrogation that it may have against Landlord or Tenant, as the case may be. The foregoing waivers of subrogation shall be operative only so long as the same are available in the State of California and do not invalidate any such policy.

12.2 Insurance Maintained and Paid by Tenant. Tenant further covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Tenant will carry and maintain, at its sole cost and expense, in the amounts specified and in the form hereinafter provided for, the following types of insurance:

A. Public Liability Insurance. Bodily injury liability insurance with limits of not less than One Million Dollars (\$1,000,000.00) per person and Two Million Dollars (\$2,000,000.00) per occurrence insuring against any and all liability of the insured with respect to said Premises or arising out of the maintenance, use or occupancy thereof, and property damage liability insurance with a limit of not less than Five Hundred Thousand Dollars (\$500,000.00) per accident or occurrence.

B. Tenant Improvements. Insurance covering Tenant's leasehold improvements, alterations, additions or improvements permitted under Paragraph 8.2, trade fixtures,

merchandise and personal property from time to time in, on or upon the Premises, in an amount not less than their full replacement cost from time to time during the term of this Lease, providing protection against any peril included within the classification "Fire and Extended Coverage," together with insurance against sprinkler damage, vandalism and malicious mischief. Any policy proceeds shall be used for the repair or replacement of the property damaged or destroyed unless this Lease shall cease and terminate under the provisions of Paragraph 13 hereof.

C. Policy Form. All policies of insurance provided for herein to be maintained by Landlord shall be issued by insurance companies, with general policy holders rating of not less than A and a financial rating of AAA as rated in the most current available "Best's" Insurance Reports, and qualified to do business in the State of California, and shall be issued in the names of Landlord and Tenant, which policies shall be for the mutual and joint benefit and protection of Landlord and Tenant, and executed copies of such policies of insurance or certificates thereof shall be delivered to Tenant within ten (10) days after delivery or possession of the Premises by Tenant and thereafter within thirty (30) days prior to the expiration of the term of each such policy. All public liability and property damage policies shall contain a provision that Tenant, although named as an insured, shall nevertheless be entitled to recover under said policies for any loss occasioned to Tenant, its servants, agents and employees by reason of the negligence of Landlord. As often as any such policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Landlord in like manner and to like extent. All policies of insurance delivered to Tenant must contain a provision that the company writing said policy will give to Tenant twenty (20) days notice in writing in advance of any cancellation or lapse or the effective date of any reduction in the amounts of insurance. All public liability, property damage and other casualty policies shall be written as primary policies, not contributing with and not in excess of coverage which Tenant may carry.

12.3 Insurance Maintained by Landlord and Paid by Landlord

A. Property Damage. Landlord shall at all times during the term hereof maintain in effect a policy or policies of insurance covering the building of which the Premises is a part and of the common areas in the Home Furnishing Center, in an amount not less than the full replacement cost (exclusive of the cost of excavations, foundations and footings) from time to time during the term of this Lease or the amount of such insurance Landlord's mortgage lender requires Landlord to maintain, whichever is the greater, providing protection against any peril generally included within the classification "Fire and Extended Coverage," together with insurance against sprinkler damage, vandalism and malicious mischief. Tenant agrees to pay Landlord, as additional rent, during each year or partial year of the term of this Lease, the cost to Landlord of the insurance required to be maintained by Landlord on the Premises under this Paragraph 12.3 for each such year or partial year. Such additional rent for any partial year of the term hereto shall be prorated on a time basis. In the event the cost to the Landlord of the insurance it is required to maintain on the Premises under this Paragraph 12.3 is not separately charged to Landlord by its insurance carrier, the portion of the cost of such insurance applicable to the Premises shall be Tenant's prorata share -- that is, that proportion of such cost which the floor area of the Premises bears to the floor area of all the areas available for exclusive use and occupancy by tenants of the Home Furnishing

Center covered by such insurance, whether or not actually occupied and open for business. The term "floor area" shall have the meaning set forth in Paragraph 5.1 of the Lease.

B. Public Liability Insurance. Landlord shall at all times during the term hereof maintain in effect a policy or policies of insurance covering common areas of the Home Furnishing Center insuring against all risks of injuries to or deaths of persons on or about the common areas and damage to property on or about the common areas as follows: bodily injury liability insurance with limits of not less than One Million Dollars (\$1,000,000) per person and Two Million Dollars (\$2,000,000) per occurrence insuring against any and all liability of the insured with respect to the common area of the Home Furnishing Center or arising out of the maintenance, use or occupancy thereof, and property damage liability insurance with a limit of not less than Five Hundred Thousand Dollars (\$500,000) per accident or occurrence.

C. Earthquake Insurance. If Tenant so elects and coverage is available, Landlord shall provide earthquake insurance covering the Premises and the Home Furnishing Center and Tenant shall pay its prorata share of the premium cost of the same. Any such election by Tenant shall be made in writing to Landlord and Landlord shall have a reasonable time after receipt of notice to procure such policy.

D. Tenant's Prorata Share. Landlord shall furnish Tenant a copy of the relevant bills for insurance premiums for the insurance required to be provided by Landlord hereunder and a computation showing the amount of Tenant's prorata share of such premiums (the "Insurance Notice"). Landlord shall fairly determine Tenant's prorata share of such insurance premiums. Any dispute between Landlord and Tenant concerning such insurance or Tenant's prorata share thereof shall be resolved by arbitration in accordance with the provisions of Paragraph 22 hereof. Before the later of thirty (30) days prior to their due date or thirty (30) days following receipt of the Insurance Notice, Tenant shall be obligated to send its prorata share of such insurance premiums to Landlord as shown in the Insurance Notice. Tenant's payment of the amount set forth in the Insurance Notice shall not waive Tenant's right to arbitrate any disputes in accordance with Paragraph 22 hereof.

12.4 Tenant's Option to Procure Blanket Policies Covering Both Tenant and Landlord. Notwithstanding the foregoing provisions of Paragraph 12.3, Tenant shall have the option to procure blanket policies of insurance covering the insurance obligations of both Tenant under Paragraph 12.2 hereof and Landlord under Paragraph 12.3 hereof and Landlord shall reimburse Tenant for the amount in excess of Tenant's prorata share of the costs of such insurance. Any such election shall be made by Tenant not later than ten (10) days prior to the commencement of the term of this Lease and thereafter not later than ten (10) days prior to the expiration of any existing policy of insurance covering Tenant's or Landlord's insurance obligations hereunder and written notice of such election shall be given by Tenant to Landlord along with appropriate evidence documenting the fact that such insurance coverage has been procured. In the absence of such an election by Tenant each of the parties shall be responsible for procuring and maintaining their respective insurance obligations hereunder.

12.5 Landlord's Blanket Policy. Subject to the provisions of Paragraph 12.4, Landlord's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called policy or policies of insurance carried and maintained by Landlord; provided, however, that Tenant shall be named as an additional insured thereunder as its interest may appear and that the coverage afforded by such

blanket policy of insurance is consistent with the coverage requirements herein specified, and further provided that the requirements set forth herein are otherwise satisfied. Landlord agrees to permit Tenant at all reasonable times to inspect the policies of insurance of Landlord covering risks upon the Premises for which policies or copies thereof are not required to be delivered to Tenant.

12.6 Landlord's Insurance Costs. Nothing herein contained is intended or shall be construed as precluding Landlord from appropriately allocating among the tenants of the Home Furnishing Center including Tenant the insurance expense of Landlord for insurance coverage required to be maintained by Landlord hereunder.

13. Damage or Destruction

13.1 Insured or Minor Damage. Subject to the provisions of Paragraph 13.3, if at any time during the term hereof the Premises are destroyed or damaged and either (a) such damage is not "substantial" as that term is hereinafter defined, or (b) such damage was caused by casualty required to be insured against under Paragraph 12.3, then Landlord shall promptly repair such damage at Landlord's expense and this Lease shall continue in full force and effect.

13.2 Major Damage. If at any time during the term hereof the Premises are destroyed or damaged and if such damage is "substantial" as that term is hereinafter defined, and if such damage was caused by a casualty not required to be insured against under Paragraph 12.3, then Landlord may at its option either (a) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (b) cancel and terminate this Lease as of the date of the occurrence of such damage, by giving Tenant written notice of its election to do so within ninety (90) days after the date of occurrence of such damage. In the event the Landlord exercises the option provided in this paragraph to cancel and terminate the Lease, Tenant shall have sixty (60) days after delivery of Landlord's notice to elect to repair such damage at Tenant's expense, in which event the Lease shall continue and the rent abated in the manner provided in Paragraph 13.5. Any such election shall be made by written notice from Tenant to Landlord given within said sixty (60) day period.

13.3 Damage Near End of Term. If, during the last eighteen (18) months of the Lease term, there is damage or destruction, and the estimated cost of repairs would exceed fifty percent (50%) of the minimum monthly rent then remaining to be paid by Tenant for the balance of the Lease term, Landlord or Tenant shall have the option to terminate the Lease as of the date of the occurrence by giving written notice to the other of its election within thirty (30) days after the date of occurrence; however, such provision shall not apply if (i) Tenant has either previously exercised its option to extend the term of the Lease or (ii) within thirty (30) days after receipt of notice from Landlord that it has elected to terminate the Lease, Tenant exercises its option to extend the term, and in either such event, Landlord shall rebuild, at Landlord's expense, and this Lease shall continue in full force and effect. Landlord shall be obligated to rebuild, subject, however, to the provisions of Paragraph 13.2.

13.4 Partial Destruction of the Home Furnishing Center. If any building or common area in the Home Furnishing Center is damaged as a result of any casualty and this Lease is not being terminated pursuant to this Paragraph 13 as a result of damage to the Premises, Landlord shall promptly, at no expense to Tenant, do or cause to be done the reconstruction of the common area and the reconstruction of

every damaged building to a condition substantially equivalent to its condition immediately before the casualty.

13.5 Abatement of Rent

A. If the Premises are destroyed or damaged and Landlord repairs or restores them pursuant to the provisions of this Paragraph 13, the minimum monthly rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which the Premises are rendered untenable. There shall be no abatement of any item of additional rent or other monetary charge payable hereunder.

B. If Landlord shall be obligated to repair or restore the Premises under the provisions of this Paragraph 13 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Tenant may at its option cancel and terminate this Lease as of the date of occurrence of such damage by giving Landlord written notice of its election to do so at any time prior to the commencement of such repair or restoration.

13.6 Definitions

A. For the purpose of this Paragraph 13, "substantial" damage to the Premises shall be deemed to be damage, the estimated cost of repair of which exceeds one-fifth (1/5) of the estimated replacement cost of the Premises immediately preceding the casualty or event causing such damage.

B. Any dispute between the parties concerning the estimated cost of repair or the estimated replacement cost of the Premises immediately preceding the casualty or event shall be determined by arbitration in accordance with Paragraph 22 hereof.

14. Condemnation

14.1 Entire or Substantial Taking. If the entire Premises, or so much thereof as to make the balance not reasonably adequate for the conduct of Tenant's business, notwithstanding restoration by Landlord as hereinafter provided, shall be taken under the power of eminent domain, this Lease shall automatically terminate as of the date on which the condemning authority takes title or possession whichever first occurs. In addition, if all or a portion of the common area of the Home Furnishing Center or all or a portion of the other buildings in the Home Furnishing Center shall be taken under the power of eminent domain, and if after such taking the balance remaining is not reasonably adequate for the conduct of Tenant's business, notwithstanding restoration by Landlord as hereinafter provided, this Lease shall automatically terminate as of the date on which the condemning authority takes title or possession whichever first occurs. Further, in the event of any taking, Tenant shall have the right to elect to terminate the Lease as of the date on which the condemning authority takes title or possession, whichever first occurs, if, in Tenant's reasonable judgment, after the taking the remaining portion of the Premises and/or the Home Furnishing Center, as constructed or reconstructed, will be unsuitable for the conduct of Tenant's business; provided, however, that the reasonableness and good faith of the Tenant's determination of suitability shall be subject to arbitration in the manner provided in Paragraph 22.

14.2 Partial Taking. In the event of any taking under the power of eminent domain which does not so result in a termination of this Lease, the minimum monthly rent payable hereunder shall be reduced, on an equitable basis, taking into account the relative value of the portion of the Premises

taken as compared to the remaining portion. Other amounts payable hereunder based on Tenant's prorata share shall be adjusted as appropriate to reflect the floor area of the Premises as compared to the floor area available for exclusive use and occupancy by all tenants of the Home Furnishing Center, whether or not actually occupied, rented or open for business, and equitable adjustments for any premises which has outside sales areas or driveways as an integral part of its business operation. Landlord shall promptly at its expense restore the portion of the Premises not so taken to as near its former condition as is reasonably possible and this Lease shall continue in full force and effect with the rent so reduced.

14.3 Awards. Each party shall be entitled to prosecute its claim in any condemnation proceeding and, subject to any reconstruction requirement, to retain any award made to it in such proceeding. It is the intent of this Paragraph that the parties shall be entitled to receive a condemnation award to the extent that their respective interests are depreciated, damaged, destroyed or taken by the exercise of the right of condemnation, taking into consideration the terms, rights, provisions and duration of this Lease.

14.4 Sale Under Threat of Condemnation. A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes under this Paragraph 14.

14.5 Tenant's Option. A taking of twenty-five percent (25%) or more of the floor area of the Premises shall confer upon Tenant the option, to be exercised only within sixty (60) days after Tenant shall have received notice thereof, to terminate this Lease effective as of the date of such taking, upon written notice to Landlord. Failure to exercise such option shall constitute Tenant's agreement that the balance of the Premises is reasonably adequate for the conduct of Tenant's business, and this Lease shall remain in effect subject to Paragraph 14.2 hereof.

15. Assignment and Sublease

Tenant shall not voluntarily or by operation of law assign, license, transfer, mortgage or otherwise encumber all or any part of Tenant's interest in this Lease or in the Premises, and shall not sublet or license all or any part of the Premises, without the prior written consent of Landlord in each instance, and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be wholly void. Without in any way limiting Landlord's right to refuse to give such consent for any other reason or reasons, Landlord reserves the right to refuse to give such consent if in Landlord's sole discretion and opinion the business of any such proposed assignee, licensee or sublessee is not consistent with or is incompatible with the businesses then being conducted by other tenants in the Home Furnishing Center or if the quality of merchandising operation is or may be in any way adversely affected during the term of the Lease or the financial worth of the proposed new tenant is less than that of Tenant executing this Lease or if the proposed assignee, licensee or sublessee would, for any reason, detract from or adversely affect the business of the other tenants of the Home Furnishing Center.

Notwithstanding the foregoing, Tenant shall have the right to assign its interest in this Lease or sublease the Premises without the consent of Landlord either (i) to a transferee of all or substantially all of the business assets of Tenant or (ii) to an "affiliate" of Tenant (as hereinafter

defined). For purposes hereof, "affilia" of Tenant shall mean any person, directly or indirectly controlling, controlled by or under common control with Tenant. For purposes of the preceding sentence, the term "control" means ownership of not less than fifty percent (50%) of the voting stock of all classes of stock entitled to vote for the election of directors or not less than fifty percent (50%) of the beneficial interests in any other business entity, and the term "person" means natural persons, corporations, business trusts, associations, companies, partnerships and joint ventures.

No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provisions of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

16. Subordination, Quiet Enjoyment, Attornment

16.1 Subordination and Non-Disturbance. The rights of Tenant hereunder are and shall be, at the election of the mortgagee or beneficiary, subject and subordinate to any mortgage, deed of trust or other lien resulting from any other method of financing or refinancing, or other lien as granted by Landlord, and to the interest of any lessor under any master lease or ground lease now or hereafter in force upon or with respect to the Premises; provided, however, that Tenant receives a non-disturbance agreement from any such mortgagee, beneficiary under a deed of trust, or lessor under a master lease or ground lease providing that, so long as Tenant is not in default hereunder, this Lease shall not be terminated, and Tenant's possession of the Premises shall not be disturbed, by any foreclosure of any lien of any such mortgage, deed of trust or other lien or any eviction of Landlord under any such ground lease or master lease; and further provided, however, that the provisions of this Lease with respect to insurance proceeds and rebuilding after casualty and condemnation shall supersede any inconsistent provisions in such mortgage, deed of trust or lease. Landlord shall use its best efforts to obtain such a non-disturbance agreement from the beneficiary of any existing deed of trust, any existing mortgage or the Landlord under any existing ground lease or master lease, prior to the commencement of the term of this Lease. If Landlord is unable to obtain such non-disturbance agreement prior to the commencement of the term of this Lease, the Landlord shall continue to use its best efforts to obtain such non-disturbance agreement as soon as possible thereafter; Tenant shall have the right (but shall not be obligated so to do) to record a Request for Notice of default with respect to any such deed of trust or mortgage; and, in the event of a default by Landlord under such deed of trust, mortgage, ground lease, master lease or other lien, Tenant shall have the right (but shall not be obligated so to do) to cure such default and all amounts paid or incurred by Tenant in connection therewith, including without limitation Tenant's attorneys' fees and costs, together with interest at the rate of ten percent (10%) per annum from the date of each payment by Tenant, shall be made promptly by Landlord, and should Landlord fail promptly to pay such amount to Tenant, Tenant shall have the right to deduct and offset that amount from the rent payable under this Lease. If any mortgagee, beneficiary or lessor elects to have this Lease prior to the lien or interest of its mortgage, deed of trust, master lease or ground lease and gives written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust or lease whether this Lease is dated prior or subsequent to the

date of said mortgage, deed of trust or lease or the date of recording thereof. Tenant agrees to execute whatever documentation is reasonably required to further effectuate the provisions of this Paragraph.

16.2 Quiet Enjoyment. Landlord warrants to Tenant that this instrument, when executed and delivered, will constitute a binding obligation of Landlord, enforceable in accordance with its terms; that the execution of this instrument and performance of all of its terms will not conflict with or result in a breach of any injunction or decree or of any agreement binding on Landlord; that (subject to conditions created by, or acts of, Tenant) the condition of the Premises is not now and will not upon commencement of the term of the Lease be in violation of any law, ordinance, order, notice or regulation of any kind except as specified in Exhibit "F" hereto; and that Landlord owns title to its leasehold interest in the property free and clear of any liens, claims or encumbrances except those set forth in First American Title Insurance Company Preliminary Title Report No. 1033097-20 dated as of November 12, 1991, and except for that certain Revised Agreement among the City of San Diego and Arnold and Esther Belinsky, Edward Pollak and Joan Pollak and Richard I. Singer, as Trustees of the James Isensee Trust, recorded against the Premises and the underlying realty on November __, 1991. Landlord further warrants that if Tenant shall pay all rent and other sums as provided herein to be paid by Tenant and shall perform all of the covenants of this Lease to be performed by Tenant, then Tenant shall, during the term hereof, freely, peaceably and quietly occupy and enjoy the full possession of the Premises, together with all appurtenances and all other rights and privileges herein granted, free from molestation or hindrance, lawful or otherwise, by Landlord or any person claiming an interest in the Premises by, through or under Landlord.

16.3 Attornment. In the event any proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage or deed of trust encumbering the Premises, or any part thereof, or in the event of termination of the master lease or ground lease, if any, covering the Premises, Tenant shall, if so requested, attorn to the purchaser upon such foreclosure or sale, or to the grantee under a deed in lieu thereof, or to the lessor under any master lease or ground lease, and recognize such purchaser, grantee or lessor as the landlord under this Lease. Tenant shall execute such agreement as such ground lessor, mortgagee or other person reasonably requires to further effect the attornment, provided such agreement shall neither diminish Tenant's rights, nor increase Tenant's obligations, under this Lease.

17. Default; Remedies

17.1 Tenant Events of Default. The following are defaults by Tenant:

(a) Tenant's failure, when required hereunder, to pay to Landlord any installment of rental or provide any insurance required herein, or make any other payment that Tenant has herein agreed to pay to Landlord, if such failure shall continue for fifteen (15) days after notice of such failure from Landlord to Tenant;

(b) Tenant's failure, when required hereunder, to perform any other obligation of Tenant which is curable if such failure continues for thirty (30) days after notice from Landlord to Tenant of such failure; provided that, if such failure cannot reasonably be cured by the end of such thirty (30) day period, Tenant shall not be in default if Tenant commences reasonable efforts to cure such failure within the

thirty (30) day period and thereafter diligently prosecutes such cure to completion; or

(c) Tenant's failure to comply with the terms of this Lease if such failure is incurable.

(d) Concurrently herewith Landlord and Tenant have entered into other leases described and referred to in Paragraph 5 of Addendum 1 hereto. These other leases are hereinafter referred to as "Concurrent Leases". Subject to the notice provisions of this Paragraph 17.1, if, following applicable notice and cure periods provided for in any Concurrent Lease, Tenant has failed to cure a default pursuant to such Lease, such default shall be deemed a default under this Lease and, in such event, Landlord shall have all of the rights under this Lease with respect to Tenant and Tenant shall be subject to the same disabilities as if Tenant had defaulted in the identical manner under this Lease.

Notwithstanding any other provisions of this Paragraph 17, Landlord agrees that if the default complained of, other than for the payment of monies, is of such a nature that the same cannot be rectified or cured within the thirty (30) day period requiring such rectification or curing as specified in the written notice relating thereto, then such default shall be deemed to be rectified or cured if Tenant within such period of thirty (30) days shall have commenced the rectification and curing thereof and shall continue thereafter with all due diligence to cause such rectification and curing and does so complete the same with the use of such diligence as aforesaid.

17.2 Remedies. Subject to the provisions of paragraph 17.1 regarding notice and opportunity to cure, should Tenant at any time be in default hereunder, such default shall constitute a breach of this Lease, and in addition to any or all other rights or remedies of Landlord hereunder and by the law provided, it shall be, at the option of Landlord, without further notice or demand of any kind to Tenant or any other person:

(a) The right of Landlord to declare the term hereof ended and to re-enter the Premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon or thereunder; or

(b) The right of Landlord without declaring this Lease ended to re-enter the Premises and occupy the whole or any part thereof for and on account of Tenant and relet the Premises or any part of them to third parties for Tenant's account and to collect said rent and other rent that may thereafter become payable. If Landlord elects to re-rent the Premises or any part of them for the benefit of Tenant, then Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises including, without limitation, brokers' commission, attorneys' fees, expenses of remodeling the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining term of this Lease. Tenant shall pay the Landlord the rent due under this Lease on the dates the rent is due, less the rent Landlord receives from any reletting.

(c) The right of Landlord, even though it may have re-entered the Premises, to thereafter elect to terminate this Lease and all of the rights of Tenant in or to the Premises.

Should Landlord have re-entered the Premises under the provisions of Section (b) above, Landlord shall not be deemed to have terminated this Lease, or the liability of Tenant to pay rent thereafter to accrue, or its liability for damage under any of the provisions hereof, by any such re-

entry or by any action in unlawful detainer, or otherwise, to obtain possession of the Premises, unless Landlord shall have notified Tenant in writing that it has so elected to terminate this Lease, and Tenant further covenants that the service by Landlord of any notice pursuant to the unlawful detainer statutes of the State of California and the surrender of possession pursuant to such notice shall not (unless Landlord elects to the contrary at the time or of at any time subsequent to the serving of such notices and such election be evidenced by a written notice to Tenant) be deemed to be a termination of this Lease. In the event of any entry or taking possession of the Premises as aforesaid, Landlord shall have the right, but not the obligation, to remove therefrom all or any part of the personal property located therein and may place the same in storage at a public warehouse at the expense and risk of the owner or owners thereof.

Should Landlord elect to terminate this Lease under the provisions of Sections (a) or (c) above, Landlord may recover from Tenant as damages:

(i) The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

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

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

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to any costs or expenses incurred by Landlord in maintaining or preserving the Premises after such default, in preparing the Premises for reletting to a new tenant, any repairs or alterations to the Premises for such reletting, leasing commissions, or any other costs necessary or appropriate to relet the Premises.

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing, including attorneys' fees and court costs, necessary to compensate Landlord for all detriment proximately caused by Tenant's default as may be permitted from time to time by applicable California law.

As used in Subsections (i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the maximum legal rate. As used in Subsection (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one percent (1%).

For all purposes of this Paragraph 17, the term "rent" shall be deemed to be the minimum annual rental and all other sums required to be paid by Tenant pursuant to the terms of this Lease. All such sums, other than the minimum annual rental, shall be computed on the basis of the average monthly amount thereof accruing during the immediately preceding sixty (60) month period, except that if it becomes necessary to compute such rental before such a sixty (60)

month period ~~which~~ occurred then on the basis of the average monthly amount thereof accruing during such shorter period.

The remedies given to Landlord in this Paragraph shall be in addition and supplemental to all other rights or remedies which Landlord may have under the laws then in force or elsewhere in this Lease, or in equity, including the right to injunctive relief or to specific performance.

The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No covenant, term, or condition of this Lease shall be deemed to have been waived by Landlord, unless such waiver be in writing by Landlord.

17.3 Landlord Events of Default. The following are defaults by Landlord:

(a) Landlord's failure, when required hereunder, to pay any sum or provide any insurance that Landlord is required to pay or provide under this Lease if such failure continues for fifteen (15) days after notice of such failure from Tenant to Landlord;

(b) Landlord's failure, when required hereunder, to perform any other obligation of Landlord if such failure continues for thirty (30) days after notice from Tenant to Landlord of such failure, provided that if such failure cannot reasonably be cured by the end of such thirty (30) day period, Landlord shall not be in default if Landlord commences such cure within the thirty (30) day period and thereafter diligently prosecutes such cure to completion; or

(c) Landlord's failure to comply with the terms of this Lease if such failure is incurable.

If Landlord is in default, Tenant shall have the right to all remedies provided by law and equity or elsewhere in this Lease, including the right to injunctive relief or to specific performance. Interest shall accrue after default on amounts owed by Landlord to Tenant at the rate of ten percent (10%) per annum. Tenant shall also have the right to perform any or all such covenants and agreements relating to the maintenance of the Premises or the common areas of the center in accordance with Paragraph 8.1 and Paragraph 18.6C hereof.

18. Common Areas

18.1 Availability. Landlord shall make available at all times during the term of this Lease, on the portion of the Home Furnishing Center designated by Landlord and shown on Exhibit A-1 as areas for automobile parking and common area (jointly referred to as "common areas", as that term is hereinafter defined) common facilities for the use of all tenants of the Home Furnishing Center. Tenant shall have the non-exclusive right during the term of this Lease, to use the common areas for itself, its employees, agents, customers, invitees and licensees.

18.2 Definition. The term "common areas" means the portions of the Home Furnishing Center which have at the time in question been designated and improved for common use by or for the benefit of more than one tenant or concessionaire of the Home Furnishing Center, including, without limitation, the

land and facilities utilized for or as parking areas, access and perimeter roads; truck passageways (which may be in whole or in part subsurface); service corridors and stairways providing access from store premises; landscaped areas; exterior walks, arcades, stairways, elevators, escalators and/or ramps; interior corridors, elevators, stairs, arcades and/or balconies; directory equipment; wash rooms, comfort rooms, drinking fountains, toilets and other public facilities; and bus stations, taxi stands, and the like, but excluding any portion of the Home Furnishing Center so included within the common areas when designated by Landlord subject to the prior written approval of Tenant for a non-common use; and, subject to Tenant's prior written approval, any portion thereof not theretofore included within common areas shall be included when so designated and improved for common use.

18.3 Landlord's Management and Control. Except as otherwise provided herein, all common areas shall be subject to the exclusive control and management of Landlord or such other persons or nominees as Landlord may have delegated or assigned to exercise such management or control in whole or in part, in Landlord's place and stead, and, subject to the limitations herein imposed, Landlord and Landlord's nominees and assignees shall have the right to establish, modify, amend and enforce reasonable rules and regulations with respect to the common areas. Tenant agrees to abide by and conform with such rules and regulations; to cause its concessionaires, and its and their employees and agents, so to abide and conform; and to use its best efforts to cause its customers, invitees and licensees to so abide and conform. In no event shall Tenant have the right to sell or solicit in any manner in any of the common areas without the written approval of Landlord in advance. Notwithstanding the foregoing, upon at least sixty (60) days' prior written notice, Tenant shall have the right to take over the control and management of the common areas and exercise all rights of Landlord with respect thereto for the remaining term of the Lease, and to receive reimbursement from Landlord for the "Expenses" as hereinafter defined in excess of Tenant's prorata share thereof, at the same times as Landlord would otherwise be entitled to receive reimbursement therefor hereunder. In the event Tenant elects to exercise this right, Tenant shall automatically assume and be and become responsible and liable for all of the duties of Landlord with respect to the common areas (except that Landlord shall remain responsible for the cost of those items for which Landlord is obligated to pay pursuant to the terms of this Lease).

A. Landlord shall have the right to close, if necessary, all or any portion of the common areas to such extent as may in the opinion of Landlord's counsel be legally necessary to prevent a dedication thereof or the accrual of any rights of any person or of the public therein; with the prior written approval of Tenant, to close temporarily all or any portion of the common areas to discourage non-customer use; to use portions of the common areas while engaged in making additional improvements or repairs or alterations to the Home Furnishing Center; and, subject to Tenant's prior written approval, to redesignate, from time to time as non common area, any portion of the Home Furnishing Center previously designated as common area; and to do and perform such other acts in, to, and with respect to, the common areas as in the use of good business judgment Landlord shall determine to be appropriate for the Home Furnishing Center.

B. Subject to Tenant's prior written approval, Landlord shall have the right to increase or reduce common areas, to rearrange the parking spaces and improvements on the common areas, and to make such changes therein and thereto from time to time which in its opinion are deemed to be desirable and for the best interests of all persons using

said common areas; provided, however, access to the Premises is not adversely affected.

C. Tenant agrees that it and its concessionaires and their respective officers, agents, employees, vendors, suppliers and other independent contractors will use such access roads and will operate trucks and trailers in delivering merchandise to and from the Premises upon and over such access roads as are designated therefor by Landlord as a means of ingress to and egress from the Premises.

D. Subject to Tenant's prior written approval, Landlord shall have the right to establish, and from time to time change, alter and amend, and to enforce against the users of said common areas such reasonable rules and regulations (including the exclusion of employees' parking therefrom) as may be deemed necessary or advisable for the proper and efficient operation and maintenance of said common areas; provided, however, that all such rules and regulations and other matters affecting the customers and patrons of the Tenant shall apply equally and without discrimination to all persons entitled to the use of said common areas. The rules and regulations may include, without limitation, the hours during which the common areas shall be open for use.

Notwithstanding the foregoing provisions of Paragraphs 18.1 and 18.2 and this Paragraph 18.3, Landlord shall not make any changes in the common areas after the commencement of the term of this Lease including, but not limited to, parking areas, nor change the parking arrangements applicable to the common areas, without the prior written approval of Tenant in each instance. No rule with respect to the common areas, including its use and hours of operation, may be changed by Landlord without Tenant's prior written approval; the current rules with respect to common areas are attached hereto as Exhibit B. Landlord will change such rules in accordance with the reasonable request of Tenant. Landlord shall not establish a system for validating parking or charging for parking of customers or employees of the Home Furnishing Center without Tenant's written approval.

18.4 Employee Parking. It is understood that the employees of Tenant and the other tenants of Landlord within the Home Furnishing Center shall not be permitted to park their automobiles in the automobile parking areas which may from time to time be designated for patrons of the Home Furnishing Center. Landlord agrees to furnish and/or cause to be furnished either within said Home Furnishing Center parking area, or reasonably close thereto, space for employee parking. Subject to the provisions of Paragraph 18.3 requiring Tenant approval, Landlord shall at all times have the right to designate the particular parking area to be used by any or all of such employees and any such designation may be changed from time to time. Tenant and its employees shall park their cars only in those portions of the parking areas, if any, designated for that purpose by Landlord.

18.5 Intentionally Deleted.

18.6 Prorata Charges

A. Definition of "Expenses". Landlord shall keep or cause to be kept said common areas in a neat, clean and orderly condition properly lighted and landscaped and shall repair any damage to the facilities thereof, but all expenses in connection with said common areas shall be charged and prorated in the manner hereinafter set forth. Subject to the provisions of Subparagraph 18.6B hereto, it is understood and agreed that the phrase "expenses in connection with said common areas" as used herein shall be construed to include, but not be limited to, all sums expended in connection with

said common areas for all general maintenance and repairs, resurfacing, painting, restriping, cleaning, sweeping and janitorial services, maintenance and repair of sidewalks, curbs and Home Furnishing Center signs; sprinkler systems, planting and landscaping; lighting and other utilities; directional signs and other markers and bumpers; maintenance and repair of any fire protection systems, automatic sprinkler system, lighting systems, storm drainage systems, air conditioning and heating systems and any other utility systems; personnel to implement such services and to police the common areas; police and fire protection services; real and personal property taxes and assessments on the improvements and land comprising said common areas; any government impositions or surcharges imposed on Landlord or assessed against the automobile parking area or any other portion of the common area; all costs and expenses pertaining to a security alarm system for the tenants in the Home Furnishing Center if such system protects the Premises and the common areas as well as other portions of the Home Furnishing Center; depreciation on maintenance and operating machinery and equipment (if owned) and rental paid for such machinery and equipment (if rented); adequate public liability and property damage insurance on the common areas (under which Tenant shall be named as an additional insured); and fire and extended coverage insurance equal to the full replacement value of common area structures. Landlord may, however, cause any or all of said services to be provided by an independent contractor or contractors. Anything to the contrary notwithstanding contained hereinabove, all expenses in connection with the original construction and installation of the common areas shall be at the sole cost and expense of Landlord and shall not in any event be charged to Tenant.

B. Limitations on Expenses. All expenses in connection with common areas shall be related to operation and maintenance of the common areas. Notwithstanding the provisions of Subparagraph 18.6.A, the term "expenses in connection with common areas" shall not include the following: (a) advertising costs, legal fees except with respect to disputes pertaining solely to the common areas, or brokerage commissions incurred in connection with leasing, (b) repairs, alterations, additions, improvements or replacements made to rectify or correct any defect in the design of the common areas; (c) any improvements, alterations or expenditures of a capital nature; (d) damage and repairs attributable to condemnation, fire or other casualty; (e) damage and repairs covered under any insurance policy carried by Landlord in connection with the Premises or common areas; (f) damage and repairs necessitated by the negligence or willful misconduct of Landlord or Landlord's employees, contractors or agents; (g) Landlord's expenses for office overhead, professional or bookkeeping services, salaries of clerical, professional and administrative personnel, and equipment or property not exclusively used in connection with the maintenance or repair of common areas; (h) payments under any master lease or ground lease; (i) payments of principal, interest, points and fees on or in connection with any mortgage, deed of trust or other encumbrance; (j) depreciation; (k) legal fees, accountants' fees and other expenses incurred in connection with disputes with tenants or other occupants of the Home Furnishing Center or associated with the enforcement of any leases or defense of Landlord's title to or interest in the Home Furnishing Center or any part thereof; (l) costs (including permit, license and inspection fees) incurred in renovating or otherwise improving, decorating, painting or altering space for tenants or other occupants or vacant space in the Home Furnishing center; (m) costs incurred due to violation by Landlord or any other tenant in the Home Furnishing Center of the terms and conditions of any lease or costs or fines arising from Landlord's violation of any governmental rules or authority; (n) the cost of maintaining or operating any area for trash storage or truck parking or unloading unless Tenant shares the

use of such area with other occupants of the Home Furnishing Center; (o) the costs of correcting any code violations; (p) costs arising from the presence of Hazardous Materials (as defined in Addendum 2 hereof) in or about the Property, except for those as to which Tenant has specific indemnification obligations hereunder; (q) claims and liabilities for damage or injuries to persons or property; (r) reserves for any items; and (s) any other expense which, under generally accepted accounting principles, would not be considered a normal maintenance and operating expense.

C. Common Area Operation and Maintenance.

Landlord shall operate and maintain the common areas in good condition and repair, with adequate lighting, with all paving and surface areas in level and smooth condition, with parking areas therein properly designated and painted with directional signs and striping and in a clean condition free from debris and accumulations of trash. Landlord's operation of the common areas shall be in accordance with rules and regulations that have been approved by Tenant. Landlord shall promptly repair any damage or deterioration to the common areas. Landlord's obligations hereunder shall include, but not be limited to, the following:

(a) Removal of all papers, debris, dirt and refuse as often as necessary from the common areas;

(b) Sweeping up the common areas as often as necessary;

(c) Maintenance of all utility systems and lights in the common areas;

(d) Adequate lighting of the common areas;

(e) Maintenance, care and replacement of all irrigation systems and of shrubbery and other landscaping upon the shopping center and adjoining parkways; and

(f) Supervision and security in the common areas.

D. Budget for Common Area Maintenance.

Landlord shall, before the commencement Date and at least sixty (60) days prior to the beginning of each calendar year commencing during the term of the Lease, submit to Tenant a budget, together with such back-up material as is reasonably necessary to substantiate the same, of the anticipated common area expenses for such calendar year. Tenant, within thirty (30) days of the receipt of the estimated budget, shall either approve or disapprove the same. If Tenant does not disapprove within thirty (30) days, the estimated budget shall be deemed approved. If Tenant disapproves, it shall set forth in reasonable detail in writing its grounds for disapproval. If Tenant disapproves any amount for an item, Tenant must, concurrently with such disapproval, submit to Landlord in writing an amount which Tenant believes to be appropriate for such item, and Tenant shall be deemed to have approved the budget for such item to the extent so specified. Landlord and Tenant shall then negotiate in good faith to establish a final approved budget. Any disputes shall be settled by arbitration pursuant to the provisions of Paragraph 22 hereof. Landlord shall operate, maintain and repair the common areas in accordance with the final approved budget and shall not include in common area expenses any expense not included in the final approved budget without the prior written approval of Tenant. Landlord shall have the right to make emergency repairs to the common area to prevent injury or damage to persons or property and the reasonable cost thereof shall be a common area expense whether or not theretofore approved by Tenant. Landlord shall, however, use reasonable efforts to

inform Tenant the necessity thereof and obtain its consent thereto.

E. Tenant's Share. Subject to the provision of Subparagraph 18.6.D, Tenant shall pay to Landlord Tenant's prorata share of such common area expenses in the following manner:

(i) From and after the date the Lease has commenced as provided in the Fundamental Lease Provisions, but subject to adjustment as hereinafter in this Section (i) provided, Tenant shall pay Landlord on the first day of each calendar month of the term of this Lease an amount estimated by Landlord to be Tenant's prorata share of such common area expenses. ~~*Tenant's monthly payment of common area expenses through December 31, 1992, shall be _____ per month.~~ Landlord may adjust the estimated monthly charge at the end of any calendar year in accordance with any new budget that has been approved pursuant to Paragraph 18.6.D above.

(ii) Within thirty (30) days following the end of each calendar quarter or, at Landlord's option, each calendar year, Landlord shall furnish Tenant a statement covering the calendar quarter or year just expired, certified as correct by a certified public accountant or an authorized representative of Landlord, showing the total operating cost, the amount of Tenant's prorata share of such common area expenses for such calendar quarter or year and the payments made by Tenant with respect to such period as set forth in Section (i). If said payments exceed Tenant's prorata share of such common area expenses, Tenant shall be entitled to offset the excess against the minimum monthly rental and other payments of Tenant's prorata share of common area expenses next thereafter to become due Landlord as set forth in Section (i); except that, following the term of this Lease, such amounts shall be immediately due and payable to Tenant. Tenant's prorata share of the total common area expenses for the previous calendar quarter or year shall be that portion of all of such expenses which is equal to the proportion thereof which the number of square feet of floor area in the Premises bears to the total number of square feet of floor area of the Home Furnishing Center available for exclusive use and occupancy by tenants of the Home Furnishing Center, whether or not actually rented, occupied and open for business subject to an equitable adjustment for any business which has outside sales areas or driveways as an integral part of its business operation. There shall be appropriate adjustment of Tenant's share of the common area expenses as of the commencement of rentals and expiration of the terms of this Lease.

F. Landlord's Records of Common Area Maintenance. Landlord shall keep accurate books and records covering all common area expenses in accordance with generally accepted accounting principles consistently applied. The books and records shall, at reasonable times, on prior written notice, be open to inspection or audit by Tenant or its duly authorized representatives, during regular business hours of Landlord; provided, however, that Tenant shall have the right to conduct only one audit in any twelve-month period. If an audit discloses that Landlord has charged Tenant an incorrect amount of common area expenses for the period covered by such audit, the difference between the correct amount and the actual amount of common area expenses theretofore paid by Tenant shall be paid immediately by Landlord to Tenant or by Tenant to Landlord, as the case may be; provided, however, that each party shall have the right to challenge the results of such audit in an arbitration proceeding in accordance with Paragraph 22 hereof. If an audit discloses that Landlord has overstated common area expenses for the period in question by an amount in excess of two percent (2%) of common area expenses, Landlord shall pay Tenant's reasonable costs and expenses incurred in connection with the audit.

* The common area expenses shall be calculated consistent with Landlord's past practices.

Failure of Tenant to pay any of the charges as in this Paragraph 18 required to be paid shall constitute a default under the terms hereof in like manner as failure to pay rental when due.

19. Advertising

Tenant shall have the right to use the name "Home Furnishing Center" in connection with Tenant's stores in the Home Furnishing Center and other stores owned and operated by Tenant. Landlord shall not change the name "Home Furnishing Center" to some other name without Tenant's written consent first had and obtained.

20. Signs

Tenant may use existing signs at the Home Furnishing Center for Tenant's advertising or at Tenant's election replace such signs with signs in the same location that are in accordance with applicable law, without Landlord's consent and without compensation to Landlord. However, any additional signs that Tenant desires to erect or install at the Home Furnishing Center shall be subject to Landlord's written consent and approval which consent shall not be unreasonably withheld or delayed and no compensation for such additional sign shall be required of Tenant. Tenant shall not install any exterior lighting or plumbing fixtures, shades or awnings, or make any exterior decoration or painting, or build any fences, or install any radio or television antennae, loud speakers, sound amplifiers, or similar devices on the roof or exterior walls of the Premises, or make any changes to the store front without Landlord's prior written consent, which consent shall not be unreasonably delayed or withheld. Use of the roof of the Premises is reserved to Landlord. Tenant may not display or sell merchandise or allow grocery carts or other similar devices within the control of Tenant to be stored or to remain outside the defined exterior walls and permanent doorways of the Premises without the written consent of Landlord. Tenant further agrees not to install any amplifiers, or similar devices or use in or about the Premises any advertising medium which may be heard or seen outside the Premises, such as flashing lights, searchlights, loud speakers, phonographs or radio broadcasts without the written consent of Landlord. Tenant shall not conduct or permit to be conducted any sale by auction in, upon or from the Premises, whether said auction be voluntary, involuntary, pursuant to any assignment for the payment of creditors or pursuant to any bankruptcy or other solvency proceeding.

Tenant shall not install, maintain, use or allow in or upon the Premises any pinball machine, coin operated music machine or other coin operated amusement device of any kind or character. Tenant, upon request of Landlord, shall immediately remove any pinball machine, coin operated music machine or other coin operated amusement device of any kind or character which Tenant has installed, maintained, used or allowed in or upon the Premises, which in the reasonable opinion of the Landlord is objectionable, offensive and not in good taste. The provisions of this paragraph of Section 20 shall be incorporated by Landlord into every Lease at the Home Furnishing Center executed after the term of this Lease commences.

21. Intentionally Deleted.

22. Arbitration

Except for actions (i) seeking injunctive relief, (ii) to determine fair market rental in accordance with Paragraph 2 of Addendum 1 and (iii) for unlawful detainer filed by Landlord, any and all of which may be brought before any court having jurisdiction, any claim (regardless of the

legal theory involved) arising out of or relating to this Lease, including, but not limited to, its validity, interpretation, enforceability or breach, and regardless of whether the provision involved specifically states that disputes with respect thereto shall be resolved by arbitration, which is not settled by agreement between the parties, shall be settled by arbitration in San Diego, California, before a board of three arbitrators who are lawyers who have been actively engaged and licensed in the full-time practice of law in the State of California for a continuous period immediately preceding the date of delivery of the notice of intent to arbitrate of not less than ten (10) years, but who have at no time within the past ten (10) years ever represented or acted on behalf of either of the parties. One of the arbitrators shall be selected by each party, and the third shall be agreed upon by the first two. The notice of intent to arbitrate shall name one arbitrator, and the party receiving the notice shall name a second arbitrator within ten (10) business days or the moving party may select the second arbitrator. In the event that the two arbitrators cannot agree upon a third arbitrator within thirty (30) days, then the third arbitrator shall be selected from the list provided by the American Arbitration Association with the parties striking names in order, with the party striking first to determine by the flip of a coin and the name not struck, if available, shall be the third arbitrator. The parties hereby (a) consent to the in personam jurisdiction of the Superior Court of the State of California for purposes of confirming any such award and entering judgment thereon and (b) agree to use all reasonable efforts to keep all matters relating to any arbitration hereunder confidential. In any arbitration proceedings hereunder, all testimony of witnesses shall be taken under oath, and the arbitrators shall apply California law to their determination. Each party agrees that the arbitration provisions of this Lease are its exclusive damage remedy and expressly waive any right to seek redress in another forum and that the results of the arbitration shall be final, binding and not subject to judicial review. During the arbitration, each party shall bear the fees of the arbitrator appointed by it, and the fees of the neutral arbitrators shall be borne equally by each party; but the fees of all arbitrators shall ultimately be borne by the losing party.

23. Miscellaneous

23.1 Exclusive. This Lease contains restrictions upon Landlord's right to lease other Premises in the Home Furnishing Center to persons engaged in the retail furniture business and requires Tenant's specific approval for such leases as well as for other leases. Landlord shall comply with such restrictions in offering tenancies in the Home Furnishing Center in the future to persons who are not tenants as of the commencement date of this Lease.

23.2 Estoppel Certificate

A. Tenant shall at any time upon not less than ten (10) days prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if they are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or the Home Furnishing Center.

23.2 Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord; (ii) that there are no uncured defaults in Landlord's performance; and (iii) that not more than one month's rent has been paid in advance and further, shall constitute a material breach of this Lease by Tenant.

23.3 Transfer of Landlord's Interest. In the event of a sale or conveyance by Landlord of Landlord's interest in the Premises or the Home Furnishing Center, other than a transfer for security purposes only, Landlord shall be relieved from and after the date specified in any such notice of transfer of all obligations and liabilities accruing thereafter on the part of Landlord, provided that any funds in the hands of Landlord at the time of transfer in which Tenant has an interest, shall be delivered to the successor of Landlord. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee provided all Landlord's obligations hereunder are assumed in writing by the transferee.

23.4 Captions; Attachments; Defined Terms

A. The captions of the paragraphs of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any provision of this Lease.

B. Exhibits attached hereto, and addenda and schedules initialed by the parties, are deemed by attachment to constitute part of this Lease and are incorporated herein.

C. The words "Landlord" and "Tenant", as used herein, shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there be more than one Landlord or Tenant, the obligations hereunder imposed upon Landlord or Tenant shall be joint and several; as to a Tenant which consists of husband and wife, the obligations shall extend individually to their sole and separate property as well as community property. The term "Landlord" shall mean only the owner or owners at the time in question of the fee title of the Home Furnishing Center or the Lessee under a ground lease covering property included within the Home Furnishing Center. The obligations contained in this Lease to be performed by Landlord shall be binding on Landlord's successors and assigns only during their respective periods of ownership.

23.5 Entire Agreement. This instrument along with any exhibits and attachments hereto constitutes the entire agreement between Landlord and Tenant relative to the Premises and this Agreement and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed by both Landlord and Tenant.

It is understood that there are no oral agreements or representations between the parties hereto affecting this Lease, and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements or representations and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. There are no other representations or warranties between the parties or the parties and their agents or representatives and all reliance with respect to representations is solely upon the representations and agreements contained in this document.

23.6 Severability. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall be valid and be enforceable to the fullest extent permitted by law; and it is the intention of the parties hereto that if any provision of this Lease is capable of two constructions, one of which would render the provision void and the other of which would render the provision valid, then the provision shall have the meaning which renders it valid.

23.7 Cost of Suit

If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, or any arbitration proceeding, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and such sum shall be paid whether or not such action is prosecuted to judgment.

Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises, by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys' fees, incurred by Landlord or in connection with such litigation.

23.8 Time; Joint and Several Liability. Time is of the essence of this Lease and each and every provision hereof. All the terms, covenants and conditions contained in this Lease to be performed by either party, if such party shall consist of more than one person or organization, shall be deemed to be joint and several, and all rights and remedies of the parties shall be cumulative and non-exclusive of any other remedy at law or in equity.

23.9 Binding Effect; Choice of Law. Subject to Paragraph 22.3, all of the provisions hereof shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be governed by the laws of the State of California.

23.10 Waiver. No covenant, term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed. Acceptance by Landlord of any performance by Tenant after the time the same shall have become due shall not constitute a waiver by Landlord of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Landlord in writing.

23.11 Surrender of Premises. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of any or all such subleases or subtenancies.

23.12 Holding Over. If Tenant remains in possession of all or part of the Premises after the expiration of the term hereof, with or without the express or implied consent of

Landlord, such tenancy shall be from month to month only, and not a renewal lease or an extension for any further term, and in such case, rent and other monetary sums due hereunder shall be payable in the amount and at the time specified in this Lease and such month to month tenancy shall be subject to every other term, covenant and agreement contained herein.

23.13 Force Majeure. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, shall excuse the performance by such party for a period equal to any such prevention, delay or stoppage except the obligations imposed with regard to rent and other charges to be paid by Tenant pursuant to this Lease.

23.14 Reasonable Consent. Except as limited elsewhere in this Lease, wherever in this Lease Landlord or Tenant is required to give its consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld. In the event of failure to give any such consent as may be required under this Lease, the other party shall be entitled to specific performance, if appropriate, and shall have such other remedies as are reserved to it under this Lease or are available at law.

23.15 Interest on Past Due Obligation. Except as expressly herein provided, any amount due Landlord not paid within ten (10) days following the due date shall bear interest at the rate of ten percent (10%) per annum from the due date. Payment of such interest shall not excuse or cure any default by Tenant under this Lease.

23.16 Notices. All notices under this Lease will be in writing and will be delivered by personal service, facsimile, telegram, telecopy or certified mail (postage prepaid) to such address as may be designated from time to time by the relevant party, and which will initially be as set forth below. Any notice sent by certified mail will be deemed to have been given three (3) days after the date on which it is mailed. All other notices will be deemed given when received. No objection may be made to the manner of delivery of any notice actually received in writing by an authorized agent of a party. Notices will be addressed as follows or to such other address as the party to whom the same is directed will have specified in conformity with the foregoing:

(i) If to Landlord:

ARNOLD BELINSKY
P.O. Box 9344
Rancho Santa Fe, CA 92067

COPY TO: Richard I. Singer
SINGER & CRAWFORD, A.P.C.
2437 Second Avenue
San Diego, CA 92101-1592

(ii) If to Tenant:

Arnold's Furniture Corporation
7077 Consolidated Way
San Diego, CA 92121

Copy to: Diella + Manella
1800 Avenue of the Stars, Suite 900
Los Angeles, CA 90067
Attention: Joan L. Lesser, Esq.

23.17 ~~Corporate~~ Authority. If Tenant or Landlord is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the By-Laws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms. If Tenant or Landlord is a corporation, each such corporate party shall, within thirty (30) days after execution of this Lease, deliver to the other party a certified copy of a resolution of the Board of Directors of said corporation authorizing or ratifying the execution of this Lease.

23.18 Addendum. This Lease contains two Addenda which include additional provisions which constitute a part of this Lease.

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

LANDLORD:

Arnold Belinsky, Trustee
ARNOLD BELINSKY, as Trustee of the
Arnold Belinsky and Esther Belinsky
Trust No. 1

Esther Belinsky, Trustee
ESTHER BELINSKY, as Trustee of the
Arnold Belinsky and Esther Belinsky
Trust No. 1

ADDRESS:

TENANT:

ARNOLD'S FURNITURE CORPORATION

By: [Signature]
Title: President

ADDRESS:

ADDENDUM

ADDITIONAL FUNDAMENTAL LEASE PROVISIONS

This Addendum is made this 22nd day of November, 1991 by and between ARNOLD BELINSKY and ESTHER BELINSKY, as Trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1, herein called "Landlord" and ARNOLD'S FURNITURE CORPORATION, herein called "Tenant."

Upon execution by both Landlord and Tenant, this Addendum shall constitute a part of and be incorporated into this Home Furnishing Center Lease. In the event of any conflict between this Addendum and the provisions of the Lease, this Addendum shall control.

ADDENDUM 1

1. Cost of Living Adjustment. Notwithstanding the provisions of Paragraph 4.2 of the foregoing lease, there shall be no rent adjustment during the first three (3) years of the term of this Lease. Thereafter, any adjustment in rent called for by Paragraph 4.2 shall be limited to a maximum of four percent (4%) per annum except that the first rent adjustment, which shall be made at the commencement of the fourth year of the lease term, shall be limited to a maximum of twelve percent (12%) of the minimum monthly rent payable during the first three (3) years.
2. Ground Lease. The parties acknowledge that Landlord's interest in the underlying realty is a leasehold estate created by that certain City of San Diego Percentage Lease executed by the City of San Diego, as Lessor (the "City") and Rijo Enterprises, Inc., as Lessee, recorded August 12, 1987 as File No. 87-455611 of the Official Records of San Diego County, California (the "Ground Lease"). The Lessee's interest in the Ground Lease was assigned to Landlord by deed recorded June 16, 1988.

Pursuant to the Ground Lease, the City has the right to approve of this Lease. Landlord agrees to use its best and all reasonable efforts to obtain the approval of the City to this Lease as soon as possible. If the City does not approve of this Lease, then, notwithstanding the other provisions of this Lease, this Lease shall terminate and Tenant shall have a reasonable period of time within which to locate and move to alternative space or to have an orderly closure of its business at the Premises.

During the term of this Lease, Landlord shall comply in all respects with the requirements of the Ground Lease.
3. Agreement with City of San Diego. Landlord acknowledges that there is recorded against the Premises and the underlying realty that certain Revised Agreement among the City, on the one hand, and Arnold and Esther Belinsky, Edward Pollak and Joan Pollak and Richard I. Singer, as Trustees of the James Isensee Trust (together, "Belinsky, Pollak and Isensee"); on the other, which Agreement was recorded November 22, 1991 as File No. 91- of the Official Records of San Diego County, California (the "City Agreement"). Pursuant to the City Agreement, Belinsky, Pollak and Isensee make certain covenants in favor of the City, and the City agrees to waive specified building regulations. Landlord shall, and shall cause Belinsky, Pollak and Isensee to, comply in all respects with the City Agreement and to keep in full force and effect, and not permit the early termination of, the Ground Lease.

4. Options to Extend. Landlord hereby grants to Tenant four (4) consecutive options to extend the term of the foregoing Lease for five (5) years each, for a total of twenty (20) years. Each of such options shall be exercisable if, at the time of an exercise, Tenant is not then in default. Each such extension of the term shall be on the same terms and covenants and conditions contained in this Lease, except that the monthly rent to be paid by Tenant to Landlord shall be increased to the fair market rental value of the premises as of the first month of each extension period as agreed upon by Tenant and Landlord, or if the parties are unable to agree, fixed by appraisal in the following manner:

(a) On or before 180 days prior to the then expiration of the term of the Lease, Landlord and Tenant shall each appoint an appraiser and give written notice of the name and address of that appraiser to the other party to this Lease.

(b) The appointed appraisers shall, within thirty (30) days after appointment of the last of the two appraisers to be appointed, appoint a third appraiser and serve written notice of the name and address of that appraiser on Landlord and Tenant in the manner prescribed in the foregoing Lease for service of notice on one party to this Lease by the other.

(c) All appraisers appointed under this Paragraph shall be, at the time of their appointment, members in good standing of the American Institute of Real Estate Appraisers (or any successor organization).

(d) Within thirty (30) days after appointment of the third appraiser, the three appraisers shall confer and each shall submit in writing to Landlord and Tenant his or her appraisal of the fair market rental value of the Premises. The term "fair market rental value" as used in this Paragraph means the monthly rental a willing tenant would pay to a willing landlord for the Premises for the uses specified in the Lease, regardless of the highest and best potential use of the Premises. In determining the fair market rental value as used herein, the appraiser shall take into account the fact that Landlord will not be required to pay any broker's commission or afford Tenant any periods of free rent or provide any tenant improvement allowances then being offered by other landlords in connection with the leasing of retail space in the area.

(e) The appraised value agreed upon in writing by any two of the three appraisers shall be conclusive and binding on the parties to this Lease and shall establish the fair market rental value of the leased Premises for purposes of this option to extend. If no two of the three appraisers are able to agree on the fair market rental value of the Premises, both the highest and lowest appraisal submitted by any of the three appraisers shall be disregarded and the remaining appraisal shall be binding and conclusive on the parties to this Lease and shall establish the fair market rental value of the Premises for purposes of this option to extend and Paragraph 4.1 and the new Minimum Monthly Rental of the foregoing Lease for the extended term. The Minimum Monthly Rental shall in no event be lower than the last monthly rent payable under the foregoing Lease prior to the commencement of the extended term.

(f) If either Landlord or Tenant fails to appoint an appraiser as required by this option to extend within ten (10) days after service on that party of written demand to do so, the appraiser appointed by the other

party shall act for both Landlord and Tenant. The decision in writing of the appraiser shall, in that event, be binding on both Landlord and Tenant and establish the fair market rental value of the Premises for purposes of this option to extend.

(g) If the two appraisers appointed respectively by Landlord and Tenant fail, for any reason, to appoint a third appraiser within the time required by this option to extend, either party may petition the Superior Court of the County of San Diego to appoint a third appraiser.

(h) Landlord and Tenant shall each pay the fee and all expenses incurred by the appraiser appointed by each of them and one-half of all the expenses and the fee incurred by third appraiser appointed by the two appraisers pursuant to subsection (b) above.

(i) Each option to extend the term of the Lease may only be exercised by Tenant's delivery to Landlord on or prior to 180 days before the then expiration date of the term of the foregoing Lease of written notice of Tenant's election to extend the term of this Lease as provided in this option to extend.

(j) In the event Tenant does not extend the term of this Lease as herein provided, and holds over beyond the expiration of the term of this Lease, that holding over shall be deemed a month-to-month tenancy only at the last rental payable under the foregoing Lease until a tenancy is terminated in a manner provided by law.

(k) The foregoing Lease has been entered into concurrently with the leases described in Paragraph 3 below. Each of those leases has a comparable option to extend and the initial term of each such lease is also for a term of ten (10) years. Notwithstanding any other provision of the foregoing option to extend, the option to extend contained in this Lease may only be exercised if all of the options to extend contained in all of the other leases designated in paragraph 3 below executed concurrently herewith are also exercised by Tenant.

5. Schedule of Concurrent Leases.

(a) This Lease pertaining to San Diego Home Furnishing Center--Annex; provided, however, that this Lease shall be a Concurrent Lease only if it has not been terminated because of the failure of the City to consent to this Lease.

(b) The Lease pertaining to the San Diego Home Furnishing Center.

(c) The Lease pertaining to the North County Furnishing Center; provided, however, that such Lease shall be a Concurrent Lease for purposes hereof only if and when the Landlord thereunder has fulfilled its obligations pursuant to Paragraph 2 of Addendum 1 of such Lease.

ADDENDUM 2

Hazardous Materials: Landlord and Tenant hereby adopt as a part of the foregoing Lease the following provisions with respect to the existence or use of "Hazardous Material" (as defined in Section D below) on the Premises and in the shopping center (together, the "Property"):

A. Landlord hereby makes the following representations to Tenant:

(1) Any handling, transportation, storage, treatment or use of Hazardous Material that has occurred on the Property has been in compliance with all laws regulating Hazardous Material.

(2) The Property is in compliance with all laws regulating the handling, transportation, storage, treatment, use and disposition of Hazardous Material.

(3) The soil and ground water on or under the Property is free of Hazardous Material.

B. The provisions of this Section B shall only apply if (i) it is determined at any time that the representations of Landlord contained in Section A above are not correct; or (ii) Landlord, its agent, employees or contractors violate any law regulating the handling, transportation, storage, treatment, use or disposition of Hazardous Materials with respect to the Property. If this Section B applies because of an occurrence described in the immediately preceding sentence, then the following shall apply:

(1) Landlord shall be responsible for all costs incurred in complying with all laws that relate to Hazardous Material and the occurrence in question; and

(2) Landlord shall indemnify, defend and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) that arise during or after the term of the Lease from or in connection with the Hazardous Material and the occurrence in question.

C. Tenant shall (i) not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Property by Tenant, its agents, employees, contractors or invitees, without the prior written consent of Landlord (which Landlord shall not unreasonably withhold as long as Tenant demonstrates to Landlord's reasonable satisfaction that such Hazardous Material is necessary or useful to Tenant's business and will be used, kept and stored in a manner that complies with all laws regulating any such Hazardous Material so brought upon or used or kept in or about the property). If Tenant breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the Property caused or permitted by Tenant results in contamination of the Property, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) that arise during or after the term of the Lease as a result of such contamination.

D. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "hazardous material," "hazardous substance" or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95

(Hazardous Materials Release Response Plan and Inventory), (iv) defined as a "hazardous substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317), (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903), or (x) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

Initials:

MBB

Landlord

[Signature]

Tenant

Landlord acknowledges and agrees that, notwithstanding any other provision of this Lease, Tenant shall have the right to offset against amounts payable by Tenant hereunder amounts owed by North County Home Furnishing Center, a California general partnership ("North County") to Tenant pursuant to the terms of paragraph 2 of Addendum 1 to that certain Lease (North County Home Furnishing Center) of even date herewith. The parties hereto hereby agree and acknowledge that, with respect to Tenant's right to withhold from or offset against payment of amounts hereunder pursuant to the immediately preceding sentence, the parties intend that Landlord be treated as a principal debtor and not as a guarantor or surety of North County under such Lease. Notwithstanding the foregoing, if for any reason Landlord is deemed to be a guarantor or surety with respect to such Lease, then Landlord hereby waives: (i) the right to require Tenant to proceed against North County or to pursue any other remedy in Tenant's power whatsoever; (ii) all rights and benefits that might otherwise be available to Landlord under California Civil Code Sections 2809, 2819, 2845, 2848, 2849, 2850 and 3433 or any comparable rights and benefits under any statute or case law; (iii) all rights to proceed against North County, whether by subrogation or by independent right of indemnification or recovery; (iv) any defense arising by reason of the cessation of the obligations, either in whole or in part, of North County to Tenant under such Lease from any cause whatsoever (including, without limitation, any intervention or omission by Tenant), or the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of Landlord against North County from any cause whatsoever (including, without limitation, any intervention or omission by Tenant); and (v) all presentments, demands for performance, notices of nonperformance, protests, notices of protest, and notices of dishonor and of the existence, creation or incurring of new or additional obligations under such Lease. Landlord assumes the responsibility for being and keeping informed of the financial condition and actions of North County and of all other circumstances bearing upon the risk of failure to satisfy the obligations of North County that diligent inquiry would reveal, and agrees that Tenant shall have no duty to advise Landlord of information known to Tenant regarding such condition and actions or any such circumstances.

ABP CB
LESSOR'S INITIALS


LESSEE'S INITIALS

EXHIBIT "A"
LEGAL DESCRIPTION

The land referred to herein is situated in the State of California, County of San Diego, and is described as follows:

PARCEL A:

All buildings and improvements situated on Parcel 1 of Parcel Map No. 13058, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County, December 19, 1983 as File No. 83-461162 of Official Records, which buildings are and shall remain real property.

PARCEL B:

Parcel 1 of Parcel Map No. 13058, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County, December 19, 1983 as File No. 83-461162 of Official Records, excepting all buildings and improvements situated thereon.

CONDITIONAL LEASE GUARANTY

Reference is made to that certain Lease dated as of November ____, 1991 by and between ARNOLD BELINSKY AND ESTHER BELINSKY, as Trustees of the Arnold Belinsky and Esther Belinsky Trust No. 1, as Landlord and Comrie Corp, a Delaware corporation as Tenant (which Lease, together with any modifications thereof, is hereinafter referred to as the "Lease"), to which this Guaranty is an Exhibit. All terms used herein shall be as defined in the Lease.

This Guaranty relates to:

(a) the payment of the rent and all other sums due under the Lease, including any hold-over or renewal period;

(b) the full, prompt and absolute performance and observance by Tenant of all of the covenants, conditions, undertakings, agreements, duties and obligations contained in the Lease to be performed or observed by, or imposed upon, Tenant during the Term, or any hold-over or renewal period; and

(c) any loss, expense or claims, including attorneys' fees, of Landlord arising from any event of default by Tenant under the Lease and any breach by Tenant of any of its covenants, undertakings, agreements, duties and obligations contained in the Lease;

all of which matters referred to in subparagraphs (a), (b) and (c) above are collectively hereinafter referred to as the "Liabilities."

FOR VALUE RECEIVED and in consideration for, and as an inducement to, for entering into the Lease the undersigned (hereinafter "Guarantor"), hereby guarantees to Landlord, the full, prompt and absolute payment, performance and observance of all Liabilities, subject to the occurrence of the condition specified on page 7 hereof and the condition that all applicable grace periods, cure periods and notices in the Lease have been satisfied such that Landlord would be entitled to proceed against Buyer.

Guarantor expressly agrees that the validity of this Guaranty and the obligations of Guarantor hereunder shall in no way be terminated, abated, affected or impaired by the happening from time to time of any event or condition including, without limitation, any of the following:

(a) the assertion or non-assertion by Landlord of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease and all instruments and documents referred to therein, or pursuant to applicable statutes;

(b) the waiver by Landlord, or the failure of Landlord to enforce, or the lack of diligence of Landlord in connection with the satisfaction of, any of the Liabilities;

(c) the granting of any indulgence or extension of time by Landlord;

Init _____

EXHIBIT B -1-

Init _____

(d) the exercise by Landlord of any so-called self-help remedies; or

(e) any other act, omission or condition which might in any manner or to any extent vary the risk to Guarantor or might otherwise operate as a discharge or release of Guarantor; all of which may be given or done without notice to, or consent of, Guarantor.

Guarantor (in their capacities as Guarantor and not as officers of Tenant) hereby waives:

(a) all notice of default in Tenant's payment of, or Tenant's non-performance of, any of the Liabilities;

(b) all protest, demands, notices or presentments of every kind and description now or hereafter provided by any statute or rule of law;

(c) notices of nonperformance, notices of protest, notices of dishonor;

(d) notice of any acceptance of this Guaranty;

(e) the benefit of any statute of limitations affecting Guarantor's liability under this Guaranty;

(f) all notices of the existence, creation or incurring of new or additional obligations; and

(g) any right to require Landlord to proceed against the Tenant, any other guarantor or person or any security now or hereafter held by the Landlord or to pursue any other remedy whatsoever, including any such right or any other right set forth in or arising out of Sections 2845, 2848, 2849 or 2850 of the California Civil Code;

(h) any defense based upon any legal disability of Tenant or any guarantor, or any discharge or limitation of the liability of Tenant or any guarantor to Landlord, or any restraint or stay applicable to actions against Tenant or any guarantor, whether such disability, discharge, limitation, restraint or stay is consensual, or by order of a court or other governmental authority, or arising by operation of law or any liquidation, reorganization, receivership, bankruptcy, insolvency or debtor-relief proceeding, or from any other cause;

(i) any defense based upon the modification, renewal, extension or other alteration of the Liabilities, or of the documents executed in connection therewith.

(j) all rights of subrogation, reimbursement, indemnity, all rights to enforce any remedy that Landlord may have against Tenant and all rights to participate in any security held by Landlord for the Liabilities, including any such right or any other right set forth in Sections 2848 or 2849 of the California Civil Code, until the Liabilities have been performed in full, and any defense based upon the impairment of any subrogation, reimbursement or indemnity rights that Guarantor might have;

(k) any defense based upon the death, incapacity, lack of authority or termination of existence or revocation hereof by any person or entity or persons or entities, or the substitution of any party hereto;

(l) any defense based upon or related to Guarantor's lack of knowledge as to Tenant's financial condition;

(m) any defense based upon Section 2809 of the California Civil Code.

Guarantor hereby waives any and all suretyship defenses or defenses in the nature thereof without in any manner limiting any other provisions of this Guaranty.

Guarantor further grants to Landlord full power, in Landlord's uncontrolled discretion and without notice to or consent of Guarantor, and without any termination, abatement or offset or impairment of the validity of this Guaranty and obligations of Guarantor hereunder, to deal in any manner with Tenant with respect to the Lease and with any collateral from time to time held by Landlord upon default by Tenant under the Tenancy created by the Lease. Such full power is to include without limiting the generality thereof, the following powers:

(a) To terminate, modify or otherwise change any terms of all or any part of the Lease or any instruments or documents referred to therein, or the Liabilities (and this Guaranty shall guarantee the performance of the Lease as changed), and to effect any release, compromise or settlement with respect thereto offered by Tenant or any guarantor, whether in liquidation, reorganization, receivership, bankruptcy or otherwise, and to release, substitute or add any one or more guarantors or endorsers;

(b) To enter into any agreement of forbearance with respect to all or any part of the Lease or any instruments or documents referred to therein or with respect to the Liabilities, and to change the terms of any such agreement;

(c) To take and hold any security for the Liabilities, to accept additional or substitute security and to substitute, compromise or release any security.

The liability of Guarantor hereunder shall in no way be terminated, abated, affected or impaired by:

(a) the release or discharge of Tenant in any creditors' receivership, bankruptcy or other proceedings;

(b) the impairment, litigation, modification or termination of:

(i) the estate of Tenant in bankruptcy; or

(ii) any remedy for the enforcement of Tenant's liability under the Lease or any instruments or documents referred to therein resulting from the operation of any present or future provision of the United States Bankruptcy Code or other statute or from any decision in any court;

(c) the rejection or disaffirmance of the Lease or any instruments or documents referred to therein in any such proceedings;

(d) any disability or other defense of Tenant; or

(e) the cessation, from any cause whatsoever other than by reason of payment or performance, of the Liabilities of Tenant under the Lease or any instruments or documents referred to therein.

Landlord may proceed jointly or severally against Tenant and Guarantor. In addition, Guarantor agrees the Guarantor's liability under this Guaranty shall be primary, and that with respect to any right of action which shall accrue to Landlord relating to any right of action which shall accrue to Landlord relating to any of the Liabilities, Landlord may at its sole option proceed directly against Guarantor without having proceeded against Tenant or any other tenant or any other guarantor. Guarantor hereby waives any and all legal requirements that Landlord shall institute any action or proceedings at law or in equity against Tenant, or anyone else, or exhaust its remedies against Tenant, or anyone else, in respect to the Lease or in respect of any other security held by Landlord, as a condition precedent to bringing an action against Guarantor upon this Guaranty. All remedies afforded to Landlord by reason of this Guaranty are separate and cumulative remedies and it is agreed that no one of such remedies, whether exercised by Landlord or not, shall be deemed to be an exclusion of any of the other remedies available to Landlord and shall not limit or prejudice any other legal or equitable remedy which Landlord may have. If Tenant shall fail to satisfy any of the Liabilities when due or performable, Guarantor shall immediately pay to Landlord all sums due it by reason of Tenant's default in satisfying the Liabilities.

Each default on any of the Liabilities shall give rise to a separate cause of action and separate suits may be brought hereunder as each cause of action arises or, at Landlord's option, any or all causes of action which arise prior to or after any suit is commenced hereunder may be included in such suit.

Guarantor further represents to Landlord, as an inducement to executing the Lease;

(a) that there is not presently pending or threatened any litigation, arbitration, administrative or governmental proceeding against Guarantor which would in any way prohibit or impede the adoption, execution, or consummation of this Guaranty by Guarantor or which would affect any of the undertakings herein;

(b) that compliance by Guarantor with Guarantor's obligations under this Guaranty has not resulted and will not result in the violation of the Guaranty or of any agreement or other instrument to which Guarantor is a party or by which Guarantor or any of Guarantor's assets are bound;

(c) that this Guaranty and all action contemplated to be taken by Guarantor hereunder has been duly authorized; and

(d) that this Guaranty and such action and undertaking are valid and binding upon Guarantor in accordance with their terms.

Guarantor is relying upon its knowledge and is fully informed with respect to Tenant's financial condition. Guarantor assumes full responsibility for keeping fully informed of the financial condition of Tenant and all other circumstances affecting Tenant's ability to perform its obligations to Landlord, and agree that Landlord will have no duty to report to Guarantor any information which Landlord receives about Tenant's financial condition or any circumstances bearing on Tenant's ability to perform.

No encumbrance, assignment, subletting or other transfer by either Landlord or Tenant of the Lease of any instrument or document referred to therein, or of any interest therein, or of the Premises, or any interest therein, shall operate to extinguish or diminish (except to the extent provided in the Lease) the liability of Guarantor under this Guaranty, whether or not Guarantor has consented to or received notice of such encumbrance, assignment, subletting or other transfer.

Guarantor further agrees to be responsible to Landlord for all expenses (including reasonable attorneys' fees) incurred by Landlord in enforcing any obligations of Guarantor under this Guaranty, whether or not any lawsuit is filed, and in the representation of Landlord in any insolvency, bankruptcy, reorganization or similar proceeding relating to Tenant or Guarantor. Until paid to Landlord, such sums will bear interest from the date such costs and expenses are incurred at the rate of ten percent (10%) per annum, or the maximum rate allowed by law, whichever is less.

All references to Landlord and Tenant shall be deemed to include references to the successors and assigns of each of them.

Until all the Liabilities are paid or performed and all obligations hereunder have been satisfied, Guarantor:

(a) shall have no right of subrogation against Tenant by reason of any payments or acts of performance by Guarantor in compliance with the obligations of Guarantor hereunder;

(b) waives any right to enforce any remedy which Guarantor now or hereafter shall have against Tenant by reason of any one or more payments or acts of performance in compliance with the obligation of Guarantor hereunder; and

(c) in the event of any default by Tenant with respect to any of the Liabilities, shall subordinate any liability or indebtedness of Tenant now or hereafter held by Guarantor to the obligations of Tenant to Landlord under the Lease.

The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Landlord shall continue, with respect to any amount at any time paid on account of the Liabilities which Landlord shall thereafter be required to restore or return in connection with the bankruptcy, insolvency, or reorganization of Tenant or otherwise, all as though such amount had not been paid.

Guarantor agrees that this Guaranty and all rights hereunder shall be interpreted, governed and construed in accordance with the laws of the State of California.

Guarantor hereby agrees that any and all actions or proceedings arising directly or indirectly from the Guaranty shall be litigated or conducted only in courts situated in the State of California. Guarantor hereby consents to the jurisdiction of any local, state or federal court located in the State of California and hereby appoints the Secretary of the State as his agent for service of process, and agrees that process in any action arising out of this Guaranty may be served upon said Secretary of the State of California and shall have the same validity as if personally served upon Guarantor herein.

If any term or provision of this Guaranty or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Guaranty, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

The waiver of any provision of this Guaranty by either of the parties thereto shall constitute a waiver of that provision on that occasion only, and shall not constitute a waiver of any other term of this Guaranty, not a waiver of that provision with respect to any other occasion. No delay or failure by Landlord to exercise any right or remedy against Tenant or Guarantor will be construed as a waiver of that right or remedy.

If Guarantor is more than one person, Guarantor's obligations are joint and several and are independent of Tenant's obligations. A separate action may be brought or prosecuted against any Guarantor whether the action is brought or prosecuted against any other Guarantor or Tenant, or all, or whether any other Guarantor or Tenant, or all, are joined in the action.

Guarantor represents and warrants that it has full requisite power and authority to:

- (a) execute, deliver and be legally bound by this Guaranty on the terms and conditions herein stated; and
- (b) transact any other business with Landlord as necessary to fulfill the terms of this Guaranty.

Guarantor acknowledges that the undertaking given hereunder is given in consideration of Landlord's entering into the Lease, and that Landlord would not have entered into the Lease but for the execution and delivery of this Guaranty.

This Guaranty constitutes the entire agreement between Guarantor and Landlord with respect to its subject matter, and supersedes all prior or contemporaneous agreements, representations and understandings.

Each of the following shall constitute a default of Guarantor under this Guaranty:

(a) The failure of Guarantor to perform any of its obligations under this Guaranty; or

(b) The commencement of any bankruptcy, insolvency, arrangement, reorganization, or other debtor-relief proceeding under any federal or state law by Tenant or Guarantor.

If Landlord disposes of its interest in the Lease, "Landlord," as used in this Guaranty, shall mean Landlord's successors.

This Guaranty shall bind Guarantor, Guarantor's executors, administrators, heirs and assigns.

This Guaranty shall not be modified, amended, released or discharged except by a writing executed by Landlord.

CONDITION OF GUARANTY

Notwithstanding the foregoing provisions of this Guaranty, this Guaranty and all rights of Landlord hereunder are expressly made subject to and conditioned upon the occurrence of one or more of the following events or on before the expiration of five (5) years from the date hereof:

(1) The sale, transfer or other voluntary disposition by Guarantor in a single transaction or a series of transactions of fifty percent (50%) or more of the presently issued and outstanding shares of capital stock of Buyer (the "Transferred Stock"); or,

(2) The issuance and sale by Buyer in a single transaction or series of transactions of additional shares of the capital stock of Buyer in an amount sufficient to transfer fifty percent (50%) or more of the then outstanding capital stock of Buyer to persons other than Guarantor; or,

(3) Any combination of transactions described in subparagraphs (1) and (2) next proceeding which transfers to persons other than Guarantor fifty percent (50%) or more of the then issued and outstanding shares of capital stock of Buyer; or,

(4) The sale, transfer or other voluntary disposition of substantially all of the assets of Buyer, but only if, as a result of such transaction or series of transactions described in subparagraphs (1) through (4) above;

(i) The consideration received or to be received by Guarantor or Buyer or by both of them equals or exceeds (a) Guarantor's net investment in Buyer plus (b) an average annual rate of return on his net investment of fifteen percent (15%).

Upon the occurrence of any of the above enumerated events, the foregoing Guaranty shall automatically be activated and be and become effective and

unconditional and irrevocable. Otherwise, said Guaranty shall be of no force or effect.

IN WITNESS WHEREOF, the undersigned has duly executed this instrument as of the _____ day of November 1991.

GUARANTOR

Fred Comrie

4750A(11/22/91)

Init _____

-8-

Init _____

EXHIBIT "C"
TENANT'S CERTIFICATE
STATEMENT OF TENANT RE: LEASE

DATE: _____, 19__

RE: ADDRESS: _____

For Premises in

Gentlemen:

It is our understanding that you have committed to loan funds on the security of the subject premises and, as a condition precedent thereof, have require this certification by the undersigned.

The undersigned, as Tenant under that certain Lease dated _____, 19 __, made and entered into between the HOME FURNISHING CENTER as Landlord and the undersigned, as Tenant, hereby confirms that the undersigned has entered into occupancy of the premises described in said Lease on _____, and the minimum rental was payable from December 1, 1991; that said Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way, except as set forth in Schedule 1 hereto; that the same represents the entire agreement between the parties as to this Lease; that the initial term of said Lease expires on _____, 19__ and such term may be extended for up to an additional twenty (20) years in accordance with the provisions thereof; that, except as disclosed on Schedule 1 hereto, to Tenant's knowledge and belief all conditions under said Lease to be performed by the Landlord have been satisfied, including, but without limitation, all co-tenancy requirements thereunder, all required contributions by Landlord to Tenant on account of Tenant's existing defenses or offsets which the undersigned has against the endorsement of said Lease by the Landlord; that no rental has been paid in advance and no security (or the sum of \$ _____) has been deposited with Landlord; and that the minimum rental for _____, 19__, has been paid.

Very truly yours,

TENANT

EXHIBIT "D"
SIGN CRITERIA

SIGN RESTRICTIONS

1. Tenant shall have the right to use existing "Arnold's" sign.

EXHIBIT "E"
COMMON AREA RULES AND REGULATIONS

EXHIBIT "F"
EXCEPTIONS TO LANDLORD'S
REPRESENTATIONS AND WARRANTIES