

OPTION AGREEMENT
AND
ESCROW INSTRUCTIONS
BETWEEN
SANWA BANK CALIFORNIA,
AS TRUSTEE
(OPTIONOR),
AND
MONARCH BAY LAND ASSOCIATION
(OPTIONEE)

Dated as of September 2, 1988

OPTION AGREEMENT
AND
ESCROW INSTRUCTIONS

TABLE OF CONTENTS

	<u>Page</u>
Recitals	1
1. Certain Definitions	2
2. Grant of Option	6
3. Term of Option	6
4. Option Consideration	7
5. Lease of Property	8
6. Exercise of Option	9
7. Opening of Escrow	17
8. Deliveries to and Duties of Escrow Holder Regarding Option	17
9. Title Insurance for Purchase and Sale	19
10. Deliveries to and Duties of Escrow Holder Regarding Purchase and Sale	21
11. Close of Escrow	22
12. Costs of Escrow	22
13. Restrictions on Personal Liability of Optionor	22
14. Liquidated Damages	22
15. Time of the Essence	24

	<u>Page</u>
16. Broker's Commission	24
17. Notices	24
18. Successors and Assigns	25
19. Incorporation of Exhibits	27
20. Amendment	27
21. Survival	28
22. Entire Agreement	28
23. Construction	28
24. No Waiver	28
25. Counterparts	29
26. Governing Law	29
27. Attorneys' Fees	29
28. Indemnity or Termination	29
29. Modification	32
30. Section 1031 Exchange	32

EXHIBITS

Exhibit "A"Amendment to Lease
Exhibit "B" CC&R
Exhibit "C" Legal Description
Exhibit "D" Memorandum of Option
Exhibit "E" Title Exceptions
Exhibit "F" Escrow Holder's Standard Form
Escrow Instructions

OPTION AGREEMENT AND ESCROW INSTRUCTIONS

This OPTION AGREEMENT AND ESCROW INSTRUCTIONS (this "Agreement") is made as of the ^{2nd day of September,} ~~/// 1st / 6th / August /~~ 1988, by and between MONARCH BAY LAND ASSOCIATION, a California non-profit corporation ("Optionee"), and SANWA BANK CALIFORNIA, as Trustee of the Moulton, Mathis and Hanson Trusts, ("Optionor").

RECITALS

A. Optionor, owns the fee interest in the Property (as defined in Paragraph 1(n) below), commonly known as Monarch Bay and presently consisting in part of two hundred and fourteen (214) separate residential lots (the "Residential Lots") and three (3) separate beach front lots on which presently exists improvements known as the Monarch Bay Club (the "Beach Club").

B. The Property is subject to a Lease (as defined in Paragraph 1.(h) below) which in turn is subject, in part, to two hundred and fourteen (214) Subleases (the "Subleases") which created the Residential Lots, which Residential Lots are subleased by the sublessees under the Subleases (the "Sub-Tenants"). The term Sub-Tenants shall refer to all present and future sublessees under the Subleases.

C. Optionee desires to acquire the exclusive right to purchase the Property at a price determined by an agreed upon appraisal procedure and upon the terms and conditions set forth in this Agreement.

D. Optionee and Optionor desire to enter into an escrow to facilitate: (i) the obtaining of title insurance in connection with the grant of the Option (as defined in Paragraph 1(k) hereof) and in preparation of the conveyance of the fee in the Property should the Option be exercised; and, (ii) the deposit of certain documents.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties to this Agreement agree as follows:

1. Certain Definitions. In addition to the terms defined elsewhere in this Agreement, the terms defined for purposes of this Agreement are:

(a) "Amendment to Lease" means the amendment to the Lease setting forth the rental due thereunder from July 1, 1990 and thereafter for the duration of the term of the Lease, in a form substantially identical to Exhibit "A" attached hereto;

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(b) "CC&R's" means the declaration of covenants, conditions and restrictions which regulate use of the Property, in form substantively identical to Exhibit "B" attached hereto;

(c) "Close of Escrow" means the date of recordation of the Grant Deed;

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(d) "Escrow" means the escrow described in Paragraph 7. hereof;

(e) "Escrow Holder" means Sanwa Bank California in its capacity as escrow agent, as designated in Paragraph 7. hereof. It is mutually understood and agreed between the parties hereto that Sanwa Bank California may act as escrow agent in this transaction and shall have the same duties and responsibilities as such escrow agent as if it were not a party to this escrow.

(f) "Fixtures" means all improvements affixed to the Land, except the Leasehold Improvements.

(g) "Land" means all of that certain real property situated in the County of Orange, State of California commonly known as Monarch Bay and particularly described in Exhibit "C" attached hereto;

(h) "Lease" means the lease dated July 1, 1960, affecting the Property between First Western Bank and Trust Company, a California banking corporation, as lessor, and Laguna Niguel Corporation, as lessee;

(i) "Leasehold Improvements" means all improvements which have been and/or will be affixed to the Land subsequent to the Land being developed as "finished lots" as described in Paragraph 6.3(iv) below. By way of example but not limitation, Leasehold Improvements are single family dwellings, Monarch Bay Club improvements, attached and detached garages, swimming pools, spas, hot tubs, landscaping, tennis courts, fences, landscaping, walls, guard houses and gates, beach club facilities and fountains;

(j) "Memorandum of Option" means the memorandum of option memorializing the Option, in form substantively identical to Exhibit "D" attached hereto;

(k) "Option" means the exclusive option to purchase the Property granted to Optionee pursuant to Paragraph 2. hereof;

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(l) "Option Payments" means the payments to be deposited by Optionee into Escrow and to be applied to the Purchase Price pursuant to Paragraph 4. hereof;

(m) "Option Policy" means the title insurance policy described in Paragraph 8.2.2 hereof;

(n) "Property" means the Land and the Fixtures;

(o) "Purchase Payment" means the payment to be made by Optionee to Optionor through Escrow for the purchase of the Property, in an amount equal to the Purchase Price, less any and all amounts to be credited towards the Purchase Price;

(p) "Purchase Policy" means the title insurance policy described in Paragraph 9.2 hereof;

(q) "Purchase Price" means the purchase price for the Property which is "Fair Market Value of the Property" (as defined in Paragraph 6. hereof) multiplied by 65% with the product being reduced by all Option Payments. By way of example if the Fair Market Value of the Property is determined to be \$100,000,000, then the Purchase Price shall be \$64,600,000 (\$100,000,000 x 65% - \$400,000);

(r) "Title Company" means First American Title Insurance Company (or its successor) in its capacity as issuer of the Option Policy, pursuant to Paragraph 8.2.2 hereof, and the Purchase Policy, pursuant to Paragraph 9.2 hereof;

(s) "Title Report" means the preliminary title report issued with respect to the Property by Title Company under its order no. 1456441 on March 5, 1987; and,

(t) "Title Exceptions" means certain of those exceptions to Optionor's fee interest to the Property appearing on the Title Report which are specifically identified in Exhibit "E" attached hereto.

2. Grant of Option. Upon the terms and conditions set forth in this Agreement, Optionor hereby grants the Option to Optionee.

3. Term of Option. The term of the Option shall commence on the date of this Agreement and shall expire on July 1, 2020, unless Optionee fails to make any one of the Option Payments required in Paragraph 4 below, in which case the term of the Option shall expire ten (10) days after written notice of non-payment is given by Optionor to Optionee.

4. Option Consideration. In consideration of the grant of the Option, Optionee shall pay Optionor through Escrow the following Option Payments, which Option Payments shall be credited to the Purchase Price:

(a) Upon execution and delivery of this Agreement	-	\$100,000.00
(b) July 1, 1996	-	\$100,000.00
(c) July 1, 2006	-	\$100,000.00
(d) July 1, 2016	-	<u>\$100,000.00</u>
TOTAL		<u>\$400,000.00</u>

In order to maintain Optionee's rights under this Agreement, Optionee shall make the Option Payments to Optionor as they each become due. If Optionee fails to make any of the Option Payments becoming due pursuant to the terms of this Agreement, Optionor shall have the option to terminate the Option upon ten (10) days prior written notice to Optionee. The Option Payments shall be non-refundable. Each of the foregoing payments shall be deemed to constitute independent consideration for the granting by the Optionor of the subject option period including the initial Option period which commences on the date hereof. Each such Option period shall be deemed to be separate and independent from the next succeeding Option period to the end that should the Optionee fail to make any of those payments

which are provided for in subparagraphs (b), (c) and (d) above, the term of this Option shall be conclusively presumed to have ended on said date. Upon such termination, the Optionee agrees, at Optionor's request, to execute a quitclaim deed of the Property to the Optionor.

5. Lease of Property. The Lease shall remain in effect as to the Property until Close of Escrow. The Lease shall terminate as to the Property at the Close of Escrow. Notwithstanding anything to the contrary in this Agreement, if Optionee exercises the Option, as provided for in Paragraph 6 below, and Optionee cannot perform its obligations to permit closing, then Optionee may extend the Close of Escrow to December 31, 2020 and Optionee will be deemed to have entered into a lease with Optionor identical in form to the Lease except monthly rent thereunder will be the higher of (i) actual rent under the Lease for July 2020; or, (ii) the Fair Market Value of the Property times the prime rate of interest publicly announced by Citicorp, New York City [or the successor rate charged by Citicorp (and publicly announced) to its most creditworthy commercial borrowers on ninety (90) day unsecured loans] divided by twelve. Monthly rental payments shall be prorated on the basis of a thirty (30) day month.

Optionor shall provide copies to Optionee of all notices required to be sent to the tenant by the landlord under the Lease. Optionee shall be entitled (but not obligated) to cure all of lessee's defaults under the Lease. In the event Optionee cures such default, Optionor shall continue to recognize the estate of Lessee under the Lease.

6. Exercise of Option. Optionee's right to exercise the Option and the calculation of the Purchase Price is subject to and to be determined in accordance with the following:

6.1 Notice. Optionee shall give written notice to Optionor of Optionee's intent to exercise the Option, provided, however, that such written notice may not be given before January 1, 2018, but must be delivered to Optionor no later than January 1, 2019.

6.2 Physical Condition. Neither the physical condition of the Property and/or the Leasehold Improvements nor the manner of operation of the Property and/or the Leasehold Improvements shall constitute a condition to Optionee's right to exercise the Option or a basis for reducing or delaying the Option payments. Optionor shall be under no duty to restore, shore, fill, compact, or otherwise repair or service the surface and/or subsurface of the Property and should the Option be

exercised, the Property will be accepted by the Optionee in "as is" condition.

6.3 Value. Between January 1, 2019 and March 31, 2019, Optionor and Optionee shall endeavor to agree upon "Fair Market Value of the Property" (defined below). If Optionor and Optionee are unable to agree upon Fair Market Value of the Property on or before March 31, 2019 ("Negotiation Period"), then Fair Market Value of the Property shall be established in accordance with the following procedure:

(i) Within thirty (30) days after the expiration of the Negotiation Period, Optionor and Optionee shall jointly attempt to agree on the appointment of a real estate appraiser who is a member of the American Institute of Real Estate Appraisers or any successor thereto or the Society of Real Estate Appraisers, or any successor thereto (or in the event the American Institute or Society of Real Estate Appraisers or any successor shall not then be in existence, a disinterested real estate appraiser having appropriate qualifications to appraise residential real estate), with at least ten (10) year's full-time real estate appraisal experience in South Orange County. All appraisers selected pursuant to the provisions hereof shall be impartial and unrelated, directly or indirectly, so far

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as employment of services is concerned, to any of the parties hereto, or their successors. The cost of the services performed by such appraiser shall be borne equally by the parties. The single appraiser jointly appointed by the parties shall determine the Fair Market Value of the Property in the manner herein specified and shall render his appraisal within forty-five (45) days after said appraiser has been selected.

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(ii) Failing the joint action to appoint one (1) appraiser within such thirty (30) day period, Optionor and Optionee shall each within an additional ten (10) days, separately, at their own cost designate an appraiser meeting the qualifications stated in paragraph (i) above. If two (2) appraisers are appointed and they concur then such concurrence shall be the Fair Market Value of the Property. If the appraisers do not concur, and the difference between the higher and lower appraisal is an amount less than ten percent (10%) of the amount of the higher appraisal, the difference shall be split and the mean average of the two (2) appraisals shall be the Fair Market Value of the Property. The two (2) appraisers shall render their respective appraisals within forty-five (45) days after they have been selected. If the difference between the appraisals exceeds the amount specified above,

the two (2) appraisers shall jointly select a third appraiser meeting the qualifications set forth in paragraph (i) above, and if they are unable to agree on a third appraiser, either of the parties to this Agreement, by giving ten (10) days notice to the other party may apply to the presiding judge of the Superior Court of Orange County to select a third appraiser who meets the qualifications set forth in paragraph (i) above. The third appraiser, however selected, shall be a person who has not acted in any capacity for either party. Within ten (10) days from the date of the selection of the third appraiser, all three (3) appraisers shall meet and they shall determine the Fair Market Value of the Property within thirty (30) days from the selection of the third appraiser. If the three (3) appraisers are unable to agree within such time, the Fair Market Value of the Property shall be determined by a majority of the three (3) appraisers, but if a majority cannot agree, then the arithmetic average of the two (2) closest in amount of the three (3) appraisals shall be deemed to be the Fair Market Value of the Property, but in no event greater or less than the higher or lower, respectively, of the original two (2) appraisals of the first two (2) appraisers. The expenses related to the selection and services of the third appraiser shall be shared equally by Optionor and Optionee.

(iii) As used herein the phrase "Fair Market Value of Property" is to be determined by the appraisers and defined as the aggregate of the fair market value of the fee interest in each Residential Lot existing on the Property at the time of the appraisal. The method of appraisal to be employed shall be the market data approach. By way of example and not limitation, if there are 214 Residential Lots and, after having given effect to clauses a. through h. above, each Residential Lot is appraised at One Million Dollars (\$1,000,000.00), and assuming the amenities such as the Beach Club, and/or the land upon which they are located have no residual or unallocated value, then the Fair Market Value of the Property is Two Hundred and Fourteen Million Dollars (\$214,000,000.00). Should the appraiser(s) determine that the amenities and/or the land upon which they are located have a value in excess of that which has been included within the aggregate values of the Residential Lots, the Fair Market Value of the Property shall be adjusted upward so as to include such residual or unallocated value. In establishing the Fair Market Value of the Property, the appraiser(s) shall consider (a) the then-current and actual use being made of the Property as a single family residential development with amenities including the Beach Club without assuming a change of use for which any private

or governmental permission would be required or any change in use whether or not permitted by the terms of the Lease (in its present form) and without regard to any residual value for any such future uses; (b) the then-existing condition of the Property; (c) that no value is to be included with respect to the Leasehold Improvements; (d) all encumbrances affecting the Property, including but not limited to all then-existing taxes, assessments, covenants, conditions, restrictions, rights of way, liens, and easements; (e) all other burdens upon and benefits to the Property; (f) the Fair Market Value of the Property only as of the date the appraisals are being made; (g) that this is an "all cash" sale; (h) geographic location; and, (i) that the use of Residential Lots and Beach Club will be subject to the restrictions set forth in the CC&R's (e.g., the Beach Club is restricted for use as a private club for the benefit only of Monarch Bay residents).

(iv) As additional guidance to the appraiser(s), it is the intention of Optionor and Optionee that the Property be evaluated as an assemblage of "finished lots" meaning a vacant lot which is available for immediate sale with all streets, utilities, sidewalks and other such improvements installed and all governmental approvals, consents and permits issued which would enable single

family residences to be built and occupied. All appraisers shall establish Fair Market Value of the Property by totalling the separate appraised value for each Residential Lot. In appraising each Residential Lot, the appraiser(s) should not consider the existence of the Lease (except as to the use restrictions); the rentals which are payable thereunder; the number of Residential Lots; the amount of time which would be required to sell all the Residential Lots; the costs of sale, such as commissions, title and escrow charges, etc., which would be incurred in individual Residential Lot sales; any income tax advantage to the Optionor; any advantage of there being only a single "bulk" sale. Other than the above, no appraiser shall consider other factors which are inadmissible with respect to an opinion of value given by an expert witness under the then-existing laws of the State of California.

(v) The values established under this Section shall be binding and conclusive on the parties. If for any reason a value established under this Section is not conclusive, no party may avail itself of a value more favorable to such party than the value determined by the appraiser appointed by such party. The foregoing provisions in this Paragraph pertaining to the Fair Market Value of the Property shall not be applicable in the event

all or a portion of the Property should either become the subject of a condemnation or similar proceeding or be conveyed to a condemning authority in lieu of or as a compromise in any such proceeding. In such event, the value of the Property shall be based upon it's highest and best use and shall be determined pursuant to the appraisal practices and techniques which exist at that time.

(vi) Each appraiser shall certify that he has personally inspected the Property and all properties used as comparisons, that he has no past, present or contemplated future interest in the Property or any part thereof, that the compensation to be received by him from any source for making the appraisal is solely in accordance with this Agreement, that he has followed the instructions as set forth in this Section for valuing the Property, that neither his employment to make the appraisal nor his compensation therefor is contingent upon reporting a predetermined value, or a value within a predetermined range of values, that he has had ten (10) years' professional experience as a real estate appraiser in South Orange County (including residential properties), that he is a member of the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers or successor thereto and that his appraisal was prepared in

conformity with the standards of professional practice of the Institute or Society or successor thereto.

7. Opening of Escrow. Within two (2) business days of the full execution and delivery of this Agreement, Optionee and Optionor shall open Escrow with Escrow Holder for the purpose of consummating the transactions described herein, which opening shall be accomplished by the deposit with Escrow Holder of a fully-executed copy of this Agreement. This Agreement, together with the general provisions of Escrow Holder's standard form escrow instructions set forth in Exhibit "F" attached hereto, to the extent that such general provisions are not in conflict with this Agreement, shall constitute the joint escrow instructions to Escrow Holder.

8. Deliveries to and Duties of Escrow Holder
Regarding Option.

8.1 Deliveries. On or before ten (10) business days after Escrow is opened pursuant to Paragraph 7. hereof, the designated party or parties shall deliver or cause to be delivered to Escrow Holder the following documents and funds:

8.1.1 Optionee and Optionor. Optionee and Optionor shall deliver the fully-executed and notarized Memorandum of Option, in recordable form.

8.1.2 Optionor. Optionor shall deliver the fully-executed Amendment to Lease.

8.1.3 Optionee. Optionee shall deliver the initial Option Payment in the form of a certified or cashier's check in the amount of \$100,000.00.

8.2 Duties.

8.2.1 Recordation. Escrow Holder shall instruct Title Company to record the Memorandum of Option in the office of the Orange County Recorder provided that Title Company is in a position and is committed to issue the Option Policy.

8.2.2 Option Policy. At Optionee's sole expense, the Option Policy to be issued by Title Company at Optionee's expense shall: (i) consist of a California Land Title Association Owner's Title Insurance Policy with an option endorsement, naming Optionee as insured, with liability in an amount satisfactory to Optionee; and, (ii) be subject only to (a) real property taxes and assessments not then delinquent, (b)

Title Exceptions, and (c) the printed exceptions to and exclusions from coverage contained in the Option Policy.

8.2.3 Delivery of Option Payment to Optionor. Escrow Holder shall deliver to Optionor all of the Option Payments made by Optionee and held by Escrow Holder, pursuant to Paragraph 4.1 above. The initial Option Payment shall be released by Escrow to Optionor as soon as practicable after Escrow Holder is notified that Optionee is in receipt of the Option Policy.

8.2.4 Termination. Upon Escrow Holder's performance of its duties pursuant to Paragraphs 8.2.1 through 8.2.3, inclusive, above, the Escrow shall terminate.

9. Title Insurance for Purchase and Sale.

9.1 Removal of Liens during Term of Option.

With regard to any writ of attachment, judgment lien, mechanics' lien or lien for taxes (other than for real property taxes and assessments) or any other encumbrance or cloud to title to the Property which is not a Title Exception, imposed on the Property after the date of the Title Report, but prior to Close of Escrow excepting those caused by acts or omissions of the Optionee or Sub-Tenant(s), the expense of removing such matter from title to

the Property or satisfying the Title Company that such matter will not appear as an exception to the Purchase Policy shall rest upon Optionor. Optionor agrees to cooperate to cause the removal of such matters that can be removed from title with the payment of money pursuant to their terms by directing the disbursal from Escrow from funds deposited therein by Optionee as required herein prior to Close of Escrow which funds as required shall be disbursed to the beneficiaries of such monetary exceptions.

9.2 Title Policy for Purchase and Sale. The Purchase Policy to be issued by Title Company at Optionor's expense shall consist of a California Land Title Association Owner's Title Insurance Policy, naming Optionee as insured, with liability in the amount of the Purchase Price, dated as Close of Escrow, showing title to the Property vested in Optionee be subject only to (a) real property taxes and assessments not then delinquent, (b) Title Exceptions, (c) matters affecting the condition of title suffered by or created with the consent of Optionee, (d) the CC&R's, (e) those exceptions which are beyond the reasonable control of Optionor resulting from future changes in California or federal law which similarly affect the fee title of real property within a ten-mile radius of the Property (e.g., lien for special assessments) in the same respect as it affects the Property, (f) the printed exceptions to and

exclusions from coverage contained in the Purchase Policy, and (g) title exceptions caused by acts or omissions of the Optionee or owners of subleasehold interests in the Property. If title insurance is not reasonably available because of changes in practice, then the Closing shall occur with the usual and customary substitute for title insurance then existing. The foregoing obligations of the Optionor shall not apply to any matters which may cloud title and which do not directly or indirectly relate to acts or omissions of the Optionor.

10. Deliveries to and Duties of Escrow Holder Regarding Purchase and Sale.

10.1 Deliveries. Optionor shall deliver executed and recordable CC&R's and a grant deed or deeds to the Escrow Holder. Optionee shall deliver or cause to be delivered to Escrow Holder the Purchase Payment provided Title Company is in a position to issue the Purchase Policy.

10.2 Duties. Escrow Holder shall instruct Title Company to record the CC&R's first and thereafter a grant deed or deeds for the Property in the office of the Orange County Recorder when and only when: (i) Escrow Holder has received funds to be deposited in Escrow pursuant to Paragraph 10.1

hereof; and (ii) Title Company is in a position and is committed to issue the Purchase Policy.

11. Close of Escrow. Close of Escrow shall occur on or after July 1, 2020 and shall be accomplished by the recordation of the Grant Deed.

12. Costs of Escrow. Except as otherwise specifically provided herein, the costs of Escrow shall be borne equally by Optionee and Optionor.

13. Restrictions on Personal Liability of Optionor. Optionee and Optionor agree that neither Sanwa Bank California nor any of its officers or employees acting in their capacity as agents of the Moulton, Mathis and Hanson Trust shall be personally liable under this Agreement.

14. Liquidated Damages.

THE PARTIES HERETO, BEFORE ENTERING INTO THIS TRANSACTION, HAVE BEEN CONCERNED WITH THE FACT THAT IN THE EVENT THAT, SUBSEQUENT TO OPTIONEE'S EXERCISE OF THE OPTION, ESCROW SHOULD FAIL TO CLOSE DUE TO OPTIONEE'S DEFAULT HEREUNDER, SUBSTANTIAL DAMAGES WILL BE SUFFERED BY OPTIONOR. WITH THE FLUCTUATION OF LAND VALUES, THE UNPREDICTABLE STATE OF THE

ECONOMY AND OF GOVERNMENTAL REGULATIONS, THE FLUCTUATING MONEY MARKET FOR REAL ESTATE LOANS OF ALL TYPES, AND OTHER FACTORS WHICH DIRECTLY AFFECT THE VALUE AND MARKETABILITY OF THE PROPERTY, IT IS REALIZED BY THE PARTIES THAT IT WOULD BE EXTREMELY DIFFICULT AND IMPRACTICABLE, IF NOT IMPOSSIBLE, TO ASCERTAIN WITH ANY DEGREE OF CERTAINTY PRIOR TO SIGNING THIS AGREEMENT, THE AMOUNT OF DAMAGES WHICH WOULD BE SUFFERED BY OPTIONOR IN THE EVENT THAT, SUBSEQUENT TO OPTIONEE'S EXERCISE OF THE OPTION, ESCROW FAILS TO CLOSE DUE TO OPTIONEE'S DEFAULT. THE PARTIES, HAVING MADE DILIGENT BUT UNSUCCESSFUL ATTEMPTS TO ASCERTAIN THE ACTUAL COMPENSATORY DAMAGES OPTIONOR WOULD SUFFER IN SUCH EVENT, HEREBY AGREE THAT THE REASONABLE ESTIMATE OF SAID DAMAGES IN THE EVENT THAT THE ESCROW FAILS TO CLOSE BY REASON OF OPTIONEE'S DEFAULT HEREUNDER IS A SUM EQUAL TO \$100. THE PARTIES THEREFORE AGREE THAT IN THE EVENT ESCROW FAILS TO CLOSE DUE TO DEFAULT BY OPTIONEE, THE SOLE AND EXCLUSIVE REMEDY OF OPTIONOR SHALL BE TO RETAIN THE OPTION PAYMENTS AND RECEIVE THE ADDITIONAL SUM OF \$100. THE LIQUIDATED DAMAGES HEREUNDER SHALL BE RECEIVED BY OPTIONOR IN LIEU OF ALL OTHER DAMAGES OR RELIEF WHICH MIGHT OTHERWISE BE AVAILABLE TO OPTIONOR INCLUDING ANY ORDER FOR SPECIFIC PERFORMANCE AS A RESULT OF THE FAILURE OF ESCROW TO CLOSE DUE TO OPTIONEE'S DEFAULT. THIS LIQUIDATED DAMAGE PROVISION SHALL BE EFFECTIVE ONLY IF OPTIONEE DELIVERS TO

OPTIONOR A FULLY EXECUTED AND ACKNOWLEDGED QUITCLAIM DEED OF ALL
OPTIONEE'S INTEREST WITH RESPECT TO THE OPTION.

OPTIONOR'S INITIALS

OPTIONEE'S INITIALS

15. Time of the Essence. Time is of the essence of
this Agreement.

16. Broker's Commission. Optionee and Optionor
represent and warrant that all negotiations relative to this
Agreement and the transactions described herein have been
carried on by such party directly with any of the other parties
without the intervention of a broker or other commissioned
agent.

17. Notices. Any notice, request, demand,
instruction, payment or other communication to be given to any
party hereunder shall be in writing and personally delivered or
sent by registered or certified mail, return receipt requested,
as follows:

TO OPTIONOR:

SANWA BANK CALIFORNIA
1622 North Main Street
Santa Ana, California 92701

ALL

TO OPTIONEE: MONARCH BAY LAND ASSOCIATION
P.O. Box 52
Monarch Beach, California 92677

WITH COPY TO: MONARCH BAY ASSOCIATION
P.O. Box 52
Monarch Beach, California 92677
Attention: President

Notice shall be deemed to have been given upon personal delivery or seventy-two (72) hours after deposit of same in any United States mail post office box, postage prepaid, addressed as set forth above. The addresses or addressees for the purpose of this Paragraph 17 may be changed by giving written notice of such change in the manner provided herein for giving notice. Unless and until such written notice is received, the last address or addressee as stated by written notice, or as provided herein if written notice of change has been sent or received, shall be deemed to continue in effect for the purposes of this Agreement.

18. Successors and Assigns. The Option shall not be assigned by Optionee or Optionor, or either of them, without the express written consent of the other party hereto; provided, however, that Optionee acknowledges that Optionor holds title as a fiduciary and therefore has the right from time to time to distribute all or portions of Optionor's present interest in the Property to such persons as are entitled thereto which persons will in all cases be subject to Optionor's obligations under this Agreement. Subject to the foregoing restriction, this

Agreement shall inure to the benefit of Optionor and Optionee, their successors, assigns and representatives and shall bind Optionor and Optionee, their successors, assigns and representatives. Notwithstanding the foregoing, (i) provided it does not cause material adverse consequences to Optionor as determined by Optionor in its reasonable judgment, prior to Closing, Optionee shall have the right to nominate the owners of the beneficial interest of Optionee's interest in and to the Option as buyers of the Residential Lots (provided Optionee shall pay all increased recording, escrow and title costs caused by such nomination procedure) it being understood that this Agreement is intended to effect a single sale by Optionor to Optionee and Optionee's right to require multiple deeds is solely for the convenience of Optionee; (ii) Optionee shall have the right, without Optionor's consent or approval, to assign beneficial interests in the Option to Sub-Tenants for the purposes of inducing their pro rata payment of the Option Payments and for purposes of their obtaining financing for such Residential Lots; (iii) the pledge, hypothecation, assignment, transfer to or foreclosure or levy by a lender in connection with a loan secured by a trust deed or mortgage secured by the subleasehold estate in such Residential Lots and beneficial interest in the Option shall not require any consent or approval by Optionor; (iv) the foregoing rights of assignment as set forth in (i), (ii) and (iii) above are of interests which will

vest in the future and the vesting of each such interest shall be conditioned upon the occurrence of both of the following events: (1) the exercise of the Option by Optionee; and (2) the Close of Escrow as to the Property. Optionor shall be under no obligation to convey title of any of its interest in the Property unless and until the Close of Escrow on all of the Property and, (v) such rights of assignment shall not be deemed to have established a privity of contract or of estate relationship between the Optionor and the Sub Tenants, their successors and assigns nor shall such Sub Tenants, successor and assigns be deemed to be third party beneficiaries of the Optionees rights under this Agreement.

19. Incorporation of Exhibits. All exhibits attached hereto and referred to herein are incorporated in this Agreement as though fully set forth herein.

20. Amendment. Any amendments to this Agreement shall be in writing and shall be effective only when duly executed by Optionee and Optionor. Optionor agrees to cooperate in all reasonable requests of Optionee relating to the Option to the extent such cooperation is necessary in order to evidence for financing purposes the beneficial interests in the Option which may vest in present and future residents on the Property.

21. Survival. All agreements, representations and warranties of the parties shall survive Close of Escrow and the delivery of any deed.

22. Entire Agreement. This Agreement, together with any written agreement executed simultaneously herewith, contains the entire agreement of the parties with respect to the Option and the transactions contemplated thereby, and no other agreement, statement or promise made by either party which is not contained in this Agreement shall be binding or valid. Each of the parties to this Agreement agrees to execute such additional agreements or documents as may be reasonably necessary to effect the transaction herein contemplated.

23. Construction. This Agreement shall be construed as a whole and in accordance with its fair meaning. Captions are for convenience and shall not be used in construing meaning.

24. No Waiver. The waiver by any party to this Agreement of the performance of any covenant, condition or promise which inures to the benefit of that party shall not invalidate this Agreement, nor shall it be construed as a waiver of any other covenant, condition or promise. The waiver by any party to this Agreement of the time for performing any act shall not be considered a waiver of the time for performing any other

act or any identical act required to be performed at a later time.

25. Counterparts. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one and the same instrument, and any of the parties to this Agreement may execute this Agreement by signing any such counterpart.

26. Governing Law. This Agreement shall be governed by the laws of the State of California.

27. Attorneys' Fees. If any party to this Agreement brings an action to enforce the terms hereof, the prevailing party in any such action shall be entitled to reasonable attorneys' fees incurred in the trial or appeal of such matter.

28. Indemnity or Termination. The parties intend that this Agreement will serve to avoid the litigation of issues similar to those which were presented in Louis E. Scott, et al. v. The Irvine Company, et al., Orange County Superior Court, by vesting the Optionee with the ability to make available to each Sub-Tenant the fee title to each Sub-Tenant's Residential Lot upon the expiration of the term of the Lease. The avoidance of a Sub-Tenant asserting the right to acquire the fee title to

such Sub-Tenant's Residential Lot, an extension of the term of the Lease, or any other right which is not available to such Sub-Tenant pursuant to the express provisions of the Lease or this Agreement is therefore a material inducement to the Optionor to enter into this Agreement.

Should a Sub-Tenant, acting individually, within a class, or in any other capacity, directly or indirectly assert a claim, right, or cause of action against the Optionor, the purpose of which is to require the Optionor to suffer or incur a duty or obligation for the benefit of such Sub-Tenant which is in addition to or which contravenes, amends, or supersedes the terms of and/or the duties and obligations which are prescribed unto the Optionor in this Agreement, and/or in the Lease, except as to claims, rights, causes of action against Optionor based upon a contract unrelated to the Lease and/or Option or the negligent or wrongful misconduct of Optionor, the Optionor shall give notice thereof to the Optionee in that manner which is provided for in Paragraph 17 hereof. Upon receipt of such written notice, Optionee shall provide a reasonable indemnity procedure to ensure Optionor that it shall incur no cost or expense with respect to such claim, right or cause of action. A reasonable indemnity procedure shall include, but not be limited to, the establishment of escrow (with appropriate instructions) funded with an amount reasonably calculated to cover all costs

and expenses of the litigation (e.g., legal fees) and a reasonable undertaking by a financially responsible party to pay any judgment against Optionor. Should the reasonable indemnity procedure not in good faith be agreed to within sixty (60) days after the Optionor shall have given such notice, this Agreement shall, without need of further action or notice, terminate in the same manner as though the Optionee had failed to pay that consideration which is provided for in Paragraph 4 herein and all Option Payments previously paid shall be retained by Optionor.

This Agreement shall also terminate in the same manner as though the Optionee had failed to pay that consideration which is provided for in Paragraph 4 upon the occurrence of any of the following events:

- (i) The attachment, execution upon, or other levy on or seizure under legal process of the Optionee's interests in this Agreement and its rights hereunder, if the same is not released within 180 days;
- (ii) An assignment by the Optionee for the benefit of creditors or the filing of a voluntary or involuntary petition by or against the Optionee

in bankruptcy; or for extending time for payment, adjustment, or satisfaction of Optionee's liabilities hereunder including but not limited to the payment of that consideration which is provided for in Paragraph 4; or for the reorganization, dissolution, or arrangement on account of or to prevent Optionee's bankruptcy or insolvency; unless the assignment or proceeding and all consequent orders, adjudication, custodies and supervisions are dismissed, vacated or otherwise permanently stayed or terminated within 180 days after the assignment, filing or initial event.

29. Modification. Optionor agrees not to modify or amend the Lease or the Amendment to the Lease without the prior written consent of Optionee, which consent will not be unreasonably withheld or delayed.

30. Section 1031 Exchange. Optionee agrees to cooperate with all reasonable requests of Optionor in order for Optionor to effect an exchange under Section 1031 of the Internal Revenue Code (or any successor provision) provided such cooperation does not require Optionee to incur any additional

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cost, expense or liability and provided, further, that the Close of Escrow is not delayed.

OPTIONEE:

MONARCH BAY LAND ASSOCIATION
a California non-profit
corporation

By: /s/ William Beck
Its: President

By: /s/ John B. Miles
Its: Vice President

OPTIONOR:

SANWA BANK CALIFORNIA
a California corporation

By: /s/ R. R. Richards
Its: Vice President

By: /s/ Frances Gillogly
Its: Vice President

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09/20/88-1700

EXHIBIT "A"

AMENDMENT TO GROUND LEASE

This Amendment to Ground Lease is dated as of _____, 1987, and is made by and between Lloyds Bank California, as lessor, and Avco Community Developers, as lessee with reference to the following facts:

A. Lessor and Lessee are respective successors to First Western Bank and Trust Company, a California banking corporation, as lessor, and Laguna Niguel Corporation, as lessee, under that certain Ground Lease dated July 1, 1960 for the leased premises in Exhibit "A" attached hereto and incorporated herein by this reference.

B. The parties acknowledge that the rental under the Ground Lease is to be adjusted at the end of the thirty (30) years of the term of the lease as provided in Article V thereof which reads in part as follows:

"If either the lessor of the lessee shall so request in writing at least sixty (60) days prior to the expiration of the thirtieth (30th) year of the term hereof, consideration regarding a rental adjustment shall be given, and the amount of said adjustment, if any, and the increase or decrease of rental shall be proportionate to the trend in the purchasing power of the United States' dollar. In connection with determining the trend hereinabove mentioned, the annual averages during the first thirty (30) years of the term hereof of applicable indices of the purchasing power of the dollars pertaining to the Los Angeles Metropolitan Area shall be used and thereafter during the remaining thirty (30) years of the term of this lease, the lessee shall pay to the lessor such rental as so adjusted. If by the end of the thirtieth (30th) year the parties hereto shall fail to agree upon the amount of such adjustment, then and thereupon, said amount shall be determined by arbitration."

C. The parties desire and intend this Amendment to Ground Lease to establish the formula by which to determine the trend in the purchasing power in the United States' dollar.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants and conditions set forth below, the parties hereby agree as follows:

The parties agree that the trend in the purchasing power of the United States' dollar as provided in the applicable provisions of the Ground Lease described in Recital B, above, shall be determined according to the following computation:

The present annual rent of \$85,000.00 a year shall be increased on July 1, 1990 to the amount obtained by multiplying \$85,000.00 by the Consumer Price Index for June 1990 (All Items) for urban wage earners and clerical workers for the Los Angeles/Long Beach/Anaheim areas based on year 1967 = 100% as published by the United States Department of Labor, Bureau of Labor Statistics (the "Index") and dividing by 88.7. By way of example only, if the Index is 400, then the annual rent for the remainder of the term shall be \$383,314.54, i.e., $\frac{\$85,000.00 \times 400}{88.7}$.

88.7

Lessor shall notify Lessee of the amount of the increase calculated pursuant to the appropriate Index. In the event that the Index for June, 1990 shall not be available on July 1, 1990, Lessor's notification of the increased amount of rent may be given after the effective date of the increase. In such event, Lessee shall pay Lessor the necessary rental adjustment for the period elapsed between the effective date of the increase and Lessor's notice of such increase within ten days after Lessor's notice. If the Index no longer exists or the format or components of the Index are materially changed on or before the effective date of the increase, Lessor shall substitute an index which is published by the Bureau of Labor Statistics or similar agency and which is most nearly equivalent to the Index in effect on the date of this Amendment. Lessor shall notify Lessee of the substituted index which shall be used to calculate the increase unless Lessee objects in writing within fifteen days after receipt of Lessor's notice. If Lessee objects, the substitute index shall be determined in accordance with the rules and regulations of the American Arbitration Association. The cost of such arbitration shall be borne equally by Lessor and Lessee.

Except as amended herein the Ground Lease remains in full force and effect. In the event of any ambiguities in the Ground Lease arising out of this Amendment, the terms and conditions of this Amendment shall govern the interpretation of the Ground Lease.

IN WITNESS WHEREOF, the parties have executed this
Amendment as of the day and year set forth above.

LLOYDS BANK CALIFORNIA

By _____

By _____

("Lessor")

AVCO COMMUNITY DEVELOPERS

By _____

By _____

("Lessee")

PLEASE NOTE: THIS EXHIBIT IS A ROUGH DRAFT OF A DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS, AND A SUBSTANTIAL REVISION HAS BEEN MADE AND IS ENCLOSED AT TAB 13. AT THE TIME OF THE PRINTING OF THIS DOCUMENT PACKAGE, THE OWNER'S REPRESENTATIVE WAS NOT AVAILABLE TO DISCUSS THIS REVISION.