

PROMISSORY NOTE

\$1,200,000

Del Rey Oaks, California
as of _____, 2014

FOR VALUE RECEIVED, the undersigned the City of Del Rey Oaks, a municipal corporation ("**City**") hereby promises to pay to the order of Federal Group International, LLC, a Delaware limited liability company, or assign, (the "**Holder**"), a principal amount equal to One Million Two Hundred Thousand Dollars (\$1,200,000), plus interest thereon as set forth below.

1. City's Obligation. This promissory note (the "**Note**") evidences the City's obligation to pay the Holder the principal amount of Seven Hundred Thousand Dollars (\$700,000) for the funds loaned by Federal/JER Associates I, LLC to the former Redevelopment Agency of the City of Del Rey Oaks (the "**Loan**"), which loans were made as consideration for the former Redevelopment Agency granting Holder's predecessor, Federal Del Rey Associates, LLC, an option to purchase certain real property more particularly described in Exhibit A attached hereto ("**Property**"). The remaining balance of the note evidences the City's obligation to pay the Holder the amount of Five Hundred Thousand Dollars (\$500,000) as settlement of claims between the City and Belmont Rock Holdings, LLC related to litigation more particularly described in the Settlement Agreement and Mutual Release between the City and Belmont Rock Holdings, LLC dated August __, 2014 ("**Settlement Payment**").

2. Interest. The Loan amount of Seven Hundred Thousand Dollars (\$700,000), but not the Settlement Payment, shall bear interest at the rate of five percent (5%) per annum, compounded annually beginning on June 1, 2014, until the entire outstanding Loan amount, plus interest, is repaid in full in accordance with the terms of this Note.

3. Term and Repayment Requirements.

(a) The term of this Note (the "**Term**"), shall commence with the date of this Note and shall expire upon full repayment in accordance with this Note. Payments on this Note, once they commence, shall be made over a five (5) year period, unless otherwise agreed by the Holder in writing, however if the Note is not paid in full at the end of the five (5) year Term it shall automatically renew, once, for an additional five (5) year Term.

(b) No payment shall be due under this loan until Commencement of Construction, as defined below, on the Property. For purposes of this Note, "Commencement of Construction" will mean the commencement of any excavation for or commencement of construction of infrastructure on the Property (roads, water or sewer lines or electrical services) undertaken pursuant to a validly issued building permit anywhere on the Property. Mobilization efforts, environmental clean up and test boring work will not be considered Commencement of Construction. Upon the Commencement of Construction on the Property, the full amount of the principal and any interest due hereunder shall be due and payable, but the City shall only be obligated to make payments on the principal and interest due hereunder to the extent the City receives Increased City Revenues as defined below. The City shall use diligent efforts to market

the development parcels to developers and shall expeditiously process any applications received from developers for the development of the property.

(c) For purposes of this Note, "Increased City Revenues" shall mean fifty percent (50%) of any increased revenues associated with the development of the entire Property, including increased revenues in property tax, sales tax or transient occupancy tax received by the City as a result of construction on the Property occurring after the date of this Note. Increased City Revenues shall not include any land sales proceeds from the pending sale of the 73 acre parcel of the Property due to close in the next 90 days, or any impact fees paid by developers of the Property, any permit or application fees paid in accordance with the City's standard fee schedule, or any other amounts charged by the City to a developer of the Property to pay costs incurred by the City related to the permitting and entitlement of the construction on the Property. All land sales proceeds received by the City from the Property after the first sale, mentioned above, shall be included in the definition of "Increased City Revenues".

(d) This Note shall be secured by, and shall constitute a lien by the Holder against the Increased City Revenues and except as hereinafter provided, upon an uncured default in payment of this Note, the Holder shall be entitled to enforce payment of this Note against the City and the Increased City Revenues.

(e) The City shall have the right to prepay the Note and any accrued interest at any time without premium or penalty.

(f) Any failure to make payments due under this Note due to insufficient Increased City Revenues shall not constitute a default under this Note.

(g) Commencing with the first fiscal year of the City in which a payment is due under this Note the City shall furnish to the Holder, at no cost to Holder, on a quarterly basis, unaudited financial statement setting forth in reasonable detail the total Increased City Revenues received by the City during the preceding quarter of the City's fiscal year.

(h) All payments made by City to the Holder shall be credited first to the Settlement amount and then to accrued interest and principal of the Loan amount. Only after the Settlement amount is repaid in full will payments be credited to the Loan Amount.

4. No Assumption. This Note shall not be assumable by the successors and assigns of Borrower without the prior written consent of the Holder. The Holder may consent to or reject any assumption or assignment in the Holder's sole discretion.

5. Terms of Payment. All payments due under this Note shall be paid in currency of the United States of America, which at the time of payment is lawful for the payment of public and private debts.

(a) All payments on this Note shall be paid to Holder at Federal Group International LLC, Empire State Building, 350 Fifth Avenue, 59th Floor, New York, New York, 10118, Attention: John D. Infantino, or to such other place as the Holder of this Note may from time to time designate.

(b) All payments on this Note shall be without expense to the Holder.

(c) Notwithstanding any other provision of this Note, if, for any reason whatsoever, the payment of any sums by the City pursuant to the terms of this Note would result in the payment of interest which would exceed the amount that the Holder may legally charge under the laws of the State of California, then the amount by which payments exceeds the lawful interest rate shall automatically be credited to the next payment due, so that in no event shall the City be obligated under the terms of this Note to pay any interest which would exceed the lawful rate.

6. Default.

(a) With the exception of the terms of Section 3(f) above, any failure to pay, in full, any payment required under this Note within twenty (20) days of written notice that such payment is due shall constitute a default under this Note.

(b) The failure to exercise any remedy provided by law upon the occurrence of one or more of the foregoing events of default shall not constitute a waiver of the right to exercise any remedy at any subsequent time in respect to the same or any other default. The acceptance by Holder hereof of any payment which is less than the total of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the foregoing remedies or options at that time or at any subsequent time, or nullify any prior exercise of any such remedy or option, without the express consent of the Holder, except as and to the extent otherwise provided by law.

7. Waivers.

(a) The City hereby waives diligence, presentment, protest and demand, and notice of protest, notice of demand, and notice of dishonor of this Note. The City expressly agrees that this Note or any payment hereunder may be extended from time to time, and that the Holder may accept further security or release any security for this Note, all without in any way affecting the liability of the City.

(b) No extension of time for payment of this Note or any installment hereof made by agreement by the Holder with any person now or hereafter liable for payment of this note shall operate to release, discharge, modify, change or affect the original liability of the City under this Note, either in whole or in part.

(c) The obligations of the City under this Note shall be absolute and the City waives any and all rights to offset, deduct or withhold any payments or charges due under this Note for any reason whatsoever.

8. Miscellaneous Provisions.

(a) All notices to the Holder or the City shall be given to such addresses as the Holder and the City may hereinafter designate.

(b) The City promises to pay all costs and expenses, including reasonable attorneys' fees, incurred by the Holder in the enforcement of the provisions of this Note, regardless of whether suit is filed to seek enforcement.

(c) This Note may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

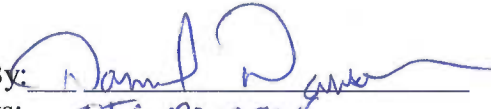
(d) This Note shall be governed by and construed in accordance with the laws of the State of California.

(e) The times for the performance of any obligations hereunder shall be strictly construed, time being of the essence.

(f) This document contains the entire agreement between the parties as to the Loan and Settlement Amount other than the Settlement Agreement. It may not be modified except upon written consent of the parties.

BORROWER:

City of Del Rey Oaks, a municipal corporation

By: 
Its: City Manager
Dated: 9/22/14

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