

THREE FLAGS CENTER LEASE

1. PARTIES.

THIS LEASE, is executed at Laguna Niguel, California, this 1st Day of January 1, 2012 by and between the S&L Glass Family Trust TTEE (the "Landlord") and Tenant Tenant (the "Tenant").

2. PREMISES.

Landlord hereby leases to Tenant and Tenant hires from Landlord on the terms, covenants and conditions set forth herein, the Leased Premises, consisting of approximately 1260 square feet, known as unit number 10 located at 27601 Forbes Road, Laguna Niguel, California 92677.

3. TERM.

3.1 The term of this lease shall be 12 Months commencing on 1/1/2012 and ending on 12/31/2012

3.2 Early Possession: Tenant to take possession of the premises on or about [date]. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease shall be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 Delay In Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession by such date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. If possession of the Premises is not delivered within 120 days after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessor shall not be required to deliver possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance. Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election 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 Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. RENT.

Tenant agrees to pay monthly to Landlord at such place as Landlord may designate without deduction, offset, prior notice or demand, and Landlord agrees to accept, as fixed minimum monthly rent for the Leased Premises the sum of ONE THOUSAND FOUR HUNDRED FIFTY AND NO/100 DOLLARS (\$1450) lawful money of the United States, payable in advance on the first day of each month during the entire term of this lease. The amount of ONE THOUSAND FOUR HUNDRED FIFTY AND NO/100 DOLLARS (\$1450) is paid herewith to Landlord upon the execution of this Lease, receipt of which is hereby acknowledged, which shall represent the first month's rental. All additional monies due pursuant to past due charges become rent due.

5. BROKERAGE FEES

Payment to Brokers: There are no brokerage fees as part of this lease agreement.

6. ATTACHMENTS

Attached hereto are the following, all of which constitute a part of this Lease:

- √ a site plan marked Exhibit C, depicting the Premises and Shopping Center;
- √ a current set of Rules and Regulations for the Shopping Center Marked Exhibit A
- √ a current set of the Parking Criteria for the Shopping Center marked Exhibit B;
- √ a work letter as Attachment 'D'

7. LATE CHARGES.

Tenants failure to pay rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Property. Therefore, if Landlord does not receive any rent payment postmarked within seven (7) days after it becomes due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment. To avoid a penalty, payments must be received by mail, no later than by the 7th day of the month due (Saturdays, Sundays and legal Holidays included).

8. SECURITY DEPOSITS.

Tenant shall deposit with Landlord upon the execution of this Lease the sum of One Thousand Four Hundred Fifty and no/100 (\$1450) as a security deposit for the Tenant's faithful performance of the provisions of this Lease. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use the security deposit, or any portion of it, to cure the default or compensate Landlord for all damages sustained by Landlord resulting from Tenant's default. Tenant shall immediately on demand pay to Landlord the sum equal to that portion of the security deposit expended or applied by Landlord which was provided for in this paragraph so as to maintain the security deposit in the sum initially deposited with Landlord. Landlord shall not be required to keep the

security deposit separate from its general account nor shall Landlord be required to pay Tenant any interest on the security deposit. If Tenant performs all of Tenant's obligations under this lease, the security deposit or that portion thereof which has not previously been applied by the Landlord, shall be returned to Tenant within fourteen (14) days after the expiration of the term of this Lease, or after Tenant has vacated the Premises, whichever is later.

9. USE.

9.1 Permitted Use: The Leased Premises may be used and occupied **Embroidery and Office Space** and for no other purpose or purposes, without Landlord's prior written consent.

9.2 Manner of Use: Tenant shall not cause or permit the Property to be used in any way which constitutes a violation of any law, ordinance, or governmental regulation or order, which annoys or interferes with the rights of tenants of the Project, or which constitutes a nuisance or waste. See Exhibit "A"

9.3 Hazardous Materials: As used in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials" or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations, including without limitation petroleum-based products, paints solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCB's and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons. Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Property by Tenant, its agents, employees, contractors, subleases or invitees without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may reasonably determine to be relevant in determining whether to grant or withhold consent to Tenant's proposed activity with respect to Hazardous Material. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks on the Property.

10. TAXES.

Real Property Taxes: Landlord shall pay all real property taxes and general assessments levied and assessed against the Premises during the term of this lease. Tenant may in addition to all other sums agreed to be paid by him under this lease, pay unto Landlord upon his demand all real estate taxes which shall, during the term of this lease, be assessed against the premises in excess of the real estate taxes assessed against the premises for the fiscal year ending on January 1, 2009 preceding or succeeding (whichever shall be the shorter period of time) the day of execution hereof.

Personal Property Taxes: Tenant shall pay before delinquency any and all taxes, assessments, license fees, and public charges levied, assessed or imposed and which become payable during the term of the Lease upon Tenant's fixtures, furniture, appliances and personal property installed or located in the Leased Premises. Should Tenant fail to pay said taxes when due, Landlord may but shall not be required to pay same at the expense of Tenant, payable on demand by Landlord.

11. UTILITIES.

Tenant agrees to pay, before delinquency, all charges for gas, electricity, power, and telephone, and all other services of utilities used in, upon or about the leased premises together with any taxes thereon and for all connection charges by tenant or any of tenants sub-tenants, licensees or concessionaires during the term and any extension or renewal of the term of this lease. If any such services are not separately metered to Tenant, the Tenant shall pay a reasonable proportion, to be determined by Landlord, of all charges jointly metered with other premises.

12. GENERAL MAINTENANCE AND REPAIR.

(a) Landlord's Obligations: Except for damage caused by any negligent or intentional act or omission of Tenant, Tenant's agents, employees, or invitees, Landlord at its sole cost and expense shall keep in good condition and repair the foundations, exterior walls, and exterior roof of the Premises. Landlord shall also maintain the unexposed electrical, plumbing and sewage systems including, without limitation, those portions of the systems lying outside the Premises; window frames, gutters and down spouts on the building, all sidewalks, landscaping and other improvements that are a part of the Premises or of which the Premises are a part. Landlord shall resurface and re-stripe the parking area on or adjacent to the Premises when necessary. Landlord shall have thirty (30) days after proper notice from Tenant to commence to perform its obligations under this Article 9, except that Landlord shall perform its obligations immediately if the nature of the problem presents a hazard or emergency situation. If the Landlord does not perform its obligations within the time limit set forth in this paragraph, Tenant can perform said obligations and shall have the right to be reimbursed for the amount that Tenant actually expends in the performance of Landlord's obligations. If Landlord does not reimburse Tenant within thirty (30) days after demand from Tenant, Tenant's sole remedy shall be to institute suit against the Landlord, and Tenant shall not have the right to withhold from future rent the sum Tenant has expended.

(b) Tenant's Obligations: Tenant shall, at its sole cost, keep and maintain the Leased Premises and appurtenance and every part thereof including windows, doors, any store front and the interior of the Leased Premises in good and sanitary order, condition and repair. Tenant shall, at its sole cost, keep and maintain all utilities, fixtures, doors, locks, toilets, sinks and mechanical equipment used by Tenant in good order and repair. In addition, sink and toilet stoppages and cleanup are the responsibility of the tenant. Toilet stopper, valve and seat maintenance are the responsibility of the tenant. Light bulb replacement is the responsibility of the tenant. Fixtures and equipment mounted on the roof other than Heating and Air conditioning Units are the responsibility of the tenant to maintain and repair. Leaks in the roof resulting from this equipment shall be repaired by landlord and all costs associated with this leak repair shall be billed to the tenant. Hot water heater maintenance, replacement and repair are the responsibility of the tenant including any damage leaking water heaters may cause.

13. COMMON AREAS; USE, MAINTENANCE COSTS.

(a) Common Areas: As used in this Lease, "Common Areas" shall mean all areas within the Project which are available for the common use of tenant of the Project and which are not leased or held for the exclusive use of Tenant or other tenants, including, but not limited to, parking areas, driveways, sidewalks, loading areas, access roads, corridors, landscaping and planted areas. Landlord, from time to time, may change the size, location, nature and use of any of the Common Areas, convert Common Areas into lease-able areas, construct additional parking facilities (including parking structures) in the Common Areas, and increase or decrease Common Area land and/or facilities. Tenant acknowledges that such activities may result in inconvenience to Tenant. Such activities and changes are permitted if they do not materially affect Tenant's use of the Property.

(b) Use of Common Areas: Tenant shall have the non-exclusive right (in common with other tenants and all others to whom Landlord has granted or may grant such rights) to use the Common Areas for the purposes intended, subject to such reasonable rules and regulations as Landlord may establish from time to time. Tenant shall abide by such rules and regulations and shall use its best effort to

cause others who use the Common Areas with Tenants express or implied permission to abide by Landlord's rules and regulations. At any time, Landlord may close any Common Area to perform any acts in the Common Areas as, in Landlord's judgment, are desirable to improve the Project. Tenant shall not interfere with the rights of Landlord, other tenants or any other person entitled to use the Common Areas.

(c) **Tenants' Payment:** Landlord shall maintain the Common Areas in good order, condition and repair and shall operate the Project, in Landlord's sole discretion, as a first-class commercial/retail real property development. Tenant shall pay Tenant's pro rata share of all Common Area costs upon written notice from Landlord that such costs are due and payable, and in any event prior to delinquency. The sum of **Seventy Five and no/100 (\$75) per month** is estimated to be Tenant's pro-rata share of all costs incurred by Landlord for the operation and maintenance of the Common Areas. Landlord may adjust such estimates at any time based upon Landlord's experience and reasonable anticipation of costs. Such adjustments shall be effective as of the next rent payment date after notice to Tenant. Common Area costs include, but are not limited to costs and expenses for gardening and landscaping, rubbish removal, heating and air conditioning repair and maintenance, sweeping, common area janitorial supply and service, common area water and electrical usage, water usage and sewage charges.

14. ALTERATIONS, MECHANICS' LIENS.

(a) Alterations may not be made to the Leased Premises without prior written consent of Landlord and any alterations of the Leased Premises excepting movable furniture and trade fixtures shall at Landlord's option become part of the realty and belong to Landlord.

(b) Should Tenant desire to alter the leased Premises and Landlord gives written consent to such alterations, at Landlord's option, Tenant shall contract with a licensed and bonded contractor for the construction of such alterations. Tenant agrees not to, and not to allow anyone else to, in or on the leased premises, make any holes in, insert or apply any paint, stain, tape, screws, bolts, nails, wires, or anything else to any metal or floors, walls, windows, doors, ceilings, ducts, vents, fans, grills, pipes, light fixtures, outlet plates, door knobs, locks, etc. This also holds true of any masonite, marlite, vinyl or the like, such as rest room walls, floors, baseboards or any wood trim around doors and windows or any ceiling tiles or sprayed on ceilings or any plastic outlet plates such as light switches and phone jacks.

(c) Notwithstanding anything in paragraph 12 above, Tenant may, upon written consent of Landlord, install trade fixtures, machinery or other trade equipment in conformance with the ordinances of the applicable city and county and the same may be removed upon the termination of this Lease provided Tenant shall not be in default under any of the terms and conditions of this Lease, and the Leased Premises are not damaged by such removal. Tenant shall return the Leased Premises on the termination of this Lease in the same condition as when leased to Tenant, reasonable wear and tear expected. Tenant shall keep the Leased Premises, the Building, and property in which the Leased Premises are situated free from any liens arising out of any work performed for, materials furnished to, or obligations incurred by Tenant. All such work, provided for above, shall be done at such times and in such manner as Landlord may from time to time designate. Tenant shall give Landlord written notice five (5) days prior to employing any laborer or contractor to perform work resulting in an alteration of the Leased Premises so the Landlord may post a notice of non-responsibility.

15. INSURANCE; INDEMNITY.

(a) **Fire Insurance:** Tenant shall maintain in full force and effect on all of its fixtures and equipment in the Leased Premises a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of at least ninety per cent (90%) of their insurable value. During the term of this Lease the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the fixtures and equipment so insured. Landlord shall have no interest in the insurance upon Tenant's equipment and fixtures and will sign all documents necessary or proper in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant possessions. Tenant shall furnish Landlord with a certificate of such policy and whenever required shall satisfy Landlord that such policy is in full force and effect within (30) days of the commencement of this lease.

(b) **Liability and Medical Insurance:** Tenant, at its own expense, shall provide and keep in force with companies acceptable to Landlord public liability insurance for the benefit of Landlord and Tenant jointly against liability for bodily injury and property damage in the amount of not less than One Million and no/100 Dollars (\$1,000,000.00) in respect to injuries to or death of more than one person in any one occurrence, and in the amount of not less than One Hundred Thousand and no/100 Dollars (\$100,000.00) per occurrence in respect to damage to property, such limits to be for any greater amounts as may be reasonably indicated by circumstances from time to time existing. The tenant shall also maintain premises medical coverage in the amount of \$1,000.00. Tenant shall furnish Landlord with a certificate of such policy within 30 days of the commencement date of the Lease and shall satisfy Landlord that such policy is in full force and effect during the balance of the term of this lease or any renewals. Such policy shall name Landlord as an additional insured and shall be primary and non-contributing with any insurance carried by Landlord. The policy shall further provide that it shall not be canceled or altered without twenty (20) days prior written notice to Landlord. Such policy shall contain an express waiver of any right of subrogation against Landlord.

(b) **Hold Harmless:** Tenant shall indemnify and hold harmless Landlord against and from any and all claims arising from Tenant's use of the Leased Premises or the conduct of its business or from any activity, work, or thing done, permitted or suffered by the Tenant in or about the Leased Premises, and shall further indemnify and hold harmless Landlord against and from 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, neglect, fault or omission of the Tenant, or of its agents or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in or about such claim or any action or proceeding brought thereof and in case any action or proceeding be brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in, or about the Leased Premises from any cause whatsoever except that which is caused by the failure of Landlord to observe any of the terms and conditions of this Lease and such failure has persisted for an unreasonable period of time after written notice of such failure, and Tenant hereby waives all claims in respect thereof against Landlord. The obligations of Tenant under this section arising by reason of any occurrence taking place during the term of this Lease shall survive any termination of this Lease.

(d) **Waiver of Subrogation:** Tenant and Landlord each waives any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Each party shall cause each insurance policy obtained by it hereunder to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by such policy.

16. DAMAGE OR DESTRUCTION.

(a) **Damage - Insured:** If, during the term of this Lease, the Premises and/or the building and other improvements in which the Premises are located are totally or partially destroyed rendering the Premises totally or partially inaccessible or unusable, and such

damage or destruction was caused by a casualty covered under an insurance policy required to be maintained hereunder, Landlord shall restore the Premises and/or the building and other improvements in which the Premises are located into substantially the same condition as they were in immediately before such damage or destruction, provided that the restoration can be made under the existing laws and can be completed within one hundred twenty (120) working days after the date of such destruction or damage. Such destruction or damage shall not terminate this Lease. If the restoration cannot be made in said 120 day period, then within fifteen (15) days after the parties hereto determine that the restoration cannot be made in the time stated in this paragraph, Tenant may terminate this Lease immediately by giving notice to Landlord and the Lease will be deemed canceled as of the date of such damage or destruction. If Tenant fails to terminate this Lease and the restoration is permitted under the existing laws, Landlord, at its option, may terminate this Lease or restore the Premises and/or any other improvement in which the Premises are located within a reasonable time and this Lease shall continue in full force and effect. If the existing laws do not permit the restoration, either party can terminate this Lease immediately by giving notice to the other party.

Notwithstanding the above, if the Tenant is the insuring party and if the insurance proceeds received by Landlord are not sufficient to effect such repair, Landlord shall give notice to Tenant of the amount required in addition to the insurance proceeds to effect such repair. Tenant may, at Tenant's option, contribute the required amount, but upon failure to do so within thirty (30) day following such notice, Landlord's sole remedy shall be, at Landlord's option and with no liability to Tenant, to cancel and terminate this Lease. If Tenant shall contribute such amount to Landlord within said thirty (30) day period, Landlord shall make such repairs as soon as reasonable possible and this Lease shall continue in full force and effect. Tenant shall in no event have any right to reimbursement for any amount so contributed.

(b) Damage - Uninsured: In the event that the Premises are damaged or destroyed by a casualty which is not covered by the fire and extended coverage insurance which is required to be carried by the party designated in Article 13 above, then Landlord shall restore the same; provided that if the damage or destruction is to an extent greater than ten (10%) percent of the then replacement cost of the improvements on the Premises (exclusive of Tenant's trade fixtures and equipment and exclusive of foundations and footings), then Landlord may elect not to restore and to terminate this Lease. Landlord must give to Tenant written notice of its intention not to restore within thirty (30) days from the date of such damage or destruction and, if not given, Landlord shall be deemed to have elected to restore and such event shall repair any damage as soon as reasonable possible. In the event that Landlord elects to give such notice of Landlord's intention to cancel and terminate this Lease, Tenant shall have the right, within ten (10) days after receipt of such notice, to give written notice to Landlord of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from Landlord, in which event the Lease shall continue in full force and effect and Tenant shall proceed to make such repairs as soon as reasonable possible. If the Tenant does not give such notice within such 10 day period, this Lease shall be canceled and be deemed terminated as of the date of the occurrence of such damage or destruction.

(c) Abatement of Rent: If the Premises are partially or totally destroyed or damaged and Landlord or Tenant repairs or restores them pursuant to the provision of this Article, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's reasonable use of the Premises is impaired. Except for the abatement or rent, if any, Tenant shall have no claim against Landlord for any damages suffered by reason of any such damage, destruction, repair or restoration.

17. CONDEMNATION.

If any part of the Leased Premises shall be taken or condemned for a public or quasi-public use, and a part thereof remains which is susceptible of occupation hereunder, this Lease shall, as to the part so taken, terminate as of the date title shall vest in the condemned, and the rent payable hereunder shall be adjusted so that the Tenant shall be required to pay for the remainder of the term only such portion of such rent as the number of square feet in the part remaining after the condemnation bears to the number of square feet in the entire Lease Premises at the date of condemnation; but in such event Landlord shall have the option to terminate this Lease as of the date when title to the part so condemned vests in the condemned. If all the Leased Premises, or such part thereof be taken or condemned so that there does not remain a portion susceptible for occupation hereunder, this Lease shall thereupon terminate. If a part or all of the Leased Premises be taken or condemned, all compensation awarded upon such condemnation or taking shall go to the Landlord and the Tenant shall have no claim thereto, and the Tenant hereby irrevocably assigns and transfers to the Landlord any right to compensation or damages to which the Tenant may be entitled during the term hereof by reason of the condemnation of all, or a part of the Leased Premises. Any dispute between Lessor and Lessee concerning the provisions of this paragraph may be submitted to arbitration.

18. ASSIGNMENT AND SUBLETTING.

18.1 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) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unproved assignment or subletting as a non-curable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent and Percentage Rent Rate to 110% of the Base Rent and Percentage Rent Rate then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 18.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, ie. 20 square feet or less, to be used by a

third party vendor in connection with the installation of a vending machine or pay-phone shall not constitute a subletting

18.2 Terms and Conditions Applicable to Assignment and Subletting.

- (a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sub-lessee 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 sub-lessee, 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 sub-lessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.
- (f) Any assignee of, or sub-lessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, 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) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sub-lessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing.

18.3 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. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. 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 sub-lessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sub-lessee. 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 sub-lessor 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 sub-lessor or for any prior Defaults or Breaches of such sub-lessor.
- (c) Any matter requiring the consent of the sub-lessor 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.

19. DEFAULT.

(a) Events of a Default.

The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant .

- (1) Failure to pay rent when due, if the failure continues for Five (5) days after written notice has been given to Tenant .
- (2) Abandonment and vacation of the Premises (failure to occupy the Premises for fourteen (14) consecutive days shall be deemed an abandonment and vacation).
- (3) Failure to perform any other provision of this Lease if the failure to perform is not cured within thirty (30) days after written notice thereof has been given to Tenant by Landlord. If the default cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default under this Lease if Tenant commences to cure the default within the thirty (30) day period and diligently prosecutes the same to completion.
- (4) The making by Tenant of any general assignment, or general arrangement for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy unless the same is dismissed within sixty (60) days; the appointment of a trustee or receiver to take possession is not restored to Tenant within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in the Lease, where such seizure is not discharged within thirty (30) days.

Notices given under this paragraph shall specify the alleged default and the applicable lease provisions, and shall demand that Tenant perform the provisions of this Lease of pay the rent that is in arrears as the case may be, within the applicable period of time. No such notice shall be deemed a forfeiture or a termination of this Lease unless Landlord so elects in the notice.

(b) Landlord's Remedies.

The Landlord shall have the following remedies if Tenant commits a default under this Lease. These remedies are not exclusive but are cumulative and in addition to any remedies now or hereafter allowed by law.

Landlord can continue this Lease in full force and effect, and the Lease will continue in effect so long as Landlord does not terminate Tenant's right to possession, and the Landlord shall have the right to collect rent when due. During the period that Tenant is in default, Landlord can enter the Premises and re-let them, or any part of them, to third parties for Tenant's account. Tenant shall be liable immediately to the Landlord for all costs the Landlord incurs in reletting the Premises, including, without limitation, broker's commissions, expenses of remodeling the Premises required by the reletting, and like costs. Reletting can be for a period shorter or longer than the remaining term of this Lease. Tenant shall pay to Landlord the rent due under this Lease on the dates the rent is due, less the rent Landlord receives from any reletting. No act by Landlord allowed by this paragraph shall terminate this Lease unless Landlord notifies Tenant that Landlord elects to terminate the Lease. After Tenant's default and for so long as Landlord has not terminated Tenant's right to possession of the Premises, if Tenant obtains Landlord's consent, Tenant shall have the right to assume or sublet its interest in the Lease, but Tenant shall not be released from liability.

If Landlord elects to re-let the Premises as provided in this paragraph, any rent that Landlord receives from such reletting shall apply first to the payment of any indebtedness from Tenant to Landlord other than the rent due from Tenant to Landlord; secondly, to all costs, including maintenance, incurred by Landlord in such reletting; and third, to any rent due and unpaid under this Lease. After deducting the payments referred to in this paragraph, any sum remaining from the rent Landlord receives from such reletting shall be held by Landlord and applied in payment of future rent as rent becomes due under this Lease. In no event shall tenant be entitled to any excess rent received by Landlord, in addition to the remaining rent due, all costs, including maintenance, that Landlord shall have incurred in reletting that remain after applying the rent received from the reletting as provided in this paragraph.

Landlord can, at its option, terminate Tenant's right to possession of the Premises at any time. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to re-let the Premises, or the appointment of a receiver of Landlord's initiative to protect Landlord's interest in the Lease shall not constitute a termination of Tenant's right to possession. In the event of such termination, Landlord has the right to recover from Tenant:

- (1) The worth, at the time of the award, of the unpaid rent that had been earned at the time of the termination of this Lease;
- (2) The worth, at the time of the award, of the amount by which the unpaid rent that would have been earned after the date of the termination of this Lease until the time of the award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided;
- (3) The worth, at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of the loss of rent that Tenant proves could have been reasonably avoided; and
- (4) Any other amount, including court costs, necessary to compensate Landlord for all detriment proximately caused by Tenants default.

"The worth at the time of the award" as used in (1) and (2) of this paragraph is to be computed by allowing interest at the maximum rate an individual is permitted by law to charge. "The worth at the time of the award" as referred to in (3) of this paragraph is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one (1%) percent.

If Tenant is in default under the terms of this Lease, Landlord shall have the additional right to have a receiver appointed to collect rent and conduct Tenant's business. Neither the filing of a petition for the appointment of a receiver nor the appointment itself shall constitute an election by Landlord to terminate this Lease.

Landlord, at any time after Tenant commits a default, can cure the default at Tenant's cost and expense. If Landlord at any time, by reason of Tenant's default, pays any sum or does any act that requires the payment of any sum, the sum paid by Landlord shall be due immediately from Tenant to Landlord at the time the sum is paid, and if paid at a later date shall bear interest at the maximum rate an individual is permitted by law to charge from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant. The sum, together with interest thereon, shall be considered additional rent.

(c) 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.

20. SIGNS.

Tenant shall not have the right to place, construct or maintain any sign, advertisement, awning, banner, or other exterior decorations on the building or other improvements that are a part of the Premises without Landlord's prior, written consent, which consent shall not be unreasonably withheld. Tenant is required to have both a fascia and blade sign and the cost for sign-age, sign-age maintenance and sign changes is to be paid for by tenant. Landlord may, at his choosing, change the signs within the center at any time. All sign changes are to be paid for by tenant.

21. EARLY POSSESSION.

In the event that the Landlord shall permit Tenant to occupy the Premises prior to the commencement date of the term of this Lease, such occupancy shall be subject to all the provisions of this Lease. Said early possession shall not advance the termination date of this Lease.

22. SUBORDINATION.

This Lease, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation for security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. Tenant agrees to execute any documents required to effectuate such subordination or to make this Lease prior to the lien of any ground lease, mortgage or deed of trust, as the case may be, and failing to do so within 10 days after written demand, does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney in fact and in Tenant's name, place and stead, to do so.

23. SURRENDER.

On the last day of the term hereof, or on any sooner termination, Tenant shall surrender the Premises to Landlord in good condition, broom clean, ordinary wear and tear accepted. Tenant will advise Landlord in writing, certified mail, a minimum of 30 days prior to the expiration date of this lease of tenants intent not to renew. Landlord will also advise Tenant in writing, certified mail, 30 days in advance when Landlord has no intent of Leasing the premise after the ending term of the lease. Tenant shall repair any damage to the Premises occasioned by its use thereof, or by the removal of Tenant's trade fixtures, furnishings and equipment which repair shall include the patching and filling of holes and repair of structural damage. Tenant shall remove all of its personal property and fixtures on the Premises prior to the expiration of the term of this Lease and if required by Landlord pursuant to Article 10(a) above, any alterations, improvements or additions made by Tenant to the Premises. If Tenant fails to surrender the Premises to Landlord on the expiration of the Lease as required by this paragraph, Tenant shall hold Landlord harmless from all damages resulting from Tenant's failure to vacate the Premises, including, without limitation, claims made by any succeeding tenant resulting from Tenant's failure to surrender the Premises.

24. NOTICES.

All notices, statements, demands, requests, consents, approvals, authorizations, offers, agreements, appointments, or designations under this Lease by either party to the other shall be in writing and shall be served upon the other party by certified mail, return receipt requested, postage prepaid, and addressed as follows:

To Tenant, addressed to the last known post office address of Tenant or to the Lease Premises;

To Landlord, addressed to Landlord at 27601 Forbes Road, Laguna Niguel, California 92677, or to such other place as Landlord may from time to time designate by notice to Tenant.

25. LANDLORD'S RIGHT TO INSPECTIONS.

Landlord and Landlord's agent shall have the right to enter the Premises at reasonable times for the purpose of inspecting same, showing the same to prospective purchasers or lenders, and making such alterations, repairs, improvements or additions to the Premises or to the building of which the Premises are a part as Landlord may deem necessary or desirable. Landlord may at any reasonable time place on or about the Premises any ordinary "For Sale" or Lease" signs, all without rebate or rent or liability to Tenant.

26. CHOICE OF LAW

This lease shall be governed by the laws of the state of California.

27. ATTORNEY'S FEES.

If either Landlord or Tenant becomes a party to any litigation or arbitration concerning this Lease, the Premises, or the building or other improvements in which the Premises are located, by reason of any act or omission of the other party or its authorized representatives, and not by reason of any act or omission of the party that becomes a party to that litigation or any act or omission of its authorized representatives, the party that causes the other party to become involved in the litigation shall be liable to that party for reasonable attorney's fees and court costs incurred by it in the litigation.

28. LANDLORD LIABILITY

The term "Landlord" as used in this Lease shall mean only the owner at the time in question of the fee title or a Lessee's interest in a ground lease of the Premises, and in the event of any transfer of such title or interest. Landlord herein named (and in case of any subsequent transfers to the then successor) shall be relieved from and after the date of such transfer of all liability in respect to Landlord's obligations thereafter to be performed. The obligations contained in this Lease to be performed by Landlord shall be binding upon the Landlord's successors and assigns, only during their respective periods of ownership.

29. WAIVERS

No waiver by Landlord of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to or approval of any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of its acceptance of such rent.

30. INCORPORATION OF PRIOR AGREEMENTS

This lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified only in writing, and signed by the parties in interest at the time of such modification.

31. TIME.

Time is of the essence of this Lease.

32. SEVERABILITY.

The unenforceability, invalidity, or illegality of any provision of this Lease shall not render the other provisions hereof unenforceable, invalid or illegal.

33. EFFECT OF HOLDING OVER.

If Tenant should remain in possession of the Leased Premises after the expiration of the Lease term and without executing a new Lease, then such holding over shall be construed as a tenancy from month- to- month, subject to all the conditions, provisions, and obligations of this Lease insofar as the same are applicable to a month-to- month tenancy.

34. EXPANSION CLAUSE.

If during the term of this Lease, Tenant executes a lease for space of a size larger than the present Leased Premises within any development owned by Landlord, this Lease shall be terminated upon execution of the lease for substitute space.

35. MONTH TO MONTH TENANCY NOTICE

If Tenant is on a month to month tenancy as a result of holding over or for any other reason hereof, Tenant will give landlord 30 days written notice of intent to quit the premises.

36. PARKING.

Tenant shall be entitled to park in common with other tenants of Landlord and will stay in accordance with the rules and regulations which are attached hereto and incorporated herein as Exhibit "B". Tenant shall be allowed a maximum of 2 undesignated parking spaces to their suite. Overnight parking is not allowed except by permission, in writing, from landlord.

37. COVENANTS AND CONDITIONS.

Each provision of this Lease performable by Tenant shall be deemed both a covenant and a condition.

38. SINGULAR OR PLURAL.

When required by the context of the Lease, the singular shall include the plural.

39. ADDENDUM'S.

Any addendum attached hereto and either signed or initialed by the parties shall be deemed part hereof and shall supersede any conflicting terms or provisions contained in this Lease.

Tenant Name: Apparel West International, LLC

Connie DaVersa

Tenant Name: Connie Daversa

Connie DaVersa

Landlord or Authorized Agent: SHANE B. GLASS

Shane B. Glass/ Authorized Agent

Date

EXHIBIT "A"

GENERAL RULES AND REGULATIONS

1. No signs, placards, pictures, advertisements, names or notices shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the Buildings without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such signs, placards, pictures, advertisements, names or notices without notice to and at Tenants expense. Tenant shall not without prior written consent of Landlord cause or otherwise sunscreen any window, nor shall tenant place promotional material or objects on the inside of windows without written permission from Landlord.
2. The sidewalks, halls, passages, exits, entrances, and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress and egress from their respective Premises.
3. Tenant cannot alter or change bolts on any doors or windows of the Premises without consent of Landlord. Tenant will provide Landlord with keys to all outside and inside locks to doors and entranceways. Tenant will also provide Landlord, when applicable, with combinations to burglar alarms.
4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were intended and no foreign substance of any kind whatsoever shall be dispensed therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees shall be in violation thereof.
5. Tenant shall not violate the structural integrity of the premises or in any way deface the Premises or any part thereof.
6. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment installed on the Premises and also the times and manner of moving same in and out of the Premises. Safes or other heavy objects shall rest on supports of such thickness as is necessary to properly distribute the weight across structural members or foundations. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage inflicted upon the Building by moving or maintaining any such safe or other property shall be repaired at the expense of the Tenant.
7. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having conducted therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building and/or Buildings unless as otherwise provided in the lease.
8. No cooking shall be done or permitted by any Tenant on the Premises (Microwave ovens are excluded) unless first having been licensed by the city, county or state health departments, nor shall the Premises be used for any other use than that specifically stated in paragraph #9.1 of the Three Flags Center Lease Agreement.
9. Tenant shall not use or keep on the Premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord in amounts that exceed fire regulations and requirements. All such legal quantities must be stored in fire code approved containers.
10. Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of the Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises, including security systems, shall be subject to the approval of Landlord.
11. Landlord reserves the right to exclude or expel from the Premises any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of County, State and/or Federal rules and regulations.
12. No vending machines or of any description shall be installed maintained or operated upon the Premises without the written consent of the Landlord.
13. Landlord shall have the right, exercisable without notice and without liability to Landlord, to change the name and street address of any Buildings in Three Flags Center of which the premises are a part.
14. Tenant shall not distribute, solicit, or canvass any occupant of the Buildings and shall cooperate to prevent same.
15. Landlord shall have the right to control and operate the public portion of Buildings 1 through 6 and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the tenants, in such manner as it deems best for the benefit of the tenants generally.
16. Defacement of the exterior and/or interior of Three Flags Center is prohibited.
17. Three Flags Center leases property immediately adjacent to the rear entrance of buildings #3,4&5. This land is under lease to landlord. It extends some 45 lineal feet Eastward toward the railroad tracks and 975 lineal feet perpendicularly to the railroad tracks. Three Flags Center is responsible for maintaining this area. Waste disposal of any kind in this area in an improper manner is strictly prohibited. Using the roofs to dispose of rubbish is prohibited.
18. Animals are allowed in Three Flags Center if given written permission by the Landlord.
19. Landlord provides pest control for rats, mice, ants, spiders and other general pests for the exterior only including termites. Tenants are responsible for any and all pests within the leased premises including rats, mice, roaches, ants and flying insects.

EXHIBIT 'B'

PARKING RULES AND REGULATIONS

1. All Vehicles must be parked entirely within the painted space lines.
2. All directional signs and arrows must be observed.
3. The speed limit shall be 10 miles per hour.
4. Parking is prohibited for Tenants and Tenant Employees:
 - a. In areas not striped for parking
 - b. In fire lanes and in alleys
 - c. Where "no parking" signs are posted
 - d. All ingress/Egress entrances.
 - e. In such other areas as may be designated by Landlord or Landlords representative from time to time.
5. Every person using the Parking Facilities is required to park and lock his own vehicle. Landlord assumes no responsibility for loss, damage or theft to vehicles in the Parking Facilities.
6. Washing, waxing, cleaning any vehicle in Three Flags Center is prohibited without written consent from the Landlord. If permission is granted, a certain area shall be designated and this area may change from time to time.
7. Repairing and servicing any vehicle in Three Flags Center is strictly prohibited. Depending upon the seriousness of the damage, vehicles that leak gasoline, oil products and generally deface the asphalt, will be towed from the premises.
8. Landlord may prohibit the use of the Parking Facilities by any Tenant or its Authorized Users or visitors who willfully refuse to comply with the above Parking Rules and Regulations and all posted or unposted city, state or federal laws, ordinances and regulations.
9. Tenant shall acquaint all its employees with each provision of these Parking Rules and Regulations.
10. No vehicle shall be left overnight or stored within the Parking Facilities without Landlord knowledge and permission granted in writing.
11. Employees and Tenants will park in accordance with periodic notices from Landlord to tenants designating Tenant/ Employee only parking areas.
10. Landlord reserves the right to tow (at owners expense) any vehicle parked upon the property that is in violation of the parking rules and regulations as outlined above or any part of the attached lease agreement.

