

LEASE

THIS LEASE is made as of the 12th day of December, 1986, by and between The Arts Club of Washington, Inc., a District of Columbia corporation ("Lessor") and Joel M. Farr, Trustee for 2001 Associates, a District of Columbia limited partnership to be formed ("Lessee").

BASIS FOR THE AGREEMENT

1. Lessor owns certain real property in the District of Columbia known as Lot 37 in square 78 located at 2017 Eye Street, N.W. ("Lessor's Property").
2. Lessee has informed Lessor that the improvements on and the status of Lessor's Property under the D.C. Rules (hereinafter defined) result in Lessor's ownership and the right to lease non-residential development rights of a maximum of 42,000 square feet of floor area.
3. Lessor is willing to lease 37,000 of such square feet (the "Allocable Rights") to Lessee.
4. Lessee is the contract purchaser of and is attempting to purchase certain additional real property in the District of Columbia, adjacent to and nearby Lessor's Property, namely Lots 35 and 36 in Square 78, located at 2007, 2011 and 2015 Eye Street, N.W. ("Lessee's Property").
5. Lessee has advised Lessor that under the District of Columbia Zoning Regulations, Subdivision Regulations and Building Code (collectively, "D.C. Rules"), Lessor's Property and Lessee's Property may be combined into one record lot (the "Record Lot") by filing a plat of subdivision in the Office of the Surveyor of the District of Columbia that will permit the utilization of the Allocable Rights and the construction of improvements on that portion

of the Record Lot that is now (or will become) Lessee's Property, provided that a building connection (the "Connection") to the existing improvements on Lessor's Property is constructed so that all of the improvements on the Record Lot will be deemed to constitute one building.

ACCORDINGLY, in consideration of the monetary terms and the other provisions of this Agreement, Lessor has agreed to lease to Lessee and allocate to Lessee's Property, and Lessee has agreed to lease from Lessor, the Allocable Rights pursuant to this Lease and subject to (a) all of Lessee's covenants, agreements and promises herein specified and (b) Lessee's timely compliance with this Lease at all times and in all respects [(a) and (b) collectively "Compliance"].

1. Term. The Lease is for a "Term" of (a) 99 years (the "Initial Term") and (b) the option in Lessee to renew for two additional terms of 99 years each, by written notice ("Renewal Notice") to Lessor at any time during the 97th year ("Renewal Year") of each 99 year term provided Lessee is not in Default (hereinafter defined) at the time of such notice. If Lessee does not give Lessor the Renewal Notice, Lessee shall by the end of the Renewal Year of the preceding term, either (i) pay Lessor the "Renewal Value" in which event, upon Lessor's receipt of the Renewal Value, this Lease shall terminate and Lessee deemed to have acquired ownership of the Allocable Rights or (ii) reconvey to Lessee all interest and right in the Allocable Rights in a manner reasonably satisfactory to Lessor (all costs to be paid by Lessee). Renewal Value is defined to mean the then value of Lessor's right to receive Rent for the entire renewal term as that value is determined by using (x) an annual 6% CPI Increase (hereinafter defined) and (y) a discount factor which is, the higher of (i)

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9% or (ii) such percentage as the appraisers may determine under the Appraisal Procedure (hereinafter defined).

1.1 Contingency.

1.1(1) Since Lessee is in the process of attempting to complete its acquisition of Lessee's Property, Lessee has until December 31, 1986 (the "Contingency Deadline") to give Lessor written notice ("Termination Notice") that Lessee has not completed that acquisition, in which event this Lease shall terminate in all respects and neither party shall have any liability to the other hereunder.

1.1(2) If Lessee does not timely give the Termination Notice, Lessee shall deliver to Lessor on December 31, 1986 and maintain, to the extent herein required, all at Lessee's sole cost, a Letter of Credit in form and substance reasonably satisfactory to Lessor issued by a bank headquartered in the District of Columbia ("Initial Letter of Credit") in the amount of \$40,000 to insure Lessee's Compliance as follows:

1.1(2)(a) Lessor may draw upon and shall be entitled to payment of the Initial Letter of Credit ("Initial Letter of Credit Rights") (in which event this Lease shall terminate upon Lessor's receipt of the \$40,000 and neither party shall have any liability to the other hereunder), if for any reason whatsoever, regardless of fault, Lessee's PUD Application (hereinafter defined) has not been approved in an Acceptable Amount (defined to mean that Lessee is permitted to use at least 12,815 square feet of the Allocable Rights), by June 30, 1988 (the "PUD Approval Date"), provided, however, that Lessor may not draw upon the Initial Letter of Credit and this Lease shall not terminate, if not later than the PUD Approval Date, Lessee gives Lessor notice (the "Firm Notice") that the Lease is effective, and it shall be

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effective on the date of that notice ("Effective Date"), regardless of whether or not ultimate PUD Approval is in an Acceptable Amount, provided further that the Firm Notice is accompanied by (a) the Initial Mortgage or the Continuing Letter of Credit (both hereinafter defined) as Lessee may determine and (b) payment of the first monthly payment of Annual Rent (hereinafter defined). The Effective Date shall also be the Rent Commencement Date.

1.1(2)(b) If (a) Lessee (i) does not timely give the Firm Notice and (ii) complies fully with Section 2, and (b) the PUD Application is approved in an Acceptable Amount by the PUD Approval Date, Lessor will retain the Initial Letter of Credit as security for Lessee's payment of, and Lessor will release, the Initial Letter of Credit upon Lessor's receipt from Lessee of the first six monthly payments of Annual Rent.

1.1(2)(c) If the PUD Application is approved in an Acceptable Amount, the date of such approval shall be the Effective Date and the Rent Commencement Date shall be the first day of the first calendar month after the Effective Date, on which date, Lessee shall deliver to Lessor the Initial Mortgage (hereinafter defined) or the Continuing Letter of Credit, and the first monthly payment of Annual Rent.

1.2 Continuing Security for Lessee's Compliance.

It is a critical matter to Lessor that at all times during the Term, Lessor have adequate security for Lessee's Compliance, all at Lessee's sole cost. Accordingly, on the Effective Date, Lessee will deliver to Lessor an Initial Mortgage (hereinafter defined), in amount, form and substance reasonably satisfactory to Lessor, to secure Lessor's Liquidated Damages (hereinafter defined).

1.2(1) "Initial Mortgage" is defined as a lien recorded against Lessee's Property which shall be a first

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lien against that property for all purposes except solely that there may be a lien prior to the Mortgage but only (a) to the extent of not more than \$1,000,000. The Initial Mortgage shall provide that if there is a Default (hereinafter defined), Lessor shall have the right to exercise all of its rights under the Initial Mortgage, including the right to foreclose thereon and receive up to \$2,450,000 as the amount of Lessor's Liquidated Damages plus all costs including attorneys' fees in connection with the default and such foreclosure.

1.2(2) Continuing Letter of Credit. At such time as Lessee may request but in no event later than the Substantial Completion Date (hereinafter defined), Lessor will cancel and return the Initial Mortgage upon receipt from Lessee and Lessee shall deliver to Lessor, and maintain to the extent herein required, all at Lessee's sole cost, a letter of credit in form and substance reasonably satisfactory to Lessor, issued by a bank headquartered in the District of Columbia in the amount of \$2,450,000 (the "Continuing Letter of Credit").

1.2(2)(a) The Continuing Letter of Credit shall continue (and be renewed by Lessee as often as may be necessary) until Lessor and Lessee agree that "Lessee's Equity" in the Project (i.e., its fair market value in excess of all mortgages) is at least \$5,000,000, in which event Lessee shall give Lessor a promissory note secured by a mortgage recorded against the Project in the amount of \$5,000,000 (collectively "Lessor's Mortgage") which shall be subordinate to all pre-existing mortgages and to all future mortgages just so long as Lessee's Equity continues at all times to be at least \$5,000,000, with such other provisions as are usual and customary in real estate transactions at that time, including by way of illustration only, a prohibition

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against (a) any change of any kind in any pre-existing mortgage and (b) granting any new mortgage (collectively "Mortgage Change"), if the Mortgage Change would, in Lessor's reasonable judgment, adversely affect Lessor's Mortgage. If Lessor and Lessee cannot agree on such other provisions or on the amount of Lessee's Equity, Lessee may request that that value be determined by the Appraisal Procedure (hereinafter defined) but Lessee shall pay all costs, including reasonable attorneys' fees, of the Appraisal Procedure.

1.2(2)(b) "Substantial Completion Date" means the time that Lessee secures its permanent financing and records against Lessee's Property any mortgage, deed of trust or other type of lien other than and in replacement of Lessee's construction financing.

2. PUD Application.

2.1 As promptly as possible after Lessee's acquisition of all of Lessee's Property, Lessee shall take all steps appropriate and desirable, including the filing with the appropriate authorities of a Planned Unit Development Application (the "PUD Application"), and shall prosecute that application and pursue all other means, all with due diligence in compliance with the D.C. Rules, seeking, and shall use its best efforts diligently to secure, (a) the combination of Lessor's Property and Lessee's Property into one Record Lot and (b) the right to use the maximum amount possible under the D.C. Rules of the Allocable Rights, it being critical to Lessor's acceptance of this Lease that the Annual and Additional Rent (hereinafter defined) payable hereunder shall be the highest possible amount.

2.2 It is equally critical to Lessor that (a) the PUD Application, the improvements Lessee proposes to construct

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on Lessee's Property (such improvements and existing improvements thereon hereinafter collectively "Lessee's Improvements"), and the creation of the Record Lot (collectively the "Project") not interfere, as reasonably determined by Lessor, with Lessor's ability to use, finance, refinance or sell Lessor's Property and (b) Lessor have the right to approve, in its absolute discretion, which right is hereby granted, any aspect of the Project which may affect Lessor's Property or its operation, including, by way of example only, all aspects (e.g., size, location and nature) of the Connection, it being the intention of the parties that the Connection shall be as simple and as unobtrusive as possible. Lessor agrees that this Lease is and shall at all times during the Term remain superior to any other lien against Lessor's Property.

2.3 In order to enable Lessor effectively to monitor Lessee's compliance with sections 2.1 and 2.2, Lessee shall (a) give Lessor reasonable time (not to exceed ten business days) and opportunity to review the PUD Application prior to its filing, (b) keep Lessor fully informed at all stages of processing of the application, including opportunity to participate in all aspects of such processing, and (c) keep Lessor fully informed as to all aspects of the Project relevant to Lessor's Property.

2.4 Lessor agrees to cooperate with Lessee in connection with the PUD Application and the creation of the Record Lot; accordingly Lessor shall designate a representative to work with Lessee in that regard, but Lessor shall have no liability to Lessee or any other party in the event that all required approvals are not secured. Lessee shall pay all costs, including reasonable legal fees, incurred by Lessor in connection with this cooperation regardless of the result (i.e., whether or not PUD Application is

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approved in an Acceptable Amount or the Lease does not become effective for any reason).

2.5 Lessee shall employ and promptly pay for all appropriate expert services and all other costs in preparing, filing and processing the PUD Application as promptly as possible, all as part of its obligation to use its best efforts, diligently and continuously, and as promptly as possible, (a) to secure the right to use the maximum amount of the Allocable Rights and (b) proceed with construction of the Project.

2.6 Any renovation, repairs, or improvements (including the "Connection") of or to Lessor's Property required in connection with or as a result of the Project (collectively "Changes") shall be subject to Lessor's absolute approval but shall be paid by Lessee. Any additional changes to Lessor's Property (i.e., not required by D.C. Rules in connection with the PUD Application) which (and the cost of which) Lessor approves, will be accomplished by Lessee as part of construction of the Project, and Lessee will advance that cost (but not more than \$50,000) together with the cost of the Changes and be reimbursed such total amount as may be so advanced, pursuant to appropriate documentation against the next due monthly payments of Annual Rent.

2.7 If Lessee gives Lessor written notice of the need for Lessor's consent ("Lessor's Consent") in connection with the PUD Application, with appropriate information in connection with the matter as to which Lessor's Consent is required and Lessor does not respond within 10 days of the date of that notice, Lessor's Consent will be deemed to have been given and Lessor hereby irrevocably appoints Lessee as Lessor's attorney-in-fact to execute and deliver on Lessor's behalf such document as may be reasonably required to evidence Lessor's Consent.

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2.8 Nothing in this Lease or in any other document related thereto or to the PUD Application or the Project shall make Lessor and Lessee joint tenants or tenants in common or anything other than Lessor and Lessee and owners of their respective properties.

3. Rent. Lessee shall pay Lessor Annual Rent and Additional Rent (both hereinafter defined) (collectively "Rent") as follows:

3.1 The "Maximum Allocable Rights" are the difference between the number of square feet of floor area which Lessee is allowed to build on Lessee's Property under D.C. Laws (a) with and (b) without the Allocable Rights. Lessee represents to Lessor, as a critical matter to Lessor, that the Maximum Allocable Rights which Lessee will request in the PUD Application is 37,000 square feet.

3.2 The amount of both Annual and Additional Rent will be determined by application of the Rent Formula (hereinafter defined) to the Basic Annual Rent and Basic Additional Rent, as follows:

3.2(1) The Rent Formula is a fraction the numerator of which is the Maximum Allocable Rights (but not less than 12,815 square feet) and the denominator of which is 37,000 square feet.

3.2(2) Basic Annual Rent is as follows:
For the first four Lease Years (each "Lease Year" consisting of the 12 calendar months beginning with the first day of the first month after approval of the PUD Application ("Rent Commencement Date")), \$80,000; for Lease Years 5 through 10, \$100,000; for Lease Years 11 and thereafter for the balance of the Initial Term, \$120,000. Basic Annual Rent shall be adjusted by the CPI Increase

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(hereinafter defined) as hereinafter specified. After the Initial Term, Basic Annual Rent shall be the Basic Annual Rent for the last year of the prior term as adjusted by the CPI Increase.

3.2(3) Basic Additional Rent is \$50,000 per Lease Year for ten Lease Years beginning with the sixth Lease Year (the "Additional Rent Years").

3.3 Lessee shall pay Rent to Lessor as follows:

3.3(1) Annual Rent in equal monthly installments at the beginning of each month commencing with the Rent Commencement Date.

3.3(2) Additional Rent within 90 calendar days after the end of each of the sixth through the fifteenth Lease Years as the first priority out of Lessee's Cash Flow (hereinafter defined). To the extent that Cash Flow is not sufficient to pay Lessor the entire amount of Additional Rent for any Lease Year, the unpaid portion thereof and the Additional Rent for the next Lease Year shall be paid out of Cash Flow for the next Lease Year, again to the extent such Cash Flow is sufficient to pay that aggregate amount of Additional Rent. Any deferred Additional Rent shall not accrue interest.

3.3(2)(a) "Cash Flow" is defined as gross receipts from all aspects of the Project, including without limitation and by way of illustration only, all rental and sales receipts and commissions, reduced only by (i) ordinary and necessary reasonable costs of operating and maintaining the Project, including real estate taxes, and (ii) amounts paid (not including any amounts accrued) to the holder ("Mortgagee") of any mortgage or deed of trust secured by the Project ("Mortgage"), in amounts not to exceed at any time such amount ("Maximum Mortgage") as would reduce Lessee's Equity to less than \$5,000,000, provided

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that if the Mortgagee is an affiliate of or controlled by Lessee or any member of Lessee or an affiliate of any member, Lessor shall have reasonable right of approval of the terms of the Mortgage; Lessor hereby approves two ten year Mortgages aggregating of \$6,000,000 in favor of The Electronics Industry Association payable interest only for ten years at 10% per year.

3.3(2)(b) If the full amount of Additional Rent for any Lease Year is not paid within 90 days after the end of that year, Lessor shall be entitled at any time thereafter to examine Lessee's books and records of the Project at Lessee's place of business in the Washington, D.C. area and at such time as Lessor and Lessee may agree.

3.3(2)(c) If Lessor determines that Cash Flow was sufficient to require Lessee to pay more of the Annual Payment for any Lease Year than Lessee paid, Lessee shall promptly make that payment plus the "Supplemental Amount", which is (a) interest at the prime rate ("Prime Rate") then being charged by Riggs National Bank, Washington, D.C. plus five points and (b) Lessor's entire costs in connection with the said examination and collecting the Additional Rent plus the Supplemental Amount. If Lessee disputes Lessor's determination, the dispute shall be resolved by the Appraisal Procedure, except that instead of Appraisers, the participants shall be arbitrators who shall be "Disinterested", i.e. not affiliated with either Lessor or Lessee (the "Adjusted Appraisal Procedure"). If the Adjusted Appraisal Procedure establishes that Lessor was entitled to more of the Annual Payment than Lessee initially made, Lessor's costs including attorney's fees, shall be included in the Supplemental Amount.

3.4 To secure Lessee's obligation to pay Additional Rent, on the first day of each Additional Rent Year, Lessee

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will deliver to Lessor an Acceptable Letter of Credit in the amount of the Additional Rent for each such year. Lessor will return each such annual Letter of Credit at the end of each Additional Rent Year for which Lessor receives the entire Additional Rent for that year. All such Letters of Credit outstanding at the end of the last Additional Rent Year, i.e., the 15th Lease Year, shall be paid by the issuing bank immediately upon Lessor's request made at any time thereafter.

3.5 CPI Increase. Beginning with the sixteenth Lease Year and each Lease Year thereafter, Annual Rent shall be increased by an amount equal to the CPI Increase [defined to mean the increase in the CPI (hereinafter defined) between specified dates, as follows:

3.5(1) The initial CPI Increase shall be 100% of the increase in the CPI for each Lease Year during the ten year period consisting of the sixth through the fifteenth Lease Years. Accordingly, Annual Rent for the sixteenth Lease Year shall be increased by an amount determined by multiplying Annual Rent in effect on the first day of the sixteenth Lease Year by a fraction, the numerator of which shall be the CPI for the last month of the fifteenth Lease Year and the denominator of which shall be the CPI for the last month of the fifth Lease Year.

3.5(2) For each of the Lease Years sixteen through thirty (the "First Fifteen Year Period"), Annual Rent will be increased effective the first day of each such Lease Year by an amount equal to the lesser of (a) 1.8% or (b) 30% of the CPI Increase for the prior year (the "Annual 30% Increase"). For the thirty-first Lease Year, Annual Rent will be increased by an amount equal to the lesser of (i) 100% of the CPI Increase for

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the entire First Fifteen Year Lease Period or (ii) 6% (the "Periodic Increase").

3.5(3) Similarly (a) for Lease Years thirty-one through forty-five (the "Second Fifteen Year Period") Annual Rent will be increased by the Annual 30% Increase and (b) for the forty-sixth Lease Year, Annual Rent will be increased by the Periodic Increase.

3.5(4) Commencing with the forty-sixth and for each Lease Year thereafter, Annual Rent will be increased by the Annual 30% Increase and the Periodic Increase will occur after the tenth Lease Year thereafter (i.e., after the fifty-fifth, sixty-fifth Lease Years, etc.)

3.5(5) For all purposes of this Lease, "CPI" means the Consumer Price Index which is hereby defined as the United States Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers (CPI-U), All Items for Washington, D.C. SMSA (1967 = 100). If such index shall be discontinued, then any successor Consumer Price Index of the United States Bureau of Labor Statistics or successor agency thereto for the Washington Metropolitan Area which is as nearly the same as the CPI as Lessor and Lessee shall agree shall be used, but if they cannot agree, then the successor index shall be selected by the Adjusted Appraisal Procedure (hereinafter defined).

3.6 Renewal Period Rent. Annual Rent for each renewal term shall be (a) for the first year, the Annual Rent for the last year of the prior term, i.e., Annual Rent plus the appropriate CPI Increase, and (b) thereafter as herein specified for the Initial Term, i.e., increased by the CPI Increase as specified in Section 3.5.

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3.7 Real Estate Taxes. Lessee shall pay Lessor as supplemental Annual Rent all Real Estate Taxes (hereinafter defined) assessed against the Allocable Rights or the Club as the Owner and Lessor of those rights, it being the parties' intention that Lessor shall at no time pay any additional Real Estate Taxes as a result of this Lease or the transaction underlying it.

3.7(1) "Real Estate Taxes" shall mean the total amount of all ad valorem taxes and assessments, general and special, ordinary and extraordinary, foreseen and unforeseen, now or hereafter assessed, levied or imposed upon the Allocable Rights or Lessor as the owner and Lessor thereof, together with (a) any tax assessment, or other imposition (collectively "Tax") in the nature of a real estate tax, and (b) any taxes and assessments which may hereafter be substituted for real estate taxes, including by way of illustration only, any Tax (whether a business rental or other tax) now or hereafter levied upon Lessor for Lessee's Project or use or occupancy of or conduct of business at the Project.

3.7(2) In order to facilitate this provision for Lessee's liability for real estate taxes, Lessor and Lessee shall cause the District of Columbia Department of Finance and Revenue to assign separate assessment and taxation ("A&T") lot numbers based on a meets and bounds description for Lessor's Property (not including the Allocable Rights) and for Lessee's Property.

4. Construction Insurance. Prior to the commencement of construction of the Project, Lessee and/or every contractor employed by it shall (a) obtain, (b) give Lessor satisfactory evidence of, and (c) during the performance of all construction work keep in force, public liability and workmen's compensation

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insurance (i) covering every person employed in the performance of such work, (ii) as to such liability insurance, naming Lessor as an additional insured, (iii) providing that it is non-concellable without 30 days' prior written notice to Lessor, and (iv) all in amounts and with companies reasonably satisfactory to Lessor.

5. Indemnity. Lessee agrees to and does hereby indemnify and hold Lessor harmless from and against any and all of the following "Claims" arising at any time, whether during or after the Term: liability of any kind sustained in, on or about Lessor's Property or Lessee's Property (a) resulting from or (b) related to, in all cases directly or indirectly, all actions, whether or not negligent, of Lessee, its employees, subcontractors and all others associated in any way with Lessee in connection with the PUD Application, preparation for, construction and operation of the Project and all other activity which in any way, directly or indirectly involves or relates to Lessor, Lessor's Property, the Allocable Rights or Lessee's use thereof. Accordingly, Lessee shall at its sole cost (i) defend any and all actions, suits and proceedings which may be brought against Lessor at any time whether during or after the Term, with respect to any Claim or in which Lessor may be impleaded, and (ii) pay, satisfy, and discharge any and all judgments, orders and decrees which may be recovered against Lessor, and all of Lessor's attorney's fees in connection with this indemnification.

6. Lessee's Mortgage Financing.

6.1 Lessor's Consent. Lessee may, without Lessor's consent, mortgage the Project and its interest under this Lease at any time and from time to time, not in excess of the Maximum Mortgage as to amount and on any terms Lessee may deem

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desirable, except that every Mortgage shall be subordinate to Lessor's rights under this Lease.

6.2 Rights of Mortgagee.

6.2(1) Upon the occurrence of a Default (hereinafter defined), Lessor agrees to give the holder of any Mortgage ("Mortgagee") separate written notice of the Default and to accept performance by Mortgagee as though such performance had been accomplished by Lessee. Accordingly Lessor shall send Mortgagee a copy of any notice of Default which Lessor sends to Lessee, by registered or certified mail at the address given Lessor by Lessee or by Mortgagee, which shall have 30 days thereafter to cure any Money Default (hereinafter defined) and the same rights and time to cure as Lessee as to Non-Monetary Defaults (hereinafter defined), plus an additional thirty days, except that as to a Bankruptcy Default (hereinafter defined), within 45 days after notice thereof from Lessor, Mortgagee may cure the Bankruptcy Default by agreeing in writing with Lessor to assume all Lessee's obligations under this Lease.

6.2(2) The fact that Mortgagee has cured or is trying to cure a Default shall not create in Mortgagee any rights under this Lease other than those rights to notice and cure specified in this section. If Mortgagee fails to cure any Default within the specified time, Mortgagee shall have no further rights under this Lease and Lessor shall have all Lessor's Remedies (hereinafter defined) free and clear of every provision in the Mortgage and of any right of Mortgagee.

6.2(3) After receipt of written notice of Lessee's Mortgage, Lessor agrees that it will not, without Mortgagee's prior written consent, (a) agree to any alteration, amendment or modification of this Lease, or (b) accept an offer

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from Lessee of a surrender of the Project or a cancellation of this Lease prior to its termination.

6.2(4) Lessor will in no event exercise its right to terminate this Lease without first giving Mortgagee the written notice specified in Section 6.2(1), and if Mortgagee complies with the following requirements, Lessor agrees to accept Mortgagee as Lessee for all purposes of this Lease which shall continue in full force and effect as though Mortgagee had been originally named as Lessee, namely, Mortgagee (i) agrees in writing to assume all of Lessee's Covenants and (ii) at that time cures all Defaults, including by way of example, paying Lessor all Annual and Additional Rent and any other amounts payable by Lessee which are then due. If Mortgagee should thereafter sell or otherwise transfer this Lease, Mortgagee will be relieved of liability if Mortgagee's transferee complies with (i) and (ii) above.

7.1 Events of Default. Each of the following events shall constitute a default ("Default") by Lessee under this Lease.

7.1(1) Lessee's failure to (a) make timely payment of any Annual or Additional Rent, Real Estate Taxes, insurance premiums or other charges or monetary amounts or to deliver a Letter of Credit required to be paid or delivered hereunder (collectively "Money Default"), and (b) cure that delay within 5 days after written demand by Lessor.

7.1(2) Lessee's failure to (a) perform or comply, in a timely manner, with any of Lessee's Covenants, ("Non-Monetary Defaults") and (b) cure that failure within 30 days ("Cure Time") after written demand by Lessor, provided, however, that as to any Non-Monetary Default which cannot be cured within the Cure Time despite the exercise of due diligence, the Cure Time

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shall be extended for such time, but not longer than 90 days, as may be necessary to cure the Non-Monetary Default, provided Lessee exercises its highest and best efforts with all due diligence promptly and at all times thereafter.

7.1(3) There is a "Bankruptcy Default", which is defined to include any of the following: (a) Lessee files a voluntary petition in bankruptcy or is adjudicated a bankrupt or insolvent, or files any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy law or any other present or future applicable federal, state or other law (all of (a) collectively "Reorganization"), or seeks or consents to or acquiesces in the appointment or any trustee, receiver or liquidator of Lessee or of all or any substantial part of its assets or of the Project or of any interest of Lessee hereunder (collectively "Trustee"); (b) within 60 days after the commencement of any proceeding against Lessee seeking any Reorganization, such proceedings have not been dismissed, or if, within 60 days after the appointment of any Trustee, without Lessee's consent or acquiescence, such appointment is not vacated or stayed on appeal or otherwise cancelled, and if stayed, within 60 days after the expiration of any such stay, such appointment is not cancelled.

7.1(4) Lessee abandons the Project.

7.2 Lessor's Remedy. If a Default occurs, and Mortgagee does not cure the Default pursuant to Section 6, Lessor shall have the following right to give Lessee written notice specifying the Default and demanding ("Demand Notice"), and Lessor shall be entitled to, immediate payment of the full amount of Liquidated Damages (hereinafter defined), plus all related costs

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including attorneys' fees, whether as a result of (a) payment of the Continuing Letter of Credit if it is then in effect or (b) foreclosure on Lessor's Mortgage if it is then in effect. If Lessor has been paid the full amount of the Liquidated Damages, Lessor's right to receive further payments of Annual Rent during the Initial Term shall terminate, but this Lease shall not terminate in any other respect and Lessee shall continue to be liable for and shall pay Lessor the Renewal Value in accordance with this Lease.

7.2(1) "Liquidated Damages" are defined as the amount of money which Lessee agrees to pay Lessor if the Default occurs, as follows:

7.2(1)(1) During the first ten Lease Years of the Initial Term, Liquidated Damages are \$2,450,000 (for failure to pay Annual Rent for the balance of the Initial Term).

7.2(1)(2) After the end of the tenth Lease Year and for the balance of the Initial Term, Liquidated Damages shall be the value at the time of the Demand Notice of Lessor's right to receive Annual Rent and Additional Rent for the balance of the Initial Term (collectively "Remaining Rent"), as that value shall be determined by discounting Remaining Rent to its then present value at a rate to be determined by the Appraisal Procedure.

7.2(1)(3) If Lessee exercises either renewal option, Liquidated Damages during the first ten years of each renewal Term shall be the amount of the Continuing Letter of Credit in effect during that ten year period. During the balance of that term, Liquidated Damages shall be the value of Lessor's

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right to receive Annual Rent for that balance, as determined by the Appraisal Procedure and as specified in the preceding section.

7.3 No provision of this Lease shall limit or prejudice Lessor's right, in any Bankruptcy Proceeding, to prove for and obtain as liquidated damages by reason of the termination of this Lease an amount equal to the maximum allowed by any Bankruptcy Proceeding or by any statute or rule of law whether such amount shall be greater or less than the amounts specified in this Lease.

7.4 Lessor's failure to insist upon the strict performance of any Covenant or to exercise any of Lessor's Remedies, and Lessor's acceptance of full or partial Rent during the continuance of any such breach, shall not constitute a waiver of any such breach or of such Covenant. There shall be no such waiver except by written instrument executed by Lessor; any such waiver relates solely to the specific breach specified therein and shall not in any way affect this Lease or any other breach thereof.

8. Condemnation.

8.1 The taking by condemnation of the whole or any Substantial Portion (hereinafter defined) of the Project by any competent authority ("Taking") shall not have any effect on this Lease and Lessee shall continue liable in all respects under this Lease as though the condemnation had not occurred, unless (a) the condemnation award (the "Condemnation Award") specifies an Allocable Rights Award (hereinafter defined) or (b) if it does not, Lessee participates in the Appraisal Procedure.

8.1(1) For purposes of this section, a Substantial Portion of the Project means so much of the Project that Lessee determinates not to continue to operate the Project.

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8.1(2) If this Lease does terminate pursuant to this Section 8, such termination shall be effective 60 days following the date on which title vests in the condemning authority, (the "Taking Date"), in which event all Annual and Additional Rent and all other amounts payable hereunder shall be adjusted and paid to the date of such termination.

8.2 The Allocable Rights Award is defined as a specific amount separately stated in the Condemnation Award as the award for the Allocable Rights. That award shall be Lessor's sole property and shall be paid directly to Lessor and Lessee hereby assigns to Lessor any right, title and interest Lessee might have or ever have in and to that award. Lessee agrees to use its best efforts to have the condemning authority specify an Allocable Rights Award.

8.3 If less than a Substantial Portion of the Project is condemned, this Lease shall terminate only as to that portion of the Project so taken and shall otherwise continue in full force and effect, except solely that the Annual Rent payable during the balance of the Term following the Taking Date shall be reduced to an amount ("Reduced Annual Rent") equal to the product of (a) the Annual Rent payable immediately prior to the Taking, multiplied by (b) a fraction (the "Condemnation Fraction") the numerator of which shall be the fair market value of the Allocable Rights and the denominator of which shall be the fair market value of the Project, in both cases as of the Taking Date, as such fair market values are determined by agreement of the parties within 30 days of the Taking Date or if they cannot agree, then by the Appraisal Procedure.

8.3(1) Lessee shall continue to pay Rent hereunder without any reduction or abatement of any kind until the

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Reduced Annual Rent shall have been finally determined; promptly thereafter, Lessor shall apply any excess Rent paid by Lessee as a credit against the next due amounts of Annual Rent.

8.3(2) Regardless of whether the Condemnation Award available to Lessee be sufficient or not, Lessee shall proceed with due diligence to restore, repair, replace and rebuild ("restore") the remaining part of the Project to substantially its former condition.

8.4 If the Condemnation Award, whether the Taking is of a Substantial Portion of the Project or less, does not include an Allocation Rights Award, the parties agree that Lessor shall be entitled to receive the fair market value ("Value") of the Allocable Rights as of the Taking Date. That Value and the amount of the Condemnation Award to which Lessor is entitled shall be determined by the Appraisal Procedure (hereinafter defined).

8.5 The Appraisal Procedure.

8.5(1) Within ten days after the Taking Date, the Parties shall attempt to agree on one appraiser, and if they do, the value determined by that appraiser shall be the Value. If the Parties cannot so agree, then upon written notice by each party to the other, each shall name the appraiser selected by each. If either party fails so to select an appraiser, the appraiser named by the other party shall specify the other appraiser within the following ten days. If neither party selects an appraiser or if a third appraiser cannot be agreed upon as hereinafter provided, such appraiser or appraisers, as the case may be, shall be appointed, upon application of either party, by the District of Columbia Superior Court (or by any other court having jurisdiction and exercising functions similar to those now exercised by the District of Columbia Superior Court).

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8.5(2) If the initial two appraisers agree on Value within thirty days after the appointment of the second appraiser, that they shall specify Value in a report signed by both appraisers and that Value shall be binding on all parties, but if they cannot so agree within that time, the two appraisers shall jointly appoint a third appraiser within ten days after the expiration of the thirty day period specified above; in that event, the Value determined by that third appraiser shall govern, except that (i) if such Value shall be lower than the lower of the Values determined in the first two appraisals, the lower of the first two appraisals shall govern or (ii) if such Value shall be higher than the higher of the Values determined in the first two appraisals, the higher of the first two appraisals shall govern.

8.5(3) Each appraiser shall be Disinterested and a qualified member in good standing of the American Institute of Real Estate Appraisers, or any successor of such Institute (or if such organization or successor shall no longer be in existence, a recognized national association or institute of appraisers) and regularly engaged in the business of rendering real estate appraisals of commercial properties in the Metropolitan Washington, D.C. area. All appraisals shall be in writing.

8.5(4) The parties agree to cooperate fully in all respects in expediting appraisals to the end that all such disputes shall be determined by the Appraisal Procedure as speedily as possible with the minimum of expense.

8.5(5) Each party shall pay the costs and expenses of the appraiser selected by each or on whose behalf an appraiser was selected. The costs and expenses of the third

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appraiser, if one is required, shall be divided equally between Lessor and Lessee.

9. Casualty. A fire or other casualty ("Casualty") shall not have any effect on this Lease which shall continue in full force and effect and Lessee shall continue liable in all respects hereunder in all respects as though the Casualty had not occurred, except as follows:

9.1 If Lessor receives out of the proceeds of Lessee's insurance, the Liquidated Damages in the amount then applicable plus the Renewal Value, this Lease shall terminate in all respects.

9.2 If Lessee does not begin to rebuild Lessee's Improvements within 18 months after the Casualty, this Lease shall terminate as of the date of the Casualty and the Allocable Rights shall revert to Lessor in all respects as though this Lease had never been in effect ("Reversion"). Lessee agrees to execute, deliver and record such documents as Lessor may request fully to implement the Reversion ("Reversion Implementation").

10. Voluntary Demolition. If Lessee demolishes Lessee's Improvements for any reason whatsoever:

10.1 and replace them with new improvements, this Lease shall not be affected in any way and shall continue in full force and effect and Lessee shall continue liable hereunder in all respects as though such demolition and reconstruction had not occurred.

10.2 and not begin to replace them within 18 months after demolition, Reversion and Reversion Implementation shall occur.

11. Parking. Lessee proposes to build an underground garage as part of Lessee's Improvements and agrees to use its best

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efforts to provide (or if Lessee contracts for the operation of the garage by an independent operator, to get the operator to provide) free or reduced price parking for members of the Lessor (but not their guests) "After Hours", defined to mean (a) after 6:30 p.m. on Mondays through Fridays and (b) any time on Saturdays, Sundays and holidays.

12. No Recourse to Lessor. Lessor's liabilities and obligations under or in connection with this Lease or any other matter concerning the Project (collectively "Lessor Obligation") do not and never shall constitute personal liabilities or obligations of any member, director or officers of Lessor (collectively "Individuals") and Lessee is entitled to look solely to the Allocable Rights (the "Sole Asset") and not to (i) any other assets of Lessor or (ii) any assets of any of the Individuals, for satisfaction of any liability or obligation under or in connection with any Lessor Obligation, and Lessee shall not at any time under any circumstance, seek recourse against any Individual or any of their assets for such satisfaction. This Section 12 limiting every Lessor Obligation to the Sole Asset is a critical provision of this Lease and is specifically agreed to supercede and be paramount to every other provision of this Lease, regardless of (i) any such other provision which may expressly or by implication purport to supercede or take precedence over this Section 12 or (ii) the provisions of this Lease in general.

13. Lessor's Performance for Tenant. If Lessee shall at any time fail to (a) pay any Real Estate Taxes, (b) pay for or maintain any of the insurance policies required to be carried by Lessee herein, (c) make any other payment, or (d) perform any other act, in all cases as required by this Lease, Lessor, after

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fifteen days' written notice to Lessee (or, in case of any emergency, on such notice, or without notice, as may be reasonable under the circumstances) and without waiving or releasing Lessee from any obligation of Lessee hereunder, may (but shall not be required to) cure any such failure, in which event Lessee shall reimburse Lessor on demand the amount paid by Lessor plus Costs (hereinafter defined), plus interest at an annual rate which is the lesser of (i) the Prime Rate plus five percent (5%) or (ii) the maximum rate allowable by law. "Costs" are defined as any money paid by Lessor as a result of Lessee's failure and all damages resulting from such failure, as for example, Lessee's failure to provide and keep in force any required insurance (as for example the uninsured amount of any loss, to the extent of any deficiency in the insurance required by the provisions of this Lease) and damages, costs and expenses incurred by reason of damage or destruction of the Project occurring during any period when Lessee failed to provide required insurance.

14. Notices.

14.1 All notices, demands and requests (collectively "Notices") under this Lease shall be in writing and shall be deemed to have been given if served personally, or if sent by United States Registered or Certified Mail, postage prepaid, addressed to the addresses set forth below or such other addresses as either party may designate by notice to the other from time to time

if to Lessor:

The President
The President
Arts Club of Washington, Inc.
2017 Eye Street, N.W.
Washington, D.C. 20008

and

The Secretary
Arts Club of Washington, Inc.
2017 Eye Street, N.W.
Washington, D.C. 20005

with a copy to:

Lipman Redman, Esq.
Melrod, Redman & Gartlan
1801 K Street, N.W., Suite 1100K
Washington, D.C. 20006

if to Lessee:

Joel M. Farr, Trustee
2001 Associates
1726 M Street, N.W.
Suite 602
Washington, D.C. 20036

with a copy to:

Clifford J. Preminger, Esquire
699 Indiana Avenue, N.W.
Washington, D.C. 20004

14.2 Notices served personally shall be deemed to have been given for all purposes hereunder, at the time of personal service if served personally, and at the time mailed in any post office or branch post office of the United States Government if mailed.

15. Recordation. Neither this Lease nor any certificate or memorandum thereof nor any other document relating to this Lease shall be recorded until the Contingency Deadline has passed and Lessee has delivered the Initial Letter of Credit pursuant to Section 1.1(2) (collectively the "Contingency Events"). Promptly after the occurrence of the Contingency Events, Lessee shall at its sole cost record this Lease or a certificate or memorandum thereof in the appropriate land records of the District of Columbia as the first entry of record on Lessee's Property, i.e., prior to any Mortgage ("First Lien") and shall promptly deliver to Lessor (1) a copy of the appropriate document evidencing such recording and (2) a certificate from an acceptable title company that this Lease is the First Lien.

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16. Additional Representations.

16.1 Lessor covenants, represents and warrants that:

16.1(1) Lessor has clear record title to Lessor's property, free and clear of all liens, except solely a recorded mortgage with principal balance of not more than \$15,000 which shall be amended to the extent necessary to comply with Section 2.2.

16.1(2) Lessor (a) is a corporation duly organized, validly existing and in good standing under the laws of ~~the District of Columbia~~ ^{the District of Columbia} and is duly qualified to conduct business in the District of Columbia, and (b) has all necessary power and authority and has obtained all necessary government approvals, if any, to enter into this Lease and perform all of Lessor's obligations hereunder, and that neither the execution and delivery of this Lease nor Lessor's performance of any or all those obligations will result in any violation of any agreement or document binding on Lessor or its property. Lessor will furnish such documents reasonably requested by Lessee evidencing the matters set forth in this section.

16.2 Lessee covenants, represents and warrants that:

16.2(1) Lessee has clear record title to all of Lessee's Property, free and clear of all ground leases and agreements relating to rights similar to Lessor's Allocable Rights or any other agreement which might interfere with Lessor's rights under this Lease.

16.2(2) Lessee (a) is a joint venture, duly organized, validly existing and in good standing under the laws of and is duly qualified to conduct business in, the District of

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Columbia, and (b) has all necessary power and authority and has obtained all necessary government approvals, if any, to enter into this Lease and perform all of Lessee's obligations hereunder, and that neither the execution and delivery of this Lease nor Lessee's performance of any or all those obligations will result in any violation of any agreement or document binding on Lessee or its property. Lessee will furnish such documents reasonably requested by Lessor evidencing the matters set forth in this section.

17. Miscellaneous.

17.1 Waiver of Trial by Jury. The parties hereby waive all right to trial by jury in any claim, action, proceeding or counterclaim by either Lessor or Lessee against the other on any matters arising out of or in any way connected with this Lease, their relationship and/or Lessee use of the Allocable Rights.

17.2 No Partnership. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture of or between Lessor and Lessee, or to create any other relationship between the parties hereto other than that of Lessor and Lessee.

17.3 Entire Agreement. This Lease contains the entire agreement of the parties hereto and there are no promises, agreements, conditions, undertakings or warranties or representations, between them other than as herein stated.

17.4 Successors and Assigns. Subject to the provisions hereof, this Lease shall bind and inure to the benefit of the parties hereto and their respective legal representatives, successors, and assigns.

17.5 Plural and Singular. Wherever appropriate herein, the singular includes the plural and the plural includes the singular.

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

17.7 No Broker. Lessor and Lessee hereby represent to each other that neither has dealt with any real estate broker, agent or party who may be entitled to a brokerage or finder's commission or fee on account of this Lease. Each party hereby agrees to indemnify and hold the other harmless from and against any loss, cost, liability and expense, including reasonable attorneys' fees, which may be incurred in the event the foregoing representations prove incorrect.

17.8 Further Assurances. The parties hereby agree to execute such other documents and perform such other acts as may be necessary or desirable to carry out the purposes of this Lease.

17.9 Interest. Any sums which may from time to time become due and payable by Lessee to Lessor shall, unless a provision regarding interest is otherwise specified, bear interest from and after the due date thereof at an annual rate which is the lesser of (i) the Prime Rate plus five percent (5%) or (ii) the maximum rate of interest allowed by law under the circumstances.

17.10 Headings. The table of contents and the titles of the sections or other designations contained herein are solely for convenience and under no circumstances are they or any of them to be treated or construed as any part of this instrument.

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17.11 Applicable Law. This Lease shall be governed by and construed in accordance with the laws of the District of Columbia.

17.12 Amendment. This Lease can be changed only by an agreement in writing signed by Lessor and Lessee.

17.13 Counterparts. This instrument may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

17.14 Estoppel Certificate. Lessor and Lessee agree to execute, acknowledge and deliver to each other, at any time and from time to time, at the written request of the other, a certificate in writing (the "Certificate") (a) certifying that this Lease is unmodified (or if modified, stating the modifications) and in full force and effect, (b) stating the dates through which Rent has been paid by Lessee, and (c) stating, to the best of the knowledge of the certifying party, that Lessor or Lessee, as the case may be, is not in default (or if there is such a default, stating that default) in any respect under this Lease. If either party fails to provide the Certificate after written request from the other party, the requesting party is hereby irrevocably appointed as attorney-in-fact for the other party to execute and deliver the Certificate in the name and on behalf of the non-performing party.

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IN WITNESS WHEREOF, Lessor and Lessee have signed and sealed this Lease as of the date first above written.

LESSOR:

The Arts Club of Washington, Inc.

ATTEST:

By: Thomas Gregory Ward
Thomas Gregory Ward
President

Walter C. Burns
Walter C. Burns
Treasurer

DISTRICT OF COLUMBIA, SS:

I, Martha H. Hurler, a Notary Public in and for the District of Columbia, do hereby certify that Thomas Gregory Ward and Walter C. Burns, both of whom are personally well known to me as the President and Treasurer respectively of the Arts Club of Washington, Inc., personally appeared before me in said District of Columbia on this 12th day of December 1986, and as Attorney-in-Fact by virtue of the authority vested in him as such, acknowledged said Instrument to be the act and deed of said corporation, and that he executed the same as such.

Witness my hand and official seal this 12th day of December 1986.

Martha H. Hurler
Notary Public, D.C.

[Notarial Seal]

My Commission Expires: 5-31-86

LESSEE:

2001 Associates, a District of Columbia Limited Partnership To Be Formed

By: Joel M. Farr
Joel M. Farr
Trustee

Handwritten:
Hall
6/1/86

DISTRICT OF COLUMBIA, SS:

I, Sina L. Larsen, a Notary Public in and for the District of Columbia, do hereby certify that Joel M. Farr, who is personally well known to me, personally appeared before me in said District of Columbia on this 15th day of December, 1986, acknowledged said Instrument to be the act and deed of said corporation, and that he executed the same as such.

Witness my hand and official seal this 15th day of December, 1986.

Sina L. Larsen
Notary Public, D.C.

[Notarial Seal]

My Commission Expires: 11/14/88

Joel
Farr