

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 27, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	95-4388794
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2525 East El Segundo Boulevard	
El Segundo, California	90245
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 536-0611

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 22,670,327 shares of common stock, excluding treasury shares, with a par value of \$0.01 per share outstanding at July 30, 2004.

BIG 5 SPORTING GOODS CORPORATION

INDEX

	Page
PART I – FINANCIAL INFORMATION	
Item 1 Condensed Consolidated Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3 Quantitative and Qualitative Disclosures About Market Risk	27
Item 4 Controls and Procedures	27
PART II – OTHER INFORMATION	
Item 1 Legal Proceedings	28
Item 2 Changes in Securities and Use of Proceeds	28
Item 3 Defaults Upon Senior Securities	28
Item 4 Submission of Matters to a Vote of Security Holders	28
Item 5 Other Information	28
Item 6 Exhibits and Reports on Form 8-K	28

SIGNATURES

[Exhibit 10.1](#)

[Exhibit 10.2](#)

[Exhibit 31.1](#)

[Exhibit 31.2](#)

[Exhibit 32.1](#)

[Exhibit 32.2](#)

BIG 5 SPORTING GOODS CORPORATION

Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except share and per share data)

	<u>June 27, 2004</u>	<u>December 28, 2003</u>
Assets		
Current assets:		
Cash	\$ 6,435	\$ 9,030
Trade and other receivables, net	5,856	11,522
Merchandise inventories	199,383	179,555
Prepaid expenses	3,996	5,017
Total current assets	<u>215,670</u>	<u>205,124</u>
Property and equipment, net	45,665	46,952
Deferred income taxes, net	9,716	9,628
Leasehold interest, net	3,118	4,022
Other assets, net	1,301	1,866
Goodwill	4,433	4,433
Total assets	<u>\$279,903</u>	<u>\$272,025</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 73,204	\$ 76,004
Accrued expenses	41,246	54,717
Total current liabilities	<u>114,450</u>	<u>130,721</u>
Deferred rent	11,613	11,654
Long-term debt	109,517	99,686
Total liabilities	<u>235,580</u>	<u>242,061</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 50,000,000 shares; issued and outstanding 22,669,277 shares and 22,663,927 shares at June 27, 2004 and December 28, 2003, respectively	227	227
Additional paid-in capital	84,059	84,003
Accumulated deficit	<u>(39,963)</u>	<u>(54,266)</u>
Total stockholders' equity	<u>44,323</u>	<u>29,964</u>
Total liabilities and stockholders' equity	<u>\$279,903</u>	<u>\$272,025</u>

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATIONCondensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	13 Weeks Ended		26 Weeks Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Net sales	\$184,487	\$170,125	\$365,492	\$334,642
Cost of goods sold, buying and occupancy	116,806	107,530	232,172	214,195
Gross profit	67,681	62,595	133,320	120,447
Operating expenses:				
Selling and administrative	50,035	46,521	99,615	91,643
Depreciation and amortization	2,711	2,527	5,502	5,043
Total operating expenses	52,746	49,048	105,117	96,686
Operating income	14,935	13,547	28,203	23,761
Redemption premium and unamortized financing fees related to redemption of debt	792	—	792	1,483
Interest expense, net	1,638	2,922	3,574	5,896
Income before income taxes	12,505	10,625	23,837	16,382
Income taxes	5,001	4,357	9,534	6,717
Net income	\$ 7,504	\$ 6,268	\$ 14,303	\$ 9,665
Earnings per share:				
Basic	\$ 0.33	\$ 0.28	\$ 0.63	\$ 0.43
Diluted	\$ 0.33	\$ 0.28	\$ 0.63	\$ 0.43
Shares used to calculate earnings per share:				
Basic	22,668	22,664	22,666	22,637
Diluted	22,794	22,730	22,792	22,691

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATIONConsolidated Condensed Statements of Cash Flows
(unaudited)
(in thousands)

	26 Weeks Ended	
	June 27, 2004	June 29, 2003
Cash flows from operating activities:		
Net income	\$ 14,303	\$ 9,665
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,502	5,043
Amortization of deferred finance charge and accretion of discounts	213	303
Redemption premium and unamortized financing fees related to redemption of debt	792	1,483
Deferred tax provision	(88)	—
Loss on disposal of equipment and leasehold interest	68	140
Change in assets and liabilities:		
Merchandise inventories	(19,828)	(15,448)
Trade accounts receivable, net	5,666	3,307
Prepaid expenses and other assets	1,160	(288)
Accounts payable	2,938	1,242
Accrued expenses	(13,471)	(11,383)
Net cash used by operating activities	(2,745)	(5,936)
Cash flows from investing activities — purchase of property and equipment	(3,419)	(1,676)
Cash flows from financing activities:		
Net borrowings under revolving credit facilities, and other	19,060	26,153
Repayment of 10.875% senior notes	(15,548)	(21,095)
Proceeds from issuance of common stock	57	—
Net cash provided by financing activities	3,569	5,058
Net decrease in cash	(2,595)	(2,554)
Cash at beginning of period	9,030	9,441
Cash at end of period	\$ 6,435	\$ 6,887
Supplemental disclosures of cash flow information:		
Interest paid	\$ 3,589	\$ 5,933
Income taxes paid	\$ 13,006	\$ 6,665

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Basis of Presentation and Description of Business

We operate in one business segment, as a sporting goods retailer under the Big 5 Sporting Goods name carrying a broad range of hard goods, apparel and footwear, operating 295 stores at June 27, 2004 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho and Colorado. We are a holding company that operates our business through Big 5 Corp., our wholly owned subsidiary, and Big 5 Services Corp., which is a wholly owned subsidiary of Big 5 Corp. Big 5 Services Corp. began operations at the beginning of fiscal 2004 to centralize the issuance and administration of gift certificates and gift cards.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to present fairly and in accordance with accounting principles generally accepted in the United States of America ("GAAP") the financial position as of June 27, 2004 and December 28, 2003, the results of operations for the 13 weeks and 26 weeks ended June 27, 2004 and June 29, 2003 and cash flows for the 26 weeks ended June 27, 2004 and June 29, 2003. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, we believe that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2003.

(2) Debt Redemption

On April 15, 2004, we redeemed \$15.0 million face value of our 10.875% senior notes due 2007 using borrowings under our credit facility. We also redeemed \$20.0 million face value and \$35.0 million face value of our 10.875% senior notes due 2007 during the first and fourth quarters of fiscal 2003, respectively, using borrowings under our credit facility.

(3) Earnings Per Share

The following table sets forth the computation of basic and diluted net income per share of common stock:

(in thousands except earnings per share data)

	13 weeks ended		26 weeks ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
		(unaudited)		(unaudited)
Income available to common stockholders	\$ 7,504	\$ 6,268	\$14,303	\$ 9,665
Weighted average shares of common stock outstanding:				
Basic	22,668	22,664	22,666	22,637
Dilutive effect of common stock options	126	66	126	27
Dilutive effect of warrant	—	—	—	27
Diluted	22,794	22,730	22,792	22,691
Basic earnings per share:	\$ 0.33	\$ 0.28	\$ 0.63	\$ 0.43
Diluted earnings per share:	\$ 0.33	\$ 0.28	\$ 0.63	\$ 0.43

The computation of diluted earnings for the 26 weeks ended June 27, 2004 does not include 341,400 options that were outstanding at the end of the period. In addition, the computation of diluted earnings for the 13 weeks and 26 weeks ended June 29, 2003 does not include 59,000 options that were outstanding at the end of the period. The exercise price of these options was greater than the average market price of our common stock during the relevant reporting periods and thus would have been antidilutive. The outstanding warrant was exercised in the first quarter of fiscal 2003.

(4) Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, as amended, we continue to apply the provisions of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. SFAS No. 123 was amended by SFAS No. 148, *Accounting for Stock-Based Compensation* –

Table of Contents

Transition and Disclosure – An Amendment of FASB Statement No. 123, to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Therefore, compensation expense for stock options issued to employees is recorded on the date of grant only if the then-current market price of the underlying stock exceeded the exercise price. If we had determined compensation cost based upon the fair value at the grant date for our stock options under SFAS No. 123 using the Black Scholes option pricing model, pro forma net income and pro forma net income per share, including the following weighted average assumptions used in these calculations, would have been as follows:

	13 Weeks Ended		39 Weeks Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
	(unaudited) (dollars in thousands, except per share data)			
Net income, as reported	\$7,504	\$6,268	\$14,303	\$9,665
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	225	107	374	168
Pro forma net income	<u>\$7,279</u>	<u>\$6,161</u>	<u>\$13,929</u>	<u>\$9,497</u>
Earnings per share:				
Basic – as reported	0.33	0.28	0.63	0.43
Basic — pro forma	0.32	0.27	0.61	0.42
Diluted – as reported	0.33	0.28	0.63	0.43
Diluted – pro forma	0.32	0.27	0.61	0.42

(5) Related Party Transactions

Prior to September 1992, Big 5 Corp. was a wholly owned subsidiary of Thrifty Corporation (“Thrifty”), which was in turn a wholly owned subsidiary of Pacific Enterprises (“PE”). In December 1996, Thrifty was acquired by Rite Aid Corp. (“Rite Aid”).

As a result of the Company’s prior relationship with Thrifty and its affiliates, the Company continues to maintain certain relationships with Rite Aid, PE and PE’s successor company, Sempra Energy. These relationships include continuing indemnification obligations of PE to the Company for certain environmental matters; agreements between the Company and PE with respect to various tax matters and obligations under ERISA, including the allocation of various tax obligations relating to the inclusion of the Company and each member of the affiliated group of which the Company was a subsidiary in certain consolidated and/or unitary tax returns of PE, and subleases. Green Equity Investors III, L.P., an affiliate of Leonard Green & Partners, L.P., holds convertible preferred stock in Rite Aid, which, if converted, would represent approximately 13.0% of Rite Aid’s outstanding stock. Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., owned more than 27% of our outstanding common stock until it sold substantially all of its shares in a secondary public offering in November 2003.

(6) Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s financial position, results of operations or liquidity.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BASIS OF REPORTING

Net Sales

Net sales consist of sales from all stores operated during the period presented, net of merchandise returns. Same store sales for a period reflect net sales from stores operated throughout that period as well as the corresponding prior period. New store sales for a period reflect net sales from stores opened in that period as well as net sales from stores opened during the prior fiscal year. Stores that are relocated during any period are treated as new stores.

Gross Profit

Gross profit is comprised of net sales less all costs of sales, including the cost of merchandise, inventory markdowns, inventory shrinkage, inbound freight, distribution and warehousing, payroll for our buying personnel and store and corporate office occupancy costs. Store and corporate office occupancy costs include rent, contingent rents, common area maintenance, real estate property taxes and property insurance.

Selling and Administrative

Selling and administrative includes store management and corporate expenses, including non-buying personnel payroll, employment taxes, employee benefits, management information systems, advertising, insurance other than property insurance, legal, store pre-opening expenses and other corporate level expenses. Store pre-opening expenses include store-level payroll, grand opening event marketing, travel, supplies and other store opening expenses.

Depreciation and Amortization

Depreciation and amortization consists primarily of the depreciation of leasehold improvements, fixtures and equipment owned by us, amortization of leasehold interest and non-cash rent expense.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our financial condition.

[Table of Contents](#)

Valuation of Inventory

We value our inventories at the lower of cost or market using the weighted average cost method that approximates the first-in, first-out (“FIFO”) method. Management has evaluated the current level of inventories in comparison to planned sales volume and other factors and, based on this evaluation, has recorded adjustments to inventory and cost of goods sold for estimated decreases in inventory value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual results if future economic conditions, consumer demand and competitive environments differ from our expectations. We are not aware of any events or changes in demand or price that would indicate to us that our inventory valuation may be materially inaccurate at this time.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated by us to be generated by these assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. We are not aware of any events or changes in circumstances that would indicate to us that our long-lived assets are impaired or that would require an impairment consideration at this time.

RESULTS OF OPERATIONS

The results of the interim periods are not necessarily indicative of results for the entire fiscal year.

13 Weeks Ended June 27, 2004 Compared to 13 Weeks Ended June 29, 2003

The following table sets forth selected items from our operating results as a percentage of our net sales for the periods indicated:

	13 Weeks Ended			
	June 27, 2004		June 29, 2003	
		(unaudited)		
		(dollars in thousands)		
Net sales	\$184,487	100.0%	\$170,125	100.0%
Cost of sales	116,806	63.3	107,530	63.2
Gross profit	67,681	36.7	62,595	36.8
Operating expenses:				
Selling and administrative	50,035	27.1	46,521	27.3
Depreciation and amortization	2,711	1.5	2,527	1.5
Total operating expenses	52,746	28.6	49,048	28.8
Operating income	14,935	8.1	13,547	8.0
Redemption premium and unamortized financing fees related to redemption of debt	792	0.4	—	0.0
Interest expense, net	1,638	0.9	2,922	1.7
Income before income taxes	12,505	6.8	10,625	6.3
Income taxes	5,001	2.7	4,357	2.6
Net income	\$ 7,504	4.1%	\$ 6,268	3.7%

1. Net Sales. Net sales increased by \$14.4 million, or 8.4%, to \$184.5 million in the 13 weeks ended June 27, 2004 from \$170.1 million in the same period last year. This growth reflected an increase of \$6.6 million in same store sales and an increase of \$9.1 million in new store sales, which reflected the opening of four new stores, including two relocated stores, during the first 26 weeks of 2004 and 18 new stores since March 30, 2003. The remaining variance was attributable to net sales from closed stores. Same store sales increased 3.9% in the 13 weeks ended June 27, 2004 versus the same period last year, representing the thirty-fourth consecutive quarterly increase in same store sales over comparable prior periods. This 3.9% increase in same store sales was attributable to higher sales in each of our three major product categories of footwear, hard goods and apparel. Store count at June 27, 2004 was 295 versus 275 at June 29, 2003. We opened one store in the 13 weeks ended June 27, 2004, and no stores in the 13 weeks ended June 29, 2003. We expect to open 13 to 16 net new stores during the remainder of fiscal 2004.

2. Gross Profit. Gross profit increased by \$5.1 million, or 8.1%, to \$67.7 million in the 13 weeks ended June 27, 2004 from \$62.6 million in the same period last year. Gross profit margin was 36.7% in the 13 weeks ended June 27, 2004 compared to 36.8% in the same period last year. We achieved higher product selling margin comparisons in each of

[Table of Contents](#)

our three major product categories; however, gross profit margin declined 0.1% as a result of higher warehouse and distribution costs, which increased 0.2% as a percent of net sales. Warehouse payroll and benefit expenses increased in order to support our store growth and to prepare for the new distribution center scheduled to open in fiscal 2005. In addition, higher gasoline prices negatively impacted trucking expense.

3. **Selling and Administrative.** Selling and administrative expenses increased by \$3.5 million, or 7.6%, to \$50.0 million in the 13 weeks ended June 27, 2004 from \$46.5 million in the same period last year. The increase was driven by a \$2.3 million increase in store-related expenses, including payroll and payroll taxes, as a result of store growth, as well as increased employee health benefit costs. Advertising expense increased by \$0.9 million due to the growth in our store base since the same period last year. The remaining difference resulted from other administrative costs, such as corporate payroll and benefit expense. When measured as a percentage of net sales, selling and administrative expenses were 27.1% for the 13 weeks ended June 27, 2004, down from 27.3% in the 13 weeks ended June 29, 2003. The decrease primarily resulted from a 0.2% decline in store salaries when measured as a percent of sales.

4. **Depreciation and Amortization.** Depreciation and amortization expense increased \$0.2 million, or 7.3%, to \$2.7 million for the 13 weeks ended June 27, 2004 from \$2.5 million for the same period last year, primarily due to the increase in store count to 295 stores at the end of the second quarter of fiscal 2004 from 275 stores at the end of the second quarter of fiscal 2003.

5. **Redemption Premium and Unamortized Financing Fees Related to Redemption of Debt.** Redemption premium and unamortized financing fees related to redemption of debt were \$0.8 million in the 13 weeks ended June 27, 2004. There were no premium and unamortized financing fees related to redemption of debt in the 13 weeks ended June 29, 2003. The \$0.8 million charge in the 13 weeks ended June 27, 2004 resulted from the redemption of \$15.0 million face value of our 10.875% senior notes and the related carrying value of applicable deferred financing costs and original issue discount which totaled \$0.2 million in the second quarter of fiscal 2004.

6. **Interest Expense, Net.** Interest expense, net, decreased by \$1.3 million, or 43.9%, to \$1.6 million in the 13 weeks ended June 27, 2004 from \$2.9 million in the same period last year. Interest expense benefited from the redemption of \$15.0 million of our 10.875% senior notes in the second quarter of fiscal 2004 and \$35.0 million in the fourth quarter of fiscal 2003 through borrowings from our lower cost credit facility as well as a reduction in overall debt levels since the beginning of fiscal 2003.

7. **Income Taxes.** Provision for income taxes was \$5.0 million for the 13 weeks ended June 27, 2004 and \$4.4 million for the 13 weeks ended June 29, 2003. We accrue taxes at the statutory tax rate, which is reevaluated on an ongoing basis by management. In the 13 weeks ended June 27, 2004 we determined the Company's effective tax rate to be 40%, down from 41% in the 13 weeks ended June 29, 2003, due in part to the growth in our store base outside of California.

26 Weeks Ended June 27, 2004 Compared to 26 Weeks Ended June 29, 2003

The following table sets forth selected items from our operating results as a percentage of our net sales for the periods indicated:

	26 Weeks Ended			
	June 27, 2004	(unaudited) (dollars in thousands)		June 29, 2003
Net sales	\$365,492	100.0%	\$334,642	100.0%
Cost of sales	232,172	63.5	214,195	64.0
Gross profit	133,320	36.5	120,447	36.0
Operating expenses:				
Selling and administrative	99,615	27.3	91,643	27.4
Depreciation and amortization	5,502	1.5	5,043	1.5
Total operating expenses	105,117	28.8	96,686	28.9
Operating income	28,203	7.7	23,761	7.1
Redemption premium and unamortized financing fees related to redemption of debt	792	0.2	1,483	0.4
Interest expense, net	3,574	1.0	5,896	1.8
Income before income taxes	23,837	6.5	16,382	4.9
Income taxes	9,534	2.6	6,717	2.0
Net income	\$ 14,303	3.9%	\$ 9,665	2.9%

1. Net Sales. Net sales increased by \$30.9 million, or 9.2%, to \$365.5 million in the 26 weeks ended June 27, 2004 from \$334.6 million in the same period last year. This growth reflected an increase of \$15.0 million in same store sales and an increase of \$17.6 million in new store sales, which reflected the opening of four new stores, including two relocated stores, during the first 26 weeks of 2004 and 19 new stores in fiscal 2003. The remaining variance was attributable to net sales from closed stores. Same store sales increased 4.5% in the 26 weeks ended June 27, 2004 versus the same period last year. This 4.5% increase in same store sales was attributable to higher sales in each of our three major product categories of footwear, hard goods and apparel. Store count at June 27, 2004 was 295 versus 275 at June 29, 2003. We opened four stores, including two relocated stores, in the 26 weeks ended June 27, 2004. We opened one store and closed one store in the 26 weeks ended June 29, 2003. We expect to open 13 to 16 net new stores during the remainder of fiscal 2004.

2. Gross Profit. Gross profit increased by \$12.9 million, or 10.7%, to \$133.3 million in the 26 weeks ended June 27, 2004 from \$120.4 million in the same period last year. Gross profit margin was 36.5% in the 26 weeks ended June 27, 2004 compared to 36.0% in the same period last year. We were able to achieve higher gross profit margins primarily due to improved product selling margin comparisons in each of our three major product categories, partially offset by a 0.2% increase in warehouse and distribution costs when measured as a percentage of sales. The 0.2% increase in warehouse and distribution costs was largely driven by higher warehouse payroll and benefit expenses to support our store growth and to prepare for the new distribution center scheduled to open in fiscal 2005. In addition, higher gasoline prices negatively impacted trucking expense.

[Table of Contents](#)

3. Selling and Administrative. Selling and administrative expenses increased by \$8.0 million, or 8.7%, to \$99.6 million in the 26 weeks ended June 27, 2004 from \$91.6 million in the same period last year. The increase was driven by a \$5.0 million increase in store-related expenses, including payroll and payroll taxes, as a result of store growth, as well as increased employee health benefit costs. Advertising expense increased by \$1.8 million due to the growth in our store base since the same period last year. The remaining \$1.2 million increase resulted from other administrative costs, such as corporate payroll and benefit expense. When measured as a percentage of net sales, selling and administrative expenses were 27.3% for the 26 weeks ended June 27, 2004, down from 27.4% in the 26 weeks ended June 29, 2003. The decrease primarily resulted from a 0.2% decline in store salaries when measured as a percent of sales.

4. Depreciation and Amortization. Depreciation and amortization expense increased \$0.5 million, or 9.1%, to \$5.5 million for the 26 weeks ended June 27, 2004 from \$5.0 million for the same period last year, primarily due to the increase in store count to 295 stores at the end of the second quarter of fiscal 2004 from 275 stores at the end of the second quarter of fiscal 2003.

5. Redemption Premium and Unamortized Financing Fees Related to Redemption of Debt. Redemption premium and unamortized financing fees related to redemption of debt were \$0.8 million in the 26 weeks ended June 27, 2004 versus \$1.5 million during the same period last year. The \$0.8 million charge in the 26 weeks ended June 27, 2004 resulted from the redemption of \$15.0 million face value of our 10.875% senior notes and the related carrying value of applicable deferred financing costs and original issue discount which totaled \$0.2 million in the second quarter of fiscal 2004. The \$1.5 million charge in the first 26 weeks of fiscal 2003 resulted from the redemption of \$20.0 million face value of our 10.875% senior notes during the first quarter of fiscal 2003.

6. Interest Expense, Net. Interest expense, net, decreased by \$2.3 million, or 39.4%, to \$3.6 million in the 26 weeks ended June 27, 2004 from \$5.9 million in the same period last year. Interest expense benefited from the redemption of \$15.0 million of our 10.875% senior notes in the second quarter of fiscal 2004 and \$55.0 million in fiscal 2003 through borrowings from our lower cost credit facility as well as a reduction in overall debt levels since the beginning of fiscal 2003.

7. Income Taxes. Provision for income taxes was \$9.5 million for the 26 weeks ended June 27, 2004 and \$6.7 million for the 26 weeks ended June 29, 2003. We accrue taxes at the statutory tax rate, which is reevaluated on an ongoing basis by management. In the 26 weeks ended June 27, 2004 we determined the Company's effective tax rate to be 40%, down from 41% in the 26 weeks ended June 29, 2003, due in part to the growth in our store base outside of California.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity requirements are for working capital and capital expenditures. We fund our liquidity requirements with cash on hand, cash flow from operations and borrowings under our credit facility.

Net cash used by operating activities for the first 26 weeks of fiscal 2004 and fiscal 2003 was \$2.7 million and \$5.9 million, respectively. The change between periods primarily reflects higher net income in the first 26 weeks of fiscal 2004, partially offset by increased working capital requirements between periods to fund store growth.

Capital expenditures for the first 26 weeks of fiscal 2004 and 2003 were \$3.4 million and \$1.7 million, respectively. Expenditures for our planned new distribution center accounted for approximately \$0.6 million of capital expenditures in the first 26 weeks of fiscal 2004. We expect capital expenditures for the remaining 26 weeks of fiscal 2004 to range from \$15.0 to \$20.0 million. We expect to spend \$7.0 to \$10.0 million primarily to fund the opening of approximately 13 to 16 net new stores (which includes store relocations), store improvements and remodelings, warehouse and headquarters improvements and computer hardware and software expenditures. In addition, we anticipate spending an estimated \$8.0 to \$10.0 million of the approximately \$15.0 million of total capital spending requirements for our planned new distribution center, which is scheduled to be operational in the second half of fiscal 2005.

Net cash provided by financing activities for the first 26 weeks of fiscal 2004 and fiscal 2003 was \$3.6 million and \$5.1 million, respectively. As of June 27, 2004, we had borrowings of \$76.5 million and letter of credit commitments of \$0.5 million outstanding under our credit facility and \$33.1 million of our 10.875% senior notes outstanding. These balances compare to borrowings of \$52.1 million and letter of credit commitments of \$5.4 million outstanding under our credit facility and \$82.8 million of our 10.875% senior notes outstanding as of June 29, 2003. On April 15, 2004, we redeemed \$15.0 million face value of our 10.875% senior notes due 2007, using borrowings under our credit facility. We also redeemed \$20.0 million face value and \$35.0 million face value of our 10.875% senior notes due 2007 during the first and fourth quarters of fiscal 2003, respectively, using borrowings under our credit facility. We had \$6.4 million of cash at June 27, 2004 and \$6.9 million at June 29, 2003.

We believe we will be able to fund our future cash requirements for operations from operating cash flows, cash on hand and borrowings under our credit facility. We believe these sources of funds will be sufficient to continue our operations and planned capital expenditures and satisfy our scheduled payments under debt obligations for at least the next twelve months. However, our ability to satisfy such obligations depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to financial, business and other factors affecting our operations, including factors beyond our control. See “Risk Factors That May Affect Future Results and Market Price of Our Common Stock.”

[Table of Contents](#)

Our principal future obligations and commitments, excluding periodic interest payments, include the following:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Long-term debt	\$ 33,063	\$ —	\$ —	\$33,063	\$ —
Operating lease commitments	287,604	42,664	75,781	62,484	106,675
Revolving credit facility	76,454	—	76,454	—	—
Letters of credit	519	519	—	—	—
Total	\$397,640	\$43,183	\$152,235	\$95,547	\$106,675

Long-term debt consists of our 10.875% senior notes that mature on November 13, 2007. We expect to repay our 10.875% senior notes by the maturity date using a combination of cash flow from operations, drawings under our credit facility, an expansion or replacement of our credit facility and the issuance of debt or equity securities. The 10.875% senior notes are general unsecured obligations, which rank senior in right of payment to all of our existing and future subordinated indebtedness and *pari passu* in right of payment with all of our current and future unsubordinated indebtedness, subject to the security interests that have been granted in substantially all of our assets in connection with our credit facility.

Operating lease commitments consist principally of leases for our retail store facilities, distribution center and corporate offices. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. We intend to renegotiate those leases as they expire. Payments for these lease commitments are provided for by cash flows generated from operations.

In April 2004 we signed an operating lease agreement for a new distribution facility in order to facilitate our store growth. The new distribution facility will be located in Riverside, California and will have approximately 952,900 square feet of storage and office space. We anticipate completing the construction of and transition to the new distribution center in fiscal 2005. The expected annual lease payments are included in the table above.

We have a non-amortizing \$140.0 million revolving credit facility. The credit facility may be terminated by the lenders by giving at least 90 days prior written notice before any anniversary date, commencing with its anniversary date on March 20, 2006. We may terminate the credit facility by giving at least 30 days prior written notice, provided that if we terminate prior to March 20, 2006, we must pay an early termination fee. Unless it is terminated, the credit facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2006. The facility is secured by a first priority security interest in substantially all of our assets.

The credit facility bears interest at various rates based on our performance, with a floor of LIBOR plus 1.50% or the JP Morgan Chase Bank prime lending rate and a ceiling of LIBOR plus 2.50% or the JP Morgan Chase Bank prime lending rate plus 0.75% and is secured by trade accounts receivable, merchandise inventory and general intangible assets

[Table of Contents](#)

(including trademarks and trade names). At June 27, 2004, loans under the credit facility bear interest at a rate of LIBOR (1.33% at June 27, 2004) plus 1.50% or the JP Morgan Chase Bank prime lending rate (4.00% at June 27, 2004). An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the amended and restated credit facility. On June 27, 2004, we had \$76.5 million in LIBOR and prime lending rate borrowings and letters of credit of \$0.5 million outstanding. Our maximum eligible borrowing available under the credit facility is limited to 71.15% of the aggregate value of eligible inventory during November and December, 67.24% during January and February, and 67.25% during the remaining months of the year. The maximum eligible borrowing available under the credit facility had been 70% of the aggregate value of eligible inventory from November through February and 65% of the aggregate value of eligible inventory during the remainder of the year. The advance rates changed in April 2004 following a scheduled appraisal by the credit facility agent. Available borrowings over and above actual borrowings and letters of credit outstanding on the credit facility amounted to \$49.3 million at June 27, 2004.

Our credit facility and the indenture governing our 10.875% senior notes contain various financial and other covenants, including covenants that require us to maintain various financial ratios, restrict our ability to incur indebtedness or to create various liens and restrict the amount of capital expenditures that we may incur. Our credit facility and the indenture governing our 10.875% senior notes also restrict our ability to engage in mergers or acquisitions, sell assets or pay dividends. We are currently in compliance with all covenants under our credit facility and the indenture governing our 10.875% senior notes.

If we fail to make any required payment under our credit facility or the indenture governing our 10.875% senior notes or if we otherwise default under these instruments, our debt may be accelerated under these instruments. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego expansion opportunities. We might not be able to affect these alternative strategies on satisfactory terms, if at all.

SEASONALITY

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2003, we generated 27.0% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday selling season as well as the peak winter sports selling season. As a result, we incur significant additional expenses in the fourth fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales, including same store sales, could decline, resulting in excess inventory, which could harm our financial performance. Because a substantial portion of our operating income is derived from our fourth fiscal quarter net sales, a shortfall in expected fourth fiscal quarter net sales could cause our annual operating results to suffer significantly.

FORWARD-LOOKING STATEMENTS

This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “intends” or other such terminology. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, without limitation, the risk factors set forth below and elsewhere in this report and other risks and uncertainties more fully described in our other filings with the Securities and Exchange Commission. We caution that the risk factors set forth in this report are not exclusive. In addition, we conduct our business in a highly competitive and rapidly changing environment. Accordingly, new risk factors may arise. It is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF OUR COMMON STOCK

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

Risks Related to Our Business

We have a substantial amount of debt, future cash flows may not be sufficient to meet our obligations and we might have difficulty obtaining more financing.

We have a substantial amount of debt. As of June 27, 2004, the aggregate principal amount of our outstanding indebtedness was approximately \$109.5 million. Our leveraged financial position means:

- a substantial portion of our cash flow from operations will be required to service our indebtedness;
- our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes might be impeded; and
- we are more vulnerable to economic downturns and our ability to withstand competitive pressures is limited.

If our business declines, our future cash flow might not be sufficient to meet our obligations and commitments.

If we fail to make any required payment under our credit facility or indenture, our debt may be accelerated under these instruments. In addition, in the event of bankruptcy or insolvency or a material breach of any covenant contained in one of our debt instruments, our debt may be accelerated. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego expansion opportunities. These alternative strategies might not be effected on satisfactory terms, if at all.

The terms of our debt instruments impose operating and financial restrictions on us, which may impair our ability to respond to changing business and economic conditions.

The terms of our debt instruments impose operating and financial restrictions on us, including, among other things, restrictions on our ability to incur additional indebtedness, create or allow liens, pay dividends, engage in mergers, acquisitions or reorganizations or make specified capital expenditures. For example, our ability to engage

[Table of Contents](#)

in the foregoing transactions will depend upon, among other things, our level of indebtedness at the time of the proposed transaction and whether we are in default under our financing agreements. As a result, our ability to respond to changing business and economic conditions and to secure additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might further our growth strategy or otherwise benefit us without obtaining consent from our lenders. In addition, our credit facility is secured by a first priority security interest in our trade accounts receivable, merchandise inventories, service marks and trademarks and other general intangible assets, including trade names. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our debt instruments would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

If we are unable to successfully implement our controlled growth strategy or manage our growing business, our future operating results could suffer.

One of our strategies includes opening profitable stores in new and existing markets. Our ability to successfully implement our growth strategy could be negatively affected by any of the following:

- suitable sites may not be available for leasing;
- we may not be able to negotiate acceptable lease terms;
- we might not be able to hire and retain qualified store personnel; and
- we might not have the financial resources necessary to fund our expansion plans.

In addition, our expansion in new and existing markets may present competitive, distribution and merchandising challenges that differ from our current challenges. These potential new challenges include competition among our stores, added strain on our distribution center, additional information to be processed by our management information systems and diversion of management attention from ongoing operations. We face additional challenges in entering new markets, including consumers' lack of awareness of us, difficulties in hiring personnel and problems due to our unfamiliarity with local real estate markets and demographics. New markets may also have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets. To the extent that we are not able to meet these new challenges, our net sales, including same store sales, could decrease and our operating costs could increase.

Because our stores are concentrated in the western United States, we are subject to regional risks.

Our stores are located in the western United States. Because of this, we are subject to regional risks, such as the economy, weather conditions, power outages, electricity and gasoline costs, and earthquakes and other natural disasters specific to the states in which we operate. For example, particularly in southern California where we have a high concentration of stores, seasonal factors such as unfavorable snow conditions (such as those that occurred in the winter of 2002-2003), inclement weather or other localized conditions such as flooding, fires (such as the major fires in 2003), earthquakes or electricity

[Table of Contents](#)

blackouts could harm our operations. State and local regulatory compliance, including workers compensation costs, also can impact our financial results. If the region were to suffer an economic downturn or other adverse regional event, our net sales, including same store sales, and profitability and our ability to implement our planned expansion program could suffer. Several of our competitors operate stores across the United States and thus are not as vulnerable to these regional risks.

If we lose key management or are unable to attract and retain the talent required for our business, our operating results could suffer.

Our future success depends to a significant degree on the skills, experience and efforts of Steven G. Miller, our Chairman, President and Chief Executive Officer, and other key personnel who are not obligated to stay with us. The loss of the services of any of these individuals could harm our business and operations. In addition, as our business grows, we will need to attract and retain additional qualified personnel in a timely manner and develop, train and manage an increasing number of management level sales associates and other employees. Competition for qualified employees could require us to pay higher wages and benefits to attract a sufficient number of employees, and increases in the federal minimum wage or other employee benefits costs could increase our operating expenses. If we are unable to attract and retain personnel as needed in the future, our net sales growth, including same store sales growth, and operating results may suffer.

Our hardware and software systems are vulnerable to damage that could harm our business.

Our success, in particular our ability to successfully manage inventory levels, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information and aggregate daily sales information. These systems and our operations are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- power loss, computer systems failures, internet and telecommunications or data network failure, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events; and
- computer viruses.

Any failure that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales, including same store sales, and profitability.

If our suppliers do not provide sufficient quantities of products, our net sales and profitability could suffer.

We purchase merchandise from over 750 vendors. Although we did not rely on any single vendor for more than 6.0% of our total purchases during the twelve months ended June 27, 2004, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 37.9% of our total purchases during the twelve months ended

Table of Contents

June 27, 2004. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain merchandise that we desire to sell and that consumers desire to purchase. In addition, a significant portion of the products that we purchase, including those purchased from domestic suppliers, are manufactured abroad. A vendor could discontinue selling products to us at any time for reasons that may or may not be in our control. Our net sales, including same store sales, and profitability could decline if we are unable to promptly replace a vendor who is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products.

Because all of our stores rely on a single primary distribution center and a satellite distribution center, any disruption could reduce our net sales.

We currently rely on a single primary distribution center in Fontana, California, as well as a satellite distribution center to handle seasonal merchandise and returns. Any natural disaster or other serious disruption to the primary distribution center due to fire, earthquake or any other cause could damage a significant portion of our inventory and could materially impair both our ability to adequately stock our stores and our net sales, including same store sales, and profitability. Any similar event which affects our satellite distribution center could materially impair our ability to adequately stock our stores with seasonal merchandise, which could also materially impair our net sales, including same store sales, and profitability. If the security measures used at our distribution centers do not prevent inventory theft, our gross margin may significantly decrease.

Due to limited capacity at the current primary distribution center, we recently entered into a 10-year lease with three five-year renewal options for a replacement distribution center and expect to begin construction in the second half of fiscal 2004. We anticipate completing the construction of and transition to the new distribution center in the second half of fiscal 2005. Any disruption to, or delay in, this process could harm our future operations.

Because equity owners of a significant stockholder of one of our competitors serve on our board of directors and the board of directors of such competitor, there may be conflicts of interest.

Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., holds approximately 7.7% of the outstanding common stock of The Sports Authority, Inc., one of our competitors. John G. Danhaki, an equity owner of Leonard Green & Partners, L.P., currently serves on our board of directors. Jonathan D. Sokoloff, an equity owner of Leonard Green & Partners, L.P. and a former member of our board of directors, currently serves on The Sports Authority, Inc.'s board of directors. Mr. Danhaki may have conflicts of interest with respect to certain matters affecting us, including the pursuit of certain business opportunities presented to Leonard Green & Partners, L.P. All potential conflicts may not be resolved in a manner that is favorable to us. We believe it is impossible to predict the precise circumstances under which future potential conflicts may arise and therefore intend to address potential conflicts on a case-by-case basis. Under Delaware law, directors have a

[Table of Contents](#)

fiduciary duty to act in good faith and in what they believe to be in the best interest of the corporation and its stockholders. Such duties include the duty to refrain from impermissible self-dealing and to deal fairly with respect to transactions in which the directors, or other companies with which such directors are affiliated, have an interest.

Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.

The Sarbanes-Oxley Act of 2002 (the “Act”) that became law in July 2002, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission (the “SEC”), have required and will require changes in some of our corporate governance practices. The Act also requires the SEC to promulgate additional new rules on a variety of subjects. In addition to final rules and rule proposals already made by the SEC, Nasdaq has revised its requirements for companies that are quoted on The Nasdaq Stock Market, Inc.’s National Market. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more difficult, time consuming and/or costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

Risks Related to Our Industry

A downturn in the economy may affect consumer purchases of discretionary items, which could reduce our net sales.

In general, our sales represent discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, electricity power rates, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Our customers’ purchases of discretionary items, including our products, could decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. If this occurs, our net sales, including same store sales, and profitability could decline.

Seasonal fluctuations in the sales of sporting goods could cause our annual operating results to suffer significantly.

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2003, we generated 27.0% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday selling season as well as the peak winter sports selling season. As a result, we incur significant additional expenses in the fourth fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales, including same store sales, could decline, resulting in excess inventory, which

[Table of Contents](#)

could harm our financial performance. Because a substantial portion of our operating income is derived from our fourth fiscal quarter net sales, a shortfall in expected fourth fiscal quarter net sales could cause our annual operating results to suffer significantly.

Intense competition in the sporting goods industry could limit our growth and reduce our profitability.

The retail market for sporting goods is highly fragmented and intensely competitive. We compete directly or indirectly with the following categories of companies:

- other traditional sporting goods stores and chains;
- mass merchandisers, discount stores and department stores, such as Wal-Mart, Kmart, Target, Kohl's, JC Penney, and Sears;
- specialty sporting goods shops and pro shops, such as The Athlete's Foot and Foot Locker;
- sporting goods superstores, such as The Sports Authority, Inc., and its other operating units, Oshman's, Sportmart and Gart Sports Company; and
- internet retailers.

Some of our competitors have a larger number of stores and greater financial, distribution, marketing and other resources than we have. Two of our major competitors, The Sports Authority, Inc. and Gart Sports Company (including its other operating units, Oshman's and Sportmart), completed a merger in August 2003. In addition, if our competitors reduce their prices, it may be difficult for us to reach our net sales or same store sales goals without reducing our prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. If we are unable to compete successfully, our operating results will suffer.

We may incur costs from litigation or increased regulation relating to products that we sell, particularly firearms.

We sell products manufactured by third parties, some of which may be defective. If any product that we sell were to cause physical injury or injury to property, the injured party or parties could bring claims against us as the retailer of the product. Our insurance coverage may not be adequate to cover every claim that could be asserted against us. If a successful claim were brought against us in excess of our insurance coverage, it could harm our business. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business. In addition, our products are subject to the Federal Consumer Product Safety Act, which empowers the Consumer Product Safety Commission to protect consumers from hazardous sporting goods and other articles. The Consumer Product Safety Commission has the authority to exclude from the market certain consumer products that are found to be hazardous. Similar laws exist in some states and cities in the United States. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and negative publicity that could harm our operating results.

[Table of Contents](#)

In addition, we sell firearms and ammunition, products associated with an increased risk of injury and related lawsuits. Sales of firearms and ammunition have historically represented less than 5% of our annual net sales. We may incur losses due to lawsuits relating to our performance of background checks on firearms purchases as mandated by state and federal law or the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearms manufacturers and retailers relating to the misuse of firearms. In addition, in the future there may be increased federal, state or local regulation, including taxation, of the sale of firearms in both our current markets as well as future markets in which we may operate. Commencement of these lawsuits against us or the establishment of new regulations could reduce our net sales, including same stores sales, and decrease our profitability.

If we fail to anticipate changes in consumer preferences, we may experience lower net sales, higher inventory markdowns and lower margins.

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty. These preferences are also subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to trends in sporting goods merchandise and consumers' participation in sports. If we fail to identify and respond to these changes, our net sales, including same store sales, may decline. In addition, because we often make commitments to purchase products from our vendors up to six months in advance of the proposed delivery, if we misjudge the market for our merchandise, we may over-stock unpopular products and be forced to take inventory markdowns that could have a negative impact on profitability.

Terrorism and the uncertainty of war may harm our operating results.

Terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, vendors, and customers, which could significantly impact our net sales (including same store sales), costs and expenses and financial condition. The threat of terrorist attacks since September 11, 2001 continues to create many economic and political uncertainties. The potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we currently cannot predict. Military action taken by the United States and its allies in Iraq or elsewhere could have a short or long term negative economic impact upon the financial markets and our business in general.

Risks Related to Investing in Our Common Stock

The price of our common stock may be volatile.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market prices of many companies. These broad market fluctuations could adversely affect the market price of our common stock. A significant decline in our stock price could result in substantial

losses for individual stockholders and could lead to costly and disruptive securities litigation.

Substantial amounts of our common stock could be sold in the near future, which could depress our stock price.

We cannot predict the effect, if any, that the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. At July 30, 2004, there were 22,670,327 shares of our common stock outstanding, excluding treasury shares. All of these shares are freely transferable without restriction or further registration under the federal securities laws, except for any shares held by our affiliates, sales of which will be limited by Rule 144 under the Securities Act of 1933. Sales of a significant number of these shares of common stock in the public market could reduce the market price of the common stock or our ability to raise capital by offering equity securities.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change of control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. These provisions include:

- a board of directors that is classified such that only one-third of directors are elected each year;
- authorization of the issuance of “blank check” preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- limitations on the ability of stockholders to call special meetings of stockholders;
- prohibition of stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporations Law limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the transaction may be considered beneficial by some stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our revolving credit facility is based on variable rates. If the LIBOR rate were to increase 1.0% in 2004 as compared to the rate at June 27, 2004, our interest expense for 2004 would increase \$0.8 million based on the outstanding balance of our revolving credit facility at June 27, 2004. We do not hold any derivative instruments and do not engage in hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that (1) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission and (2) this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal controls can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Under the supervision and review of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of June 27, 2004. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that they are alerted in a timely manner to material information regarding us that is required to be included in our periodic reports. In addition, there have been no significant changes in our internal controls or in other factors that could significantly affect those controls since June 27, 2004, the date as of which our disclosure controls and procedures were last evaluated.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in routine litigation incidental to the conduct of our business. We regularly review all pending litigation matters in which we are involved and establish reserves deemed appropriate by management for such litigation matters. We believe no litigation currently pending against us will have a material adverse effect on our financial position or results of operations.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

On June 2, 2004, we held our annual meeting of stockholders. Sandra N. Bane and Michael D. Miller, both of whom are Class B directors, were re-elected to our board of directors. The term of office for the following directors continued after the meeting: G. Michael Brown (Class A director), John G. Danhaki (Class A director), Jennifer Holden Dunbar (Class C director) and Steven G. Miller (Class C director).

At the annual meeting, our stockholders approved the proposal to elect two Class B directors to the our board of directors, each to hold office until the 2007 annual meeting of stockholders (and until each such director's successor shall have been duly elected and qualified):

	<u>For Votes</u>	<u>Withheld Votes</u>
Sandra N. Bane	20,012,928	906,735
Michael D. Miller	13,846,097	7,073,566

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description of Document
10.1	Lease dated as of March 5, 1996 by and between the State of Wisconsin Investment Board and United Merchandising Corp.

[Table of Contents](#)

Exhibit Number	Description of Document
10.2	Lease dated as of April 14, 2004 by and between Pannatoni Development Company, LLC and Big 5 Corp.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

(b) Reports on Form 8-K

A Current Report on Form 8-K was filed on July 23, 2004 to report the issuance of a press release on July 23, 2004 announcing our net sales for the fiscal quarter ended June 27, 2004.

A Current Report on Form 8-K was filed on August 4, 2004 to report the issuance of a press release on August 4, 2004 announcing our financial information for the fiscal quarter ended June 27, 2004.

SIGNATURES

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

**BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation**

Date: August 6, 2004

By:

/s/ STEVEN G. MILLER

Steven G. Miller
President and Chief Executive Officer

Date: August 6, 2004

By:

/s/ CHARLES P. KIRK

Charles P. Kirk
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

LEASE

between

STATE OF WISCONSIN INVESTMENT BOARD,
AN INDEPENDENT AGENCY OF THE STATE OF WISCONSIN

(Lessor)

and

UNITED MERCHANDISING CORP.,
a California corporation

(Lessee)

Dated as of March 5, 1996

Demised Premises: 7351 McGuire Avenue, Fontana, CA

TABLE OF CONTENTS

ARTICLE 1.- PREMISES	1
1.1. Demised Premises	1
1.2. Title and Condition of the Demised Premises	1
1.3. Quiet Enjoyment	2
ARTICLE 2.- TERM	2
2.1. Primary Term	2
2.2. Option to Extend	2
ARTICLE 3.- RENTAL	2
3.1. Rental For Primary Term and Option Terms	2
3.2. Consumer Price Index	4
3.3. Additional Rental	5
3.4. Place of Payment	5
3.5. No Counterclaim, Abatement, etc	5
ARTICLE 4.- USE	6
4.1. Permitted Use	6
4.2. Forbidden Uses	6
4.3. No Covenant To Operate or Occupy	6
4.4. Laws and Regulations	6
ARTICLE 5.- TAXES AND UTILITIES	8
5.1. Taxes	8
5.2. Income Taxes	9
5.3. Utilities	9
ARTICLE 6.- MAINTENANCE AND ALTERATIONS	9
6.1. Maintenance and Repair	9
6.2. Alterations and Additions	9
6.3. Machinery and Fixtures	10
ARTICLE 7.- DAMAGE OR DESTRUCTION	10
7.1. Notice to Lessor	10
7.2. Damage or Destruction	11
7.3. No Termination	11
7.4. Damage or Destruction During the Last Year of the Term ...	11
7.5. Rebuilding of Premises	12
7.6. Destruction During Option Terms	12
ARTICLE 8. - CONDEMNATION	12
8.1. Condemnation Award	12
8.2. Total or Substantial Taking	13
8.3. Partial Taking	13
8.4. Condemnation During Option Terms	13
8.5. Taking Defined	13
ARTICLE 9. - INSURANCE	14
9.1. Nature of Insurance	14
9.2. Adjustment of Claims	16
9.3. Endorsement in Favor of Lender	16

9.4. Certificates of Insurance	16
ARTICLE 10. - INDEMNIFICATION	17
ARTICLE 11. - LIENS	17
ARTICLE 12. - ADVANCES BY LESSOR: PERMITTED CONTESTS	18
12.1. Advances	18
12.2. Permitted Contests	18
ARTICLE 13. - CONDITIONAL LIMITATIONS; EVENTS OF DEFAULT AND REMEDIES...	18
13.1. Default	18
13.2. Lessor's Option to Terminate	19
13.3. Recovery of Damage; Termination of Lease	20
13.4. Expenses of Lessor; Continuation of Lease	20
13.5. Additional Rights of Lessor	21
13.6. Attorneys' Fees and Other Expenses	21
ARTICLE 14. - ASSIGNMENT AND SUBLETTING	22
ARTICLE 15. - MISCELLANEOUS PROVISIONS	23
15.1. Subordination	23
15.2. No Merger	24
15.3. Surrender	24
15.4. Binding Effect	25
15.5. Headings	25
15.6. Successors and Assigns	25
15.7. Notices	25
15.8. Local Law to Apply	26
15.9. Time is of the Essence	26
15.10. No Waiver	26
15.11. Liability of Lessor and Release	26
15.12. Financial Statements	26
15.13. Late Charge	27
15.14. Lessor's Right To Perform and Right to Enter	27
15.15. Lessee's Quitclaim	27
15.16. Invalidity	27
15.17. Hold Over	27
Exhibit A - Legal Description of Demised Premises	
Exhibit B - Plot Plan of Demised Premises	
Exhibit C - Subordination Agreement	
Exhibit D - Lessee's Lender's Estoppel and Waiver Letter	

LEASE

THIS LEASE is made as of this _____ day of _____, 1996, by and between STATE OF WISCONSIN INVESTMENT BOARD, AN INDEPENDENT AGENCY OF THE STATE OF WISCONSIN (hereinafter called "Lessor"), and UNITED MERCHANDISING CORP., a California corporation (hereinafter called "Lessee").

ARTICLE 1. - PREMISES

- 1.1. DEMISED PREMISES. For and in consideration of the rental hereinafter reserved, and the mutual covenants, agreements and conditions hereinafter contained, Lessor does hereby lease to Lessee and Lessee does hereby rent from Lessor that certain real property commonly known as 7351 McGuire Avenue, City of Fontana, County of San Bernardino, State of California, more particularly described in Exhibit A attached hereto and made a part hereof; together with all easements, rights and appurtenances in connection therewith; together with the buildings and improvements now erected or hereafter to be erected upon the above described real property, including, without limitation, any fixtures and equipment which are an integral part of the buildings and improvements for purposes of their use and operation as an office, warehouse or distribution facility or which cannot be removed without material damage to such buildings and improvements (which, by way of example, shall include all HVAC and mechanical systems, conveyor systems, loading docks, load leveler systems, carpeting and wall coverings). The real property owned by Lessor and leased hereunder does not include, and Lessee shall retain ownership and the right to remove, those items of personal property and trade fixtures that are attached to or used in the buildings and improvements solely for the purpose of Lessee conducting its business therein and which can be removed without material damage to the buildings and improvements (including, without limitation Lessee's satellite communication equipment, music and intercom systems, security systems, and racking systems). Said real property and the building and improvements thereon may hereinafter be called "the Premises" or "the Demised Premises". Said real property exclusive of the building and improvements may hereinafter be called "the Land". For the convenience of the parties hereto a plot plan is attached hereto as Exhibit B on which the Demised Premises is outlined in black.
- 1.2. TITLE AND CONDITION OF THE DEMISED PREMISES. Lessee represents that the Demised Premises and the title thereto have been examined and approved by Lessee and for all purposes of this Lease, Lessee hereby accepts the Demised Premises in its present condition. Lessee further represents that the Demised Premises was constructed for the benefit of Lessee and that Lessee has occupied the Premises since February, 1990. To Lessee's actual knowledge, as of the date of execution of this Lease, the Demised Premises is in good condition and repair and is in compliance with laws.

- 1.3. QUIET ENJOYMENT. So long as Lessee shall not be in default under the terms of this Lease, Lessee shall quietly have and enjoy the Demised Premises during the term of this Lease.

ARTICLE 2. - TERM

- 2.1. PRIMARY TERM. The primary term (herein called the "Primary Term") shall commence on the date hereof (the "Commencement Date") and shall end at midnight on _____, unless terminated sooner pursuant to the terms hereof.
- 2.2. OPTION TO EXTEND. Subject to the provisions of this Section 2.2, Lessee shall have three (3) consecutive options to extend the term of this Lease for five (5) years each. (Such additional terms may hereinafter be called "Option Terms".) Such options shall be personal to United Merchandising Corp., or its Affiliate, as that term is defined in Section 14.2 hereof, and may not be exercised by an assignee or sublessee under the Lease, unless said assignee or sublessee is an Affiliate of United Merchandising Corp., nor may Lessee exercise an option as provided herein for the purpose of subletting or assigning the Demised Premises during such Option Term to any party who is not an Affiliate. The first Option Term shall commence on the day following the expiration of the Primary Term and end at midnight five (5) years thereafter. Each succeeding Option Term shall commence on the day following the preceding Option Term and end at midnight five (5) years thereafter. Each option shall be exercised by giving notice to Lessor in writing of the exercise thereof at least twelve (12) months prior to the commencement of each Option Term, which notice shall be irrevocable by Lessee. All Option Terms shall be on the same terms and conditions as otherwise provided in this Lease, except that the rents payable during the Option Terms shall be adjusted as set forth below. Notwithstanding the foregoing, in the event an Event of Default (as defined in Section 13.1, hereof) exists under this Lease at the time Lessee exercises its option to extend the term of this Lease, or if an Event of Default pursuant to the provisions of Section 13.1.1(a) hereof exists as of the commencement of the respective Option Term, then Lessor shall have, in addition to all of Lessor's other rights and remedies under this Lease, the right to terminate such option and to cancel Lessee's exercise of such option, in which event this Lease shall expire at the expiration of the Primary Term or any then existing Option Term, as the case may be.

ARTICLE 3. - RENTAL

- 3.1. RENTAL FOR PRIMARY TERM AND OPTION TERMS. Commencing on the Commencement Date and thereafter on the first day of each calendar month of the Primary Term, and continuing thereafter until the end of the Primary Term and any Option Term of this Lease. Lessee agrees to pay, and Lessor agrees to accept, as rental for the Demised Premises, for each calendar year during the term of this Lease the sum(s) set forth below in subparagraph(s) 3.1.1 et. seq.

Said annual rent shall be paid in equal monthly installments in the amount(s) set forth in said subparagraph(s). For periods of less than a full calendar month, said monthly rental payment shall be prorated based on the relationship of the number of days of the term of this Lease in such month to the total number of days in such month. If the Commencement Date occurs on other than the first day of a calendar month, the rental for such partial month shall be prorated as aforesaid and shall be due and payable on the Commencement Date.

3.1.1. Commencing on the date referred to in Paragraph 3.1. above, and continuing for the next sixty (60) full calendar months ("First Period") of the term of this Lease, the annual rent referred to in said Paragraph 2.1. shall be the sum of One Million Three Hundred Fifty Six Thousand Four Hundred Fifty Six and no/100 Dollars (\$1,356,456.00) to be paid in equal monthly installments of One Hundred Thirteen Thousand Thirty Eight and no/100 Dollars (\$113,038.00).

3.1.2. Commencing on the first day following the last day of the First Period, and continuing until the end of the Primary Term ("Second Period"), the annual and monthly rents payable under the Lease shall be increased and adjusted once by a fixed amount equal to the percentage increase in the consumer price index ("C.P.I."), as hereinafter defined, calculated as follows: The adjusted annual and monthly rents that shall be payable throughout the Second Period shall be equal to (a) the rent set forth in Paragraph 3.1.1. above, (b) multiplied by a fraction, (i) the numerator of which shall be the C.P.I. as of the last day of the First Period and (ii) the denominator of which shall be the C.P.I. as of the Commencement Date; provided, however, that the increase in rent shall not be less than ten and 41/100 percent (10.41%) or be more than twenty one and 67/100 percent (21.67%) of the rental amounts payable during the First Period under Paragraph 3.1.1. above.

3.1.3. In the event Lessee exercises its right to extend the Lease for the First Option Term pursuant to the provisions of Section 2.2, above, commencing on the first day following the last day of the Primary Term and continuing for the next sixty (60) months (the "First Option Term"), the annual and monthly rents payable under the Lease shall be increased and adjusted once by an amount equal to the percentage increase in the consumer price index ("C.P.I."), as hereinafter defined, calculated as follows: The adjusted annual and monthly rents that shall be payable throughout the First Option Term shall be equal to (a) the rents set forth in Paragraph 3.1.2. above, (b) multiplied by a fraction, (i) the numerator of which shall be the C.P.I. as of the last day of the Primary Term, and (ii) the denominator of which shall be the C.P.I. as of the last day of the First Period; provided, however, that the increase in rents shall not be less than ten and 41/100 percent (10.41%) or be more than twenty one and 67/100 percent (21.67%) of the rental amounts payable during the Second Period under Paragraph 3.1.2. above.

3.1.4. In the event Lessee exercises its right to extend the Lease for the Second Option Term pursuant to the provisions of Section 2.2, above, commencing on the first day following the last day of the First Option Term and continuing for the next sixty (60) months (the "Second Option Term"), the annual and monthly rents payable under the Lease shall be increased and adjusted once by an amount equal to the percentage increase in the consumer price index ("C.P.I."), as hereinafter defined, calculated as follows: The adjusted annual and monthly rents that shall be payable throughout the Second Option Term shall be equal to (a) the rents set forth in Paragraph 3.1.3. above, (b) multiplied by a fraction, (i) the numerator of which shall be the C.P.I. as of the last day of the First Option Term, and (ii) the denominator of which shall be the C.P.I. as of the last day of the Primary Term; provided, however, that the increase in rent shall not be less than ten and 41/100 percent (10.41%) or be more than twenty four and 62/100 percent (24.62%) of the rental amounts payable during the First Option Term under Paragraph 3.1.3. above.

3.1.5. In the event Lessee exercises its right to extend the Lease for the Third Option Term pursuant to the provisions of Section 2.2, above, commencing on the first day following the last day of the Second Option Term and continuing for the next sixty (60) months (the "Third Option Term"), the annual and monthly rents payable under the Lease shall be increased and adjusted once by an amount equal to the percentage increase in the consumer price index ("C.P.I."), as hereinafter defined, calculated as follows: The adjusted annual and monthly rents that shall be payable throughout the Third Option Term shall be equal to (a) the rents set forth in Paragraph 3.1.4. above, (b) multiplied by a fraction, (i) the numerator of which shall be the C.P.I. as of the last day of the Second Option Term, and (ii) the denominator of which shall be the C.P.I. as of the last day of the First Option Term; provided, however, that the increase in rent shall not be less than ten and 41/100 percent (10.41%) or be more than twenty four and 62/100 percent (24.62%) of the rental amounts payable during the Second Option Term under Paragraph 3.1.4. above.

3.2. CONSUMER PRICE INDEX. For purposes hereof, the C.P.I. shall be the Consumer Price Index, for all Urban Consumers, "All Items" average for Los Angeles - Anaheim - Riverside, California, published by the U.S. Department of Labor, Bureau of Labor Statistics, from time to time. In the event the Department of Labor or the United States government shall cease to publish the Consumer Price Index then the successor index (or most comparable) shall be used unless the parties hereto otherwise agree. In the event the Department of Labor or United States government alters the calculation or formula by which the C.P.I. is determined, the official replacement index published by either the Department of Labor or the United States government shall be utilized unless the parties mutually agree that an alternative index should be utilized. In the event there is no official replacement index published the parties hereto covenant and agree to use reasonable, good faith efforts to agree on an

index which most closely approximates the information and data contained in the C.P.I. as of the date of this Lease.

3.3. ADDITIONAL RENTAL. In addition to the scheduled rental payable under this Article 3, Lessee agrees to pay, as Additional Rental, such other sums and expenses as shall be required by the terms of this Lease.

3.4. PLACE OF PAYMENT. All rental due hereunder shall be paid to Lessor at the address set forth in Section 15.7 herein, as such person or address may be changed from time to time.

3.5. NO COUNTERCLAIM, ABATEMENT, ETC. This Lease is a net Lease and except to the extent otherwise expressly provided in this Lease, the scheduled rent and all other sums payable by Lessee hereunder shall be paid without notice, demand, offset, suspension, deduction or abatement and this Lease shall continue in full force and effect and the obligations and liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected (except as expressly provided herein) by reason of:

3.5.1. any damage to or destruction of or any condemnation or similar taking of the Demised Premises or any part thereof;

3.5.2. any restriction or prevention of or interference with any use of the Demised Premises or any part thereof;

3.5.3. any title defect or encumbrance:

3.5.4. any bankruptcy, insolvency, reorganization or other like proceeding relating to Lessee or by any court, in any such proceeding;

3.5.5. any claim which Lessee has or might have against Lessor;

3.5.6. any default or failure on the part of Lessor to perform or comply with any of the terms hereof or of any other agreement with Lessee; or

3.5.7. any other occurrence whatsoever, whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, whether or not Lessee shall have notice or knowledge of any of the foregoing. Except as expressly provided in Sections 7.2. and 8.2. hereof, Lessee waives all rights now or hereafter conferred by statute or otherwise to quit, terminate or surrender this Lease or the Demised Premises, or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of rent or any other sum payable by Lessee hereunder. Nothing contained herein shall relieve Lessor of its liability to Lessee for Lessor's breach of any of its obligations under this Lease.

ARTICLE 4. - USE

- 4.1. PERMITTED USE. During the Primary term of the Lease, Lessee may use the Demised Premises for retail, warehouse or distribution purposes, or for any other lawful purpose approved by Lessor, which approval shall not be unreasonably withheld, provided said use does not conflict with the terms of any Covenants, Conditions and Restrictions of record ("CC&R's") existing and of record as of the date of this Lease. During the Option terms of the Lease, Lessee may use the Demised Premises for retail, warehouse or distribution purposes either consistent with its then practices or otherwise involving only softgoods and for no other use whatsoever without the prior written consent of the Lessor, which consent may be withheld in Lessor's sole and absolute discretion.
- 4.2. FORBIDDEN USES. Lessee shall not suffer any act to be done or any condition to exist on the Demised Premises, or any part thereof, or any article to be brought thereon, which may be dangerous (unless Lessee employs such safeguards as may be required by law or if not provided for by law, then as may be reasonable) or which may, in law, constitute a nuisance, public or private, or which may make void or voidable any insurance required hereunder to be in force with respect to the Demised Premises, or any part thereof.
- 4.3. NO COVENANT TO OPERATE OR OCCUPY. Nothing herein contained shall require Lessee to continuously operate any particular type of business on the Demised Premises or to continuously occupy the Demised Premises. Nothing contained in this Section 4.3 shall be deemed to relieve Lessee of the full and absolute responsibility for the maintenance and upkeep of the Demised Premises throughout the term of this Lease.
- 4.4. LAWS AND REGULATIONS. Lessee shall not use the Demised Premises or permit anything to be done in or about the Demised Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall at its sole cost and expense comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force relating to or affecting the condition, use or occupancy of the Demised Premises, including, without limitation, the Americans with Disabilities Act of 1990, (42 USC Section 12181-12183) and all orders, rules, regulations and any other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) now or hereafter applicable to or affecting the Premises or any part thereof, or any use or condition of the Premise, whether or not such compliance shall require structural alterations or additions or interfere with Lessee's use of the Demised Premises. In the event Lessee is so required to undertake code required alterations to the Premises Lessee shall notify Lessor of such requirements before undertaking any such code related alterations that affect the roof, foundations or any other structural elements or components of improvements or

any of the building systems owned by Lessor. If such code required alterations are required because of other alterations that Lessee proposes to undertake of the Premises, Lessee shall not undertake such other alterations unless Lessor has first approved the same after taking into consideration the code required alterations that will be required as a result thereof, which approval by Lessor shall not be unreasonably withheld.

- 4.5. HAZARDOUS MATERIALS. Lessee covenants to comply, and to cause its employees, agents, licensees, contractors and permitted assignees or sublessee to comply, with all local, state and federal laws, rules and regulations, now or at any time hereafter governing the use, handling, storage, treatment, removal, production, manufacture, transportation or disposal of hazardous or toxic substances or materials on the Demised Premises ("Laws"), and Lessee shall indemnify, defend and hold harmless Lessor from and against any and all liabilities, losses, damages, costs, expenses (including attorneys fees and expenses of Lessor), causes of action, suits, claims, demands or judgments of any nature (i) resulting from any spills or discharges of hazardous or toxic substances or materials on the Demised Premises during the Primary Term or any Option Term or during any period prior to the Commencement Date when Lessee was in occupancy of the Premises, caused by any act or omission of Lessee, or (ii) arising out of any failure on the part of Lessee, or its employees, agents, licensees, contractors or permitted assignees or sublessee to comply with all Laws. This indemnity shall include the cost of any required or necessary repair, cleanup or detoxification, and the preparation of any closure or other required plans, whether such action is required or necessary prior to or following the termination of this Lease. Neither the written consent by Lessor to the presence of hazardous or toxic materials or substances on, under or about the Premises nor the strict compliance by Lessee with all Laws shall excuse Lessee from Lessee's obligation of indemnification pursuant hereto. Lessee's obligations pursuant to the foregoing indemnity shall survive the termination of this Lease. Lessee further covenants and agrees to remove any of its hazardous or toxic personal property from the Demised Premises at the expiration or earlier termination of this Lease. Upon Lessor's written request, Lessee shall deliver to Lessor copies of all studies, reports and other information submitted by Lessee to any governmental entity or agency regulating the use of such substances and materials. Should Lessee at any time receive any notice of violation of any Laws or be given a citation with respect thereto, or receive notice of any claims made by any third party against Lessee relating to the presence or suspected presence of hazardous or toxic materials or substances on the Premises, Lessee shall notify Lessor of such notice of violation, citation, or claim and shall provide Lessor with a copy of the same, and, with respect to any such violation of Laws or citations, shall cure the deficiency set forth in such notice of violation or citation within the time required. Any consent or approval, express or implied, by Lessor of Lessee's use or handling

of any hazardous or toxic materials or substances shall not constitute an assumption of risk by Lessor regarding such materials or substances or a warranty or certification by Lessor that Lessee's use or handling of such materials or substances is safe or reasonable or in compliance with any Laws.

ARTICLE 5. - TAXES AND UTILITIES

5.1. TAXES. As additional rental under this Lease Lessee hereby agrees that it shall pay, prior to delinquency, all taxes (including, without limitation, sales and use taxes), assessments and bonds (including, without limitation, all assessments and bonds for public improvements or benefits, whether or not commenced, or completed prior to the date hereof and whether or not completed within the term hereof), ground rents, water, sewer or other rents, rates and charges, excises, levies, license fees, permit fees, inspection fees and other authorization fees and other charges, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character (including all interest and penalties thereon), which at any time during or in respect of the term hereof may be assessed, levied, confirmed or imposed on, or in respect of or be a lien upon (a) the Demised Premises or any part thereof or any estate, right or interest therein, (b) any occupancy, use or possession of or activity conducted on the Demised Premises or any part thereof, (c) any Basic Rent or additional rent reserved or payable hereunder (excluding any taxes referred to in (i), (ii) or (iii) of (f) below, (d) this Lease, (e) the gross receipts from the Demised Premises or the earnings from the use or occupancy thereof, or (f) Lessor, in its capacity as owner or Lessor of the Demised Premises, including any tax, surtax or charge measured solely by rents received by Lessor in respect of the leasing of the Demised Premises, but excluding municipal, county, state or federal income taxes assessed against Lessor, municipal, state, or federal capital levy, estate, succession, inheritance or transfer taxes of Lessor, or corporation franchise taxes imposed upon any corporate owner of the Lessor's interest in the Demised Premises; provided, however, that if at any time during the term of this Lease the methods of taxation prevailing at the commencement of the term hereof shall be altered so that in lieu of or as a supplement to or a substitute for the whole or any part of the taxes, assessments, levies, impositions or charges now levied, assessed or imposed on real estate and the improvements thereon, there shall be levied, assessed and imposed, (i) a tax, assessment, levy, imposition or charge, wholly or partially as a capital levy or otherwise, on the rents received therefrom, or (ii) a tax, assessment, levy (including but not limited to any municipal, state or federal levy), imposition or charge measured by or based in whole or in part upon the Demised Premises and imposed upon Lessor, or (iii) a license fee measured by the rent payable by Lessee under this Lease, then all such taxes, assessments, levies, impositions or charges or the part thereof so measured or based, shall be deemed to be included within the term "Taxes" for the purposes hereof, to the extent that such

Taxes would be payable if the Demised Premises were the only property of Lessor subject to such Taxes, and Lessee shall pay and discharge the same as herein provided in respect of the payment of all other Taxes. Lessee shall have the option to pay such tax or assessment in installments, except that each installment thereof, and any interest thereon, must be paid no later than the earlier to occur of the final date fixed for the payment thereof or the date on which a penalty for non-payment could be imposed, and the whole amount thereof must be paid prior to the expiration of the term of this Lease, as it may be extended pursuant to Section 2.2. of this Lease. Taxes and assessments shall be prorated at the end of the term of this Lease. Lessee will furnish to Lessor, within thirty (30) days after payment thereof, proof of the payment (copies of tax bills and cancelled checks shall be deemed sufficient) of any such tax, assessment, levy, fee, rent or charge which is payable by Lessee pursuant to this Section.

- 5.2. INCOME TAXES. Anything in the foregoing to the contrary notwithstanding, Lessee shall have no obligation under this Lease to pay any net income, franchise, excess profit or gift, estate or inheritance tax levied upon or assessed against Lessor, unless such tax is in lieu of or a substitute for any other tax or assessment upon or with respect to the Demised Premises which, if such other tax or assessment were in effect, would be payable by Lessee hereunder.
- 5.3. UTILITIES. As additional rental hereunder, Lessee agrees to pay all charges for water, gas, light, heat, telephone, electricity, power and other utility and communications services rendered or used on or about the Demised Premises and all other costs and expenses of any kind whatsoever arising in connection with the furnishing of such services to the Premises.

ARTICLE 6. - MAINTENANCE AND ALTERATIONS

- 6.1. MAINTENANCE AND REPAIR. Lessee will, at its cost and expense, keep and maintain the Demised Premises, including any rebuilt, additional or substituted buildings and other improvements in good repair and condition, whether interior or exterior, structural or non-structural, ordinary or extraordinary, foreseen or unforeseen, subject to the provisions of Section 15.3, hereinafter. Lessor shall not be required to maintain, alter, repair, rebuild or replace the Demised Premises or any part thereof, and Lessee expressly waives the right to make repairs at the expense of Lessor which may be provided for in any law now in effect or hereafter enacted. Lessor and its authorized representatives may enter the Demised Premises, or any part thereof at any reasonable time for the purpose of inspecting the same. Lessor shall not have any duty to make any such inspection nor shall it incur any liability or obligation for not making any such inspection.
- 6.2. ALTERATIONS AND ADDITIONS. Subject to Lessor's approval of certain alterations, as described hereinafter, Lessee shall have the right

at any time to make (a) such additions, alterations, changes or improvements, in, on or to the Demised Premises as Lessee may deem necessary or proper, provided, however, that (i) any and all such work shall fully comply with all codes and regulations and with other recorded requirements relating to the Demised Premises (such as CC&R's), (ii) except to the extent required of Lessee by any governmental authority, no work done by Lessee shall lessen the market value of the Demised Premises, and (iii) except to the extent required of Lessee by any governmental authority, no work done by Lessee shall diminish Lessor's ability to use and/or release the Demised Premises on the termination or expiration of this Lease. Lessee shall pay promptly for all such work done by it or upon its order. Lessee covenants and agrees to give Lessor written notice of any alteration which affects the roof, foundation or any other structural elements or components or the building systems, together with a copy of Lessee's plans and specifications prior to the commencement of work. Lessee shall also deliver to Lessor, upon completion of any such work, copies of any "as-built" plans obtained by Lessee in connection with such additions or alterations. Without limiting any of Lessee's other obligations with respect to alterations hereunder, in the event Lessee proposes alterations to the structure of the improvements, or to any permanent building systems (such as plumbing and/or HVAC) Lessee shall obtain Lessor's prior written approval of such alterations, which approval shall not be unreasonably withheld and will be deemed granted if not disapproved, with explanation, within two (2) weeks after submittal by Lessee to Lessor of plans for such alterations.

- 6.3. MACHINERY AND FIXTURES. In addition to the foregoing, Lessee may, at any time during the term of this Lease and at its sole cost and expense, install, assemble or place upon the Demised Premises any items of machinery or equipment, trade fixtures or other personal property used or useful in Lessee's business. All such machinery, equipment, trade fixtures or other personal property shall be and remain the property of Lessee and Lessee may remove the same from the Demised Premises at any time prior to the expiration or earlier termination of this Lease, and in the event of any such removal, Lessee shall repair any damage to the Demised Premises caused thereby, at Lessee's cost and expense.

ARTICLE 7. - DAMAGE OR DESTRUCTION

- 7.1. NOTICE TO LESSOR. If the Demised Premises or any part thereof shall be damaged or destroyed by fire or other casualty, Lessee shall promptly notify Lessor of such destruction or damage if the cost of rebuilding, replacing and repairing such damage or destruction, as estimated by Lessee, shall either exceed Twenty Five Thousand and no/100 Dollars (\$25,000.00) or affect the roof, foundation or any other structural elements or components or the building systems (such as plumbing and/or HVAC) on the Premises. Lessee expressly waives the provisions of any present or future law

relating to damage or destruction and agrees that the provisions of this Lease shall control the rights of Lessor and Lessee.

- 7.2. DAMAGE OR DESTRUCTION. If the Demised Premises shall be destroyed or damaged from any cause Lessee shall forthwith repair and restore the same to substantially the same condition existing immediately prior to said damage or destruction with all reasonable dispatch and diligence. Said restoration and repair shall include all fixtures and equipment in the Demised Premises owned by Lessee and so damaged or destroyed. So long as Lessee's net worth is Twenty Million and no/100 Dollars (\$20,000,000.00) or more and the amount of any insurance proceeds payable with respect to any such damage or destruction of the Demised Premises is less than One Million and no/100 Dollars (\$1,000,000.00), Lessee shall be entitled to receive such insurance proceeds and shall apply the same as may be required to the restoration and repair of the Demised Premises as required under this Article 7. If Lessee's net worth at the time of such damage or destruction is less than Twenty Million and no/100 Dollars (\$20,000,000.00) or if the amount of such insurance proceeds payable with respect to any such damage or destruction is One Million and no/100 Dollars (\$1,000,000.00) or more, then such insurance proceeds payable with respect to such damage or destruction shall be paid into an escrow account and such proceeds shall be disbursed to Lessee as required to pay invoices for the work or restoration and repair of the Premises. Any balance of such proceeds remaining following completion of such repair or restoration shall be disbursed to Lessee. Lessee shall comply, and shall require all its contractors to comply, with all federal, state and local laws in making any said repairs and restoration.
- 7.3. NO TERMINATION. Except as provided in Section 7.4, such destruction or damage to the Demised Premises shall not terminate this Lease, notwithstanding any laws of the state in which the Demised Premises are located to the contrary.
- 7.4. DAMAGE OR DESTRUCTION DURING THE LAST YEAR OF THE TERM. Anything in this Article 7 to the contrary notwithstanding, if the Demised Premises shall be destroyed or damaged so as to materially interfere with Lessee's business in the Premises (as reasonably determined by Lessee using its good faith business judgment) during the last 12 months of the term hereof by reason of any cause, and the Demised Premises cannot be completely restored within a period of sixty (60) working days from the date of commencement of such repairs, this Lease may be terminated upon written notice by either party to the other and any and all insurance proceeds covering the Premises shall be paid to Lessor and insurance proceeds covering Lessee's personal property and trade fixtures shall be paid to Lessee. Provided, however, that if at the time of said destruction or damage, Lessee has exercised an option to extend this Lease pursuant to Article 2 hereof, then this Lease shall not be terminable by either party but shall continue until the expiration of such Option Term and Lessee shall forthwith repair and restore the Demised Premises as required pursuant to Sections 7.2 and 7.5

hereof. Upon such termination Lessee shall be relieved from all liabilities hereunder except the liability to pay rent up to the date of such damage or destruction and any accrued charges, costs, and expenses required to be paid by Lessee hereunder up to said date and any other liabilities Lessee may have hereunder, including, without limitation, any indemnity obligations, arising prior to such termination.

- 7.5. REBUILDING OF PREMISES. If the Demised Premises shall be damaged or destroyed by any casualty during the primary term of this Lease, and this Lease is not terminated pursuant to the provisions of Section 7.4, above, then this Lease shall continue in full force and effect and Lessee shall promptly, at its cost and expense, restore and rebuild the Demised Premises as nearly as may be practicable under the circumstances to substantially the same condition existing immediately prior to said damage or destruction irrespective of the availability or sufficiency of any fire or other insurance proceeds payable with respect thereto. If the cost and expense of such repairs shall exceed the amount of any such net proceeds, the deficiency shall be paid by Lessee.
- 7.6. DESTRUCTION DURING OPTION TERMS. If any portion of the Demised Premises shall be damaged or destroyed by any casualty during any Option Term of this Lease, and the Premises cannot reasonably be expected to be completely restored within three hundred sixty five (365) days of the date of such loss, then Lessee may elect to restore or rebuild the Demised Premises in the manner set forth in Section 7.2 and 7.5 or Lessee may, within ninety (90) days after such loss or damage give to Lessor a thirty (30) day notice, in writing, cancelling and terminating the Option Term then in effect. On the expiration of said thirty (30) day notice, the Option Term shall terminate. As a condition to such termination, any and all insurance proceeds covering the Lessor's interest in the Premises shall be paid to Lessor and the insurance proceeds covering Lessee's personal property and trade fixtures shall be paid to Lessee. Upon such termination Lessee shall be relieved from all liabilities hereunder except the liability to pay rent up to the date of such damage or destruction and, subject to any insurance payment to Lessor, any accrued charges, costs, and expenses required to be paid by Lessee hereunder up to said date and all other liabilities Lessee may have hereunder, including, without limitation, any indemnity obligations, arising prior to such termination.

ARTICLE 8. - CONDEMNATION

- 8.1. CONDEMNATION AWARD. Any condemnation award arising out of a total or partial taking of the Demised Premises shall belong solely to the Lessor except for any portion of the award attributable to Lessee's leasehold interest during the Primary Term (but not during any exercised or unexercised Option Term) of this Lease, Lessee's trade fixtures, equipment or leasehold improvements made by Lessee at its expense. In addition, Lessee shall have the right to claim

any compensation as may be separately awarded or receivable by Lessee in Lessee's own right on account of its relocation expenses, loss of goodwill, any cost or loss Lessee may suffer for the removal of its merchandise, furniture, trade fixtures or equipment, or the interruption of, or damage to Lessee's business.

8.2. TOTAL OR SUBSTANTIAL TAKING. If during the Primary Term of this Lease:

8.2.1. the entire Demised Premises shall be taken by condemnation or other eminent domain proceedings pursuant to any law, general or special, or

8.2.2. any substantial portion of the Demised Premises which is sufficient in Lessee's reasonable and good faith judgment to render the remaining portion thereof unsuitable for Lessee's continued use or occupancy of the Demised Premises shall be taken by such proceedings, then Lessee may, within thirty (30) days after any such taking, give notice to Lessor of its intention to terminate this Lease on any rental payment day specified in such notice which occurs not less than ninety (90) days after such notice.

8.3. PARTIAL TAKING. If a portion of the Demised Premises shall be taken by condemnation or other eminent domain proceedings pursuant to any law, general or special, which taking is not sufficient to require Lessee to give notice of its intention to terminate this Lease as provided in Section 8.2, then this Lease shall continue in full effect without abatement or reduction of rent (except as provided hereinafter in this Section 8.3), additional rent or other sums payable by Lessee hereunder notwithstanding such taking, and Lessee shall, promptly after any such taking and at its expense, repair any damage caused by any such taking in conformity with the requirements of Section 7.2 so that after the completion of such repairs the Demised Premises shall be, as nearly as practicable in a condition as good as the condition thereof immediately prior to such taking. In the event of any such taking by condemnation or other eminent domain proceedings, Lessee shall be entitled to receive all of the award payable in connection with such taking. If the cost of any repairs required to be made by Lessee pursuant to this Section 8.3, shall exceed the amount of the award, the deficiency shall be paid by Lessee. Subject to Lessee's rights to receive all awards for reconstruction of the improvements, any award granted and allocated to Lessor's interest in the Demised Premises shall be paid to Lessor and Lessee shall be entitled to an equitable abatement of rent based upon the extent of the Premises taken and the adverse effect on Lessee's ability to use and enjoy the Premises following such taking.

8.4. CONDEMNATION DURING OPTION TERMS. Not Used.

8.5. TAKING DEFINED. For the purposes of this Lease, all amounts payable pursuant to any agreement with any condemning authority which has been made in settlement of or under threat of any

condemnation or other eminent domain proceeding affecting the Demised Premises shall be deemed to constitute an award made in such proceeding.

ARTICLE 9. - INSURANCE

9.1. NATURE OF INSURANCE. Lessee will at all times maintain insurance on the Demised Premises of the following character:

9.1.1. Insurance against loss or damage by fire and other risks from time to time included under so-called "all-risk", including extended coverage endorsements and boiler and machinery comprehensive coverage, standard for use in the State of California, and also including earthquake and flood coverage, in amounts equal to the full replacement value of the Demised Premises, reviewed annually. As used herein, "full replacement value" shall mean actual replacement cost (exclusive of the cost of excavation, foundations and subsurface footing) without deduction for physical depreciation. Notwithstanding anything to the contrary contained in this Article 9, in the event Lessee's net worth is at any time less than Twenty Million and no/100 Dollars (\$20,000,000.00), Lessee shall provide for the insurance required pursuant to this Section 9.1.1 to have a deductible for earthquake coverage of no greater than twelve and 5/100 percent (12.5%) of the value of the property required to be insured and for all other insurance required hereunder, a deductible of no greater than Seventy Five Thousand and no/100 Dollars (\$75,000.00) per occurrence. So long as Lessee's net worth exceeds Twenty Million and no/100 Dollars (\$20,000,000.00), any deductible amounts shall be subject to the self-insurance limits set forth in section 9.1.3, hereinafter. In the event this Lease is terminated pursuant to the provisions of Sections 7.4 or 7.6, above, Lessee's obligation to pay insurance proceeds to Lessor shall include the amounts of any deductible and/or any self-insured retention amounts.

9.1.2. Commercial general liability insurance against claims for bodily injury, death or property damage occurring on, in or about the Demised Premises and the adjoining streets, sidewalks and passageways, such insurance to afford protection of not less than a combined single limit liability of Five Million and no/100 Dollars (\$5,000,000.00), providing coverage for, among other things, blanket contractual liability, premises and personal injury coverage, with the deletion of railroad track (railroad protective liability), if applicable, and the exclusion for explosion, collapse or underground hazard, if applicable. In no event shall the liability amount be less than Five Million and no/100 Dollars (\$5,000,000.00). Said minimum limit of liability shall be subject to periodic adjustment (but no more frequently than once every five years), so as to conform with standard industry practice for similar properties in similar geographic locations. Any such adjustment must be reasonably approved by Lessee and documented by written amendment to this Lease.

9.1.3. Such insurance shall be written by companies licensed to do business in the State of California and with a general policy holder's rating of at least B+ and a financial rating of at least X in the most current "Best Insurance Report" (or its equivalent replacement should such report cease to be issued) or as otherwise reasonably approved by Lessor, as available on the Commencement Date and annually thereafter. Such insurance shall (i) name as the insured parties thereunder Lessee, the Lessor and Bristol Group, Inc., as their interests may appear; (ii) shall contain an endorsement that such insurance shall remain in full force and effect notwithstanding that the insured may have waived its right of action against any party prior to the occurrence of a loss; (iii) shall, to the extent commercially available, contain an endorsement prohibiting cancellation, failure to renew, reduction of amount of insurance or change in coverage without the insurer's first giving Lessor thirty (30) days prior written notice of such proposed action; (iv) provide that any insurer issuing liability insurance waives all rights of recovery by way of subrogation against Lessor or Lessee, as the case may be, and their respective shareholders, partners, beneficial owners, agents, employees and representatives in connection with any loss or damage covered by such insurance; (v) be primary and non contributory, and (vi) comply with any other requirements set forth in this Article 9. Such insurance may be obtained by Lessee by endorsement on its blanket insurance policies, provided that such blanket policies satisfy the requirements specified above in this Section. Lessee may carry all or any part of such insurance:

- a. (i) under any plan of self-insurance which it may from time to time have in force and effect, with a self-insured retention of up to Five Hundred Thousand and no/100 Dollars (\$500,000.00) (except any earthquake deductible may be up to twelve and 5/100 percent (12.5%) of the value of the property required to be insured) so long as Lessee's net worth exceeds Twenty Million and no/100 Dollars (\$20,000,000.00) (which self-insured retention may be increased by Lessee to Seven Hundred Fifty Thousand and no/100 Dollars (\$750,000.00) so long as Lessee's net worth exceeds Thirty Five Million and no/100 Dollars (\$35,000,000.00) and to One Million and no/100 Dollars (\$1,000,000.00) so long as Lessee's net worth exceeds Fifty Million and no/100 Dollars (\$50,000,000.00), provided that in no event shall Lessee's self insured retention exceed the sum of One Million and no/100 Dollars (\$1,000,000.00), or (ii) under a "blanket" policy or policies covering other liabilities of Lessee and its subsidiaries, controlling or affiliated corporations, or
- b. partly under such a plan of self-insurance and partly under such "blanket" policies.

Lessor shall not be required to prosecute any claim against any insurer or to contest any settlement proposed by any insurer, provided that Lessee may, at its cost and expense, prosecute any such claim or contest any such settlement, and in such event Lessee may bring any such prosecution or contest in the name of Lessor, Lessee or both, and Lessor shall cooperate with Lessee and will join therein at Lessee's written request upon receipt by Lessor of an indemnity from Lessee against all costs, liabilities and expenses in connection with such cooperation, prosecution or contest.

- 9.2. ADJUSTMENT OF CLAIMS. Insurance claims by reason of damage or destruction to any portion of any Demised Premises shall be adjusted by and at the cost of Lessee, provided, however, that if the loss shall be in excess of One Hundred Thousand and no/100 Dollars (\$100,000.00), no final adjustment shall be made with the insurance company or companies, without the written approval of Lessor of the amount of the adjustment.
- 9.3. ENDORSEMENT IN FAVOR OF LENDER. Upon thirty (30) days advance written notice from Lessor, each such insurance policy (other than liability insurance policies) maintained pursuant to this Section shall, to the extent available, bear a standard first mortgagee endorsement in favor of any lender holding a first deed of trust on the Demised Premises (hereinafter called "Lender"), but, notwithstanding such endorsement, each payment for a single loss which does not exceed One Hundred Thousand and no/100 Dollars (\$100,000.00) shall be made directly to Lessee, and all other loss under any such policy shall be made payable to Lender, but recoveries under any such policies received by Lender shall be paid to Lessee for the repair and restoration of the Demised Premises as provided in Sections 7.2 or 7.4 of this Lease. Every such policy shall provide that the issuer thereof waives all rights of subrogation against Lessee, Lessor, any successor to Lessor's interest in the Demised Premises, that ten (10) days' prior written notice of cancellation shall be given to Lessor and Lender and that such insurance, as to the interest of Lender therein, shall not be invalidated by any act or neglect of Lessor or Lessee or any owner of the Demised Premises, nor by any foreclosure or any other proceedings or notices thereof relating to the Demised Premises, nor by any change in the title or ownership of the Demised Premises, nor by occupancy of the Demised Premises for purposes more hazardous than are permitted by such policy.
- 9.4. CERTIFICATES OF INSURANCE. Lessee shall deliver to Lessor promptly after the execution and delivery of this Lease certificates of insurance evidencing all the insurance which is required to be maintained by Lessee hereunder, and Lessee shall, at least thirty (30) days prior to the expiration of any such insurance, deliver certificates of insurance evidencing the renewal of such insurance. Should Lessee fail to maintain or renew any insurance provided for in this Section, or to deliver to Lessor any of such policies or certificates, Lessor at its option, but without obligation so to

do, may upon fifteen (15) days' notice to Lessee, procure such insurance, and any sums expended by it to procure such insurance shall be additional rent hereunder and shall be repaid by Lessee within ten (10) days following the date on which demand therefor shall be made by Lessor.

ARTICLE 10. - INDEMNIFICATION

10.1. Lessee agrees to indemnify, defend and hold Lessor harmless from and against, any and all liabilities, losses, damages, costs, expenses (including attorneys' fees and expenses of Lessee and Lessor), causes of action, suits, claims, demands or judgments of any nature arising from:

10.1.1. any injury to, or the death of, any person or any damage to property on the Demised Premises or upon adjoining sidewalks or streets, or in any manner growing out of or connected with the use, nonuse, condition or occupancy of the Demised Premises or the construction or repair of any improvements on the Demised Premises, or resulting from the condition of adjoining sidewalks or streets,

10.1.2. violation of any agreement or condition of this Lease and of any contracts or agreements of which Lessee has notice, or which shall have existed at the commencement of this Lease or which shall have been approved by Lessee, and of any restrictions, laws, ordinances or regulations affecting the Demised Premises or the occupancy or use thereof,

10.1.3. any encroachment of improvements on the Demised Premises upon property adjoining the Demised Premises, and

10.1.4. any contest permitted by Section 12.2.

ARTICLE 11. - LIENS

11.1. Lessee will not permit to remain, and will promptly discharge, at its cost and expense, all liens (other than liens created by Lessor) upon the Demised Premises; provided that the existence of any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right thereto shall not constitute a violation of this Section if payment is not yet due under the contract which is the foundation thereof. Lessor is hereby given authority to enter upon the Demised Premises at any time to post any notices which in its opinion shall be necessary to hold Lessor harmless from any claim or liability arising out of any work done on the Demised Premises. Notice is hereby given that Lessor will not be liable for any labor, services or materials furnished or to be furnished to Lessee, or to anyone holding the Demised Premises through or under Lessee, and that no mechanic's or other such lien for any such labor or materials shall attach to or affect the interest of Lessor in and to the Demised Premises.

ARTICLE 12. - ADVANCES BY LESSOR: PERMITTED CONTESTS

- 12.1. ADVANCES. If Lessee shall fail to make any payment or perform any act on its part to be made or performed under this Lease, then, subject to the provisions of Section 12.2 hereof, Lessor may (but shall not be obligated to), upon fifteen (15) days written notice to Lessee and without waiving any default or releasing Lessee from any obligation, make such payment or perform such act for the account and at the cost and expense of Lessee. All sums so paid by Lessor and all necessary and incidental costs and expenses (including attorneys' fees and expenses) incurred in connection therewith, together with interest at the rate of twelve percent (12%) per annum from the date of the making of such payment by Lessor, shall be payable by Lessee to Lessor, on demand.
- 12.2. PERMITTED CONTESTS. Lessee shall not be required to pay any tax, assessment, levy, fee, rent or charge or to discharge or remove any lien, encumbrance or charge or to comply with any law, rule, order, regulation and ordinance, so long as Lessee shall contest, in good faith and at its cost and expense, the amount or validity thereof, by appropriate proceedings which shall operate during the pendency thereof to prevent the sale, forfeiture or loss of the Demised Premises or any part thereof. While any such proceedings are pending, Lessor shall not have the right to pay, remove, cause to be discharged or comply with the tax, assessment, levy, fee, rent, charge, lien, encumbrance, law, rule, order, regulation or ordinance being contested. Each such contest shall be promptly prosecuted to a final conclusion, and Lessee will pay, and save Lessor harmless against all losses, judgments and costs (including attorneys' fees and expenses) in connection therewith, and will, promptly after the final determination of such contest, pay and discharge the amounts which shall be levied, assessed or imposed or determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or in connection therewith. No such contest shall subject Lessor to risk of any criminal liability, and Lessee shall give reasonable security to Lessor as may be demanded by Lessor to insure payment of or compliance with any tax, assessment, levy, fee, rent, charge, lien, encumbrance, law, rule, order, regulation or ordinance contested as provided in this Section and to prevent any such sale or forfeiture.

ARTICLE 13. - CONDITIONAL LIMITATIONS; EVENTS OF DEFAULT AND REMEDIES

- 13.1 DEFAULT. Any of the following occurrences, following the below described notices and opportunities to cure, shall constitute an event of default ("Event of Default") under this Lease:
- 13.1.1. if Lessee shall:
- a. fail to make any payment of rent, or other sum herein required to be paid by Lessee and such failure shall continue for ten (10) days after Lessor shall have given written notice of such non-payment to Lessee, or

- b. fail to substantially perform any of Lessee's other covenants, agreements or obligations hereunder and such failure shall continue for thirty (30) days after Lessor shall have given written notice to Lessee specifying such failure or, if such default cannot be cured by the payment of money and cannot with due diligence be cured within such thirty (30) day period, if Lessee shall fail to proceed promptly to cure the same and thereafter prosecute the curing of such default with diligence, or

13.1.2. if Lessee shall file a petition in bankruptcy or for reorganization or for an arrangement pursuant to any present or future federal bankruptcy act or under any similar federal or state law, or shall be adjudicated a bankrupt or insolvent or shall make an assignment for the benefit of its creditors or shall admit in writing its inability to pay its debts generally as they become due, or if a petition or answer proposing the adjudication of Lessee as a bankrupt or its reorganization under any present or future federal bankruptcy act or any similar federal or state law shall be filed in any court and such petition or answer shall not be discharged or denied within ninety (90) days after the filing thereof, or

13.1.3. if Lessee shall make a general assignment for the benefit of creditors or if a receiver, trustee or liquidator of Lessee or of all or substantially all of Lessee's assets or of Lessee's interest in the Demised Premises shall be appointed in any proceeding brought by Lessee, or if any such receiver, trustee or liquidator shall be appointed in any proceeding brought against Lessee and shall not be discharged within ninety (90) days after such appointment or if Lessee shall consent to or acquiesce in such appointment.

13.1.4. If Lessee shall furnish financial statements to Lessor that are known to Lessee to be false or misleading.

- 13.2. LESSOR'S OPTION TO TERMINATE. In the event of a default of Lessee, Lessor shall have the right, at its election, then or thereafter while any such event of default shall continue and notwithstanding the fact that Lessor may have some other remedy hereunder or at law or in equity, to give Lessee written notice of Lessor's intention to terminate the term of this Lease on a date specified in such notice, which shall be not less than thirty (30) days after the giving of such notice, and upon the date so specified, the term of this Lease and the estate hereby granted shall expire and terminate and all rights of Lessee hereunder shall expire and terminate. In lieu of terminating this Lease, Lessor may elect to continue this Lease, in which event Lessor shall have the immediate right of re-entry and possession of the Demised Premises and the right to remove all persons and property therefrom. Should Lessor elect to re-enter as herein provided or should Lessor take possession pursuant to legal proceedings or pursuant to any notice provided for by law, Lessor may from time to time re-let the Demised Premises or any part thereof for such term or terms and at such rental or rentals and

upon such terms and conditions as Lessor may deem advisable, with the right to make repairs and alterations to the Demised Premises.

13.3. RECOVERY OF DAMAGE; TERMINATION OF LEASE. In the event of any termination of the term of this Lease as provided in this Article Lessee shall quit and surrender the Demised Premises to Lessor, and Lessor may without further notice re-enter and repossess the same by summary proceedings, ejectment or otherwise, and in any such event neither Lessee nor any person, claiming through or under Lessee shall be entitled to possession or to remain in possession of the Demised Premises but shall forthwith quit and surrender the Demised Premises. Upon such termination, Lessor may recover from Lessee: (a) the worth at the time of award of the unpaid rent which had been earned at the time of termination; (b) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided; (c) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided; and (d) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom. The "worth at the time of award" of the amounts referred to in (a) and (b) above is computed by allowing interest at an annual interest rate of ten percent (10%). The "worth at the time of award" of the amount referred to in (c) above is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Nothing herein contained shall limit or prejudice the right of Lessor, in any bankruptcy or reorganization or insolvency proceeding, to prove for and obtain by reason of such termination an amount to the maximum allowed by any bankruptcy or reorganization or insolvency proceedings, or to prove for and obtain by reason of such termination, an amount equal to the maximum allowed by any statute or rule of law whether such amount shall be greater or less than the excess referred to above. In the event that Lessee, prior to the occurrence of an Event of Default hereunder, exercises an option to extend the term of this Lease pursuant to Section 2.2 and at the time of commencement of the Option Term an Event of Default exists hereunder but not an Event of Default giving Lessor the right to terminate the option and cancel Lessee's exercise thereof pursuant to Section 2.2, then, for purposes of the preceding clause (d) of this Section 13.3, Lessor shall be entitled to recover from Lessee any consequential damages arising out of or in connection with Lessor's inability to terminate such option and recover possession of the Demised Premises at the expiration of the Primary Term or any then-existing Option Term, as the case may be.

13.4. EXPENSES OF LESSOR; CONTINUATION OF LEASE. If Lessor shall re-enter and obtain possession of the Demised Premises following an event of default, and elect to continue this Lease, Lessor shall

have the right, without notice, to repair or alter the Demised Premises in such manner as Lessor deems necessary or advisable so as to put the Demised Premises in good order and to make the same rentable, and shall have the right, at Lessor's option, to re-let the Demised Premises or any part thereof. Lessee agrees to pay to Lessor on demand all expenses incurred by Lessor in obtaining possession, and in altering, repairing and putting the Demised Premises in good order and condition, and in reletting the same, including fees of attorneys and architects, and all other reasonable expenses or commissions, and Lessee further agrees to pay to Lessor upon the rental payment dates following the date of such re-entry until the expiration of the term of this Lease the sums of money which would have been payable by Lessee as rent hereunder on said rental payment dates if Lessor had not re-entered and resumed possession of the Demised Premises deducting only the net amount of rent, if any, which Lessor shall actually receive (after deducting from the gross receipts the expenses, costs and payments of Lessor which in accordance with the terms of this Lease would have been borne by Lessee) in the meantime from and by any reletting of the Demised Premises. In addition, Lessee shall remain liable for all sums otherwise payable by Lessee under this Lease, and Lessor shall have the right from time to time to bring successive actions or other legal proceedings against Lessee for the recovery of such deficiency or expenses. The liability of Lessee herein provided shall survive the commencement of any action to secure possession of the Demised Premises. Nothing herein contained shall be deemed to require Lessor to wait to commence such action or other legal proceedings until the date when this Lease would have expired had there been no such event of default.

13.5. ADDITIONAL RIGHTS OF LESSOR. No right or remedy herein conferred upon or reserved to Lessor is intended to be exclusive of any right or remedy, and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law unless otherwise provided herein. The failure of Lessor to insist at any time upon the strict performance of any covenant or agreement or to exercise any right, power or remedy contained in this Lease shall not be construed as a waiver or relinquishment thereof for the future. The receipt by Lessor of any rent or other sum payable hereunder with knowledge of the breach of any covenant or agreement contained in this Lease shall not be deemed a waiver of such breach, and no waiver by Lessor of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Lessor. Lessor shall be entitled, to the extent permitted by law, to injunctive relief in case of the violation, or threatened violation, of any covenant, agreement, condition or provision of this Lease or to any other remedy allowed to Lessor by law.

13.6. ATTORNEYS' FEES AND OTHER EXPENSES. If Lessee shall be in default in the performance of any of its obligations under this Lease and an action shall be brought for the enforcement thereof in which it shall be determined that Lessee was in default, Lessee shall pay to

Lessor the expenses incurred in connection therewith including reasonable attorneys' fees. If Lessor shall without fault on its part be made a party to any litigation commenced against Lessee, and if Lessee shall not provide Lessor with counsel reasonably satisfactory to Lessor, Lessee shall pay all costs and attorneys' fees incurred or paid by Lessor in connection with such litigation. Lessor and lessee agree to cooperate with each other in a timely manner on the selection of counsel to represent Lessor.

ARTICLE 14. ASSIGNMENT AND SUBLETTING

- 14.1. Subject to the provisions of Section 2.2, above, relating to the option terms of this Lease being personal to Lessee and subject to the provisions of Section 4.1, above, relating to the restrictions on the use of the Demised Premises, Lessee may sublet up to eighty percent (80%) of the Demised Premises or any part thereof, or may assign its interest under this Lease, provided that each assignment or sublease shall expressly be made subject to the provisions of this Lease and further provided that Lessee shall remain primarily liable under the terms of this Lease. No assignment or sublease made as permitted by this Section shall affect or reduce any obligations of Lessee or rights of Lessor hereunder. Any assignment or subletting of the Premises during or for any Option Term shall be subject to the provisions of Section 14.3, hereinafter.
- 14.2. Notwithstanding the foregoing, and notwithstanding the provisions and restrictions with respect to options as set for in Section 2.2, above, Lessee may freely assign, sublease or transfer this Lease (i) to any corporation which owns or controls Lessee, (ii) to any corporation owned or controlled by Lessee, (iii) to any corporation owned or controlled by, or which is an Affiliate of any corporation which owns or controls Lessee, (iv) to any corporation resulting from a consolidation or to the surviving corporation in case of a merger, to which consolidation or merger Lessee shall be a party, or (v) to a corporation to which all or substantially all of the assets of Lessee have been sold (any such entity referred to in (i) through (v) above being herein referred to as an "Affiliate").
- 14.3. If, during any Option Term Lessee desires to assign the Lease Lessee shall give Lessor written notice of such intent, accompanied by the identity of the proposed assignee and such other information as lessor may reasonably request and which is in the possession of Lessee. Lessor shall then have a period of twenty (20) days following receipt of such notice and information within which to notify Lessee in writing that Lessor elects either (i) to terminate this Lease as of the date specified by Lessee in the information provided to Lessor, in which event Lessee shall be relieved of all liabilities hereunder except the liability to pay rent up to the date of such termination and any accrued charges, costs and expenses required to be paid by Lessee hereunder up to the date of such termination, and any other liabilities Lessee may have hereunder, including, without limitation, any indemnity obligations arising prior to such termination, or (ii) to permit such assignment, which

permission shall not be unreasonably withheld. In the event Lessee sublets the Premises for occupancy during an Option Term and such sublet provides for a rental stream in excess of that payable by Lessor to Lessee hereunder, than seventy five percent (75%) of such "profits" (being defined as all income received by Lessee from a subtenant in excess of remodel, brokerage and other similar costs incurred in connection with the transaction) shall be payable to Lessor and the remaining twenty five percent (25%) shall be paid to Lessee. In the event Lessee sublets the Premises for occupancy during an Option Term and such sublet covers fifty one percent (51%) or more of the Demised Premises, such sublet shall be deemed an assignment for purposes of this Section 14.3 and subject to Lessor's right to either permit the subletting or terminate this Lease. The provisions of this Section 14.3 shall not apply in connection with any subletting by Lessee (i) to any corporation which owns or controls Lessee, (ii) to any corporation owned or controlled by Lessee, (iii) to any corporation owned or controlled by or affiliated with any corporation which owns or controls Lessee, (iv) to any corporation resulting from a consolidation or to the surviving corporation in case of a merger, to which consolidation or merger Lessee shall be a party, or (v) to a corporation to which all or substantially all of the assets of Lessee have been sold (any such entity referred to in (i) through (v) above being herein referred to as an "Affiliate").

ARTICLE 15. - MISCELLANEOUS PROVISIONS

15.1. SUBORDINATION. In the event the Demised Premises are subject to one or more mortgages or deeds of trust, Lessor agrees to deliver to Lessee on or before the commencement of the term of this Lease a Non-Disturbance, Attornment and Subordination Agreement executed by each such mortgagee or holder of said deed of trust in the form attached hereto as Exhibit C. If Lessor fails to deliver said Agreement to Lessee prior to the commencement of the term hereof, Lessee may, at its option, defer the payment of any and all rental due hereunder until said Agreement is delivered to Lessee. During such period of deferral, said rental shall accrue without interest. Lessee shall pay such accrued rent in full to Lessor within fifteen (15) days after Lessee's receipt of said Agreement in recordable form fully executed by each such Beneficiary.

15.1.1. Lessee covenants that it will execute an agreement subordinating this Lease to any mortgage or deed of trust subsequently placed upon the Demised Premises in either the form attached hereto as Exhibit C or in such other form as may be requested by Lessor's mortgagee provided such other form in no way increases Lessee's liabilities or obligations hereunder or diminishes Lessee's rights hereunder. Lessor covenants that it will execute an agreement setting forth certain information regarding this Lease, as well as acknowledging certain rights of Lessee and any lender of Lessee, in the form attached hereto as Exhibit D.

15.1.2. From time to time (but not more than twice in any calendar year) upon not less than thirty (30) days prior written notice which shall be accompanied by a form of estoppel statement, each party shall execute, acknowledge and deliver to the other a statement in writing:

- a. certifying that this Lease is unmodified (except for any amendments specifically stated) and in full force and effect (or, if modified, that the same is in full force and effect as modified),
- b. setting forth the date of termination of the term of this Lease and the status of the exercise of any Option Terms,
- c. setting forth the then currently scheduled monthly rent payable under the Lease and the date to or through which rent has been paid,
- d. acknowledging that there are not, to such party's knowledge, any uncured defaults on the part of the other hereunder, or specifying such defaults if any are claimed, and
- e. acknowledging that such party has no claims or offsets against the other party, or specifying such claims or offsets if any are claimed.

In addition to the foregoing, Lessee covenants and agrees to use good faith efforts to cooperate with Lessor in providing any additional information relating to the status of the Lease reasonably requested in connection with such estoppel. Any such estoppel statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Demised Premises are a part.

15.2. NO MERGER. There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in the Demised Premises or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, all or part of such fee estate and this Lease or the leasehold estate hereby created or any interest in this Lease, and this Lease shall not be terminated for any cause except as expressly provided in this Lease.

15.3. SURRENDER. Upon the expiration or earlier termination of this Lease, Lessee shall surrender the Demised Premises to Lessor in the same condition in which the Demised Premises was originally received from Lessor except as repaired, rebuilt, restored, altered or added to, as permitted by any provision of this Lease, and except for ordinary wear, tear or obsolescence. Lessee shall remove from the Demised Premises on or prior to such expiration or earlier termination all property situated thereon which is not owned by Lessor, and at its cost and expense shall repair any damage caused by such removal. Property not so removed shall become the property

of Lessor, and Lessor may thereafter cause such property to be removed from the Demised Premises and disposed of, but the cost of any such removal and disposition as well as the cost of repairing any damage caused by such removal shall be borne by Lessee.

15.4. BINDING EFFECT. This Lease may not be changed, modified or discharged except by a writing signed by Lessor and Lessee. All covenants, conditions and obligations contained in this Lease shall be binding upon and inure to the benefit of the respective successors and assigns of Lessor and Lessee to the same extent as if each successor and assign were named as a party to this Lease.

15.5. HEADINGS. The headings contained in this Lease have been inserted for convenience only and shall not have the effect of modifying, amending or changing the express terms and provisions of this Lease.

15.6. SUCCESSORS AND ASSIGNS. The covenants and conditions herein contained shall, subject to the provisions of Article 14 of this Lease, apply to and bind the heirs, successors, executors, administrators and assigns of all the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

15.7. NOTICES. All notices and demands of any kind which either party may be required or desire to make or serve upon the other party shall be made in writing and sent by certified or registered mail, return receipt requested, to the following addresses, which notices shall be deemed effective on either receipt or refusal of acceptance:

To Lessor: State of Wisconsin Investment Board
c/o Bristol Group, Inc.
400 Montgomery Street
San Francisco, California 94104
Attn: Jeffrey S. Kott

Copy to: State of Wisconsin Investment Board
Post Office Box 7842
Madison, Wisconsin 53707
Attention: Director of Real Estate

To Lessee: United Merchandising Corp.
2525 E. El Segundo Boulevard
El Segundo, California 90245
Attention: President or Secretary

or to such other addresses as each party may from time to time request in writing as provided by the notice requirements set forth in this Section. From and after the date five (5) years from the commencement of the term of this Lease notices may also, or in lieu of the preceding requirement, be sent via overnight courier. Until Lessee receives written notice to the contrary from Lessor, rental payments hereunder shall be made payable to Bristol Group, Inc., at the address for Lessor set forth above.

- 15.8. LOCAL LAW TO APPLY. This Lease is governed by the law of the State of California and any question arising hereunder shall be construed or determined according to such law.
- 15.9. TIME IS OF THE ESSENCE. Time is of the essence of this Lease.
- 15.10. No Waiver. No delay or omission in the exercise of any right or remedy of Lessor on any default by Lessee shall impair such right or remedy or be construed as a waiver.

No act or conduct of Lessor, including, without limitation, the acceptance of the keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Lessee before the expiration date of the Term. Only a notice from Lessor to Lessee shall constitute acceptance of the surrender of the Premises and accomplish a termination of the Lease.

Lessor's consent to or approval of any act by Lessee requiring Lessor's consent or approval shall not be deemed to waive or render unnecessary Lessor's consent to or approval of any subsequent act by Lessee.

- 15.11. LIABILITY OF LESSOR AND RELEASE. In the event of any sale of the Demised Premises by Lessor, Lessor shall be and is hereby entirely freed and relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease arising out of any act, occurrence or omission occurring after the consummation of such sale. Lessor agrees to deliver to Lessee an agreement signed by any person or persons who may purchase all of any part of Lessor's interest in the Demised Premises, which agreement shall formally recognize and accept all of Lessor's obligations, responsibilities and duties hereunder occurring from and after the date of the sale. Lessor's liability hereunder, including any liability of Lessor prior to any transfer of the Premises, shall be limited to Lessor's interest in the Premises, not to exceed Ten Million and no/100 Dollars (\$10,000,000.00), including, without limitation, any and all income produced therefrom and the proceeds of any sale and the proceeds of any insurance policies which cover all or any of the Premises up to, but not in excess of Ten Million and no/100 Dollars (\$10,000,000.00). At no time shall Lessor, nor any trustee, officer, director, shareholder, partner, agent, representative or holder of any beneficial interest in Lessor have or incur any personal liability whatsoever with respect to this Lease.
- 15.12. FINANCIAL STATEMENTS. Lessee will, upon request of Lessor (but not more frequently than once per annum), provide its most current audited financial statements to Lessor prepared under generally accepted accounting principles consistently applied and signed by either an officer of Lessee or by a representative of a nationally accepted accounting firm.

- 15.13. LATE CHARGE. If Lessee fails to pay any rent or additional charges when due, and such failure occurs more than one time in any calendar year, then, if for any subsequent late payments during such calendar year, such unpaid amounts shall be subject to a late payment charge equal to five percent (5%) of the unpaid amounts in each instance. The late payment charge has been agreed upon by Lessor and Lessee, after negotiation, as liquidated damages and a reasonable estimate of the additional administrative costs and detriment that will be incurred by Lessor as a result of any such failure to pay by Lessee, the actual costs thereof being extremely difficult if not impossible to determine.
- 15.14. LESSOR'S RIGHT TO PERFORM AND RIGHT TO ENTER. In connection with Lessor's right to enter the Premises to determine whether Lessee is complying with its obligations under Section 4.5, Lessor shall have the right to inspect the Premises, upon reasonable prior notice to Lessee and provided such inspection can be completed without interference to Lessee's use and enjoyment of the Premises. Lessor reserves for itself and its agents the right to enter the Demised Premises at all reasonable times, and upon reasonable prior notice to Lessee, to inspect the Demised Premises, to show the Demised Premises to prospective purchasers, mortgagees, beneficiaries, to post notices of non-responsibility, to determine whether Lessee is complying with its obligations under this Lease, and to perform any obligations, if any, required hereunder on the part of Lessor. Lessee hereby waives any claim for damages for any injury or inconvenience to or interference with Lessee's business, any loss of occupancy or quiet enjoyment of the Demised Premises, any right to abatement of rental or additional charges, or any other loss occasioned by Lessor's exercise of any of its rights under this Section 15.15 provided Lessor shall act diligently and use its best efforts to minimize any interferences with, or interruption of, Lessee's business.
- 15.15. LESSEE'S QUITCLAIM. upon Lessee's receipt of the written request of Lessor after the expiration of the Lease and any extensions thereof, or upon the earlier termination thereof as provided herein, Lessee shall execute in recordable form and deliver to Lessor a quitclaim deed in favor of Lessor conveying all of Lessee's right, title and interest in and to the Demised Premises as defined herein.
- 15.16. INVALIDITY. In the event that any provision of this Lease shall be held invalid, void, illegal or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, impair or invalidate the remaining provisions of this Lease which shall remain in full force and effect.
- 15.17. HOLD OVER. Should Lessee hold over the Demised Premises, or any part thereof, after the expiration or earlier termination of the term of this Lease, unless otherwise agreed to in writing, such holding over shall constitute and be construed as a tenancy from month to month only, cancellable upon thirty (30) days written

notice. All obligations and duties imposed by this Lease upon Lessor and Lessee shall remain the same during any such period of occupancy, with the exception that the minimum rent for such hold over tenancy shall be increased to one hundred fifty percent (150%) of the minimum rent during the last year of the term or extended term hereof. Acceptance of rental by Lessor shall not result in a renewal of this Lease. If Lessee fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Lessor, Lessee shall be liable for losses directly incurred by Lessor in connection with such holding over.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Lease as of the day and year first above written.

State of Wisconsin Investment Board,
an independent agency of the
State of Wisconsin

By /s/ Patricia Lipton

Patricia Lipton
Title: Executive Director

UNITED MERCHANDISING CORP.,
a California corporation

By Steven G. Mills

President

By Kathleen Reid Seidner

Secretary

Lessee

Big 5, Fontana, CA
2-12-96 (8)

Exhibit A

Legal Description

PARCEL NO. A:

THE NORTH 208 FEET OF THE WEST 208 FEET OF LOT 8 OF ARROWHEAD VINEYARD TRACT NO. 1, IN THE CITY OF FONTANA, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, AS PER PLAT RECORDED IN BOOK 16 OF MAPS, PAGE 69, RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF REDWOOD AVENUE (MC GUIRE AVENUE) ABANDONED BY RESOLUTION NO. 90-210 OF THE CITY COUNCIL OF FONTANA, RECORDED NOVEMBER 5, 1990, INSTRUMENT NO. 90-443227, OFFICIAL RECORDS, DESCRIBED AS FOLLOWS:

BEING A PORTION OF REDWOOD AVENUE, FORMERLY KNOWN AS COLORADO AVENUE, OF ARROWHEAD VINEYARD TRACT NO. 1, IN THE CITY OF FONTANA, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, AS PER PLAT RECORDED IN BOOK 16 OF MAPS, PAGES 69, RECORDS OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE WEST LINE OF LOT 8 OF SAID TRACT, WHICH BEARS SOUTH 00 DEG. 15' 57" WEST, 46.93 FEET FROM THE NORTHWEST CORNER OF SAID LOT; THENCE SOUTH 00 DEG. 15' 57" WEST, 110.65 FEET ALONG SAID WEST LINE TO A POINT ON A NON-TANGENT CURVE CONCAVE EASTERLY AND HAVING A RADIUS OF 368.00 FEET, A RADIAL LINE OF SAID CURVE THROUGH SAID POINT BEARS SOUTH 82 DEG. 56' 41" WEST, THENCE NORTHERLY 47.02 FEET ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 7 DEG. 19' 16" TO A LINE THAT IS PARALLEL WITH AND 3.00 FEET WEST OF THE WEST LINE OF SAID LOT; THENCE NORTH 00 DEG. 15' 57" EAST, 60.74 FEET ALONG SAID PARALLEL LINE; THENCE NORTH 45 DEG. 10' 12" EAST, 4.25 FEET TO THE POINT OF BEGINNING.

PARCEL NO. B:

LOT 13, TRACT NO. 13596, IN THE CITY OF FONTANA, COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, AS PER PLAT RECORDED IN BOOK 212 OF MAPS, PAGES 99 THROUGH 105, INCLUSIVE, RECORDS OF SAID COUNTY, AND AS AMENDED BY CERTIFICATE OF CORRECTION RECORDED OCTOBER 31, 1990, INSTRUMENT NO. 90-435126, OFFICIAL RECORDS.

[PLAN DRAWING]

EXHIBIT B

Big 5, Fontana, CA
12-28-95 (1)

Recorded at the request of
UNITED MERCHANDISING CORP., and
to be mailed after recording to:

United Merchandising Corp.
Attn.: W. Huff
Legal Department
P.O. Box 92088
Los Angeles, California 90009

EXHIBIT C

NON-DISTURBANCE, ATTORNMEN
T
AND SUBORDINATION AGREEMENT

United Merchandising Corp., a California corporation, ("Lessee") has entered into a lease (the "Lease") dated March 5, 1996, with

("Lessor") of the premises commonly known as , and more particularly described in Exhibit A attached hereto (the "Demised Premises").

("Beneficiary") is the holder of the beneficial interest under a Deed of Trust dated _____, recorded in the Official Records in the County of , State of _____ as Instrument No. _____ in Book No. _____ Page _____ on _____ on said Demised Premises (the "Deed of Trust"). Lessee and Beneficiary desire hereby to establish certain rights, safeguards, obligations and priorities with respect to their respective interests by means of the following non-disturbance, attornment and subordination agreements.

NOW, THEREFORE, the parties hereto covenant and agree as follows:

1. Provided the Lease is in full force and effect and there are no defaults by Lessee in the payment of rent thereunder, then:
 - 1.1. The right of possession of Lessee to the Demised Premises and Lessee's rights arising out of the Lease shall not be affected or disturbed by Beneficiary in the exercise of any of its rights under the Deed of Trust or the Note secured thereby.
 - 1.2. Lessee shall not be named in any foreclosure action related to the Deed of Trust.

1.3. In the event that Beneficiary or any other person acquires title to the Demised Premises pursuant to the exercise of any remedy provided for in the Deed of Trust or under the laws of the state in which the Demised Premises are located, the Lease shall not be terminated or affected by said foreclosure or sale resulting from any such proceeding; and Beneficiary hereby covenants that any sale by it of the Demised Premises pursuant to the exercise of any rights and remedies under the Deed of Trust or otherwise, shall be made subject to the Lease and the rights of Lessee thereunder; and Lessee covenants and agrees to attorn to Beneficiary or such other person as its new lessor; and the Lease shall continue in full force and affect as a direct lease between Lessee and Beneficiary or such other person, as Lessor, upon all the terms, covenants, conditions and agreements set forth in the Lease between Lessee and Lessor. However, in no event shall Beneficiary or such person be:

1.3.1. liable for any act or omission of Lessor, except for those acts or omissions for which Lessee has given Beneficiary notice thereof prior to said foreclosure or sale;

1.3.2. bound by any payment of rent made by Lessee for periods extending beyond the date of said foreclosure or sale except for those rental payments provided for under the Lease;

1.3.3. bound by any amendment to the Lease made subsequent to the date of this Agreement without the written consent of Beneficiary, which consent shall not be unreasonably withheld or withheld for the purpose of effectuating a change in terms to the Deed of Trust. Beneficiary hereby consents to any such subsequent amendment if the primary purpose of such amendment is to provide for the expansion or remodeling of the Demised Premises or an extension of the primary term or option periods, so long as there is no decrease in the minimum rent payable under the Lease.

Notwithstanding the foregoing, the rights and obligations of lessee and Beneficiary, respectively, upon such attornment shall, to the extent of the then remaining balance of the term of the Lease, including any renewals or extensions thereof, be the same as now set forth in the Lease and by this reference the Lease is incorporated herein as part of this Agreement.

1.4. Beneficiary agrees that in the event of casualty or condemnation, insurance or condemnation proceeds shall be used for the purpose of reconstruction in the circumstances set forth in the Lease and subject to the provisions of the Lease.

2. The Lease shall be subject and subordinate to the lien of the Deed of Trust and to all the terms, conditions and provisions thereof, to all advances made or to be made thereunder, and to any renewals, extensions,

modifications or replacements thereof, not inconsistent with Paragraph 1 of this Agreement.

3. Any notices or other communication required or desired to be given by one party to the other party hereto shall be given in writing by mailing the same by certified United States Mail, return receipt requested, postage prepaid, addressed as follows:

To Lessee: United Merchandising Corp.
 2525 E. El Segundo Boulevard
 El Segundo, California 90245
 Attention: President or Secretary

To Beneficiary: _____

or to such other addresses as the respective parties may from time to time designate by notice given as provided in this Agreement.

4. This Agreement may not be modified other than by an agreement in writing signed by the parties hereto or by their respective successors in interest.
5. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their successors and assigns.
6. The foregoing provisions shall be self operative and effective without the execution of any further instruments on the part of either party hereto.
7. Should Beneficiary cease to have a beneficial interest under the Deed of Trust, Beneficiary shall give prompt written notice to Lessee of the reconveyance, assignment or other form of termination of said beneficial interest.

Big 5, Fontana, CA
12-28-95 (1)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be
duly executed this _____ day of _____, 19____.

By _____
Title:

By _____
Title:

BENEFICIARY

UNITED MERCHANDISING CORP., a
California corporation

By _____
President

By _____
Secretary

LESSEE

Exhibit D

FORM OF LANDLORD'S CERTIFICATE

_____, 199__

[LANDLORD]

Re: Lease dated March 5, 1996, as amended (the "Lease"), between _____,
a _____ (the "Landlord"), and United Merchandising Corp., a
California corporation (the Tenant")

Premises: BIG 5 Fontana Warehouse
7351 McGuire Avenue
Fontana, California (the "Premises")

Gentlemen:

The undersigned Landlord, the owner of the above described Premises and the holder of the Lease, has been advised by Tenant that Tenant has granted a security interest in personal property located on the Premises to General Electric Capital Corporation ("GE Capital"), as agent for itself and certain other lenders under Credit Agreement among Tenant, GE Capital and the other lenders party thereto, and GE Capital, as agent. The undersigned for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the undersigned, hereby consents, agrees, certifies and confirms as follows:

1. The information set forth below is correct:

- a. Commencement Date of the Lease: [Date]
- b. Current annual minimum rent payable: [\$Amount]
- c. Month and date through which minimum rent, and all other sums due and payable to Landlord, have been paid: [Date]

2. The Lease is in full force and effect and represents the entire agreement between Landlord and Tenant, and the Lease as originally executed has not been modified, changed, altered or amended in any way.

1/26/96
FORM OF LANDLORD'S CERTIFICATE

_____, 199____

2

3. Tenant is not in default under the Lease, and to the best of Landlord's knowledge, there has not occurred any event which, by lapse of time or otherwise, would constitute a default by Tenant under the Lease.

4. Landlord hereby consents to the granting by Tenant of any liens on or security interests in Tenant's personal property located on the Premises. Landlord agrees to permit the entry and occupancy, by the holders ("Holder") of such liens or security interests and their representatives, onto the Premises for a period not exceeding sixty (60) consecutive days for the purposes of removing, selling or otherwise disposing of merchandise, inventory, equipment, furniture, trade fixtures and other personal property of Tenant (but excluding fixtures in which Landlord has an interest as hereinafter described) subject to such liens or security interests so long as Holder agrees: (a) to promptly repair any physical damage to the Premises actually caused by the conduct of such removal (ordinary wear and tear excluded); (b) to pay Landlord the rent and other monetary amounts due under the lease or, in the case where the Lease has been terminated, those amounts that would have become due under the Lease if the Lease were still in effect (including, without limitation, any amounts due for payment of taxes, utilities or maintenance) for the actual period of occupancy by such holder, pro-rated on a per diem basis determined on a 30-day month (provided that such amounts paid to Landlord would exclude any adjustments under the Lease for default, holdover status or other similar charges, if any); and (c) to provide and retain liability and property insurance coverage and utilities to the extent required by the Lease; provided, that (i) if Holder is prohibited, by reason of the commencement of any bankruptcy case or insolvency proceedings by or against Tenant, from entering upon the Premises or from enforcing its liens or security interest, then, at Holder's option, such 60-day period shall be stayed during the period of such prohibition and shall continue thereafter for the number of days remaining in such period, and (ii) Holder would not be liable for any delinquent rent or other amounts owing by Tenant under the Lease or for any diminution in value of the Premises caused by the absence of any such personal property actually removed or by any necessity of replacing such personal property. Notwithstanding anything herein to the contrary, in no event shall Holder's right to enter or occupy the Premises pursuant to this Certificate extend beyond sixty (60) days from the date of termination of the term of the Lease, and at any time thereafter Landlord shall have the right to have any personal property of Tenant that may be located upon the Premises removed from the Premises in accordance with the terms of the Lease and applicable law. Any reference in this Certificate to Tenant's "trade fixtures" or "personal property" shall not mean or include any fixtures or equipment which are an integral part of the buildings and improvements comprising the Premises for purposes of their use and operation as an office, warehouse and distribution facility or which cannot be

1/26/96
FORM OF LANDLORD'S CERTIFICATE

[LANDLORD]

_____, 199 ____

3

removed without material damage to such buildings and improvements (which, by way of example, shall include all HVAC and mechanical systems, conveyor systems, loading docks, load leveler systems, carpeting and wall coverings), and, as used herein, any references to Tenant's "fixtures" or "personal property" shall mean and be limited to those items that are attached to or used in the buildings and improvements comprising the Premise solely for the purpose of Tenant conducting its business therein and which can be removed without material damage to such buildings and improvements (including, by way of example, Tenant's satellite communication equipment, music and intercom systems, security system and racking systems).

5. With respect to any financing provided by any bank or other institutional lender or investor to Tenant now or hereafter, existing, and which is secured by any such personal property, Landlord hereby subordinates to any lien or security interest securing such financing, any statutory or contractual lien that Landlord may have with respect to the merchandise, inventory, furniture, trade fixtures and other personal property of Tenant, whether now located on or about the Premises or hereafter brought thereout.
6. No action to which Landlord consents under this document shall constitute a default under the Lease, permit Landlord to terminate the Lease or reenter or repossess the Premises or otherwise provide the basis for the exercise of any remedy by Landlord.

1/26/96
FORM OF LANDLORD'S CERTIFICATE

[LANDLORD]

_____, 199__
4

7. Landlord hereby agrees to provide GE Capital, concurrently with the issuance to Tenant, a copy of all notices of default delivered to Tenant. Landlord further agrees to accept from GE Capital any payment or performance tendered or made by GE Capital to cure any such default (including, without limitation, all payment defaults), it being understood that GE Capital shall have no obligation to cure any such default.

Notices to GE Capital should be sent to:

Mr. Steven C. Bierman
General Electric Capital Corporation
350 South Beverly Drive, Suite 200
Beverly Hills, California 90212

Sincerely,

UNITED MERCHANDISING CORP.

Kathleen Reid-Seidner
Vice President and Secretary

Acknowledged this ____ day of _____, 199__

WITNESSES:

LANDLORD:

By: _____
Title: _____

1/26/96
FORM OF LANDLORD'S CERTIFICATE

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

LEASE

DATE: April 14, 2004

LANDLORD: PANATTONI DEVELOPMENT COMPANY, LLC,
a California limited liability company

TENANT: BIG 5 CORP., a Delaware corporation

LOCATION: Sycamore Canyon Boulevard
CITY OF: Riverside
COUNTY OF: Riverside
STATE OF: California

TABLE OF CONTENTS

	Page

ARTICLE 1: TERM.....	2
ARTICLE 2: RENTAL.....	9
ARTICLE 3: POSSESSION AND TITLE.....	11
ARTICLE 4: SIGNS AND COMMUNICATION EQUIPMENT.....	16
ARTICLE 5: USE OF PREMISES; UTILITIES; COMPLIANCE WITH LAWS.....	16
ARTICLE 6: TAXES AND LIENS.....	19
ARTICLE 7: REPAIRS.....	22
ARTICLE 8: ALTERATIONS; SURRENDER OF PREMISES.....	25
ARTICLE 9: DAMAGE OR DESTRUCTION.....	27
ARTICLE 10: INSURANCE AND INDEMNITY.....	30
ARTICLE 11: ASSIGNMENT AND SUBLETTING.....	34
ARTICLE 12: EMINENT DOMAIN.....	35
ARTICLE 13: ATTORNEYS' FEES.....	38
ARTICLE 14: PERMITS AND LICENSES.....	38
ARTICLE 15: EXTENSION OF TERM.....	38
ARTICLE 16: SUBORDINATION.....	39
ARTICLE 17: TENANT'S DEFAULTS.....	40
ARTICLE 18: LANDLORD'S DEFAULTS.....	42
ARTICLE 19: NOTICES.....	43
ARTICLE 20: MISCELLANEOUS PROVISIONS.....	44

EXHIBITS

EXHIBIT A: DESCRIPTION OF LAND
EXHIBIT B-1: SITE PLAN OF LAND
EXHIBIT B-2: PROPOSED FINAL MAP
EXHIBIT C: CONSTRUCTION
EXHIBIT D: PERMITTED ENCUMBRANCES
EXHIBIT E: NON-DISTURBANCE, ATTORNMENT AND SUBORDINATION
AGREEMENT
EXHIBIT F: LANDLORD'S WAIVER-INVENTORY
EXHIBIT G: MEMORANDUM OF LEASE
EXHIBIT H: COMMENCEMENT CERTIFICATE
EXHIBIT I: DELIVERY CONDITION

(ii)

INDEX

	Page(s)

AAA.....	36
Acquisition Date.....	1
additional rent.....	11
Adjustment Date.....	9
Approved Title Exceptions.....	12
Base Index.....	10
Brokers.....	45
Building.....	1
Building/Site Work.....	2
Change of Ownership.....	20
Claims.....	33
Commencement Date.....	2
Communication Equipment.....	16
Comparison Index.....	10
Construction Escrow.....	28
Delivery Condition.....	4
Delivery Date.....	2
Delivery Deadline Date.....	6
Earthquake Insurance Coverage.....	31
Encumbrances.....	12
Excess Costs.....	28
Experienced Contractor.....	27
Expiration Date.....	2
First Period.....	9
Fixed Rent.....	9
Fixturization Period.....	3
Fixturization Work.....	10
Force Majeure Delays.....	7
Grading Commencement.....	5
Grading Commencement Outside Date.....	5
Hazardous Materials.....	15
Improvements.....	1
Index.....	10
Interest Rate.....	22
JAMS.....	36
Land.....	1
Land Acquisition.....	1
Landlord.....	1
Landlord Delays.....	3
Landlord's Contractor.....	6
Landlord's Maintenance Obligations.....	22
Landlord's Representatives.....	33

	Page(s)

Landlord's Termination Notice.....	28
Landlord's Work.....	1
Landlord's Work Costs.....	8
Larger Parcel.....	1
Lease.....	1
Leasehold Title Commitment.....	14
Leasehold Title Policy.....	14
Maximum Earthquake Premium.....	31
Memorandum of Lease.....	44
Memorandum of Lease Amendment.....	2
No Dollar Limit.....	23
Official Records.....	1
Option Period.....	38
Option Periods.....	38
Outside Operations Date.....	3
Partial Taking.....	35
Permit Issuance.....	5
Permit Issuance Outside Date.....	5
Permitted Deed of Trust.....	12
Permitted Easements.....	12
Permitted Encumbrances.....	12
Permitted Use.....	16
Premises.....	1
Pricing Request.....	5
Pricing Statement.....	5
Proposed Final Map.....	1
Punchlist Items.....	5
Ready for Occupancy.....	4
Ready for Occupancy Outside Date.....	7
Real Property Taxes.....	20
rent.....	11
Rentable Area.....	8
rental.....	11
rentals.....	11
rents.....	11
Second Period.....	9
Signs.....	16
Site Plan.....	1
SNDA.....	39
Subdivision.....	1
Subdivision Outside Date.....	1
Systems.....	22
Tax Statements.....	21
Tenant.....	1

	Page(s)

Tenant Change Order.....	4
Tenant Delays.....	12
Tenant Design Problem.....	4
Tenant Improvement Allowance.....	8
Tenant Improvements.....	1
Tenant Termination Amount.....	8
Tenant's Election Notice.....	32
Tenant's Eminent Domain TI Proceeds.....	36
Tenant's Representatives.....	33
Tenant's Termination Insurance Proceeds.....	32
Term.....	2
Terminable Event.....	6
Threshold Amount.....	28
TI Costs.....	8
to Landlord's actual knowledge.....	15
Total Taking.....	35
Uninsured Casualty.....	28

THIS LEASE ("LEASE") is made and entered into as of the 14th day of April, 2004, by and between PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company ("LANDLORD"), owner of the Premises (defined in the following paragraph below), and BIG 5 CORP., a Delaware corporation ("TENANT").

RECITALS

A. Land, Building and Premises. That for and in consideration of the rental hereinafter reserved, and of the mutual covenants, agreements, and conditions hereinafter contained, and upon all of the terms and provisions of this Lease, Landlord does hereby lease to Tenant, and Tenant does hereby rent from Landlord, for the Term as set forth in Article 1 below, the following (collectively, the "PREMISES"): (i) that certain parcel of real property (the "LAND") containing approximately 46.64 gross acres (approximately 44.81 net acres after dedication of Crest Ridge Drive and the expansion parcel for Sycamore Canyon Boulevard to the City of Riverside, as contemplated by the Proposed Final Map, as defined below), situated on Sycamore Canyon Boulevard, in the City of Riverside, County of Riverside, State of California, as more particularly described in Exhibit A attached hereto and made a part hereof and more particularly shown on the site plan attached hereto as Exhibit B-1 and made a part hereof (the "SITE PLAN"); (ii) the warehouse/distribution building (the "BUILDING") having dimensions of approximately 1,560 feet by 600 feet and containing a total of approximately 953,132 square feet of Rentable Area (as defined in Paragraph 1.6 below) to be constructed by Landlord on the Land pursuant to the terms and provisions of this Lease, which Rentable Area shall be subject to adjustment in accordance with Paragraph 1.6 below; (iii) the "IMPROVEMENTS", which means, collectively, the Building and all other structures, driveways, entrances and exits, parking areas, landscaping, utilities, drainage facilities, lighting and curb cuts, and all other improvements and fixtures (excluding Tenant's trade fixtures and personal property) now or hereafter located on the Land; and (iv) all easements, rights and appurtenances now or hereafter appurtenant thereto.

B. Acquisition and Subdivision of Land. Notwithstanding anything to the contrary contained in this Lease, the parties acknowledge and agree that Landlord does not currently own the Land, and the Land is part of a larger approximately 96 acre parcel (the "LARGER PARCEL") as depicted on the Proposed Final Map which is in the process of being purchased and subdivided by Landlord. It is anticipated by the parties that on or before June 1, 2004 (the "ACQUISITION OUTSIDE DATE"), Landlord will cause all of the following events (herein referred to collectively as the "LAND ACQUISITION") to occur: (i) acquisition by Landlord of fee simple title to the Larger Parcel (including the Land) from the current owner thereof, as evidenced by the recordation of a grant deed in favor of Landlord for the Larger Parcel (including the Land) in the official records of the county in which the Premises are located (the "OFFICIAL RECORDS"); and (ii) recordation of the Memorandum of Lease (as defined in Paragraph 20.2 below) in the Official Records immediately following the recordation of such grant deed. It is also anticipated by the parties that on or before October 1, 2004 (the "SUBDIVISION OUTSIDE DATE"), Landlord will cause all of the following events (hereinafter referred to collectively as the "SUBDIVISION") to occur: (A) the subdivision of the Land from the Larger Parcel into a legally subdivided parcel pursuant to a final parcel map recorded in the Official Records, which final parcel map shall be based upon and substantially in accordance with that certain proposed final parcel map no. 31139-1 (the "PROPOSED FINAL MAP") on which the Land is depicted as Parcel 1 thereof (a copy of which

Proposed Final Map is attached hereto as Exhibit B-2), and subject only to the conditions for such subdivision as set forth on the Proposed Final Map (which conditions Landlord shall satisfy and cause to be deleted, at its expense, prior to recordation of such final parcel map); (B) subject to the following provisions of this Recital B, recordation in the Official Records of a memorandum of lease amendment (the "MEMORANDUM OF LEASE AMENDMENT") to be executed by the parties as provided in Paragraph 20.2 below, which modifies the Memorandum of Lease to (1) reflect that the subdivision of the Land from the Larger Parcel has occurred, and (2) attach thereto the legal description of the Land, as so subdivided, as the land component of the Premises; and (C) receipt by Tenant of the Leasehold Title Policy or Leasehold Title Commitment for the Premises, as the case may be, as defined in and pursuant to the provisions of Paragraph 3.3 below. It is currently contemplated by the parties that the Land Acquisition will occur prior to the Subdivision, but in the event Landlord causes the Land Acquisition and Subdivision to occur concurrently, then notwithstanding the foregoing provisions of Recital B to the contrary, (1) the parties shall not record the Memorandum of Lease Amendment, and (2) prior to recordation of the Memorandum of Lease, a modified version of the Memorandum of Lease shall be executed by the parties and delivered to the escrow holder described in Paragraph 20.2 below in substitution for the originally executed Memorandum of Lease in order to eliminate references to the Larger Parcel and such Subdivision and to reference and attach thereto as an exhibit the legal description of the Land, as so subdivided, as the land component of the Premises. If Landlord fails to either (x) effect the Land Acquisition by the Acquisition Outside Date, as evidenced by written notice thereof (together with conformed copies of the recorded grant deed of the Larger Parcel, including the Land, in favor of Landlord and the recorded Memorandum of Lease) delivered by Landlord to Tenant on or before such Acquisition Outside Date, or (y) effect the Subdivision by the Subdivision Outside Date, as evidenced by written notice thereof together with conformed copies of the recorded final parcel map subdividing the Land from the Larger Parcel, and the recorded Memorandum of Lease Amendment (if applicable), then, in either such case, and in addition to Tenant's other rights and remedies set forth in this Lease, Tenant shall have the rights set forth in Paragraph 1.5 below.

ARTICLE 1: TERM.

1.1 Commencement Date. The term of this Lease (the "TERM") shall be for a period of approximately ten (10) years commencing upon the Commencement Date (as defined hereinbelow), and expiring upon the date (the "EXPIRATION DATE") that is the last day of the calendar month which is ten (10) years after the Commencement Date, unless extended or sooner terminated as provided in this Lease. The "COMMENCEMENT DATE" shall be the date that is the earlier of: (i) the later of (A) January 1, 2005, and (B) that date which is ninety (90) days after the date (the "DELIVERY DATE") Landlord delivers to Tenant possession of the Premises in the Delivery Condition (as defined in Paragraph 1.4.1 below), subject, however to acceleration (but not before January 1, 2005) due to Tenant Delays (as defined and provided in Paragraph 6 of Exhibit C) and/or extension and postponement as provided in Paragraph 1.2 below; or (ii) the date Tenant actually commences its ordinary business operations in the Building (which shall be subject to Tenant obtaining all applicable licenses therefor required by Applicable Laws, as defined in Paragraph 1.2 below). For purposes of this Paragraph 1.1, Tenant shall be considered to have commenced its ordinary business operations in the Building when it has personnel and inventory on-site within the Building and is able to commence distribution of that inventory from the Building. Accordingly, the mere fact that Tenant has commenced the storage of inventory at

the Premises shall not be considered the commencement of its ordinary business operations in the Building. Landlord shall give Tenant thirty (30) days' advance notice of the date possession of the Premises shall be delivered to Tenant in the Delivery Condition. Said delivery of possession of the Premises to Tenant in the Delivery Condition shall be made in full compliance with the terms and conditions of Article 3 of this Lease and Exhibit C attached hereto.

1.2 Fixturization Period. During such ninety (90) day period set forth in Paragraph 1.1 above (the "FIXTURIZATION PERIOD"), Tenant intends to install certain "Fixturization Work" within the Building, as defined and described in Exhibit C attached hereto, and in connection with the installation of the Fixturization Work: (i) Tenant shall have uninterrupted access to the Building and Premises to install the Fixturization Work during the Fixturization Period, subject, however, to Landlord's rights of access as are reasonably necessary for Landlord to complete Landlord's Work and make the Premises Ready for Occupancy (as defined in Paragraph 1.4.2 below) during the ninety (90) day period immediately following the Delivery Date; and (ii) Landlord shall use commercially reasonable efforts, at no cost to Landlord, to assist Tenant in obtaining (at Tenant's expense) all governmental permits and approvals for such Fixturization Work (including, without limitation, racking permits, applicable fire department approvals and permits for Tenant's proposed guns and ammunition areas in the Building). If Tenant's installation of the Fixturization Work and/or commencement of Tenant's ordinary business operations in the Building following delivery of possession thereof to Tenant in the Delivery Condition shall be delayed by reason of any Landlord Delays (as defined in Paragraph 1.3 below), then the Fixturization Period shall be extended and accordingly the Commencement Date of the Term of this Lease shall be postponed for a period equal to the duration of such Landlord Delays. In the event any of such Landlord Delays delay Tenant's commencement of business operations in the Building for a period beyond the date which is eighteen (18) months after the date of execution of this Lease (the "OUTSIDE OPERATIONS DATE"), Tenant may elect to terminate this Lease by written notice delivered to Landlord within sixty (60) days after the Outside Operations Date, and Tenant shall be entitled to receive from Landlord the Tenant Termination Payment as defined in and pursuant to Paragraph 1.5.5 below.

1.3 Landlord Delays. As used herein, "LANDLORD DELAYS" shall mean any delays in the installation of the Fixturization Work, and/or the commencement of Tenant's ordinary business operations in the Building following delivery of possession of the Premises to Tenant in the Delivery Condition, actually caused by any of the following (but only to the extent such delays are not caused by Tenant Delays or Force Majeure Delays, as defined in Paragraph 1.5.4 below):

(i) Landlord's failure or refusal to (A) give authorizations, approvals or disapprovals within the time periods required under this Lease or Exhibit C, (B) disburse and/or pay when due the cost of Landlord's Work required to be paid for by Landlord (including disbursement of the Tenant Improvement Allowance) in accordance with Exhibit C, or (C) otherwise comply with the time deadlines and/or schedules set forth in this Lease and/or Exhibit C;

(ii) Landlord's breach of any provisions of this Lease or Exhibit C;

(iii) any unreasonable interference with Tenant's installation of the Fixturization Work caused by Landlord's Work, including, without limitation, any failure by Landlord to provide Tenant with uninterrupted access to the Building and Premises to install the Fixturization Work after the Delivery Date as required in Paragraph 1.2 above and thereafter commence its ordinary business operations in the Building;

(iv) (A) any defects in the design and/or construction of Landlord's Work or failure of Landlord to comply with all Applicable Laws and/or the requirements of Exhibit C in connection with the design and construction of Landlord's Work, including, without limitation, any failure of Landlord's Work to meet the Delivery Condition requirements as of the date the Premises are delivered to Tenant, and/or (B) incorrect or incomplete Final Plans (as defined in Exhibit C) for Landlord's Work and/or the failure of the Final Plans to comply with Applicable Laws or otherwise meet the requirements set forth in Exhibit C;

(v) revisions made to the Final Plans after approval thereof by Landlord and Tenant unless required by Tenant Change Orders (as defined in Exhibit C) requested by Tenant pursuant to Exhibit C;

(vi) Landlord's failure to complete Landlord's Work and make the Premises Ready for Occupancy within the ninety (90) day period following the Delivery Date; and/or

(vii) any other acts, negligence or omissions of or by Landlord or Landlord's employees, agents, contractors, licensees or invitees.

1.4 Delivery Condition; Ready for Occupancy.

1.4.1 Delivery Condition. For purposes hereof, the Premises shall be deemed to be in the "DELIVERY CONDITION" after Landlord has caused both the Land Acquisition and the Subdivision to occur, and when all of Landlord's Work for the Premises to be constructed by Landlord pursuant to Exhibit C has been completed to the extent set forth on Exhibit I attached hereto, and otherwise to such extent so as to not unreasonably delay or interfere with Tenant's installation of the Fixturization Work described in Paragraph 1.2 above. Immediately prior to Landlord's delivery of possession of the Premises to Tenant in the Delivery Condition, Landlord and Tenant shall conduct a joint walk-through of the Premises to confirm whether or not the Premises are in fact in the Delivery Condition as described in and required by Exhibit I and this Paragraph 1.4.1. The parties acknowledge and agree that the Delivery Date will occur prior to completion of all of Landlord's Work, and that Landlord will be completing the remainder of Landlord's Work and causing the Premises to be Ready for Occupancy during Tenant's Fixturization Period while Tenant is installing the Fixturization Work.

1.4.2 Ready for Occupancy. Landlord covenants to complete Landlord's Work (subject to the Punchlist Items, as defined below in this Paragraph 1.4.2) and cause the Premises to be Ready for Occupancy within ninety (90) days after the Delivery Date. For purposes hereof, the Premises shall be deemed "READY FOR OCCUPANCY" when:

(i) Landlord has caused both the Land Acquisition and the Subdivision to occur;

(ii) all of Landlord's Work has been completed in accordance with the Final Plans, all Applicable Laws, and the provisions of Exhibit C, excepting only those incomplete items of finishing and/or correction work (collectively, the "PUNCHLIST ITEMS") which (A) are of such a nature that they will not and do not unreasonably delay or interfere with Tenant's completion of the Fixturation Work or Tenant's commencement of its ordinary business operations from the Premises following Tenant's completion of the Fixturation Work, and (B) are identified on a list to be jointly prepared and mutually agreed upon by Landlord and Tenant as provided hereinbelow (provided, however, that such Punchlist Items shall be completed by Landlord within thirty (30) days after such substantial completion);

(iii) a certificate of occupancy (or a temporary certificate of occupancy or its equivalent, subject to conditions reasonably acceptable to Tenant) with respect to Landlord's Work has been issued by the City of Riverside, and a copy of the same has been delivered to Tenant;

(iv) all Premises systems and utilities (including, without limitation, water, electricity, and HVAC) are in good working order and operation;

(v) Landlord's Contractor (as defined in Exhibit C) has executed a Certificate in the form attached as Schedule 2 to Exhibit C, and a copy of same has been delivered to Tenant; and

(vi) Landlord's Architect has executed a Certificate in the form of the AIA Certificate of Substantial Completion (G704-1978), and a copy of same has been delivered to Tenant.

Within ten (10) days after Landlord has made the Premises Ready for Occupancy and delivered to Tenant the certificates described in clauses (iii), (v) and (vi) hereinabove, Landlord and Tenant will jointly conduct a walk-through inspection of the Premises and will jointly prepare an agreed upon list of Punchlist Items to be performed by Landlord pursuant to Exhibit C.

1.5 Failure to Effect Land Acquisition or Subdivision, Commence Grading, Obtain Permits, Achieve Delivery Condition or Complete Landlord's Work.

1.5.1 If Landlord fails to (i) effect the Land Acquisition by the Acquisition Outside Date, or (ii) effect the Subdivision by the Subdivision Outside Date, or (iii) commence grading of the Land ("GRADING COMMENCEMENT") by August 15, 2004 (the "GRADING COMMENCEMENT OUTSIDE DATE"), as such date in this clause (iii) may be extended as provided in Paragraph 1.5.4 below, or (iv) obtain from the appropriate governmental authorities all necessary building permits and approvals to construct Landlord's Work (the "PERMIT ISSUANCE") by August 15, 2004 (the "PERMIT ISSUANCE OUTSIDE DATE"), as such date in this clause (iv) may be extended as provided in Paragraph 1.5.4 below, then in addition to Tenant's other rights and remedies set forth in this Lease, Tenant may, at any time thereafter but prior to the date the Land Acquisition, Subdivision, Grading Commencement or Permit Issuance (as the case may be) has occurred, either (A) terminate this Lease upon ten (10) days' prior written notice to Landlord and receive from Landlord the Tenant Termination Amount (as defined in and pursuant to Paragraph 1.5.5 below), or (B) extend the Acquisition Outside Date, the Subdivision Outside

Date, the Grading Commencement Outside Date or the Permit Issuance Outside Date (as the case may be) to a later date as designated by Tenant in its sole and absolute discretion in a written notice delivered by Tenant to Landlord, in which event:

(1) Tenant shall retain its termination right and right to receive the Tenant Termination Amount pursuant to clause (A) of this Paragraph 1.5.1 if Landlord fails to cause the Land Acquisition, Subdivision, Grading Commencement or Permit Issuance (as the case may be) to occur by such extended Acquisition Outside Date, extended Subdivision Outside Date, extended Grading Commencement Outside Date or extended Permit Issuance Outside Date (as the case may be);

(2) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each day that is within the period commencing as of the originally scheduled Acquisition Outside Date and expiring upon the date the Land Acquisition actually occurs;

(3) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each day that is within the period commencing as of the originally scheduled Subdivision Outside Date, and expiring upon the date the Subdivision actually occurs;

(4) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each date that is within the period commencing as of the originally scheduled Grading Commencement Outside Date (as the same may be extended pursuant to Paragraph 1.5.4 below) and expiring upon the date Grading Commencement actually occurs; and

(5) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each day that is within the period commencing as of the originally scheduled Permit Issuance Outside Date (as the same may be extended pursuant to Paragraph 1.5.4 below) and expiring upon the date the Permit Issuance actually occurs.

1.5.2 If Landlord fails to deliver possession of the Premises to Tenant in the Delivery Condition by May 1, 2005 (the "DELIVERY DEADLINE DATE"), as such date may be extended as provided in Paragraph 1.5.4 below, then in addition to Tenant's other rights and remedies set forth in this Lease, Tenant may, at any time thereafter but prior to delivery of possession of the Premises to Tenant in the Delivery Condition, either (i) terminate this Lease upon not less than ten (10) days' prior written notice to Landlord and receive from Landlord the Tenant Termination Amount, or (ii) extend the Delivery Deadline Date to a later date as designated by Tenant in its sole and absolute discretion in a written notice delivered by Tenant to Landlord, in which event: (A) Tenant shall retain its termination right and right to receive the Tenant Termination Amount pursuant to clause (i) of this Paragraph 1.5.2 if Landlord fails to deliver possession of the Premises to Tenant in the Delivery Condition by such extended Delivery Deadline Date; and (B) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each day that is within the period commencing as of the originally scheduled Delivery Deadline Date (as the same may be extended pursuant to Paragraph 1.5.4 below) and expiring upon the date Landlord actually delivers possession of the Premises to Tenant in the Delivery Condition.

1.5.3 If Landlord fails to cause the Premises to be Ready for Occupancy by August 1, 2005 (the "READY FOR OCCUPANCY OUTSIDE DATE"), as such date may be extended as provided in Paragraph 1.5.4 below, then in addition to Tenant's other rights and remedies set forth in this Lease, Tenant may, at any time thereafter prior to Landlord causing the Premises to be Ready for Occupancy, either (i) terminate this Lease upon not less than ten (10) days' prior written notice to Landlord and receive from Landlord the Tenant Termination Amount, or (ii) extend the Ready for Occupancy Outside Date to a later date as designated by Tenant in its sole and absolute discretion in a written notice delivered by Tenant to Landlord, in which event: (A) Tenant shall retain its termination right and right to receive the Tenant Termination Amount pursuant to clause (i) of this Paragraph 1.5.3 if Landlord fails to cause the Premises to be Ready for Occupancy by such extended Ready for Occupancy Outside Date; and (B) Tenant shall receive one (1) day of abated Fixed Rent and Real Property Taxes for each day that is within the period commencing as of the originally scheduled Ready for Occupancy Outside Date (as the same may be extended pursuant to Paragraph 1.5.4 below) and expiring upon the date Landlord actually causes the Premises to be Ready for Occupancy.

1.5.4 Notwithstanding anything in this Paragraph 1.5 to the contrary, if Grading Commencement, Permit Issuance, delivery of possession of the Premises to Tenant in the Delivery Condition and/or causing the Premises to be Ready for Occupancy shall be delayed by reason of (i) any Tenant Delays, and/or (ii) "FORCE MAJEURE DELAYS", which are defined herein, collectively, as delays due to governmental regulations, unavailability of material or labor, rain or other inclement weather, acts of God, strikes, lockouts or any other matters beyond Landlord's reasonable control (other than Landlord's financial condition), including delays in obtaining applicable permits from the governmental authorities beyond the normal period of time for issuance of such permits for similar projects and not due to Landlord's failure to comply with the provisions of this Lease or the requirements of such governmental authorities for issuance of such permits, then the Grading Commencement Outside Date, the Permit Issuance Outside Date, the Delivery Deadline Date or the Ready for Occupancy Outside Date (as the case may be) shall be extended for a period equal to the duration of such Tenant Delays and Force Majeure Delays. Notwithstanding the foregoing to the contrary, (A) such extension of any of such four (4) dates for any Force Majeure Delays described in clause (ii) hereinabove shall not exceed a period of two (2) months nor result in the Ready for Occupancy Outside Date being extended, in any event, beyond the date which is eighteen (18) months after the date of execution of this Lease, and (B) no such extension shall occur to the extent such Force Majeure Delays and/or Tenant Delays could have been avoided had Landlord used reasonable efforts to avoid such delay and to adapt and compensate for such delay. In addition, no Tenant Delay or Force Majeure Delay shall be deemed to have occurred unless Landlord has delivered to Tenant written notice specifying in reasonable detail the actions, inactions or circumstances Landlord claims constitute such Tenant Delay or Force Majeure Delay within five (5) business days after Landlord becomes aware of the occurrence of the action, inactions or circumstances; provided, however, in the event Landlord provides such notice after the expiration of that fifth (5th) business day, the Tenant Delay or Force Majeure Delay (as the case may be) shall be deemed to have occurred commencing on the day that Landlord actually provides such notice to Tenant; and provided, further, that no such Tenant Delay shall be deemed to have occurred if Tenant cures the action, inaction or circumstance which Landlord claims constitutes such Tenant Delay within two (2) business days after such notice is received by Tenant (however, Tenant shall only be entitled to an aggregate of fifteen (15) business days in which to cure any such actions, inactions or circumstances, and any

such Tenant Delays occurring after such fifteen (15) business days of aggregate cure days utilized by Tenant shall be deemed to have occurred without taking into account any subsequent cure periods hereinabove).

1.5.5 Following any such termination of this Lease pursuant to this Paragraph 1.5, Paragraph 1.2 above or Paragraph 16.1 below, both parties hereto shall be freed and discharged of all further obligations under this Lease, except: (i) as provided for in provisions of this Lease which by their terms survive the expiration or earlier termination of this Lease; (ii) Landlord shall remain obligated to disburse any undisbursed Tenant Improvement Allowance to pay for any costs for which the Tenant Improvement Allowance may be utilized and which have been incurred prior to the effective date of such termination, subject to and in accordance with the provisions of Exhibit C; and (iii) Landlord shall reimburse Tenant an amount (the "TENANT TERMINATION AMOUNT") equal to Tenant's actual, documented and reasonable out-of pocket costs paid or incurred by Tenant in connection with (A) this Lease (including, without limitation, reasonable attorneys' fees paid by Tenant in negotiating this Lease), (B) the design, permitting and construction of the Premises, and/or (C) the design, acquisition and installation of any improvements, fixtures, furniture and equipment for the Premises (but only to the extent any of the foregoing costs have not previously reimbursed or paid by Landlord from the Tenant Improvement Allowance or otherwise). The Tenant Termination Amount shall be paid by Landlord to Tenant within thirty (30) days following the effective date of termination. The foregoing provisions of this Paragraph 1.5.5 shall survive the termination of this Lease.

1.6 Rentable Area of the Building.

1.6.1 Rentable Area. For purposes hereof, the "RENTABLE AREA" of the Building shall mean the gross building area of the Building measured by the drip line of the Building (i.e., the lines that form the exterior perimeter of the Building and follow the most exterior drip line at the perimeter of the roof systems of the Building at floor level), but excluding: (i) any space or areas which are not roofed and/or fully enclosed (including, without limitation, (A) unenclosed connecting links or area ways, (B) unenclosed exterior staircases or fire escapes, and (C) unenclosed shipping/receiving platforms; (ii) any mezzanine or office space or second (2nd) floor space; (iii) any canopies, exterior steps, exterior landings and staging platforms; and (iv) any projections that do not extend vertically for the full height of the Building. The Rentable Area of the Building to be constructed by Landlord is approximately as set forth on page 1 of this Lease and is the parties' good faith estimate thereof as of the date of execution of this Lease. Simultaneously with Landlord's delivery of possession of the Premises to Tenant in the Delivery Condition, Landlord will cause Landlord's Architect (as defined in Exhibit C) to certify to Landlord and Tenant the Rentable Area of the Building. Such certification shall be subject to the reasonable approval of Tenant pursuant to Paragraph 1.6.2 below. The approved Rentable Area of the Building will be specified in a Commencement Certificate (as defined in Paragraph 1.7 below), and the Fixed Rent and Tenant Improvement Allowance shall be adjusted accordingly.

1.6.2 Tenant's Remeasurement Right. Within twenty (20) days after delivery of Landlord's Architect's certificate of Rentable Area of the Building pursuant to Paragraph 1.6.1 above, Tenant shall approve or disapprove of that determination, and during such period shall have the right to engage another California licensed architect experienced in the design and

construction of industrial buildings to measure the Rentable Area of the Building. If Landlord's and Tenant's respective determinations differ, and the parties are unable to resolve the differences within ten (10) business days after submission of Tenant's determination to Landlord, the dispute shall be determined by a third California licensed architect selected by Tenant's architect and Landlord's Architect. If Tenant's architect and Landlord's Architect are unable to agree on a third architect within twenty (20) days after the submission of Tenant's determination to Landlord, the Rentable Area of the Building shall be determined by a third (3rd) California licensed architect selected by the presiding judge of the Superior Court of Riverside or San Bernardino County, California, upon application of either Landlord or Tenant. Tenant's failure to object to Landlord's Architect's determination within the above 20-day period shall be deemed to be Tenant's approval of the determination of Landlord's Architect.

1.7 Commencement Certificate. Within thirty (30) days after the Commencement Date, Tenant and Landlord shall execute and deliver a "Commencement Certificate" in the form attached hereto as Exhibit H. In the Commencement Certificate, Landlord and Tenant shall confirm the Commencement Date, the Expiration Date of the Term, the Rentable Area of the Building and the Fixed Rent.

ARTICLE 2: RENTAL.

2.1 Fixed Rent. Effective upon the Commencement Date, Tenant shall, except as otherwise provided herein, pay to Landlord as "FIXED RENT" during the Term of this Lease the sum(s) set forth below in Subparagraph(s) 2.1.1, et seq. Said annual Fixed Rent shall be paid in equal monthly installments in the amount(s) set forth in said subparagraph(s). Said monthly Fixed Rent payment shall be paid on the first (1st) day of each full calendar month for each such month. For periods of less than a full calendar month, said monthly Fixed Rent payment shall be prorated based on the ratio of the number of days in such partial calendar month to the total number of days in such full calendar month. The proportionately reduced Fixed Rent payment for a part of a calendar month for which Fixed Rent may be due shall be paid at the same time and together with the Fixed Rent payment for the first (1st) full calendar month for which Fixed Rent may be due as provided herein.

2.1.1 Commencing on the Commencement Date set forth in Paragraph 2.1 above, and continuing for the next sixty (60) full calendar months (the "FIRST PERIOD"), the annual Fixed Rent referred to in said Paragraph 2.1 shall be equal to the product of (i) \$2.85 and (ii) the Rentable Area of the Building, to be paid in equal monthly installments equal to the product of (A) \$0.2375 and (B) the Rentable Area of the Building. The Rentable Area of the Building shall be determined pursuant to Paragraph 1.6 above, and the Fixed Rent for the First Period shall be calculated based upon such determination as provided therein.

2.1.2 Commencing on the date (the "ADJUSTMENT DATE") which is the first (1st) day following the last day of the First Period, and continuing for the remainder of the initial Term of this Lease ("SECOND PERIOD"), the annual Fixed Rent referred to in said Paragraph 2.1 shall be equal to the product of (i) the annual amount set forth in Subparagraph 2.1.1 above, multiplied by (ii) the lesser of (A) 1.10, or (B) a fraction, the numerator of which is the Comparison Index (as defined in Paragraph 2.1.4 below) for the Second Period and the

denominator of which is the Base Index (as defined in Paragraph 2.1.4 below) for the Second Period, and shall be paid in equal monthly installments equal to 1/12th of such annual amount.

2.1.3 If Tenant extends the initial Term of this Lease for any of the Option Periods as defined in and pursuant to Paragraph 15.1 hereof, the annual Fixed Rent referred to in said Paragraph 2.1 and payable by Tenant during the applicable Option Period shall be equal to the product of (i) the annual Fixed Rent amount payable during the last year of the immediately preceding Term of this Lease, multiplied by (ii) the lesser of (A) 1.10, or (B) a fraction, the numerator of which is the Comparison Index for the applicable Option Period, as set forth in Paragraph 2.1.4 below, and the denominator of which is the Base Index for the applicable Option Period, as set forth in Paragraph 2.1.4 below, and shall be paid in equal monthly installments equal to 1/12th of such annual amount.

2.1.4 As used herein: (i) the "INDEX" shall mean the Consumer Price Index for Los Angeles-Riverside-Orange County, California, All Urban Consumers, 1982-84=100, as published by the Bureau of Labor Statistics, United States Department of Labor or any successor agency; (ii) the "COMPARISON INDEX" shall mean (A) with respect to the Second Period, the Index published for the calendar month which is three (3) months prior to the Adjustment Date, and (B) with respect to each applicable Option Period, the Index published for the calendar month which is three (3) months prior to the commencement date of such applicable Option Period; and (iii) the "BASE INDEX" shall mean (A) with respect to the Second Period, the Index published for the calendar month which is three (3) months prior to the Commencement Date, and (B) with respect to each applicable Option Period, the Index published for the calendar month which is sixty-three (63) months prior to the commencement date of such applicable Option Period.

2.1.5 As an illustration of the calculation of the annual Fixed Rent payable during the Second Period, if the Comparison Index for the Second Period is 225, the Base Index is 200, and the Rentable Area of the Building equals 953,132 square feet, then the annual Fixed Rent payable during the Second Period would equal \$2,988,068.82, calculated as follows: \$2,716,426.20 (i.e., the annual Fixed Rent payable for the First Period) multiplied by 1.10 (which is less than 1.125, the fraction resulting from dividing the Comparison Index of 225 by the Base Index of 200).

2.2 Abatement of Rent. If following the Commencement Date Tenant is prevented from using and does not use any portion of the Building by reason of (i) default of Landlord, (ii) any labor difficulty encountered by Landlord, (iii) Landlord's making any repairs or alterations to the Premises, (iv) a casualty event or eminent domain proceedings, (v) any interruption of any utilities or services being furnished to the Premises resulting from the acts, negligence or willful misconduct of Landlord or Landlord's agents, employees, contractors or licensees, (vi) the existence of Hazardous Materials (as defined in Paragraph 3.3 below) in, on or at the Premises which have not been (A) introduced by Tenant or any of Tenant's agents, contractors, employees, licensees or invitees, and/or (B) caused by the actions of any third parties (other than Landlord or Landlord's agents, employees or contractors) on the Premises, or (vii) any other cause beyond the reasonable control of Tenant, then and in each and all such cases, Tenant may elect, at any time after either (A) the commencement of such prevention of use with respect to any of the events described in clauses (i), through (v) hereinabove, or (B) the

third (3rd) consecutive business day of such prevention of use with respect to any of the events described in clauses (vi) or (vii) hereinabove, to abate Fixed Rent, Real Property Taxes payable pursuant to Paragraph 6.1 below and all other charges payable by Tenant under this Lease for the period that Tenant continues to be prevented from using, and does not use, the Building or any portion thereof. Landlord acknowledges that Tenant shall be entitled to such abatement with respect to any such event described hereinabove which affects areas of the Premises outside the Building (whether or not the Building is directly affected thereby), such as, but not limited to, Tenant's inability to use the driveways, accessways and/or parking areas of the Premises, so long as a result of such event occurring with respect to such other areas of the Premises, Tenant is prevented from using and does not use a portion of the Building. Such abatement shall be in proportion to the Rentable Area of the Building that Tenant is prevented from using, and does not use (other than for storage purposes), as a result of any such event; provided, however, if as a result of any event described in clauses (i) through (vii) hereinabove, less than all of the Premises or Building is affected by such event but Tenant is nevertheless unable to effectively conduct its business (other than for storage purposes) from the remainder of the Building and does not conduct same (other than for storage purposes) from the area affected by the event and all such remaining portions of the Building, then the entire Fixed Rent, Real Property Taxes and other charges payable by Tenant under this Lease shall be abated for such time that Tenant continues to be so prevented from using, and does not use, the entire Building for the conduct of its business (other than for storage purposes). If, however, Tenant reoccupies and recommences its business operations (other than for storage purposes) from any portion of the Building during such abatement period, the Fixed Rent, Real Property Taxes and other charges payable by Tenant under this Lease allocable to such reoccupied portion, based upon the proportion that the Rentable Area of such reoccupied portion of the Building bears to the total Rentable Area of the Building, shall be payable by Tenant from the date Tenant reoccupies such portion of the Building (other than for storage purposes) and recommences its business operations (other than for storage purposes) therefrom.

2.3 Place of Payment. Payments of rental hereunder are to be made pursuant to Paragraph 20.15 hereof.

2.4 Definition of Rent and Additional Rent. Notwithstanding anything in this Lease to the contrary, Tenant shall not be obligated to pay to or reimburse Landlord for any common area or other operating expenses, or expenses incurred by Landlord for any repairs, maintenance, replacements, insurance or other services which are Landlord's obligation to perform, provide or pay for under this Lease (other than reimbursement of Real Property Taxes pursuant to Paragraph 6.1 below), and Landlord shall not be entitled to receive any management or administrative fees in connection with the Premises, this Lease or any such obligations. All sums payable by Tenant to Landlord pursuant to this Lease other than Fixed Rent shall be deemed to be "ADDITIONAL RENT". The term "RENT", "RENTS", "RENTAL" or "RENTALS" as used in this Lease shall mean Fixed Rent and additional rent.

ARTICLE 3: POSSESSION AND TITLE.

3.1 Landlord's Covenants. Landlord covenants to deliver to Tenant upon the Delivery Date sole and exclusive possession of the Premises (subject, however, to Landlord's rights to enter the Premises to complete Landlord's Work and the Punchlist Items as provided in

Paragraph 1.4 above), free and clear of: (i) all tenants and occupants (other than Tenant) and the rights of either; (ii) any violations of Applicable Laws; and (iii) all liens, encumbrances, easements, covenants, conditions and restrictions (collectively, "ENCUMBRANCES"), except for the following items (collectively, the "APPROVED TITLE EXCEPTIONS"): (A) those Encumbrances specified in Exhibit D attached hereto and made a part hereof (collectively, the "PERMITTED ENCUMBRANCES"); (B) any first priority deed of trust executed by Landlord as trustor in favor of an institutional lender as beneficiary in connection with any financing obtained by Landlord to acquire the Land or construct the Improvements (the "PERMITTED DEED OF TRUST"), subject, however, to Tenant's receipt of an executed SNDA from such lender pursuant to the provisions of Article 16 below; and (C) any utility and landscape easements (reasonably approved by Tenant) that are reasonably necessary to effect the Subdivision, complete Landlord's Work and/or provide utilities to and for the Premises (collectively, the "PERMITTED EASEMENTS"). In connection with the foregoing, Landlord covenants that prior to the earlier of the Delivery Date and the Outside Subdivision Date, Landlord shall cause all Encumbrances recorded against the Property (other than the Approved Title Exceptions) to be removed from record title to the Premises. With respect to any such utility easements proposed by Landlord pursuant to clause (C) hereinabove, Tenant shall notify Landlord of Tenant's reasonable approval or disapproval thereof within five (5) days after Tenant's receipt from Landlord of the documents creating such proposed easements. Tenant's taking possession of the Premises shall not constitute a waiver of any defect in the Premises or of any breach by Landlord of Landlord's obligations under Exhibit C attached hereto.

Landlord further covenants that Landlord will not, so long as this Lease is in effect:

(1) grant or create (or consent to the granting or creation of) any leases or occupancy agreements affecting the Premises;

(2) grant or create (or consent to the granting or creation of) any Encumbrances or other agreements which would or could (x) adversely affect or interfere with Tenant's access to the Premises, or materially interfere with Tenant's operation of the Premises for the Permitted Use (as defined in Paragraph 5.1 below), or (y) increase any of Tenant's obligations under this Lease (including rent) or diminish or impair any of Tenant's rights under this Lease, other than (I) a Permitted Deed of Trust encumbering the Premises, subject to the provisions of Article 16 below, and (II) the Permitted Easements;

(3) vary or permit to be varied the designated means of ingress to and egress from the Premises from that shown on the Site Plan or otherwise approved by Tenant as part of Landlord's Work pursuant to Exhibit C;

(4) alter or permit to be altered any street signs, median cuts, traffic signals, driveways or the parking layout or parking areas of and for the Premises from that shown on the Site Plan or otherwise approved by Tenant as part of Landlord's Work pursuant to Exhibit C (except to the extent required by applicable governmental agencies after consultation with Tenant and subject to Tenant's reasonable review and approval of any such required alterations);

(5) erect or permit to be erected any buildings or structures on the Premises except for the initial Improvements to be constructed by Landlord as part of Landlord's Work pursuant to Exhibit C; and/or

(6) alter the Premises or permit the Premises to be altered in any manner (except as necessary by Landlord in the performance of Landlord's Work or any of its other obligations under this Lease) without first obtaining the prior written consent of Tenant, which consent may be granted or withheld in the sole and absolute discretion of Tenant.

3.2 Quiet Enjoyment. Landlord covenants that Tenant, upon paying the rent pursuant to the terms of this Lease, may quietly have, hold and enjoy the Premises during the Term hereof.

3.3 Landlord's Representations, Warranties and Covenants. Landlord represents, warrants and covenants to Tenant that:

(i) (A) Landlord has entered into a purchase and sale agreement to acquire fee simple title to the Larger Parcel (including the Land) from the current owner thereof, which agreement provides for a closing date to occur by May 15, 2004, (B) such purchase and sale agreement is in full force and effect and neither Landlord nor the seller is in default thereunder, (C) Landlord shall not extend such closing date beyond the Acquisition Outside Date, (D) Landlord shall not modify such purchase and sale agreement in any manner which would increase Tenant's obligations or diminish or impair Tenant's rights under this Lease, (E) Landlord shall diligently and timely perform all of its obligations under such purchase and sale agreement and acquire fee simple title to the Larger Parcel (including the Land) on or before the Acquisition Outside Date, subject, however, to any material breach by the seller or the failure of any other material condition in favor of Landlord thereunder not caused by Landlord's default or Landlord's failure to use commercially reasonable efforts to acquire fee simple title to the Land, and (F) upon the closing date of such purchase and sale agreement, Landlord shall: (1) acquire fee simple title to the Larger Parcel (including the Land) free of all Encumbrances, except for the Approved Title Exceptions described in Paragraph 3.1 above, subject, however, to the provisions of Article 16 below; (2) cause the Memorandum of Lease to be recorded in the Official Records immediately after the grant deed conveying fee simple title to the Larger Parcel (including the Land) to Landlord is recorded in the Official Records; and deliver to Tenant a copy of Landlord's owner's policy of title insurance insuring that Landlord has fee simple title to the Larger Parcel (including the Land) subject only to those title matters set forth in clause (1) hereinabove.

(ii) the Land is currently part of the Larger Parcel which will be acquired by Landlord as described hereinabove, but on or before the Subdivision Outside Date, Landlord shall: (A) cause the Land to be subdivided into a legally subdivided parcel of land in compliance with the California Subdivision Map Act based upon and substantially in accordance with the Proposed Final Map (which depicts the Land as Parcel 1 thereof) and subject to the conditions specifically set forth on the Proposed Final Map (as described in Recital B above) and no other conditions (all of which conditions Landlord shall, at Landlord's expense, cause to be satisfied and deleted prior to the recordation of the final parcel map for the Land); (B) if the Subdivision is not effected concurrently with the Land Acquisition, execute with Tenant and record the Memorandum of Lease Amendment in the Official Records immediately after the final parcel

map for the Land is recorded in the Official Records; and (C) cause to be delivered to Tenant, at Tenant's option, either (1) an ALTA Leasehold Title Policy of Insurance issued by the same title company who issued the owner's title insurance policy to Landlord, insuring Tenant's leasehold interest in the Premises pursuant to the Lease in the amount of \$20,000,000.00, subject only to the Approved Title Exceptions, which policy shall be paid for by Tenant (but Landlord shall contribute \$2,500.00 toward the cost thereof) and shall be in such form of and contain such endorsements as Tenant shall reasonably request or approve (collectively, the "LEASEHOLD TITLE POLICY") or (2) an ALTA leasehold title commitment issued by such title company and dated not sooner than the date such final parcel map is recorded, which commitment shall be paid for by Landlord and shall show as exceptions to title in Schedule B thereof only the Approved Title Exceptions (the "LEASEHOLD TITLE COMMITMENT");

(iii) Landlord has full right, power and lawful authority to enter into this Lease and perform its obligations hereunder;

(iv) Landlord has obtained (or will obtain prior to the Delivery Date or the date the Premises are Ready for Occupancy) all governmental and other permits and approvals necessary to perform its obligations pursuant to this Lease, including Exhibit C attached hereto;

(v) to Landlord's actual knowledge, the Premises are not subject to any leases, subleases, tenancies, agreements or Encumbrances (other than those specifically set forth in Exhibit D attached hereto), or violations of Applicable Laws;

(vi) to Landlord's actual knowledge: (A) there are no environmental, zoning, archaeological or other Applicable Laws which will (1) prevent Landlord from acquiring fee simple title to the Larger Parcel (including the Land), subdividing the Land from the Larger Parcel pursuant to the Proposed Final Map, or completing Landlord's Work, or (2) prevent Tenant from conducting the Permitted Use at the Premises; (B) the Premises are properly zoned to permit construction of Landlord's Work and the Permitted Use; (C) the Premises are not subject to any existing environmental impact report (and the construction of Landlord's Work as currently contemplated in Exhibit C will not subject the Premises to any environmental impact reports); and (D) all Stephens Kangaroo Rat habitat fees affecting the Premises have been paid in full;

(vii) to Landlord's actual knowledge, the Permitted Use is lawful under all Applicable Laws and all existing Encumbrances affecting the Premises, and will be lawful under all insurance policies to be obtained by Landlord pursuant to this Lease;

(viii) the Building and all other Improvements to be constructed and installed for the Premises as part of Landlord's Work (including, without limitation, all parking spaces thereon, all public road access and curb cuts, including access and curb cuts for trucks and all driveways and accessways thereon and thereto, the construction of Crest Ridge Drive as described in Exhibit C, all drainage facilities, and all utilities, utilities connections and other improvements and facilities necessary to conduct Tenant's Permitted Use at the Premises and to access the Premises) shall be constructed and installed by Landlord in compliance with all Applicable Laws in effect as of the date of completion thereof (including, without limitation, all zoning laws and the California Subdivision Map Act), all existing Encumbrances affecting the

Premises and all insurance policies now obtained or hereafter to be obtained by Landlord pursuant to this Lease;

(ix) to Landlord's actual knowledge, there are no civil lawsuits, condemnation or similar proceedings or other judicial actions or proceedings which are presently pending against Landlord or the Premises and which could have an adverse impact on the operation or use of the Premises as contemplated or permitted in this Lease;

(x) no joinder or approval of another person or entity is required with respect to Landlord's right and authority to enter into this Lease, and no approval of another person or entity is required with respect to Landlord's performance of its obligations under this Lease, except for Landlord's obligation to obtain the following approvals of the City of Riverside with respect to the construction of Landlord's Work described in Exhibit C, which shall be obtained by Landlord: (A) the grading permit, foundation permit and building permit for Landlord's Work, the necessary governmental approvals for the construction of Crest Ridge Drive as described in Exhibit C, and the permits for electrical, plumbing, mechanical, sewer, storm drain and other systems to be included within or at the Building or Premises and/or serving the Premises; and (B) the certificate of occupancy to occupy the Premises issued by the City of Riverside;

(xi) (A) Landlord has received no notice from any governmental agency or authority or from any third party relating to Hazardous Materials in, on or under the Premises, (B) Landlord has not generated, treated, stored or disposed of any Hazardous Materials in, on, under or about the Premises, (C) to Landlord's actual knowledge, no Hazardous Materials exist in, on or under the Premises in violation of any Applicable Laws in effect as of the date of execution of this Lease, and (D) Landlord will not generate, handle, treat, store or dispose of any Hazardous Materials upon or within the Building or the Premises in connection with the construction of the Landlord's Work, or any of its other activities conducted with respect to the Premises, except only such Hazardous Materials which are routinely used in connection with such construction work or activities, but then only in compliance with all Applicable Laws. For purposes hereof, the term "HAZARDOUS MATERIALS" shall mean any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government, including, without limitation, any material or substance which is (1) defined or listed as a "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," "hazardous substance" or "hazardous material" under any Applicable Laws, (2) petroleum, or (3) asbestos.

For purposes hereof, "TO LANDLORD'S ACTUAL KNOWLEDGE" means the actual knowledge of Steven Palmer, one of Landlord's representatives who Landlord hereby represents and warrants to Tenant is the employee of Landlord who is primarily responsible for acquisition and development of the Premises.

3.4 Effect of Breach; Indemnity. Any material breach or material inaccuracy of the representations, warranties or covenants set forth in Paragraphs 3.1, 3.2 or 3.3 above shall, for the purposes of Article 18 below, constitute a failure by Landlord to perform a material obligation under this Lease and a default by Landlord under this Lease, and in addition to Tenant's remedies set forth in this Lease, at law and/or in equity, as a result of such default

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

(including, without limitation, Tenant's remedies set forth in Article 18 below), Landlord shall indemnify, defend, protect and hold Tenant harmless from and against any and all losses, damages, claims, expenses and liabilities arising out of any such breach or inaccuracy (excluding, however, lost profits or other consequential damages).

ARTICLE 4: SIGNS AND COMMUNICATION EQUIPMENT.

Tenant shall have the exclusive right, at Tenant's expense, but subject to Tenant's obtaining Landlord's prior consent pursuant to, and otherwise complying with the other provisions of, Article 8 below, to: (i) affix to, erect, install, paint and/or inscribe any and all signs (collectively, "SIGNS") designated by Tenant anywhere in or at the Premises (including, without limitation, any Signs on the exterior and/or interior of the Improvements), to the extent permitted by Applicable Laws; and (ii) affix to, erect and/or install any and all satellite dishes, antennae and other communications equipment for use by Tenant in connection with or related to Tenant's operations of its Permitted Use at the Premises (collectively, the "COMMUNICATION EQUIPMENT") anywhere in or at the Premises (including, without limitation, on the roof of the Building). Accordingly, Landlord shall have no right to place any Signs or Communication Equipment or grant to any other party the right to place any Signs or Communication Equipment in, on, under or at the Improvements or the Premises. In the event Tenant elects to install any of Tenant's Signs and/or Communication Equipment as part of the Fixturation Work described in Exhibit C or elects that Landlord install any such items as part of the Tenant Improvements described in Exhibit C, the costs incurred by Tenant or Landlord therefor, as the case may be, shall be paid out of the Tenant Improvement Allowance as set forth in Exhibit C. All of Tenant's Signs and Communication Equipment shall comply with all Applicable Laws. Landlord shall use commercially reasonable efforts to obtain, at Tenant's expense, any required governmental approvals, including variances if necessary, for Tenant's Signs and Communication Equipment and shall, throughout the Term of this Lease, take no action that might result in a change in said Signs or Communication Equipment without the written consent of Tenant. Tenant's signage rights and rights to install, modify and/or use the Communication Equipment are transferable to any permitted assignee of this Lease and/or to any subtenant of the Premises, subject, however, to Tenant's compliance with and receipt of approvals under Applicable Laws with respect to any changes to the Signs and Communication Equipment in connection therewith (but the Communication Equipment shall not be transferable to any third party for any use which is not in connection with such third party's occupancy of the Premises; however, this restriction shall not prevent Tenant from having any Communication Equipment owned by a third party and leased to Tenant for Tenant's use). Tenant shall have the right from time to time to alter or replace the Signs and/or Communication Equipment, including in connection with any assignment or sublease allowed under this Lease, provided that the alterations or replacements comply with then Applicable Laws.

ARTICLE 5: USE OF PREMISES; UTILITIES; COMPLIANCE WITH LAWS.

5.1 Permitted Use. The Premises may be used for warehouse, distribution, sales, advertising, assembly and/or light manufacturing purposes and related retail, office and/or administrative uses (collectively, the "PERMITTED USE") and for no other purpose without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

5.2 Utility Services to Premises. During the Term of this Lease, Tenant covenants to pay directly to the utility companies providing utilities to the Premises, for the cost of all separately metered electricity, water and other public utilities consumed by Tenant at the Premises in connection with its occupancy and use of the Premises. Such utilities shall be separately metered pursuant to meters installed by Landlord, at Landlord's cost, as part of the Building/Site Work as defined in and pursuant to the provisions of Exhibit C. Landlord hereby agrees to reasonably cooperate with Tenant, at Tenant's expense, in obtaining a commitment from the City of Riverside for a guaranteed rate reasonably acceptable to Tenant on all utility charges for the Premises which will result in utility savings reasonably acceptable to Tenant.

5.3 Compliance with Laws. Tenant shall at all times following the Commencement Date conduct its business on the Premises in a lawful manner and in substantial compliance with all Applicable Laws, such compliance to be at Tenant's own cost and expense; provided, however, that any alterations, improvements, or additions, structural or otherwise, to or of the Premises which may be made necessary or required by reason of any Applicable Laws promulgated by competent governmental authority, shall be made by and at the sole cost and expense of Landlord, unless and to the extent necessitated solely by reason of: (i) Tenant's particular and specific use of the Premises after the Commencement Date and/or the introduction of any Hazardous Materials onto the Premises by Tenant and/or any of Tenant's agents, contractors, employees, licensees or invitees in violation of Applicable Laws at the time of such introduction; and/or (ii) alterations made by Tenant to the Premises after the Commencement Date. In the furtherance of the foregoing, Landlord acknowledges and agrees that: (A) Tenant shall have no duty, liability or responsibility whatsoever to study, remediate, remove, dispose or otherwise address any Hazardous Materials which now or may hereafter be present in, on, under or about the Premises to the extent such Hazardous Materials (1) existed in or under the Premises as of the Delivery Date or were generated, handled, brought into, used, stored, disposed or discharged by Landlord, any of Landlord's agents, contractors, employees, licensees or invitees or any other person or entity, other than Tenant and its agents, contractors, employees, licensees and/or invitees, and/or (2) migrated from any offsite sources; and (B) Landlord shall, at its sole cost and expense, promptly take all actions as are necessary to remove, treat, remediate and/or dispose of such Hazardous Materials and return the Premises to the condition existing prior to the introduction of any such Hazardous Materials to the Premises, all in accordance with all Applicable Laws. Wherever there is a conflict between the provisions of this Paragraph and the provisions of Article 7 hereof, the provisions of this Paragraph shall prevail.

5.4 Tenant's Use of Hazardous Materials.

5.4.1 Permitted Use of Hazardous Materials. Landlord hereby agrees that Tenant may store, use, generate and handle at or from the Premises Hazardous Materials that are reasonably necessary in connection with Tenant's Permitted Use conducted at the Premises (including, without limitation, the installation and use of above and/or below ground fuel tanks and service bays on-site for fueling of Tenant's vehicles and equipment and personal property at the Premises); provided however, as a condition to any such storage, use, generation, and/or handling of any such Hazardous Materials: (i) Tenant must store, use, generate and handle such Hazardous Materials in compliance with all Applicable Laws (including those pertaining to or governing Hazardous Materials) and only for their intended purposes; (ii) prior to any such storage, use, generation and/or handling of any such Hazardous Materials, Tenant shall provide

to Landlord copies of all governmental permits required to be obtained by Tenant in connection therewith; and (iii) Tenant must eventually dispose off-site (i.e., outside the Land), in compliance with all Applicable Laws, all such Hazardous Materials stored, used, generated and/or handled by Tenant and its agents, contractors, employees, licensees or invitees. Tenant shall be solely responsible for obtaining and keeping current all of Tenant's governmental permits relating to any Hazardous Materials stored, used, generated, handled and/or disposed of by Tenant and its agents, contractors, employees, licensees and invitees as may be required by Applicable Laws. Tenant further acknowledges and agrees that Tenant shall be solely responsible for the preparation and maintenance of any required waste manifests necessary for the transport and disposal of any Hazardous Materials from the Premises.

5.4.2 Removal and Indemnity. If Tenant breaches any of its obligations contained in this Paragraph 5.4, or if the presence of any Hazardous Materials in the Building or on or at the Premises, stored, used, generated, handled and/or disposed of by Tenant or Tenant's agents, contractors, employees, licensees or invitees results in contamination of the Land, Building or any other portion of the Premises, then Tenant shall promptly commence and pursue to completion, at Tenant's expense, a remediation program designed to remediate such contamination as required by Applicable Laws, provided that Landlord's approval of such remediation program shall first be obtained (which approval shall not be unreasonably withheld, conditioned or delayed). In addition, Tenant shall indemnify defend and hold Landlord and the Landlord Representatives (as defined in Paragraph 10.9.1 below) harmless from and against any and all Claims, as defined in Paragraph 10.9.1 below (including, without limitation, (i) costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Materials present in, on or about the Land, Building and/or any other portion of the Premises, and in the air, in the soil or in the ground water, (ii) diminution in value, if any, of the Land, Building and/or any other portion of the Premises, and (iii) sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees, but excluding lost profits as other consequential damages) which arise as a result of any such breach or contamination described in the first sentence of this Paragraph 5.4.2.

5.4.3 Periodic Inspection. Landlord and/or Landlord's environmental consultants shall be entitled, from time to time during the Term (but only (i) after reasonable advance notice to Tenant, (ii) pursuant to scheduling reasonably approved by Tenant, and (iii) in a manner that will not unreasonably interfere with Tenant's normal business operations at the Premises or cause any damage to the Building or Premises, and otherwise in compliance with the provisions of Paragraph 7.5 below), to conduct environmental inspections, investigations and studies of the Building and Premises. Such inspections shall be at Landlord's sole cost and expense; however, if any such inspection discloses (A) contamination of the Building or Premises with Hazardous Materials stored, used, generated, handled and/or disposed of by Tenant or Tenant's agents, contractors, employees, licensees or invitees, or (B) a breach by Tenant of any of its covenants and obligations in this Paragraph 5.4, Tenant shall be solely responsible for the payment of all reasonable costs of such inspection. Throughout the Term, Tenant shall maintain accurate and complete records with respect to Tenant's storage, use, generation, handling and disposal of Hazardous Materials in, on or about the Building and/or Premises, and Tenant shall make such records reasonably available to Landlord and Landlord's

environmental consultants in connection with any inspection or proposed inspection of the Premises.

5.4.4 Survivability. The obligations of the parties under this Paragraph 5.4 (including Tenant's indemnity of Landlord in Paragraph 5.4.2 above) shall survive the expiration or earlier termination of this Lease.

5.5 Parking Rights. Following the Delivery Date, Tenant and Tenant's employees, agents, contractors, licensees and invitees shall have the sole and exclusive right to use the accessways, driveways, parking areas and parking spaces to be constructed at the Premises, subject, however, to Landlord's rights to access and use such areas as are reasonably necessary in order to (i) complete Landlord's Work and make the Premises Ready for Occupancy during the ninety (90) day period immediately following the Delivery Date (which entry for such purposes shall be in accordance with a mutually approved schedule therefor as set forth in Exhibit C), and/or (ii) perform Landlord's repairs and comply with its other obligations under this Lease during the Term. Subject to the provisions of Article 8 below, Tenant shall have the right from time to time, in its sole discretion, to relocate, restripe and/or make any other modifications to or of any portions of the accessways, driveways, parking areas and parking spaces of the Premises, provided that such modifications comply with all Applicable Laws (including, without limitation, maintaining the minimum number of on-site striped parking spaces required by Applicable Laws for the Building). In addition, in connection with and as part of Tenant's Permitted Use, Tenant may: (A) maintain and/or store on-site in such locations at the Premises or shall be designated from time to time by Tenant therefor automobiles, trucks and other vehicles and any equipment and personal property used in connection with the operation of Tenant's business; and (B) subject to Tenant's compliance with the other provisions of this Paragraph 5 (specifically including Paragraph 5.4 above), install above and/or below ground fuel tanks and service bays on-site for fueling of any such vehicles and equipment.

5.6 Trade Names. All trade names used by Tenant from time to time in connection with its operations in the Premises, all patents and other intellectual property rights of Tenant, and all other intangible personal property of Tenant used or arising in connection with Tenant's operations in the Premises shall not be subject to any lien or claim of ownership by Landlord. Tenant may use any trade names(s) that it chooses in connection with its operations in the Premises and may change such trade name(s) from time to time.

5.7 No Covenant to Operate. Tenant shall have the right to conduct its business operations at the Premises 24 hours a day, 7 days a week, every day of the year, subject to any restrictions that may be imposed by Applicable Laws. However, nothing in this Article or in any other provision of this Lease shall be construed to require a business to be continuously operated or operated during any minimum period of time in the Premises, or to require the Premises to be continuously occupied or occupied during any minimum period of time.

ARTICLE 6: TAXES AND LIENS.

6.1 Taxes and Assessments. All taxes and assessments of every kind and character whatsoever assessed against the Premises shall be paid by Landlord prior to delinquency without reimbursement from Tenant except as expressly provided below in this Article 6, and except that

during the Term of this Lease: (i) any tax imposed on Tenant as a condition of doing business, or any tax assessed against personal property owned by Tenant, or any franchise tax or license fee levied against Tenant by the State of California shall be paid by Tenant directly to the taxing authority prior to delinquency; and (ii) Tenant shall pay, in the manner set forth in Paragraph 6.2 below, all ad valorem real property taxes (collectively, the "REAL PROPERTY TAXES") assessed against the Premises for each fiscal tax year or portion thereof during the Term.

Notwithstanding the foregoing to the contrary, there shall be excluded from Real Property Taxes payable by Tenant hereunder, and Tenant shall not be obligated to pay or reimburse Landlord for any of the following, which shall be paid by Landlord prior to delinquency:

(A) taxes, assessments, bond payments (including Mello-Roos or similar bond payments), development fees, license fees or other fees or impositions for any on-site or off-site improvements, utilities or utilities connections, site acquisition, subdivision, sewer or street improvements (including, without limitation, the construction of Crest Ridge Drive), or any other taxes, assessments, bond payments, development fees, license fees or other fees or impositions now or hereafter assessed or imposed against Landlord or the Premises in connection with or resulting from the development and/or acquisition of the Land or the Improvements or any other part of the Premises (including subdivision of the Larger Parcel and recordation of the final parcel map for the Land) which are other than ad valorem real property taxes, except that there shall be included in Real Property Taxes payable by Tenant hereunder: (1) the Premises' share of bond payments assessed under current storm water bond (CFD #92-1), not to exceed, however, \$1,000 per acre of the Land in any calendar year; and (2) the Premises' share of bond payments assessed under current water bond (AD #1);

(B) increases in taxes attributable to the period occurring prior to the fifth (5th) anniversary of the Commencement Date and resulting from a sale or other change of ownership of the Premises occurring prior to such date, including any "Change of Ownership" (as defined in California Revenue and Taxation Code Sections 60 et seq. or any modifications or successor statutes thereto); provided, however, that the foregoing provisions of this clause (B) shall not apply with respect to Landlord's acquisition of the Land from the current owner thereof;

(C) corporate, partnership, income, franchise, inheritance, succession, estate, gift, excess profits, capital stock or similar taxes;

(D) taxes or charges imposed upon or measured by Landlord's income or profits or the rents or rental income payable pursuant to this Lease or any other lease; or

(E) fines, penalties, late charges or interest imposed as a result of Landlord's failure to timely pay or file returns or information for any taxes, assessments or other charges.

6.2 Payment of Real Property Taxes. If (i) any Real Property Taxes to be paid by Tenant shall cover any period of time prior to or after the expiration or sooner termination of the Term of this Lease, or (ii) any other taxes or assessments contained in any Tax Statements (as defined below) received by Tenant are Landlord's responsibility to pay pursuant to this Article 6, Landlord shall be solely responsible for the payment of such Real Property Taxes and other taxes

and assessments without reimbursement therefor from Tenant, and Landlord shall reimburse Tenant, within thirty (30) days after Tenant's invoice therefor, for any such Real Property Taxes attributable to such periods and such other taxes and assessments actually paid for by Tenant. The parties desire that Tenant pay the Real Property Taxes assessed against the Premises during the Term directly to the taxing authority. In connection with the foregoing, Landlord covenants and agrees to: (A) furnish Tenant with true and complete copies of all tax bills, tax assessment notices and tax statements relating to the Premises (collectively, the "TAX STATEMENTS") throughout the Term within thirty (30) days following Landlord's receipt thereof from the applicable taxing authority or authorities, whether or not such Tax Statements reflect a proposed increase in assessment or amount of tax; and (B) endeavor to have all Tax Statements for the Real Property Taxes be issued by the applicable taxing authority directly to Tenant during the Term (including issued in Tenant's name if necessary for such purposes). Tenant shall make payment directly to the applicable taxing authority of the Real Property Taxes assessed against the Premises during the Term of this Lease in the following manner:

(1) in the event Tenant receives the applicable Tax Statements directly from the applicable taxing authority, Tenant shall make such payment of the Real Property Taxes evidenced thereby not later than ten (10) days prior to delinquency; or

(2) in the event Tenant does not receive the applicable Tax Statements directly from the applicable taxing authority, Tenant shall make such payment of the Real Property Taxes on or before the date which is the later of: (x) thirty (30) days after receipt by Tenant of written demand by Landlord for payment thereof (which demand shall include a copy of the proper tax bill covering such Real Property Taxes); or (y) ten (10) days prior to delinquency. Notwithstanding the foregoing to the contrary, if the applicable taxing authority permits payment of Real Property Taxes to be made in installments, Tenant's obligation to pay Real Property Taxes under this Article 6 shall be limited to such installment payments.

6.3 Tenant's Right to Contest. If Tenant desires to contest the validity of any Real Property Taxes or any other taxes or assessments assessed against the Premises, it may do so on Landlord's behalf, at Tenant's sole cost and expense, provided that it shall indemnify Landlord against any loss, liability or damage on account thereof, excluding lost profits or other consequential damages. If Tenant is successful in said contest, any refund received pertaining to any taxes and assessments paid by Tenant shall belong entirely to Tenant. Landlord agrees to cooperate in a reasonable manner with Tenant in such contest, including the execution of any documents of authorization reasonably necessary therefor. Should (i) Landlord at any time fail to furnish to Tenant true and complete copies of tax bills, tax assessment notices or tax statements as required by this Article 6 at least thirty (30) days prior to the date such taxes or assessments are due, and (ii) such failure results in (A) Tenant's inability to contest (including contest after payment under protest) any proposed new tax or tax increase, and (B) Tenant's obligation to pay Real Property Taxes in an amount which is more than the amount paid by Tenant as Real Property Taxes for the preceding tax year, and Tenant reasonably establishes that it would have prevailed in such tax contest had such tax bills, tax assessment notices or tax statements been delivered by such time deadline set forth hereinabove, then Tenant's obligation for Real Property Taxes for the tax year for which Tenant was not able to contest shall be limited to the greater of (1) the amount paid for such purpose for the preceding tax year, or (2) the

amount Tenant reasonably establishes would have been payable had Tenant prevailed in such tax contest.

6.4 Liens. Tenant covenants that it will not, during the Term hereof, suffer or permit any lien to be attached to or upon the Premises by reason of any act or omission on the part of Tenant, and hereby agrees to indemnify and hold Landlord harmless from and against any such lien or claim of lien. In the event any such lien is recorded against the Premises, Tenant shall have the right to contest the validity of the same, but if the same shall not be released of record (by payment, posting of a statutory bond or other method) within thirty (30) days after notice from Landlord to Tenant to do so, Landlord in its sole discretion, may pay and discharge the same and remove any such lien from the Premises. Tenant agrees to repay Landlord, upon demand, for any amount which may have been paid by Landlord in discharging such lien, together with interest at an annual interest rate equal to the Interest Rate (as defined below) from the date of the expenditure by Landlord to the date of repayment by Tenant. As used herein, the "INTEREST RATE" shall mean the lesser of (i) ten percent (10%) per annum, or (ii) the maximum interest rate allowed by Applicable Laws.

6.5 Landlord's Covenant to Pay. Landlord covenants that it will not fail to pay when due any of the following, if such failure to pay would or may (i) result in a termination of this Lease, or (ii) adversely affect Tenant's leasehold interest in the Premises, or (iii) increase Tenant's obligations or diminish or impair any of Tenant's rights under this Lease: (A) any installment of taxes, assessments, bonds or other charges upon any mortgage, deed of trust or other lien or encumbrance affecting the Premises; or (B) any taxes or assessments payable by Landlord pursuant to this Article 6.

ARTICLE 7: REPAIRS.

7.1 Tenant's Maintenance and Repair Obligations. During the Term, but subject to Articles 9 and 12 below, Tenant shall, at Tenant's sole cost and expense, diligently maintain, repair and replace (as necessary) in good order, condition and repair, all aspects of the Premises, regardless of the cost thereof and the time remaining in the Term and whether capital or non-capital, except for obsolescence and ordinary wear and tear, and unless and to the extent included in Landlord's obligations under this Lease, including, without limitation, Paragraphs 5.3, 7.2, 7.3, 9.1 and 12.4 of this Lease (collectively, "LANDLORD'S MAINTENANCE OBLIGATIONS"). Such obligations of Tenant shall include (subject to Landlord's Maintenance Obligations), without limitation, all equipment or facilities serving the Premises, including, mechanical, plumbing, heating, air conditioning, ventilating and electrical systems (collectively, the "SYSTEMS"), lighting facilities, interior demising walls, the roof membrane of the Building (but not the structural components of the roof, and Tenant's repair obligations shall not include the replacement of the roof or roof membrane or any part thereof), windows, doors, plate glass, driveways, parking areas, landscaping, fences, walls, Signs, sidewalks and parkways located in, on or at the Premises. In addition, Tenant shall maintain the painting of and repaint the exterior walls of the Building as and when reasonably necessary. Notwithstanding the foregoing provisions of this Paragraph 7.1 to the contrary, to the extent any damage to the Premises is caused by the negligence or willful misconduct of Landlord or any of Landlord's agents, contractors, employees, licensees or invitees, Landlord shall be solely responsible, at its expense, for repairing such damage with all due diligence, in good and workmanlike manner, in

compliance with all Applicable Laws and in a manner which will not unreasonably interfere with Tenant's access to or use of the Premises; if Landlord fails to diligently complete such repairs, or if such repairs are of an emergency nature which if not attended to may result in bodily injury or property damage or material interference with or interruption of Tenant's business operations at the Premises, Tenant may perform such repairs as provided in Paragraph 7.2 below, and Landlord shall reimburse Tenant for the reasonable out-of-pocket costs incurred by Tenant in performing such repairs within thirty (30) days after Landlord's receipt of invoices therefor. Landlord agrees that Landlord will, as part of the cost of the Landlord's Work, obtain for the benefit of both Landlord and Tenant (i) standard manufacturers' warranties for components of Landlord's Work, and (ii) warranties against defective construction, workmanship and materials from the contractors performing the Landlord's Work covering all of Landlord's Work for a period of at least one (1) year from the date of full completion of the Landlord's Work, except that with respect to the roof of the Building, Landlord shall obtain for the benefit of both Landlord and Tenant, as part of the cost of the Building/Site Work to be paid for by Landlord from Landlord's own funds, from the subcontractor who installs the roof, a "NO DOLLAR LIMIT" warranty without proration against defective construction, workmanship and materials of the roof, covering all materials and labor for a period of at least fifteen (15) years following the date of full completion of the Landlord's Work. Landlord hereby assigns to Tenant all of its rights to such warranties and all other warranties it may now or hereafter have covering those portions of the Premises which Tenant is responsible to maintain, repair and/or replace, and Landlord shall provide Tenant such good faith cooperation as is reasonably necessary to permit enforcement of such warranties by Tenant.

7.2 Landlord's Maintenance and Repair Obligations. Landlord shall, at Landlord's sole cost and expense, diligently maintain, repair and replace (as necessary) in good order, condition and repair: (i) Crest Ridge Drive (unless such maintenance, repairs and replacements are the City of Riverside's obligation following any dedication of Crest Ridge Drive to the City of Riverside); (ii) any other roads, accessways and driveways that are located on the Land and are made available for the common use of other properties in addition to the Land (subject to Tenant's approval of any such common use and the rules and procedures therefor); and (iii) the following elements of the Building and the other Improvements: (A) the structural components of the roof of the Building, but excluding the roof membrane, which, except as provided in Paragraph 7.3 below, shall be Tenant's responsibility to repair as set forth in Paragraph 7.1 above (provided, however, that in any event, Landlord shall be responsible, at Landlord's cost, as part of Landlord's Maintenance Obligations, for replacing the roof and/or roof membrane and any part thereof); (B) floor slabs; (C) exterior walls (excluding painting thereof which shall be Tenant's responsibility, as set forth in Paragraph 7.1 above); (D) foundations; (E) footings; (F) underground utilities; (G) load bearing columns and walls; and (H) all structural portions (both interior and exterior) thereof. Notwithstanding the foregoing to the contrary, Tenant shall reimburse Landlord, within thirty (30) days after receipt of invoices, for the reasonable out-of-pocket costs incurred by Landlord for (1) repairing any damage to such portions of the Building and Improvements required to be repaired by Landlord to the extent caused by the negligence or willful misconduct of Tenant or any of Tenant's agents, contractors, employees, licensees or invitees, and (2) the replacement of the roof membrane necessitated solely as a result of Tenant's failure to maintain the roof membrane as and when required pursuant to Paragraph 7.1 above, which failure is not cured (or other work performed by Tenant which substantially corrects the matter) within thirty (30) days after Landlord notifies Tenant thereof and of Landlord's intent to

replace the roof as a result thereof. Landlord shall also repair, at its cost, any and all damage to the Premises, including fixtures and equipment, which may result from its failure to make any such maintenance, repairs or replacements within a reasonable time after being notified by Tenant that such maintenance, repairs and/or replacements are needed. If any maintenance, repair or replacement matter for which Landlord is responsible under this Lease (including, without limitation, under this Article 7) is of an emergency nature which if not attended to may result in bodily injury or property damage or material interference with or interruption of Tenant's business operations at the Premises, Tenant may make such maintenance, repairs or replacements as are reasonably necessary to remedy such situation without prior notice to Landlord (provided, however, Tenant shall reasonably attempt to give Landlord oral notice of such emergency situation prior to taking any such actions, which oral notice shall be given to the representative of Landlord so designated therefor in writing to Tenant), and Landlord shall reimburse Tenant for the cost of such reasonably necessary maintenance, repairs or replacements so undertaken by Tenant, which reimbursement shall be made within thirty (30) days after Landlord's receipt of invoices from Tenant evidencing such costs together with a written statement from Tenant specifying the nature of such emergency situation and the needed maintenance, repairs or replacements. The obligations of Landlord under this Article 7 shall not be modified or diminished due to the fact or the manner in which Tenant shall undertake to make such emergency maintenance, repairs and/or replacements pursuant to this Paragraph 7.2.

7.3 Defects; Legally-Mandated Improvements. Landlord shall, at Landlord's sole cost and expense, diligently make any and all repairs and replacements of and to the Premises and repair to every part thereof (including the membrane and other components of the roof of the Building, and all interior and exterior portions of the Building and other Improvements at the Premises) which may at any time be necessary by reason of any defects in the original design and/or construction performed by Landlord or Landlord's contractors (other than defects in any alterations or improvements installed by Tenant after the Delivery Date), whether structural or otherwise, and whether capital or non-capital in nature, and shall repair such defects and any and all damage to the Premises which may result from any such defects; provided, however, unless otherwise part of Landlord's maintenance and repair obligations in Paragraph 7.2 above (which provisions shall control with respect to any conflict with this Paragraph 7.3), Landlord shall not be responsible for correcting any such defects not disclosed by Tenant in writing to Landlord by the date which is the later of: (i) ten (10) years (with respect to latent defects) and one (1) year (with respect to patent defects) after the date of full completion of Landlord's Work; (ii) ten (10) years (with respect to latent defects) and one (1) year (with respect to patent defects) after the date such work was initially installed by Landlord or Landlord's contractors; or (iii) the expiration of the applicable warranty period under the warranty provided for such work by the designer and/or contractor performing same. Any addition, alteration or improvement, structural or otherwise, to or of the Premises, or any part thereof, which may be necessary or required by reason of any Applicable Laws promulgated by competent governmental authority shall be governed by the terms and provisions of Paragraph 5.3 above.

7.4 Cost and Timing of Repairs. Landlord shall make all maintenance, repairs and replacements required to be made by it pursuant to this Article 7: (i) at Landlord's sole cost and expense (and such expenses shall not be included in any rental, operating expense or other payments required to be made by Tenant under this Lease); and (ii) promptly following notice from Tenant, taking into consideration the nature of the maintenance, repair and/or replacement

and the inconvenience or interference with Tenant's ability to conduct its business that failure or delay in performing such work will cause. Landlord shall also make all such maintenance, repairs and replacements at such times and in such a manner as to minimize any inconvenience to Tenant in the conduct of its business.

7.5 Right of Entry; Posting of Notices. Subject to the provisions of this Lease, Landlord reserves the right for itself or its duly authorized agents and representatives at all reasonable times during Tenant's business hours, but subject to reasonable advance notice, to enter the Premises for the purpose of inspecting the same or to show the same to any prospective purchaser, and for the purpose of making any necessary maintenance, repairs and replacements to the Premises. In conducting any such entries (including any inspections pursuant to Paragraph 5.4.3 above), Landlord shall follow Tenant's reasonable security procedures, shall be accompanied by a representative of Tenant, and shall minimize any inconvenience to Tenant in the conduct of its business at the Premises. Notwithstanding the foregoing, Tenant may designate certain areas of the Premises as "secured areas" should Tenant require such areas for the purposes of securing valuable property or confidential information; Landlord may not enter such secured areas except in cases of emergency or otherwise after reasonable advance notice to and approval of Tenant and only when accompanied by a representative of Tenant. At all reasonable times Landlord shall have the right to post and keep posted on the Premises any notices permitted by Applicable Laws relating to Landlord's nonresponsibility for mechanics liens or liens of a similar nature.

7.6 Relationship to Article 9. Landlord and Tenant expressly acknowledge (i) that the foregoing provisions of this Article 7 shall not apply to any repairs or replacements required as a result of fire or other casualty event, and (ii) that all repairs and replacements required by fire or other casualty event shall be governed by the provisions of Article 9 below.

ARTICLE 8: ALTERATIONS; SURRENDER OF PREMISES.

8.1 Alterations. From and after the Delivery Date, Tenant shall have the right from time to time to make such additions, repairs, alterations, changes or improvements, in, on or to the Premises, as Tenant may deem necessary or proper (including, but not limited to, the installation of trade fixtures, above and/or below ground storage tanks [subject to Tenant's compliance with the provisions of Paragraph 5.4 above with respect to such storage tanks], service bays, equipment, and partitions required or used from time to time in connection with Tenant's business in the Premises, and Signs and Communication Equipment described in Article 4 above), subject, however, to the following conditions: (i) no work done by Tenant shall lessen the market value of the Premises; (ii) Tenant shall pay promptly for all such work done by it or upon its order subject to Landlord's contribution of the Tenant Improvement Allowance pursuant to Exhibit C, to the extent applicable thereto; (iii) Tenant shall construct all such alterations in compliance with all Applicable Laws and pursuant to a valid building permit (if required for the work to be performed by Tenant); (iv) Tenant shall obtain Landlord's prior consent, which shall not be unreasonably withheld, conditioned or delayed, with respect to any such alterations (including Tenant's Signs and Communication Equipment) (A) made to or affecting the structural components of the Building, or (B) which adversely affect the roof or exterior appearance of the Building; (v) if any such work affects the roof of the Building, Tenant shall perform such work (A) in a manner which will not void the roof warranty, and (B) if

material in nature, only under the reasonable supervision of Landlord's outside independent roof consultant (who Landlord shall make reasonably available to Tenant to permit Tenant to timely perform such work), and Tenant shall reimburse Landlord for the reasonable fees of such consultant in providing such supervision services within thirty (30) days after invoice from Landlord; and (vi) any such work performed after the Delivery Date but prior to the Commencement Date shall not unreasonably interfere with the completion of Landlord's Work by Landlord and Landlord's contractors and shall be performed pursuant to a mutually approved schedule therefor as set forth in Exhibit C. In the event Landlord's prior consent is required for Tenant's alterations pursuant to clause (iv) hereinabove, Landlord shall notify Tenant of its approval or reasonable disapproval within ten (10) days after Tenant's request therefor; if Landlord fails to notify Tenant of Landlord's approval or disapproval within such 10-day period, and such failure continues for an additional five (5) business days after notice thereof from Tenant, Landlord shall be deemed to have approved the proposed alterations. Nothing contained herein shall be construed to require Tenant to: (1) remove any alterations or improvements made by or on behalf of Tenant to or at the Premises, although (x) Tenant shall have the right to remove any such alterations and/or improvements made by or on behalf of Tenant, so long as Tenant repairs, at its expense, any damage to the Premises resulting from such removal, and (y) with respect to any alterations which are other than Landlord's Work, Landlord may require Tenant to remove same at the expiration or earlier termination of this Lease so long as Landlord notifies Tenant of such removal request within ten (10) days after Tenant notifies Landlord of such alterations work, in which case Tenant, at Tenant's expense, shall cause such alterations to be removed on or before the expiration or sooner termination of this Lease and repair any damage to the Premises resulting from such removal; or (2) make or pay for any repair, alteration, improvement, or addition, or to do any other act or thing which Landlord is required to make or do under any provision of this Lease, or which is required or becomes necessary at any time because of any failure of Landlord to perform any of its obligations hereunder.

8.2 Surrender of Premises. Tenant shall, at the expiration of the Term hereof, surrender the Premises and any improvements and alterations made thereto not removed or required to be removed by Tenant pursuant to Paragraph 8.1 above, together with any personal property therein belonging to Landlord, in broom-clean condition.

8.3 Removal of Tenant's Property. Within ten (10) business days after the expiration or sooner termination of this Lease, Tenant shall (i) remove from the Premises all merchandise, trade fixtures, furniture, furnishings, partitions, equipment and other personal property installed therein and owned by Tenant or leased by Tenant from third-parties (excluding, however, at Tenant's option, any Signs installed on or at the Premises), and (ii) repair any damage to the Premises caused by any such removal.

8.4 Initial Improvements. The rights and obligations of Landlord and Tenant with respect to the development and construction of the initial Improvements and Landlord's Work (and the installation by Tenant of the Fixturization Work for the Building) are set forth in Exhibit C attached hereto.

ARTICLE 9: DAMAGE OR DESTRUCTION.

9.1 Landlord's Restoration Obligations.

9.1.1 If the Improvements or any other part of the Premises shall be damaged or destroyed by fire, earthquake or other casualty event or from any other cause other than ordinary wear and tear, ordinary physical depreciation or obsolescence, Landlord shall promptly (in any event, within thirty (30) days following the date Landlord receives notice from Tenant or otherwise becomes aware of the damage or destruction), notify Tenant in writing as to how long it will take to substantially restore the damage or destruction (ignoring any absence of insurance proceeds or delays in receiving the same) as estimated by a reputable, qualified, licensed, nonaffiliated contractor having at least ten (10) years experience in the construction and repair of buildings of similar class, size, quality, design and method of construction as the Building (the "EXPERIENCED CONTRACTOR"). Landlord's failure to so notify Tenant within such 30-day period, where such failure continues for an additional ten (10) days after notice thereof from Tenant shall, if Tenant so chooses, be deemed to be the Experienced Contractor's determination that such restoration will take longer than twelve (12) months (measured from the date of the damage or destruction).

9.1.2 Subject to and except as expressly provided in Paragraphs 9.1.3, 9.2 and 9.3 below, if the Improvements or any other part of the Premises shall be damaged or destroyed to any extent by fire, earthquake or other casualty event, Landlord shall, at Landlord's sole cost and expense (but subject to payment of any Excess Costs [as defined in Paragraph 9.1.3 below], if applicable, and insurance proceeds therefor from the Property Damage Insurance [as defined in Paragraph 10.4.1 below] to be placed in the Construction Escrow, as defined in Paragraph 9.1.3 below, and as provided in Paragraphs 9.1.3 and 10.4.3 below), diligently repair and restore the same to substantially the same condition existing immediately prior to said damage or destruction with all reasonable dispatch and diligence as provided herein. Said repair and restoration shall include all fixtures and equipment in or of the Building and the Premises owned by Landlord (including, without limitation, the HVAC, plumbing, electrical and other mechanical and utilities systems and equipment in and/or serving the Premises) and all leasehold improvements and alterations in and to the Building and Premises, to the extent so damaged or destroyed. Landlord shall have no obligation to repair, restore or replace Tenant's stock in trade, trade fixtures, equipment, furnishings, furniture or other personal property. All such repair and restoration of the Premises by Landlord shall be made in accordance with plans and specifications approved by Tenant, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord shall comply, and shall require all its contractors to comply, with all Applicable Laws in making any said repairs and restoration. Landlord shall indemnify, defend, protect and hold Tenant harmless from and against any and all damages, claims, expenses, losses and/or liabilities (excluding lost profits and other consequential damages) resulting from Landlord's failure to comply with said Applicable Laws and/or diligently perform such repair and restoration work. After repair and restoration, Landlord shall return possession of the Premises to Tenant without diminution in size of the Building or Premises or change of location, except as required by Applicable Laws. If Landlord carries on any restoration or repair pursuant to this Article 9 and Tenant continues to occupy any portion of the Premises, Landlord shall take all such steps as may be reasonable and practicable to prevent interference with Tenant's use and enjoyment of the portion of the Premises which Tenant continues to occupy.

Landlord shall also perform its obligations under this Article 9 in a manner which will achieve restoration of any damage or destruction as soon as practicable, giving due regard to the nature and scope of the damage or destruction.

9.1.3 If (i) the Improvements shall be damaged or destroyed by any fire, earthquake or other casualty event which is not required to be covered by property damage insurance under Paragraph 10.4 below ("UNINSURED CASUALTY"), and the cost of repair or restoration of such Uninsured Casualty damage or destruction exceeds the "THRESHOLD AMOUNT" (which for purposes hereof shall mean twenty percent (20%) of the full replacement cost of the Improvements immediately prior to said damage or destruction), or (ii) such damage or destruction is caused by an earthquake, and Earthquake Insurance Coverage (as defined in Paragraph 10.4.2 below) is in effect but the cost to repair such earthquake damage (inclusive of the deductible amounts under such Earthquake Insurance Coverage) which is not payable from proceeds under such Earthquake Insurance Coverage exceeds the Threshold Amount, then Landlord may notify Tenant in writing, within thirty (30) days after determining the repair and restoration cost (but in no event later than sixty (60) days after said damage or destruction), that Landlord elects not to restore the Premises or repair said damage to the extent of such excess ("EXCESS COSTS") and to terminate this Lease pursuant to the following provisions of this Paragraph 9.1.3. Such notice by Landlord (herein referred to as "LANDLORD'S TERMINATION NOTICE") shall be accompanied by an estimate of such replacement cost and at least two (2) bids prepared by contractors approved by Tenant, showing in detail the costs of the required repairs or restoration. If, within thirty (30) days after Tenant's receipt of Landlord's Termination Notice, Tenant notifies Landlord in writing that Tenant agrees to pay the Excess Costs, then within ten (10) days after approval by Landlord and Tenant (not to be unreasonably withheld or delayed) of joint escrow and payment instructions pertaining to disbursement of funds covering such repair and restoration costs, Tenant shall place in a joint construction escrow account held by a bank or escrow company mutually approved by the parties (the "CONSTRUCTION ESCROW") an amount equal to the Excess Costs, together with said approved joint escrow and payment instructions. Landlord shall thereafter with all reasonable dispatch and diligence, and at Landlord's expense (but with the right to recover such Excess Costs from the Construction Escrow pursuant to such approved joint escrow and payment instructions), make all the necessary repairs or restoration in accordance with Paragraph 9.1.2 above, and this Lease shall continue in effect. The cost of the Construction Escrow holder's fees for such Construction Escrow shall be shared and paid equally by the parties. If Tenant fails to either (A) notify Landlord in writing within thirty (30) days after Tenant's receipt of Landlord's Termination Notice that Tenant agrees to pay the Excess Costs, or (B) deposit the Excess Costs together with said approved joint escrow and payment instructions within such ten (10) day period set forth hereinabove, then this Lease shall terminate at the end of said thirty (30) day period set forth in clause (A) hereinabove or said ten (10) day period set forth in clause (A) hereinabove, as the case may be (but Tenant shall have up to ninety (90) days after such termination to vacate and surrender possession of the Premises to Landlord), and the provisions of Paragraph 9.5 below shall apply. If Landlord shall fail to notify Tenant of Landlord's election not to repair the damage or restore the Premises to the extent of the Excess Costs within ninety (90) days after such damage or destruction, Landlord shall make all necessary repairs or restoration at Landlord's sole cost and expense (subject to payment of any insurance proceeds from the Property Damage Insurance to be placed in the Construction Escrow pursuant to Paragraph 10.4.3 below), in accordance with Paragraph 9.1.2 above.

9.1.4 During the period of any such damage, destruction, restoration and repair, Landlord shall reasonably cooperate with Tenant to provide Tenant with temporary space for the operation of Tenant's Permitted Use therein within Landlord's existing buildings, if any, located in San Bernardino County or Riverside County, California, to the extent such space is available, in which case Tenant shall pay Landlord for the use of such temporary space so provided prevailing market rent, taxes and operating costs for such temporary space in such amounts as shall be mutually and reasonably approved by the parties.

9.2 Tenant's Termination Right. Notwithstanding the provisions of Paragraph 9.1 above to the contrary, in the event that the Experienced Contractor reasonably determines that substantial restoration of the damage or destruction resulting from any fire, earthquake or other casualty event will take longer than twelve (12) months (measured from the date of the damage or destruction), Tenant may terminate this Lease by written notice to Landlord within thirty (30) days following Tenant's receipt of the Experienced Contractor's determination (or within thirty (30) days following the expiration of the thirty (30) day period set forth in Paragraph 9.1.1 above for Landlord to provide the Experienced Contractor's determination to Tenant, in the event such Experienced Contractor's determination is not timely delivered). Such termination shall be effective as of the date specified by Tenant in Tenant's termination notice, which shall be not sooner than thirty (30) days nor later than ninety (90) days after such termination notice is delivered to Landlord.

9.3 Damage Near End of Term. Anything in this Article 9 to the contrary notwithstanding, if the Improvements or any other part of the Premises shall be destroyed or damaged during the last twelve (12) months of the Term hereof by reason of any fire, earthquake or other casualty event, and the Premises cannot be substantially restored within a period of sixty (60) working days from the date of such damage or destruction, this Lease may be terminated upon written notice by either party to the other. Provided, however, that if at the time of said destruction or damage, Tenant has an unexercised right of extension pursuant to Article 15 hereof which is still in effect, Landlord may not terminate this Lease until it has given Tenant notice of its intent to terminate and Tenant fails to exercise said right of extension within thirty (30) days of receipt of said notice. If Tenant fails to exercise said right of extension, this Lease shall terminate effective thirty (30) days after Tenant's receipt of said notice from Landlord.

9.4 Failure to Commence or Complete Restoration. Anything in this Article 9 to the contrary notwithstanding, if the repair and restoration provided for in Paragraph 9.1 hereof is not commenced within six (6) months from the date of the damage or destruction referred to in said Paragraph, or once commenced, if said repair or restoration is not completed within the later of (i) twelve (12) months after the date of such damage or destruction or (ii) the estimated restoration period originally determined by the Experienced Contractor pursuant to Paragraph 9.1.1 above, Tenant may terminate this Lease upon written notice to Landlord, which termination shall be effective as of the date specified by Tenant in such termination notice which shall be not sooner than thirty (30) nor later than ninety (90) days after such termination notice is delivered to Landlord. Tenant's right to terminate this Lease as provided hereinabove (and elsewhere in this Article 9) shall be in addition to any other right or remedy Tenant may have arising out of Landlord's breach of any covenant of this Lease.

9.5 Effect of Termination. Except as otherwise expressly provided above in this Article 9, such destruction or damage to the Premises shall not terminate this Lease, notwithstanding the provisions of California Civil Code Sections 1932 and 1933 or any other Applicable Laws to the contrary. Upon any such termination of this Lease by Landlord or Tenant pursuant to this Article 9, Landlord and Tenant shall be relieved from all liabilities hereunder except those liabilities accruing prior to the date of such termination or which expressly survive such termination.

9.6 Conflict with Article 8. Wherever the provisions of this Article 9 are in conflict with the provisions of Article 8 hereof, the provisions of this Article 9 shall prevail.

ARTICLE 10: INSURANCE AND INDEMNITY.

10.1 Tenant's Liability Insurance. From the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition as provided in Paragraph 1.1 hereof and throughout the Term of this Lease, Tenant shall maintain in force a commercial general liability insurance policy or policies for liability for personal injury, death and bodily injury to persons and damage to property occurring upon, within or at the Premises and arising from Tenant's use and/or occupancy of the Premises. Said insurance policy or policies shall name Landlord as an additional insured and shall be in an amount of not less than a combined single limit liability of Five Million Dollars (\$5,000,000.00), with a commercially reasonable deductible or self-insured retention amount (currently Tenant proposes an initial self-insured retention amount of \$250,000.00, which Landlord agrees is commercially reasonable). Said insurance policy or policies shall be primary and noncontributing with any insurance maintained by Landlord and shall include a blanket contractual liability endorsement.

10.2 Tenant's Personal Property Insurance. From the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition as provided in Paragraph 1.1 hereof and throughout the Term of this Lease, Tenant shall maintain in force an insurance policy covering all perils generally included within the classification "Special Form - Risks of Direct Physical Loss", other than earthquake or flood, with an extended coverage endorsement, in the amount of not less than one hundred percent (100%) of the full replacement cost of all of Tenant's trade fixtures, equipment, inventory and other personal property owned by Tenant at the Premises. Landlord shall have no interest in or claim of any nature to the proceeds of any such insurance.

10.3 Landlord's Liability Insurance. At Landlord's expense, Landlord shall maintain in force from and after the date of execution of this Lease and throughout the Term of this Lease a commercial general liability insurance policy or policies for liability for personal injury, death and bodily injury to persons and damage to property occurring upon, within or at the Premises and arising out of Landlord's acts or omissions, including, without limitation, Landlord's design and construction activities pursuant to Exhibit C. Said insurance policy or policies shall name Tenant as additional insured and shall be in the amount of not less than a combined single limit liability of Five Million Dollars (\$5,000,000), with a commercially reasonable deductible. Said insurance policy or policies shall be primary and noncontributing with any insurance maintained by Tenant and shall include a blanket contractual liability endorsement covering, among other matters, the indemnities provided by Landlord pursuant to Paragraph 10.9 below.

10.4 Property Damage Insurance.

10.4.1 From the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition as provided in Paragraph 1.1 hereof and continuing thereafter throughout the Term of this Lease, Tenant shall, at its sole cost and expense, maintain in force an insurance policy or policies covering: (i) all perils generally included within the classification "Special Form - Risks of Direct Physical Loss", other than earthquake or flood, with an extended coverage endorsement, in the amount of not less than one hundred percent (100%) of the full replacement cost (with a commercially reasonable deductible) of the Building and all other Improvements within or on the Premises, and all improvements, alterations, fixtures and equipment within the Building and any such other Improvements, exclusive, however, of trade fixtures, inventory and other personal property owned by Tenant, and exclusive of the value of excavations, underground utilities, foundations and footings; and (ii) earthquake damage to such property described in clause (i) hereinabove, in such amounts and upon such terms as Tenant shall determine, subject, however, to the limitations contained in Paragraph 10.4.2 below. The insurance described in this Paragraph 10.4.1 shall sometimes be referred to herein as the "PROPERTY DAMAGE INSURANCE."

10.4.2 Landlord and Tenant agree that the obligation of Tenant to provide insurance coverage for the Building and all other Improvements at the Premises against damage from earthquake ("EARTHQUAKE INSURANCE COVERAGE") shall be subject to the following additional terms, conditions and limitations:

(i) The deductible for Earthquake Insurance Coverage, so long as Earthquake Insurance Coverage is required to be maintained in accordance with this Paragraph 10.4.2, shall be the deductible amount which is generally commercially available for Earthquake Insurance Coverage with a premium not in excess of \$0.25 per square foot of Rentable Area of the Building per year (the "MAXIMUM EARTHQUAKE PREMIUM").

(ii) Tenant shall not be required to carry Earthquake Insurance Coverage if (A) the premium payable for Earthquake Insurance Coverage will exceed the Maximum Earthquake Premium, and (B) following notice by Tenant to Landlord of such election not to carry such Earthquake Insurance Coverage pursuant to Paragraph 10.4.2(ii) below, neither Tenant nor Landlord elects to pay such excess in accordance with Paragraph 10.4.2(iii) below. If Earthquake Insurance Coverage becomes unobtainable, regardless of the premium amount, or if Tenant otherwise determines in good faith that Earthquake Insurance Coverage is not available with coverage limits, deductibles, exclusions and other terms and conditions that are commercially reasonable or otherwise reasonably acceptable to Tenant, then Tenant shall have the right to allow Earthquake Insurance Coverage to lapse upon expiration of the Earthquake Insurance Coverage then in effect by providing Landlord written notice of such election at least fifteen (15) days prior to the date such coverage will lapse. Landlord shall thereafter have the right to maintain Earthquake Insurance Coverage (if obtainable) at Landlord's expense, subject to reimbursement by Tenant of the premiums paid for by Landlord in obtaining such Earthquake Insurance Coverage, but such reimbursement obligation shall not exceed the Maximum Earthquake Premium.

(iii) If, at any time from the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition and continuing thereafter throughout the Term, the premium for Earthquake Insurance Coverage will exceed the Maximum Earthquake Premium, Tenant shall have the right, at its option, to elect either to (A) pay the portion of the proposed premium for Earthquake Insurance Coverage in excess of the Maximum Earthquake Premium, and thereby maintain Earthquake Insurance Coverage in effect, or (B) elect not to pay such excess and allow Earthquake Insurance Coverage for the Premises to lapse. If Tenant has the right to make the election described in the immediately preceding sentence, Tenant shall give written notice to Landlord (herein "TENANT'S ELECTION NOTICE") of the action intended by Tenant at least fifteen (15) days prior to the date such coverage will lapse. If, in Tenant's Election Notice, Tenant informs Landlord that it has elected to allow Earthquake Insurance Coverage to lapse, Landlord shall have the right, within ten (10) days after receipt of Tenant's Election Notice, by giving written notice to Tenant, to cause Tenant to maintain Earthquake Insurance Coverage in effect by agreeing to pay to Tenant, without reimbursement from Tenant, the full amount of the excess (which payment shall be made within ten (10) business days after invoice for such excess is delivered by Tenant to Landlord). If Landlord fails to timely pay such excess, Tenant shall nevertheless have the right to allow the Earthquake Insurance Coverage to lapse.

10.4.3 Tenant and Landlord (and any mortgagee of Landlord with a first mortgage or first deed of trust encumbering the Premises of whom Landlord has notified Tenant in writing) shall be loss payees of the Property Damage Insurance maintained pursuant to this Paragraph 10.4, as their respective interests may appear; however, any and all proceeds of such Property Damage Insurance shall be deposited into the Construction Escrow to be established by the parties pursuant to Paragraph 9.1.3 above and shall be used to pay for the costs of the repair and restoration of the Premises as provided by Paragraph 9.1 hereof. Notwithstanding the foregoing to the contrary, if this Lease is terminated pursuant to the provisions of Article 9 above as a result of any such damage or destruction, Tenant shall be entitled to receive and retain the following insurance proceeds (collectively, the "TENANT'S TERMINATION INSURANCE PROCEEDS"): (i) all insurance proceeds pertaining to any leasehold improvements or alterations at the Premises made by Landlord or Tenant from Tenant's own funds; and (ii) all insurance proceeds pertaining to any leasehold improvements or alterations at the Premises made by Landlord or Tenant from the Tenant Improvement Allowance, but only with respect to any termination of this Lease pursuant to this Article 10 which occurs after the initial 10-year Term of this Lease. If by reason of the provisions of any first mortgage or first deed of trust executed by Landlord on the Premises, Property Damage Insurance proceeds are required to be made payable to the lien holder, Tenant hereby consents thereto, provided that the lien holder in question (A) shall first agree in writing with Landlord and Tenant to make such proceeds available for the repair and restoration of the Premises to the extent required pursuant to Paragraph 9.1 hereof, and (B) shall not have any interest in the Tenant's Termination Insurance Proceeds, and Tenant shall not be required to cause Tenant's Termination Insurance Proceeds to be delivered to such lien holder.

10.5 Rent Loss Insurance. From the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition as provided in Paragraph 1.1 hereof and throughout the Term of this Lease, Tenant shall, at Tenant's expense, maintain in force rent loss insurance for the benefit of the Landlord as loss payee covering loss of rental income under this Lease for a period of twelve (12) months.

10.6 Waiver of Subrogation. Landlord and Tenant shall each procure from each of the insurers under all policies of property damage insurance obtained pursuant to the provisions of this Article 10, a waiver of all rights of subrogation which said insurer might otherwise have, as against the other party hereto, said waiver to be in writing and for the express benefit of the other. Landlord and Tenant hereby release each other and waive any claim against the other relating to losses or liabilities for which the releasing party is obligated to obtain property damage insurance under the provisions of this Article 10. For purposes of the preceding sentence, Landlord and Tenant shall include the directors, officers and employees of each.

10.7 General Insurance Requirements. Any and all insurance policies obtained by either Landlord or Tenant pursuant to the provisions of this Article 10 shall be issued only by a responsible insurer, properly licensed in the State of California, having a rating of not less than A-/VII in Best's Insurance Guide. Each such insurance policy shall include an endorsement obligating the insurer to give the party hereto not obtaining said insurance policy thirty (30) days' prior written notice of any cancellation or change in scope or amount of coverage of such insurance policy. Each party hereto shall cause to be issued to the other party appropriate certificates of insurance evidencing compliance with the terms of the provisions of this Article 10 relating to insurance; Tenant shall provide Landlord with such certificates for Tenant's insurance at least ten (10) business days prior to the date Landlord delivers possession of the Premises to Tenant in the Delivery Condition.

10.8 Blanket Policies. Notwithstanding anything in this Article 10 to the contrary, Tenant and Landlord may each insure for the amount of any insurance required to be carried by it pursuant to this Article 10 under a blanket and/or umbrella policy or policies covering other liabilities of the insuring party and/or its subsidiaries, controlling or affiliated entities.

10.9 Indemnities. Notwithstanding anything in this Article 10 to the contrary:

10.9.1 Tenant shall indemnify, defend, protect and hold harmless Landlord and Landlord's managers, members, partners, officers, directors, agents and employees (collectively, "LANDLORD'S REPRESENTATIVES") from and against any and all liabilities, losses, costs, expenses and claims, including reasonable attorneys' fees, but specifically excluding lost profits and other consequential damages (collectively, "CLAIMS") to the extent (i) resulting from an incident (A) which occurs at the Premises from and after the date Landlord delivers possession of the Premises, Ready for Occupancy, to Tenant as provided in Paragraph 1.4 above, and which results in bodily injury, death or property damage, or (B) which arises out of the negligence or willful misconduct of Tenant and/or Tenant's employees, contractors, agents and/or licensees, and (ii) not insured or required to be insured against by Landlord under this Lease; provided however, the foregoing indemnity shall not include any Claims to the extent resulting from the negligence or willful misconduct of Landlord or any of Landlord's Representatives.

10.9.2 Landlord shall indemnify, defend, protect and hold harmless Tenant and Tenant's managers, members, partners, officers, directors, agents and employees (collectively, "TENANT'S REPRESENTATIVES") from and against any and all Claims to the extent (i) resulting from an incident (A) which occurs at the Premises at any time prior to the date Landlord delivers possession of the Premises, Ready for Occupancy, to Tenant as provided in Paragraph 1.4 above and which results in bodily injury, death or property damage or (B) which arises out of the

negligence or willful misconduct of Landlord and/or Landlord's employees, contractors, agents and/or licensees, and (ii) not insured or required to be insured against by Tenant under this Lease; provided however, the foregoing indemnity shall not include any Claims to the extent resulting from the negligence or willful misconduct of Tenant or any of Tenant's Representatives.

10.9.3 The foregoing mutual indemnities are intended to be consistent with the waivers as set forth in Paragraph 10.6 above, pursuant to which each party (i) has waived its respective rights against the other party to the extent any losses, damages or other Claims are insured or required to be insured under property damage policies by such party pursuant to the provisions of this Lease, and (ii) has agreed to cause such party's respective insurance carrier to include a waiver of subrogation in their respective property damage insurance policies. In addition, the foregoing indemnities, and the waivers set forth in Paragraph 10.6 above, are not intended to and shall not relieve any insurance carrier of its obligations to provide insurance coverage pursuant to insurance policies obtained pursuant to the provisions of this Lease.

10.9.4 In the event any action or proceeding is brought against Landlord or any of Landlord's Representatives and such claim is a claim from which Tenant is obligated to indemnify Landlord or Landlord's Representatives pursuant to this Paragraph, Tenant, upon notice from Landlord, shall resist and defend such action or proceeding (in the case of a lawsuit, by legal counsel reasonably satisfactory to Landlord). In the event any action or proceeding is brought against Tenant or any of Tenant's Representatives and such claim is a claim from which Landlord is obligated to indemnify Tenant or Tenant's Representatives pursuant to this Paragraph, Landlord, upon notice from Tenant, shall resist and defend such action or proceeding (in the case of a lawsuit, by legal counsel reasonably satisfactory to Tenant).

10.9.5 Notwithstanding anything in this Lease, including without limitation this Paragraph 10.9 or Articles 17 or 18 below, to the contrary, the terms of this Lease shall not impose any obligation on either party to be responsible or liable for the other party's lost profits or other consequential damages. Landlord and Tenant agree that Landlord's right to recover future rent under California Civil Code Section 1951.2 upon a termination of this Lease following a default by Tenant pursuant to Paragraph 17.1 below shall not be deemed consequential damages or lost profits for purposes of this Paragraph 10.9.5.

10.9.6 The obligations of the parties under this Paragraph 10.9 shall survive termination of this Lease.

ARTICLE 11: ASSIGNMENT AND SUBLETTING.

11.1 Tenant's Right to Assign or Sublet. Subject to Paragraphs 11.2 and 11.3 below, Tenant shall have the right, with Landlord's prior written consent, which consent shall not be unreasonably withheld or conditioned, to assign this Lease or sublet the Premises or any part thereof. If Tenant desires to assign this Lease or sublet the Premises or any part thereof other than pursuant to Paragraphs 11.2 or 11.3 below, Tenant shall notify Landlord of such proposed assignment or sublease specifying the identity of the proposed assignee or subtenant and the material terms of the proposed assignment or sublease (which material terms may be evidenced by a letter of intent, correspondence between the parties or other means designated by Tenant);

Landlord shall have a period of twenty (20) days following receipt of such notice to notify Tenant of Landlord's approval of the proposed assignment or sublease, or reasonable disapproval (with the reasons for such disapproval specified in detail). If Landlord fails to notify Tenant in writing of the approval or reasonable disapproval within such twenty (20) day period, Landlord shall be deemed to have consented to such proposed assignment or sublease.

11.2 Consent to Partial Subletting. Notwithstanding anything in this Article 11 to the contrary, Landlord hereby agrees that Tenant may, at any time and from time to time without having to obtain Landlord's prior consent, sublet up to an aggregate of fifty percent (50%) of the Building and Premises, whenever in the opinion of Tenant it shall be advisable to sublet any such portions of the Building and Premises.

11.3 Consent to Transfers to Tenant Affiliates. Notwithstanding anything in this Article 11 to the contrary, Landlord hereby agrees that Tenant may, at any time and from time to time without having to obtain Landlord's prior consent, assign, sublet or transfer this Lease or the Premises or any part thereof to any entity which owns or controls Tenant, to any entity owned or controlled by Tenant, to any entity owned or controlled by or affiliated with any entity which owns or controls Tenant, or to any entity resulting from a consolidation, or to the surviving entity in case of a merger, to which consolidation or merger Tenant shall be a party, or to an entity to which all or substantially all of the assets of Tenant have been sold. In addition, Landlord hereby agrees that any transfer or series of transfers of stock or other ownership interests in Tenant whether or not resulting in a change in the controlling interest in Tenant and whether voluntarily, by operation of law or otherwise, shall not be deemed an assignment, subletting or other transfer of Tenant's interest in this Lease or the Premises and thus shall not be subject to the requirement that Tenant notify Landlord thereof or obtain Landlord's prior consent thereto.

11.4 No Release. No such assignment, subletting or transfer of this Lease by Tenant pursuant to the foregoing provisions of this Article 11 shall release Tenant from Tenant's obligations under this Lease.

ARTICLE 12: EMINENT DOMAIN.

12.1 Total Taking. In the event of a "TOTAL TAKING", defined as when the entire Premises or the entire Building is taken or appropriated under the power of eminent domain, this Lease shall terminate as of the date of the taking of physical possession of the Premises or Building (as the case may be), and each party shall be released from any liability accruing thereafter under this Lease (but shall not be released from any liability accruing prior to such termination).

12.2 Partial Taking.

12.2.1 In the event that through such eminent domain proceedings there is a "PARTIAL TAKING", defined as when only a portion or portions of the Building or Premises is taken, and Tenant in good faith determines that such taking may have a material adverse effect on its ability to conduct its business in the Premises, Tenant shall have the option (exercisable by written notice to Landlord at any time within sixty (60) days after the taking of physical possession under any such proceeding) to terminate this Lease effective as of the later of (i) the

termination date set forth in Tenant's termination notice, which shall be no later than the ninetieth (90th) day following such notice, or (ii) the day before the date of the taking of physical possession of such portion(s) of the Premises. Upon any such termination, each party shall be released from any liability accruing thereafter under this Lease (but shall not be released from any liability accruing prior to such termination). Except as provided in this Article 12, such Partial Taking shall not be a basis to terminate this Lease, notwithstanding any Applicable Laws of the State of California to the contrary.

12.2.2 Notwithstanding the foregoing provisions of Paragraph 12.2.1 to the contrary, in the event Landlord disputes that such taking would have a material adverse effect on Tenant's ability to conduct its business at the Premises and thus disputes the effectiveness of Tenant's exercise of its right to terminate this Lease pursuant to Paragraph 12.2.1 above, then the parties agree to resolve the dispute as provided in this Paragraph 12.2.2. Prior to submitting any such dispute to JAMS arbitration (as provided below), Landlord and Tenant agree that they shall meet and use good faith efforts, for a period of fifteen (15) days, to attempt to resolve such dispute. If the parties fail to resolve such dispute within said 15-day period, the parties agree to submit the question to binding arbitration by the Judicial Arbitration and Mediation Services ("JAMS") in Riverside County, California, in accordance with the Comprehensive Arbitration Rules of JAMS, or the Streamlined Arbitration Rules of JAMS if mutually agreed to by both parties hereunder. The parties agree to cooperate with JAMS and with one another in selecting from JAMS' panel of arbitrators (selecting, if available, an arbitrator experienced in commercial real estate matters in Riverside County, California) and in scheduling the arbitration proceedings. If the parties are unable to agree upon an arbitrator, such arbitrator shall be appointed by JAMS. The party requesting arbitration shall be responsible for completing and sending to the JAMS' office for Riverside County, California, such forms as JAMS may require to commence such arbitration proceedings. Each party shall initially advance one-half (1/2) of JAMS' and the arbitrator's fees, and each party shall bear its own attorneys' fees if it chooses to be represented by an attorney in the arbitration. The arbitrator shall award to the prevailing party in the arbitration the fees it paid to JAMS and the arbitrator, together with reasonable attorneys' fees, which award will be payable by the other party within thirty (30) days after the arbitrator mails his or her decision. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. If JAMS is not available in Riverside County, the parties shall use JAMS in Orange County. If JAMS is not available in either Riverside or Orange Counties, the parties shall use the arbitration and mediation services provided by the American Arbitration Association ("AAA"). If JAMS and AAA are not available or no longer in existence, then the parties agree to use good faith efforts to select an alternative arbitration and mediation service, and the procedures set forth above shall apply to such substitute service.

12.3 Condemnation Award. Landlord shall be entitled to all damages or compensation awarded in any eminent domain proceeding relating to its fee simple interest in the Premises and Improvements paid for by Landlord at Landlord's expense. Tenant shall be entitled to all damages, compensation and proceeds awarded in any eminent domain proceeding that comprise Tenant's Eminent Domain TI Proceeds (as defined below) and/or pertain to Tenant's leasehold interest, loss of goodwill, relocation expenses, loss of business, business interruption, loss and/or removal of Tenant's trade fixtures, furniture, equipment and other personal property. For purposes hereof, "TENANT'S EMINENT DOMAIN TI PROCEEDS" shall mean all damages, compensation and proceeds awarded in any eminent domain proceeding for or pertaining to loss

and/or removal of leasehold improvements and alterations at the Premises made by Tenant or Landlord from (i) the Tenant Improvement Allowance (but not with respect to any eminent domain proceeding which results in a termination of this Lease prior to the end of the initial 10-year Term of this Lease), and/or (ii) Tenant's own funds.

12.4 Landlord's Duty to Restore. In the event that there is a taking and this Lease is not terminated pursuant to this Article 12, Landlord shall, at its own expense (but only to the extent Landlord has received condemnation proceeds therefor), repair and restore the Improvements and the other portions of the Premises, including the fixtures, systems and equipment owned by Landlord and all leasehold improvements and alterations within the Improvements, to (i) a condition suitable for Tenant's use as close to their original condition as possible, and (ii) as reasonably necessary to ensure that the Premises continue to operate in accordance with all Applicable Laws and with the standards prevailing from time to time for comparable warehouse/distributions facilities in the vicinity of the Premises.

12.5 Restoration Requirements. All repair and restoration of the Premises to be made by Landlord pursuant to Paragraph 12.4 hereof shall be made in accordance with plans and specifications approved by Tenant. Landlord shall comply, and shall require all its contractors to comply, with all Applicable Laws relating to conditions of employment in making such repairs and restoration. In the event that there is a taking and this Lease is not terminated pursuant to this Article 12, any and all proceeds owing to Landlord resulting from any eminent domain proceedings based on such taking shall be deposited into a mutually acceptable joint Construction Escrow to be established by Landlord and Tenant in the same manner as provided in Paragraph 9.1.3 above, and used to pay for the costs of such repairs and restoration. Notwithstanding the foregoing, if by reason of the provisions of any such mortgage or deed of trust executed by Landlord on the Premises, any such eminent domain proceeds are required to be made payable to the lien holder, Tenant hereby consents thereto, provided that the lien holder in question (i) shall first agree in writing with Landlord to make said proceeds available for such repair and restoration to the extent required pursuant to this Article 12, and (ii) shall not have any interest in the Tenant's Eminent Domain TI Proceeds, and Tenant shall be entitled to retain any such proceeds.

12.6 Abatement and Adjustment of Rent. In the event that there is a taking and this Lease is not terminated pursuant to this Article 12, in addition to any right Tenant may have to abate Fixed Rent and Real Property Taxes pursuant to Paragraph 2.2 hereof, a reduction of the annual Fixed Rent and Real Property Taxes payable under Paragraphs 2.1 and 6.1 hereof shall be made as follows: (i) if a portion of the Building is taken, the annual Fixed Rent and Real Property Taxes shall be reduced by the ratio of the total Rentable Area taken to the total Rentable Area of the Building; and (ii) if a portion of the parking, landscaping and other areas of the Premises located outside the Building is taken, an equitable reduction in the Fixed Rent and Real Property Taxes shall be made, based on the amount taken and proximity of the portion taken to the Building and the adverse effect on Tenant's business in the Premises.

12.7 Definition of Taking. A "TAKING OR APPROPRIATION", as used in this Article 12, shall be deemed to include one or more takings or appropriations, and the cumulative effect of more than one such taking or appropriation shall be construed as one taking or appropriation.

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

Appropriation or taking by eminent domain as used herein shall also include a conveyance made as a settlement to an existing or threatened eminent domain proceeding.

12.8 Conflict with Article 8. Where the provisions of this Article 12 are in conflict with the Applicable Laws of the State of California, or with the provisions of Article 8 hereof, the provisions of this Article 12 shall apply.

ARTICLE 13: ATTORNEYS' FEES.

In the event either party hereto commences legal proceedings to enforce any of the terms of this Lease, or for damages resulting from a breach of this Lease, the successful party in such action shall receive from the other party, in each such action, including any appeal taken thereof, its reasonable attorneys' fees and costs incurred. Whenever one party is obligated to indemnify the other party under the terms of this Lease, said duty to indemnify shall include the duty to defend the other party and to pay for all reasonable attorneys' fees, costs and disbursements related to said defense. The term attorneys' fees as used in this Article 13 shall include the fair market value of Landlord's and Tenant's in-house counsel's services.

ARTICLE 14: PERMITS AND LICENSES.

Landlord hereby covenants and agrees to fully and promptly cooperate with Tenant, at no cost to Landlord, in Tenant's efforts (which shall be at Tenant's sole cost and expense) to apply for and secure any building permit, signage variances and/or permission of any duly constituted authority for the purpose of doing any of the things which Tenant is required or permitted to do under the provisions of this Lease, and Landlord shall indemnify Tenant for any loss, cost or damage (excluding lost profits or other consequential damages) suffered by Tenant as a result of Landlord's failure to so cooperate.

ARTICLE 15: EXTENSION OF TERM.

15.1 Tenant's Right to Extend Lease Term. Tenant shall have the right to extend the Term of this Lease upon the same terms, covenants, and conditions as herein contained, and at the Fixed Rent rate herein reserved in Paragraph 2.1.3 above, for three (3) additional consecutive periods of five (5) years each (each an "OPTION PERIOD" and collectively the "OPTION PERIODS") from and after the Expiration Date hereof, by giving Landlord notice at least six (6) months prior to the Expiration Date, and prior to each such extended expiration date (as the case may be), notifying Landlord of Tenant's election to so extend the Term; provided, however, in the event that Tenant fails to give such notice of extension, Tenant shall not be deemed to have waived the right to that extension or any extension thereafter until Landlord gives Tenant written notice of Tenant's failure to exercise such right of extension and affords Tenant a period of thirty (30) days after receipt of such notice to exercise that right of extension by giving Landlord notice thereof. Wherever there is a reference in this Lease to the Term of this Lease, or to the expiration of this Lease, such references shall be construed to include any extension of the Term of this Lease. Notwithstanding the foregoing to the contrary, Tenant shall not have the right to extend the Term for the applicable Option Period if at the time Tenant delivers to Landlord Tenant's exercise notice, Tenant is then in monetary or material non-monetary default under the Lease after expiration of all applicable notice and cure periods.

15.2 Interference Period. Whenever Tenant shall be prevented in whole or in part from the free, uninterrupted, and unimpeded enjoyment of the use of the Premises and the fixtures therein by reason of default of Landlord, or by reason of Landlord's making any repairs, alterations, extensions or additions to the Premises, or the fixtures therein, or by reason of any casualty event or eminent domain proceedings, and such prevention or disturbance lasts for a period in excess of ninety (90) days, then, and in each and all of such cases, Tenant shall have the right of extension, as hereinafter defined, which right shall be cumulative and additional to any other rights given in such cases by this Lease or Applicable Laws. Said right of extension shall give Tenant the option (to be exercised at least ninety (90) days before the conclusion of the Term) to add any such period or periods of loss of such enjoyment, or the aggregate of all such periods, to the Term of this Lease.

ARTICLE 16: SUBORDINATION.

16.1 Permitted Deed of Trust. In the event Landlord acquires fee simple title to the Land with acquisition and/or construction financing secured by a Permitted Deed of Trust (as defined in Paragraph 3.1 above), then concurrently upon the closing of such acquisition, Landlord shall deliver to Tenant a subordination, nondisturbance and attornment agreement ("SNDA") executed by Landlord and the holder of such Permitted Deed of Trust in the form attached hereto as Exhibit E, with any reasonable modifications thereto which do not increase any of Tenant's obligations or diminish or impair any of Tenant's rights under this Lease as shall be reasonably required by the holder of such Permitted Deed of Trust and reasonably approved by Tenant. If Landlord fails to deliver the executed SNDA to Tenant concurrently upon such closing, Tenant may, at its option, in addition to its other remedies under this Lease: (i) terminate this Lease effective upon the date written termination notice is delivered to Landlord, which termination notice may be delivered at any time prior to the date such executed SNDA is delivered to Tenant, in which event the provisions of Paragraph 1.5.5 above shall apply; or (ii) defer the payment of any and all rental due under this Lease until such executed SNDA is delivered to Tenant. During such period of deferral, said rental shall accrue without interest. Tenant shall pay such accrued rent in full to Landlord within forty-five (45) days after Tenant's receipt of such executed SNDA in recordable form.

16.2 Future Deeds of Trust. Tenant covenants that it will execute an agreement subordinating this Lease to any first priority deed of trust subsequently placed upon the Premises after Landlord's acquisition of fee simple title to the Land in the form attached hereto as Exhibit E, with any reasonable modifications thereto which do not increase any of Tenant's obligations or diminish or impair any of Tenant's rights under this Lease as shall be reasonably required by the holder of such deed of trust and reasonably approved by Tenant. Tenant agrees to execute and deliver such agreement to Landlord within twenty (20) days after such agreement is delivered by Landlord to Tenant in the form (and with such modifications) as approved by Tenant in accordance with the foregoing provisions of this Paragraph 16.2.

16.3 Landlord's Waiver. Landlord hereby waives and releases any lien or claim of lien, statutory or otherwise, which Landlord may be entitled to assert under Applicable Laws upon or against any inventory, fixtures, furniture, equipment and other personal property of Tenant situated at the Premises. Landlord covenants that concurrently upon Landlord's execution of this Lease and/or subsequent to the execution of this Lease at Tenant's request,

Landlord will execute an agreement setting forth certain information regarding this Lease, as well as acknowledging certain rights of Tenant and any lender of Tenant, in the form attached hereto as Exhibit F. In addition, Landlord agrees to execute any other document reasonably requested from time to time by Tenant and/or any lender, supplier, vendor, lessor or other lienholder in connection with Tenant's inventory, trade fixtures, furniture, equipment or other personal property, pursuant to which Landlord expressly waives any lien Landlord might otherwise have or acquire upon such property.

ARTICLE 17: TENANT'S DEFAULTS.

17.1 Monetary Defaults. Should Tenant fail to make any payment of rent required to be paid by Tenant to Landlord hereunder as and when due under this Lease, and such failure shall continue for five (5) business days after Tenant's receipt of written notice thereof from Landlord specifying in detail such failure, then Tenant shall be in default under this Lease and Landlord may, at its option, in addition to any other remedies provided for such default under Applicable Laws (but subject to the provisions of Paragraph 10.9.5 above), terminate and cancel this Lease, and re-enter and take possession of the Premises, remove Tenant's property therefrom, and dispose of the same in the manner provided by Applicable Laws. Said five (5) business day notice from Landlord to Tenant shall be in addition to, and not in lieu of, any statutory notice for eviction or foreclosure proceedings required under the Applicable Laws of the State of California (including, without limitation, the provisions of California Code of Civil Procedure Section 1161 regarding unlawful detainer actions or any successor statute or law of a similar nature); provided, however, if Tenant is in default in the payment of rent more than two (2) times in any 12-month period, for the third (3rd) and any subsequent default in such 12-month period, such five (5) business day notice shall be in lieu of any such statutory notice for eviction or foreclosure proceedings. Upon such termination, Landlord may recover from Tenant:

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

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

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

(iv) any other amount necessary to compensate Landlord for all the expenses and all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

The "worth at the time of award" of the amounts referred to in items (i) and (ii) above is computed by allowing interest at the Interest Rate (defined in Paragraph 6.4 above). The "worth at the time of award" of the amount referred to in item (iii) above is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Except as otherwise herein provided, no entry into the Premises or

any other action by Landlord shall be construed as an election to terminate this Lease unless written notice of such intention is given to Tenant, or unless termination thereof is decreed by a court of competent jurisdiction.

17.1.1 In the event this Lease is terminated as provided in this Paragraph 17.1, Tenant shall promptly remove all personal property to which it has the right to possession. All property of Tenant not removed by Tenant within ten (10) business days after Tenant's receipt of notice of a final adjudication that the Lease has been terminated shall be disposed of by Landlord in the manner provided by Applicable Laws.

17.1.2 Landlord shall also have the remedy described in California Civil Code Section 1951.4 (which provides that lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due (in accordance with California Civil Code Section 1951.4).

17.2 Non-Monetary Defaults. If Tenant shall be in default in the performance of any obligation under this Lease other than in the payment of rent, and if Tenant shall fail to cure such default within thirty (30) days of receipt of notice from Landlord, specifying in detail the nature of such default, or in case the default is of such a character as to reasonably require more than thirty (30) days to cure, then if Tenant shall fail to use reasonable diligence in curing or attempting to cure such default, then Landlord may cure such default for the account of and at the cost and expense of Tenant. The sum so expended by Landlord shall be deemed to be additional rent if Tenant fails to pay to Landlord the sum so expended within thirty (30) days after Tenant's receipt of notice of a final adjudication that such amount is owing to Landlord, including interest at the Interest Rate from the date of expenditure by Landlord until paid.

17.2.1 In addition to the foregoing, if Tenant shall be in material default in the performance of any non-monetary obligation under this Lease which cannot be cured by Landlord by the payment of money or the exercise of Landlord's self-help rights as set forth in Paragraph 17.2 above, and if Tenant shall fail to cure such default within the time periods set forth in Paragraph 17.2 above, Landlord shall be entitled to exercise all rights and remedies set forth in Paragraph 17.1 above. In no event shall any such default, other than the failure to pay rent, be the basis of a forfeiture of this Lease or otherwise result in the eviction of Tenant or the termination of this Lease, unless and except to the extent specifically and expressly permitted under this Paragraph 17.2.

17.2.2 In addition to Landlord's right to cure such non-monetary default and recover the amount so expended in curing such non-monetary default, Landlord shall have the right to injunctive relief and/or recover damages (subject, however, to the limitations in Paragraph 10.9.5 above) for Tenant's default of any such obligation, covenant or agreement.

17.3 Bankruptcy. In the event of the commencement of voluntary or involuntary proceedings by or against Tenant under the United States Bankruptcy Code, which proceedings are not dismissed within ninety (90) days after the same are filed, then subject to and limited by

the provisions of the United States Bankruptcy Code, as amended, including any subsequent amendments thereto, Tenant shall be deemed to be in default under this Lease and Landlord shall be entitled to exercise all rights and remedies set forth in Paragraph 17.1 above.

17.4 Landlord's Remedies Cumulative. Any right or remedy Landlord may have under this Paragraph 17 arising out of Tenant's uncured default under this Lease shall be in addition to any other right or remedy for such uncured default provided for by Applicable Law and/or in equity (subject, however, to the limitations in Paragraphs 10.9.5 and 17.2.1 above), including, without limitation, the right to recover damages as a result thereof.

ARTICLE 18: LANDLORD'S DEFAULTS.

18.1 Tenant's Right to Cure. If Landlord (i) fails to pay any installment of taxes or assessments or any interest, principal, costs or other charges upon any lien or encumbrance affecting the Premises when any of the same becomes due and such failure to pay could or would result in (A) a termination of this Lease, (B) loss of quiet enjoyment of the Premises, (C) impairment or loss of any of Tenant's rights under this Lease, or (D) increase in any of Tenant's obligations under this Lease, or (ii) fails to pay any other monetary amounts required to be paid by Landlord under this Lease (including, without limitation, payments of any costs and/or the Tenant Improvement Allowance pursuant to Exhibit C) when any of the same becomes due, or (iii) fails to perform Landlord's Maintenance Obligations or make any other repairs or do any other work required of Landlord by the provisions of this Lease, or (iv) in any other respect fails to perform any other obligation under this Lease to be performed by Landlord (including, without limitation, any obligation under Exhibit C), then Landlord shall be in default under this Lease, and Tenant may (but this shall not be deemed to impose an obligation upon Tenant to do so), in addition to any other rights provided under this Lease, at law and/or in equity (but subject to the provisions of Paragraph 10.9.5 above) as a result of any such default:

(1) recover from Landlord any and all damages resulting therefrom; and/or

(2) at the expense of Landlord, pay such charges and/or cure such defaults on behalf of Landlord and/or do all necessary work and make all necessary payments in connection therewith.

Notwithstanding the foregoing, no right or remedy of Tenant shall be exercised unless Landlord fails to cure such default within fifteen (15) business days (with respect to monetary defaults) and thirty (30) days (with respect to non-monetary defaults) after receipt of notice from Tenant specifying in detail the nature of such default; provided, however, that with respect to non-monetary defaults only, if such non-monetary default is of such nature as cannot be cured within said 30-day period, Landlord shall not be deemed in default hereunder if, and so long as, Landlord commences to cure such default within said 30-day period and proceeds diligently and continuously to complete the cure of such default within such reasonable additional time as is necessary to cure such default; provided, further, however, that if a failure by Landlord to perform or observe any term of this Lease gives rise to circumstances or conditions which constitute an emergency threatening human health or safety or substantial damage to the Premises or Tenant's personal property, or materially impeding the conduct of the business of Tenant at the Premises, Tenant shall be entitled to take immediate curative action (prior to the

expiration of any notice and cure period set forth above) to the extent reasonably necessary to eliminate the emergency. Landlord shall pay to Tenant, within ten (10) business days after demand, the amount so paid by Tenant in the exercise of any such rights and remedies, together with interest thereon from the date of such expenditure at the Interest Rate. However, if Landlord desires to contest the validity or correctness of any lien or encumbrance described in clause (i) hereinabove, it may do so, provided that if such lien or encumbrance could or would result in any of the events described in clauses (A) through (D) set forth in clause (i) hereinabove, Landlord shall first furnish Tenant with a good and sufficient bond indemnifying Tenant against any loss, liability or damage (excluding lost profits and consequential damages) on account thereof.

18.2 Tenant's Right to Offset. If Landlord shall fail to pay to Tenant the amount of such expenditures and interest within fifteen (15) business days of written demand from Tenant to do so, in addition to any other rights provided under this Lease, at law and/or in equity, Tenant may deduct the amount of such expenditures and interest from any and all rental payments and other payments thereafter becoming due to Landlord hereunder. In no event shall such deduction by Tenant pursuant to the foregoing provisions of this Paragraph 18.2 be the basis of forfeiture of this Lease or constitute a default by Tenant in the payment of rent unless Tenant shall fail to pay the amount of such deduction within thirty (30) days after Tenant's receipt of notice of a final adjudication that such amount is owing to Landlord. Nothing herein contained shall preclude Tenant from proceeding to collect any amount paid by it pursuant to Paragraph 18.1 without waiting for rental offsets to accrue.

18.3 Tenant's Rights Cumulative. Any right or remedy Tenant may have under this Lease arising out of Landlord's breach of any representation, warranty or covenant of this Lease shall be in addition to any other right or remedy for such breach provided for by Applicable Law and/or in equity (subject, however, to the limitations in Paragraph 10.9.5 above), including, without limitation, the right to recover damages as a result thereof. The terms, conditions and provisions of this Article 18 are in all respects subject and subordinate to Landlord's covenant of quiet enjoyment to Tenant set forth in Article 3 of this Lease, and the parties agree that the rights and remedies set forth in this Article 18 are not intended to nullify, impair or negate in any manner or to any extent the covenant of quiet enjoyment, and Landlord acknowledges and agrees that in the event of conflict between Article 18 or any other provision of this Lease, the covenant of quiet enjoyment shall control.

ARTICLE 19: NOTICES.

19.1 Manner of Delivery. Any notices, demands, and the like, which are required to be given hereunder or which either party hereto may desire to give to the other shall be given in writing by (i) mailing the same by certified or registered United States mail, return receipt requested, postage prepaid, or (ii) sending the same by Federal Express or other comparable overnight express courier service (with proof of receipt available), addressed to Landlord at the address for notices shown in Paragraph 20.15 hereof, or to Tenant, at 2525 East El Segundo Boulevard, El Segundo, California 90245, attention of the President or Secretary of Tenant, or to such other addresses as the respective parties may from time to time designate by notice given as provided in this Lease. Notices shall be deemed effective upon receipt or refusal to accept receipt (as evidenced by supporting documentation).

19.2 Statutory Service. Any notice served on Tenant pursuant to any statutory procedure related to forfeiture or eviction proceedings under the Applicable Laws of the State of California shall be served on Tenant's authorized agent for service of process under such Applicable Laws, or the President or Secretary of Tenant at the address specified in Paragraph 19.1 hereof. Wherever there is a conflict between the provisions of this Paragraph 19.2 and any such statutory procedure, the provisions of this Paragraph 19.2 shall prevail.

19.3 Landlord Entity. If Landlord is a partnership, corporation or limited liability company, Tenant may act on any notice given by any officer or agent (which has been designated in writing by Landlord) of such corporation, or of any general partner or agent (which has been designated in writing by Landlord) of such partnership, or of any managing member or agent (which has been designated in writing by Landlord) of such limited liability company.

ARTICLE 20: MISCELLANEOUS PROVISIONS.

20.1 Effect of Words; Gender; Singular; Plural. Whenever in this Lease any words of obligation or duty regarding either of the parties are used, such words shall have the same force and effect as though in the express form of covenants. Whenever appropriate from the context, the use of any gender shall include any other or all genders, and the singular number shall include the plural, and the plural shall include the singular.

20.2 Memorandum of Lease; Recording Fees. Concurrently with the execution of this Lease, the parties shall execute and acknowledge three (3) originals of a memorandum of lease in the form of Exhibit G attached hereto and incorporated herein by this reference (the "MEMORANDUM OF LEASE"). Each party shall retain one (1) executed original of the Memorandum of Lease and deliver the third (3rd) executed original to the escrow holder of the escrow for Landlord's acquisition of the Larger Parcel (including the Land). Landlord shall cause such escrow holder to record the Memorandum of Lease (or as described in Recital B above, such modified version in substitution thereof to be executed by the parties and delivered to such escrow holder if the Subdivision occurs concurrently with the Land Acquisition, rather than after the Land Acquisition as currently contemplated by the parties) in the Official Records upon the closing date of Landlord's acquisition of fee simple title to the Larger Parcel (including the Land), as described in Paragraph 3.3(i) above. If required by the county recorder's office, or such escrow holder or title company in connection with the recordation of the Memorandum of Lease, Landlord and Tenant shall update the date of, execute and acknowledge the Memorandum of Lease prior to recording same. If the Subdivision occurs after the Land Acquisition, the parties shall execute and acknowledge the Memorandum of Lease Amendment and cause the same to be recorded in the Official Records immediately after recordation of the final parcel map subdividing the Land from the Larger Parcel. Prior to attaching any legal description of the Land to the Memorandum of Lease or Memorandum of Lease Amendment, Tenant shall approve same for accuracy. This Lease, the Memorandum of Lease (or modified version thereof, as the case may be) and the Memorandum of Lease Amendment (if applicable) shall be construed together as one instrument. Neither party shall record this Lease or permit the same to be recorded without the written consent of the other party. Tenant agrees to pay all recording fees due for bringing about the recording of the Memorandum of Lease and Memorandum of Lease Amendment (if applicable).

20.3 No Waiver of Subsequent Breaches. No waiver of any breach of any of the covenants, agreements or provisions contained herein shall be construed as a waiver of any subsequent breach of the same or any other covenant, agreement or provision. No payment of rent or other charges payable hereunder by Tenant shall be construed as a waiver by Tenant of any breach by Landlord under this Lease.

20.4 Successors and Assigns. This Lease binds, applies to and inures to the benefit of, as the case may require, the heirs, executors, administrators, successors and assigns of Landlord and the successors and assigns of Tenant.

20.5 Conflicting Claims to Money Payable by Tenant. Tenant may make any payment or give any notice to Landlord, despite any succession or assignments, and be protected in so doing, until it has received written notice to do otherwise from Landlord, or, in case of Landlord's death if Landlord is a natural person, from the executor or administrator, together with a certified copy of letters testamentary or letters of administration. If there are conflicting claims to money payable by Tenant under this Lease, Tenant may discharge its obligation to pay such amounts by depositing such money in trust with the holder of any first mortgage or first deed of trust on the Premises of whom Tenant has received written notice and in all other events in any bank or trust company designated from time to time in writing by Landlord (provided such designation is given prior to receipt by Tenant of conflicting claims), and if no such designation is given, then in any bank or trust company in the county in which the Premises are located, to be distributed pursuant to court order; provided, however, Tenant need not recognize any such adverse claims, and may pay the money directly to Landlord. All sums payable hereunder by either party to the other are payable in lawful money of the United States of America.

20.6 Table of Contents; Headings. The table of contents and the captions heading the various articles of this Lease are for convenience and identification only, and shall not be deemed to expand, limit or define the contents of their respective paragraphs.

20.7 Brokers' Commissions. Each party hereby represents and warrants to the other that it has not caused or incurred any claims for brokerage commissions or finder's fees in connection with the execution and delivery of this Lease, the Memorandum of Lease and the Memorandum of Lease Amendment (if applicable), other than to Charles Ogburn of Ogburn & Associates (representing Tenant) and CB Richard Ellis, Inc. (representing Landlord) (collectively, the "BROKERS"), the payment of which shall be the sole responsibility of Landlord, which payment shall be made in accordance with the terms of a separate listing agreement made by and among Landlord and the Brokers. Each party shall indemnify and hold harmless the other from and against any other claims for commissions or finder's fees caused by the party whose actions or alleged commitments form the basis of such claim.

20.8 Approvals. Whenever the approval of Landlord or Tenant is required hereunder, such approval shall be in writing and be given pursuant to Article 19 hereof. Such approval shall not be unreasonably withheld, conditioned or delayed (unless another standard for approval is specifically provided for in this Lease with respect to a particular matter, which specific approval standard shall control).

20.9 Amendments to Lease. This Lease, the Memorandum of Lease and the Memorandum of Lease Amendment (if applicable), taken together, comprise the entire agreement between the parties hereto. There shall be no amendments to this Lease except by written agreement between the parties.

20.10 Severability of Provisions; Governing Law. In the event that any provision of this Lease shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Lease. This Lease shall be construed and interpreted in accordance with the laws of the State of California.

20.11 Lease Freely Negotiated. This Lease was freely and voluntarily negotiated between the parties and shall not be construed against one or the other party.

20.12 Time of the Essence. Time is of the essence hereof.

20.13 Counterparts. This Lease may be executed in multiple counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same agreement. 20.14 Mutual Warranty of Authority. Landlord warrants to Tenant that Landlord is a validly existing limited liability company under the laws of the State of California and that it is duly qualified to do business in the State of California, that its entry into and performance of this Lease has been duly authorized, and that each of the parties executing this Lease on its behalf is authorized to do so. Tenant warrants to Landlord that Tenant is a validly existing corporation under the laws of the State of Delaware and that it is duly qualified to do business in the State of California, that its entry into and performance of this Lease has been duly authorized, and that the officers executing this Lease on its behalf are duly authorized to do so.

20.15 Payments of Rent; Notices.

Payments of rent to Landlord are to be made to:

Panattoni Development Company, LLC
8401 Jackson Road
Sacramento, California 95876
Attention: Accounting Department

Notices to Landlord are to be sent to:

Panattoni Development Company, LLC
19660 Fairchild Road
Irvine, California 92612
Attention: Steven Palmer

or to such other person or entity and at such other place as shall be designated by Landlord in writing by notice as provided in Article 19 of this Lease (and in the case of rent payments, at

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

least thirty (30) days prior to the next ensuing rental payment due date).
Landlord's Tax I.D. number is 68-0423919.

20.16 Minimization of Interference. Without limiting any other provision in this Lease, Landlord shall exercise its rights and perform its obligations hereunder in such a way as to minimize (given the circumstances, including, without limitation the existence of an emergency situation) any resulting interference with Tenant's use of and access to the Premises for the conduct of Tenant's business from the Premises.

20.17 When Payment is Due. Whenever a payment is required to be made by one party to the other under this Lease, but a specific date for payment or a specific number of days within which payment is to be made is not set forth in this Lease, or the words "immediately", "promptly" and/or "on demand", or their equivalent, are used to specify when such payment is due, then such payment shall be due thirty (30) days after the party which is entitled to such payment sends written notice to the other party demanding such payment.

20.18 Exhibits. The following Exhibits are attached hereto and by this reference made a part hereof:

Exhibit A	Description of Land
Exhibit B-1	Site Plan of Land
Exhibit B-2	Proposed Final Map
Exhibit C	Construction
Exhibit D	Permitted Encumbrances
Exhibit E	Non-Disturbance, Attornment and Subordination Agreement
Exhibit F	Landlord's Waiver-Inventory
Exhibit G	Memorandum of Lease
Exhibit H	Commencement Certificate
Exhibit I	Delivery Condition

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

PANATTONI DEVELOPMENT COMPANY, LLC, a
California limited liability company

By: /s/ Jeff Phelan

Print Name: Jeff Phelan
Its.: Senior Partner

TENANT:

BIG 5 CORP.,
a Delaware corporation

By: /s/ Steven G. Miller

Steven G. Miller
Its: President

By: /s/ Gary S. Meade

Gary S. Meade
Its: Secretary

EXHIBIT A

DESCRIPTION OF LAND

Panattoni Development

BIG 5

"GROSS" PARCEL DESCRIPTION

All of Parcels 8 through 14, inclusive, and Parcels 82 and 83, together with portions of Parcels 1 through 5, inclusive, and Parcel 15 of Parcel Map No. 24535 as shown by map on file in Book 162 of Parcel Maps, at Pages 84 through 90 thereof. Records of Riverside County, California, more particularly described as follows:

BEGINNING at the southwest corner of said Parcel 82;

Thence N. 00 degrees 08'48" W., along the west line of Parcels 82, 14, 11, 83 and 1, a distance of 963.07 feet;

Thence N. 89 degrees 20'44" E., a distance of 1665.44 feet;

Thence easterly and northerly along a curve concave northwesterly, having a radius of 100.00 feet, through a central angle of 90 degrees 00'00" and an arc length of 157.08 feet;

Thence N. 00 degrees 39'16" W., a distance of 77.78 feet;

Thence northerly and easterly along a curve concave to the southeast, having a radius of 100.00 feet, through a central angle of 69 degrees 17'44" and an arc length of 120.94 feet;

Thence N. 68 degrees 38'28" E., a distance of 54.06 feet to the east line of said Parcel 5, also being the west line of Parcel 86 (Sycamore Canyon Boulevard) of said Parcel Map No. 24535;

Thence south along the east line of said Parcel 5 along a curve concave to the west, having a radius of 1166.82 feet, through a central angle of 19 degrees 24'37" and an arc length of 395.29 feet, (the initial radial line bears N. 70 degrees 08'31" E.);

Thence S. 00 degrees 26'52" E., continuing along the east line of said Parcel 5, and the east lines of said Parcels 83, 8 and 15, a distance of 938.94 feet;

Thence S. 89 degrees 20'44" W., a distance of 221.19 feet;

Thence S. 00 degrees 39'16" E., a distance of 17.00 feet;

EXHIBIT A

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

EXHIBIT A

DESCRIPTION OF LAND

Thence S. 89 degrees 20'44" W., a distance of 1062.18 feet to the west line of said Parcel 15:

Thence N. 00 degrees 14'56" W., along the west line of said Parcel 15, a distance of 90.47 feet to the northwest corner thereof, also being a point on the south line of said Parcel 12;

Thence S. 89 degrees 20'44" W., along the south lines of said Parcels 12 and 82, a distance of 668.00 feet to the POINT OF BEGINNING.

The above described Parcel of Land contains 46.64 acres, more or less.

EXHIBIT A

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

EXHIBIT B-1

SITE PLAN OF LAND

[Attached]

[PLAN DRAWING]

EXHIBIT B-1

-1-

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

EXHIBIT B-2

PROPOSED FINAL MAP

[MAP DRAWING]

EXHIBIT B-2

-1-

EXHIBIT C

CONSTRUCTION

Attached to and forming a part of that certain Lease executed under date of April 14, 2004, by and between PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company, as Landlord, and BIG 5 CORP., a Delaware corporation, as Tenant.

1. Landlord's Work; Minimum Specifications.

1.1 Definition of Landlord's Work. Landlord hereby covenants that immediately upon the execution of this Lease it will proceed with all reasonable diligence and dispatch to design and obtain all applicable building permits and governmental approvals for, and thereafter (and following acquisition of the Land) commence and complete construction upon and/or adjacent to the Land of, the Building described in Paragraph 1.1 of the Lease and related facilities and Improvements (including, without limitation, all parking areas, landscaping, utilities and utilities connections, driveways, parkways, accessways, curb cuts, the construction of Crest Ridge Drive, all site work for the Premises and all other on-site and off-site improvements), and interior tenant improvements for the Building, all: (i) in first-class condition; (ii) as specified on the Final Plans (as defined below) to be prepared and approved by the parties pursuant to the provisions of this Exhibit C; and (iii) in compliance with all such building permits and governmental approvals and all Applicable Laws.

The Building and such related facilities and other Improvements set forth on the Final Plans (as the same may be revised pursuant to the provisions of Paragraphs 2 and 3 below) shall be referred to herein, collectively, as the "LANDLORD'S WORK", and shall consist of, collectively, two (2) separate components of work, the Tenant Improvements and the Building Site/Work (as defined below).

For purposes hereof, the "TENANT IMPROVEMENTS" shall consist of, collectively, (A) those interior tenant improvements (including, without limitation, the office area demising walls and other interior office area improvements within the Building) to be constructed within the interior of the Building, including the office area portion of the Building designated as such by Tenant on the TI Layout Plans, as defined in Paragraph 2.1 below (which is currently contemplated by Tenant to contain approximately 47,000 square feet), and (B) certain exterior improvements to be constructed or installed on portions of the Land located outside the Building, and consisting of a truck wash, maintenance facility, guard shack, above-ground fuel tank, fencing, an asphalt automobile parking lot on the east side of the Building, an asphalt truck driveway on the south side of the Building, and an asphalt expansion on the west side of the Building, all as to be specified on those portions of the Final Plans described hereinbelow as the "Final TI Plans" to be prepared by Landlord, at Tenant's expense (subject to Landlord's contribution of the Tenant Improvement Allowance, as defined below), and approved by Tenant as provided in Paragraph 2 below. Except for Tenant's racking systems, the Tenant Improvements shall also include any items which would otherwise constitute Fixturation Work (as defined below) to the extent Tenant specifically designates such items on the TI Layout Plans

to be part of the Tenant Improvements for Landlord (rather than Tenant) to install (but any cabling for Tenant's telephone, data and security systems for the Building shall only be included in the Tenant Improvements if Tenant designates its preferred subcontractors and/or vendors who shall be used by Landlord's Contractor [as defined in Paragraph 5.2 below] to perform such work).

For purposes hereof, the "BUILDING/SITE WORK" shall consist of, collectively, all portions of the Building, such site work, related facilities and other Improvements which are other than the Tenant Improvements, all as to be specified on those portions of the Final Plans described hereinbelow as the "Final Building/Site Work Plans" to be prepared by Landlord, at Landlord's expense, and approved by Tenant as provided in Paragraph 2 below. With respect to utilities, as part of the Building/Site Work, Landlord shall provide or make available to the Building and Premises telephone, water, sewer, storm drainage, electricity and all other utilities and connections therefor to and/or within the boundaries of the Building and Premises with public or private means of access to public, governmental or private utility company lines or conduits, as applicable, including, if necessary, easements over lands adjacent to the Land, all as specified in the Final Building/Site Work Plans. The approximate location of the Building and such site work, related facilities and Improvements comprising the Building/Site Work shall be consistent with the Site Plan attached to the Lease as Exhibit B (as the same may be modified by the Final Building/Site Work Plans), with specifications that meet or exceed the minimum specifications and requirements set forth on Schedule 1 attached to this Exhibit C (collectively, the "MINIMUM BUILDING/SITE WORK SPECIFICATIONS"). Landlord covenants to incorporate the Minimum Building/Site Work Specifications into the Final Building/Site Work Plans to the extent consistent with the other specifications for the Building, site work and related facilities and Improvements approved by Tenant as provided herein and otherwise in a manner acceptable to Tenant.

1.2 Landlord's Covenants for Landlord's Work. Landlord covenants that it will diligently prosecute the design and construction of Landlord's Work until completed in all details and deliver possession of the Premises to Tenant in the Delivery Condition as defined in Paragraph 1.4 of the Lease, and within ninety (90) days thereafter (subject to Force Majeure and Tenant Delays as provided in Paragraph 1.5.4 of the Lease), cause the Premises to be Ready for Occupancy, as defined and provided in Paragraph 1.4 of the Lease.

2. Construction Drawings and Final Plans.

2.1 Layout Plans for Tenant Improvements. On or before May 1, 2004, Tenant shall deliver to Landlord layout plans prepared by architects, engineers and consultants of Tenant's choice showing the layout of, and certain minimum specifications for, the Tenant Improvements (collectively, the "TI LAYOUT PLANS").

2.2 Construction Drawings. Landlord shall, at Landlord's expense, cause all plans, specifications and working drawings for the Building/Site Work (which shall include, without limitation, all exterior elevations, Systems requirements, restroom requirements, floor loads and exiting requirements for the Building and Premises) to be prepared promptly and diligently following the execution of the Lease (collectively, the "BUILDING/SITE WORK CONSTRUCTION DRAWINGS"). In addition, promptly following the date Tenant delivers to Landlord the TI Layout

Plans, Landlord shall, at Tenant's expense (but subject to Landlord's contribution of the Tenant Improvement Allowance), cause all plans, specifications and working drawings for the Tenant Improvements to be prepared in accordance with, based upon and incorporating the minimum specifications set forth in the TI Layout Plans (collectively, the "TI CONSTRUCTION DRAWINGS"). The Building/Site Work Construction Drawings and the TI Construction Drawings (collectively, the "CONSTRUCTION DRAWINGS") shall be prepared by Carlisle Coatsworth Architects (or by another architect selected by Landlord and approved by Tenant), and by engineers and other consultants selected by Landlord and approved by Tenant. The Building/Site Work Construction Drawings shall incorporate the Minimum Building/Site Work Specifications as set forth above. The Construction Drawings shall be in such form and detail as (i) required for submission to the applicable governmental authorities for the issuance of all applicable building permits and governmental approvals, and (ii) shall be adequate for construction of Landlord's Work by Landlord's Contractor and bidding by all subcontractors. The Construction Drawings shall be submitted by Landlord to Tenant for Tenant's approval, by no later than July 1, 2004, and shall be approved by both Tenant and Landlord pursuant to the procedures set forth below in this Paragraph 2 prior to (A) commencement of construction of Landlord's Work, and (B) Landlord's submission of the Construction Drawings to the appropriate governmental authorities (including but not limited to Building and Health Departments) for approval and issuance of permits. All plans and specifications delivered to Tenant pursuant to this Paragraph 2 shall consist of two (2) sets of plans and specifications plus one (1) reproducible set of plans and specifications.

2.3 Tenant's Approval of Construction Drawings. Landlord shall cooperate and coordinate with Tenant and Tenant's consultants in Landlord's preparation of the Construction Drawings. Landlord shall keep Tenant and Tenant's consultants informed of the progress thereof to enable consideration of Tenant's needs and suggestions therefor, as well as to enable coordination with the planning for the design and installation of the Tenant Fixturation Work to be performed by Tenant as provided in this Exhibit C. Tenant shall review and approve (or reasonably disapprove) all phases of the Construction Drawings (including, but not limited to, elevations, grading plans, schematic plans, and architectural and engineering drawings and specifications); provided, however, that notwithstanding Tenant's review and approval of any such phases of the Construction Drawings, Tenant shall not have any responsibility or liability for any such Construction Drawings, any design errors or defects therein and/or compliance of same with Applicable Laws and the other requirements in this Exhibit C. Tenant shall approve or reasonably disapprove the Construction Drawings as submitted by Landlord to Tenant within ten (10) business days after Tenant's receipt thereof. Notwithstanding anything to the contrary contained herein, Tenant shall not be required to approve (i) any portion of the Building/Site Work Construction Drawings that do not incorporate, or are otherwise inconsistent with, the Minimum Building/Site Work Specifications, or (ii) any portion of the TI Construction Drawings that are inconsistent with, and/or do not incorporate the minimum specifications set forth in, the TI Layout Plans. Any notice of disapproval of any portions of the Construction Drawings from Tenant shall state the reasons for disapproval and the specific changes which Tenant requests be made. Landlord, upon receipt of any such notice of disapproval from Tenant, shall revise such portion(s) of the Construction Drawings as have been disapproved in a manner so as to incorporate Tenant's proposed specific changes, and resubmit such revised Construction Drawings to Tenant as soon as reasonably possible thereafter, but in any event within ten (10) business days after receipt of such notice of disapproval. Tenant shall have five (5) business days after receipt of such revised Construction Drawings to notify Landlord of Tenant's approval

or reasonable disapproval of such revised Construction Drawings (with any changes required by Tenant for Tenant's approval to be specified in such notice), and Landlord shall, upon receipt of such notice of disapproval from Tenant, revise such portion(s) of the Construction Drawings as have been disapproved in a manner so as to incorporate Tenant's proposed revisions, and resubmit such revised Construction Drawings to Tenant as soon as reasonably possible thereafter, but in any event within five (5) business days after Landlord's receipt of such notice of disapproval. The foregoing process shall continue until all phases of the Construction Drawings have been approved by Tenant.

2.4 Final Plans. The Building/Site Work Construction Drawings for the Building/Site Work, as so finally approved by Tenant pursuant to the foregoing provisions of this Paragraph 2, shall be referred to herein, collectively, as the "FINAL BUILDING/SITE WORK PLANS". The TI Construction Drawings for the Tenant Improvements, as so finally approved by Tenant pursuant to the foregoing provisions of this Paragraph 2, shall be referred to herein, collectively, as the "FINAL TI PLANS".

3. No Changes by Landlord to Final Plans. Once the Final Building/Site Work Plans and Final TI Plans (collectively, the "FINAL PLANS") have been so approved by Tenant, Landlord may make no changes thereto without Tenant's prior approval, which may be withheld or granted in Tenant's sole and absolute discretion; provided, however, to the extent such changes (i) are required by any applicable governmental authority as a condition to the issuance of the applicable governmental permits and approvals for Landlord's Work, (ii) pertain to substitution of any materials that are specified in the Final Plans but are not readily available to meet the schedule of construction of Landlord's Work contemplated in this Exhibit C, and/or (iii) are minor changes which shall not adversely affect Tenant's use of or operation of its business in the Premises for the Permitted Use, Tenant shall not unreasonably withhold its consent thereto so long as (A) such changes do not create a Tenant Design Problem (as defined below), and (B) any substituted materials are of at least equivalent quantity and quality as the original materials specified on the Final Plans. For purposes hereof, a "TENANT DESIGN PROBLEM" shall mean changes that are (1) inconsistent with the Minimum Building/ Site Work Specifications or the TI Layout Plans, or (2) materially inconsistent with any portion of the Final Plans initially approved by Tenant.

4. Tenant Change Orders.

4.1 Request for Tenant Change Orders. At any time following Tenant's and Landlord's approval of any portion of the Final Plans, Tenant may direct, by a written change order request ("TENANT CHANGE ORDER"), any change in Landlord's Work depicted on the Final Plans, including, without limitation, in order to reduce (by "value engineering" or otherwise) the cost of any Tenant Improvements depicted on the Final Plans. No Tenant Change Order shall, however: (i) materially adversely affect the exterior appearance (other than Tenant's Signs) of the Land or the Building; or (ii) cause a violation of any Applicable Laws pertaining to the construction and occupancy of the Improvements. Subject to the provisions of Paragraph 4.2 below, and the immediately preceding sentence, Landlord shall diligently implement any Tenant Change Order requested by Tenant. Any Tenant Change Order shall outline in reasonably specific detail the change requested and shall further specify the reasons for such proposed

change. Tenant's request for any Tenant Change Order, and the implementation thereof, may constitute a Tenant Delay as and to the extent provided in Paragraph 6 below.

4.2 Pricing Requests. Tenant may, at its option and before the issuance of a Tenant Change Order pursuant to the provisions of this Paragraph 4, submit to Landlord a "PRICING REQUEST", which shall outline with reasonably specific detail the changes Tenant desires to have priced. Upon receipt of a Pricing Request, Landlord shall, as soon thereafter as reasonably possible, but in no event later than seven (7) business days thereafter, deliver a statement to Tenant which sets forth: (i) the estimated cost of such change, together with a reasonably detailed breakdown thereof ("PRICING STATEMENT") and reasonable information concerning the availability of materials and labor required in connection with the proposed change; (ii) the effect that such change would have on the time of construction (either as an increase or a decrease) and the costs of the delays resulting therefrom; and (iii) Landlord's determination whether the proposed change would violate the provisions of clauses (i) and/or (ii) of Paragraph 4.1 above. In the event Tenant approves the applicable Tenant Change Order as provided in Paragraph 4.3 below, Tenant shall be responsible for the cost of the Tenant Change Order as and to the extent provided in Paragraph 5.4.2 below.

4.3 Review of Pricing Statements. Upon receipt of any Pricing Statement, Tenant shall have five (5) business days to review such Pricing Statement. Upon completion of such review, Tenant shall have the option to either: (i) accept the Pricing Statement and request a Tenant Change Order conforming to the Pricing Statement, as applicable, in which event Tenant shall be deemed to have agreed, for all purposes of this Exhibit C, to the estimates and determinations of Landlord pursuant to clauses (ii) and (iii) of Paragraph 4.2 above; or (ii) reject the Pricing Statement. Should Tenant timely accept the Pricing Statement, Landlord shall promptly thereafter prepare a Tenant Change Order in accordance with the provisions of Paragraph 4.1 above. In no event, however, shall Landlord be required to perform any Tenant Change Order which would be technically impossible to perform or which would be unlawful. If within such five (5) business day period Tenant rejects a Pricing Statement, or fails to respond to such Pricing Statement, then Tenant shall be deemed to have elected not to proceed with the proposed Tenant Change Order which is the subject of such Pricing Statement, and Landlord shall perform Landlord's Work in accordance with the Final Plans therefor without the implementation of such proposed Tenant Change Order.

5. Permits; Construction of Landlord's Work.

5.1 Permits. Promptly following Tenant's approval of the Final Building/Site Work Plans, Landlord shall, at Landlord's cost (and promptly following Tenant's approval of the Final TI Plans, Landlord shall, at Tenant's expense, subject to contribution of the Tenant Improvement Allowance), commence and diligently proceed to obtain, and shall be solely responsible for obtaining, all applicable permits and other governmental approvals for the construction of the Building/Site Work and Tenant Improvements, respectively (collectively, the "PERMITS"). All fees and other charges required to be paid to any governmental authority in connection with Landlord's Work shall be timely paid by Landlord (subject, however, to the provisions of Paragraph 5.4.2 below). In the event that it is not possible to obtain the necessary Permits for Landlord's Work without incorporating changes to the Final Plans which would both cause a Tenant Design Problem and materially adversely affect Tenant's use of or operation of its business

in the Premises for the Permitted Use (hereinafter, a "TERMINABLE EVENT"), then, notwithstanding Landlord's and Tenant's reasonable efforts to resolve the requested change in a manner that would not result in a Terminable Event, Tenant shall have the right, upon written notice to Landlord, to terminate the Lease unless, within ten (10) business days after such termination notice is delivered to Landlord, such Permits are obtained in a manner that would not result in a Terminable Event or is otherwise reasonably acceptable to Tenant. All costs incurred in connection with modifying the Final Plans to meet the requirements of all applicable governmental agencies, and all additional improvements required in connection therewith, shall be paid by Landlord (subject, however, to the provisions of Paragraph 5.4.2 below).

5.2 Construction of Landlord's Work; Guaranteed Maximum Construction Contract for Tenant Improvements. Following Tenant's approval of the Final Building/Site Work Plans and Landlord's receipt of all applicable Permits for the Building/Site Work, Landlord shall diligently commence and complete the construction of the Building/Site Work in a good and workmanlike manner and in strict compliance with the Final Building/Site Work Plans, all Applicable Laws and such Permits. Following Tenant's approval of the Final TI Plans and Landlord's receipt of all applicable Permits for the Tenant Improvements, Landlord shall diligently commence and complete the construction of the Tenant Improvements in a good and workmanlike manner and in strict compliance with the Final TI Plans, all Applicable Laws and such Permits. Landlord shall cause Landlord's Work (i.e., the Building/Site Work and Tenant Improvements) to be constructed through a single licensed general contractor (the "LANDLORD'S CONTRACTOR") and licensed subcontractors, laborers, vendors and materialmen selected and retained by Landlord, and reasonably approved by Tenant pursuant to a competitive bidding procedure mutually acceptable to Landlord and Tenant. Notwithstanding the foregoing to the contrary, Tenant hereby approves Landlord's selection of Panattoni Construction Inc., a California corporation ("PANATTONI CONSTRUCTION") as Landlord's Contractor, without any competitive bidding of general contractors, so long as with respect to the Tenant Improvements component of Landlord's Work only (and not the Building/Site Work): (i) Panattoni Construction's total compensation for overhead, general conditions and profit pertaining to the Tenant Improvements constructed hereunder does not exceed four percent (4%) of the total "hard" costs of constructing the Tenant Improvements (exclusive of such overhead, general conditions and profit); (ii) Panattoni Construction competitively bids all work of the Tenant Improvements to be performed by subcontractors, laborers and materialmen in accordance with a competitive bidding procedure mutually acceptable to Landlord and Tenant, and pursuant to which the lowest qualified bidders shall be selected to perform such work (however, Landlord and Panattoni Construction shall not be required to competitively bid the Building Site/Work); and (iii) Landlord and Panattoni Construction enter into a guaranteed maximum construction contract for the construction of the Tenant Improvements (the "TI CONTRACT"), which TI Contract shall be reasonably approved by Tenant and based upon and incorporate such competitive bids and the four percent (4%) maximum overhead, general conditions and profit payable to Panattoni Construction as provided hereinabove, with all costs of construction of the Tenant Improvements in excess of the guaranteed maximum construction contract amount set forth in the approved TI Contract (the "GMAX TI AMOUNT") to be borne and paid for solely and exclusively by Landlord from Landlord's own funds (and not deducted from the Tenant Improvement Allowance), except: (A) with respect to the cost of any Tenant Change Orders to the extent Tenant is responsible for the payment therefor pursuant to Paragraph 5.4.2 below; and (B) Landlord shall be entitled to receive a supervision fee in connection with the design and

construction of the Tenant Improvements, only (the "TI SUPERVISION FEE") to be deducted from the Tenant Improvement Allowance, equal to two percent (2%) of the total "hard" costs of constructing the Tenant Improvements (exclusive of such TI Supervision Fee, and exclusive of the overhead, general conditions and profit payable to Panattoni Construction).

5.3 General Requirements for Landlord's Work.

5.3.1 Insurance. At all times during the course of Landlord's Work, Landlord shall maintain in effect, at Landlord's sole cost and expense: (i) "builder's risk--all risk" insurance covering 100% of the replacement cost of Landlord's Work constructed by Landlord during the course of construction in the event of fire, lightening, windstorm, vandalism, malicious mischief and all other perils (other than earthquake) generally included within the classification "Special Form--Risk of Direct Physical Loss", and otherwise meeting the Property Damage Insurance requirements set forth in Paragraph 10.4.1 of this Lease; (ii) workers compensation insurance and all other insurance required by Applicable Laws in connection with Landlord's Work; and (iii) all liability insurance required under Paragraph 10.3 of the Lease, except to the extent that any requirement set forth therein is clearly inapplicable during the construction period. Tenant shall be named as an additional insured with respect to the policy required pursuant to clause (iii) hereinabove.

5.3.2 Payment of all Liens and Costs. Landlord shall, subject to any rights to contest set forth elsewhere in the Lease, keep the Premises free of all liens relating to Landlord's Work and shall diligently file all appropriate notices of completion for such purpose.

5.3.3 Guaranty. Concurrently with the execution of this Lease, Landlord shall provide to Tenant a Payment and Performance Guaranty (the "GUARANTY") executed by Panattoni Investments, LLC, a California limited liability company ("GUARANTOR") guaranteeing, among other things, the prompt and diligent payment and performance by Landlord of Landlord's Work, and the prompt and diligent payment, performance and observance by Landlord of all of Landlord's other covenants and obligations set forth in this Exhibit C. Such Guaranty shall be in the form of Schedule 3 attached to this Exhibit C.

5.3.4 Cooperation and Coordination. Landlord shall use reasonable efforts to cooperate with Tenant, and to cause Landlord's Contractor, subcontractors, consultants and all other persons involved in the Landlord's Work to cooperate with Tenant to the extent reasonably necessary to ensure the expeditious preparation and approval of the Final Plans, issuance of Permits and commencement and completion of Landlord's Work. Without limiting the generality of the foregoing: (i) Landlord shall provide Tenant with copies of all plans and specifications and construction schedules reasonably requested by Tenant from time to time to permit all appropriate review and coordination of Landlord's Work, and shall provide reasonably detailed reports with respect to the status of the design, permitting and construction of Landlord's Work on a monthly basis (or such other periods of time as is reasonably requested by Tenant); (ii) upon Tenant's request, Landlord shall provide Tenant with copies of all studies, reports and/or inspections relating to Landlord's Work and/or the Premises; and (iii) Landlord shall permit Tenant and Tenant's employees, consultants, contractors and other representatives to enter onto the Premises and into the Building at reasonable times during the course of the design and construction of Landlord's Work, to monitor the status and progress of the design and

construction; however, any such entry by Tenant shall not in any way materially and unreasonably interfere with Landlord's completion of Landlord's Work. Landlord and Tenant, and their respective design and construction representatives, shall meet at least monthly regarding such design, permitting and construction, provided that Tenant, upon reasonable advance notice, may convene additional meetings as may be reasonably necessary, and Tenant's construction and design representatives shall have the right to attend all such design and construction progress meetings.

5.4 Cost of Landlord's Work.

5.4.1 Landlord's Work Costs. Except as otherwise expressly provided in Paragraph 5.4.2 below, Landlord shall pay for, at its own expense, without limit and without contribution from Tenant, all of the costs of the design and construction of Landlord's Work (collectively, the "LANDLORD'S WORK COSTS") which shall include, without limitation, the following: (i) the cost of preparing the Final Plans and all preliminary and prior stages thereof and subsequent changes thereto; (ii) the cost of equipment, materials, temporary facilities and labor used in the design, development and/or construction of Landlord's Work, including, without limitation, transportation and storage costs; (iii) payments to Landlord's Contractor, and the subcontractors, laborers, material suppliers and others providing such equipment, materials, temporary facilities and labor; (iv) costs of clean-up and removal of debris; (v) fees for Permits, licenses and inspections, including, without limitation, school fees and other government imposed fees in connection with the design, development and/or construction of Landlord's Work; (vi) fees of engineers, surveyors, architects, environmental consultants, and others providing professional or extra services to Landlord in connection with the design, development and/or construction of Landlord's Work and the supervision thereof; (vii) insurance premiums attributable to the construction period; (viii) premiums for mechanics' lien and stop notice bonds; (ix) cost to serve the Premises with all applicable utilities, including, without limitation, connection service fees and hook-up fees; (x) recording costs and filing fees; (xi) fees for foundation reports, engineering reports, topographic and ALTA surveys and environmental surveys obtained by Landlord for the design and construction of Landlord's Work; (xii) costs of grading and filling in connection with the Premises or remedial action due to the presence of Hazardous Materials (as defined in the Lease) on, under or about the Premises; (xiii) expenses such as telegrams, telephone, postage, reproduction and copying services incurred in connection with the design, development and/or construction of Landlord's Work; and (xiv) such other costs as may be incurred by Landlord in connection with the design, development and/or construction of Landlord's Work.

5.4.2 TI Costs and Tenant Change Order Costs.

Notwithstanding anything to the contrary contained in this Exhibit C:

5.4.2.1 Subject to Paragraph 6.2 below, Landlord shall only be obligated to contribute up to, but not exceeding, the sum of \$3.25 per square foot of Rentable Area of the Building (i.e., Three Hundred Eighty-Seven Thousand Six Hundred Eighty-Nine Dollars (\$3,097,679.00)), subject to adjustment pursuant to Paragraph 1.6 of the Lease) (the "TENANT IMPROVEMENT ALLOWANCE") to pay for those portions of the Landlord's Work Costs described in clauses (i) through (vii), and clauses (xiii) and (xiv) in Paragraph 5.4.1 above to the extent the same are paid and/or incurred for any of the following (collectively, the "TI COSTS):

EXHIBIT C

(i) the costs (including, without limitation, the fees of the architects, engineers, project managers and other consultants engaged by Tenant) paid and/or incurred by Tenant in connection with the design of the Tenant Improvements, preparation of the TI Layout Plans and the review and approval of the Construction Drawings and Final Plans; (ii) the amounts actually and reasonably incurred by Landlord for, and are specifically allocable to, the out-of-pocket expenditures paid to third parties engaged by Landlord for the preparation of the TI Construction Drawings and Final TI Plans, and the installation and/or construction of the Tenant Improvements depicted on the Final TI Plans, and/or (iii) the TI Supervision Fee. Tenant may require Landlord to make all or any of such payments of the Tenant Improvement Allowance to which Tenant is otherwise entitled hereunder for the TI Costs directly to Tenant if Tenant has previously paid any such TI Costs and/or directly to those who are entitled to such payment because they provided or performed services in connection with the TI Costs. Any such payments shall be made within thirty (30) days after invoice therefor is delivered by Tenant to Landlord. The Rentable Area of the Building shall be determined pursuant to Paragraph 1.6 of the Lease, and the Tenant Improvement Allowance shall be calculated based upon such determination as provided therein. Notwithstanding the foregoing, the TI Costs shall specifically exclude the following: (A) any supervision, coordination or other fees payable to Landlord, its agents or employees in connection with the Tenant Improvements (other than the TI Supervision Fee); (B) costs resulting from the negligence or willful misconduct of Landlord or Landlord's employees, agents, contractors or subcontractors, and/or Landlord's failure to diligently cause the Tenant Improvements to be constructed; (C) the cost of any changes to the Final TI Plans or the Tenant Improvements depicted on the Final TI Plans not approved by Tenant pursuant to the procedures and standards for approval set forth in Paragraph 3 above; (D) any defects in the construction of the Tenant Improvements; (E) any costs described in clause (viii) and clauses (ix) through (xii) in Paragraph 5.4.1 above; (F) any overhead, general conditions or profit payable to Panattoni Construction in connection with the design and construction of the Tenant Improvements in excess of the maximum four percent (4%) amount therefor as set forth in Paragraph 5.2 above; (G) any costs of construction of the Tenant Improvements in excess of the GMax TI Amount therefor set forth in the TI Contract approved by Tenant pursuant to Paragraph 5.2 above, except for the cost of any Tenant Change Orders to the extent Tenant is responsible for same pursuant to Paragraph 5.4.2.2 below; (H) any costs due to the errors in the Final Plans or resulting from Final Plans which are incorrect or incomplete, which do not comply with Applicable Laws or which otherwise fail to meet the requirements therefor set forth in this Exhibit C; and/or (I) Landlord's failure to construct Landlord's Work in compliance with Applicable Laws, the Final Plans, and/or the other requirements and provisions set forth in the Lease or this Exhibit C. Such excluded costs shall be Landlord's responsibility to pay, at Landlord's sole cost, without deduction from the Tenant Improvement Allowance; and

5.4.2.2 Any increase in Landlord's Work Costs resulting from a Tenant Change Order requested and implemented by Tenant pursuant to Paragraph 4 above, which increased cost would not have been incurred but for such Tenant Change Order, shall be paid for by Tenant within fifteen (15) days after invoice, which costs may be paid out of and credited against the Tenant Improvement Allowance. Landlord agrees to credit Tenant with any cost savings arising out of any Tenant Change Orders such that the cost savings may be applied by Tenant to the cost of any Tenant Change Orders which actually increase Landlord's Work Costs.

EXHIBIT C

6. Fixturization Work; Disbursement of Tenant Improvement Allowance.

6.1 Fixturization Work. The parties acknowledge and agree that:

(i) Tenant will be responsible for retaining architects, engineers, contractors and other consultants of Tenant's choice to design, and from and after the Delivery Date install, Tenant's racking systems, security systems, data systems and other fixtures, furniture, equipment, systems and personal property (and related cabling and wiring) within the Building and/or at the Premises, and any Signs and Communication Equipment (as defined in Article 4 of the Lease) that Tenant elects to be installed (collectively, the "FIXTURIZATION WORK") (however, the Fixturization Work shall not include any such items that are other than Tenant's racking systems and are specifically designated by Tenant to be installed by Landlord as part of the Tenant Improvements pursuant to Paragraph 1.1 above, subject to the restrictions therein regarding cabling for Tenant's telephone, data and security systems); (ii) Tenant shall be solely responsible for the costs of design and construction of such Fixturization Work, except as expressly provided in Paragraph 6.2 below regarding the cost of the Tenant's Signs and Communication Equipment; and (iii) the Fixturization Work will be performed while Landlord is completing Landlord's Work and making the Premises Ready for Occupancy as described in Paragraphs 1.2 and 1.4 of the Lease. Performance by Tenant of the Fixturization Work will be subject to the following additional terms and conditions:

(A) each party shall cooperate with the other party, and cause its contractors to cooperate with the other party's contractors, in the performance of the Fixturization Work and Landlord's Work so that (1) the concurrent construction of such work will be performed pursuant to a schedule mutually acceptable to Landlord and Tenant and their respective contractors, and (2) disruption of the Fixturization Work and Landlord's Work can be kept to a commercially reasonable minimum;

(B) Tenant, or Tenant's representative, shall secure the approval of governmental authorities and all permits required by governmental authorities having jurisdiction over such approvals and permits for the Fixturization Work, with Landlord's cooperation to the extent practicable, and Tenant shall promptly provide Landlord copies of such approvals and permits following Tenant's receipt thereof; and

(C) Tenant's contractors' construction materials, tools, equipment and debris for the Fixturization Work may be stored or "staged" on or within the Building, and/or in other reasonably accessible areas of the Premises which shall be designated for that purpose by Landlord and provided by Landlord without charge. Landlord shall reasonably cooperate with Tenant to provide an adequate staging area in the Building and/or at the Premises for Tenant and its contractors. Tenant hereby agrees that the storage of any such materials, tools, equipment and debris, and any damage to or loss of any such property, shall be at Tenant's sole risk and at Tenant's sole cost and expense, and Tenant shall indemnify, defend and hold Landlord harmless from and against any claims for such damage to or loss of such property, except to the extent such damage or loss is due to the negligence or willful misconduct of Landlord.

6.2 Disbursement of Tenant Improvement Allowance. Landlord shall pay for the TI Costs from the Tenant Improvement Allowance as and when such TI Costs are incurred. To the extent the Tenant Improvement Allowance exceeds the TI Costs, the remaining balance

thereof (not to exceed one-third (1/3) of the entire Tenant Improvement Allowance) may be used by Tenant to: (i) pay for the costs of the design and construction of Tenant's Signs and Communication Equipment included as part of the Fixturation Work; (ii) pay for the costs incurred by Tenant in relocating to the Premises; (iii) pay for the cost of any Tenant Change Orders to Landlord's Work required to be paid for by Tenant pursuant to Paragraph 5.4.2 above; and/or (iv) as a credit against the Rent next due and payable under this Lease. Disbursement of the Tenant Improvement Allowance for the costs described in clauses (i) and (ii) hereinabove shall be made by Landlord to Tenant (or, at Tenant's option, directly to those who are entitled to such payment because they provided materials or products or performed services in connection therewith) after Tenant has delivered to Landlord invoices for such costs.

6.3 Over-Allowance Amount. Prior to the commencement of the construction of the Tenant Improvements, and after Landlord has accepted all subcontractor bids for the Tenant Improvements and entered into the TI Contract with Landlord's Contractor approved by Tenant pursuant to Paragraph 5.2 above, Landlord shall provide to Tenant for Tenant's approval, which shall not be unreasonably withheld or delayed, a written detailed cost breakdown (the "FINAL TI COSTS STATEMENT"), by trade, of the final TI Costs to be incurred, or which have been incurred, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Landlord's Contractor (which TI Costs for construction of the Tenant Improvements shall not exceed the GMax TI Amount approved by Tenant as part of the TI Contract) (collectively, the "FINAL TI COSTS"). In the event the Final TI Costs specified on the Final TI Costs Statement exceed the Tenant Improvement Allowance (the "OVER-ALLOWANCE AMOUNT"), Tenant shall pay to Landlord the Over-Allowance Amount as follows, but only to the extent Tenant is responsible for such excess TI Costs pursuant to the foregoing provisions of this Exhibit C (which funds from Tenant Landlord shall disburse only to pay for the TI Costs):

(i) Tenant shall pay to Landlord fifty percent (50%) of the Over-Allowance Amount within ten (10) business days after the Delivery Date;

(ii) Tenant shall pay to Landlord twenty-five percent (25%) of the Over-Allowance Amount by the date which is the later of (A) forty-five (45) days after the Delivery Date, or (B) ten (10) business days after the date one-half (1/2) of the Tenant Improvements have been completed and Landlord has delivered to Tenant evidence that such work has been completed (including a certificate from Landlord's Contractor to such effect);

(iii) Tenant shall pay to Landlord fifteen percent (15%) of the Over-Allowance Amount within ten (10) business days after the later of (A) the date Landlord causes the Premises to be Ready for Occupancy, and (B) the date Landlord delivers to Tenant written evidence that the entire Tenant Improvement Allowance (except for up to a ten percent (10%) retention of the Tenant Improvement Allowance which may be held by Landlord to protect against mechanics' liens) and the entire portions of the Over-Allowance Amount previously paid by Tenant have been fully disbursed by Landlord to pay for the TI Costs; and

(iv) Tenant shall pay to Landlord the remaining ten percent (10%) of the Over-Allowance Amount within ten (10) business days after the date all of the Tenant Improvements (including Punchlist Items) have been completed and Landlord has delivered to Tenant (A) a written request for such payment together with evidence that all such work has been completed

(including a certificate from Landlord's Contractor to such effect), (B) written evidence that, except for such balance of the Over-Allowance Amount, the entire TI Costs have been paid for by Landlord and the entire Tenant Improvement Allowance and portions of the Over-Allowance Amount previously paid by Tenant have been fully disbursed by Landlord to pay for such TI Costs, and (C) fully executed unconditional and final mechanics' lien releases from Landlord's Contractor and all subcontractors performing the Tenant Improvements.

6.4 No Payments to Landlord. From and after the Delivery Date, Landlord shall provide to Tenant and its designers, consultants, architects, engineers, contractors and subcontractors, uninterrupted use of and access to the parking areas, loading docks, and related facilities of the Premises as may be reasonably required to enable Tenant and Tenant's contractors and subcontractors to install the Fixturization Work, all of which shall be provided without charge to Tenant or its designers, consultants, architects, engineers, contractors and subcontractors, and without deduction from the Tenant Improvement Allowance. In addition, Landlord shall not be entitled to receive, and there shall be no deduction from the Tenant Improvement Allowance for, any supervision or coordination fee, profit, overhead or general conditions or payment of or reimbursement for any other costs incurred by Landlord (including, without limitation, costs or fees of Landlord's architects, engineers and other consultants) in connection with the design and installation of the Fixturization Work.

7. Tenant Delays.

7.1 Definition of Tenant Delays. As used herein, "TENANT DELAYS" are defined as delays (not caused by a Landlord Delay or Force Majeure Delay), to the extent such delays necessarily and actually delay Landlord's delivery of possession of the Premises to Tenant in the Delivery Condition as set forth in Paragraph 1.1 of the Lease, due to any of the following:

- (i) Tenant's failure to comply with the time deadlines imposed upon Tenant as set forth in this Exhibit C;
- (ii) Tenant's failure to timely approve or disapprove any matter expressly requiring Tenant's approval or disapproval pursuant to this Exhibit C;
- (iii) Tenant's breach of any provision of the Lease or this Exhibit C;
- (iv) any Tenant Change Orders requested by Tenant pursuant to Paragraph 3 above; or
- (v) any other wrongful acts or omissions, negligence or willful misconduct of Tenant or any of Tenant's agents, employees or contractors.

7.2 Delivery Condition Delay. In the event the Delivery Date and Landlord's delivery of possession of the Premises to Tenant in the Delivery Condition are actually delayed as a result of any Tenant Delays, the Delivery Date shall be deemed to occur on the date it would have occurred "but for" such Tenant Delays.

7.3 Limitations. Notwithstanding the foregoing provisions of this Paragraph 7 to the contrary:

(i) if a Tenant Delay occurs, but Landlord fails to provide written notice thereof to Tenant within five (5) business days after Landlord actually becomes aware of same (which notice shall specify in reasonable detail the actions, inactions or other circumstances Landlord claims constitutes such Tenant Delay), then no such Tenant Delay shall be deemed to have occurred until and from and after the date Landlord delivers such notice to Tenant;

(ii) no Tenant Delay shall be deemed to have occurred if Tenant cures the action, inaction or circumstance which Landlord claims constitutes such Tenant Delay within two (2) business days after such notice is received by Tenant (however, Tenant shall only be entitled to an aggregate of fifteen (15) business days in which to cure any such actions, inactions or circumstances, and any such Tenant Delays occurring after such fifteen (15) business days of aggregate cure days utilized by Tenant shall be deemed to have occurred without taking into account any subsequent cure periods hereinabove); and

(iii) Tenant Delays shall be recognized under this Paragraph 7 and the Lease only in the event that satisfaction of the Delivery Condition is delayed, despite Landlord's commercially reasonable efforts to adapt and compensate for such delays after Landlord becomes aware of same, which efforts Landlord shall be obligated to make after Landlord becomes aware of same.

8. Representatives. Landlord has designated Steven Palmer as its representative and Tenant has designated Richard Smith as its representative to act for purposes of this Exhibit C and to receive notices, requests and demands under or pursuant to this Exhibit C. All such notices, requests and demands under or pursuant to this Exhibit C may be given to such representatives in lieu of those designated to receive notices pursuant to Paragraph 20.15 of the Lease, and the same shall be deemed delivered to and received by such representatives upon receipt thereof by such representatives. Notice given by telecopy, with respect to the parties' rights and obligations under this Exhibit C only, shall be sufficient for purposes of this Exhibit C (and, in connection therewith, the telecopy number of Landlord's representative is (949) 474-7833 and the telecopy number of Tenant's representative is (310) 297-7592). Landlord and Tenant may change their respective designation of representative hereunder by notice given to the other.

EXHIBIT C

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

SCHEDULE 1 TO EXHIBIT C

MINIMUM BUILDING/SITE WORK SPECIFICATIONS

[Attached]

[PANATTONI CONSTRUCTION LOGO]

MINIMUM BUILDING/SITWORK SPECIFICATIONS

FOR

BIG 5 SPORTING GOODS

SYCAMORE CANYON LOGISTICS CENTER

Riverside, California

Revised

April 13, 2004

PREPARED FOR:
Big 5

PREPARED BY:
Panattoni Development Company
19600 Fairchild Road, #285
Irvine, CA 92612
(949) 474-7830
(949) 474-7833 Fax

TABLE OF CONTENTS

	PAGE
DIVISION 1: GENERAL REQUIREMENTS	6
1.00 DEFINED TERMS	6
1.01 LAWS, ORDINANCES, RULES & REGULATIONS	6
1.02 FIELD ADMINISTRATION PERSONNEL	6
1.03 TECHNICAL AND ADMINISTRATIVE	6
1.04 MOBILIZATION/DEMOBILIZATION	6
1.05 TEMPORARY CONSTRUCTION FACILITIES	7
1.06 QUALITY/TRAINING/SAFETY/PROGRAMS	7
1.07 DAILY CLEANUP	7
1.08 TESTING	7
1.09 FINAL CLEANUP AND PUNCH LIST	7
1.10 IMPACT, PERMIT, & CONNECTION FEES	7
1.11 SIGNAGE	7
DIVISION 2: SITEWORK	8
2.01 CLEAR AND GRUB	8
2.02 LAYOUT ENGINEERING	8
2.03 MASS EARTHWORK	8
2.04 FINE GRADE	8
2.05 UNDERGROUND UTILITIES	8
2.06 ASPHALT PAVING	8
2.07 CONCRETE UTILITY SLABS	9
2.08 SITE CONCRETE	9
2.09 CONCRETE LOADING DOCKS & APRONS	9
2.10 LANDSCAPE AND IRRIGATION	9

2.11	EXTERIOR SIGNAGE	9
2.12	EROSION PROTECTION	9
2.13	OFFSITE CONSTRUCTION	9
DIVISION 3: CONCRETE		10
3.01	BUILDING FOUNDATIONS	10
3.02	FLOOR SLAB	10
3.03	TILT-UP WALLS	10
3.04	RETAINING/SCREEN WALLS	10
DIVISION 4: MASONRY		10
4.01	CMU BLOCK WALLS	10
DIVISION 5: STRUCTURAL STEEL & METALS		10
5.01	STRUCTURAL STEEL	10
5.02	MISCELLANEOUS METALS	11
DIVISION 6: CARPENTRY		11
6.01	MISCELLANEOUS CARPENTRY	11
6.02	MECHANICAL SCREEN WALLS	11
6.03	SMOKE CURTAIN WALLS	11
DIVISION 7: THERMAL & MOISTURE PROTECTION		11
7.01	ROOFING	11
7.02	ROOF ACCESS	11
7.03	MISCELLANEOUS CAULKING	11
7.04	FLOOR JOINT CAULKING	11
7.05	INSULATION	11
7.06	SMOKE HATCHES	11
DIVISION 8: DOORS AND WINDOWS		11
8.01	EXTERIOR DOORS	11

8.02	INTERIOR DOORS	12
8.03	ALUMINUM STOREFRONT AND GLAZING	12
8.04	ROLL-UP DOORS	12
DIVISION 9: FINISHES		12
9.01	EXTERIOR WALL PAINTING	12
9.02	METAL FRAMING AND DRYWALL	12
9.03	CEILINGS	12
9.04	FLOOR COVERINGS	12
9.05	INTERIOR PAINTING	12
9.06	VINYL WALL COVERING	12
9.07	CERAMIC TILE	12
9.08	MISC. PAINTING	12
DIVISION 10: SPECIALTY		13
10.01	BATHROOM ACCESSORIES	13
10.02	FENCING	13
10.03	FLAGPOLES	13
DIVISION 11: DOCK EQUIPMENT		13
11.01	LOADING DOCK EQUIPMENT	13
11.02	MISCELLANEOUS EQUIPMENT	13
DIVISION 12: FURNISHINGS		13
DIVISION 13: SPECIAL CONSTRUCTION		13
13.01	SECURITY SYSTEM	13
13.02	DETECTION AND ALARM - FIRE/LIFE/SAFETY	13
13.03	FIRE PROTECTION	14
DIVISION 14: CONVEYING SYSTEM		14

DIVISION 15: MECHANICAL	14
15.01 PLUMBING DESIGN/BUILD	14
15.02 HVAC DESIGN/BUILD	14
DIVISION 16: ELECTRICAL	14
16.01 LIGHTING DESIGN/BUILD	14
16.02 ELECTRICAL SERVICE DESIGN/BUILD	15
ALLOWANCES	16

INTRODUCTION

The intent of this specification is to outline the requirements of an attractive, high quality, cost efficient building constructed to reflect local design standards

The Project:

The project will consist of an approximately 953,132 square foot warehouse and distribution facility. The total site is located on approximately +/- 46.64 acres. The building structure will consist of a concrete tilt-up, with a minimum clear height per section 3.03. The building will be equipped with an ESFR fire protection system.

Exterior building elevations shall be constructed of load-bearing, or tilt-up concrete wall panels.

DIVISION 1: GENERAL REQUIREMENTS

1.0 DEFINED TERMS:

Owner/Developer: Panattoni Development, LLC; Architect: CC Architects; Structural Engineer: Randhava & Associates; Contractor: Panattoni Construction Company; Tenant: Big 5 Sporting Goods.

1.01 LAWS, ORDINANCES, RULES & REGULATIONS

All applicable laws, ordinances, rules and regulations pertaining to the City of Riverside, the State of California and Federal Government, shall be complied with. Building design in strict compliance with all local building codes, including but not limited to the Uniform Building Code, Uniform Fire Code and the Americans with Disabilities Act.

1.02 FIELD ADMINISTRATION PERSONNEL

The field administration personnel shall consist of a full time, exclusive project superintendent, and a skilled labor force appropriate to the current phase of construction.

1.03 TECHNICAL AND ADMINISTRATIVE

A design team of experienced architects and engineers familiar with this type of building will be assembled to create construction drawings, and to consult throughout the construction phase. All structures will be designed to meet the applicable seismic zone criteria. The Contractor will provide plumbing, mechanical, fire protection and electrical construction documents. Contractor may, at its option, utilize design/build subcontractors to prepare some of the design documents.

The Architect, Structural Engineer and Civil Engineer will be providing errors and omission insurance coverage for their work in the amount of \$1,000,000 per occurrence and \$2,000,000 in aggregate. General Contractor shall carry general liability insurance of \$2,000,000 per occurrence and \$5,000,000 umbrella coverage.

Architect will control the distribution of all prints and maintain a record of such distribution.

Architect to employ line-of-site analysis to assure wall parapets are tall enough to screen anticipated roof mounted equipment.

1.04 MOBILIZATION/DEMOBILIZATION

As work is commenced, temporary utilities and facilities will be provided as required. The contractor will be responsible for providing and/or coordinating for equipment and materials. Temporary yards and facilities will be removed and/or relocated as the job progresses.

1.05 TEMPORARY CONSTRUCTION FACILITIES

The contractor at various locations on the site will provide temporary restrooms. A job site trailer will be furnished with telephone, computer, printer, fax machine, and conference room.

1.06 QUALITY AND SAFETY PROGRAMS

Quality assurance shall be accomplished through direct supervision by the on-site superintendent, the project manager, and periodic inspection by the architect, as needed. Additionally, the contractor will provide for an independent laboratory will conduct specialized testing and certification on all required phases of construction. The contractor will maintain project safety standards in accordance with state and local safety standards.

1.07 DAILY CLEANUP

Maintain premises and public properties free from accumulation of waste, debris, and rubbish caused by operations or wind during and after construction. Provide on-site containers for collection of waste materials, debris, and rubbish.

1.08 TESTING

Initial geotechnical report will be provided by Developer, which will: address soil shrinkage and subsidence; recommend R-values, traffic indices and paving sections; and indicate soil corrosivity.

Contractor responsible to provide independent inspection, observation and testing as required by all governmental agencies, including but not limited to soils, concrete, welding and roofing. Test results shall be promptly distributed to the Developer and the local jurisdiction.

1.09 FINAL CLEANUP AND PUNCH LIST

Contractor shall employ experienced workmen, or professional cleaners for final cleanup. In preparation of substantial completion or occupancy, conduct final inspection of sight-exposed interior and exterior surfaces, and concealed spaces. Remove grease, dust, dirt, stains, labels, fingerprints and other foreign materials from exposed interior and exterior finishes. At time of substantial completion perform "walk-through" with the Tenant and/or Owner. Compile a "punch list" as work to be finished, repaired, patched, or touched-up. At the completion of punch list work, perform a final walk through with the Tenant and/or Owner.

Contractor is responsible for obtaining final Certificate of Occupancy upon completion of all permitted work including Tenant's fixturation work.

1.10 IMPACT, PERMIT, & CONNECTION FEES

Contractor will obtain the building permits that shall be paid for by Developer.

Processing of PUD applications, lot line Adjustments, and other required entitlements will be provided by Developer.

The Tenant is to obtain all the required permits relating to environmental issues and operations specific to its business.

1.11 SIGNAGE

No signage shall be allowed on site or buildings by Contractor or sub contractors, unless approved in writing by Developer.

DIVISION 2: SITEWORK

2.01 CLEAR AND GRUB

Clear site of trees, stumps, debris, surface vegetation and soil of organic materials.

2.02 LAYOUT ENGINEERING

Contractor to provide licensed surveyor to locate pertinent boundaries, grades, and building corners. Contractor's superintendent to locate footings. Owner shall locate and mark the parcel lines and provide an elevation benchmark.

2.03 MASS EARTHWORK

On-site soils are assumed acceptable for use in engineered fill. The site will be graded to balance. All earthwork shall comply with the recommendations of the soils engineer. Contractor to be responsible for all costs to comply with all local, state and federal handicap requirements per drawings.

2.04 FINE GRADE

Fine grade pad to required +/- 4/100th of a foot.

2.05 UNDERGROUND UTILITIES

Contractor is responsible to have all utilities including power, phone, domestic water, sewer, and storm drains available at the lot lines. Any costs associated with additional or the relocation of utilities will be at Landlord's expense. Connections will be made and meters set by the respectable utility company with the coordination of the Contractor.

All items shall be designed to meet state and local requirements.

Domestic Water: Domestic water service to be installed by Contractor per civil drawings to building and at each office area. Service to include a meter and back flow device. In the case of multiple office locations: one location to be fully operational and the other location(s) to have a suitably sized pipe stubbed into the building from the property line without the final connection of a hot top or meter. Contractor responsible for correct location (including depth) of tie-ins to the public system.

Irrigation: Irrigation water service will be provided by Contractor to building. Services will include a meter, back flow device and pressure reducer as required. Contractor responsible for correct location (including depth) of tie-ins to the public system.

Fire Water: Contractor responsible for correct location (including depth) of tie-ins to the public system as required by the Fire Department.

Sewer: Sewer service will be connected to the sewer main. Contractor to stub sewer 20' into building at primary office location. The location to have a clean-out in pour strip. Contractor responsible for correct location (including depth) of tie-ins to the public system.

Storm Drain: The storm drain system will drain the entire site and tie into the Public Storm System. Contractor responsible for correct location (including depth) of tie-ins to the public systems. Any on-site retention/detention systems, as required, will be the responsibility of the Contractor.

2.06 ASPHALT PAVING

Paving section for truck traffic areas will be per recommendations of soils engineer.

Paving section for auto and truck traffic areas will be per recommendations of soils engineer.

Civil drawings to indicate paving sections.

Approximately 168 trailer spaces and 437 automobile spaces shall be striped.

2.07 CONCRETE UTILITY SLABS

Trash enclosure pad will be 6", 3,000 psi, concrete slab

2.08 SITE CONCRETE

Curbs shall be 6" extruded concrete curbs except for poured in place curb and gutter where applicable between all paving and landscaping.

Provide 4" concrete slabs for the sidewalks.

2.09 CONCRETE LOADING DOCKS & APRONS

Loading Docks: Only docks and aprons to be concrete, balance to be asphalt paving. Aprons will be located on the North and South side of the building, built out 60'0" from the dock doors and will be built to the outside edge of each ramp in width, of a 6" nominal thickness unreinforced concrete slab with a compressive strength of 3,500 psi on compacted native soils as designed by engineer. All construction joints to have 3/4" smooth greased dowels at 24" O.C. Dock height to be 48".

2.10 LANDSCAPE AND IRRIGATION

Contractor will use Hunter Landscape as the design-build landscaping sub-contractor. Contractor will be responsible for all costs associated with obtaining final City or jurisdiction approval.

Landscape: Provide a mix of trees and ground cover. All landscaping shall be installed per City guidelines.

Irrigation: Provide 100% coverage to landscaped area with a fully automated commercial grade irrigation system, which shall be designed to prevent water over spray from hitting all building surfaces.

Erosion Control: To be provided as needed.

Final design to be approved by City.

2.11 EXTERIOR SIGNAGE

By Tenant

2.12 EROSION PROTECTION

To be provided per local requirements. Civil engineer will provide SWPP program with full implementation by General Contractor.

Provide an allowance for erosion control.

2.13 OFFSITE CONSTRUCTION

Contractor to provide curb, gutter, sidewalk, streetlights, fire hydrants, median work, paving, street work and utility modifications (including any removal, relocation, and/or under-grounding as required by the governing jurisdiction) as required to complete subject project.

DIVISION 3: CONCRETE

3.01 BUILDING FOUNDATIONS

The foundations will be reinforced 2,500 psi concrete isolated, spread footings designed to a specified structural yield as directed by structural drawings.

3.02 FLOOR SLAB

The following specification is subject to approval by the structural engineer. It will provide a strong, high quality industrial floor of superior strength and flatness suitable for warehousing and distribution.

The concrete floor slab shall be 6" thick, 4,000 psi compressive strength concrete placed over compacted native soil. In the office area, a visqueen vapor barrier will be used under a 6" slab of 4,000 psi compressive strength concrete on compacted native soil or as recommended by soils engineer. Slab slope to be 0.5% or less. The concrete will be placed with a laser screed and finished with riding power trowels to a burnished finish to meet or exceed Ff50 and Fl 30.

All construction joints to receive 16" long, 3/4" dowels greased at one end, placed at 18" O.C. All control joints to receive dowel baskets with dowels placed at a minimum of 24" O.C. and with all joints cut perpendicular at a distance not to exceed 18'0". Floor slab will be reinforced (1) column bay deep at the entire perimeter of warehouse area and throughout office pod areas. Reinforcing will consist of #3 bars at 18" on center each way.

Floor will be sealed with one (1) coat of Ashford Formula floor sealer.

3.03 TILT-UP WALLS

The exterior of building shall be constructed of reinforced concrete. Construction and erection of the wall panels to be standard tilt-up method. Panel thickness shall be specified by the structural engineer.

Exterior face of panels shall receive a floor slab finish, and shall be prepared to receive finish paint. Panel height shall be per architectural drawings to provide a minimum clear height of 30'0" from the dock doors to the first column line in at the north and south sides of the building and a minimum clear height of 32' from the first column line from the north and the south and will continue to the outside east/west walls. Interior pick points will be covered by concrete patch. The interior panel surfaces will be smooth troweled. Exterior panel joints to be caulked. All panels shall be tied together per structural drawings and shall meet all applicable seismic codes.

3.04 RETAINING/SCREEN WALLS

Contractor to provide retaining walls and screen walls as shown on drawings.

DIVISION 4: MASONRY

4.01 CMU BLOCK WALLS

Contractor shall be responsible for all costs associated with any block walls on site.

DIVISION 5: METALS

5.01 STRUCTURAL STEEL

Steel framing shall be a combination of long-span steel bar joists, beams and wide-flange columns or truss girders and tube columns, or other approved structural assembly. Structural steel shall conform to structural engineers design. Column spacing will be 50' x 57' 8" for all areas. Minimum clear height from top of floor slab to bottom of roof joists is 32' from the first column line from the North and South sides of the building.

Provide interior roof hatch with ladder and cage.

5.02 MISCELLANEOUS METALS

Install pipe handrails at concrete stairs at each exit man door in the dock area, if required.

DIVISION 6: CARPENTRY

6.01 MISCELLANEOUS CARPENTRY

All miscellaneous carpentry will be performed to provide a professional finish.

6.02 MECHANICAL SCREEN WALLS

Per architectural and structural drawings.

6.03 SMOKE CURTAIN WALLS (SEE 13.03-FIRE PROTECTION)

DIVISION 7: THERMAL & MOISTURE PROTECTION

7.01 ROOFING

Four-ply built-up roof with a 15 year manufacturer's warranty by Intec Permaglas, John-Manville, or equal. Four-ply to include a base, two plies (Type IV) and a mineral cap-sheet.

7.02 ROOF ACCESS

Provide roof access via interior mounted ladder. Ladder to meet all applicable codes

7.03 MISCELLANEOUS CAULKING

Panel joints will be caulked on the exterior to the full panel height.

7.04 FLOOR JOINT CAULKING

Caulking using a polyurethane product will be done at all construction joints and in the warehouse speed bay area, or first bay from dock doors, (excluding office pods).

7.05 INSULATION

Warehouse: Provide white foil type insulation, with scrim reinforcing, on underside of roof sheathing, stapled to roof joist vented to prevent condensation.

7.06 SMOKE HATCHES

A quantity of 2.5% of the roof square footage will be curb mounted smoke hatches. The cost of additional smoke hatches that may be required as a result of Tenant's use/racking or storage plan shall be the sole cost of Tenant.

DIVISION 8: DOORS & WINDOWS

8.01 EXTERIOR DOORS

Exterior man doors to be 3'0" x 7'0" hollow metal doors and frames as required by the UBC code exiting requirements. All hardware to be Schlage 'D' series Sparta, brushed aluminum, or equivalent. Exterior doors will include key cylinder and pull hardware for Fire Department access. Final keying will be the Tenant's responsibility. Knox boxes to be provided per Fire Department's requirements.

8.02 INTERIOR DOORS

N/A

8.03 ALUMINUM STOREFRONT AND GLAZING

Provide storefront system (2" x 4-1/2" front-loaded configuration) at main entrances with double leaf storefront doors. Glass to be sized per opening, 1/4" single glazed, medium performance, Aluminum and safety-glass entrance doors and sidelights, as well as exterior window assemblies shall be Kawneer or approved equal. Versalux Blue 2000 R reflective glass, tempered as required by code. Glazing to be installed with reflective coating on the interior surface.

8.04 ROLL-UP DOORS

Provide doors at dock area, and four (4) 12' x 14' grade level doors. Doors will be heavy duty, 24 gauge, vertical push up sectional (not coiling) track doors with 8" x 16" vision lights.

All doors to have (1) standard view window installed on the opposite side as the door latch.

DIVISION 9: FINISHES

9.01 EXTERIOR WALL PAINTING

The building exterior will be prepared per paint manufactures specifications to receive one coat of primer and one coat of exterior latex paint; include paint colors per City of Riverside requirements. Exterior man doors, roll-up doors and handrails will be enamel.

9.02 METAL FRAMING AND DRYWALL

N/A

9.03 CEILINGS

N/A

9.04 FLOOR COVERINGS

N/A

9.05 WAREHOUSE INTERIOR PAINTING

Paint interior warehouse walls one (1) coat to cover. Interior columns to be painted yellow to a height of 10' above Finished Floor.

9.06 VINYL WALL COVERING

N/A

9.07 CERAMIC TILE

N/A.

9.08 MISC. PAINTING

All above ground piping such as back-flow preventers shall be painted per City's requirements. All fire hydrants and PIV's painted per Fire Department Specs. Contractor to provide all handicap and traffics signage as well as parking lot curb painting and striping. Contractor to stripe all trailer spaces.

DIVISION 10: SPECIALTIES

10.01 BATHROOM ACCESSORIES

N/A

10.02 FENCING

1) All gates to be wrought iron and shall either slide or swing. Gate tracks cast in place during placing of asphalt. 8' tall wrought iron fencing shall be installed on the north and south sides of building. 8' tall chain link fencing shall be installed on the west side of building.

10.03 FLAGPOLES

N/A

DIVISION 11: EQUIPMENT

11.01 LOADING DOCK EQUIPMENT

N/A

11.02 MISCELLANEOUS EQUIPMENT

N/A

DIVISION 12: FURNISHINGS

N/A

DIVISION 13: SPECIAL CONSTRUCTION

13.01 SECURITY SYSTEM

N/A

13.02 DETECTION AND ALARM - FIRE LIFE SAFETY

Contractor shall provide a turn-key, design/build cost to install a fire alarm monitoring system for the shell only that will meet all current state and local building codes. Design shall be by a qualified electrical engineer and or qualified electrical designer.

Contractor will also be responsible to establish service with the local telephone company to provide (2) voice grade, dedicated lines to the fire alarm panel and to coordinate with the fire alarm contractor so that system is operational and does not delay final sign-off by the City and Fire Department. Monthly monitoring and phone company cost to be Tenant responsibility.

- 1) Provide design build alarm system to meet minimum code requirements of the City, Fire Marshall, NFPA.
- 2) To include but not be limited to the following:
 - a) UL central station listed
 - b) Double Detector Check Valves
 - c) Post Indicator Valves
 - d) Riser Valves

- e) Riser flow switches
- f) Pump Room valves
- g) Pump Running
- h) Loss of power

Security system is the Tenant's responsibility.

13.03 FIRE PROTECTION

The warehouse area will be fully sprinklered. Building to be equipped with an ESFR system. Temperature rating of fire sprinkler heads to be 165 degrees (F) or per code.

A complete on-site fire protection underground system shall be provided per the specific requirements of the local authorities. This system shall include hydrants, sectional valves, back flow prevention, Fire Department connection and connections to the public water supply per local codes. Provide 6" concrete filled pipe bollards at all risers and hydrants. Splash blocks will be provided in the landscaping at all fire sprinkler inspector test valves at the exterior perimeter of the building.

Riser assemblies shall include mechanical alarm valves. System control valves shall either be riser mounted with wall post extensions or exterior post indicator valves as required by the local authority. All required devices for central station alarm system interface shall be provided, but maintained by the Tenant.

System design, material and installation shall comply with NFPA 13 and the other previous NFPA standards. It shall also comply with UBC and UFC standards. Approvals will also be obtained from the Owner's insurance authority.

The cost of the fire hose cabinets and fire extinguishers as required by code and due to installation of Tenant's racking shall be a Tenant expense.

DIVISION 14: CONVEYING SYSTEM

N/A

DIVISION 15: MECHANICAL

15.01 PLUMBING DESIGN/BUILD

See Underground Utilities section 2.05.

15.02 HVAC-DESIGN/BUILD

Provide exhaust fans and louvers to provide for code air changes in warehouse.

DIVISION 16: ELECTRICAL

16.01 LIGHTING DESIGN/BUILD

Shell scope to include an emergency exit light and an illuminated exit sign above each man door. Tenant shall be responsible for the cost of any additional emergency exit lighting that may be required due to the effects of the tenant's build out and/or racking/storage plan.

Parking lot lighting not less than one (1) foot candle average and shall be limited to exterior mounted wall packs. No light poles will be allowed unless required to meet minimum photometric levels.

16.02 ELECTRICAL SERVICE DESIGN/BUILD

General contractor shall provide a design build cost for the project. Design shall be by a qualified electrical engineer and or qualified electrical designer. Liability and Errors & Omissions insurance shall conform to Section 1.03 of this specification. Plans shall be processed with Riverside Public Utility Agency by the General contractor, the Electrical designer or the Electrical contractor. Any fees shall be paid by the General Contractor.

1) Primary Service

- a) Primary conduit to Riverside Public Utility Agency designated location per Riverside Public Utility Agency approved drawings. Transformer pad and substructure approved by Riverside Public Utility Agency.
- b) Secondary conduit and conductor shall be sized and bussed according to the table below, and as required by the Riverside Public Utility to the underground pull section.
- c) The underground pull section (UPS), shall be sized and bussed according to the table below.
- d) The location of the primary service shall be in an electrical room. The electrical room will be located inside the building, constructed of a drywall enclosure with a single man door and access to the room. Switchgear will be installed on the exterior perimeter concrete tilt wall. Alternate locations approved by the Riverside Public Utility Agency and the owner will be considered. Final size and dimensions of the electrical room shall be recommended by the Electrical designer and approved by the Owner and the project Architect.

2) House Service

- a) An independently metered House Service shall be sized at 200 Amps, 277/480 volts, three phase.
 - i) The House Meter may be either a Meter Section or a Meter Main Service Panel
 - ii) The house Service shall serve the following design/build components:
 - (1) Exterior lighting to meet Local Building Department standards. Inclusive but not limited to an average of 1 Foot Candle maintained on all parking, drive, and truck surfaces. Lighting control to clock on, photo-cell off.
 - (2) Lighting in the Electrical room.
 - (3) 110 volt circuits in the Electrical room to serve:
 - a) Telephone backboard, irrigation time clock
 - b) Alarm panel
 - c) Code required circuit at all fire risers for riser flow alarm.
 - d) Exit lights over all doors to the exterior (either 110 or 277).

3) Electrical Service, Design build:

- a) Meter Main bussed to Underground Pull Section.
- b) Conduit and conductor to serve additional tenant.

4) General Notes:

- a) Provide photometric layout with all engineered drawings.

2ND CONDUITS	PULL SECTION	HOUSE SERVICE	TENANT I SERVICE	TENANT II SERVICE
1600 amps	3,000 amps	N/A	1600 amps	N/A

Distribution to equipment is not assumed.

ALLOWANCES

A total of \$3.25 per building square foot to be used for the following Tenant requested improvements:

BIG 5 - REQUESTED SHELL IMPROVEMENTS

1. Approximately 47,000 SF of improved office space.
2. Approximately 23,600 SF of mezzanine with code stairs.
3. Two-Stop elevator, 2500 lbs., holeless hydraulic with pit.
4. 1,600 amp meter section, 277-480 volt 3 ph 4 wire (no electrical distribution except to office sub-panel).
5. 15-year Manufacturer roof Warranty in lieu of 10 year.
6. 400 watt metal halide fixture 25 fc average in warehouse, (no racking).
7. Lenses for 400-watt metal halide fixtures.
8. Ashford sealer for warehouse slab.
9. Sewer line to southwest corner of the building.
10. Conduit for future electrical service at west end of the building.
11. Dock equipment.
12. White gasroom - approximately 2,080 SF
13. Aerosol room - approximately 3,952 SF
14. Valuable room - approximately 21,994 SF
15. Gun room - approximately 3,952 SF
16. Ammo room - approximately 3,640 SF
17. Concrete separation wall.
18. Interior maintenance facility.
19. Diesel ESFR fire pump (in lieu of electric pump).
20. Energy management system for warehouse lighting.
21. Pick level lighting.
 - Fans and additional electric service to be design/build per Tenant's specifications.
22. Two (2) patio areas.

BIG 5 - REQUESTED SITE IMPROVEMENTS

1. West yard expansion, grading and paving - 106,464 SF.
2. South truck driveway (Inbound/Outbound lane - 47,701 SF. of additional land).
3. East employee parking area expansion - approx. 53,000 SF. to include approximately 1,900 lf of 8" tall tube steel fencing and pilasters.
4. Pipe for future secondary water source at west end of building.
5. Fuel island: Includes concrete slab, walls and 2 - 6,000 gallon above ground diesel fuel tanks per Big 5 provided specifications.
6. Exterior maintenance/truck wash area: Includes water source, concrete slab, drains, an approximate 200-gallon oil interceptor and an approximate 1,200-gallon clarifier with sample pit.
7. Guard shack complete with sewer and electrical.

DATE: 4/6/04

PROJECT NAME: Big 5, Sycamore Cyn., Riverside

	QTY	UNIT
	---	----
REQUESTED SHELL IMPROVEMENTS ADDS:		
1	47,000	sf
2	23,600	sf
3	1	each
4	1	lsum
5		
6	1	lsum
7	1	lsum
8	1	lsum
9	100	lf
10	1	lsum
11		
	12	each
	92	each
	104	each
	104	each
	104	each
	12	each
	92	each
	116	each
12		
	176	lf
	2,080	sf
	1	each
	1	each
	8,748	sf
13		

DATE: 4/6/04

PROJECT NAME: Big 5, Sycamore Cyn., Riverside

	QTY	UNIT
	---	----
6" metal studs & 2-hour drywall:	139	lf
Paint walls:	8,748	sf
10 x 12 1-hour rated vertical lift door:	1	each
3 x 7 1-hour rated mandoor:	1	each
14 Valuable room - 21,944 SF:		
Wire mesh partitions, to underside of roof:	11,340	sf
Paint one side of wall:	3,744	sf
Openings 10 x 12:	1	each
Mangate:	1	each
15 GUN ROOM - 3,952 SF:		
Wire mesh partitions including door openings:	4,752	sf
Openings 10 x 12:	1	each
Mangate:	1	each
16 AMMO ROOM - 3,640 SF:		
6" metal studs & 2-hour drywall:	119	lf
* (White Gas room and Ammo room share a common wall)		
10 x 12 fire rated vertical lift, manual door:	1	each
3 x 7 mandoor, fire rated:	1	each
Paint interior walls:	8,748	sf
17 CONCRETE SEPARATION WALL:		
a) Concrete tilt single wall through roof with footing and rebar:	600	lf
b) Paint both sides of wall interior only:	1	lsum
c) 16' x 20' fire rated vertical lift manual doors:	3	each
d) 3' x 7' fire rated mandoors:	3	each
18 INTERIOR MAINTENANCE FACILITY:	13,624	sf
100 gallon oil interceptor:		
750 gallon 3 stage clarifier with sample pit:		
* Includes epoxy acid resistant floor, lighting to 30 fc, 2-hour drywall & metal stud separation wall and one 10 x 12 fire rated vertical lift manual door.		
19 DIESEL FIRE PUMP FOR MAIN SYSTEM IN LIEU OF ELECTRICAL PUMP:	1	lsum
20 ENERGY MANAGEMENT SYSTEM FOR WAREHOUSE LIGHTING:	1	lsum
* Estimated payback on energy savings is 11 months.		
21 PICK LEVEL LIGHTING	1	lsum

DATE: 4/6/04

PROJECT NAME: Big 5, Sycamore Cyn., Riverside

QTY UNIT
--- ----

Florescent lighting @ 1st. and 2nd. Levels of the picking racks to be lit with 8' florescent fixtures and top level to be lit by area lighting:

22 PATIO AREAS: 2 each

1000 sf patios with concrete tilt screen walls, solid cover roof and metal screen above tilts:

TOTAL REQUESTED SHELL IMPROVEMENTS:

NOTE: The foregoing is based on the following plans:

- * Preliminary Precise Grading plan from KCT, 13 sheets dated 1/28/04.
- * Preliminary Street Improvements plan from KCT, 8 sheets dated 1/28/04.
- * Preliminary Sewer plan from KCT, 4 sheets dated 1/28/04.
- * Preliminary Water plan from KCT, 4 sheets dated 1/28/04.
- * Preliminary Sycamore Cyn. Storm Drainage plan from KCT, 10 sheets dated 1/28/04.
- * PL-16 Bldg. 2 Sycamore Canyon Conceptual plan from CCA dated 12/16/03, 3 sheets.

NOTE: All costs above include General Contractor's fee and insurance.

DATE: 4/6/04

PROJECT NAME: Big 5, Sycamore Cyn., Riverside

	QTY	UNIT
	---	----
REQUESTED SITE IMPROVEMENTS		
1 WEST YARD EXPANSION, GRADING AND PAVING - 106,464 SF:		
a) Staking:	1	lsum
b) Grading, sloping, over-exc. & re-compact:	1	lsum
c) 3.5" AC paving over 5" base:	81,464	sf
d) Additional curb only:	379	lf
e) Additional double swing gate:	1	lf
f) Additional landscaping:	25,000	sf
g) Additional tube steel fencing 8' high:	300	lf
2 SOUTH TRUCK DRIVEWAY [INBOUND/OUTBOUND LANE - 47,701 SF]:		
a) Staking:	1	lsum
b) Grading:		
c) 3.5" AC paving over 3" base:	47,701	sf
d) Striping:	1	lsum
d) Curb & Gutter:	1,110	lf
e) Curb only:	1,280	lf
f) Additional swing gate:	1	each
3 EAST EMPLOYEE PARKING AREA EXPANSION - 53,000 SF:		
a) Staking:	1	lsum
b) Grading:	53,000	sf
c) 3.5" AC paving over 3" base:	40,000	sf
d) Curb:	1,800	lf
e) Striping:	170	stalls
f) Landscaping:	13,000	sf
g) Light poles:	6	each
h) Approximately 1,900 lf of 8' tall tube steel fencing w/ CMU pilasters every 100 feet for employee parking lot security:		
i) Additional swing gates at entries:	3	each
4 PIPE FOR FUTURE SECONDARY WATER SOURCE AT WEST END OF BUILDING:	100	lf
5 FUEL ISLAND: INCLUDES CONCRETE SLAB, WALLS AND 2 - 6,000 GALLON ABOVE GROUND DIESEL FUEL TANKS:		
6 EXTERIOR MAINTENANCE/TRUCK WASH AREA: INCLUDES WATER SOURCE, CONCRETE SLAB, DRAINS, 200-GALLON OIL INTERCEPTOR AND A 1,200-GALLON CLARIFIER WITH SAMPLE PIT:	1	lsum
7 GUARD SHACK ALLOWANCE COMPLETE WITH SEWER AND ELECTRICAL:		

TOTAL REQUESTED SITE IMPROVEMENTS:

[PANATTONI CONSTRUCTION LOGO]

DATE: 4/6/04

PROJECT NAME: Big 5, Sycamore Cyn., Riverside

QTY UNIT
--- ----

ALTERNATE COST:

1	SECONDARY DIESEL FIRE PUMP SYSTEM WITH 200,000 GAL. TANK:	1	lsun
---	---	---	------

NOTE: The foregoing is based on the following plans:

- * Preliminary Precise Grading plan from KCT, 13 sheets dated 1/28/04.
- * Preliminary Street Improvements plan from KCT, 8 sheets dated 1/28/04.
- * Preliminary Sewer plan from KCT, 4 sheets dated 1/28/04.
- * Preliminary Water plan from KCT, 4 sheets dated 1/28/04.
- * Preliminary Sycamore Cyn. Storm Drainage plan from KCT, 10 sheets dated 1/28/04.
- * PL-16 Bldg. 2 Sycamore Canyon Conceptual plan from CCA dated 12/16/03, 3 sheets.

NOTE: All costs above include General Contractor's fee and insurance.

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

SCHEDULE 2 TO EXHIBIT C
GENERAL CONTRACTOR'S CERTIFICATE

_____ [Date]

Attention: _____

Re: _____

Gentlemen:

As general contractor for the construction of the above-referenced project, the undersigned hereby certifies that all construction has been done in a good and workmanlike manner and that all of the work materials and fixtures are hereby approved.

Sincerely,

a _____

By: _____
Name: _____
Its: _____

SCHEDULE 3 TO EXHIBIT C

PAYMENT AND PERFORMANCE GUARANTY

This PAYMENT AND PERFORMANCE GUARANTY ("GUARANTY"), dated as of April 14, 2004, is executed by PANATTONI INVESTMENTS, LLC, a California limited liability company ("GUARANTOR") in favor of BIG 5 CORP., a Delaware corporation ("TENANT"), in conjunction with, and to induce Tenant to enter into, that certain Lease of even date herewith (the "LEASE") between Tenant and PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company ("LANDLORD"), pursuant to which Landlord is leasing to Tenant certain "Premises" more particularly described in the Lease. Capitalized terms used and not otherwise defined in this Guaranty shall have the meanings set forth for them in the Lease.

In consideration of the foregoing, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty of Landlord's Obligations. Guarantor hereby unconditionally and irrevocably guarantees to Tenant the following (collectively, the "GUARANTEED LANDLORD OBLIGATIONS"):

(i) the prompt and diligent payment and performance of Landlord's Work, and the prompt and diligent payment, performance and observance by Landlord of all of Landlord's other covenants and obligations set forth in Exhibit C attached to the Lease and in the other provisions of the Lease pertaining and/or relating to Exhibit C and Landlord's delivery of possession of the Premises to Tenant in the condition required therefor as set forth in the Lease and Exhibit C (including, without limitation, Landlord's obligations and covenants under Paragraphs 1.4 and 1.5 of the Lease and the first paragraph of Paragraph 3.1 of the Lease); provided, however, except for (A) the payment of the costs of Landlord's Work, and (B) the payment and performance of the correction of any defects in Landlord's Work which are disclosed by Tenant in writing to Guarantor prior to the Outside Date (as defined below). Guarantor's obligations under this clause (i) with respect to the performance of Landlord's Work shall not extend beyond the Outside Date. As used herein, the "OUTSIDE DATE" shall mean the date which is one (1) year after Landlord's Work has been completed as evidenced by a Notice of Completion recorded in the Official Records;

(ii) the prompt payment by Landlord to Tenant of any Tenant Termination Amount pursuant to Paragraph 1.5.5 of the Lease, if applicable; and

(iii) the prompt payment and performance of the correction of any defects which are Landlord's responsibility to perform pursuant to Paragraph 7.3 of the Lease and which are disclosed in writing by Tenant to Guarantor on or prior to the Outside Date.

2. Modification of Lease; Assignment and Subletting. Guarantor agrees that the Lease and the Guaranteed Landlord Obligations may be supplemented, amended and/or otherwise modified from time to time without Guarantor's consent, in which event this Guaranty shall continue to apply to the Lease and Guaranteed Landlord Obligations thereunder as so

modified. In addition, no transfer of all or any portion of Landlord's interests in the Lease shall impair or affect the continuing force of this Guaranty.

3. Guarantor Waivers. Guarantor hereby waives, to the fullest extent allowed by law, all suretyship rights, defenses and other benefits to which it might otherwise be entitled. Without limiting the generality of the foregoing:

(i) Tenant shall be entitled to proceed against Guarantor with respect to any unfulfilled Guaranteed Landlord Obligations regardless of whether Tenant has proceeded, is then proceeding, or intends to proceed, against Landlord or any other person with respect thereto, and Guarantor expressly waives the benefits of Section 2845 of the Civil Code of California;

(ii) Tenant shall not be required to furnish Guarantor with copies of any notices given or required to be given to Landlord under the Lease, including without limitation notices of default;

(iii) Guarantor's liability for the Guaranteed Landlord Obligations shall not be affected, released, terminated, discharged or impaired by: (A) the existence of any bankruptcy, insolvency, reorganization or similar proceeding with respect to Landlord or any other person; (B) any exercise, non-exercise or delay or lack of diligence in the exercise of remedies by Tenant against Landlord or any other person of the applicable Guaranteed Landlord Obligation; (C) any assignment or other transfer (voluntary or involuntary) of Landlord's interests in the Lease; (D) the rejection of the Lease in any bankruptcy proceeding with respect to Landlord, or any other release or discharge of Landlord in any bankruptcy, insolvency, reorganization or similar proceeding; (E) any amendment of the Lease; (F) any change in the time, manner or place of payment, performance or observance of any of the Guaranteed Landlord Obligations; (G) any waiver of, or any assertion or enforcement or failure or refusal to assert or enforce, or any consent or indulgence granted by Tenant with respect to a departure from, any term of the Lease, including without limitation the waiver of any default by Landlord, or the making of any other arrangement with, or the accepting of any compensation or settlement from, Landlord; or (H) any other guaranty now or hereafter executed by Guarantor or any other guarantor or the release of any other guarantor from liability for the payment, performance or observance of any of the Guaranteed Landlord Obligations, whether by operation of law or otherwise; and

(iv) Guarantor hereby expressly waives: (A) notice of acceptance of this Guaranty and of any change in the financial condition of Landlord; (B) presentment, demand and protest; (C) until such time as all defaulted Guaranteed Landlord Obligations are fulfilled, all right of subrogation with respect to any obligation of Landlord that is fulfilled by Guarantor hereunder; (D) the right to trial by jury in any action or proceeding arising out of or with respect to this Guaranty or the interpretation, breach or enforcement hereof; (E) the right to interpose any setoff or counterclaim in any action or proceeding arising out of or with respect to this Guaranty; and (F) any right or claim of right to cause a marshalling of the assets of Landlord or to cause Tenant to proceed against any collateral or security held by Tenant at any time or in any particular order.

The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Tenant under this Guaranty shall continue, with respect to any amount at any time paid on account of any Guaranteed Landlord Obligations which shall thereafter be required to be restored or returned by Tenant upon the bankruptcy, insolvency or reorganization of Landlord or any other person, or otherwise, as though such amount had not been paid. Guarantor subordinates any liability or indebtedness of Landlord held by Guarantor to the Guaranteed Landlord Obligations.

4. Jurisdiction. All disputes with respect to this Guaranty, and all actions to enforce this Guaranty, may be adjudicated in the state courts of California or the federal court sitting in California; and Guarantor hereby irrevocably submits to the jurisdiction of such courts in any action relating to this Guaranty. To the fullest extent permitted by law, this submission to California jurisdiction shall be self-operative and no further instrument or action, other than service of process, shall be required to confer jurisdiction over Guarantor in any such court. Nothing in this paragraph shall be construed to limit the right of Tenant to serve process in any manner permitted by law or to institute any action against Guarantor in the courts of other appropriate jurisdictions.

5. Notices. All notices and other communications provided for in this Guaranty shall be in writing and be delivered to the appropriate party at its address as follows:

If to Guarantor:

Panattoni Investments, LLC
8401 Jackson Road
Sacramento, California 95826
Attn: Carl D. Panattoni

If to Tenant:

Big 5 Corp.
2525 East El Segundo Boulevard
El Segundo, California 90245
Attn: President or Secretary

Addresses for notice may be changed from time to time by written notice to all other parties. All communications shall be effective when actually received; provided, however, that nonreceipt of any communication as the result of a change of address of which the sending party was not notified or as the result of a refusal to accept delivery shall be deemed receipt of such communication.

6. Attorneys' Fees. In the event that any litigation is commenced with respect to this Guaranty, the party prevailing in such litigation shall be entitled to recover, in addition to such other relief as may be granted, its reasonable costs and expenses, including without limitation reasonable attorneys' fees and court costs, whether or not taxable, as awarded by a court of competent jurisdiction.

7. Representations and Warranties. Guarantor represents and warrants to Tenant that: (i) the execution, delivery and performance of this Guaranty by Guarantor will not violate

SCHEDULE 3 TO
EXHIBIT C

any provision of any law, regulation, order or decree of any governmental authority or of any court binding on Guarantor, or conflict with, result in a breach of or constitute a default under any provision of any instrument to which Guarantor is a party or which it or any of its property is bound, and will not result in the imposition or creation of any lien, charge or encumbrance on, or security interest in, any of its property pursuant to the provisions of any of the foregoing; and (ii) this Guaranty has been duly executed and delivered by Guarantor and constitutes a legal, valid and binding obligation of Guarantor, enforceable against it in accordance with its terms, subject as to enforcement of rights and remedies to any applicable bankruptcy, reorganization, moratorium or other laws affecting the enforcement of creditors' rights generally and doctrines of equity affecting the availability of specific enforcement or other equitable remedies.

8. Estoppel Certificate. Guarantor hereby agrees that: (i) Guarantor will, from time to time, within ten (10) days following request by Tenant, execute and deliver to Tenant a statement certifying that this Guaranty is unmodified and in full force and effect (or if modified, that it is in full force and effect as modified and stating such modifications); and (ii) such certified statement may be relied upon by anyone holding or proposing to acquire from or through Tenant any interest in the Premises by any prospective assignee or subtenant of Tenant.

9. Miscellaneous. This Guaranty shall: (i) remain in full force and effect until the payment, performance and observance in full of all of the Guaranteed Landlord Obligations and all other amounts payable under this Guaranty; (ii) be binding upon Guarantor, its heirs, legal representatives, successors and assigns; and (iii) inure to the benefit of and be enforceable by Tenant and its successors and assigns or by any person to whom Tenant's interest in the Lease or any part thereof, may be assigned. Wherever in this Guaranty reference is made to Landlord or Tenant, the same shall be deemed to refer also to the then heir, legal representative, successor or assign of Landlord or Tenant, respectively. No provision of this Guaranty that is held to be inoperative, unenforceable or otherwise invalid shall affect the remaining provisions, and to this end all provisions hereof shall be severable. In the event that more than one person or entity executes this Guaranty as Guarantor, the obligations of each shall be joint and several. Time is of the essence of this Guaranty. This Guaranty shall be governed by the laws of the State of California. By accepting this Guaranty, Tenant agrees that it waives the right to trial by jury in any action or proceeding arising out of or with respect to this Guaranty or the interpretation, breach or enforcement hereof.

[SIGNATURE BLOCK ON FOLLOWING PAGE]

SCHEDULE 3 TO
EXHIBIT C

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be duly executed as of the date first written above.

"Guarantor"

PANATTONI INVESTMENTS, LLC,
a California limited liability company

By: _____
Carl D. Panattoni, trustee of the
Panattoni Living Trust dated April 8,
1998, Managing Member

SCHEDULE 3 TO
EXHIBIT C

-5-

EXHIBIT D

PERMITTED ENCUMBRANCES

Attached to and forming a part of that certain Lease executed under date of April 14, 2004, by and between PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company, as Landlord, and BIG 5 CORP., a Delaware corporation, as Tenant.

The following constitute the "Permitted Encumbrances" described in Paragraph 3.1 of the Lease:

1. All non-delinquent general and special taxes and supplemental taxes listed as Exception Nos. 1 through 27 of that certain preliminary title report dated as of February 20, 2004, issued by First American Title Company, order no. NCS-29009-SF (the "PTR"), but only to the extent the same affect the Land (and no other property included in the PTR).
2. Exception No. 28 of the PTR, so long as the Leasehold Title Policy or Leasehold Title Commitment issued to Tenant pursuant to the Lease modifies this exception to specifically reference the AD #1 water bond, only.
3. Exception No. 30 of the PTR, so long as the Leasehold Title Policy or Leasehold Title Commitment issued to Tenant pursuant to the Lease includes a 103.1 Endorsement therefor.
4. Exception Nos. 29, 31, 39 and 40 of the PTR.

EXHIBIT D

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

EXHIBIT E

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

Recorded at the request of
BIG 5 CORP., and
to be mailed after recording to:

BIG 5 CORP.
P.O. Box 92088
Los Angeles, CA 90009
Attn: A. Saucedo, Legal Dept.

SUBORDINATION, NON-DISTURBANCE AND
ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (this "AGREEMENT") is made and entered into as of the _____ day of _____, _____, by and among BIG 5 CORP., a Delaware corporation ("TENANT"), PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company ("LANDLORD") and _____, a(n) _____ ("BENEFICIARY").

R E C I T A L S:

Landlord and Tenant entered into a Lease dated April 14, 2004 (the "LEASE") of certain real property more particularly described in Exhibit "A" attached hereto (said real property, together with the improvements now or hereafter constructed thereon, collectively, the "PREMISES").

Beneficiary is the holder of the beneficial interest under a Deed of Trust dated _____, recorded on _____, in the Official Records in the County of Riverside, State of California, as Instrument No. _____, in Book No. _____, Page No. _____, on the Premises (the "DEED OF TRUST"). Tenant and Beneficiary desire hereby to establish certain rights, safeguards, obligations and priorities with respect to their respective interests by means of the following non-disturbance, attornment and subordination agreements.

NOW, THEREFORE, the parties hereto covenant and agree as follows:

A G R E E M E N T:

1. Provided the Lease is in full force and effect and there are no defaults by Tenant thereunder (beyond all applicable notice and cure periods), then:

EXHIBIT E

1.1. The right of possession of Tenant to the Premises and Tenant's rights arising out of the Lease shall not be affected or disturbed by Beneficiary in the exercise of any of its rights under the Deed of Trust or the Note secured thereby.

1.2. Tenant shall not be named in any foreclosure action related to the Deed of Trust, unless such joinder is necessary under applicable law to foreclose the Deed of Trust, and then only for such purpose and not for the purpose of terminating the Lease.

1.3. In the event that Beneficiary or any other person ("PURCHASER") acquires title to the Premises or succeeds to Landlord's interest in the Lease pursuant to the exercise of any remedy provided for in the Deed of Trust or under the laws of the state in which the Premises are located (including any foreclosure of the Deed of Trust or conveyance in lieu of foreclosure), the Lease shall not be terminated or affected by the exercise of any such remedies or by said foreclosure or sale resulting from any such proceedings; and Beneficiary hereby covenants that any acquisition or sale by it of the Premises pursuant to the exercise of any rights and remedies under the Deed of Trust or otherwise, shall be made subject to the Lease and the rights of Tenant thereunder; and Tenant covenants and agrees to attorn to Beneficiary or Purchaser as its new landlord; and the Lease shall continue in full force and effect as a direct lease between Tenant and Beneficiary or Purchaser, as Landlord, upon all the terms, covenants, conditions and agreements set forth in the Lease between Tenant and Landlord. However, in no event shall Beneficiary or Purchaser be:

1.3.1. liable for any act or omission of Landlord, except for those acts or omissions for which Tenant has given Beneficiary notice thereof prior to said foreclosure or sale and which Beneficiary has thereafter failed to cure within the time periods provided for in Paragraph 6 of this Agreement (except that in no event shall Beneficiary be liable for any incidental, special or consequential damages [including for property damage or personal injury], that have accrued prior to said foreclosure or sale resulting from any acts or omissions of any prior landlord [including Landlord] which occurred prior to the date such notice was delivered to Beneficiary). Beneficiary shall provide Tenant with written notice of any such foreclosure or sale of the Premises as required by law, but in no event less than thirty (30) days prior to such foreclosure or sale; or

1.3.2. bound by any payment of rent made by Tenant more than thirty (30) days in advance of the due date under the Lease or liable for any security deposit unless actually received by Beneficiary or Lender; or

1.3.3. subject to any offsets or defenses which Tenant may have against any prior landlord (including Landlord) arising prior to said foreclosure or sale, except for any defenses expressly provided for in the Lease and any offset and abatement rights expressly provided in Paragraphs 1.5, 2.2, 12.6 and 18.2 of the Lease, provided that Tenant has given Beneficiary notice of such offsets or defenses prior to said foreclosure or sale. Beneficiary shall provide Tenant with written notice of any such foreclosure or sale of the Premises as required by law, but in no event less than thirty (30) days prior to such foreclosure or sale; or

1.3.4. bound by any amendment to the Lease made subsequent to the date of this Agreement without the written consent of Beneficiary, which consent shall not be unreasonably withheld or withheld for the purpose of effectuating a change in terms to the Deed of Trust.

Notwithstanding the foregoing, the rights and obligations of Tenant and Beneficiary, respectively, upon such attornment shall, to the extent of the then remaining balance of the term of the Lease, including any renewals or extensions thereof, be the same as now set forth in the Lease and by this reference the Lease is incorporated herein as part of this Agreement.

2. The Lease shall be subject and subordinate to the lien of the Deed of Trust and to all the terms, conditions and provisions thereof, to all advances made or to be made thereunder, and to any renewals, extensions, modifications or replacements thereof, not inconsistent with Paragraph 1 of this Agreement.

3. Beneficiary hereby consents to the application of insurance and property damage proceeds and condemnation proceeds in accordance with the applicable provisions of Paragraphs 9, 10 and 12 of the Lease between Landlord and Tenant (including, without limitation, the provisions of Paragraph 10.4.3 of the Lease which permit disbursement of insurance proceeds to a beneficiary of Landlord under a first deed of trust encumbering the Premises to apply towards the repair of damage to the Premises), whether or not the Deed of Trust is then foreclosed.

4. Any notices or other communication required or desired to be given by one party to the other party hereto shall be given in writing by (i) mailing the same by certified or registered United States mail, return receipt requested, postage prepaid, or (ii) sending the same by Federal Express or other comparable overnight express courier service (with proof of receipt available), addressed as follows:

- To Tenant: Big 5 Corp.
2525 East El Segundo Boulevard
El Segundo, California 90245
Attention: President or Secretary
- To Landlord: Panattoni Development Company, LLC
19660 Fairchild Road
Irvine, California 92612
Attention: Steven Palmer
- To Beneficiary: _____

or to such other addresses as the respective parties may from time to time designate by notice given as provided in this Agreement. Notices shall be deemed effective upon receipt or refusal to accept receipt (as evidenced by supporting documentation).

5. Landlord hereby acknowledges and represents that the rent and all other amounts due under the Lease have been assigned to Beneficiary as security for the loan secured by the Deed

of Trust. In the event that Beneficiary shall notify Tenant that Landlord has defaulted under the terms of the Deed of Trust and shall demand in writing that Tenant pay its rent and all other amounts due under the Lease to Beneficiary, then Tenant shall pay to Beneficiary all rent and other payments required to be paid by Tenant to Landlord pursuant to the terms of the Lease for the duration of the Lease. Such amounts payable by Tenant to Beneficiary shall include only those payments which become due to Landlord under the terms of the Lease after the time Tenant has received written notice and demand from Beneficiary as provided in this Paragraph 5; provided, however, Tenant shall not be liable to Beneficiary for any payments made to Landlord under the terms of the Lease for the fifteen (15) business day period following such notice and demand from Beneficiary, such fifteen (15) business day period being deemed by the parties hereto to be a reasonable period to permit Tenant to implement any such payment change. Landlord hereby agrees that, in complying with the provisions of this Paragraph 5, Tenant shall be entitled to rely solely upon the notices given by Beneficiary, and Landlord agrees to indemnify, defend, protect and hold Tenant harmless from and against any and all loss, claim, damage or liability arising out of Tenant's payment to Beneficiary in compliance with such notice. Landlord hereby releases and forever discharges Tenant from any all liability for losses suffered by Landlord as a result of Tenant's compliance with the provisions of this Paragraph 5, and Tenant shall be entitled to full credit under the Lease for any rents or other amounts paid to Beneficiary in accordance with this Paragraph 5 to the same extent as if such payments were made directly to Landlord. Any dispute between Beneficiary or Purchaser and Landlord as to the existence or continuance of a default by Landlord under the terms of the Deed of Trust or the Note secured thereby, or with respect to the extent or nature of such default, or with respect to foreclosure of the Deed of Trust by Beneficiary, shall be dealt with and adjusted solely between Beneficiary or Purchaser and Landlord, and Tenant shall not be made a party thereto.

6. So long as the Deed of Trust remains an encumbrance against the Premises, Tenant agrees to concurrently provide Beneficiary with a copy of any notice of default served upon Landlord. Tenant further agrees that if Landlord shall have failed to cure such default within the time period provided for in the Lease, and if such default is curable by Beneficiary, then Beneficiary shall have the right, at its election, to cure said Landlord default within thirty (30) days following the expiration of Landlord's cure period, or, in the case of any non-monetary default which cannot be cured within said 30-day period, to promptly commence such cure within said 30-day period and thereafter diligently prosecute same to completion, which completion period shall not exceed one hundred twenty (120) days. Notwithstanding the foregoing, Tenant may proceed immediately to cure or cause to be cured any default of Landlord pursuant to the provisions of the Lease. Any failure by Tenant to give such duplicate notice to Beneficiary shall not be a default by Tenant either under this Agreement or under the Lease; provided, however, until such time as Beneficiary has received such duplicate notice from Tenant and has had a opportunity to cure such default as required under this Paragraph 6, Tenant shall have no right to (i) terminate the Lease as a result of Landlord's default or (ii) exercise any offset rights Tenant may have resulting from such default. Notwithstanding the foregoing sentence, if any repair or maintenance matter for which Landlord is responsible is of an emergency nature which if not attended to might result in bodily injury or damage to Tenant's property, Tenant may make such repair (as provided in Paragraph 7.2 of the Lease) without prior notice to Beneficiary, and such action by Tenant shall not waive or limit Tenant's offset and defense rights under Paragraph 1.3.3 above. Notwithstanding anything to the contrary herein, nothing herein shall prohibit Tenant from exercising any termination rights it may have under the

Lease (including under Articles 9 and 12 of the Lease) which are not predicated upon a default of Landlord.

7. If Beneficiary or Purchaser, by succeeding to the interest of the landlord under the Lease, shall become obligated to perform the covenants of the landlord thereunder, then, upon further transfer of the landlord's interest in the Lease by Beneficiary or Purchaser and provided that the transferee shall have assumed in writing all of the obligations of the landlord under the Lease from and after the time of such transfer, all such landlord obligations shall terminate as to Beneficiary or Purchaser, except for those obligations which have accrued prior to such transfer.

8. This Agreement may not be modified other than by an agreement in writing signed by the parties hereto or by their respective successors in interest.

9. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their successors and assigns.

10. The foregoing provisions shall be self operative and effective without the execution of any further instruments on the part of either party hereto.

11. Should Beneficiary cease to have a beneficial interest under the Deed of Trust, Beneficiary shall give prompt written notice to Tenant of the reconveyance, assignment or other form of termination of said beneficial interest.

12. This Agreement may be executed in multiple counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same agreement.

[SIGNATURE BLOCK ON FOLLOWING PAGE]

EXHIBIT E

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as
of the day and year first above written.

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

BENEFICIARY

BIG 5 CORP.,
a Delaware corporation

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

TENANT

PANATTONI DEVELOPMENT COMPANY, LLC, a
California limited liability company

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

LANDLORD

EXHIBIT E

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

STATE OF)
) SS.

COUNTY OF)

On _____, before me, _____, a Notary Public,
personally appeared _____ and _____,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the person(s) whose name(s) is/are subscribed to the within instrument and
acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the
instrument the person(s), or the entity upon behalf of which the person(s)
acted, executed the instrument.

WITNESS my hand and official seal.

Signature_____

STATE OF)
) SS.

COUNTY OF)

On _____, before me, _____, a Notary Public,
personally appeared _____ and _____,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the person(s) whose name(s) is/are subscribed to the within instrument and
acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the
instrument the person(s), or the entity upon behalf of which the person(s)
acted, executed the instrument.

WITNESS my hand and official seal.

Signature_____

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

STATE OF)

) SS.

COUNTY OF)

On _____, before me, _____, a Notary Public,
personally appeared _____ and _____,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the person(s) whose name(s) is/are subscribed to the within instrument and
acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the
instrument the person(s), or the entity upon behalf of which the person(s)
acted, executed the instrument.

WITNESS my hand and official seal.

Signature_____

EXHIBIT E

EXHIBIT "A" TO EXHIBIT E

LEGAL DESCRIPTION OF PREMISES

[To be attached]

EXHIBIT "A" TO
EXHIBIT E

-1-

EXHIBIT F

LANDLORD'S WAIVER-INVENTORY

Big 5 Warehouse/Distribution Center
Riverside, California

State of California)
) ss.
County of Riverside)

WHEREAS, Big 5 Corp., (herein the "CLIENT") has pledged and granted to THE CIT GROUP/BUSINESS CREDIT, INC., as Agent (herein "CITBC") of 300 South Grand Avenue, Los Angeles, California 90071, a continuing general lien upon and security interest in its present and future merchandise, inventory and goods (herein "INVENTORY") pursuant to a certain Financing Agreement between CITBC as agent, the Lenders thereto and the Client, as amended; and

WHEREAS, said lien and security interest covers all said Inventory now or hereafter located or to be located on Sycamore Canyon Boulevard, Riverside, California ("PREMISES"), which Premises are owned by the undersigned Landlord and leased to Tenant pursuant to that certain Lease with Landlord dated April 14, 2004 (the "LEASE") ; now therefore,

THE UNDERSIGNED, in consideration of the foregoing, and for other good and valuable consideration, receipt of which is hereby acknowledged, does by these presents, hereby waives and relinquishes in favor of CITBC, its successors and assigns, all right of levy for rent and all claims of every kind against said Inventory now or hereafter kept or to be kept at said Premises, this waiver to continue until full compliance by the Client with all the terms and conditions of the Financing Agreement, and until payment and satisfaction of all Obligations secured thereby; and the undersigned further agrees that, /* it will not hinder or delay CITBC in enforcing its rights under said Financing Agreement; that said Inventory may be repossessed or removed by CITBC at any time and from time to time/** and the undersigned will, /*** provide access accordingly/****.

* subject to the provisions herein,

** during the term of the Lease and within ten (10) days following the expiration or earlier termination of the Lease;

*** upon reasonable prior written notice,

**** , provided that: (i) CITBC's exercise of its rights hereunder shall not delay or limit Landlord's enforcement rights under the Lease against Tenant in the event of Tenant's default, except that Landlord shall not seize the Inventory; (ii) CITBC shall use due care in removing any property from the Premises and shall repair any damage to the Premises caused by its repossession and removal at CITBC's sole expense; and (iii) in the event CITBC enters the Premises after expiration or earlier termination of the Lease, and Landlord has been notified by CITBC in writing that Tenant's liability policy required to be maintained by Tenant pursuant to the Lease has expired or terminated, CITBC shall provide Landlord with a certificate of insurance or other evidence that CITBC has in force a commercial general liability policy for liability for personal injury, death and bodily injury to persons and damage to property occurring upon, within or at the Premises and arising from CITBC's activities at the Premises, which policy shall name Landlord as an additional insured and be in an amount of not less than a combined single limit of \$2,000,000.00.

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

Notwithstanding the foregoing, /***** the expiration or sooner termination of the Lease, the undersigned shall have the right to have any Inventory that may be located on the Premises removed in accordance with applicable law and the terms of the Lease./*****

**** if CITBC has not removed the Inventory from the Premises within ten (10) days following

***** If Landlord or CITBC commences legal proceedings to enforce any of the terms of this Landlord's Waiver, or for damages resulting from a breach of this Landlord's Waiver, the successful party in such action shall receive from the other party, in each such action, including any appeal taken thereof, its reasonable attorneys' fees and costs incurred.

IN WITNESS WHEREOF, the undersigned, owner-Landlord, has signed below this _____ day of _____, _____.

PANATTONI DEVELOPMENT COMPANY, LLC,
a California limited liability company

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Landlord's Address:

19660 Fairchild Road
Irvine, California 92612
Attention: Steven Palmer

EXHIBIT F

EXHIBIT G

MEMORANDUM OF LEASE

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Big 5 Corporation
2525 East El Segundo Boulevard
El Segundo, California 90245
Attention: Jeanne Dawson, Esq.

(Space Above For Recorder's Use)

MEMORANDUM OF LEASE

This Memorandum of Lease ("MEMORANDUM"), dated as of April 14, 2004, is entered into by and between PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company ("LANDLORD"), whose address is 19660 Fairchild Road, Irvine, CA 92612, and BIG 5 CORP., a Delaware corporation ("TENANT"), whose address is 2525 East El Segundo Boulevard, El Segundo, California 90245.

1. Leased Premises. Landlord and Tenant have entered into that certain unrecorded Lease (the "LEASE") dated as of April 14, 2004, pursuant to which:

(i) Landlord has acquired that certain real property located in the City of Riverside, County of Riverside, State of California, as more particularly described on Exhibit "A" attached hereto (the "LARGER PARCEL");

(ii) Landlord is in the process of subdividing the Larger Parcel into several parcels of land, including that certain parcel of land (the "LAND") (A) depicted as Parcel 1 on that certain proposed final parcel map no. 31139-1 (the "PROPOSED FINAL MAP"), a copy of the first page of which is attached hereto as Exhibit "B-1", (B) containing approximately 44.81 net acres after dedication of Crest Ridge Drive and the expansion parcel for Sycamore Canyon Boulevard to the City of Riverside, as contemplated by the Proposed Final Map, and (C) the legal description of which following such subdivision is anticipated to be as set forth on Exhibit "B-2" attached hereto;

(iii) Landlord leased to Tenant and Tenant leased from Landlord, and Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, the Land, together with (A) the warehouse/distribution building containing approximately 953,132 square feet of Rentable Area to be constructed thereon (the "BUILDING"), and (B) all easements and other public and private rights now or hereafter appurtenant thereto (collectively, the "PREMISES"), for a lease term which is conditioned upon and will not commence until after the occurrence of such subdivision of the Land from the Larger Parcel; and

EXHIBIT G

(iv) following such subdivision of the Land from the Larger Parcel, Landlord and Tenant shall record an amendment to this Memorandum to (A) reflect that such subdivision has occurred, and (B) attach thereto the legal description of the Land, as so subdivided, as the land component of the Premises, which shall reflect the recording information for the recorded final parcel map for such subdivision.

2. Term. The initial Term of the Lease is for a period of approximately ten (10) years, commencing on the Commencement Date as defined in the Lease, and ending upon the last day of the calendar month which is ten (10) years after the Commencement Date.

3. Options to Extend. Tenant may, at Tenant's option in accordance with the terms of the Lease, extend the Term of the Lease for up to three (3) additional five (5) year terms, on the terms and conditions set forth in the Lease.

4. Incorporation of Lease. This Memorandum is a memorandum of the Lease. The purpose of this Memorandum is to give notice of the rights and obligations of the parties hereto under the Lease, and all of the terms and conditions of the Lease are incorporated herein by reference as if they were fully set forth herein. In the event of any inconsistency between the terms of this Memorandum and the terms of the Lease, the terms of the Lease shall prevail.

5. Successors. Subject to the terms of the Lease, this Memorandum shall be binding upon and inure to the benefit of the respective successors in interest and assigns of the parties hereto.

6. Counterparts. This Memorandum may be executed in multiple counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same agreement.

[SIGNATURE BLOCK ON FOLLOWING PAGE]

EXHIBIT G

-2-

IN WITNESS WHEREOF, Landlord and Tenant have caused this Memorandum to be duly executed as of the date first above written.

"Landlord"

PANATTONI DEVELOPMENT COMPANY, LLC,
a California limited liability company

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

"Tenant"

BIG 5 CORP.,
a Delaware corporation

By: _____
Steven G. Miller
Its: President

By: _____
Gary S. Meade
Its: Secretary

EXHIBIT G

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On _____, before me, _____, a Notary Public in and for said state, personally appeared Steven G. Miller and Gary S. Meade, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature on the instrument, the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and for said State

(SEAL)

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, before me, _____, a Notary Public in and for said state, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and for said State

(SEAL)

STATE OF CALIFORNIA
COUNTY OF _____

)
) ss.
)

On _____, before me, _____, a Notary Public in and for said state, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument, the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and for said State

(SEAL)

EXHIBIT G

-5-

EXHIBIT "A" TO EXHIBIT G

LEGAL DESCRIPTION OF LARGER PARCEL

Real property in the City of Riverside, County of Riverside, State of California, described as follows:

PARCEL 1:

PARCELS 1 THROUGH 5 AND 8 THROUGH 10, 15 THROUGH 17, INCLUSIVE, AND 85 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL 2:

PARCEL 19 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF PARCELS 12 AND 82 OF PARCEL MAP NO. 24535 AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90 OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHEAST CORNER OF SAID PARCEL 12;
THENCE NORTH 00 DEGREES 08' 36" WEST ALONG THE EAST LINE OF SAID PARCEL 12, A DISTANCE OF 205.00 FEET TO THE POINT THEREIN;
THENCE SOUTH 89 DEGREES 50' 40" WEST, A DISTANCE OF 342.66 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE EAST LINE OF PARCEL 58 OF PARCEL MAP 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID EAST LINE HAVING A BEARING OF NORTH 00 DEGREES 09' 20" WEST;
THENCE SOUTH 00 DEGREES 09' 20" EAST ALONG SAID NORTHERLY PROLONGATION, A DISTANCE OF 207.99 FEET TO A POINT IN THE SOUTH LINE OF SAID PARCEL 82;
THENCE NORTH 89 DEGREES 20' 39" EAST ALONG SAID SOUTH LINE AND ALONG THE SOUTH LINE OF SAID PARCEL 12, A DISTANCE OF 342.63 FEET TO THE POINT OF BEGINNING.

PARCEL 3:

PARCEL 20 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA DESCRIBED AS FOLLOWS:

EXHIBIT "A" TO
EXHIBIT G

THOSE PORTIONS OF PARCELS 11 AND 12 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90 OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE SOUTHEAST CORNER OF SAID PARCEL 12;
THENCE NORTH 0 DEGREES 08' 36" WEST ALONG THE EAST LINE OF SAID PARCEL 12, A DISTANCE OF 205.00 FEET TO THE TRUE POINT OF BEGINNING;
THENCE CONTINUING NORTH 00 DEGREES 08' 36" WEST ALONG SAID EAST LINE AND ALONG THE EAST LINE OF SAID PARCEL 11, A DISTANCE OF 205.00 FEET TO A POINT THEREON;
THENCE SOUTH 89 DEGREES 50' 40" WEST, A DISTANCE OF 342.70 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE EAST LINE OF PARCEL 58 OF PARCEL MAP NO. 24733, AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID EAST LINE HAVING A BEARING OF NORTH 00 DEGREES 09' 20" WEST;
THENCE SOUTH 00 DEGREES 09' 20" EAST ALONG SAID NORTHERLY PROLONGATION, A DISTANCE OF 205.00 FEET;
THENCE NORTH 89 DEGREES 50' 40" EAST, A DISTANCE OF 342.66 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 4:

PARCEL 20 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THAT PORTION OF PARCEL 11 OF PARCEL MAP 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE SOUTHEAST CORNER OF PARCEL 12 OF SAID PARCEL MAP NO. 24535;
THENCE NORTH 00 DEGREES 08' 36" WEST ALONG THE EAST LINES OF SAID PARCELS 12 AND 11, A DISTANCE OF 410.00 FEET TO THE TRUE POINT OF BEGINNING;
THENCE CONTINUING NORTH 00 DEGREES 08' 36" WEST ALONG SAID EAST LINE OF PARCEL 11, A DISTANCE OF 205.45 FEET TO THE NORTHEAST CORNER THEREOF;
THENCE SOUTH 89 DEGREES 32' 39" WEST ALONG THE NORTH LINE OF SAID PARCEL 11, A DISTANCE OF 317.88 FEET TO A POINT THEREIN;
THENCE SOUTH 44 DEGREES 41' 40" WEST, A DISTANCE OF 35.26 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE EAST LINE OF PARCEL 58 OF PARCEL MAP NO. 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID EAST LINE HAVING A BEARING OF NORTH 00 DEGREES 09' 20" WEST;

EXHIBIT "A" TO
EXHIBIT G

THENCE SOUTH 00 DEGREES 09' 20" EAST ALONG THE NORTHERLY PROLONGATION, A DISTANCE OF 178.78 FEET;
THENCE NORTH 89 DEGREES 50' 40" EAST, A DISTANCE OF 342.70 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 5:

PARCEL 22 AS SHOWN ON CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THAT PORTION OF PARCEL 11 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID PARCEL 11;
THENCE SOUTH 00 DEGREES 09' 25" EAST ALONG THE WEST LINE OF SAID PARCEL 11, A DISTANCE OF 207.92 FEET TO A POINT THEREIN;
THENCE NORTH 89 DEGREES 50' 40" EAST, A DISTANCE OF 305.00 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE WEST LINE OF PARCEL 58 OF PARCEL MAP NO. 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID WEST LINE HAVING A BEARING OF NORTH 00 DEGREES 09' 20" WEST;
THENCE NORTH 00 DEGREES 09' 20" WEST ALONG SAID NORTHERLY PROLONGATION, A DISTANCE OF 184.38 FEET;
THENCE NORTH 45 DEGREES 18' 21" WEST, A DISTANCE OF 35.45 FEET TO A POINT IN THE NORTH LINE OF SAID PARCEL 11;
THENCE SOUTH 89 DEGREES 32' 39" WEST ALONG SAID NORTH LINE, A DISTANCE OF 279.88 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 6:

PARCEL 23 AS SHOWN ON CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF PARCELS 11, 13 AND 14 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF SAID PARCEL 11;
THENCE SOUTH 00 DEGREES 09' 25" EAST ALONG THE WEST LINE OF SAID PARCEL 11, A DISTANCE OF 207.92 FEET TO THE TRUE POINT OF BEGINNING;
THENCE CONTINUING SOUTH 00 DEGREES 09' 25" EAST ALONG THE WEST LINE AND ALONG SAID WEST LINE OF PARCEL 14, A DISTANCE OF 205.00 FEET TO A POINT THEREIN;

EXHIBIT "A" TO
EXHIBIT G

THENCE NORTH 89 DEGREES 50' 40" EAST, A DISTANCE OF 305.00 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE WEST LINE OF PARCEL 58 OF PARCEL MAP NO. 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID WEST LINE HAVING A BEARING OF NORTH 00 DEGREES 09' 20" WEST;
THENCE NORTH 00 DEGREES 09' 20" WEST ALONG SAID NORTHERLY PROLONGATION, A DISTANCE OF 205.00 FEET;
THENCE SOUTH 89 DEGREES 50' 40" WEST, A DISTANCE OF 305.00 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 7:

PARCEL 24 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF PARCELS 13, 14 AND 82 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHWEST CORNER OF SAID PARCEL 82;
THENCE NORTH 00 DEGREES 09' 25" WEST ALONG THE WEST LINES OF SAID PARCELS 82 AND 14, A DISTANCE OF 205.00 FEET TO A POINT IN THE WEST LINE OF SAID PARCEL 14 WHICH BEARS SOUTH 00 DEGREES 09' 25" EAST 412.92 FROM THE NORTHWEST CORNER OF PARCEL 11 OF SAID PARCEL MAP NO. 24535;
THENCE NORTH 89 DEGREES 50' 40" EAST, A DISTANCE OF 305.00 FEET TO AN INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE WEST LINE OF PARCEL 58 OF PARCEL MAP NO. 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36, INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID WEST LINE HAVING A BEARING NORTH 00 DEGREES 09' 20" WEST;
THENCE SOUTH 00 DEGREES 09' 20" EAST ALONG SAID NORTHERLY PROLONGATION, A DISTANCE OF 202.34 FEET TO A POINT IN THE SOUTH LINE OF SAID PARCEL 82;
THENCE SOUTH 89 DEGREES 20' 39" WEST ALONG SAID SOUTH LINE, A DISTANCE OF 305.01 FEET TO THE POINT OF BEGINNING.

PARCEL 8:

PARCEL 47 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF PARCELS 11, 12, 13 AND 82 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, INCLUSIVE, OF

PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHEAST CORNER OF SAID PARCEL 11;
THENCE SOUTH 89 DEGREES 32' 39" WEST ALONG THE NORTH LINE OF SAID PARCEL 11, A
DISTANCE OF 317.88 FEET TO THE TRUE POINT OF BEGINNING;
THENCE SOUTH 44 DEGREES 41' 40" WEST, A DISTANCE OF 35 26 FEET TO AN
INTERSECTION WITH THE NORTHERLY PROLONGATION OF THE EAST LINE OF PARCEL 58 OF
PARCEL MAP NO. 24733 AS SHOWN BY MAP ON FILE IN BOOK 175 PAGES 30 THROUGH 36,
INCLUSIVE, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID EAST
LINE HAVING A BEARING OF 00 DEGREES 09'20" WEST;
THENCE SOUTH 00 DEGREES 09' 20" EAST ALONG SAID NORTHERLY PROLONGATION, A
DISTANCE OF 591.77 FEET TO A POINT IN THE SOUTH LINE OF SAID PARCEL 82;
THENCE SOUTH 89 DEGREES 20' 39" WEST ALONG SAID SOUTH LINE, A DISTANCE OF 60.00
FEET TO THE NORTHWEST CORNER OF SAID PARCEL 58;
THENCE NORTH 00 DEGREES 09' 20" WEST ALONG THE NORTHERLY PROLONGATION OF THE
WEST LINE OF SAID PARCEL 58, A DISTANCE OF 591.72 FEET;
THENCE NORTH 45 DEGREES 18' 20" WEST, A DISTANCE OF 35.45 FEET TO A POINT IN THE
NORTH LINE OF SAID PARCEL 11;
THENCE NORTH 89 DEGREES 32' 39" EAST ALONG SAID NORTH LINE, A DISTANCE OF 110.00
FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 9:

PARCEL 14 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS
INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA
DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF PARCELS 18 AND 19 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON
FILE IN BOOK 162 PAGES 84 THROUGH 90, OF PARCEL MAPS, RECORDS OF RIVERSIDE
COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID PARCEL 18;
THENCE SOUTH 89 DEGREES 20' 39" WEST ALONG THE NORTH LINE OF SAID PARCELS 18 AND
19, A DISTANCE OF 706.85 FEET TO THE NORTHWEST CORNER OF SAID PARCEL 19;
THENCE SOUTH 00 DEGREES 27' 21" EAST ALONG THE WEST LINE OF SAID PARCEL 19 A
DISTANCE OF 368.10 FEET TO A POINT THEREIN, SAID POINT BEING IN A LINE PARALLEL
WITH AND DISTANT NORTHERLY 24.00 FEET, MEASURED AT A RIGHT ANGLE, FROM THE SOUTH
LINE OF SAID PARCEL 19;
THENCE NORTH 89 DEGREES 28' 31" EAST ALONG SAID PARALLEL LINE, A DISTANCE OF
322.39 FEET TO THE BEGINNING OF A TANGENT CURVE, CONCAVE TO THE NORTH, HAVING A
RADIUS OF 1, 758.00 FEET;

EXHIBIT "A" TO
EXHIBIT G

THENCE EASTERLY ALONG SAID CURVE, TO THE LEFT, THROUGH A CENTRAL ANGLE OF 09 DEGREES 15' 38" AN ARC DISTANCE OF 284.14 FEET TO THE END THEREOF;
THENCE NORTH 80 DEGREES 12' 53" EAST, A DISTANCE OF 87.24 FEET;
THENCE NORTH 36 DEGREES 59' 47" EAST, A DISTANCE OF 34.24 FEET TO A POINT IN THE EAST LINE OF SAID PARCEL 18, SAID POINT BEING IN A NON-TANGENT CURVE, CONCAVE TO THE EAST, HAVING A RADIUS OF 1, 053.00 FEET, THE RADIAL LINE AT SAID POINT BEARS SOUTH 83 DEGREES 46' 41" WEST;
THENCE NORTHERLY ALONG SAID EAST LINE AND ALONG SAID CURVE, TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 05 DEGREES 45' 58", AN ARC DISTANCE OF 105.97 FEET TO THE END THEREOF;
THENCE NORTH 00 DEGREES 27' 21" WEST ALONG SAID EAST LINE, A DISTANCE OF 199.82 FEET TO THE POINT OF BEGINNING.

PARCEL 10:

PARCEL 15 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

PARCEL 20 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THE SOUTHERLY 24.00 FEET THEREOF.

PARCEL 11:

PARCEL 16 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

PARCEL 21 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90 OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THE SOUTHERLY 24.00 FEET THEREOF.

PARCEL 12:

PARCEL 17 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

PARCEL 22 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90 OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THE SOUTHERLY 24.00 FEET THEREOF.

PARCEL 13:

EXHIBIT "A" TO
EXHIBIT G

PARCEL 18 AS SHOWN ON A CERTIFICATE OF COMPLIANCE RECORDED JULY 27, 1992 AS INSTRUMENT NO. 277677 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA DESCRIBED AS FOLLOWS:

PARCEL 23 OF PARCEL MAP NO. 24535, AS SHOWN BY MAP ON FILE IN BOOK 162 PAGES 84 THROUGH 90, OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THE SOUTHERLY 24.00 FEET THEREOF.

PARCEL 14:

PARCEL 83 OF PARCEL MAP NO. 24535, AS SHOWN BY ON FILE IN BOOK 162 PAGES 84 THROUGH 90, OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

APN: 263-020-015-7, 263-020-016-8, 263-020-017-9, 263-020-018-0, 263-020-0191,
263-020-024-5, 263-020-025-6, 263-020-027-8, 263-020-039-9, 263-020-040-9,
263-040-041-0, 263-020-042-1, 263-020-043-2, 263-020-044-3, 263-020-045-4,
263-020-026-7, 263-280-025-0, 263-280-026-1, 263-280-027-2, 263-280-037-1,
263-280-038-2, 263-280-039-3, 263-280-040-3, 263-280-041-4, and 263-280-042-5

EXHIBIT "A" TO
EXHIBIT G

-7-

EXHIBIT "B-1" TO EXHIBIT G

DEPICTION OF LAND ON PROPOSED FINAL MAP

[MAP DRAWING]

EXHIBIT "B-1" TO
EXHIBIT G

-1-

EXHIBIT "B-2" TO EXHIBIT G

ANTICIPATED LEGAL DESCRIPTION OF LAND

Parcel 1, Parcel Map 31139-1 as shown in book ___ of Parcel Maps, at Pages ___ through ___ inclusive, records of Riverside County, California.

EXHIBIT "B-2" TO
EXHIBIT G

-1-

EXHIBIT H

COMMENCEMENT CERTIFICATE

This Commencement Certificate, dated as of _____, 20____, is entered into by and between PANATTONI DEVELOPMENT COMPANY, LLC, a California limited liability company ("LANDLORD"), and BIG 5 CORP., a Delaware corporation ("TENANT"), with respect to the following facts:

W I T N E S S E T H A T:

WHEREAS, Landlord and Tenant entered into that certain Lease (the "LEASE") dated April 14, 2004 for certain "Premises" as defined in the Lease located in Riverside, California; and

WHEREAS, Landlord and Tenant agreed to execute this Certificate to confirm the actual Commencement Date and Expiration Dates of the Lease, and for other purposes;

NOW, THEREFORE, pursuant to the provisions of Paragraph 1.7 of the Lease, Landlord and Tenant mutually agree as follows:

1. Capitalized terms used and otherwise defined herein shall have the meanings set forth for them in the Lease.

2. The following dates, amounts of square footage and dollar amounts are hereby agreed to and confirmed for all purposes of the Lease as of the Commencement Date and as of the date of this Certificate.

Commencement Date: _____

Expiration Date: _____

Rentable Area of the Building: _____

Fixed Rent for the First Period
under the Lease (i.e., the first
5-years of the Term): _____

[SIGNATURE BLOCK ON FOLLOWING PAGE]

EXHIBIT H

BIG 5 WAREHOUSE
RIVERSIDE, CALIFORNIA

"Landlord"

PANATTONI DEVELOPMENT COMPANY, LLC,
a California limited liability company

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

"Tenant"

BIG 5 CORP.,
a Delaware corporation

By: _____
Print Name: _____
Its.: _____

By: _____
Print Name: _____
Its.: _____

EXHIBIT H

EXHIBIT I

DELIVERY CONDITION

The Delivery Condition shall include the following: finished slab with sealer, a completed building foundation, all exterior walls shall be tilted, the roof structure and roof membrane shall be completed, the on-site fire loop and hydrants shall be installed and operational, the ESFR diesel pump and pump room will be installed and operational, foil insulation will be in the process of being installed, the interior warehouse walls will be painted, the separation wall will be completed, the entire parcel will be rough graded and Building access will be from two (2) grade level doors, utilities will not be available, all smoke hatches will be installed, the sanitary sewer stubs will be in the slab per the Big 5 provided office plan, all man doors shall be installed in a lockable condition, all vertical lift loading doors shall be installed and operational, all glazing shall be installed, the aluminum store fronts shall be installed and the doors lockable, all Building inspections shall be current based upon the percentage of Building completion.

The Building/Site Work shall be constructed in accordance with the permits issued by the City of Riverside based upon the Final Building/Site Work Plans approved by the parties pursuant to the Lease.

The City of Riverside deems that the Building is in a suitable condition to commence racking and other Fixturization Work provided that Big 5 has been issued the applicable permits for such work by the City of Riverside.

EXHIBIT I

CERTIFICATIONS

I, Steven G. Miller, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer

CERTIFICATIONS

I, Charles P. Kirk, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financing reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

/s/ Charles P. Kirk

Charles P. Kirk

Senior Vice President and Chief Financial Officer

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Big 5 Sporting Goods Corporation (the "Company") on Form 10-Q for the period ending June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven G. Miller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/Steven G. Miller

- - - - -

Steven G. Miller
President and Chief Executive Officer
August 6, 2004

A signed original of this written statement required by Section 906 has been provided to Big 5 Sporting Goods Corporation and will be retained by Big 5 Sporting Goods Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Big 5 Sporting Goods Corporation (the "Company") on Form 10-Q for the period ending June 27, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles P. Kirk, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Charles P. Kirk

- - - - -

Charles P. Kirk
Senior Vice President and Chief Financial Officer
August 6, 2004

A signed original of this written statement required by Section 906 has been provided to Big 5 Sporting Goods Corporation and will be retained by Big 5 Sporting Goods Corporation and furnished to the Securities and Exchange Commission or its staff upon request.