

UNITED STATES BANKRUPTCY COURT Central District of California		PROOF OF CLAIM
Name of Debtor: James Chris Gianulias		Case Number: 08-13150
NOTE: This form should not be used to make a claim for an administrative expense arising after the commencement of the case. A request for payment of an administrative expense may be filed pursuant to 11 U.S.C. § 503.		
Name of Creditor (the person or other entity to whom the debtor owes money or property): California National Bank		<input type="checkbox"/> Check this box to indicate that this claim amends a previously filed claim. Court Claim Number: _____ (If known) Filed on: _____
Name and address where notices should be sent: Joshua D. Wayser Katten Muchin Rosenman LLP 2029 Century Park East Los Angeles, California 90067-3012 Telephone number: (310) 788-4400		
Name and address where payment should be sent (if different from above): Telephone number: _____		<input type="checkbox"/> Check this box if you are aware that anyone else has filed a proof of claim relating to your claim. Attach copy of statement giving particulars. <input type="checkbox"/> Check this box if you are the debtor or trustee in this case.
1. Amount of Claim as of Date Case Filed: \$ <u>21,553,014.25</u> If all or part of your claim is secured, complete item 4 below; however, if all of your claim is unsecured, do not complete item 4. If all or part of your claim is entitled to priority, complete item 5. <input type="checkbox"/> Check this box if claim includes interest or other charges in addition to the principal amount of claim. Attach itemized statement of interest or charges.		
2. Basis for Claim: <u>See attached Riders</u> (See instruction #2 on reverse side.)		5. Amount of Claim Entitled to Priority under 11 U.S.C. §507(a). If any portion of your claim falls in one of the following categories, check the box and state the amount. Specify the priority of the claim. <input type="checkbox"/> Domestic support obligations under 11 U.S.C. §507(a)(1)(A) or (a)(1)(B). <input type="checkbox"/> Wages, salaries, or commissions (up to \$10,950*) earned within 180 days before filing of the bankruptcy petition or cessation of the debtor's business, whichever is earlier – 11 U.S.C. §507 (a)(4). <input type="checkbox"/> Contributions to an employee benefit plan – 11 U.S.C. §507 (a)(5). <input type="checkbox"/> Up to \$2,425* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use – 11 U.S.C. §507 (a)(7). <input type="checkbox"/> Taxes or penalties owed to governmental units – 11 U.S.C. §507 (a)(8). <input type="checkbox"/> Other – Specify applicable paragraph of 11 U.S.C. §507 (a)(). Amount entitled to priority: \$ _____ *Amounts are subject to adjustment on 4/1/10 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.
3. Last four digits of any number by which creditor identifies debtor: _____ 3a. Debtor may have scheduled account as: _____ (See instruction #3a on reverse side.)		
4. Secured Claim (See instruction #4 on reverse side.) Check the appropriate box if your claim is secured by a lien on property or a right of setoff and provide the requested information. Nature of property or right of setoff: <input type="checkbox"/> Real Estate <input type="checkbox"/> Motor Vehicle <input type="checkbox"/> Other Describe: _____ Value of Property: \$ _____ Annual Interest Rate _____ % Amount of arrearage and other charges as of time case filed included in secured claim, if any: \$ _____ Basis for perfection: _____ Amount of Secured Claim: \$ _____ Amount Unsecured: \$ _____		
6. Credits: The amount of all payments on this claim has been credited for the purpose of making this proof of claim. 7. Documents: Attach redacted copies of any documents that support the claim, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, judgments, mortgages, and security agreements. You may also attach a summary. Attach redacted copies of documents providing evidence of perfection of a security interest. You may also attach a summary. (See definition of "redacted" on reverse side.) DO NOT SEND ORIGINAL DOCUMENTS. ATTACHED DOCUMENTS MAY BE DESTROYED AFTER SCANNING. If the documents are not available, please explain: _____		
Date: <u>11/5/08</u> Signature: The person filing this claim must sign it. Sign and print name and title, if any, of the creditor or other person authorized to file this claim and state address and telephone number if different from the notice address above. Attach copy of power of attorney, if any. Joshua D. Wayser, counsel		FOR COURT USE ONLY

Penalty for presenting fraudulent claim: Fine of up to \$500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571.

Exhibit 1

Murietta 180 Apartments, LP

Claim \$1,691,400.24

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated November 2, 2004 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Loan Agreement dated November 2, 2004 (as amended, modified, and/or supplemented, the "Loan Agreement") by which Cal National lent Murietta 180 Apartments, LP (the "Borrower") the stated principal amount of \$4,946,500. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loan.

On January 28, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; and (iii) Breach of Written Guaranty in the Superior Court of the State of California for the County of Riverside, Case No. RIC 491667. On April 24, 2008, R.E.F.S. Inc., ("Trustee") sold the property at public auction for \$5,062,500.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$1,691,400.24 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreement to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreement. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date

Balance of loan at Foreclosure Sale	at least \$6,753,900.24
Amount property sold for at Foreclosure Sale	\$5,062,500.00
Total Amount of Claim	at least <u>\$1,691,400.24</u>

WHEN RECORDED MAIL TO
MURRIETA APARTMENTS, LLC
C/O CALIFORNIA NATIONAL BANK
221 S. FIGUEROA STREET, STE 310
LOS ANGELES, CA 90012
ATTN: JYOTSNA DESAI,
VICE PRESIDENT, ASSET MANAGER

MAIL TAX STATEMENTS TO
SAME AS ABOVE

This is to certify that this is a True and Correct copy
of the Original recorded 8-7-08
Instrument No. 08-433748
NORTH AMERICAN TITLE COMPANY
y/UA
County of Riverside

Space above this line for recorder's use only

Trustee Sale No. 2007-CA004872 Loan No. 7600003734 Title Order No. 43-83147-85

TRUSTEE'S DEED UPON SALE AND BILL OF SALE

APN 913-160-040-4

The undersigned grantor declares:

- 1) The Grantee herein was the foreclosing beneficiary.
- 2) The amount of the unpaid debt together with costs was.....\$6,753,900.24
- 3) The amount paid by the grantee at the trustee sale was.....\$5,062,500.00
- 4) The documentary transfer tax is\$NONE
- 5) Said property is in RIVERSIDE

and R.E.F.S. INC., A CALIFORNIA CORPORATION, as Trustee (herein called Trustee), as the duly appointed Trustee or substituted Trustee under the Deed of Trust hereinafter described, does hereby grant and convey, but without covenant or warranty, express or implied, to MURRIETA APARTMENTS, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY (herein called Grantee), all of its right, title and interest in and to that certain property situated in the County of RIVERSIDE, State of California, described as follows: ~~FOR LEGAL DESCRIPTION SEE EXHIBIT "A" ATTACHED~~ HERETO AND MADE A PART HEREOF

Situs: VACANT LAND, , RIVERSIDE, CA
RECITALS:

This conveyance is made pursuant to the powers conferred upon Trustee by that certain Deed of Trust dated 11-02-2004 and executed by MURRIETA 180 APARTMENTS L.P. , A CALIFORNIA LIMITED PARTNERSHIP, as Trustor, and Recorded 11-05-2004, Book N/A, Page N/A , Instrument 2004-0880994 of official records of RIVERSIDE County, California, and after fulfillment of the conditions specified in said Deed of Trust authorizing this conveyance.

Default occurred as set forth in a Notice of Default and Election to Sell which was recorded in the Office of the Recorder of said County, and such default still existed at the time of sale.

All requirements of law regarding the mailing of copies of notices or the publication of a copy of the Notice of Default or the personal delivery of the copy of the Notice of Default and the posting and publication of copies of the Notice of a Sale have been complied with.

Trustee, in compliance with said Notice of Trustee's Sale and in exercise of its powers under said Deed of Trust, sold the herein described property at public auction on 08-04-2008. Grantee, being


Trustee Sale No.: 2007-CA004872
Loan No.: 7600003734
Title Order No.: 43-83147-65

the highest bidder at said sale, became the purchaser of said property for the amount bid being \$5,062,500.00 in lawful money of the United States, or by credit bid if the Grantee was the beneficiary of said Deed of Trust at the time of said Trustee's Sale.

This sale was a unified sale of real and personal property. The undersigned further sells, transfers and conveys by quitclaim to grantee the personal property security and collateral under that certain Security Agreement dated 11/02/2004, by and between CALIFORNIA NATIONAL BANK, A NATIONAL BANKING ASSOCIATION and MURRIETA 180 APARTMENTS L.P., A CALIFORNIA LIMITED PARTNERSHIP and that certain financing statement dated 11/02/2004 and filed in the Office of the Secretary of State as Instrument No. 047003582928 on 11/10/2004 and any amendments or modifications to either of them, as described in the Notice of Sale, and set forth below. Such sale on behalf of the Secured Party is "AS IS, WHERE IS" WITH ALL FAULTS, AND WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND.

DATE: August 6, 2008

R.E.F.S. INC., A CALIFORNIA CORPORATION, as said Trustee


MELINDA ROWLEY, ASST. VICE PRESIDENT

STATE OF CALIFORNIA
COUNTY OF ORANGE

On August 6, 2008 before me, ELIZABETH BERBER, a Notary Public, personally appeared MELINDA ROWLEY, who 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.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.


Notary Public in and for said County and State



EXHIBIT B

1. Continuing Guaranty Agreement dated November 2, 2004 by and among James C. Gianulias, as Guarantor for the benefit of California National Bank.
2. Construction Loan Agreement dated November 2, 2004.

Exhibit B -1



CONTINUING GUARANTY

Loan No. 7600003734

The undersigned, JAMES C. GIANULIAS (herein called "Guarantor"), at the solicitation of MURRIETA 180 APARTMENTS L.P., a California limited partnership (herein called "Borrower"), requests CALIFORNIA NATIONAL BANK (herein called "Lender") to extend Credit to Borrower. In order to induce Lender to extend Credit to Borrower, and in consideration of Credit heretofore, now or hereafter granted to Borrower by Lender, Guarantor agrees as follows:

1. The term "Credit" is used throughout this Continuing Guaranty ("Guaranty") in its most comprehensive sense and means and includes, without limitation, any and all loans, advances, debts, obligations and liabilities of any kind or nature owed by Borrower to Lender, heretofore, now, or hereafter made, incurred or created, arising from that certain Construction Loan Promissory Note dated November 2, 2004, in the original principal amount of FOUR MILLION NINE HUNDRED FORTY SIX THOUSAND FIVE HUNDRED DOLLARS (\$4,946,500.00), between Borrower and Lender ("Note") and the documents and instruments executed by Borrower further evidencing or securing the obligations evidenced by the Note, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, secured or unsecured, whether on original, renewed, extended or revised terms (including, without limitation, those evidenced by new or additional instruments or agreements or those changing the applicable rate of interest or which release any obligor with respect thereto), whether principal, interest, fees, or expenses, whether Borrower may be liable individually or jointly with others, whether recovery upon such indebtedness may be or hereafter becomes barred by any statute of limitations, and whether such indebtedness may be or hereafter becomes invalid or otherwise unenforceable. In the event a petition under the United States Bankruptcy Code is filed by or against Borrower, the term "Borrower" shall also mean and include Borrower in its status as a debtor, debtor-in-possession and/or reorganized debtor under the United States Bankruptcy Code.
2. (a) If there is more than a single entity or person included in the terms "Guarantor" or "Borrower," respectively, each reference herein to such terms shall mean any and all, and one or more of such entities and persons both jointly and severally; and (b) if more than one person or entity executes this Guaranty, the obligations and liabilities hereunder of Guarantors are and shall be both joint and several. If Borrower is a corporation, partnership, limited liability company or association, each reference herein to the term "Borrower" shall include any successor entity to Borrower. If there is more than one guaranty of the obligations of Borrower, the liabilities of all Guarantors are joint and several. As used in this Guaranty, neuter terms include the masculine and feminine, and vice versa.
3. Unless specified herein to the contrary, Guarantor's liability hereunder shall be unlimited. In addition to any maximum liability hereunder, Guarantor agrees to bear and be liable to Lender for the interest and expenses enumerated in paragraph 21 hereof. Notwithstanding the foregoing, Lender, at its discretion, may allow Credit to exceed Guarantor's maximum liability hereunder. Any payment by Guarantor shall not reduce the maximum obligation of Guarantor hereunder unless written notice to that effect is actually received by Lender at or prior to the time of such payment. Any payment received by Lender from Borrower, from any other person or from proceeds of collateral granted by Borrower or any other person shall not reduce Guarantor's maximum liability hereunder.
4. Subject to any maximum dollar limitation on Guarantor's liability as may be specified in this Guaranty, Guarantor unconditionally guarantees and agrees to pay to Lender, upon Borrower's default in payment of the Credit and Lender's demand, in lawful money of the United States of America, an amount equal to the amount of the Credit not paid by Borrower, and to otherwise perform any obligations of Borrower undertaken pursuant to any Credit. This Guaranty is a guaranty of payment and not of collection. No payment received by Lender from Borrower or any

other person or from proceeds of collateral granted by Borrower or any other person shall reduce Guarantor's maximum liability hereunder.

5. Either before or after revocation hereof, Guarantor authorizes Lender at its sole discretion, with or without notice, and without affecting Guarantor's continuing liability hereunder, from time to time to (a) change the time or manner of payment of any Credit by modification, renewal, extension, acceleration or otherwise, (b) amend or change any other provision of any Credit including the rate of interest thereon, (c) accept partial payment on any Credit, (d) accept new or additional instruments, agreements or documents relative to any Credit, (e) release, substitute or add one or more endorsers, cosigners or guarantors for any Credit, (f) enter into forbearances with Borrower even though the result of such forbearance is to increase the amount of accrued and unpaid interest, cost, fees and/or expenses attributable to the Credit, (g) amend or modify the terms of any guaranty executed by a co-guarantor, including the maximum liability thereunder, (h) obtain collateral for the payment of any Credit and/or any guaranty thereof, (i) waive, release, exchange, substitute, or modify, in whole or in part, existing, after-acquired or later acquired collateral securing payment of the Credit or any guaranty therefor on such terms as Lender at its sole discretion shall determine, (j) subordinate payment of all or any part of the Credit to other creditors of Borrower or other persons on such terms as Lender deems appropriate, (k) apply any sums received from Borrower, any other guarantor, endorser or cosigner or from the sale or collection of collateral or its proceeds to any indebtedness whatsoever in any order and regardless of whether or not such indebtedness is guaranteed hereby, is secured by collateral, or is due and payable, (l) without limiting the foregoing, apply any sums received from Guarantor or from the sale of collateral granted by Guarantor to any, all, or any portion of the Credit in any order regardless of whether or not the Credit is secured by collateral or is due and payable, and (m) exercise any right or remedy it may have with respect to any Credit or any collateral securing any Credit, this Guaranty or any other guaranty, including, without limitation, bidding and purchasing at any sale of any such collateral, and compromising, collecting or otherwise liquidating any collateral or any Credit.
6. Guarantor acknowledges that Guarantor may have certain rights under applicable law that, if not waived by Guarantor, might provide Guarantor with defenses against Guarantors' liability under this Guaranty. Among those rights, are certain rights of subrogation, reimbursement, indemnification and contribution, and rights provided in sections 2787 to 2855, inclusive, of the California Civil Code. Guarantor waives all of Guarantor's rights of subrogation, reimbursement, indemnification, and contribution, and any other rights and defenses that are or may become available to Guarantor by reason of any or all of California Civil Code sections 2787 to 2855, inclusive, including, without limitation, Guarantor's rights:
 - 6.1 To require Lender to notify Guarantor of any default by Borrower, provide Guarantor with notice of any sale or other disposition of security for any Credit, disclose information with respect to the Credit, Borrower, or any other guarantor, co-signer or endorser, or with respect to any collateral;
 - 6.2 That Guarantor's obligation under this Guaranty must be commensurate with that of Borrower;
 - 6.3 To be discharged based upon the absence of any liability of Borrower, at any time, by virtue of operation of law, or otherwise, or due to any other disability or defense of Borrower or any other guarantor, endorser or co-signer;
 - 6.4 To be discharged if any of the terms, conditions or provisions of the Credit are altered in any respect;
 - 6.5 To be discharged upon acceptance by Lender of anything in partial satisfaction of the Credit, and/or if Lender designates the portion of the Credit to be satisfied;

- 6.6 To be discharged upon any modification of the Credit or the release by Lender of Borrower or any other guarantor, endorser or co-signer;
 - 6.7 To require Lender to proceed against Borrower, or any other guarantor, endorser, co-signer, or other person, or to pursue or refrain from pursuing any other remedy in Lender's power;
 - 6.8 To receive the benefit of or participate in any and all security for repayment and/or performance of the Credit;
 - 6.9 To have any security for the Credit first applied to satisfy or discharge the Credit;
 - 6.10 That any arbitration award rendered against Borrower not constitute an award against Guarantor;
 - 6.11 To be discharged based upon any failure by Lender to perfect or continue perfection of any lien, use due diligence to collect all or any part of any Credit, or if recovery against Borrower becomes barred by any statute of limitations, or if Borrower is not liable for any deficiency after Lender realizes upon any collateral; and
 - 6.12 To be discharged due to the release or discharge of any collateral for any Credit or guaranty, or relating to the validity, value or enforceability of any collateral.
7. Guarantor also waives all rights and defenses that Guarantor may have because the Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged or assigned by Borrower; (2) If Lender forecloses on any real property collateral pledged by the Borrower: (a) The amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses directly or indirectly based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.
8. Guarantor also waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the California Code of Civil Procedure or otherwise.
9. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of acceptance, notices of the existence, creation or increase of any new or additional credit, notice of sale in regard to judicial or non-judicial foreclosure of real or personal property collateral and all other notices and demands of any kind or nature whatsoever except as expressly set forth herein.
10. Notwithstanding any foreclosure of the lien of any security agreements, deeds of trust, mortgages or other security instruments, with respect to the Credit or any other guaranty, whether by the exercise of the power of sale contained therein, by any action for judicial foreclosure, or by any acceptance of a deed or other transfer in lieu of foreclosure, whether or not such method of foreclosure or transfer in lieu of foreclosure was for a consideration equal to or greater than the fair market value of the security property, Guarantor shall remain bound under this Guaranty for the obligations of Borrower to Lender and shall be liable to Lender for any and all of the Credit remaining unpaid after any such foreclosure.

11. Guarantor represents and warrants to Lender that: (a) Lender has made no representation to Guarantor in regard to Borrower, the Credit or any matters pertaining thereto, upon which Guarantor is relying in giving this Guaranty; and (b) Guarantor has established adequate means and assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of the credit which diligent inquiry would reveal, and Lender shall have no duty to advise Guarantor of information known to Lender regarding such condition or any such circumstance.
12. In addition to all liens upon and rights of setoff against the money, securities or other property of Guarantor given to Lender by law or otherwise as security for this Guaranty, Guarantor hereby pledges to Lender and grants to Lender a security interest in, and Lender shall have a right of setoff against, all money, securities and other property of Guarantor now or hereafter in the possession of or on deposit with Lender, whether held in a general or special account or deposit or for safekeeping or otherwise; and each such security interest or right of setoff may be exercised without demand upon, or notice to, Guarantor. No action or lack of action by Lender with respect to any security interest or right of setoff or otherwise shall be deemed a waiver thereof, and every right of setoff or security interest or otherwise shall continue in full force and effect until specifically released by Lender in writing. The security interests created hereby shall secure all of Guarantor's obligations to Lender under this Guaranty or any subsequent guaranty executed by Guarantor.
13. Any and all indebtedness of Borrower now or hereafter owed to Guarantor and all claims of Guarantor against Borrower, whenever arising, are hereby subordinated to the Credit and assigned to Lender as additional collateral. If Lender so requests, any note or other instrument evidencing such indebtedness and all claims of Guarantor against Borrower shall be delivered to Lender, and such indebtedness and all claims of Guarantor against Borrower shall be collected, enforced and received by Guarantor as trustee for Lender and be paid over to Lender on account of the Credit but without reducing or affecting in any manner the liability of Guarantor hereunder. Should Guarantor fail to collect proceeds of debt owed to it by Borrower and pay the proceeds to Lender, Lender, as Guarantor's attorney-in-fact may do such acts and sign such documents in Guarantor's name as Lender considers necessary, at its discretion, to effect such collection, and Guarantor hereby irrevocably appoints Lender as Guarantor's attorney-in-fact for such purposes. If Borrower is a corporation, limited liability company or partnership, Guarantor will not withdraw or accept, without Lender's prior written consent, any return of any capital invested or equity interest in Borrower.
14. Guarantor agrees that to the extent Borrower makes a payment or payments or is credited for any payment or payments made for the account of or on behalf of Borrower to Lender, which payment or payments, or any part thereof, are subsequently invalidated, determined to be fraudulent or preferential, voided, set aside and/or required to be repaid to any trustee, receiver, assignee or any other party whether under any Bankruptcy, State or Federal Law, common law or equitable cause or otherwise, then to the extent thereof, the obligation or part thereof intended to be satisfied thereby, together with the guaranty thereof hereunder, shall be revived, reinstated and continued in full force and effect as if said payment or payments had not originally been made by or for the account of or on behalf of Borrower.
15. Guarantor agrees that to the extent Guarantor makes a payment or payments or is credited for any payment or payments made for the account of or on behalf of Guarantor to Lender, which payment or payments, or any part thereof, are subsequently invalidated, determined to be fraudulent or preferential, voided, set aside and/or required to be repaid to any trustee, receiver, assignee or any other party whether under any Bankruptcy, State or Federal Law, common law or equitable cause or otherwise, then to the extent thereof, the obligation or part thereof intended to be satisfied thereby, shall be revived, reinstated and continued in full force and effect as if said payment or payments had not originally been made by or for the account of or on behalf of Guarantor.
16. Guarantor's obligations hereunder are not contingent upon and are independent of the obligations of Borrower, or any other guarantor or surety of the Credit. This Guaranty is not made in

consideration of the liability of any other guarantor or surety of the Credit. The release or death of any guarantor of the Credit or the revocation of any guaranty shall not release or otherwise affect the liability of any other non-revoking guarantor. A separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor be joined in any such action or actions.

17. To the maximum extent permitted by law, Guarantor specifically waives the benefit of the statute of limitations affecting its liability hereunder or the enforcement hereof, or the collection of any Credit, including, without limiting the foregoing, any and all special statutes of limitations arising out of California Code of Civil Procedure sections 580a or 726(b). Any partial payment by Borrower that operates to toll any statute of limitations as to Borrower shall likewise toll the statute of limitations as to Guarantor.
18. Any married person who signs this Guaranty expressly agrees that recourse may be had against his/her separate property as well as all community property over which that person has a power of management and control, for all of his/her obligations hereunder.
19. Should any one or more provisions of this Guaranty be determined to be illegal or unenforceable, all other provisions shall remain effective.
20. Lender may, with or without notice, assign this Guaranty in whole or in part. This Guaranty shall inure to the benefit of Lender, its successors and assigns, and shall bind Guarantor and Guarantor's heirs, executors, administrators, representatives, successors and assigns.
21. Guarantor agrees to pay to Lender, on demand, reasonable attorneys' fees and all other costs and expenses which may be incurred by Lender in the collection or attempted collection from Borrower of any Credit and/or in the interpretation, enforcement or attempted enforcement by Lender of this Guaranty or any collateral therefor, including, but not limited to, proceedings in any bankruptcy or other insolvency case or other proceedings touching the Credit or this Guaranty, or both, in any manner, whether or not legal proceedings or suit are instituted, together with interest thereon at the rate applicable to the Credit and including, without limitation, all attorneys' fees and related costs of enforcement of any and all judgments and awards and upon any appeal relating thereto.
22. Guarantor warrants and represents to Lender that:
 - 22.1 All financial statements and other financial information furnished or to be furnished to Lender by Guarantor are or will be true and correct and do and will fairly represent the financial condition of Guarantor (including all contingent liabilities) as of the dates thereof; and
 - 22.2 There has been no material adverse change in Guarantor's financial condition since the dates of the financial statements and other information furnished to Lender, except as previously disclosed to Lender in writing.
23. Lender may declare Guarantor in default under this Guaranty upon the occurrence of any of the following events:
 - 23.1 Guarantor fails to pay or perform any of Guarantor's obligations under this Guaranty; or
 - 23.2 Any representation or warranty made or given by Guarantor to Lender proves to have been false or misleading, when made, in any material respect; or
 - 23.3 A petition or action for relief shall be filed by or against Guarantor, pursuant to the Federal Bankruptcy Code (Title 11, U.S. Codes) in effect from time to time, or under any other law relating to bankruptcy, insolvency, reorganization, moratorium, creditor composition, arrangement or other relief from debts; the appointment of a receiver, trustee, custodian or

liquidator of or for any property of Guarantor; or upon the death, incapacity, insolvency, dissolution, or termination of the business of Guarantor; or

23.4 Guarantor revokes or attempts to revoke this Guaranty.

24. If Borrower is a corporation, limited liability company or partnership, Lender need not inquire into the power of Borrower or the authority of its officers, directors, partners, agents, members or managers acting or purporting to act in its behalf, and any Credit granted in reliance upon the purported exercise of such power or authority is guaranteed hereunder.
25. Receipt of a true copy of this Guaranty is hereby acknowledged by Guarantor. Guarantor understands and agrees that Lender's acceptance of this Guaranty shall not constitute a commitment of any nature whatsoever by Lender to extend, renew or hereafter extend credit to Borrower. Guarantor agrees that this Guaranty shall be effective with or without notice from Lender of its acceptance of this Guaranty.
26. If Guarantor has executed more than one guaranty of Credit owed to Lender, any limits of liability thereunder and hereunder shall be cumulative, and a subsequent guaranty executed by Guarantor shall not supersede or replace this Guaranty unless such subsequent guaranty so provides.
27. GUARANTOR WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INSTITUTED BY LENDER OR GUARANTOR WHICH PERTAINS DIRECTLY OR INDIRECTLY TO THIS GUARANTY, THE CREDIT, THE COLLATERAL THEREFOR OR ANY MATTER ARISING THEREFROM OR RELATING HERETO OR THERETO.
28. Guarantor waives all rights to interpose any setoffs or counterclaims of any nature in any action or proceeding instituted by Lender with respect to this Guaranty, the collateral therefor, or any matter arising therefrom or relating thereto and the posting of any bond which may otherwise be required, and waives any and all benefits of cross-demands pursuant to section 431.70 of the California Code of Civil Procedure.
29. Guarantor hereby irrevocably submits and consents to the jurisdiction of any federal or state court of competent jurisdiction within California in connection with any action or proceeding arising out of or relating to this Guaranty. In any such litigation, Guarantor consents to service of process by any means authorized by California or federal law or as otherwise agreed in writing between Lender and Guarantor.
30. All rights, remedies, powers and benefits granted to Lender under this Guaranty, the Credit, any oral or other written agreement or applicable law whether expressly granted or implied in law or otherwise, are cumulative and not exclusive, and are enforceable alternatively, successively, or concurrently on any one or more occasions at Lender's discretion.
31. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any security interest granted to Lender hereunder or Lender's rights, powers and/or remedies hereunder (including any right of setoff) unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any default, right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such default, right, power and/or remedy which Lender would otherwise have on any future occasion whether similar in kind or otherwise. Any failure by Lender to file or enforce a claim against the estate (whether in administration, bankruptcy, probate or other proceeding) of Borrower or of any others, shall not affect Guarantor's liability hereunder.
32. Neither this Guaranty nor any related agreement, document or instrument nor any provision hereof or thereof shall be amended, modified or discharged orally or by course of conduct, but only by a

written agreement signed by an authorized officer of Lender expressly referring to this Guaranty and to the provisions so amended, modified or discharged.

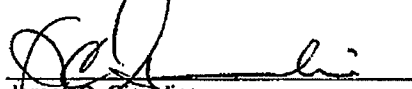
33. Lender's books and records showing the account(s) between Lender and Borrower shall be admissible in evidence in any action or proceeding as prima facie proof of the items set forth therein. Lender's statements rendered to Borrower, to the extent to which no objection is made within ninety (90) days after date thereof, shall be deemed conclusively correct and constitute an account stated absent manifest error, which shall be binding on Guarantor whether or not Guarantor receives a copy of any such statement or notice thereof.
34. This is a continuing guaranty of the Credit, including those arising after any repayment and reborrowing and under any successive and future transactions, which may increase, renew or continue the original Credit. Revocation of this Guaranty, if permitted by applicable law, shall be effective only upon the close of the next business day after written notice thereof is received by an officer of Lender by certified or registered mail, return receipt requested at 221 S. Figueroa Street, Suite 400, Los Angeles, California 90012, or at any other office of Lender designated in a written notice mailed by Lender to Guarantor at its address set forth below. Any such revocation shall be effective only as to the revoking party and shall not affect that party's obligations with respect to Credit existing before the revocation became effective or as to any renewals, extensions or modifications of any Credit, whether such renewal, extension or modification is made prior to or after revocation, including those evidenced by a new or additional instrument or agreement or which change the rate of interest on any Credit, or for post-revocation interest and collection expenses accruing or incurred by Lender with respect thereto. Notwithstanding any revocation hereof, this Guaranty shall not be terminated until Lender has received indefeasible payment in full of all Credit which is guaranteed hereby and, in regard to which Credit, Lender no longer has an outstanding commitment to lend. Credit existing before revocation becomes effective shall be deemed to include, without limitation, all Credit or advances which Lender has committed to make to Borrower in reliance upon this Guaranty, even though the amount of such Credit or advances has not been advanced as of the effective date of revocation, and even though Lender may have defenses or defaults which would relieve it of such commitment, if asserted.
35. The provisions of this Guaranty shall be construed and interpreted and all rights and obligations hereunder determined in accordance with the laws of the State of California.
36. GUARANTOR ACKNOWLEDGES THAT LENDER HAS OR MAY IN THE FUTURE EXTEND CREDIT TO BORROWER IN RELIANCE ON GUARANTOR'S UNCONDITIONAL PROMISE TO REPAY ANY AND ALL CREDIT AND LENDER IS RELYING ON THE WAIVERS, WARRANTIES AND PROMISES MADE BY GUARANTOR IN THIS GUARANTY. GUARANTOR AGREES THAT EACH OF THE WAIVERS, WARRANTIES AND PROMISES SET FORTH IN THIS GUARANTY ARE MADE WITH GUARANTOR'S UNDERSTANDING OF THEIR SIGNIFICANCE AND CONSEQUENCES AND THAT THEY ARE REASONABLE. IF ANY WAIVERS, WARRANTIES AND PROMISES ARE DETERMINED TO BE CONTRARY TO ANY APPLICABLE LAW OR PUBLIC POLICY, SUCH WAIVERS, WARRANTIES AND PROMISES SHALL BE EFFECTIVE TO THE MAXIMUM EXTENT PERMITTED BY LAW. BEFORE SIGNING THE GUARANTY, GUARANTOR HAS EITHER SOUGHT THE ADVICE OF COUNSEL TO EXPLAIN THE WAIVERS OF ITS RIGHTS AND DEFENSES AS STATED HEREIN AND THE EFFECT THEREOF, OR HAS HAD THE OPPORTUNITY TO SEEK SUCH COUNSEL, AND IN ANY EVENT, INTENDS THIS GUARANTY TO BE AS UNRESTRICTED AS POSSIBLE. GUARANTOR THEREFORE HAS CONSCIOUSLY AND INTENTIONALLY WAIVED ALL DEFENSES OF GUARANTOR AND RIGHTS WHICH COULD EXONERATE GUARANTOR HEREUNDER TO THE FULL EXTENT PERMITTED BY THE LAWS OF THE STATE OF CALIFORNIA, WHETHER OR NOT EACH AND EVERY DEFENSE, RIGHT OR WAIVER IS EXPLAINED OR DESCRIBED IN DETAIL IN THIS GUARANTY.
37. GUARANTOR ACKNOWLEDGES THAT NEITHER LENDER NOR ANY OF LENDER'S OFFICERS OR EMPLOYEES HAVE MADE ANY PROMISE OR REPRESENTATION, NOT

INCORPORATED HEREIN, WHETHER ORAL, WRITTEN OR IMPLIED, TO CAUSE GUARANTOR TO SIGN THIS GUARANTY. GUARANTOR IS NOT SIGNING THIS GUARANTY IN RELIANCE ON ANY PROMISE, CONDITION OR THE ANTICIPATION OF THE OCCURRENCE OF ANY EVENT, AND THERE ARE NO ORAL UNDERSTANDINGS, STATEMENTS OR AGREEMENTS THAT HAVE NOT BEEN INCLUDED IN THIS GUARANTY. GUARANTOR UNDERSTANDS THAT LENDER HAS THE RIGHT TO ENFORCE PAYMENT OF THE CREDIT AGAINST BORROWER OR GUARANTOR IN ANY ORDER AND LENDER IS NOT OBLIGATED TO OBTAIN ANY OTHER OR ADDITIONAL GUARANTORS OF THE CREDIT OR TO TAKE ANY OTHER COURSE OF ACTION.

38. This Guaranty constitutes the entire agreement between the parties with respect to the subject matter of this Guaranty, and any and all previous or contemporaneous correspondence, statements, or agreements by or between the parties hereto with respect to the subject matter of this Guaranty (but not previous or other guarantees given to Lender by Guarantor) are superseded hereby. This Guaranty may be modified only by a written instrument signed by the parties hereto.

Dated: November 2, 2004

"GUARANTOR"


James C. Gianulias

Address: 1105 Quail Street
Newport Beach, California 92660
Telephone:
Tax ID No. 558-46-1701

INCORPORATED HEREIN, WHETHER ORAL, WRITTEN OR IMPLIED, TO CAUSE GUARANTOR TO SIGN THIS GUARANTY. GUARANTOR IS NOT SIGNING THIS GUARANTY IN RELIANCE ON ANY PROMISE, CONDITION OR THE ANTICIPATION OF THE OCCURRENCE OF ANY EVENT, AND THERE ARE NO ORAL UNDERSTANDINGS, STATEMENTS OR AGREEMENTS THAT HAVE NOT BEEN INCLUDED IN THIS GUARANTY. GUARANTOR UNDERSTANDS THAT LENDER HAS THE RIGHT TO ENFORCE PAYMENT OF THE CREDIT AGAINST BORROWER OR GUARANTOR IN ANY ORDER AND LENDER IS NOT OBLIGATED TO OBTAIN ANY OTHER OR ADDITIONAL GUARANTORS OF THE CREDIT OR TO TAKE ANY OTHER COURSE OF ACTION.

38. This Guaranty constitutes the entire agreement between the parties with respect to the subject matter of this Guaranty, and any and all previous or contemporaneous correspondence, statements, or agreements by or between the parties hereto with respect to the subject matter of this Guaranty (but not previous or other guarantees given to Lender by Guarantor) are superseded hereby. This Guaranty may be modified only by a written instrument signed by the parties hereto.

Dated: November 2, 2004

"GUARANTOR"


James C. Gianulias

Address: 1105 Quail Street
Newport Beach, California 92660

Telephone:

Tax ID No. 558-46-1701

INCORPORATED HEREIN, WHETHER ORAL, WRITTEN OR IMPLIED, TO CAUSE GUARANTOR TO SIGN THIS GUARANTY. GUARANTOR IS NOT SIGNING THIS GUARANTY IN RELIANCE ON ANY PROMISE, CONDITION OR THE ANTICIPATION OF THE OCCURRENCE OF ANY EVENT, AND THERE ARE NO ORAL UNDERSTANDINGS, STATEMENTS OR AGREEMENTS THAT HAVE NOT BEEN INCLUDED IN THIS GUARANTY. GUARANTOR UNDERSTANDS THAT LENDER HAS THE RIGHT TO ENFORCE PAYMENT OF THE CREDIT AGAINST BORROWER OR GUARANTOR IN ANY ORDER AND LENDER IS NOT OBLIGATED TO OBTAIN ANY OTHER OR ADDITIONAL GUARANTORS OF THE CREDIT OR TO TAKE ANY OTHER COURSE OF ACTION.

38. This Guaranty constitutes the entire agreement between the parties with respect to the subject matter of this Guaranty, and any and all previous or contemporaneous correspondence, statements, or agreements by or between the parties hereto with respect to the subject matter of this Guaranty (but not previous or other guarantees given to Lender by Guarantor) are superseded hereby. This Guaranty may be modified only by a written instrument signed by the parties hereto.

Dated: November 2, 2004

"GUARANTOR"


James C. Gianullias

Address: 1105 Quail Street
Newport Beach, California 92660

Telephone:

Tax ID No. 558-46-1701



Loan No. 7600003734

CONSENT AND REAFFIRMATION OF GUARANTOR

On or about November 2, 2004, the undersigned has executed and delivered to CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), a Continuing ("Guaranty") dated November 2, 2004 in favor of Lender in consideration of financial accommodations granted by Lender to MURRIETA 180 APARTMENT, L.P., a California limited partnership ("Borrower"). Borrower has requested that Lender agree to extend the maturity date of that certain Construction Promissory Note ("Note") dated November 2, 2004 executed by Borrower in favor of Lender in the original principal amount of FOUR MILLION NINE HUNDRED FORTY SIX THOUSAND FIVE HUNDRED AND NO/100THS DOLLARS (\$4,946,500.00). The Note's original principal amount is reduced to THREE MILLION SEVEN HUNDRED EIGHT THOUSAND FOUR HUNDRED SEVENTY EIGHT AND 00/100THS DOLLARS (\$3,708,478.00) (the "New Note Amount"). Lender has agreed to make said accommodations to Borrower and to modify certain provisions of the Loan Documents as defined in the Note and/or other loan documents.

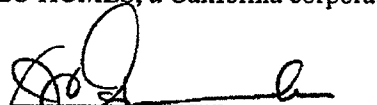
The undersigned hereby (a) confirms receipt of a copy of the within Modification Agreement (No. 1) effective March 23, 2005 (the "Modification") between Borrower and Lender; (b) consents to the Modification; and (c) reaffirms its guaranty of the obligations of Borrower to Lender, as set forth in the Guaranty.

Effective Date: March 23, 2006

"GUARANTOR"

CAMEO HOMES, a California corporation

By:


James C. Gianulias, President

SSS No. 95-2593087
Address: 1105 Quail Street
Newport Beach, CA 92660

Telephone No.: 4949 851-0995

EXHIBIT (7)

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of September 11, 2006, is hereby given by JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST ("Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. MURRIETA 180 APARTMENTS L. P., a California limited partnership ("Borrower"), has previously obtained a construction loan from Lender (the "Loan") secured by certain real property located in the City of Murrieta, County of Riverside, California (the "Property").

B. The Loan was to aid Borrower in the acquisition of the Property, the construction thereon of on-site improvements and the additional entitlement thereof. The Loan was originally in the amount of \$4,946,500 (closing on November 5, 2004), was subsequently reduced to \$3,708,478 (in March 2006), and now is the subject of an additional advance in the amount of \$2,091,522, and a maturity extension (from November 1, 2006, to March 1, 2007), which additional advance and maturity extension (the "Additional Advance and Extension") would not be granted by Lender to Borrower without Guarantor giving this Guaranty.

C. The Loan is evidenced by a Construction Loan Promissory Note (the "Note") dated November 2, 2004, and governed by a Construction Loan Agreement dated November 2, 2004 (the "Loan Agreement"), and is secured by the lien of that certain Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated November 2, 2004, and recorded on November 5, 2004, as Instrument No. 04-880994 of Official Records, Riverside County, California ("Deed of Trust") encumbering the Property. Said documents were amended by that certain unrecorded Modification Agreement (No. 1) dated March 23, 2006, and are being further amended by that certain Modification Agreement No. 2 of even date herewith, and the Deed of Trust is being amended by that certain First Amendment to Deed of Trust of even date herewith, to be recorded in the Official Records of Riverside County, California. The Loan is further evidenced and secured by additional documents given and entered into in connection therewith ("Loan Documents"), including the Continuing Guarantees given by James C. Gianulias and Cameo Homes, dated November 2, 2004 ("Existing Guarantors"), and references in this Guaranty to "any other guarantors" shall be deemed to include the Existing Guarantors.

D. Lender is willing to grant the Additional Advance and Extension, but only if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in making the Additional Advance and

Extension. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from the Additional Advance and Extension, desires to enter into this Guaranty to induce Lender to grant the Additional Advance and Extension.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender to any other party, including Existing Guarantors, all amounts owing to Lender under the Note, the Loan Agreement, the Deed of Trust, and any other instruments or documents evidencing or securing the Loan (the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the Note, the Loan Agreement, the Deed of Trust, and the Loan Documents. This Guaranty is not limited to the amounts representing the Additional Advance, but applies to all the entire Indebtedness.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with consent of

Borrower, to amend any provision of the Note, the Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Note, the Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, or for any modification of the terms thereof. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the Note or other Loan Documents by operation of law or otherwise; or (e) any modification of the Note or other Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the Note, the other Loan Documents or any part

thereof, including increase or decrease of the rate of interest thereon. Until the Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation. Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's obligations under the Note (including without limitation Sections 726 and 580d of the California Code of Civil Procedure as from time to time amended). In addition, Guarantor waives all rights and protections of any kind which Guarantor may have for any reason which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial or judicial foreclosure of any security for the Indebtedness, including, without limitation, the right to any fair market value hearing pursuant to Section 580a of the California Code of Civil Procedure. Until the Indebtedness shall have been paid in full, Guarantor further waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, any other guarantor or any other person, and waives any benefit of, or any right to participate in any security whatsoever now or hereafter held by Lender.

c. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (2) if Lender forecloses on any real property collateral pledged by Borrower: (a) The amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Guarantor further waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor specifically waives any and all defenses and rights that may be waived pursuant to Union Bank v. Gradsky (1968) 265 Cal.App. 2d 40, and any cases, statutes or authority subsequently interpreting such decision.

d. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California Civil Code.

e. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

f. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

g. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the Indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability thereunder.

h. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Note, the Loan Agreement, the Deed of Trust, and/or any of the other Loan Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Loan Agreement, the Deed of Trust, and any other Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Note, the Loan Agreement, the Deed of Trust, and the Loan Documents. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under, the Note, the Loan Agreement, the Deed of Trust, and the other Loan Documents have been paid in full.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Loan Agreement, the Deed of Trust, and all of the other Loan Documents and any other documents executed in connection with the Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

g. Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Property will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation on the Property shall conform in all respects with applicable ordinances and statutes, including

subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in accordance with this paragraph. If any notice, request, demand, direction or other communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor: **JAMES C. GIANULIAS**
 1105 Quail Street
 Newport Beach, CA

If to Lender: **CALIFORNIA NATIONAL BANK**
 1301 Dove Street, Suite 101
 Newport Beach, CA 92660-2458

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the Note.

13. Context and Construction; Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION

AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE NOTE, THE LOAN AGREEMENT, THE DEED OF TRUST, OR UNDER ANY OTHER LOAN DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DOCUMENT SECURING THE NOTE OR THIS GUARANTY, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE

ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.

Guarantor's Initials

Lender's Initials

18. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.

IN WITNESS WHEREOF, Guarantor hereunder has executed this Guaranty as of the date first above written.

GUARANTOR:

James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

AFFIRMATION AND MODIFICATION OF CONTINUING GUARANTY

Loan No. 7600003734

This Affirmation and Modification of Continuing Guaranty, dated as of September 11, 2006 ("Affirmation"), is made by CAMEO HOMES, a California corporation, and JAMES C. GIANULIAS, individually, (collectively "Guarantors"), in favor of CALIFORNIA NATIONAL BANK ("Lender"), in connection with that certain Continuing Guaranty, dated November 2, 2004 ("Guaranty"), given by Guarantors to Lender in connection with a loan made by Lender to MURRIETA 180 APARTMENTS L. P., a California limited partnership ("Borrower").

WHEREAS, Borrower and Lender have heretofore entered into that certain Construction Loan Agreement dated September 2, 2004, reflecting a \$3,708,478 construction loan to Trustor (the "Loan"), evidenced by, among other documents, that certain Construction Loan Promissory Note dated September 2, 2004 (the "Note"), originally in the principal amount of \$4,946,500, reduced to the principal amount of \$3,708,478 by that certain Modification Agreement (No. 1) dated March 23, 2006, and which Modification Agreement (No. 1) extended the maturity date of the Loan and Note from May 1, 2006, to November 1, 2006. The Loan was to aid Borrower in the acquisition of 10 acres of land located in the City of Murrieta, Riverside County, California (the "Property"), the construction thereon of on-site improvements and the additional entitlement thereof.

WHEREAS, as a condition to making the Loan, Guarantors executed the Guaranty, whereby Guarantors guaranteed the obligations under the Note and the Loan as more fully set forth in the Guaranty.

WHEREAS, Borrower has requested that Lender (i) make an additional advance in the amount of \$2,091,522 under the Note and Loan (the "Additional Advance"), bringing the total principal amount of the Loan to an amount of \$5,800,000, and (ii) grant a four (4) month extension to the maturity date (the "Extension") from November 1, 2006, to March 1, 2007, and, as a condition to making the Additional Advance and the Extension, among other conditions, Lender has required that Guarantors affirm their obligations under the Guaranty and acknowledge and consent to the Additional Advance and the Extension.

NOW, THEREFORE, the Guarantors agree as follows:

1. Each Guarantor hereby affirms that the terms, covenants, conditions, and obligations under the Guaranty remain binding on each Guarantor, and the Guaranty remains in full force and effect, notwithstanding Modification Agreement No. 1, and the Additional Advance and the Extension, as reflected in that certain Modification Agreement No. 2, of even date herewith.

2. Each Guarantor hereby acknowledges and consents to the Additional Advance, the Extension, Modification Agreement No. 2, and each and every other document entered into in connection with the Additional Advance and Extension, and acknowledges and agrees that Guarantor's obligations under the Guaranty now extend to all obligations under the Loan as

EXHIBIT (11)

modified by the Modification Agreement (No. 2), specifically including the increase of the maximum Loan amount to the sum of \$5,800,000, and agrees that the Guaranty be and is modified to so reflect.

IN WITNESS WHEREOF, Guarantors have executed this Affirmation as of the date first hereinabove written.

GUARANTORS:

CAMEO HOMES, a California
corporation

By 
James C. Gianulias, President


James C. Gianulias, Individually

**AFFIRMATION OF GUARANTY AGREEMENTS AND
ENVIRONMENTAL INDEMNITY AGREEMENTS**

Loan No.: 7600003734

This Affirmation of Guaranty Agreements and Environmental Indemnity Agreements ("Affirmation"), dated as of August 13, 2007, is given by CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, individually, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (all, collectively "Guarantors"), in favor of CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), in connection with a two (2) month maturity extension (the "Extension") to that certain \$5,800,000 loan (the "Loan") made by Lender to MURRIETA 180 APARTMENTS L.P., a California limited partnership ("Borrower"), which closed on November 5, 2004.

WHEREAS, Lender made the Loan in connection with the acquisition of certain real property consisting of approximately 10 acres located in the City of Murrieta, Riverside County, California (the "Property"), and the construction thereon of on-site improvements and the additional entitlement thereof.

WHEREAS, Guarantors entered into Guaranty Agreements (dated November 2, 2004, as to Cameo Homes and James C. Gianulius, individually, and dated September 11, 2006, as to James C. Gianulias as Trustee) regarding the Loan ("Guaranty Agreements"), and, acting as Indemnitors, Guarantors entered into Environmental Indemnity Agreements (dated November 2, 2004, as to Cameo Homes and James C. Gianulius, individually, and dated September 11, 2006, as to James C. Gianulias as Trustee) ("Environmental Indemnity Agreements") in connection with the Loan;

WHEREAS, Borrower has requested that the maturity of the Loan be extended from July 1, 2007, to September 1, 2007 (the "Extension"), to afford Borrower more time to secure construction financing for the 180-unit apartment development.

WHEREAS, Lender is willing to accommodate Borrower by granting the Extension, subject to the terms of that certain Loan Extension Agreement of even date herewith, conditioned upon, among other things, Guarantors affirming their obligations under the Guaranty Agreements and the Environmental Indemnity Agreements, notwithstanding the granting of the Extension.

NOW, THEREFORE, the Guarantors agree as follows:

1. Each Guarantor hereby affirms those certain Guaranty Agreements which each such Guarantor has previously executed, and acknowledges that the Guaranty Agreements are in full force and effect, notwithstanding the Extension, and that each Guarantor has no defenses to the enforcement thereof.
2. Each Guarantor, as Indemnitor, hereby affirms those certain Environmental Indemnity Agreements which each such Guarantor has previously executed as Indemnitor, and acknowledges that the Environmental Indemnity Agreements are in full force and effect, notwithstanding the Extension, and that each Guarantor has no defenses to the enforcement thereof.

EXHIBIT (13)


IN WITNESS WHEREOF, Guarantors have executed this Affirmation as of the date first hereinabove written.

GUARANTORS:

CAMEO HOMES, a California
corporation

By:


James C. Gianulias, President


James C. Gianulias, Individually



James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

Exhibit B -2



CONSTRUCTION LOAN AGREEMENT

(Residential)

Loan No. 7600003734

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of November 2, 2004, by and between MURRIETA 180 APARTMENTS L.P., a California limited partnership ("Borrower") and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

This Agreement is executed by Borrower for the purpose of obtaining a loan from Lender, to be evidenced by a Construction Loan Promissory Note made by Borrower in favor of Lender and secured by, among other things, a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, affecting real property in the County of Riverside, State of California, described on Exhibit "A" attached hereto and made a part of this Agreement and all improvements now or in the future erected on such real property, which loan is to assist Borrower in the acquisition and development of on-site improvements for 10 acres of land which later will be developed as 180 apartment units, located in the City of Murrieta, Riverside County, California.

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I - DEFINITIONS

- 1.1 **Definitions.** The definitions set forth in the Recitals or elsewhere in this Agreement are incorporated herein by this reference. For the purposes of this Agreement, the following terms shall have the following meanings:

"Agreement" shall mean this Construction Loan Agreement, either as originally executed or as it may be amended from time to time.

"Agreement to Provide Insurance" shall mean the Agreement to Provide Insurance duly executed by Borrower in form and content as required by Lender.

"Appraisal" shall mean an appraisal of the Project performed and prepared for Lender at Borrower's sole expense by a duly licensed or certified appraiser designated by Lender and possessing all qualifications required by Lender and applicable Laws, setting forth the appraiser's opinion and determination of the fair market value of the Property before construction of the Improvements, and the fair market value of the Project as though all Improvements thereon have been completed in full and timely compliance with this Agreement; said Appraisal shall be prepared in full narrative form meeting all requirements and approaches to value as shall be necessary or appropriate in order to comply with all customary and generally accepted appraisal standards within the appraisal industry and in accordance with Lender's requirements and all applicable Laws governing Lender's operations.

"Architect" shall mean KTG Y.

"Assignment of Construction Contracts" shall mean the Assignment of Construction Contracts and Contractor's Consent in form and content acceptable to Lender.

EXHIBIT (3)

5

"Assignment of Plans and Specifications" shall mean the Assignment of Architect's Plans and Specifications and Architect's Consent in form and content acceptable to Lender.

"Borrower's Equity" shall mean the sum of \$782,000.00 in the form of cash equity.

"Borrower's Funds Account" shall mean the funds deposited by Borrower with Lender in an interest bearing account with Lender and under Lender's sole control.

"Budget" shall mean the detailed Cost Breakdown for the Project attached hereto as Exhibit "B".

"Commencement Date" shall mean the date by which Borrower must commence construction of Improvements upon the Property, which shall be no later than February 28, 2005 after the later of (i) recordation of the Construction Deed of Trust, or (ii) planning commission approval of the Project.

Amended

"Completion Date" shall mean the date scheduled for substantial completion of the Improvements as provided in the construction contract, which shall be no later than January 31, 2006.

"Construction Deed of Trust" shall mean the Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated November 2, 2004 duly executed by Borrower for the benefit of Lender, as Beneficiary, to secure the Loan and encumbering the Property and other assets and rights therein provided.

"Construction Hard Costs" shall mean the cost of labor and/or materials incorporated into the work of improvement for construction of the Improvements, including the cost of shipping and other transportation, fringe benefits in accordance with labor contracts and the fees, profit and overhead of the Contractor and Subcontractors actually paid directly as part of the Construction Contract or Subcontracts.

"Construction Period" shall mean the period of time commencing with Loan Closing and ending with the completion of construction of the Improvements, which shall not extend beyond the Completion Date.

"Continuing Guaranty" shall mean the continuing guaranty duly executed by the Continuing Guarantor, unconditionally and irrevocably guaranteeing payment and performance of Borrower's obligations to Lender in connection with the Loan.

"Continuing Guarantor" shall mean, individually and collectively, JAMES C. GIANULIAS and CAMEO HOMES, a California corporation.

"Contractor" shall mean Lucas Development.

"Cost Breakdown" shall mean the cost of constructing the Improvements, including, without limitation, the construction hard costs and related costs as more specifically identified in Exhibit "B" hereto.

"Environmental Indemnity Agreement" shall mean the environmental indemnity agreement by Borrower in favor of Lender of even date herewith.

"Event of Default" shall mean any of those events specified in Article 13 hereof.

"FF&E" shall mean all furniture, fixtures, machinery, tools, inventory and equipment owned by Borrower and used, or intended to be used, in connection with the Project.

"Financial Statements" shall mean balance sheets, income statements, reconciliation of capital structure, statements of sources and applications of funds, and income tax returns, all prepared

in accordance with GAAP, or such other form as has been previously provided by Continuing Guarantor to Lender as it relates to Continuing Guarantor and as has been previously provided by affiliates of Continuing Guarantor as it relates to Borrower.

"Financing Statements" shall mean one or more financing statements (form UCC-1) executed and given by Borrower to Lender, if required by Lender, covering FF&E, Contract Documents, project rights, contracts, Loan Funds, fees and all other personal property and/or fixtures included in the Project.

"Force Majeure" shall mean cessation and/or other delays caused by moratoria or other decisions of any Governmental Agency, war, riot, strike, lockouts, fire, earthquake, or other natural disasters or Acts of God or by similar causes utterly beyond the control of Borrower.

"Funds" shall mean the aggregate sum of the Loan Proceeds and the Borrower's funds held in the Borrower's Funds Account.

"GAAP" shall mean generally accepted accounting principles consistently applied and maintained throughout the period indicated and consistent with the prior financial practice of Borrower, except for changes mandated by the Financial Accounting Standards Board or any similar accounting authority of comparable standing.

"Grace Period" shall mean the following: (a) with respect to any obligations which requires the payment of money, a period of 10 days from the date such payment is due; and (b) with respect to all other obligations, a period of 30 days from the date that performance of such obligation is due, unless otherwise specified.

"Governmental Agency" or "Government Agency" shall mean any federal, state or local governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, court, administrative tribunal, or public utility.

"Insurance Policies" shall mean any of the policies of insurance specified in Section 4.4 hereof.

"Improvements" shall mean the materials, structures and other improvements and fixtures to be constructed or installed on the Property, according to and as described in the Plans and Specifications, including, but not limited to, off-site and on-site improvements.

"Interest Reserve" shall mean that portion of the Funds allocated for payment of interest on the Note as shown in the Cost Breakdown.

"Laws" shall mean, collectively, all federal, state, and local laws, rules, regulations, ordinances and codes.

"Loan" shall mean the loan in the maximum principal sum of ~~FOUR~~ MILLION NINE HUNDRED FORTY SIX THOUSAND FIVE HUNDRED DOLLARS (\$4,946,500.00), described in the Recitals and in Article 2 of this Agreement.

"Loan Documents" shall mean the Note, Construction Deed of Trust, Financing Statement, Environmental Indemnity Agreement, this Agreement and such other documents as Lender may reasonably require Borrower to give Lender as evidence of and/or security for and/or guaranty of the Loan.

"Loan Fee" shall mean the sum of \$49,465.00 payable by Borrower to Lender at loan closing.

"Loan Proceeds" shall mean all funds advanced by Lender as a loan to Borrower under this Agreement.

Reduced to
\$4,946,500.00

add
\$49,465.00

Amend 11-1-06

"Maturity Date" shall mean May 1, 2006 as set forth in the Note, at which time the entire principal balance of the Loan, plus accrued interest thereon, is and shall be due and payable as provided in this Agreement and the Note, subject to acceleration as provided in the Loan Documents.

"Note" shall mean the Construction Loan Promissory Note of even date herewith in the amount of the Loan executed by Borrower in favor of Lender to evidence the Loan and bearing interest at the rate set forth in the Note.

"Organizational Documents" shall mean:

- (a) Borrower's Certificate of Partnership and Partnership Agreement; and
- (b) An affidavit of Borrower signed by the Officer or Manager of Borrower, where applicable, in form and substance satisfactory to Lender affirming the authority of Borrower to borrow the Loan and enter into the Loan Documents, and affirming the names and signatures of all officers or Managers of Borrower authorized to execute documents in connection with the Loans.

"Permitted Encumbrances" shall mean only those matters and exceptions to title approved by Lender shown in the preliminary title report and all supplements thereto of the Title Company covering the Property.

"Permitted Transfer" shall mean a transfer of the Property to a transferee ("Transferee"), subject to the following conditions:

- (a) The Transferee is a limited partnership in which James C. Gianulias is the owner of more than 50% of the partnership interests in the Transferee and that the general partner of the limited partnership is James C. Gianulias or an entity owned or managed solely by James C. Gianulias (individually or as a trustee);
- (b) The Transferee signs an assumption agreement with respect to the Loan Documents in a form acceptable to Lender;
- (c) The limited partnership agreement of the Transferee is acceptable to Lender;
- (d) Borrower provides an endorsement to the Title Policy covering the transfer in a form acceptable to Lender; and
- (f) Payment to Lender of a fee of \$2,500.00.

"Plans and Specifications" shall mean the plans and specifications for the Project prepared by the Architect, approved by Borrower and Lender, and approved by all governmental authorities having or claiming jurisdiction over the Property.

"Property" shall mean the real property located in the County of Riverside, State of California described on Exhibit A attached hereto and made a part of this Agreement and all improvements now or in the future erected on such real property.

"Project" shall mean the aggregate of the Property, the construction and development on the Property and other related improvements.

"Retentions" shall mean ten percent (10%) of Construction Hard Costs approved by Lender included in each Request for Funds other than the final Request for Funds.

"Security Documents" shall mean all documents securing the repayment of the indebtedness evidenced by the Note including without limitation, the Construction Deed of Trust and other documents described on Section 2.3 hereof.

"Title Company" shall mean FIRST AMERICAN TITLE INSURANCE COMPANY, which shall issue the Title Policy.

"Title Policy" shall mean an ALTA (LP-10) Lender Loan Policy 1970 Form 1 coverage, written as such at loan closing and rewritten upon the completion of construction issued by the Title Company, with liability equal to the full amount of the Loan, in favor of Lender, as insured, insuring the Construction Deed of Trust to be a valid first lien on the Project subject only to the Permitted Encumbrances.

- 1.2 **Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with Federal Income Tax cash basis consistent with those applied in the preparation of the Financial Statements referred to in Section 3.3 and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.
- 1.3 **Use of Defined Terms.** Any defined terms used in the plural shall include the singular and such terms shall encompass all members of the relevant class.
- 1.4 **Schedules and Exhibits.** All schedules and exhibits to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by reference.
- 1.5 **References.** Any reference to this Agreement or any other document shall include such document both as originally executed and as it may from time to time be supplemented and modified. References herein to Paragraphs, Sections and Exhibits shall be construed as references to this Agreement unless a different document is named.
- 1.6 **Other Terms.** The term "document" is used in its broadest sense and encompass agreements, certificates, opinions, consents, instruments and other written material of every kind. The terms "including" and "include" shall mean "including (include), without limitation"

ARTICLE II - LOAN ACCOMMODATION

Amend for 4-27-78. 2.1

The Loan. Borrower agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, a loan in the maximum principal sum of FOUR MILLION NINE HUNDRED FORTY SIX THOUSAND FIVE HUNDRED DOLLARS (\$4,946,500.00).

- 2.2 **Documents.** In order to consummate the Loan, Borrower will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:
 - (a) Note;
 - (b) Continuing Guaranty;
 - (c) Construction Deed of Trust;
 - (d) Financing Statement;
 - (e) Agreement;
 - (f) Cost Breakdown;

- (g) Assignment of Construction Contracts;
- (h) Agreement to Provide Insurance;
- (i) Disbursement Request and Authorization;
- (j) Environmental Indemnity Agreement;
- (k) Assignment of Plans and Specifications;
- (l) Resolution of Corporation which is a Manager and Member in a Limited Liability Company which is the general partner of Borrower;
- (m) Resolution of Corporation Authorizing Officers of Corporation to Guarantee;
- (n) Notice to Borrower Property Not in Special Hazard Area;
- (o) Hazard Insurance Disclosure;
- (p) Partnership Authorization to Borrow;
- (q) Title Policy or evidence of a commitment therefor;
- (r) If required by Lender, a survey or surveys prepared by a licensed surveyor satisfactory to Lender, certified to the Title Company and to Lender and its successors, nominees, and assigns, and showing all easements. The survey shall be conducted in compliance with ALTA standards as applied in California and shall be certified to the Title Company, Lender, and Borrower. The Title Policy shall show no blanket exceptions for anything a survey would show; and
- (s) Such additional assignments, agreements, certificates, reports, approvals, instruments, documents, financing statements, consents, and opinions as Lender may reasonably request.

2.3 **Security.** The Loan shall be secured by the following, in each case subject only to the Permitted Encumbrances:

- (a) The Construction Deed of Trust;
- (b) The assignments referenced in Section 2.2 above;
- (c) A first priority perfected security interest in all existing and future tangible and intangible personal property and/or fixtures relating to the Project owned by Borrower, including, but not limited to, the FF&E, as evidenced by the Construction Deed of Trust;

2.4 **Guaranty.** As further support for the repayment of the Loan, Guarantor shall guaranty repayment thereof, pursuant to the Continuing Guaranty.

2.5 **Loan Fee.** The Loan Fee will be paid by Borrower to Lender at Loan Closing and will be in addition to all other fees mentioned in this Agreement. The Loan Fee shall be deemed fully earned and non-refundable when paid, whether or not any Construction Loan Proceeds are disbursed at any time.

ARTICLE III - REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that as of the date of recording the Construction Deed of Trust:

- 3.1 **Legal Status.** Borrower is a partnership duly organized, validly existing, and in good standing under the laws of the State of California, and is qualified and licensed to do business in the State of California and all other jurisdictions in which such qualification or licensing is required.
- 3.2 **Authorization and Validation.** The execution, delivery and performance by Borrower of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Construction Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Borrower, (b) have received the approval of Borrower's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Borrower is a party or by which Borrower, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note and each of the Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Borrower enforceable in accordance with their terms.
- 3.3 **Financial Information.** All financial data that has been given to Lender with respect to Borrower and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Borrower and the Property as of the date on which, and the results of Borrower's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Borrower since the date of the most recent of such Financial Statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.
- 3.4 **Plans and Specifications.** As portions of the Project progress, copies of the final plans and specifications for the Project, shall be initialed for identification and delivered to Lender (the "Plans and Specifications"), prior to commencement of construction and shall be true and correct, satisfactory to Borrower, and shall have been approved by all Governmental Agencies having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the Contractor. Any construction already performed on the Project has been performed in accordance with the Plans and Specifications; there are no defects in the Project of which Borrower has been advised or of which Borrower has notice or knowledge; no violation of any applicable Laws, or order; and the use of the Project and Property shall not constitute a violation of any applicable Laws or orders.
- 3.5 **No Defaults.** Borrower is not a party to any agreement or instrument that will materially interfere with its performance under this Agreement or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, which default would have a material and adverse effect upon its ability to perform under this Agreement or the Security Documents.
- 3.6 **Correct Information.** All reports, papers, data and information given to Lender with respect to Borrower or the Property are accurate and correct in all material respects and complete insofar as

completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

- 3.7 **Title.** Borrower has good and marketable title to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender (or reflected of record at Loan closing).
- 3.8 **Taxes.** Borrower has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become due prior to delinquency pursuant to such returns or pursuant to any assessments received by it, and Borrower does not know of any basis for additional assessment in respect of any such taxes. Borrower has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.
- 3.9 **Utilities.** All utility services necessary for the development of the Project and the operation thereof for its intended purpose are either available at the boundaries of the Project or all necessary steps have been taken by Borrower to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.
- 3.10 **Pending Litigation.** There is not now pending against or affecting Borrower or the Property, nor, to the knowledge of Borrower is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Borrower.
- 3.11 **Unpaid Materialmen.** No person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid at the time of execution of this Agreement other than payments to be made in connection with the advances hereunder.
- 3.12 **Agreements and Deposits.** Borrower has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.
- 3.13 **Other Financing.** Borrower has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.
- 3.14 **Encumbrances.** No other encumbrance on the Property exists or is contemplated which shall be subordinate to the Construction Deed of Trust, and Borrower agrees that no junior lien of any nature against all or any portion of the Property shall be given, permitted or suffered by Borrower without Lender's written consent. Said consent shall be at Lender's sole option and discretion.
- 3.15 **Principal Place of Business.** Borrower's principal place of business is at the address set forth in this Agreement as the address for notices to Borrower. Borrower shall promptly notify Lender of any change in Borrower's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.
- 3.16 **Compliance.** Borrower has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Project will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision Laws and environmental impact Laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction

thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan and Borrower's acquisition of the Property.

ARTICLE IV - CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Borrower's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

- 4.1 **Title Policy.** Borrower shall furnish to Lender an ALTA Lender's Policy of Title Insurance (LP - 10 with provision for rewrite), with such endorsements as Lender may require, which shall insure that the Construction Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.
- 4.2 **Reports and Other Documents.** Borrower shall furnish to Lender, upon Lender's request and at Borrower's sole cost and expense: (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Material" (as that term is defined in the Environmental Indemnity Agreement) is present in, on, under or about the Property; (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property and that the proposed construction of the Project is feasible under existing soils conditions; (c) all of the documents required under Section 2.2 above; (d) the documents required by Article 5; and (e) a current Project appraisal and a construction cost analysis, by or on behalf of Lender utilizing such appraiser, engineer or other consultant as Lender may determine in its sole discretion.
- 4.3 **Title Endorsements.** At Lender's sole and absolute discretion, in addition to the requirements of Section 4.1 hereof, Lender may require Borrower to obtain, in connection with any or all requested disbursements, at Borrower's sole cost and expense, Endorsements 102.5 or 102.7, 122, and such other endorsements as Lender may require, which endorsements are to be attached to and be a part of Lender's Policy of Title Insurance.
- 4.4 **Insurance.** Borrower shall furnish to Lender, at Borrower's sole cost and expense, such policies of insurance in such amounts, form and issued by a company or companies satisfactory to Lender, with standard mortgagee's endorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Borrower in writing (other than earthquake and terrorism insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. In the event any portion of the Property is determined to be in a Flood Hazard Area at any time as reported by the U.S. Secretary of the Department of Housing and Urban Development, Borrower shall obtain and at all times maintain flood hazard insurance satisfactory to Lender; the originals of all such policies shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Borrower or any other person, and Borrower assumes the full risk, responsibility and liability, if any, with respect to such matters. If Borrower fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Borrower, in which event Borrower shall pay the costs thereof upon demand by Lender with interest thereon at the

default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents.

- 4.5 **No Defaults.** Borrower shall furnish written notice to Lender upon Lender's request that no default exists under this Agreement or under the Note or Security Documents and that each of the representations and warranties of Article 3 hereof is true.
- 4.6 **List of Materialmen.** At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Borrower, but no more than once a month, Borrower shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.
- 4.7 **No Change In Conditions.** There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.
- 4.8 **Sufficient Sums; Borrower's Equity.** Within five (5) days after notice from Lender, Borrower shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project within the purview of the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or otherwise. Borrower agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. It is expressly understood and agreed that the Loan shall at all times be "in balance", and that Borrower will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to keep the Loan "in balance". The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its sole and absolute discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Borrower to perform and satisfy all of Borrower's covenants contained in this Agreement, the Note and the Security Documents. The Loan is "out of balance" if Lender determines at any time that the undisbursed Funds are not sufficient for all the above purposes, and Borrower shall forthwith cause the Loan to be "in balance" by depositing the amount of such deficiency with Lender within five (5) days after the date of Lender's notice of the deficiency. Such amount shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article 5 below. In addition, whenever the Loan becomes "out of balance," Borrower shall submit, for Lender's approval, a revised Budget within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Borrower to deposit additional funds as described above, Borrower and Lender hereby agree that prior to the first advance Borrower shall have provided Lender: (i) evidence satisfactory to Lender that, at Loan closing, Borrower has fee title to the Property; and (ii) an appraisal of the Project prepared in accordance with Section 4.2 hereof and approved by Lender demonstrating that the Project has an appraised value of not less than \$8,190,000.00.

- 4.9 **Liens.** If required by Lender, Borrower shall furnish proof satisfactory to Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded.

ARTICLE V - DISBURSEMENT PROCEDURE

- 5.1 **Accounts.** All funds deposited by Borrower with Lender pursuant to this Agreement will be placed in the Borrower's Funds Account. Borrower agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.
- 5.2 **Budget.** Attached to and made a part of this Agreement is a detailed Cost Breakdown for the Project. All disbursements and Requests for Funds shall be in accordance with the Cost Breakdown contained in the Budget, which Lender has approved. If Borrower becomes aware of any change in the approved construction costs which would increase the total cost of construction of the Project as shown on the Budget by more than \$250,000.00, or any single line item by more than \$100,000.00, then Borrower shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its sole discretion. If Lender fails to disapprove any proposed revisions to the Budget within ten (10) business days after Lender has received written notice of such proposed revisions and all other information in connection therewith requested by Lender, then such proposed revisions shall be deemed approved by Lender.
- 5.3 **Security Interest in Undisbursed Funds.** Borrower hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Borrower's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Borrower in the Borrower's Funds Account and all monies in the Loan.
- 5.4 **Requests for Funds.**
- (a) Following commencement of the Project, Borrower shall submit to Lender or to Lender's designated agents from time to time (not more frequently than two (2) times per month) a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Borrower setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Borrower and, if required by Lender, the general contractor, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, subcontractor, supplier and materialman to be paid pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services, equipment and materials performed or supplied by such subcontractor or materialman, as appropriate. If requested by Lender, Borrower shall also

submit copies of statements, bills or invoices from any contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained herein, Lender shall make disbursements to Borrower's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the contractors, subcontractors, laborers or materialmen.

- (b) Lender will make disbursements to pay for the Construction Hard Costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for ninety percent (90%) of the construction costs for each line item of expense (by reference to the Budget) as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for each such line item as set forth in the Budget and, (ii) in no event shall any disbursement of any line item of the Budget, or disbursement as a whole, exceed the percentage of completion of such line item or the Project as a whole, as applicable. The disbursement of the undisbursed ten percent (10%) ("Retentions") shall be subject to the requirements of subsection (d) below. It is understood and agreed that no Funds shall be allocated to or paid for management fee and/or developer overhead. Disbursements to pay for construction costs will be made not more frequently than twice monthly.
- (c) Lender will make disbursements to pay for Borrower's approved financing, development and other non-construction Project costs shown on the most recently approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Borrower and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due, any Loan fees owing to Lender, including without limitation a Loan fee in the sum of \$49,465.00; interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Borrower to Lender with respect to the Loan. Such payments may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Borrower. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the miscellaneous title and closing costs category shown in the Budget. Borrower agrees that any Loan funds allocated in the Budget for interest reserve or for contingency reserve, together with any Loan funds or Borrower's funds not otherwise disbursed, shall be disbursed for interest payments on the Note, and for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender determines in its reasonable discretion to pay. Should interest on the Loan herein exceed the amount of interest reserve reserved herein, Lender shall bill Borrower monthly for said interest, and Borrower shall promptly pay said bill. Any overages and/or savings resulting from expenditures in the categories described herein or in the Budget shall, at Lender's sole discretion, be allocated to interest reserve and other miscellaneous cost category herein, provided however, that Borrower shall have the right to request that any savings achieved in any line item category of the Budget at a time when it is reasonably clear that all costs in such line item category will be under Budget (pursuant to evidence thereof provided by Borrower and approved by Lender) be allocated to other specific line item categories in the Budget, and if approved by Lender, such savings (or such portion thereof as Lender may approve) shall be allocated as Borrower requests. Borrower further agrees that the loan fee payable to Lender with respect to this Loan

shall be disbursed to Lender upon recordation of the Construction Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

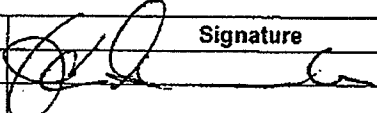
(d) The final disbursement of Retentions shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

- (i) Request for Funds for Retentions;
- (ii) Proof that a valid Notice of Completion has been filed;
- (iii) Proof that a Certificate of Occupancy or its equivalent has been issued by the requisite governmental agency;
- (iv) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property (which may be satisfied by FIRST AMERICAN TITLE INSURANCE COMPANY or another title company approved by Lender (upon Borrower's request) issuing to Lender's ALTA Loan Policy a CLTA Form 101.13 Endorsement without modification), or stop notices, or obtaining satisfactory releases from all liens which may have been filed or providing bonds therefor acceptable to Lender;
- (v) Verification by Lender of completion in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and
- (vi) Evidence that FIRST AMERICAN TITLE INSURANCE COMPANY approved by Lender is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement undeleted, CLTA Form 116 Endorsement, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.

5.5 **Additional Conditions to Disbursements.** Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (a) an Event of Default has occurred (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), or (b) there are unreleased and unbonded mechanics' liens or stop notices in existence, which have not been released or bonded against in a manner acceptable to Lender or (c) such disbursement would cause the outstanding principal balance of the Loan to exceed 65% of the Project's most recent appraised value, as determined by or on behalf of Lender.

5.6 **Inspector's Consent to Disbursements.** In addition to the terms and conditions set forth under Section 5.4 above, Borrower's Request for Funds on the Project shall be subject to satisfactory review and approval of construction costs by an outside project inspector or cost engineer, acceptable to Lender. Such costs shall not exceed \$2,500.00 for the initial inspection and \$500.00 each for subsequent inspections.

5.7 **Authorized Signatures.** Any one (1) of the following persons, by their specimen signatures as set forth below, are hereby designated by Borrower as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Borrower, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person(s) authorized to sign such requests:

Name	Signature
James C. Gianulias	

shall be disbursed to Lender upon recordation of the Construction Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

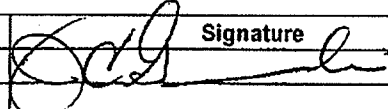
(d) The final disbursement of Retentions shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

- (i) Request for Funds for Retentions;
- (ii) Proof that a valid Notice of Completion has been filed;
- (iii) Proof that a Certificate of Occupancy or its equivalent has been issued by the requisite governmental agency;
- (iv) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property (which may be satisfied by FIRST AMERICAN TITLE INSURANCE COMPANY or another title company approved by Lender (upon Borrower's request) issuing to Lender's ALTA Loan Policy a CLTA Form 101.13 Endorsement without modification), or stop notices, or obtaining satisfactory releases from all liens which may have been filed or providing bonds therefor acceptable to Lender;
- (v) Verification by Lender of completion in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and
- (vi) Evidence that FIRST AMERICAN TITLE INSURANCE COMPANY approved by Lender is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement undeleted, CLTA Form 116 Endorsement, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.

5.5 **Additional Conditions to Disbursements.** Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (a) an Event of Default has occurred (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), or (b) there are unreleased and unbonded mechanics' liens or stop notices in existence, which have not been released or bonded against in a manner acceptable to Lender or (c) such disbursement would cause the outstanding principal balance of the Loan to exceed 65% of the Project's most recent appraised value, as determined by or on behalf of Lender.

5.6 **Inspector's Consent to Disbursements.** In addition to the terms and conditions set forth under Section 5.4 above, Borrower's Request for Funds on the Project shall be subject to satisfactory review and approval of construction costs by an outside project inspector or cost engineer, acceptable to Lender. Such costs shall not exceed \$2,500.00 for the initial inspection and \$500.00 each for subsequent inspections.

5.7 **Authorized Signatures.** Any one (1) of the following persons, by their specimen signatures as set forth below, are hereby designated by Borrower as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Borrower, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person(s) authorized to sign such requests:

Name	Signature
James C. Gianulias	

shall be disbursed to Lender upon recordation of the Construction Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

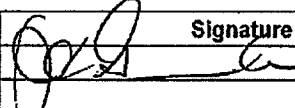
(d) The final disbursement of Retentions shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

- (i) Request for Funds for Retentions;
- (ii) Proof that a valid Notice of Completion has been filed;
- (iii) Proof that a Certificate of Occupancy or its equivalent has been issued by the requisite governmental agency;
- (iv) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property (which may be satisfied by FIRST AMERICAN TITLE INSURANCE COMPANY or another title company approved by Lender (upon Borrower's request) issuing to Lender's ALTA Loan Policy a CLTA Form 101.13 Endorsement without modification), or stop notices, or obtaining satisfactory releases from all liens which may have been filed or providing bonds therefor acceptable to Lender;
- (v) Verification by Lender of completion in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and
- (vi) Evidence that FIRST AMERICAN TITLE INSURANCE COMPANY approved by Lender is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement undeleted, CLTA Form 116 Endorsement, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.

5.5 **Additional Conditions to Disbursements.** Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (a) an Event of Default has occurred (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), or (b) there are unreleased and unbonded mechanics' liens or stop notices in existence, which have not been released or bonded against in a manner acceptable to Lender or (c) such disbursement would cause the outstanding principal balance of the Loan to exceed 65% of the Project's most recent appraised value, as determined by or on behalf of Lender.

5.6 **Inspector's Consent to Disbursements.** In addition to the terms and conditions set forth under Section 5.4 above, Borrower's Request for Funds on the Project shall be subject to satisfactory review and approval of construction costs by an outside project inspector or cost engineer, acceptable to Lender. Such costs shall not exceed \$2,500.00 for the initial inspection and \$500.00 each for subsequent inspections.

5.7 **Authorized Signatures.** Any one (1) of the following persons, by their specimen signatures as set forth below, are hereby designated by Borrower as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Borrower, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person(s) authorized to sign such requests:

Name	Signature
James C. Gianulias	

- 5.8 **Trust Funds.** Borrower covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Borrower.
- 5.9 **Non-Liability of Lender.** Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Borrower acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Borrower further acknowledges that disbursements hereunder may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE VI - BORROWER'S COVENANTS

- 6.1 **Progress of Construction.** Borrower shall commence construction of the Project not later than February 28, 2005 and agrees to continue such construction diligently until completion (subject to Force Majeure), and in a workmanlike manner. In any and all events Borrower shall complete the Project and record a valid Notice of Completion for the Project on or before the "Maturity Date" under the Note (subject to Force Majeure), all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The materials used on the Project shall be of the quality called for by the Plans and Specifications.
- 6.2 **Offsite Improvements.** Borrower agrees promptly to commence and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of improvement of the Project. Borrower expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.
- 6.3 **Changes to Plans and Specifications.** Borrower agrees that no material change in the Plans and Specifications shall be made without first obtaining the written consent of Lender. Any changes desired by Borrower which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the plans and specifications and/or working drawings applicable to the changes. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost of the Project, and Lender shall have the right to require Borrower to deposit additional funds with Lender to pay for such changes. Any such changes shall be deemed approved if no response is received by Lender within twenty (20) days after receipt of all necessary documents.
- Borrower acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Borrower consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Borrower shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.
- 6.4 **Notice of Casualty.** Borrower shall give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Borrower to complete the Project.

- 6.5 **Use of Materials.** All materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.
- 6.6 **Construction Schedules; Limitation on Funding.** From time to time during the course of construction not more frequently than quarterly except during the continuance of a default), within ten (10) days after request by Lender, Borrower shall furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees, interest during construction, and contractor's overhead.
- 6.7 Intentionally deleted.
- 6.8 **Watchmen.** Borrower shall provide such watchmen and take such other measures to protect the physical security of the Property as Lender may determine advisable.
- 6.9 **Transfer of Property.** Except for a Permitted Transfer, Borrower will not transfer the Property.

ARTICLE VII - INSPECTIONS

- 7.1 **Construction Work.** Lender, through its officers, agents and employees, shall have the right at any time and from time to time, during regular business hours, with prior notice to Borrower, to enter upon the Property and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof to the extent that the same may relate to the Property or the Project. Borrower shall pay all costs associated with Lender or Lender's agents' inspection of the Project.
- 7.2 **Non-Conformance.** If Lender determines that any work or materials are not in conformity with the Plans and Specifications as approved by Lender, or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.
- 7.3 **No Duty.** It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.
- 7.4 **Independent Cost Analyses.** Borrower will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may require, and shall deliver forthwith to Lender true and correct copies of all inspections or cost analyses prepared or made by or for Borrower.

ARTICLE VIII - EXCULPATORY PROVISIONS

Borrower acknowledges, understands and agrees as follows:

- 8.1 **Status as Lender.** The relationship between Borrower and Lender is, and shall at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility or duty to Borrower to select, review, inspect, supervise, pass judgment upon or inform Borrower of the quality, adequacy or suitability of the following:
- (a) The Plans and Specifications or amendments, alterations and additions thereto;
 - (b) Architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or
 - (c) The progress or course of construction and its conformance or non-conformance with the Plans and Specifications or amendments, alterations and changes thereto.
- 8.2 **Defective Construction.** Lender owes no duty of care to protect Borrower against negligent, faulty, inadequate or defective building or construction.
- 8.3 **Non-Liability.** Lender shall not be responsible or liable to Borrower for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Borrower or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Borrower shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.
- 8.4 **No Representation.** By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.
- 8.5 **Brokers' Fees.** Borrower agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan, as a result of agreement of Borrower or any party directly or indirectly related to Borrower, it being understood that any such commission, charge or brokerage fees will be paid directly by Borrower to the party(ies) entitled thereto.
- 8.6 **Construction.** Lender shall in no way be liable for any acts or omissions of Borrower, or any agent, contractor or other person furnishing labor and/or materials used in relation to such construction.
- 8.7 **Indemnity.** Borrower agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged

damage or injury of whatsoever nature arising out of or in any way connected with the Property, (b) the construction of the Project, including without limitation, any defective workmanship or materials, (c) Lender's performance of any act permitted under the Loan Documents (as that term is defined in the Construction Deed of Trust) unless arising out of Lender's willful misconduct, (d) breach of any representation or warranty made by Borrower or any obligation of Borrower contained in this Agreement, and (e) any allegation that Lender is liable for any act or omission committed by or on behalf of Borrower in connection with the ownership, operation or development of the Property and the Project provided, however, that Borrower shall not be liable for Lender's failure to perform Lender's obligations in connection with the Loan, or gross negligence or misconduct of Lender in connection with the Loan. Upon demand by Lender, Borrower shall defend any action or proceeding brought against Lender covered by this indemnity, at Borrower's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Borrower, in which event all fees and costs of such defense shall be paid by Borrower upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE IX - TAXES AND ASSESSMENTS

Borrower shall pay, at least five (5) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand, Borrower shall, until all indebtedness secured by the Security Documents has been paid in full, if the Loan is in default, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same, respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall not bear interest, may be commingled with the general funds of Lender, and shall, unless Borrower is otherwise in default hereunder or under the Note or Security Documents, be released to Borrower for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Borrower is in default thereunder.

ARTICLE X - PROTECTION AGAINST LIENS

- 10.1 **Paid Claims.** Borrower agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan funds. Borrower irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note, or the Security Documents.
- 10.2 **Release of Liens.** Upon demand by Lender, Borrower shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Borrower shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Borrower to pay any claims for labor, materials, or services which Borrower in good faith disputes and which Borrower, at its own

expense, is currently and diligently contesting; provided that Borrower shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

10.3 **Notices of Lien.** Borrower agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Borrower and (b) to the Property, addressed to "CALIFORNIA NATIONAL BANK" or to "Construction Lender" shall be promptly delivered to Lender. Borrower further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

10.4 **Payment of Costs.** Borrower shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Borrower shall pay:

- (a) All fees and commissions lawfully due to any brokers as a result of agreement of Borrower or any party directly or indirectly related to Borrower and all reasonable fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;
- (b) All taxes and recording expenses;
- (c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and
- (d) All reasonable costs, charges, and expenses agreed to be paid by Borrower and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE XI - REMOVAL OF PERSONALTY; PAYMENT OF SALES DEPOSITS

11.1 **Removal of Personalty.** Borrower agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Borrower will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Borrower, free and clear of any lien or security interest.

11.2 **Intentionally deleted.**

ARTICLE XII - BOOKS AND RECORDS

12.1 **Books of Account.** Borrower shall maintain full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with generally accepted accounting principles consistently applied or tax basis accounting, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time, such financial data as Lender shall reasonably request relating to the ownership or operation of the Property.

12.2 **Working Drawings.** Borrower shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

12.3 **Financial Information.** Borrower understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers and guarantors. Accordingly, Borrower hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

- (a) As soon as available and in any event, no later than ninety (90) days following the end of Borrower's fiscal year, a copy of Borrower's annual Financial Statements for the year ended, prepared by Borrower in form and substance acceptable to Lender;
- (b) As soon as available and in any event, no later than fifteen (15) days after the filing date, giving effect to extensions for the tax reporting period ended, a copy of Borrower's federal income tax returns, prepared by a tax professional satisfactory to Lender, including schedules, K-1's and exhibits;
- (c) As soon as available and in any event, no later than sixty (60) days following the end of Cameo Homes, a California corporation ("Cameo Homes") fiscal year, a copy of Cameo Homes annual Financial Statements for the year ended, prepared by Guarantor Cameo Homes in form and substance acceptable to Lender;
- (d) As soon as available and in any event, no later than ninety (90) days following the end of James C. Gianulias ("Gianulias") fiscal year effective December 31st of such year, a copy of Gianulias annual Financial Statements representing both personal and business investments assets and liabilities for the year ended, prepared by Gianulias in form and substance acceptable to Lender; and
- (e) As soon as available and in any event, no later than fifteen (15) days after the applicable filing date for the tax reporting period ended, giving effect to extensions filed a copy of Guarantor's federal income tax returns, prepared by a tax professional satisfactory to Lender, including schedules, K-1's and exhibits.

Borrower further agrees that the failure of Borrower to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

12.4 **Property Information.** Borrower shall submit to Lender the following, in form and substance satisfactory to Lender:

- (a) Financial and operating statements of the Property, within 60 days after end of each year, setting out in reasonable detail income and expenditures from the ownership and operation of the Property, depreciation charges and net income before and after federal income taxes.

12.5 **Appraisals.** Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Lender shall obtain at Borrower's expense, at a commercially reasonable cost, and as promptly as possible an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its sole discretion.

12.6 **Lender Audit Rights.** Lender and its agents and representatives shall have the right to inspect and audit all books and records of Borrower pertaining to the statements, reports and information

required under this Article 12 in order to obtain and verify such information as Lender deems necessary or appropriate, in its reasonable judgement, in the normal course of business. The cost of any and all such inspections and audits shall be paid by Borrower. Lender shall also have the right to examine copy and audit the books, records and accounting data and other documents of Borrower's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Borrower reasonable notice prior to exercising its rights hereunder.

- 12.7 **Further Assurances.** Borrower, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further instruments (including, without limitation, a declaration of no set-off) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XIII - DEFAULT

- 13.1 **Events of Default.** The occurrence of any of the following shall be deemed an "Event of Default" under this Agreement:

- (a) Subject to Force Majeure, if Borrower does not proceed with the erection and completion of the Project as herein provided; or
- (b) If any of the warranties or representations made by Borrower herein or in the Note, Security Documents or other documents executed by Borrower in connection with the Loan were false or misleading in any material respect when made; or
- (c) If Borrower should default in the performance of or breach any of the terms, covenants and provisions contained in this Agreement or in the Note or Security Documents (without cure during any applicable Grace Period); or
- (d) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due to Force Majeure, then Borrower shall not be deemed in default under this subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within ninety (90) days, (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note or any of the Security Documents, and (iii) the deadline for completion in Section 6 hereof shall not be extended in any event; or
- (e) If Borrower should commit any act of bankruptcy or if any relief under the Bankruptcy Act is sought by or against Borrower, or if a receiver is appointed to take charge of the assets or affairs of Borrower, or if Borrower should make an assignment for the benefit of creditors, or if Borrower should become insolvent, or upon any liquidation or termination of Borrower or its general partner; or
- (f) Except as specifically allowed in this Agreement, if Borrower shall convey title to or any interest in any of the Property; or
- (g) Should any condition or circumstance arise or exist at any time by reason of governmental order, decree, regulation, shortage of materials, or for any other reason whatsoever, which would prevent or preclude the construction and completion of the Project in compliance with the Plans and Specifications in an orderly and expeditious manner; or

- (h) If Lender should determine that said work is not in conformance with the Plans and Specifications (as the same may be revised and approved by Lender pursuant to Section 6.3 hereof) and the terms of this Agreement, in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it, and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender (unless said work cannot reasonably be completed within such thirty (30) day period and Borrower has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding sixty (60) days shall be granted); or
- (i) The filing of a notice of judgment lien against Borrower, or the recording of any abstract of judgment against Borrower, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower, or the entry of a judgment, order or decree against Borrower, any or all of which would have a material and adverse effect upon Borrower's ability to perform under this Agreement or the Security Documents; or
- (j) The Construction Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation of the Construction Deed of Trust; or
- (k) Borrower shall default under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other material instrument executed in connection with the development of the Project; or
- (l) If Borrower defaults in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument pursuant to which Borrower has incurred any debt or other liability to any person or entity, including without limitation, Lender which default is not cured within any grace and cure period expressly provided in such contract or instrument.

ARTICLE XIV - REMEDIES

14.1 **Remedies Upon Default.** Upon or at any time after the happening of any Event of Default hereunder, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, shall have the following rights and remedies:

- (a) Declare such of the Funds which have previously been disbursed by Lender under the provisions hereof to be due and payable and terminate any obligation of Lender to disburse the remainder of the Loan proceeds under the provisions hereof and proceed as authorized by law to satisfy the indebtedness of Borrower to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Borrower of the obligations evidenced by said Note and by this Agreement.
- (b) Take possession of the Property and let contracts for or proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be

considered and be an additional loan to Borrower and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Borrower agrees to pay the same. Borrower further hereby authorizes Lender at its option at any time, either in its own name or in the name of Borrower, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

- (c) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any Impounds shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the beneficiary or trustee under the Construction Deed of Trust.
- (d) Upon the happening of any default contemplated herein which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of Lender's own funds shall not, however, be deemed to cure such default by Borrower, and the same shall not be so cured unless and until Borrower shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount which Lender determines to be necessary to provide for such completion shall be deposited by Borrower pursuant to the terms of Section 4.8 hereof. If Lender advanced its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Borrower shall immediately upon demand reimburse Lender with interest at the default rate provided for in the Note from the date of such advance until the date of reimbursement.

14.2 **Remedies Cumulative.** All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

14.3 **Contest of Third Party Claims.** Notwithstanding anything to the contrary herein contained, Borrower shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder.

Upon demand by Lender, Borrower shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Borrower or the adverse claimant.

- 14.4 **No Waivers.** No waiver by Lender of any default or breach by Borrower hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XV – Intentionally deleted

ARTICLE XVI – Intentionally deleted

ARTICLE XVII – Intentionally deleted

ARTICLE XVIII - SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XIX - ASSIGNMENT

- 19.1 **Borrower's Assignment.** Borrower shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon without the prior written consent of Lender. Notwithstanding the foregoing, in the event of any such assignment, conveyance or encumbrance, Lender may nevertheless at its option continue to make disbursements under this Agreement to Borrower or to those who succeed to Borrower's title, and all sums shall be deemed to be disbursements under this Agreement, and not to be modifications hereof, and shall be secured by the Security Documents.
- 19.2 **Lender's Assignment.** Lender may at any time assign this Agreement, the Note, Security Documents, and the Impounds, and upon such assignment, and assumption by the assignee, Lender shall have no further obligation or liability of any nature in connection herewith. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, the Security Documents and the Impounds.
- 19.3 **Participation.** Borrower understands that Lender may transfer and assign its interest in the Loan, this Agreement and the Security Documents, pledge its interest in the Loan, this Agreement and the Security Documents or grant or sell participations in some or all of Borrower's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents

and information relating to the Loan. Borrower shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XX - ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS, LLC IN CALIFORNIA PURSUANT TO THE JAMS, LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

- (a) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT:
 - (i) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
 - (ii) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;
- (b) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;
- (c) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT BORROWER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST BORROWER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS, LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, BORROWER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Borrower's Initials


Lender's Initials

ARTICLE XXI - MISCELLANEOUS

- 21.1 **Amendment.** This Agreement, the Security Documents and the Note, and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.
- 21.2 **Return of Documents.** If the Loan is not consummated within thirty (30) days after the date hereof, Borrower shall return all documents and instruments to Lender upon demand.
- 21.3 **Regulatory Restrictions.** It is understood and agreed by Borrower that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including but not limited to legal lending requirements.
- 21.4 **Notices.** All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

Lender: CALIFORNIA NATIONAL BANK
221 South Figueroa, 4th Floor
Los Angeles, CA 90012-2552
Attn: Denise Schulz, Senior Vice President/Manager

Borrower Murrieta 180 Apartments L.P.
1105 Quail Street
Newport Beach, California 92660
Attn: James C. Gianulias

or such other address as shall, from time to time, be supplied in writing by any party to the others. The failure of Lender to provide any courtesy copy notice hereunder shall in no event invalidate any notice otherwise given to Borrower in accordance herewith. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. postal service or courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

- 21.5 **Time of Essence.** Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.
- 21.6 **No Third Parties Benefited.** This Agreement is made for the sole benefit and protection of Borrower and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.
- 21.7 **Actions.** Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Borrower agrees to pay the same.
- 21.8 **Reliance on Representations.** Lender may conclusively assume that the statements, acts, information and representations made by Borrower or its agents contained in any affidavits, orders, receipts or other written instruments which are filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.
- 21.9 **Relationship.** Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.
- 21.10 **Headings.** The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.
- 21.11 **Governing Law.** This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.
- 21.12 **Attorneys' Fees and Costs.** If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.
- 21.13 **Signs.** Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.
- 21.14 **Nondiscrimination.** During the term of this Agreement, neither Borrower, its respective partners, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or prospective purchaser of a Lot or Unit, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900 et seq. of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0 et seq.), the Unruh Civil Rights Act and

the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

THE SPACE BELOW IS INTENTIONALLY LEFT BLANK.

IN WITNESS WHEREOF, Borrower and Lender have hereunto caused these presents to be executed on the date first above written.

"LENDER"

CALIFORNIA NATIONAL BANK,
a national banking association

By:


Denise Schulz, Senior Vice President/Manager
Los Angeles Commercial Real Estate Lending

"BORROWER"

MURRIETA 180 APARTMENTS L.P.,
a California limited partnership

BY: MURRIETA 180 APARTMENTS LLC,
a California limited liability company
Its: General Partner

BY: CAMEO HOMES,
a California corporation
Its: Manager

By:


James C. Gianullias, President

EXHIBIT "A"
LEGAL DESCRIPTION

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

All that portion of Lots 188 and 190, Webster Avenue and Clinton Avenue, and a portion of the Murrieta Portion of the Temecula Rancho as shown by Map of the Temecula Land and Water Company, on file in book 8 page 359 of Maps, Records of San Diego County, California, described as follows:

Beginning at the Northeast corner of Parcel 2 of Parcel Map 14373 as shown by Map on file in book 91 pages 14 and 15 of Maps, Records of Riverside County, California, said corner being on the Southerly line of Murrieta Hot Springs Road as conveyed to the County of Riverside by Deed recorded August 4, 1972 as instrument no. 104362 of Official Records of Riverside County, California;

Thence Easterly along said Southerly line of a non-tangent curve concave Southerly having a radius of 956.00 feet, through an angle of 01 degrees 96' 44" an arc length of 18.56 feet (the initial radial line bears North 13 degrees 24' 32" East); Thence South 75 degrees 28' 44" East continuing along said Southerly line, a distance of 570.00 feet to the Northwest corner of Lot 72 of Tract No. 4476 as shown by Map on file in book 72 pages 47 through 52, inclusive, of Maps, Records of Riverside County, California;

Thence South 14 degrees 31' 16" West, a distance of 130.00 feet;

Thence South 70 degrees 31' 16" West, a distance of 100.00 feet;

Thence South 27 degrees 02' 36" East, a distance of 203.92 feet;

Thence South 05 degrees 16' 12" West, a distance of 106.50 feet;

Thence South 43 degrees 41' 50" West, a distance of 212.00 feet;

Thence South 15 degrees 01' 16" West, a distance of 233.87 feet;

Thence South 01 degrees 57' 30" West, a distance of 82.38 feet;

Thence North 88 degrees 02' 30" West, a distance of 199.62 feet;

Thence North 01 degrees 57' 30" East, a distance of 150.00 feet;

Thence North 88 degrees 02' 30" West, a distance of 104.32 feet;

Thence North 26 degrees 00' 00" West, a distance of 142.64 feet;

Thence North 11 degrees 39' 56" West, a distance of 110.00 feet;

Thence North 12 degrees 47' 21" East, a distance of 168.53 feet to the Northeast corner of Lot 50 of said Tract No. 4476, said corner also being the Southeast corner of Lot 1 of Tract No. 4986 as shown by Map on file in book 81 pages 36 and 37 of Maps, Records of Riverside County, California;

The preceding thirteen (13) courses being along the boundary line of said Tract No. 4476;

Thence continuing North 12 degrees 47' 21" East along the Easterly line of said Lot 1, a distance of 156.47 feet;

Thence North 07 degrees 02' 13" West continuing along said Easterly line, a distance of 160.00 feet to the Northeast corner of said Lot 1, said corner also being the Southeast corner of Lot 45 of said Tract No. 4476;

Thence continuing North 07 degrees 02' 13" West along the Easterly line of said Lot 45, a distance of 80.00 feet to the Northeast corner of said Lot 45, said corner also being the Southeast corner of said Parcel 2 of Parcel Map 14373;

Thence North 13 degrees 24' 32" East along the Easterly line of said Parcel 2, a distance of 107.33 feet to the point of beginning.

APN: 913-160-040-4

Exhibit 2

BEG Homes, LLC

Claim \$1,363,000

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated May 10, 2006 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Promissory Note dated May 10, 2006 (as amended, modified, and/or supplemented, the "Note"), by which Cal National lent BEG Homes, LLC (the "Borrower") the stated principal amount of \$1,363,000 pursuant to the Note. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loan.

On January 9, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; (iii) Breach of Note; (iv) Breach of Written Guaranty of Secured Loan; and (v) Breach of Written Guaranty of Unsecured Loan in the Superior Court of the State of California for the County of Riverside, Case No. RIC 489827, against the Debtor as defendant concerning, the Cal National Guaranty.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$655,525.77 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Note to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Note. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date

Principal Outstanding	at least \$587,376.07
Accrued Interest	at least \$64,018.17
Other Fees	at least \$4,131.53
 Amount of Claim	 at least <u>\$655,525.77</u>

EXHIBIT B

1. Guaranty Agreement dated May 10, 2006, by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
2. Promissory Note dated May 10, 2006.

Exhibit B -1

GUARANTY AGREEMENT
(\$1,363,000 Loan)

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of the 10th day of May 2006, is hereby given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (collectively "Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. BEG, LLC, a California limited liability company ("Borrower"), has agreed to borrow the principal sum of One Million Three Hundred Sixty-Three Thousand Dollars (\$1,363,000) (the "\$1,363,000 Loan") from Lender for the purpose of partially paying down a \$12,575,000 construction loan made by Lender to Borrower in May 2005 (the "\$12,575,000 Construction Loan") in connection with the development of residential real property located in the unincorporated area of Wildomar, county of Riverside, California (the "Property"). The \$12,575,000 Construction Loan is evidenced by, among other documents, that certain Construction Loan Agreement dated May 24, 2005 (the "\$12,575,000 Construction Loan Agreement"), and that certain Construction Deed of Trust Note dated May 24, 2005 (the "\$12,575,000 Construction Note").

B. The \$1,363,000 Loan is evidenced by a Promissory Note of even date herewith given by Borrower to Lender (the "\$1,363,000 Note"), and is made in conjunction and concurrently with a construction loan by Lender to Borrower in the amount of \$12,670,000 (the "\$12,670,000 Construction Loan") made to aid Borrower in the construction of 4 model homes and 27 single-family homes on the Property. The \$12,670,000 Construction Loan is governed by that certain Construction Loan Agreement (the "\$12,670,000 Construction Loan Agreement") of even date herewith by and between Borrower and Lender, which \$12,670,000 Construction Loan is further evidenced and secured by various documents and instruments (collectively, the "\$12,670,000 Construction Loan Documents"), which include that certain Construction Deed of Trust Note of even date herewith in the amount of \$12,670,000 (the "\$12,670,000 Construction Note"). The \$12,670,000 Construction Loan Agreement provides that certain of the covenants set forth therein shall apply to the \$1,363,000 Loan in the event that the \$12,670,000 Construction Loan is fully paid and satisfied at a time when any balance remains outstanding under the \$1,363,000 Note. The \$12,575,000 Construction Note, the \$12,670,000 Construction Note, and the \$1,363,000 Note are all cross-defaulted each with the other such that a default

under any of them (beyond applicable cure periods) shall constitute a default under the others.

C. Lender is willing to make the \$1,363,000 Loan if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in making the \$1,363,000 Loan. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from the \$1,363,000 Loan, desires to enter into this Guaranty to induce Lender to make the \$1,363,000 Loan.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender to any other party, all amounts owing to Lender under the \$1,363,000 Note and any other instruments or documents evidencing or securing the \$1,363,000 Loan (all such documents collectively referred to as the "\$1,363,000 Loan Documents" and the amounts owing thereunder collectively referred to as the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the \$1,363,000 Note and any other \$1,363,000 Loan Documents.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions, whether such other guarantors are included as a "Guarantor" hereunder or not. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) to amend any provision of the \$1,363,000 Note, the \$1,363,000 Loan Documents or the \$12,670,000 Construction Loan Agreement or the \$12,670,000 Construction Loan Documents or any other documents evidencing or securing the \$1,363,000 Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the \$1,363,000 Note, the \$1,363,000 Loan Documents or the \$12,670,000 Construction Loan Agreement or the \$12,670,000 Construction Loan Documents or any other documents evidencing or securing the \$1,363,000 Loan from Lender, or for any modification of the terms thereof, or (c) to make any modifications to or under the \$12,575,000 Construction Loan Agreement or the \$12,575,000 Construction Note. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other

defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the \$1,363,000 Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the \$1,363,000 Note or other \$1,363,000 Loan Documents by operation of law or otherwise; or (e) any modification of the \$1,363,000 Note or other \$1,363,000 Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the \$1,363,000 Note, the other \$1,363,000 Loan Documents or any part thereof, including increase or decrease of the rate of interest thereon. Until all sums due by Borrower to Lender under the \$1,363,000 Loan, the \$12,575,000 Construction Loan and the \$12,670,000 Construction Loan shall have been paid in full, Guarantor shall have no right of subrogation against Borrower. Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's obligations under the \$1,363,000 Note.

c. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California Civil Code.

d. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

e. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

f. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the \$1,363,000 Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the \$1,363,000 Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the \$1,363,000 Note and any other \$1,363,000 Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the \$1,363,000 Note and the other \$1,363,000 Loan Documents, as well as any amounts owing under the \$12,670,000 Loan and the \$12,575,000 Loan. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under the \$1,363,000 Loan, the \$12,670,000 Loan and the \$12,575,000 Loan have been paid in full, and this provision shall survive the termination of this Guaranty.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor as of the date on which, and the results of Guarantor's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or

conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the \$1,363,000 Note and all of the other \$1,363,000 Loan Documents and any other documents executed in connection with the \$1,363,000 Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become due pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in accordance with this paragraph. If any notice, request, demand, direction or other communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor:	JAMES C. GIANULIAS
	CAMEO HOMES
	1105 Quail Street
	Newport Beach, CA 92660

If to Lender: **CALIFORNIA NATIONAL BANK**
4901 Birch Street, Suite B
Newport Beach, CA 92660

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the \$1,363,000 Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the \$1,363,000 Note.

13. Context and Construction; Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE \$1,363,000 NOTE OR UNDER ANY OTHER \$1,363,000 LOAN DOCUMENTS.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Guarantors' Initials



Lender's Initials

18. Joint and Several Liability.

The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Guaranty is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each independently to enforce the terms and conditions of this Guaranty.

19. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for \$1,363,000 Guaranty Agreement

IN WITNESS WHEREOF, Guarantors hereunder have executed this Guaranty as of the date first above written.

GUARANTORS:

G Companies Homebuilding, LLC, a
California limited liability company

By: CAMEO HOMES, a California
corporation, Manager

By: 
James C. Gianulias, President

CAMEO HOMES, a California
corporation,

By: 
James C. Gianulias, President


James C. Gianulias, Individually

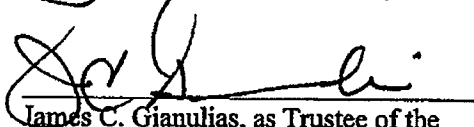

James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

Exhibit B -2

PROMISSORY NOTE

\$1,363,000
Loan No.: 7600004033

May 10, 2006
Newport Beach, California

FOR VALUE RECEIVED, the undersigned (together with their permitted successors and assigns being herein referred to collectively as "Maker"), (and hereinafter referred to in the singular, whether one or more), promises to pay to the order of CALIFORNIA NATIONAL BANK, a national banking association, its successors or assigns or any subsequent holder (hereinafter sometimes collectively referred to as "Payee") of this Promissory Note ("Note"), at 1301 Dove Street, Suite 101, Newport Beach, California 92660-2458, or at such other place as Payee may designate in writing, the principal sum of One Million Three Hundred Sixty-Three Thousand Dollars (\$1,363,000), with interest thereon as set forth below.

The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the Wall Street Journal Prime Rate (the "Index"). The Index is not necessarily the lowest rate charged by Payee on its loans. If the Index becomes unavailable during the term of this loan, Payee may designate a substitute index after notice to Maker. Interest shall accrue on the principal from time to time outstanding at a rate of 150 basis points (1.50%) over the Index. Any change in the Index shall result in a change in the rate of interest payable under this Note, effective on the date of each such change, without notice to Maker. The interest payable under this Note shall be computed on the basis of a 360-day year, but accrue on the actual number of days elapsed. Interest shall accrue under this Note only upon such sums as shall be advanced hereunder, as of the date of advancement, and upon such other amounts as may be owing to Payee under any instrument securing payment of this Note. Upon funding of this loan (the "Loan"), Payee shall allocate and disburse from the proceeds of that certain \$12,670,000 construction loan made by Payee to Maker (the "Construction Loan"), a sum equal to \$20,400 (1.50%) as a Loan fee ("Loan Fee") for this Loan.

Interest only shall be payable monthly as it accrues on the principal from time to time outstanding, commencing on April 1, 2006 (which first payment shall include any interest accrued during the months of February and March 2006) and continuing on the first day of each month thereafter. The balance of said principal sum with all unpaid interest thereon and any unpaid late charge or other sums owing to Payee hereunder shall be due and payable in full on the date which is eighteen (18) months after the recordation of that certain First Amendment to Construction Deed of Trust entered into between Maker and Payee in connection with the Construction Loan (the "Maturity Date"). Maker acknowledges that there is no interest reserve established for this Loan and Maker must itself fund all payments of interest due hereunder.

In addition to interest payments, Maker shall make principal payments against the outstanding principal balance in accordance with the provisions of Section 15.05 of that certain Construction Loan Agreement of even date herewith, by and between Maker and Payee. Maker shall have no right to re-borrow any amounts paid against principal.

All installments of interest and payments of principal under this Note shall be payable in lawful money of the United States of America without offset or deduction of any kind. Payment by check shall be credited only when collected by Payee, and payment by wire transfer or other means shall be credited only when actually received by Payee. All payments made hereunder shall be applied first to any late charges or other expenses, premiums, or fees due hereunder, next to unpaid interest due hereunder, and last to any unpaid principal due or outstanding.

Maker may prepay in whole or in part the principal amount outstanding under this Note, together with accrued and unpaid interest thereon computed to the date of prepayment and any unpaid late charge or other sums owing to Payee hereunder, without penalty or premium. Maker shall have no right to re-borrow any amount prepaid. Any principal prepaid pursuant hereto shall be applied to principal due in inverse order of maturity. Prepayments received by Payee after 11:30 a.m. shall be deemed and treated as received on the next following business day.

In the event, and if for any reason, this Note is not paid in full on or before the Maturity Date, and Payee elects not to immediately proceed with enforcement proceedings, whether by formal or informal agreement, Maker shall pay to Payee a fee which is to be established at the Maturity Date, for each consecutive thirty (30) day period or any portion thereof after the Maturity Date, in addition to the interest provided, which fee shall be equal to the proportionate amount of the Loan Fee.

The occurrence of any of the following shall constitute an Event of Default under this Note:

- (i) failure to pay any installments due hereunder within ten (10) days of when due;
- (ii) failure to perform or comply with any of the covenants or agreements contained herein, or in any instrument securing payment of this Note, provided that with respect to any failure to perform or comply with any non-monetary covenant or agreement, so long as such failure is susceptible to cure, Maker shall be entitled to thirty (30) days written notice from Payee of such failure before such failure shall constitute an Event of Default. Provided further, if the non-monetary failure is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Maker or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure. In no event shall any such grace period extend the maturity date hereof; or
- (iii) any "Event of Default" (beyond applicable cure periods) under (a) that certain \$12,575,000 Construction Loan Agreement dated May 24, 2005, by and between Payee and Maker, or any document entered into in connection therewith, including, but not limited to, that certain \$12,575,000 Construction Deed of Trust Note of even date therewith given by Maker in favor of Payee, or (b) that certain \$12,670,000 Construction Loan Agreement of even date herewith by and between Payee and Maker, or any document entered into in connection therewith, including, but not limited to, that certain \$12,670,000 Construction Deed of Trust Note of even date therewith given by Maker in favor of Payee.

Upon the occurrence of an Event of Default, and, at the option of Payee, the entire debt then remaining unpaid at once shall become due and payable. During the period commencing with any such Event of Default and continuing until such Event of Default is cured, the interest rate hereunder shall be eighteen percent (18%) per annum, whether or not the aforesaid option has been exercised.

In addition to and without limitation on any other rights or remedies Payee may have hereunder or at law or in equity, if Maker shall fail to make any payment of interest or principal within ten (10) days after the date the same is due and payable, a late charge by way of damages shall be immediately due and payable. Maker recognizes that default by Maker in making the payments herein agreed to be paid when due will result in Payee incurring additional expense in servicing the loan, in loss to Payee of the use of the money due and in frustration to Payee in meeting its other financial and loan commitments. Maker agrees that, if for any reason Maker fails to pay the amounts due under this Note within ten (10) days of when due, Payee shall be entitled to damages for the detriment caused thereby, but that it is extremely difficult and impractical to ascertain the extent of such damages. Maker therefore agrees that a sum equal to five cents (\$.05) for each one dollar (\$1.00) of each payment which becomes delinquent is a reasonable estimate of said damages to Payee, which sum Maker agrees to pay on demand.

If this Note is not paid when due, whether at the Maturity Date or by acceleration as hereinabove provided, Maker promises to pay all costs of collection and all expenses incurred for the protection of or realization upon any collateral securing this Note; such costs and expenses shall include, without limitation, all costs, expenses and attorneys' fees incurred by Payee in connection with any insolvency, bankruptcy, reorganization, arrangement or other similar proceedings involving any person or entity liable for the payment of this Note or having rights in any collateral securing payment of this Note. Maker further promises to pay all costs, expenses and attorneys' fees incurred by Payee in connection with any default hereunder and in any proceeding brought to enforce any of the provisions of this Note. All such sums shall bear interest from the date incurred by Payee until paid at the default interest rate set forth hereinabove.

Should interest under this Note or any late charge, fees, expenses or any other sums owing to Payee not be paid in full when due, the amount thereof shall be added to the principal amount outstanding under this Note and thereafter shall bear like interest as principal.

Upon the happening of any Event of Default hereunder which may be cured by payment of money, Payee shall have the right, but not the obligation, and without limitation as to any other rights or remedies of Payee, to make such payment from its own funds on Maker's behalf. The making by Payee of such payment from its own funds shall not be deemed to cure such default hereunder by Maker. If Payee advances its own funds for such purposes, such funds shall be considered additional advances under this Note and shall be secured by any security instruments securing this Note. Maker shall immediately upon demand reimburse Payee for any such advances, with interest thereon at the default interest rate set forth hereinabove from the date of such advance until the date of reimbursement.

This Note inures to and binds the heirs, successors and assigns of Maker and Payee. Maker understands that Payee may transfer and assign its interest in this Note, pledge its interest in this a Note or grant or sell participations in some or all of Maker's indebtedness outstanding under this Note. In connection with any such transaction, Payee may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the loan evidenced by this Note. If Payee so requests, Maker shall sign and deliver a new note to be issued in exchange for this Note. Maker may not assign any rights or obligations under this Note without Payee's prior written consent, which consent may be withheld in Payee's sole discretion.

If any provision of this Note is held to be invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Note shall remain in full force and effect and shall be liberally construed in favor of the Payee in order to effect the provisions of this Note. In addition, in no event shall the rate of interest payable under this Note exceed the maximum rate of interest permitted to be charged by applicable law (including the choice of law rules), and any interest paid in excess of the permitted rate shall be refunded to Maker. Such refund shall be made by application of the excessive amount of interest paid against any sums outstanding. If the excessive amount of interest paid exceeds the sums outstanding, the portion exceeding the sums outstanding shall be refunded in cash by Payee. Any such crediting or refund shall not cure or waive any default by Maker hereunder.

Maker and any guarantors and sureties hereof severally waive presentment, protest and demand, notice of protest, demand and of dishonor and non-payment of this Note, waive the right to plead any and all statutes of limitation as a defense to any demand under this Note, and expressly agree that this Note, or any payment hereunder, may be extended from time to time without in any way affecting the liability of the Maker, said guarantors and sureties hereof. The obligations of Maker and all guarantors and sureties hereof shall be joint and several, and all words used herein in the singular shall be deemed to have been used in the plural when the context and construction so require.

No previous waiver and no failure or delay in acting by Payee with respect to any of the terms hereof or of any instrument securing payment of this Note shall constitute a waiver of any breach, default or failure or condition under this Note or any instrument securing payment hereof. The acceptance by Payee of any payments under this Note in an amount less than the amount due and owing or after the date that such payment is due shall not constitute a waiver of the right to require prompt and full payment when due of future or succeeding payments or to declare a default as herein provided.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS NOTE SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND

SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT PAYEE FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; AND THE FILING OF SUCH ACTIONS BY PAYEE SHALL NOT:

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;


(B) LIMIT OR PROHIBIT PAYEE FROM EXERCISING ANY OF ITS RIGHTS AS PAYEE UNDER THIS NOTE INCLUDING THE USE OF ANY SET-OFF OR LIEN RIGHTS;

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT MAKER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST MAKER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS NOTE, MAKER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Maker's Initials



Payee's Initials

This Note is to be governed by and construed in accordance with the laws of the State of California. Time is of the essence with regard to each and every term, covenant, provision and condition of this Note.

This Note is secured by that certain Guaranty Agreement of even date herewith given by G Companies Homebuilding, LLC, a California limited liability company, Cameo Homes, a California corporation, James C. Gianulias, individually, and by James C. Gianulias, as Trustee of the James Chris Gianulias 1998 Trust, in favor of Payee. Maker agrees that Payee may accept additional or substitute security for this Note, or release any security or any party liable for this Note, or extend or renew this Note, all without notice to Maker and without affecting the liability of Maker.

MAKER:

BEG, LLC, a California limited liability company

By: G Companies Homebuilding, LLC, a
California limited liability company, Manager

By: CAMEO HOMES, a California
corporation, Manager

By: 
James C. Gianulias, President

Exhibit 3

BEG Homes, LLC

Claim \$7,112,734.78

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under those certain Guaranty Agreements dated May 24, 2005 (as amended, modified, and/or supplemented, the "May 24, 2005 Guaranty"), and May 10, 2006 (as amended, modified, and/or supplemented, the "May 10, 2006 Guaranty") the May 10, 2006 Guaranty together with the May 24, 2005 Guaranty are hereinafter referred to as the "Cal National Guaranties"), guarantying those certain Loan Agreements dated May 24, 2005 (as amended, modified, and/or supplemented, the "May 24, 2005 Agreement"), and May 10, 2006 (as amended, modified, and/or supplemented, the "May 10, 2006 Agreement") the May 24, 2005 Agreement together with the May 10, 2006 Agreement are hereinafter referred to as the "Loan Agreements") by which Cal National lent BEG Homes, LLC (the "Borrower") the stated principal amount of \$12,575,000 pursuant to the May 24, 2005 Loan Agreement, and an additional principal sum of \$12,670,000 pursuant to the May 10, 2006 Agreement. Pursuant to the terms of the Cal National Guaranties, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loans.

On January 9, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; (iii) Breach of Note; (iv) Breach of Written Guaranty of Secured Loan; and (v) Breach of Written Guaranty of Unsecured Loan in the Superior Court of the State of California for the County of Riverside, Case No. RIC 489827, against the Debtor as defendant concerning, the Cal National Guaranties. On May 7, 2008, the property was sold at public auction for \$6,328,000.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$7,112,734.78 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreements to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreements. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date – Loan Agreement

Balance due at Foreclosure Sale	at least \$13,440,734.78
Amount property sold for at Foreclosure Sale	\$6,328,000.00
Amount of Claim	at least <u>\$7,112,734.78</u>

WHEN RECORDED MAIL TO
BEG HOMES, LLC
C/O CALIFORNIA NATIONAL BANK
221 South Figueroa Street, MC 7504
Los Angeles, Ca 90012-2552
Attn: Jyotana Desai, Vice President

MAIL TAX STATEMENTS TO
SAME AS ABOVE

This is to certify that this is a true and correct copy
of the Original recorded
Instrument No. 08-248631
NORTH AMERICAN TITLE COMPANY
By NA
County of Riverside

Space above this line for recorder's use only

Trustee Sale No. 2007-CA004889 Loan No. 7600003830 AND 7600004023 Title Order No. 43-83335-65

TRUSTEE'S DEED UPON SALE AND BILL OF SALE

APN SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF
The undersigned grantor declares:

- 1) The Grantee herein was the foreclosing beneficiary.
- 2) The amount of the unpaid debt together with costs was.....\$13,440,734.78
- 3) The amount paid by the grantee at the trustee sale was.....\$6,328,000.00
- 4) The documentary transfer tax is.....\$NONE
- 5) Said property is in RIVERSIDE

and R.E.F.S. INC., A CALIFORNIA CORPORATION, as Trustee (herein called Trustee), as the duly appointed Trustee or substituted Trustee under the Deed of Trust hereinafter described, does hereby grant and convey, but without covenant or warranty, express or implied, to BEG HOMES, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY (herein called Grantee), all of its right, title and interest in and to that certain property situated in the County of RIVERSIDE, State of California, described as follows: FOR LEGAL DESCRIPTION SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

Situs: VACANT LAND, RIVERSIDE, CA
RECITALS:

This conveyance is made pursuant to the powers conferred upon Trustee by that certain Deed of Trust dated 05-24-2005 and executed by BEG, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, as Trustor, and Recorded 05-26-2005, Book N/A, Page N/A, Instrument 2005-0420355 of official records of RIVERSIDE County, California, and after fulfillment of the conditions specified in said Deed of Trust authorizing this conveyance.

Default occurred as set forth in a Notice of Default and Election to Sell which was recorded in the Office of the Recorder of said County, and such default still existed at the time of sale.

All requirements of law regarding the mailing of copies of notices or the publication of a copy of the Notice of Default or the personal delivery of the copy of the Notice of Default and the posting and publication of copies of the Notice of a Sale have been complied with.

Trustee, in compliance with said Notice of Trustee's Sale and in exercise of its powers under said Deed of Trust, sold the herein described property at public auction on 05-07-2008. Grantee, being

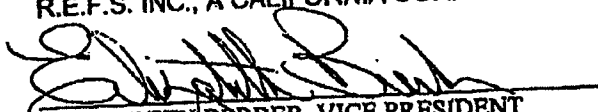
Trustee Sale No.: 2007-CA004889
Loan No.: 7600003830 AND 7600004023
Title Order No.: 43-83335-65

the highest bidder at said sale, became the purchaser of said property for the amount bid being \$6,328,000.00 in lawful money of the United States, or by credit bid if the Grantee was the beneficiary of said Deed of Trust at the time of said Trustee's Sale.

This sale was a unified sale of real and personal property. The undersigned further sells, transfers and conveys by quitclaim to grantee the personal property security and collateral under that certain Security Agreement dated 5/24/2005, by and between CALIFORNIA NATIONAL BANK, A NATIONAL BANKING ASSOCIATION and BEG, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY and that certain financing statement dated 5/24/2005 and filed in the Office of the Secretary of State as Instrument No. 057028444519 on 5/26/2005 and any amendments or modifications to either of them, as described in the Notice of Sale, and set forth below. Such sale on behalf of the Secured Party is "AS IS, WHERE IS" WITH ALL FAULTS, AND WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND.

DATE: May 8, 2008

R.E.F.S. INC., A CALIFORNIA CORPORATION, as said Trustee


ELIZABETH BERBER, VICE PRESIDENT

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

On MAY 8, 2008 before me, DANH N. LE, a Notary Public, personally appeared ELIZABETH BERBER, who 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..

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.


Notary Public in and for said County and State



EXHIBIT B

1. Guaranty Agreement dated May 24, 2005, by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
2. Construction Loan Agreement dated May 24, 2005.
3. Guaranty Agreement dated May 10, 2006, by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
4. Construction Loan Promissory Note dated May 10, 2006.

Exhibit B -1

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of the 24th day of May 2005, is hereby given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (collectively "Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. BEG, LLC, a California limited liability company ("Borrower"), has agreed to obtain a refinance and construction (manufacture of lots) loan from Lender in the principal sum of Twelve Million Five Hundred Seventy-Five Thousand Dollars (\$12,575,000) (the "Loan") to be secured by certain real property located in the unincorporated area of Wildomar, County of Riverside, California (the "Property").

B. The Loan is evidenced by a Construction Deed of Trust Note of even date herewith in the amount of Twelve Million Five Hundred Seventy-Five Thousand Dollars (\$12,575,000) given by Borrower to Lender (the "Note"), governed by a Construction Loan Agreement ("Construction Loan Agreement") by and between Borrower and Lender, and secured by a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Deed of Trust"), all of even date herewith, and which Loan is further evidenced and secured by additional documents of even date herewith ("Loan Documents").

C. Lender is willing to make the Loan if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in making the Loan. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from the Loan, desires to enter into this Guaranty to induce Lender to make the Loan.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower

guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender to any other party, all amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other instruments or documents evidencing or securing the Loan (the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with consent of Borrower, to amend any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, or for any modification of the terms thereof. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the Note or other Loan Documents by operation of law or otherwise; or (e) any modification of the Note or other Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the Note, the other Loan Documents or any part thereof, including increase or decrease of the rate of interest thereon. Until the Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation. Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's obligations under the Note (including without limitation Sections 726 and 580d of the California Code of Civil Procedure as from time to time amended). In addition, Guarantor waives all rights and protections of any kind which Guarantor may have for any reason which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial or judicial foreclosure of any security for the Indebtedness, including, without limitation, the right to any fair market value hearing pursuant to Section 580a of the California Code of Civil Procedure. Until the Indebtedness shall have been paid in full, Guarantor further

waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, any other guarantor or any other person, and waives any benefit of, or any right to participate in any security whatsoever now or hereafter held by Lender.

c. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (2) if Lender forecloses on any real property collateral pledged by Borrower: (a) The amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Guarantor further waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor specifically waives any and all defenses and rights that may be waived pursuant to Union Bank v. Gradsky (1968) 265 Cal.App. 2d 40, and any cases, statutes or authority subsequently interpreting such decision.

d. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California Civil Code.

e. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

f. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

g. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the Indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability thereunder.

h. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether

Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Note, the Construction Loan Agreement, the Deed of Trust, and/or any of the other Loan Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts,

things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under, the Note, the Loan Agreement, the Deed of Trust, and the other Loan Documents have been paid in full.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will

materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Construction Loan Agreement, the Deed of Trust, and all of the other Loan Documents and any other documents executed in connection with the Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

g. Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Property will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation on the Property shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in

accordance with this paragraph. If any notice, request, demand, direction or other communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor: **JAMES C. GIANULIAS**
 CAMEO HOMES
 1105 Quail Street
 Newport Beach, CA

If to Lender: **CALIFORNIA NATIONAL BANK**
 1301 Dove Street, Suite 101
 Newport Beach, CA 92660-2458

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the Note.

13. Context and Construction; Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE NOTE, THE CONSTRUCTION LOAN AGREEMENT, THE DEED OF TRUST, OR UNDER ANY OTHER LOAN DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DOCUMENT SECURING THE NOTE OR THIS GUARANTY, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.

Guarantors' Initials



Lender's Initials



18. Joint and Several Liability.

The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Guaranty is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each independently to enforce the terms and conditions of this Guaranty.

19. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for Guaranty Agreement

IN WITNESS WHEREOF, Guarantors hereunder have executed this Guaranty as of the date first above written.

GUARANTORS:

G Companies Homebuilding, LLC, a
California limited liability company

By: CAMEO HOMES, a California
corporation, Manager

By: 
James C. Gianulias, President

CAMEO HOMES, a California
corporation,

By: 
James C. Gianulias, President


James C. Gianulias, Individually

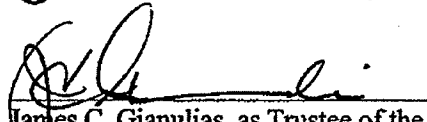

James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

Exhibit B -2

CONSTRUCTION LOAN AGREEMENT

BY AND BETWEEN

BEG, LLC, a California limited liability company

and

CALIFORNIA NATIONAL BANK, a national banking association

Dated: May 24, 2005

Loan No.: 7600003830

EXHIBIT (3)

Loan Agreement

Table of Contents

	<u>Page</u>
ARTICLE I LOAN ACCOMMODATION.....	1
1.01 The Loan.....	1
1.02 Documents.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	2
2.01 Legal Status.....	2
2.02 Authorization and Validation.....	3
2.03 Financial Information.....	3
2.04 Conformance with Plans and Specifications.....	3
2.05 No Defaults.....	3
2.06 Correct Information.....	4
2.07 Title.....	4
2.08 Permits, Franchises.....	4
2.09 Utilities.....	4
2.10 Taxes.....	4
2.11 Pending Litigation.....	4
2.12 Unpaid Materialmen.....	4
2.13 Agreements and Deposits.....	4
2.14 Encumbrances.....	5
2.15 Other Financing.....	5
2.16 Principal Place of Business.....	5
2.17 Compliance.....	5
ARTICLE III CONDITIONS PRECEDENT.....	5
3.01 Title Policy.....	5
3.02 Title Endorsements.....	5
3.03 Reports and Other Documents.....	6
3.04 Insurance.....	6
3.05 Correctness of Representations; No Defaults.....	6
3.06 Legal Review.....	6
3.07 List of Materialmen.....	7
3.08 No Change in Conditions.....	7
3.09 Sufficient Sums; Owner's Equity.....	7
3.10 Liens.....	8
ARTICLE IV DISBURSEMENT PROCEDURE.....	8
4.01 Accounts.....	8
4.02 Budget.....	8
4.03 Security Interest in Undisbursed Funds.....	8
4.04 Requests for Funds.....	9

4.05	Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement.....	11
4.06	Authorized Signatures.....	11
4.07	Trust Funds.....	11
4.08	Non-Liability of Lender.....	11
ARTICLE V AFFIRMATIVE COVENANTS.....		12
5.01	Punctual Payments.....	12
5.02	Progress of the Project.....	12
5.03	Offsite Improvements.....	12
5.04	Changes to Plans and Specifications.....	12
5.05	Notice of Casualty.....	13
5.06	Use of Materials.....	13
5.07	Construction Schedules.....	13
5.08	Intentionally Omitted.....	13
5.09	Watchmen.....	13
5.10	Maintenance of Existence; Compliance with Law.....	13
5.11	Insurance.....	14
5.12	Facilities.....	14
5.13	Taxes and Other Liabilities.....	14
5.14	Litigation.....	14
5.15	Other Notifications.....	14
ARTICLE VI INSPECTIONS.....		15
6.01	Construction Work.....	15
6.02	Non-Conformance.....	15
6.03	No Duty.....	15
6.04	Independent Cost Analyses.....	15
ARTICLE VII NEGATIVE COVENANTS.....		15
7.01	Use of Funds.....	16
7.02	Assessment Districts.....	16
7.03	Liens.....	16
7.04	Leases.....	16
ARTICLE VIII EXCULPATORY PROVISIONS.....		16
8.01	Status as Lender.....	16
8.02	Defective Construction.....	16
8.03	Non-Liability.....	16
8.04	No Representation.....	17
8.05	Brokers' Fees.....	17
8.06	Construction.....	17
8.07	Indemnity.....	17
ARTICLE IX PROTECTION AGAINST LIENS.....		18
9.01	Paid Claims.....	18
9.02	Release of Liens.....	18
9.03	Notice of Lien.....	18
9.04	Payment of Costs.....	18
ARTICLE X REMOVAL OF PERSONALTY.....		19
10.01	Removal of Personality.....	19

ARTICLE XI BOOKS AND RECORDS.....	19
11.01 Working Drawings.....	19
11.02 Books of Account.....	19
11.03 Financial Information.....	19
11.04 Intentionally Omitted.....	20
11.05 Appraisals.....	20
11.06 Lender Audit Rights.....	20
11.07 Further Assurances.....	20
ARTICLE XII EVENTS OF DEFAULT.....	21
12.01 Events of Default.....	21
ARTICLE XIII REMEDIES.....	23
13.01 Remedies.....	23
13.02 Remedies Cumulative.....	24
13.03 Contest of Third Party Claims.....	25
13.04 No Waivers.....	25
ARTICLE XIV SURVIVAL OF WARRANTIES AND COVENANTS.....	25
ARTICLE XV ASSIGNMENT.....	25
15.01 Owner's Assignment.....	25
15.02 Lender's Assignment.....	26
15.03 Participation.....	26
ARTICLE XVI ARBITRATION OF DISPUTES.....	26
ARTICLE XVII MISCELLANEOUS.....	27
17.01 No Partial Release.....	27
17.02 Amendment.....	28
17.03 Return of Documents.....	28
17.04 Regulatory Restrictions.....	28
17.05 Notices.....	28
17.06 Time of Essence.....	29
17.07 No Third Parties Benefited.....	29
17.08 Actions.....	29
17.09 Reliance on Representations.....	29
17.10 Relationship.....	29
17.11 Headings.....	29
17.12 Governing Law.....	29
17.13 Attorneys' Fees and Costs.....	29
17.14 Signs.....	29
17.15 Nondiscrimination.....	30
INSURANCE REQUIREMENTS.....	2
BUDGET.....	5
Table of Contents.....	i

CONSTRUCTION LOAN AGREEMENT

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of May 24, 2005, by and between BEG, LLC, a California limited liability company ("Owner"), and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

This Agreement is executed by Owner for the purpose of obtaining a \$12,575,000 construction loan (the "Loan") from Lender, to be evidenced by a Construction Deed of Trust Note made by Owner in favor of Lender and secured by, among other things, that certain Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith, to be recorded upon the closing of the Loan in Official Records, Riverside County, California, (the "Deed of Trust"), which Deed of Trust encumbers approximately 30.25 acres of real property located in the unincorporated area of Wildomar, County of Riverside, State of California, described on Exhibit "A" attached to and made a part of this Agreement and all improvements now or in the future erected on such real property (such real property and improvements now or in the future erected on such real property are collectively hereinafter referred to as the "Property").

The Loan is to aid Owner in the final mapping of the Property and the manufacture of 86 finished lots thereon (with minimum lot sizes of approximately 7,200 sq. ft.) (collectively hereinafter referred to as the "Project"). As used herein, "finished lots" shall not require payment of impact fees. Two final subdivision maps are anticipated to be recorded within ninety (90) days of recordation of the Deed of Trust.

Concurrently herewith, Owner is obtaining certain mezzanine financing in connection with the Property from MW Housing Partners III, L.P., a California limited partnership ("MW Housing") in the maximum amount of \$6,470,000, and secured by, among other documents, a deed of trust on the Property (the "Subordinate Financing"). The Subordinate Financing is being subordinated to the Deed of Trust.

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

LOAN ACCOMMODATION

1.01 The Loan. Owner agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, the Loan, which is a construction loan in the principal sum of Twelve Million Five Hundred Seventy-Five Thousand Dollars (\$12,575,000).

1.02 Documents. In order to consummate the Loan, Owner will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:

- (a) Construction Deed of Trust Note ("Note") in the principal amount of \$12,575,000 and bearing interest at the rate set forth in the Note.
- (b) Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust").
- (c) Assignment of Engineer's Contract and Plans and Specifications.
- (d) Assignment of Architect's Contract and Plans and Specifications.
- (e) Assignment of Rights under Sales Agreements, Permits and Development Documents.
- (f) Guaranty Agreement (of the Loan by G Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, individually, and James C. Gianulias, as Trustee of the James Chris Gianulias 1998 Trust).
- (g) Environmental Indemnity Agreement.
- (i) Limited Liability Company Certifications.
- (k) Trust Certificate re Guaranty and Environmental Indemnity Agreement.
- (l) Corporate Resolution from Cameo Homes.
- (m) Subordination Agreement from MW Housing in connection with the Subordinate Financing.
- (n) Lender's form Disbursement Request and Authorization, Agreement to Provide Insurance, and such other form acknowledgements and authorizations as Lender may require.
- (o) Such other items as Lender may reasonably require.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Owner represents and warrants to Lender that as of the date of recording the Deed of Trust:

2.01 Legal Status. Owner is a limited liability company which is duly organized and validly existing under the laws of the State of California, and is qualified and licensed to do business in all jurisdictions in which such qualification or licensing is required.

2.02 Authorization and Validation. The execution, delivery and performance by Owner of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Owner, (b) have received the approval of Owner's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Owner is a party or by which Owner, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note, each of the Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Owner enforceable in accordance with their terms.

2.03 Financial Information. All financial data that has been given to Lender with respect to Owner and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Owner and the Property as of the date on which, and the results of Owner's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles or tax based accounting consistently applied throughout the periods covered. All balance sheets disclose all known material liabilities (excluding current accounts payable), direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Owner since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.04 Conformance with Plans and Specifications. No construction of the Project has been or will be undertaken other than in accordance with the final plans and specifications for the Project, as more particularly described on Exhibit "B" attached hereto and incorporated herein, copies of which Owner has initialed for identification and delivered to Lender (the "Plans and Specifications"). The Plans and Specifications submitted to Lender shall be true and correct, satisfactory to Owner, approved by all governmental authorities having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the general contractor. Any construction already performed on the Property has been performed in accordance with the approved Plans and Specifications; there are no structural defects in the Project of which Owner has been advised or of which Owner has noticed or acknowledged; no violation of any applicable law, ordinance, order, rule or regulation exists; and the use of the Project and the Property shall not constitute a violation of any applicable laws, ordinances, orders, rules or regulations.

2.05 No Defaults. Owner is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, the Note, or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, including

in connection with the Subordinate Financing, which default would have a material and adverse effect upon its ability to perform under this Agreement, the Note, or the Security Documents.

2.06 Correct Information. All reports, papers, data and information given to Lender with respect to Owner or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

2.07 Title. Owner has, or will have at the time of the recordation of the Deed of Trust, good and marketable title in fee simple to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender (or reflected of record at closing).

2.08 Permits, Franchises. Owner possesses all permits, memberships, franchises, contracts, and licenses required and all trademark rights, trade names, trade name rights, patents, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict, to the knowledge of Owner, with the rights of others.

2.09 Utilities. All utility services necessary for the development of the Project and the operation thereof for its intended purpose are either available at the boundaries of the Property or all necessary steps have been taken by Owner to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.

2.10 Taxes. Owner has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes prior to delinquency pursuant to such returns or pursuant to any assessments received by it (with payment to be made prior to delinquency), and Owner does not know of any basis for additional assessment in respect of any such taxes, except in connection with any reassessment for a change in ownership. Owner has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

2.11 Pending Litigation. There is not now pending against or affecting Owner or the Property, nor, to the knowledge of Owner is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Owner.

2.12 Unpaid Materialmen. Except as disclosed to Lender in writing, and except in connection with current work at the Project, no person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid at the time of execution of this Agreement other than payments to be made in connection with the advances hereunder.

2.13 Agreements and Deposits. Owner has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor

executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.

2.14 Encumbrances. Except for the Subordinate Financing, which has been approved by Lender, no other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Owner agrees that no junior lien of any nature against all or any portion of the Property shall be given, permitted or suffered by Owner without Lender's written consent. Said consent shall be at Lender's sole option and discretion.

2.15 Other Financing. Except for that financing extended by Lender and the Subordinate Financing, which has a maturity date of no earlier than November 28, 2007, and contains no penalty or charge for prepayment, Owner has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.

2.16 Principal Place of Business. Owner's principal place of business is at the address set forth in this Agreement as the address for notices to Owner. Owner shall promptly notify Lender in writing of any change in Owner's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.

2.17 Compliance. Owner has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances of record affecting the Property. The Property in all material respects conforms to and complies with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan, and Owner shall comply with all requirements of law and the governing body having jurisdiction in connection with the process of finalizing the current tentative maps for the Property.

ARTICLE III

CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Owner's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

3.01 Title Policy. Owner shall furnish to Lender an ALTA Lender's Policy of Title Insurance with such endorsements as Lender may require, which shall insure that the Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.

3.02 Title Endorsements. At Lender's sole and absolute discretion, in addition to the requirements of Section 3.01 hereof, Lender may require Owner to obtain, in connection with

any or all requested disbursements, at Owner's sole cost and expense, Endorsement 122, and such other endorsements as Lender may require, which endorsements are to be attached to and be a part of Lender's Policy of Title Insurance on the Deed of Trust.

3.03 Reports and Other Documents. Owner shall furnish to Lender, at Owner's sole cost and expense, (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Substances" (as that term is defined in the Environmental Indemnity Agreement referred in Section 1.02 above) are present in, on, under or about the Property, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property, (c) all documents required under Section 1.02 above, (d) any other documents or funds required by this Agreement, and (e) an appraisal of the Property by or on behalf of Lender utilizing Lender's required appraiser, in form and content acceptable to Lender. With respect to (a) and (b), above, Lender acknowledges that it is using the existing reports which it has in its possession and same are acceptable.

3.04 Insurance. Owner shall furnish to Lender, at Owner's sole cost and expense, such policies of insurance in such amounts and in accordance with the standards set forth on Exhibit "C" attached hereto and incorporated herein, with standard mortgagee's endorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Owner in writing (other than earthquake insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. Certifications evidencing the originals of all such policies in form and content acceptable to Lender shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Owner or any other person, and Owner assumes the full risk, responsibility and liability, if any, with respect to such matters. If Owner fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Owner, in which event Owner shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents.

3.05 Correctness of Representations; No Defaults. The representations and warranties of Owner contained in Article II hereof shall be true and correct on and as of the date of Lender's advancing any of the proceeds of the Loan, with the same effect as though such representations and warranties had been made on and as of such date, and on such date no Event of Default as defined in Article XII hereof shall have occurred and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default shall have occurred and be continuing or shall exist.

3.06 Legal Review. All legal matters incidental to the granting of the Loan shall be satisfactory to counsel of Lender.

3.07 List of Materialmen. At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Owner (but no more often than once a month), Owner shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.

3.08 No Change in Conditions. There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.

3.09 Sufficient Sums; Owner's Equity. Within five (5) days after notice from Lender, Owner shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project and/or any phase thereof within the purview of the Budget (described in Section 4.02, below) and/or the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or costs in excess of the "Maximum Loan Amount" under the Note which may be due and unpaid from time to time, or otherwise. Owner agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. It is expressly understood and agreed that the Loan shall at all times be "in balance," and that Owner will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to keep the Loan "in balance." The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its reasonable discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Owner to perform and satisfy all of Owner's covenants contained in this Agreement, the Note and the Security Documents. The Loan is "out of balance" if Lender in its reasonable discretion determines at any time that the undisbursed Funds are not sufficient for all the above purposes, and Owner shall forthwith cause the Loan to be "in balance" by depositing the amount of such deficiency with Lender within five (5) days after the date of Lender's notice of the deficiency. Such amount shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article IV below. In addition, whenever the Loan becomes "out of balance," Owner shall submit, for Lender's approval, a revised Budget for the Project, or each phase thereof, if the Project is phased, then under construction and/or unsold, within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Owner to deposit additional funds as described above, Owner and Lender hereby agree that prior to the first advance, Owner shall furnish to Lender: (i) evidence satisfactory to Lender that Owner has title to land equity in the Property in the amount of \$2,178,001; and (ii) an appraisal prepared in accordance with Section 3.03 (e) hereof and acceptable to Lender showing "as is" value of the Property totaling \$11,350,000, and a finished lot retail value for the Property (as subdivided into 86 lots, with a minimum size of approximately 7,200 sq. ft. each) totaling \$19,350,000). In this connection, Lender is in receipt of a satisfactory appraisal prepared by Chute Realty Services, Inc., dated March 23, 2005.

3.10 Liens.

Owner shall furnish proof satisfactory to Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded, with the exception of any of the same that Owner has caused, in accordance with statutory requirements, to be bonded over.

ARTICLE IV

DISBURSEMENT PROCEDURE

4.01 Accounts. All funds deposited by Owner with Lender pursuant to this Agreement will be placed in an interest bearing account with Lender and under Lender's sole control (the "Borrower's Funds Account"). The Loan funds under the Loan (the "Loan Account") and the Owner's funds and interest thereon held in the Borrower's Funds Account are hereinafter sometimes collectively referred to as the "Funds." Owner agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan Account will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.

4.02 Budget. Attached to and made a part of this Agreement as **Exhibit "D"** is a detailed cost breakdown for the Project ("Budget"). All disbursements and Requests for Funds shall be in accordance with the cost breakdown contained in the Budget, which Lender has approved. If Owner becomes aware of any material change in the approved construction costs which would increase the total cost of construction of the Project as shown on the Budget, then Owner shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its reasonable discretion.

4.03 Security Interest in Undisbursed Funds. Owner hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Owner's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Owner in the Borrower's Funds Account and all monies in the Loan Account.

4.04 Requests for Funds.

(a) Following commencement of the Project, Owner shall submit to Lender or to Lender's designated agents from time to time a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Owner setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Owner and, if required by Lender, the general contractor, engineer and/or the architect, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman to be paid pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services, equipment and materials performed or supplied by such party, as appropriate. If requested by Lender, Owner shall also submit copies of statements, bills or invoices from any architects, contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained herein, Lender shall make disbursements to Owner's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the contractors, subcontractors, laborers or materialmen during the continuance of any default by Owner.

(b) Lender will make disbursements to pay for the construction costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for one hundred percent (100%) of the first ninety percent (90%) of the construction costs for each line item of expense (by reference to the Budget) as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for the percentage of completion of each line item, (ii) in no event shall any disbursement of any line item of the Budget exceed the percentage of completion of such line item or such line item as a whole, as applicable, and (iii) the final disbursement equal to ten percent (10%) of the construction costs shall be subject to the requirements of subsection (d) below. Disbursements to pay for construction costs will be made not more frequently than twice monthly.

(c) Lender will make disbursements to pay for Owner's approved financing, development and other non-construction Project costs shown on the most recently

approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Owner, and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due: any Loan fees owing to Lender, including without limitation a Loan fee at the time of recordation of the Deed of Trust in the sum of One Hundred Twenty-Five Thousand Seven Hundred Fifty Dollars (\$125,750) (1.00%); interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Owner to Lender with respect to the Loan. Such payments may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Owner. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for reasonable legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the miscellaneous title and closing costs category shown on **Exhibit "D"**. Owner agrees that any Loan funds allocated on **Exhibit "D"** and/or any phase budget for interest reserve or for contingency reserve, together with any Loan funds or Owner's funds not otherwise disbursed, shall be disbursed for interest payments on the Note and/or for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender's reasonable discretion Lender pays. Should interest on the Loan herein exceed the amount of interest reserve reserved herein, Lender shall bill Owner monthly for said interest or require payment thereof in accordance with Section 3.09, and Owner shall promptly pay said bill. Any overages and/or savings resulting from expenditures in the categories described herein or in the budget shall, in Lender's reasonable discretion, be allocated to interest reserve and other miscellaneous cost category herein. Owner further agrees that the Loan fee payable to Lender with respect to this Loan shall be disbursed to Lender upon recordation of the Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

(d) The final disbursement of Funds for construction costs shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

(i) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property or obtaining satisfactory releases from all liens which may have been filed or bonding in accordance with California law to provide for payment of such liens;

(ii) Verification by Lender of completion of the Project in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and

(iii) Evidence that a title company approved by Lender (First American Title Company or another title company reasonably satisfactory to Lender) is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement modified, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.

4.05 Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement. Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (i) an Event of Default has occurred and is continuing (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), or (ii) there are unreleased and unbonded mechanics' liens or stop notices in existence, or (iii) such disbursement would cause the loan to value ratio for the Project to exceed sixty-five percent (65%) as reasonably determined by Lender and with reference to the Budget. For the purpose of establishing the value of the Project, the most recent appraised value as determined by or on behalf of Lender shall be used. At any time that the loan to value ratio exceeds the foregoing limits, Owner, within ten (10) days of Lender's written demand, shall remargin the Loan by depositing sufficient cash with Lender so as to bring the Loan into conformity with the above-stated loan to value ratio.

4.06 Authorized Signatures. The following persons, by their specimen signatures as set forth below, are hereby designated by Owner as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Owner, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person authorized to sign such requests:


Victor Mahony


James C. Gianulias


David Gianulias

4.07 Trust Funds. Owner covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Owner.

4.08 Non-Liability of Lender. Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Owner acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Owner further acknowledges that disbursements hereunder

may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE V

AFFIRMATIVE COVENANTS

Owner covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner shall:

5.01 Punctual Payments. Punctually pay: The interest and principal of the Note at the times and place and in the manner specified in the Note; and any fees or other liabilities due hereunder and under the Note and any of the Security Documents at the times and place and in the manner specified in this Agreement, the Note or the Security Documents, as appropriate.

5.02 Progress of the Project. Commence the Project within fifteen (15) days of recordation of the Deed of Trust, and diligently prosecute the Project until completion in a workmanlike manner, subject to force majeure. In any and all events Owner shall complete the Project on or before the "Maturity Date" under the Note, all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The Maturity Date of the Note shall be adjusted on a day for day basis for each day that the Project is delayed by reason of force majeure, but in no event shall the Maturity Date be extended for more than ninety (90) days beyond the current Maturity Date under the Note. In the event a force majeure causes an extension of the Maturity Date as herein provided, and no written extension agreement is entered into between Owner and Lender providing for such an extension, Owner shall pay to Lender an "extension fee" in the proportionate amount of the Loan fee paid by Owner reflected in Section 4.04 (c), above.

5.03 Offsite Improvements. Diligently pursue and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and when approved, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of improvement of the Project. Owner expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing a bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.

5.04 Changes to Plans and Specifications. Agree that no material change in the engineering Plans and Specifications shall be made without first obtaining the written consent of Lender. Any changes desired by Owner which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the

plans and specifications and/or working drawings applicable to the changes; provided, however, that if and to the extent such changes are submitted to Lender in writing and not approved or disapproved within 15 business days after submittal, the same shall be deemed to be approved by Lender. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost of the Project (except in connection with Owner's deposit of funds to cover such increased costs), and Lender shall have the right to require Owner to deposit additional funds with Lender to pay for such changes.

Owner acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Owner consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Owner shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.

5.05 Notice of Casualty. Give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Owner to commence the Project or to complete it in a timely manner.

5.06 Use of Materials. Agree that all materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.

5.07 Construction Schedules. From time to time during the course of construction, but not more frequently than once per quarter (except during the continuance of a default), and within ten (10) days after written request by Lender, furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees, interest during construction, and contractor's overhead.

5.08 Intentionally Omitted.

5.09 Watchmen. Provide such watchmen and take such other measures to protect the physical security of the Property as reasonably necessary.

5.10 Maintenance of Existence; Compliance with Law. Preserve and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises; conduct its business in an orderly, efficient and regular manner; comply in all

material respects with the provisions of all documents pursuant to which Owner is organized and/or which govern Owner's continued existence; and comply with the requirements of all applicable laws, rules, regulations, orders of any governmental authority and requirements for the maintenance of Owner's insurance, licenses, permits, governmental approvals, rights, privileges and franchises.

5.11 Insurance. Maintain and keep in force insurance of the types, in the amounts, in the form and with the carriers required under this Agreement and under any and all of the Security Documents, provided, however, that Owner shall not be required to maintain earthquake or terrorism insurance, unless required by law or regulation.

5.12 Facilities. Keep all of Owner's properties useful or necessary to Owner's business, including without limitation the Property, in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that Owner's properties, and the Property, shall be fully and efficiently preserved and maintained.

5.13 Taxes and Other Liabilities. Pay, at least fifteen (15) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand during the continuance of an Event of Default, Owner shall, until all indebtedness secured by the Security Documents has been paid in full, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall be placed in an interest-bearing account by Lender, shall not be commingled with the general funds of Lender and shall, unless Owner is otherwise in default hereunder or under the Note or Security Documents, be released to Owner for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Owner is in default thereunder.

5.14 Litigation. Promptly give notice in writing to Lender of any litigation pending or threatened against Owner or, to Owner's knowledge, the Property having a potential or claimed liability in excess of Fifty Thousand Dollars (\$50,000.00).

5.15 Other Notifications. Promptly (but in no event more than five (5) business days after the occurrence of each such event or matter and knowledge thereof by Owner) give notice in writing to Lender of: (a) any termination or cancellation of any insurance policy which Owner is required to maintain; (b) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Owner's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (c) the change in the name or the organizational structure, dissolution or adverse change in financial condition of Owner; (d) the death, disability or legal incapacity of James C. Gianulias.

ARTICLE VI

INSPECTIONS

6.01 Construction Work. Lender, through its officers, agents and employees, shall have the right at any time and from time to time to enter upon the Property during normal business hours, and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof) of Owner and general contractor to the extent that the same may relate to the Property or the Project. Owner shall pay all reasonable costs associated with Lender or Lender's agents' inspection of the Project.

6.02 Non-Conformance. If Lender determines that any work or materials are not in material conformity with the Plans and Specifications as approved by Lender, or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.

6.03 No Duty. It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.

6.04 Independent Cost Analyses. Owner will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may reasonably require, and shall deliver forthwith to Lender, upon Lender's written request therefore, true and correct copies of all inspections or cost analyses prepared or made by or for Owner.

ARTICLE VII

NEGATIVE COVENANTS

Owner further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner will not without prior written consent of Lender:

7.01 **Use of Funds.** Use any of the proceeds of the Loan for any purposes other than as stated in Article IV hereof.

7.02 **Assessment Districts.** Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.

7.03 **Liens.** Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof or as bonded over in accordance with this Agreement.

7.04 **Leases.** Enter into any new leases of all or any portion of the Property, or amend, modify or cancel any leases of all or any portion of the Property, without the prior written approval of Lender, which shall not be unreasonably withheld.

ARTICLE VIII

EXCULPATORY PROVISIONS

Owner acknowledges, understands and agrees as follows:

8.01 **Status as Lender.** The relationship between Owner and Lender is and shall at all times remain, solely that of borrower and lender and Lender neither undertakes nor assumes any responsibility or duty to Owner to select, review, inspect, supervise, pass judgment upon or inform Owner of the quality, adequacy or suitability of the following:

(a) The engineering or architectural Plans and Specifications or amendments, alterations and additions thereto;

(b) Engineers, architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or

(c) The progress or course of construction and its conformance or non-conformance with the engineering Plans and Specifications or amendments, alterations and changes thereto.

8.02 **Defective Construction.** Lender owes no duty of care to protect Owner against negligent, faulty, inadequate or defective building or construction at the Property.

8.03 **Non-Liability.** Lender shall not be responsible or liable to Owner for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Owner or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Owner shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender

shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

8.04 No Representation. By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

8.05 Brokers' Fees. Owner agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan, if and to the extent a claim therefor is determined to be a claim arising by or through Owner (it being understood that any such commission, charge or brokerage fees will be paid directly by Owner to the party(ies) entitled thereto).

8.06 Construction. Lender shall in no way be liable for any acts or omissions of Owner, or any agent, contractor, architect, engineer or other person furnishing labor and/or materials used in relation to any construction at the Property.

8.07 Indemnity. Owner agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to the later of (i) completion of any foreclosure proceeding or recordation of a deed in lieu thereof, or (ii) the time Owner is in control or occupancy of the Property (either (i) or (ii) a "Change in Control"), (b) Lender's performance of any act permitted under this Agreement, the Note or any of the Security Documents (unless arising out of Lender's willful misconduct), (c) breach of any representation or warranty made by Owner or any obligation of Owner contained in this Agreement, and (d) any allegation that Lender is liable for any act or omission committed by or on behalf of Owner, prior to a Change in Control, in connection with the ownership, operation or development of the Property. Upon demand by Lender, Owner shall defend any action or proceeding brought against Lender covered by this indemnity, at Owner's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Owner, in which event all reasonable fees and reasonable costs of such defense shall be paid by Owner upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE IX

PROTECTION AGAINST LIENS

9.01 **Paid Claims.** Owner agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan Funds; provided, however, that bonding in accordance with statutory requirements shall in all events be considered "reasonable steps." Owner irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note or the Security Documents.

9.02 **Release of Liens.** Upon demand by Lender, Owner shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Owner shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Owner to pay any claims for labor, materials, or services which Owner in good faith disputes and which Owner, at its own expense, is currently and diligently contesting; provided that Owner shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

9.03 **Notice of Lien.** Owner agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Owner and (b) to the Property, which are addressed to "California National Bank" or to "Construction Lender" shall be promptly delivered to Lender. Owner further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

9.04 **Payment of Costs.** Owner shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Owner shall pay:

- (a) All fees and commissions lawfully due to any brokers claiming by or through Owner, and all fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;
- (b) All taxes and recording expenses;

(c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and

(d) All reasonable costs, charges, and expenses agreed to be paid by Owner and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE X

REMOVAL OF PERSONALTY

10.01 Removal of Personalty. Owner agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Owner will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Owner, free and clear of any lien or security interest.

ARTICLE XI

BOOKS AND RECORDS

11.01 Working Drawings. Owner shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

11.02 Books of Account. Owner shall maintain or cause to be maintained full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with tax accounting (fairly presenting Owner's financial position), or generally accepted accounting principles or tax based accounting, consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time after an Event of Default, such financial data as Lender shall reasonably request relating to the ownership or operation of the Property.

11.03 Financial Information. Owner understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers, guarantors, and such other parties as

Lender relies upon in its underwritings of its loans. Accordingly, Owner hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

(a) Within ninety (90) days following the end of each calendar semi-annual period for G Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias (consolidated), internally prepared, unaudited financial statements (including without limitation personal financial statements, asset and liability statements, income and expense statements, cash flow statements and such other financial information as was previously provided to Lender or as Lender may reasonably request), all of which data to be certified as true and accurate and as having been prepared in accordance with generally accepted accounting or tax based accounting principles consistently applied; and

(b) Within thirty (30) days of filing, a copy of the most current federal tax return for Owner and for each party referenced in (a), above. With respect to Owner, in lieu of providing Lender its tax return, it may furnish its audited financial statement, if any.

Owner agrees that the requirements of this Section 11.03 shall remain in full force and effect so long as there remain any outstanding obligations under this Agreement, the Note, or the Security Documents. Owner further agrees that the failure of Owner to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

11.04 Intentionally Omitted.

11.05 Appraisals. Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Owner shall obtain, as promptly as possible and at Owner's expense, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its reasonable discretion.

11.06 Lender Audit Rights. Lender and its agents and representatives shall have the right to inspect and audit all books and records of Owner, during normal business hours, pertaining to the statements, reports and information required under this Article XI in order to obtain and verify such information as Lender deems necessary or appropriate. Lender shall also have the right to examine, copy and audit the books, records and accounting data and other documents of Owner's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Owner reasonable notice prior to exercising its rights hereunder, and the costs thereof shall be borne by Lender, unless the results thereof shall reveal a material adverse discrepancy from the information reported to Lender.

11.07 Further Assurances. Owner, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to

the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XII

EVENTS OF DEFAULT

12.01 Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

- (a) Owner does not commence the Project or proceed diligently with the Project and the completion thereof, subject to the provisions of Section 5.02, including those provisions dealing with force majeure, as herein provided;
- (b) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents within ten (10) days of demand therefor by Lender;
- (c) Any representation or warranty made by Owner hereunder or in the Note, Security Documents, any other documents executed by Owner in connection with the Loan proves to have been false or misleading in any material respect when made;
- (d) Owner shall fail to observe or perform any non-monetary term, obligation, agreement or other provision contained herein or in the Note, the Security Documents, in any other contract or instrument executed in connection herewith, and fails to remedy such default within thirty (30) days after notice from Lender, or, if the same is not reasonably susceptible to cure within such thirty (30) day period, fails to commence to cure within such period, or thereafter fails to diligently prosecute such cure to completion, provided, however, that in no event will the time for completion of the Project be extended beyond the date provided in Section 5.02, nor shall the maturity date of the Note be extended beyond the date set forth therein;
- (e) Any default or defined event of default under the Note, any of the Security Documents, any other documents executed in connection with the Loan or any default or defined event of default under the Subordinate Financing, or any documents executed in connection therewith, after passage of any applicable cure period without cure;
- (f) If at any time the maturity date of the indebtedness under the Subordinate Financing becomes earlier than November 28, 2007;
- (g) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due to a condition involving an act of God or force majeure, the Owner shall not be deemed in default under this

subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within sixty (60) days (provided the same is possible, taking into account the facts and circumstances associated with the force majeure), and (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note, any of the Security Documents, except as provided in Section 5.02, above;

(h) If Lender should determine that said work is not in conformance with the engineering Plans and Specifications and the terms of this Agreement (in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it) and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender, unless said work cannot reasonably be completed within such thirty (30) day period and Owner has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding ninety (90) days shall be granted;

(i) If Owner shall default, beyond any applicable cure period, under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other instrument executed in connection with the development of the Project;

(j) Owner shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors;

(k) Owner shall file a voluntary petition in bankruptcy, or seek reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or decodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect, or any involuntary petition or proceeding pursuant to said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Owner, or Owner shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition, or Owner shall be adjudicated a bankrupt, or an order for relief shall be entered by any court of competent jurisdiction under said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors;

(l) The filing of a notice of judgment lien against Owner, or the recording of any abstract of judgment against Owner, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Owner, or the entry of a judgment, order or decree against Owner, any or all of which would have a material and adverse effect upon Owner's ability to perform under this Agreement or the Security

Documents, and Owner's failure to cause removal of same within a reasonable period of time, but in no event more than sixty (60) days after such filing, recordation or entry;

(m) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation thereof;

(n) The dissolution or liquidation of Owner or any of its members, or Owner, its members or the members of any of its members, shall take action seeking to effect the dissolution or liquidation of Owner or any of its members; or

(o) Except as otherwise specifically permitted in this Agreement or the Security Documents, if Owner shall convey title to, or any interest in, any of the Property.

Unless a time frame is otherwise specified above, and in connection with any default of a non-monetary covenant or agreement, so long as such failure or non-compliance is susceptible to cure, Owner shall be entitled to thirty (30) days written notice from Lender of same before such failure or non-compliance shall constitute an Event of Default. Provided further, if such non-monetary failure or non-compliance is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Trustor or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure, provided, however, that in no event will the time for completion of the Project be extended beyond the date provided in Section 5.02, nor shall the Maturity Date of the Note be extended beyond the date set forth therein during the period otherwise applicable for said cure.

ARTICLE XIII

REMEDIES

13.01 Remedies. Upon or at any time after the happening of any Event of Default hereunder, and during the continuance thereof, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, shall have the following rights and remedies:

Declare all Loan funds previously disbursed hereunder to be due and payable and terminate any obligation of Lender to disburse any remaining funds hereunder to Owner and proceed as authorized by law to satisfy the indebtedness of Owner to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Owner of the obligations evidenced by said Note and by this Agreement.

(a) Take possession of the Property and let contracts for or otherwise proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the

undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be considered and be an additional loan to Owner and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Owner agrees to pay the same. Owner further hereby authorizes Lender at its option at any time, either in its own name or in the name of Owner, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

(b) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any Impounds shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the Beneficiary or Trustee under the Deed of Trust.

(c) Upon the happening of any Event of Default which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of the Lender's own funds shall not, however, be deemed to cure such default by Owner, and the same shall not be so cured unless and until Owner shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount which Lender determines to be necessary to provide for such completion shall be deposited by Owner pursuant to the terms of Section 3.09 hereof. If Lender advances its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Owner shall immediately upon demand reimburse Lender with interest at the default interest rate provided for in the Note from the date of such advance until the date of reimbursement.

13.02 Remedies Cumulative. All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender

hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

13.03 Contest of Third Party Claims. Notwithstanding anything to the contrary herein contained, Owner shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Owner shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Owner or the adverse claimant.

13.04 No Waivers. No waiver by Lender of any default or breach by Owner hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XIV

SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XV

ASSIGNMENT

15.01 Owner's Assignment. Owner shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon, except in each case in the ordinary course of business in connection with Unit sales in the subdivision in accordance with the requirements of this Agreement, without the prior written consent of Lender.

15.02 Lender's Assignment. Lender may at any time assign this Agreement, the Note, and/or the Security Documents, and any guaranty thereof, and upon such assignment, Lender shall have no further obligation or liability of any nature in connection herewith if and to the extent the assignee expressly assumes the liability of Lender. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, and the Security Documents.

15.03 Participation. Owner understands that Lender may transfer and assign its interest in the Loan, this Agreement, and/or the Security Documents, pledge its interest in the Loan, this Agreement, and/or the Security Documents or grant or sell participations in some or all of Owner's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan. Owner shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XVI

ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

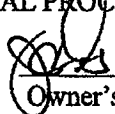
(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT OWNER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST OWNER NOTWITHSTANDING OWNER'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS ARBITRATION AGREEMENT, OWNER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, OWNER'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Owner's Initials


Lender's Initials

ARTICLE XVII

MISCELLANEOUS

17.01 No Partial Release. Owner intends to construct residences on the 86 lots comprising the Property with the assistance of production loans from Lender, which production loans are subject to Lender approval. Should any such production loan or loans be approved, the

86 lots will be released into the production loan at a price of \$160,800 per lot. Other than as specified herein, Owner shall not be entitled to, and Lender shall not be obligated to issue, partial release of any of the Property.

17.02 Amendment. This Agreement, the Security Documents, and the Note and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.

17.03 Return of Documents. If the Loan is not consummated within thirty (30) days after the date hereof, Owner shall return all documents and instruments to Lender upon demand.

17.04 Regulatory Restrictions. It is understood and agreed by Owner that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including, but not limited to, legal lending requirements.

17.05 Notices. All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

If to Owner: BEG, LLC
c/o Cameo Homes
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

If to Lender: CALIFORNIA NATIONAL BANK
1301 Dove Street, Suite 101
Newport Beach, CA 92660-2458
Attn: Real Estate Group

or such other address as shall, from time to time, be supplied in writing by any party to the others. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. Postal Service or private courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

17.06 Time of Essence. Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

17.07 No Third Parties Benefited. This Agreement is made for the sole benefit and protection of Owner and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.

17.08 Actions. Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Owner agrees to pay the same.

17.09 Reliance on Representations. Lender may conclusively assume that the statements, acts, information and representations made by Owner or its agents contained in any affidavits, orders, receipts or other written instruments which were filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.

17.10 Relationship. Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.

17.11 Headings. The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

17.12 Governing Law. This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.

17.13 Attorneys' Fees and Costs. If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.

17.14 Signs. Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.

17.15 Nondiscrimination. During the term of this Agreement, neither Owner, its respective partners, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or lessee or prospective purchaser or lessee of all or any portion of the Property, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900, *et seq.*, of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0, *et seq.*), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for Construction Loan Agreement

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

LENDER:

CALIFORNIA NATIONAL BANK,
a national banking association

By: _____

Its: _____

OWNER:

BEG, LLC, a California limited liability company

By: **G Companies Homebuilding, LLC, a**
California limited liability company, Manager

By: **CAMEO HOMES, a California**
corporation, Manager

By: _____

James C. Gianulias, President

EXHIBIT A

Legal Description

Real property in the inincorporated area of Wildomar, County of Riverside, State of California, described as follows:

PARCEL 1:

THOSE PORTIONS OF LOT 47 AND OF THE VACATED STREET (FORMERLY HAND STREET), ADJOINING SAID LOT ON THE EAST, IN BLOCK "L" OF ELSINORE, AS SHOWN BY MAP OF BLOCKS "K", "L" AND "M" OF ELSINORE, ON FILE IN BOOK 4 PAGE 174 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTER LINE OF SAID VACATED STREET, FORMERLY HAND STREET, WITH THE EASTERLY PROLONGATION OF THE SOUTH LINE OF PALOMAR STREET AS SHOWN ON SAID MAP;
THENCE SOUTH 36 DEGREES 32' WEST ON THE CENTER LINE OF HAND STREET TO THE NORTHEASTERLY LINE OF THE ATCHISON, TOPEKA AND SANTA FE RAILROAD RIGHT OF WAY;
THENCE NORTHWESTERLY ON THE NORTHEASTERLY LINE OF SAID RAILROAD RIGHT OF WAY 476.67 FEET;
THENCE NORTH 36 DEGREES 32' EAST TO SAID SOUTH LINE OF PALOMAR STREET;
THENCE SOUTH 49 DEGREES 54' EAST ON THE SOUTH LINE OF PALOMAR STREET PROLONGATED EASTERLY TO THE POINT OF BEGINNING.

PARCEL 2:

THOSE PORTIONS OF LOTS 48 AND 49 AND THE VACATED STREET (FORMERLY HAND STREET) ABUTTING SAID LOT 48 ALL IN BLOCK L OF MAP OF BLOCKS K, L AND M, ELSINORE, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 4 PAGE(S) 174 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA, DESCRIBED AS A WHOLE AS FOLLOWS:

BEGINNING ON THE MOST EASTERLY CORNER OF SAID LOT 49;
THENCE SOUTH 36° 32' 00" WEST 845.66 FEET ON THE SOUTHEAST LINE OF SAID LOT;
THENCE NORTH 49° 54' 00" WEST 515.10 FEET TO THE MOST WESTERLY CORNER OF THE LAND DESCRIBED IN THE DEED TO FORD BEEBE AND BESSIE L. BEEBE, HUSBAND AND WIFE, RECORDED OCTOBER 2, 1963 AS INSTRUMENT NO. 103498 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, AND THE TRUE POINT OF BEGINNING;
THENCE CONTINUING NORTH 49° 54' 00" WEST 775.12 FEET TO THE CENTERLINE OF SAID VACATED STREET;
THENCE NORTH 36° 32' 00" EAST 845.66 FEET ON SAID CENTER LINE TO THE

NORTHWESTERLY PROLONGATION OF THE NORTHEAST LINE OF SAID LOT 48;
THENCE SOUTH 49° 54' 00" EAST 775.12 FEET ON SAID PROLONGATION AND
NORTHEAST LINE AND THE NORTHEAST LINE OF SAID LOT 49 TO THE MOST
NORTHERLY CORNER OF SAID LAND DESCRIBED IN THE DEED TO FORD BEEBE
ET UX;
THENCE SOUTH 36° 32' 00" WEST 845.66 FEET ON THE NORTHWEST LINE OF SAID
LAND TO THE TRUE POINT OF BEGINNING;

EXCEPTING THEREFROM THAT PORTION OF LOT 49 IN BLOCK L OF MAP OF
BLOCKS K, L AND M OF ELSINORE, IN THE COUNTY OF RIVERSIDE, STATE OF
CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 4, PAGE(S) 174 OF MAPS,
RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTHEAST LINE OF SAID LOT 49, NORTH 49° 54'
00" WEST 515.10 FEET THEREON FROM THE MOST EASTERLY CORNER OF SAID
LOT, SAID POINT OF BEGINNING BEING THE MOST NORTHERLY CORNER OF THE
LAND DESCRIBED IN DEED TO JOHN M. NISHIDA, A SINGLE MAN, RECORDED
SEPTEMBER 6, 1973 AS INSTRUMENT NO. 117534 OF OFFICIAL RECORDS OF
RIVERSIDE COUNTY, CALIFORNIA;
THENCE SOUTH 49° 54' 00" EAST, 23.00 FEET ON SAID NORTHEAST LINE OF LOT 49;
THENCE SOUTH 39° 40' 57" WEST 422.04 FEET TO THE INTERSECTION OF THE
NORTHWEST LINE OF THE LAND DESCRIBED IN SAID DEED TO JOHN M. NISHIDA
AND THE TRUE POINT OF BEGINNING;
THENCE SOUTH 36° 33' 52" WEST, 422.83 FEET ON SAID NORTHWEST LINE TO THE
MOST WESTERLY CORNER OF THE LAND DESCRIBED IN SAID DEED;
THENCE NORTH 49° 54' 00" WEST, 23.00 FEET, PARALLEL WITH THE NORTHEAST
LINE OF SAID LOT 49;
THENCE NORTH 39° 40' 57" EAST 422.04 FEET TO THE TRUE POINT OF BEGINNING.

APN: 380-140-002-2 and 380-140-003-3



EXHIBIT "B"

DESCRIPTION OF PLANS AND SPECIFICATIONS

Those certain undated engineering plans and specifications, bearing Job Number _____, as the same may be amended or supplemented, prepared by Albert A. Webb Associates, under contract dated _____.

Those certain architectural plans and specifications dated _____, prepared by LSA Architecture, Inc., under Job Number _____, pursuant to contract dated _____, as said plans and specifications and contract may be amended or supplemented.



EXHIBIT "C"

INSURANCE REQUIREMENTS

A. Workers' Compensation:

Coverage A. Statutory policy form.

Coverage B. Employers Liability \$100,000

B. Owner's Broad Form Comprehensive General Liability or Commercial General Liability:

The limits of liability shall not be less than:

1. Broad Form Comprehensive General Liability:

\$2,000,000 Combined Single limit

\$1,000,000 Bodily/Property Damage per Occurrence

Or,

2. Commercial General Liability:

The limits of liability shall not be less than:

Each Occurrence Limit \$1,000,000

Personal Advertising Injury Limit \$1,000,000

Products Completed Operations

Aggregate Limit \$1,000,000

General Aggregate Limit \$2,000,000

(Other than Products-completed
Operations)

Both policy forms must include:

- a. Premises and operations with no X, C, or U exclusions.

- b. Products and completed operations coverage. (This coverage to be maintained for a minimum of ten (10) years following completion of work and to continue to name Owner as named insured and Lender as additional insured, for the entire ten (10) year period).
 - c. Blanket contractual coverage with Employee Exclusion deleted.
 - d. Broad Form Property Damage including completed operations or its equivalent.
 - e. An endorsement naming Lender and any other required interests as additional insured(s).
 - f. An endorsement stating: "Such coverage as is afforded by this policy for the benefit of the additional insured(s) is primary and any other coverage maintained by such additional insured(s) shall be non-contributing with the coverage provided under this policy."
 - g. Cross Liability and Severability of Interest Clause.
 - h. Limited Independent Contractors language should be included.
 - i. Subsidence coverage, if available, at commercially reasonable rates.
- C. General Contractor's Broad Form Comprehensive General Liability or Commercial General Liability:
- 1. All requirements are the same as in Owner's general liability insurance as set forth hereinabove.
 - 2. In addition, general contractor's general liability coverage must also include:
 - a. Manufacturers and contractors protective coverage.
 - b. Automobile liability coverage including owned, hired and non-owned vehicles.
- D. All Risk/Special Form Property Insurance – Full Replacement Cost (Real and Personal Property), Course of Construction, Secured Collapse, if available at commercially reasonable rates, Business Interruption and Loss of Profits for a minimum one (1) year term. Such insurance shall also contain an agreed value clause or other provision sufficient to eliminate any risk of co-insurance.
- E. Other Requirements:
- 1. Lender must be named as an additional insured on all liability policies and as the mortgagee and certificate holder (with lender's loss payable endorsement) on all

property insurance coverage. Property insurance coverage must include standard 438 BFU language and cover all property described in the Security Documents. The endorsement must contain the following wording: "With respect to a loss payee designated in this policy, this insurance will continue in force throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew, of (c) issuance of a Notice of Reduction Coverage."

2. All policies must provide that the named insured correspond with the named borrower on the loan documents; that Lender's Loan Number be shown on all policies, certificates and correspondence; and that the complete property address be shown on the declaration page of the policy or certificate evidencing such insurance.
3. The deductible under any policies required hereunder shall be no more than \$5,000.00.
4. An authorization signed by the Owner must accompany all mid-term and anniversary date changes in the agent or broker of record shown in Lender's files.
5. All policies must contain an endorsement affording an unqualified thirty (30) days' notice of cancellation to the additional insured(s) in the event of cancellation, non-renewal or material reduction in coverage.
6. All policies must be written by insurance companies acceptable to Lender whose rating in the most recent Best's rating guide is not less than A:IX. All policies shall be written for not less than a one (1) year term (or annual continuous) with one year's premiums prepaid.
7. Certificates of insurance, with the endorsements evidencing the required coverage, and copies of the policies, must be delivered to Lender prior to funding and each year thereafter until the indebtedness evidenced by the Note and Security Documents is paid in full.
8. No earthquake insurance shall be required unless required by law or regulation.



EXHIBIT "D"

BUDGET

SOURCES AND USES OF FUNDS							30-Mar-05
BORROWER: BEG, LLC			CONTRACTOR: Classic Pacific, Ltd.				
NUMBER OF HOMES: 86			TOTAL LOT SQUARE FOOTAGE: 1,317,690				
ITEM COST	TOTAL COST	PER UNIT	PER SQFT	COST PAID	COST TO BE PAID	LOAN BUDGET	
1 Land Cost Basis	\$8,920,006	\$103,721	\$6.77	\$2,178,001	\$0	\$6,742,005	
2 Land Development	\$3,855,045	\$44,826	\$2.93	\$0	\$0	\$3,855,045	
Total Land Costs	\$12,775,051	\$148,547	\$9.70	\$2,178,001	\$0	\$10,597,050	
3 Agency Fees	\$100,000	\$1,163	\$0.08	\$0	\$0	\$100,000	
4 Engineering & Consultants	\$110,200	\$1,281	\$0.08	\$0	\$0	\$110,200	
5 Indirect Costs & Supervision	\$300,000	\$3,488	\$0.23	\$0	\$0	\$300,000	
6 G&A	\$300,000	\$3,488	\$0.23	\$0	\$0	\$300,000	
7 Taxes, Insurance, & Legal	\$400,000	\$4,651	\$0.30	\$0	\$0	\$400,000	
Total Indirect & Soft Costs	\$1,210,200	\$14,072	\$0.92	\$0	\$0	\$1,210,200	
8 Interest Reserve	\$610,000	\$7,093	\$0.46	\$0	\$0	\$610,000	
9 Bank Loan Fees 1.0%	\$125,750	\$1,462	\$0.10	\$0	\$0	\$125,750	
10 Inspection	\$6,000	\$70	\$0.00	\$0	\$0	\$6,000	
11 Appraisal/Environmental	\$5,000	\$58	\$0.00	\$0	\$0	\$5,000	
12 Legal	\$11,000	\$128	\$0.01	\$0	\$0	\$11,000	
13 Escrow/Title/Closing	\$10,000	\$116	\$0.01	\$0	\$0	\$10,000	
Total Loan Costs	\$767,750	\$8,927	\$0.58	\$0	\$0	\$767,750	
CUMULATIVE TOTAL	\$14,753,001	\$171,547	\$11.20	\$2,178,001	\$0	\$12,575,000	
LOAN TO COST RATIO:				15%	0%	85%	
INTEREST RATE: 8.00%				TERM: 18 Months			
AVE. OUTSTANDING: 40%				LOAN AMOUNT / BUILDING SF: \$9.54			



Exhibit B -3

GUARANTY AGREEMENT
(\$12,670,000 Loan)

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of the 10th day of May 2006, is hereby given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (collectively "Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. BEG, LLC, a California limited liability company ("Borrower"), has agreed to obtain a refinance and construction loan from Lender in the principal sum of Twelve Million Six Hundred Seventy Thousand Dollars (\$12,670,000) (the "Loan") to be secured by certain real property located in the unincorporated area of Wildomar, County of Riverside, California (the "Property").

B. The Loan is evidenced by a Construction Deed of Trust Note of even date herewith in the amount of Twelve Million Six Hundred Seventy Thousand Dollars (\$12,670,000) given by Borrower to Lender (the "Note"), governed by a Construction Loan Agreement ("Construction Loan Agreement") by and between Borrower and Lender, both of even date herewith, and secured by a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated May 24, 2005, and recorded on May 26, 2005, which Deed of Trust is being amended by that certain First Amendment to Construction Deed of Trust of even date herewith (as amended, the "Deed of Trust"), and which Loan is further evidenced and secured by additional documents of even date herewith ("Loan Documents").

C. In May 2005, Lender made a \$12,575,000 loan (the "\$12,575,000 Construction Loan") to Borrower in connection with development of the Property, evidenced by a Construction Loan Agreement dated May 24, 2005 (the "\$12,575,000 Construction Loan Agreement"), and a Construction Deed of Trust Note dated May 24, 2005 (the "\$12,575,000 Construction Note"), and, concurrently herewith, Lender is making a \$1,363,000 loan (the "\$1,363,000 Loan") to Borrower, evidenced by a Promissory Note of even date herewith (the "\$1,363,000 Note"), the proceeds of which \$1,363,000 Loan shall be used to partially repay the \$12,575,000 Construction Loan. The obligations under both said loans and notes are guaranteed by Guarantor. The Note, the \$12,575,000 Construction Note and the \$1,363,000 Note are all cross-defaulted each with the other such that a default (beyond applicable cure periods) under any of them shall constitute a default under the others.

D. Lender is willing to make the Loan if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in making the Loan. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from the Loan, desires to enter into this Guaranty to induce Lender to make the Loan.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender to any other party, all amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other instruments or documents evidencing or securing the Loan (the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with consent of Borrower, to amend any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, or for any modification of the terms thereof, or (c) to make any modifications to or under the \$12,575,000 Construction Loan Agreement, the \$12,575,000 Construction Note or the \$1,363,000 Note. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or

Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the Note or other Loan Documents by operation of law or otherwise; or (e) any modification of the Note or other Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the Note, the other Loan Documents or any part thereof, including increase or decrease of the rate of interest thereon. Until all sums due by Borrower to Lender under the Loan, the \$12,575,000 Construction Loan and the \$1,363,000 Loan shall have been paid in full, Guarantor shall have no right of subrogation against Borrower.

Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's obligations under the Note (including without limitation Sections 726 and 580d of the California Code of Civil Procedure as from time to time amended). In addition, Guarantor waives all rights and protections of any kind which Guarantor may have for any reason which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial or judicial foreclosure of any security for the Indebtedness, including, without limitation, the right to any fair market value hearing pursuant to Section 580a of the California Code of Civil Procedure. Until the Indebtedness shall have been paid in full, Guarantor further waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, any other guarantor or any other person, and waives any benefit of, or any right to participate in any security whatsoever now or hereafter held by Lender.

c. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (2) if Lender forecloses on any real property collateral pledged by Borrower: (a) The amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Guarantor further waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor specifically waives any and all defenses and rights that may be waived pursuant to Union Bank v. Gradsky (1968) 265 Cal.App. 2d 40, and any cases, statutes or authority subsequently interpreting such decision.

d. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California

Civil Code.

e. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

f. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

g. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the Indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability thereunder.

h. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies,

whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Note, the Construction Loan Agreement, the Deed of Trust, and/or any of the other Loan Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents, as well as any amounts owing under the \$12,575,000 Construction Loan and the \$1,363,000 Loan. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under, the Note, the Loan Agreement, the Deed of Trust, the other Loan Documents, the \$12,575,000 Loan and the \$1,363,000 Loan have been paid in full, and this provision shall survive the termination of this Guaranty.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which

Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Construction Loan Agreement, the Deed of Trust, and all of the other Loan Documents and any other documents executed in connection with the Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know

of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

g. Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Property will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation on the Property shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in accordance with this paragraph. If any notice, request, demand, direction or other communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor: **JAMES C. GIANULIAS**
 CAMEO HOMES
 1105 Quail Street
 Newport Beach, CA 92660

If to Lender: **CALIFORNIA NATIONAL BANK**
 1301 Dove Street, Suite 101
 Newport Beach, CA 92660-2458

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise

under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the Note.

13. Context and Construction: Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR

RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE NOTE, THE CONSTRUCTION LOAN AGREEMENT, THE DEED OF TRUST, OR UNDER ANY OTHER LOAN DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DOCUMENT SECURING THE NOTE OR THIS GUARANTY, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.


THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Guarantor's Initials



Lender's Initials

18. Joint and Several Liability.

The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Guaranty is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each independently to enforce the terms and conditions of this Guaranty.

19. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for \$12,670,000 Guaranty Agreement

IN WITNESS WHEREOF, Guarantors hereunder have executed this Guaranty as of the date first above written.

GUARANTORS:

G Companies Homebuilding, LLC, a
California limited liability company

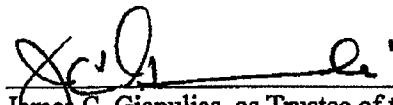
By: CAMEO HOMES, a California
corporation, Manager

By: 
James C. Gianulias, President

CAMEO HOMES, a California
corporation,

By: 
James C. Gianulias, President


James C. Gianulias, Individually


James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

16

AFFIRMATION OF GUARANTY AGREEMENT

Loan Nos.: 7600004023
and 7600003830

This Affirmation of Guaranty Agreement ("Affirmation"), dated as of May 10, 2006, is given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (collectively "Guarantor"), in favor of CALIFORNIA NATIONAL BANK ("Lender"), in connection with a \$12,670,000 refinance and construction loan to be made by Lender to BEG, LLC, a California limited liability company ("Borrower").

WHEREAS, Lender has made a \$12,575,000 construction loan (the "\$12,575,000 Loan") to Borrower in connection with the refinance and lot manufacture of 86 residential lots on 30.25 acres in the Shadow Canyon Subdivision in the unincorporated area of Wildomar, Riverside County, California (the "Property"), evidenced by that certain \$12,575,000 Construction Deed of Trust Note dated May 24, 2005, and other documents entered into in connection therewith (the "\$12,575,000 Loan Documents").

WHEREAS, Guarantor guaranteed the \$12,575,000 Loan pursuant to that certain Guaranty Agreement dated May 24, 2005 (the "Guaranty Agreement"); and

WHEREAS, Borrower has requested a further construction loan in the amount of \$12,670,000 (the "\$12,670,000 Loan") in connection with the construction of 4 model units and 27 single-family residential production units comprising phases 1 and 2 of Shadow Canyon), a Borrower has further requested a loan in the amount of \$1,363,000 (the "\$1,363,000 Loan") not to be secured by real property, and Lender is willing to make the \$12,670,000 Loan and the \$1,363,000 Loan, conditioned upon, among other things, Guarantor affirming its obligations under the Guaranty Agreement and that certain Environmental Indemnity Agreement dated May 24, 2005, made in connection with the \$12,575,000 Loan, and acknowledging and consenting to any and all modifications to the \$12,575,000 Loan Documents, including the provision that all three loans be cross-defaulted, made in connection with the current loan transactions.

NOW, THEREFORE, Guarantor agrees as follows:

1. Guarantor hereby affirms the Guaranty Agreement and the Environmental Indemnity Agreement, and acknowledges that the Guaranty Agreement and the Environmental are in full force and effect, and that Guarantor has no defenses to the enforcement thereof.

EXHIBIT (12)

2. Guarantor hereby acknowledges and consents to the modification of the \$12,575,000 Loan Documents made in connection with the current loans.

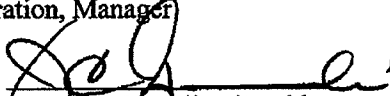
IN WITNESS WHEREOF, Guarantor has executed this Affirmation of the date first hereinabove written.

GUARANTORS:

G Companies Homebuilding, LLC, a
California limited liability company, Manager

By: CAMEO HOMES, a California
Corporation, Manager


By:


James C. Gianulias, President

CAMEO HOMES, a California corporation

By:


James C. Gianulias, President


James C. Gianulias, Individually



James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

Exhibit B -4

CONSTRUCTION LOAN AGREEMENT

BY AND BETWEEN

BEG, LLC, a California limited liability company

and

CALIFORNIA NATIONAL BANK, a national banking association

Dated: May 10, 2006

Loan Nos.: 7600004023 & 7600004033

EXHIBIT (9) /

Loan Agreement

Table of Contents

	<u>Page</u>
ARTICLE I LOAN ACCOMMODATION	2
1.01 The Loan.....	2
1.02 Documents.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	3
2.01 Legal Status.....	3
2.02 Authorization and Validation.....	3
2.03 Financial Information.....	3
2.04 Conformance with Plans and Specifications.....	4
2.05 No Defaults.....	4
2.06 Correct Information.....	4
2.07 Title.....	4
2.08 Permits, Franchises.....	4
2.09 Utilities.....	4
2.10 Taxes.....	5
2.11 Pending Litigation.....	5
2.12 Unpaid Materialmen.....	5
2.13 Agreements and Deposits.....	5
2.14 Encumbrances.....	5
2.15 Other Financing.....	5
2.16 Principal Place of Business.....	5
2.17 Compliance.....	5
ARTICLE III CONDITIONS PRECEDENT.....	6
3.01 Title Policy.....	6
3.02 Title Endorsements.....	6
3.03 Reports and Other Documents.....	6
3.04 Insurance.....	6
3.05 Correctness of Representations; No Defaults.....	7
3.06 Legal Review.....	7
3.07 List of Materialmen.....	7
3.08 No Change in Conditions.....	7
3.09 Sufficient Sums; Owner's Equity.....	8
3.10 Liens.....	8
ARTICLE IV DISBURSEMENT PROCEDURE.....	9
4.01 Accounts.....	9
4.02 Budget.....	9
4.03 Security Interest in Undisbursed Funds.....	9
4.04 Requests for Funds.....	9

4.05	Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement.....	11
4.06	Authorized Signatures.....	12
4.07	Trust Funds.....	12
4.08	Non-Liability of Lender.....	12
ARTICLE V AFFIRMATIVE COVENANTS		12
5.01	Punctual Payments.....	13
5.02	Progress of the Project.....	13
5.03	Offsite Improvements.....	13
5.04	Changes to Plans and Specifications.....	13
5.05	Notice of Casualty.....	14
5.06	Use of Materials.....	14
5.07	Construction Schedules.....	14
5.08	Intentionally Omitted.....	14
5.09	Watchmen.....	14
5.10	Maintenance of Existence; Compliance with Law.....	14
5.11	Insurance.....	15
5.12	Facilities.....	15
5.13	Taxes and Other Liabilities.....	15
5.14	Litigation.....	15
5.15	Other Notifications.....	15
ARTICLE VI INSPECTIONS.....		16
6.01	Construction Work.....	16
6.02	Non-Conformance.....	16
6.03	No Duty.....	16
6.04	Independent Cost Analyses.....	16
ARTICLE VII NEGATIVE COVENANTS		16
7.01	Use of Funds.....	16
7.02	Assessment Districts.....	17
7.03	Liens.....	17
7.04	Leases.....	17
ARTICLE VIII EXCULPATORY PROVISIONS.....		17
8.01	Status as Lender.....	17
8.02	Defective Construction.....	17
8.03	Non-Liability.....	17
8.04	No Representation.....	18
8.05	Brokers' Fees.....	18
8.06	Construction.....	18
8.07	Indemnity.....	18
ARTICLE IX PROTECTION AGAINST LIENS		19
9.01	Paid Claims.....	19
9.02	Release of Liens.....	19
9.03	Notice of Lien.....	19
9.04	Payment of Costs.....	19
ARTICLE X REMOVAL OF PERSONALTY.....		20
10.01	Removal of Personality.....	20

ARTICLE XI BOOKS AND RECORDS	20
11.01 Working Drawings.	20
11.02 Books of Account.	20
11.03 Financial Information.	20
11.04 Project and Property Information.	21
11.05 Appraisals.	21
11.06 Lender Audit Rights.	21
11.07 Further Assurances.	22
ARTICLE XII EVENTS OF DEFAULT	22
12.01 Events of Default.	22
ARTICLE XIII REMEDIES	24
13.01 Remedies.	24
13.02 Remedies Cumulative.	26
13.03 Contest of Third Party Claims.	26
13.04 No Waivers.	26
ARTICLE XIV SALES FACILITIES; MODELS	26
ARTICLE XV SALES OF UNITS	27
15.01 Sales Agreements.	27
15.02 Authority to Execute Sales Agreements.	27
15.03 Default.	28
15.04 Buyer Financing.	28
15.05 Partial Reconveyance.	28
ARTICLE XVI SURVIVAL OF WARRANTIES AND COVENANTS	29
ARTICLE XVII ASSIGNMENT	29
17.01 Owner's Assignment.	29
17.02 Lender's Assignment.	30
17.03 Participation.	30
ARTICLE XVIII ARBITRATION OF DISPUTES	30
ARTICLE XIX MISCELLANEOUS	31
19.01 No Partial Release of Other Lots.	31
19.02 Amendment.	32
19.03 Return of Documents.	32
19.04 Regulatory Restrictions.	32
19.05 Notices.	32
19.06 Time of Essence.	33
19.07 No Third Parties Benefited.	33
19.08 Actions.	33
19.09 Reliance on Representations.	33
19.10 Relationship.	33
19.11 Headings.	33
19.12 Governing Law.	33
19.13 Attorneys' Fees and Costs.	33
19.14 Signs.	33
19.15 Nondiscrimination.	34
Table of Contents.....	i

CONSTRUCTION LOAN AGREEMENT

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of May 10, 2006, by and between BEG, LLC, a California limited liability company ("Owner"), and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

This Agreement is executed by Owner for the purpose of obtaining a \$12,670,000 construction loan (the "Loan") from Lender, to be evidenced by a Construction Deed of Trust Note made by Owner in favor of Lender and secured by, among other things, that certain Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated May 24, 2005, and recorded on May 26, 2005, which shall be amended by that certain First Amendment to Construction Deed of Trust of even date herewith, to be recorded upon the closing of the Loan in Official Records, Riverside County, California, (as amended, the "Deed of Trust"), which Deed of Trust encumbers approximately 30.25 acres of real property located in the unincorporated area of Wildomar, County of Riverside, State of California, described on Exhibit "A" attached to and made a part of this Agreement and all improvements now or in the future erected on such real property (such real property and improvements now or in the future erected on such real property are collectively hereinafter referred to as the "Property").

The Loan is to aid Owner in the refinance of the Property, the construction of four (4) model residential units (the "Models" or "Model Units") and of 27 single-family production residential units (the "Units" or "Production Units"), comprising Phases 1 and 2 of the Shadow Canyon Subdivision (the "Project"). In addition to the Loan, Lender has extended to Owner a refinance in the amount of \$1,363,000 (the "\$1,363,000 Loan"), evidenced by that certain \$1,363,000 promissory note of even date herewith (the "\$1,363,000 Note"), the proceeds of which are to be used by Owner to partially pay down that certain \$12,575,000 Construction Loan made by Lender to Owner in May 2005 (the "\$12,575,000 Loan"), in connection with final mapping of and lot manufacture (86 lots) on the Property. There will be an interest reserve set up for the Loan; there is no interest reserve for the \$1,363,000 Note and interest on it, therefore, shall be paid out of pocket by Owner. Certain provisions of this Agreement, as and where specified, pertain to both the Loan and the \$1,363,000 Loan.

Concurrently with the \$12,575,000 Loan, Owner obtained certain mezzanine financing in connection with the Property from MW Housing Partners III, L.P., a California limited partnership ("MW Housing") in the maximum amount of \$6,470,000, and secured by, among other documents, a deed of trust on the Property (the "Subordinate Financing"). The Subordinate Financing was subordinated to the \$12,575,000 Loan and the Deed of Trust, and is being re-subordinated thereto by that certain First Modification of Subordination Agreement of even date herewith.

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

LOAN ACCOMMODATION

1.01 The Loan. Owner agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, the Loan, which is a construction loan in the principal sum of Twelve Million Six Hundred Seventy Thousand Dollars (\$12,670,000).

1.02 Documents. In order to consummate the Loan, Owner will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:

- (a) Construction Deed of Trust Note ("Note") in the principal amount of \$12,670,000 and bearing interest at the rate set forth in the Note.
- (b) First Amendment to Construction Deed of Trust.
- (c) Assignment of Construction Contract with Classic Pacific, Ltd.
- (d) Assignment of Architect's Contract and Plans and Specifications.
- (e) Assignment of Rights under Sales Agreements, Permits and Development Documents.
- (f) Promissory Note in the amount of \$1,363,000 (the "\$1,363,000 Note").
- (g) Guaranty Agreement (of the Loan by G Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, individually, and James C. Gianulias, as Trustee of the James Chris Gianulias 1998 Trust).
- (h) Guaranty Agreement (of the \$1,363,000 Loan by G Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, individually, and James C. Gianulias, as Trustee of the James Chris Gianulias 1998 Trust).
- (i) Affirmation of Guaranty Agreement.
- (j) First Amendment to \$12,575,000 Note and Related Documents.
- (k) Environmental Indemnity Agreement.
- (l) Limited Liability Company Certifications.
- (m) Trust Certificate re Guaranty and Environmental Indemnity Agreement.

- (n) Corporate Resolution from Cameo Homes.
- (o) First Modification of Subordination Agreement from MW Housing in connection with the Subordinate Financing.
- (p) Lender's form Disbursement Request and Authorization (one for the Loan, one for the \$1,363,000 Loan), Agreement to Provide Insurance, and such other form acknowledgements and authorizations as Lender may require.
- (q) Such other items as Lender may reasonably require.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Owner represents and warrants to Lender that as of the date of recording the Deed of Trust:

2.01 Legal Status. Owner is a limited liability company which is duly organized and validly existing under the laws of the State of California, and is qualified and licensed to do business in all jurisdictions in which such qualification or licensing is required.

2.02 Authorization and Validation. The execution, delivery and performance by Owner of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Owner, (b) have received the approval of Owner's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Owner is a party or by which Owner, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note, each of the Security Documents, the \$1,363,000 Note, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Owner enforceable in accordance with their terms.

2.03 Financial Information. All financial data that has been given to Lender with respect to Owner and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Owner and the Property as of the date on which, and the results of Owner's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles or tax based accounting consistently applied throughout the periods covered. All balance sheets disclose all known material liabilities (excluding current accounts payable), direct and contingent, as of their respective dates. There has been no adverse change in the financial

condition of Owner since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.04 Conformance with Plans and Specifications. No construction of the Project has been or will be undertaken other than in accordance with the final plans and specifications for the Project, as more particularly described on Exhibit "B" attached hereto and incorporated herein, copies of which Owner has initialed for identification and delivered to Lender (the "Plans and Specifications"). The Plans and Specifications submitted to Lender shall be true and correct, satisfactory to Owner, approved by all governmental authorities having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the general contractor. Any construction already performed on the Property has been performed in accordance with the approved Plans and Specifications; there are no structural defects in the Project of which Owner has been advised or of which Owner has noticed or acknowledged; no violation of any applicable law, ordinance, order, rule or regulation exists; and the use of the Project and the Property shall not constitute a violation of any applicable laws, ordinances, orders, rules or regulations.

2.05 No Defaults. Owner is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, the Note, the \$1,363,000 Note, or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, including in connection with the Subordinate Financing, which default would have a material and adverse effect upon its ability to perform under this Agreement, the Note, the \$1,363,000 Note or the Security Documents.

2.06 Correct Information. All reports, papers, data and information given to Lender with respect to Owner or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

2.07 Title. Owner has, or will have at the time of the recordation of the First Amendment to Construction Deed of Trust, good and marketable title in fee simple to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender (or reflected of record at closing).

2.08 Permits, Franchises. Owner possesses all permits, memberships, franchises, contracts, and licenses required and all trademark rights, trade names, trade name rights, patents, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict, to the knowledge of Owner, with the rights of others.

2.09 Utilities. All utility services necessary for the development of the Project and the operation thereof for its intended purpose are either available at the boundaries of the Property or all necessary steps have been taken by Owner to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.

2.10 Taxes. Owner has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes prior to delinquency pursuant to such returns or pursuant to any assessments received by it (with payment to be made prior to delinquency), and Owner does not know of any basis for additional assessment in respect of any such taxes, except in connection with any reassessment for a change in ownership. Owner has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

2.11 Pending Litigation. There is not now pending against or affecting Owner or the Property, nor, to the knowledge of Owner is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Owner.

2.12 Unpaid Materialmen. Except as disclosed to Lender in writing, and except in connection with current work at the Project, no person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid at the time of execution of this Agreement other than payments to be made in connection with the advances hereunder.

2.13 Agreements and Deposits. Owner has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.

2.14 Encumbrances. Except for the Subordinate Financing, which has been approved by Lender, no other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Owner agrees that no junior lien of any nature against all or any portion of the Property shall be given, permitted or suffered by Owner without Lender's written consent. Said consent shall be at Lender's sole option and discretion.

2.15 Other Financing. Except for that financing extended by Lender and the Subordinate Financing, which has a maturity date of no earlier than June 30, 2008, and contains no penalty or charge for prepayment, Owner has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.

2.16 Principal Place of Business. Owner's principal place of business is at the address set forth in this Agreement as the address for notices to Owner. Owner shall promptly notify Lender in writing of any change in Owner's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents or under the \$1,363,000 Note.

2.17 Compliance. Owner has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances of record affecting the Property. The Property in all material respects conforms to and complies with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including

subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan, and Owner shall comply with all requirements of law and the governing body having jurisdiction in connection with the process of finalizing the current tentative map, number 30939, for the Property.

ARTICLE III

CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Owner's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

3.01 Title Policy. Owner shall furnish to Lender with such endorsements as Lender may require to its current ALTA Lender's Policy of Title Insurance, which shall insure that the Deed of Trust is and remains a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. The amount of said Policy of Title Insurance shall be in the principal amount of the Loan, plus the outstanding balance of, plus remaining commitment under, the \$12,575,000 Loan (which is \$7,590,200, after taking into account the partial pay downs of \$1,363,000 and \$3,621,800 described herein), or a total of \$20,260,200.

3.02 Title Endorsements. At Lender's sole and absolute discretion, in addition to the requirements of Section 3.01 hereof, Lender may require Owner to obtain, in connection with any or all requested disbursements, at Owner's sole cost and expense, Endorsements 102.7, 122, and such other endorsements as Lender may require, which endorsements are to be attached to and be a part of Lender's Policy of Title Insurance on the Deed of Trust.

3.03 Reports and Other Documents. Owner shall furnish to Lender, at Owner's sole cost and expense, (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Substances" (as that term is defined in the Environmental Indemnity Agreement referred in Section 1.02 above) are present in, on, under or about the Property, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property, (c) all documents required under Section 1.02 above, (d) any other documents or funds required by this Agreement, and (e) an appraisal of the Property by or on behalf of Lender utilizing Lender's required appraiser, in form and content acceptable to Lender. With respect to (a) and (b), above, Lender acknowledges that it is using the existing reports which it has in its possession and same are acceptable.

3.04 Insurance. Owner shall furnish to Lender, at Owner's sole cost and expense, such policies of insurance in such amounts and in accordance with the standards set forth on

Exhibit "C" attached hereto and incorporated herein, with standard mortgagee's endorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Owner in writing (other than earthquake insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. Certifications evidencing the originals of all such policies in form and content acceptable to Lender shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Owner or any other person, and Owner assumes the full risk, responsibility and liability, if any, with respect to such matters. If Owner fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Owner, in which event Owner shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents.

3.05 Correctness of Representations; No Defaults. The representations and warranties of Owner contained in Article II hereof shall be true and correct on and as of the date of Lender's advancing any of the proceeds of the Loan, with the same effect as though such representations and warranties had been made on and as of such date, and on such date no Event of Default as defined in Article XII hereof shall have occurred and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default shall have occurred and be continuing or shall exist.

3.06 Legal Review. All legal matters incidental to the granting of the Loan shall be satisfactory to counsel of Lender.

3.07 List of Materialmen. At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Owner (but no more often than once a month), Owner shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.

3.08 No Change in Conditions. There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.

3.09 Sufficient Sums; Owner's Equity. Within five (5) days after notice from Lender, Owner shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project and/or any phase thereof within the purview of the Budget (described in Section 4.02, below) and/or the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or costs in excess of the "Maximum Loan Amount" under the Note which may be due and unpaid from time to time, or otherwise. Owner agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. It is expressly understood and agreed that the Loan shall at all times be "in balance," and that Owner will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to keep the Loan "in balance." The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its reasonable discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Owner to perform and satisfy all of Owner's covenants contained in this Agreement, the Note and the Security Documents. The Loan is "out of balance" if Lender in its reasonable discretion determines at any time that the undisbursed Funds are not sufficient for all the above purposes, and Owner shall forthwith cause the Loan to be "in balance" by depositing the amount of such deficiency with Lender within five (5) days after the date of Lender's notice of the deficiency. Such amount shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article IV below. In addition, whenever the Loan becomes "out of balance," Owner shall submit, for Lender's approval, a revised Budget for the Project, or each phase thereof, if the Project is phased, then under construction and/or unsold, within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Owner to deposit additional funds as described above, Owner and Lender hereby agree that prior to the first advance, Owner shall furnish to Lender: (i) evidence satisfactory to Lender that Owner has title to equity in the 4 Model Units and the 27 lots comprising Phases 1 and 2 in the amount of \$333,142 (which does not include the \$1,363,000 Loan); and (ii) an appraisal prepared in accordance with Section 3.03 (e) hereof and acceptable to Lender showing the finished lot value for such property totaling \$5,693,000 (as subdivided into 86 lots, with a minimum size of approximately 7,200 sq. ft. each), and a retail value for such property totaling \$16,647,000). In this connection, Lender is in receipt of a satisfactory appraisal prepared by Chute Realty Services, Inc., dated November 17, 2005.

3.10 Liens.

Owner shall furnish proof satisfactory to Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded, with the exception of any of the same that Owner has caused, in accordance with statutory requirements, to be bonded over.

ARTICLE IV

DISBURSEMENT PROCEDURE

4.01 Accounts. All funds deposited by Owner with Lender pursuant to this Agreement will be placed in an interest bearing account with Lender and under Lender's sole control (the "Borrower's Funds Account"). The Loan funds under the Loan (the "Loan Account") and the Owner's funds and interest thereon held in the Borrower's Funds Account are hereinafter sometimes collectively referred to as the "Funds." Owner agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan Account will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.

4.02 Budget. Attached to and made a part of this Agreement as Exhibit "D" is a detailed cost breakdown for the Project ("Budget"). All disbursements and Requests for Funds shall be in accordance with the cost breakdown contained in the Budget, which Lender has approved. If Owner becomes aware of any material change in the approved construction costs which would increase the total cost of construction of the Project as shown on the Budget, then Owner shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its reasonable discretion.

4.03 Security Interest in Undisbursed Funds. Owner hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Owner's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Owner in the Borrower's Funds Account and all monies in the Loan Account.

4.04 Requests for Funds.

(a) Following commencement of the Project, Owner shall submit to Lender or to Lender's designated agents from time to time a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Owner setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Owner and, if required by Lender, the general contractor, engineer and/or the architect, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman to be paid

pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services, equipment and materials performed or supplied by such party, as appropriate. If requested by Lender, Owner shall also submit copies of statements, bills or invoices from any architects, contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained herein, Lender shall make disbursements to Owner's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the contractors, subcontractors, laborers or materialmen during the continuance of any default by Owner.

(b) Lender will make disbursements to pay for the construction costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for one hundred percent (100%) of the first ninety percent (90%) of the construction costs for each line item of expense (by reference to the Budget) as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for the percentage of completion of each line item, (ii) in no event shall any disbursement of any line item of the Budget exceed the percentage of completion of such line item or such line item as a whole, as applicable, and (iii) the final disbursement equal to ten percent (10%) of the construction costs shall be subject to the requirements of subsection (d) below. Disbursements to pay for construction costs will be made not more frequently than twice monthly.

(c) Lender will make disbursements to pay for Owner's approved financing, development and other non-construction Project costs shown on the most recently approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Owner, and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due: any Loan fees owing to Lender, including without limitation a Loan fee at the time of recordation of the First Amendment to Construction Deed of Trust in the aggregate sum of One Hundred Fifteen Thousand Four Hundred Dollars (\$115,400), which is comprised of a loan fee in connection with the Loan of \$95,025 (0.75%) and of \$20,375 (approximately 1.50%) in connection with the \$1,363,000 Loan; partial paydowns from proceeds of the Loan and the \$1,363,000 Loan in the aggregate amount of \$4,984,800 (comprised of the entire proceeds of the \$1,363,000 Loan and the amount of \$3,621,800 from the Loan); interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Owner to Lender with respect to the Loan. Such payments

may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Owner. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for reasonable legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the miscellaneous title and closing costs category shown on Exhibit "D". Owner agrees that any Loan funds allocated on Exhibit "D" and/or any phase budget for interest reserve or for contingency reserve, together with any Loan funds or Owner's funds not otherwise disbursed, shall be disbursed for interest payments on the Note and/or for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender's reasonable discretion Lender pays. Should interest on the Loan herein exceed the amount of interest reserve reserved herein, Lender shall bill Owner monthly for said interest or require payment thereof in accordance with Section 3.09, and Owner shall promptly pay said bill. Any overages and/or savings resulting from expenditures in the categories described herein or in the budget shall, in Lender's reasonable discretion, be allocated to interest reserve and other miscellaneous cost category herein. Owner further agrees that the Loan fee payable to Lender with respect to this Loan shall be disbursed to Lender upon recordation of the First Amendment to Construction Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

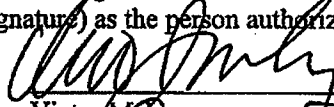
(d) The final disbursement of Funds for construction costs shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

- (i) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property or obtaining satisfactory releases from all liens which may have been filed or bonding in accordance with California law to provide for payment of such liens;
- (ii) Verification by Lender of completion of the Project in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and
- (iii) Evidence that a title company approved by Lender (First American Title Company or another title company reasonably satisfactory to Lender) is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement modified, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.


4.05 Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement. Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (i) an Event of Default has occurred and is continuing (or an event or non-event has occurred

or not occurred that with notice or the passage of time or both would become an Event of Default), or (ii) there are unreleased and unbonded mechanics' liens or stop notices in existence, or (iii) such disbursement would cause the loan to value ratio for (a) the Project to exceed seventy-six percent (76%) of appraised value as reasonably determined by Lender and with reference to the Budget, or (b) all of the Property, taking into account the Loan, the \$12,575,000 Loan and \$1,363,000 Loan, to exceed 75% of the aggregate appraised value. Further, at no time shall the advance rate on the Loan exceed 80% loan to value for the Model Units and 75% loan to value for the 27 Production Units. For the purpose of establishing the value of the Project, the most recent appraised value as determined by or on behalf of Lender shall be used. At any time that the loan to value ratio exceeds the foregoing limits, Owner, within ten (10) days of Lender's written demand, shall remargin the Loan by depositing sufficient cash with Lender so as to bring the Loan into conformity with the above-stated loan to value ratio.

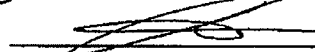
4.06 Authorized Signatures. The following persons, by their specimen signatures as set forth below, are hereby designated by Owner as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Owner, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person authorized to sign such requests:



Victor Mahony



James C. Gianulias



David Gianulias

4.07 Trust Funds. Owner covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Owner.

4.08 Non-Liability of Lender. Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Owner acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Owner further acknowledges that disbursements hereunder may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE V

AFFIRMATIVE COVENANTS

Owner covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any

contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note (with respect to the \$1,363,000 Note, so long as amounts remain outstanding thereunder, irrespective of whether any obligations under the Loan remain outstanding, the covenants contained in Sections 5.01, 5.10, 5.13, 5.14 and 5.15 shall remain in force and effect), Owner shall:

5.01 Punctual Payments. Punctually pay: The interest and principal of the Note and the \$1,363,000 Note at the times and place and in the manner specified in the Note and the \$1,363,000 Note; and any fees or other liabilities due hereunder and under the Note and the \$1,363,000 Note and any of the Security Documents at the times and place and in the manner specified in this Agreement, the Note, the \$1,363,000 Note or the Security Documents, as appropriate.

5.02 Progress of the Project. Diligently prosecute the Project until completion in a workmanlike manner, subject to force majeure. In any and all events Owner shall complete the Project on or before the "Maturity Date" under the Note, all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The Maturity Date of the Note shall be adjusted on a day for day basis for each day that the Project is delayed by reason of force majeure, but in no event shall the Maturity Date be extended for more than ninety (90) days beyond the current Maturity Date under the Note. In the event a force majeure causes an extension of the Maturity Date as herein provided, and no written extension agreement is entered into between Owner and Lender providing for such an extension, Owner shall pay to Lender an "extension fee" in the proportionate amount of the Loan fee paid by Owner reflected in Section 4.04 (c), above.

5.03 Offsite Improvements. Diligently pursue and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and when approved, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of improvement of the Project. Owner expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing a bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.

5.04 Changes to Plans and Specifications. Agree that no material change in the engineering Plans and Specifications shall be made without first obtaining the written consent of Lender. Any changes desired by Owner which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the plans and specifications and/or working drawings applicable to the changes; provided, however, that if and to the extent such changes are submitted to Lender in writing and not approved or disapproved within 15 business days after submittal, the same shall be deemed to be approved by Lender. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost

of the Project (except in connection with Owner's deposit of funds to cover such increased costs), and Lender shall have the right to require Owner to deposit additional funds with Lender to pay for such changes.

Owner acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Owner consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Owner shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.

5.05 Notice of Casualty. Give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Owner to commence the Project or to complete it in a timely manner.

5.06 Use of Materials. Agree that all materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.

5.07 Construction Schedules. From time to time during the course of construction, but not more frequently than once per quarter (except during the continuance of a default), and within ten (10) days after written request by Lender, furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees, interest during construction, and contractor's overhead.

5.08 Intentionally Omitted.

5.09 Watchmen. Provide such watchmen and take such other measures to protect the physical security of the Property as reasonably necessary.

5.10 Maintenance of Existence; Compliance with Law. Preserve and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises; conduct its business in an orderly, efficient and regular manner; comply in all material respects with the provisions of all documents pursuant to which Owner is organized and/or which govern Owner's continued existence; and comply with the requirements of all applicable laws, rules, regulations, orders of any governmental authority and requirements for the maintenance of Owner's insurance, licenses, permits, governmental approvals, rights, privileges and franchises.

5.11 Insurance. Maintain and keep in force insurance of the types, in the amounts, in the form and with the carriers required under this Agreement and under any and all of the Security Documents, provided, however, that Owner shall not be required to maintain earthquake or terrorism insurance, unless required by law or regulation.

5.12 Facilities. Keep all of Owner's properties useful or necessary to Owner's business, including without limitation the Property, in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that Owner's properties, and the Property, shall be fully and efficiently preserved and maintained.

5.13 Taxes and Other Liabilities. Pay, at least fifteen (15) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand during the continuance of an Event of Default, Owner shall, until all indebtedness secured by the Security Documents has been paid in full, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall be placed in an interest-bearing account by Lender, shall not be commingled with the general funds of Lender and shall, unless Owner is otherwise in default hereunder or under the Note or Security Documents, be released to Owner for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Owner is in default thereunder.

5.14 Litigation. Promptly give notice in writing to Lender of any litigation pending or threatened against Owner or, to Owner's knowledge, the Property having a potential or claimed liability in excess of Fifty Thousand Dollars (\$50,000.00).

5.15 Other Notifications. Promptly (but in no event more than five (5) business days after the occurrence of each such event or matter and knowledge thereof by Owner) give notice in writing to Lender of: (a) any termination or cancellation of any insurance policy which Owner is required to maintain; (b) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Owner's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (c) the change in the name or the organizational structure, dissolution or adverse change in financial condition of Owner; (d) the death, disability or legal incapacity of James C. Gianulias.

ARTICLE VI

INSPECTIONS

6.01 Construction Work. Lender, through its officers, agents and employees, shall have the right at any time and from time to time to enter upon the Property during normal business hours, and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof) of Owner and general contractor to the extent that the same may relate to the Property or the Project. Owner shall pay all reasonable costs associated with Lender or Lender's agents' inspection of the Project.

6.02 Non-Conformance. If Lender determines that any work or materials are not in material conformity with the Plans and Specifications as approved by Lender, or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.

6.03 No Duty. It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.

6.04 Independent Cost Analyses. Owner will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may reasonably require, and shall deliver forthwith to Lender, upon Lender's written request therefore, true and correct copies of all inspections or cost analyses prepared or made by or for Owner.

ARTICLE VII

NEGATIVE COVENANTS

Owner further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner will not without prior written consent of Lender:

7.01 Use of Funds. Use any of the proceeds of the Loan for any purposes other than as stated in Article IV hereof.

7.02 Assessment Districts. Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.

7.03 Liens. Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof or as bonded over in accordance with this Agreement.

7.04 Leases. Enter into any new leases of all or any portion of the Property, or amend, modify or cancel any leases of all or any portion of the Property, without the prior written approval of Lender, which shall not be unreasonably withheld.

ARTICLE VIII

EXCULPATORY PROVISIONS

Owner acknowledges, understands and agrees as follows:

8.01 Status as Lender. The relationship between Owner and Lender is and shall at all times remain, solely that of borrower and lender and Lender neither undertakes nor assumes any responsibility or duty to Owner to select, review, inspect, supervise, pass judgment upon or inform Owner of the quality, adequacy or suitability of the following:

(a) The engineering or architectural Plans and Specifications or amendments, alterations and additions thereto;

(b) Engineers, architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or

(c) The progress or course of construction and its conformance or non-conformance with the engineering Plans and Specifications or amendments, alterations and changes thereto.

8.02 Defective Construction. Lender owes no duty of care to protect Owner against negligent, faulty, inadequate or defective building or construction at the Property.

8.03 Non-Liability. Lender shall not be responsible or liable to Owner for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Owner or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Owner shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

8.04 No Representation. By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

8.05 Brokers' Fees. Owner agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan, if and to the extent a claim therefor is determined to be a claim arising by or through Owner (it being understood that any such commission, charge or brokerage fees will be paid directly by Owner to the party(ies) entitled thereto).

8.06 Construction. Lender shall in no way be liable for any acts or omissions of Owner, or any agent, contractor, architect, engineer or other person furnishing labor and/or materials used in relation to any construction at the Property.

8.07 Indemnity. Owner agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to the later of (i) completion of any foreclosure proceeding or recordation of a deed in lieu thereof, or (ii) the time Owner is in control or occupancy of the Property (either (i) or (ii) a "Change in Control"), (b) Lender's performance of any act permitted under this Agreement, the Note or any of the Security Documents (unless arising out of Lender's willful misconduct), (c) breach of any representation or warranty made by Owner or any obligation of Owner contained in this Agreement, and (d) any allegation that Lender is liable for any act or omission committed by or on behalf of Owner, prior to a Change in Control, in connection with the ownership, operation or development of the Property. Upon demand by Lender, Owner shall defend any action or proceeding brought against Lender covered by this indemnity, at Owner's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Owner, in which event all reasonable fees and reasonable costs of such defense shall be paid by Owner upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE IX

PROTECTION AGAINST LIENS

9.01 Paid Claims. Owner agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan Funds; provided, however, that bonding in accordance with statutory requirements shall in all events be considered "reasonable steps." Owner irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note or the Security Documents.

9.02 Release of Liens. Upon demand by Lender, Owner shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Owner shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Owner to pay any claims for labor, materials, or services which Owner in good faith disputes and which Owner, at its own expense, is currently and diligently contesting; provided that Owner shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

9.03 Notice of Lien. Owner agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Owner and (b) to the Property, which are addressed to "California National Bank" or to "Construction Lender" shall be promptly delivered to Lender. Owner further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

9.04 Payment of Costs. Owner shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Owner shall pay:

- (a) All fees and commissions lawfully due to any brokers claiming by or through Owner, and all fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;
- (b) All taxes and recording expenses;

(c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and

(d) All reasonable costs, charges, and expenses agreed to be paid by Owner and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE X

REMOVAL OF PERSONALTY

10.01 Removal of Personalty. Owner agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Owner will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Owner, free and clear of any lien or security interest.

ARTICLE XI

BOOKS AND RECORDS

11.01 Working Drawings. Owner shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

11.02 Books of Account. Owner shall maintain or cause to be maintained full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with tax accounting (fairly presenting Owner's financial position), or generally accepted accounting principles or tax based accounting, consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time after an Event of Default, such financial data as Lender shall reasonably request relating to the ownership or operation of the Property.

11.03 Financial Information. Owner understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers, guarantors, and such other parties as

Lender relies upon in its underwritings of its loans. Accordingly, Owner hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

(a) Within ninety (90) days following the end of each calendar semi-annual period for G Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias (consolidated), internally prepared, unaudited financial statements (including without limitation personal financial statements, asset and liability statements, income and expense statements, cash flow statements and such other financial information as was previously provided to Lender or as Lender may reasonably request), all of which data to be certified as true and accurate and as having been prepared in accordance with generally accepted accounting or tax based accounting principles consistently applied; and

(b) Within thirty (30) days of filing, a copy of the most current federal tax return for Owner and for each party referenced in (a), above. With respect to Owner, in lieu of providing Lender its tax return, it may furnish its audited financial statement, if any.

Owner agrees that the requirements of this Section 11.03 shall remain in full force and effect so long as there remain any outstanding obligations under this Agreement, the Note, the \$1,363,000 Note or the Security Documents. Owner further agrees that the failure of Owner to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

11.04 Project and Property Information. On a weekly basis, Owner shall submit to Lender Owner's customary sales reporting information specifying the current status and progress of the sales effort for the Shadow Canyon Subdivision. Such report shall include, with respect to the week immediately preceding the report: (i) the number, and identification by location and sales price, of sales made; (ii) the number of sales contract or escrow cancellations; (iii) the number of Units in escrow, and any material modifications to the corresponding sales contracts or escrows, including any decrease in consideration to be paid thereunder from that previously reported; and (iv) loan approvals for financing of the purchases. Once the Subordinate Financing is paid in full or no longer constitutes a lien on the Property, the reports referenced in this Section may be made on a biweekly basis.

11.05 Appraisals. Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Owner shall obtain, as promptly as possible and at Owner's expense, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its reasonable discretion.

11.06 Lender Audit Rights. Lender and its agents and representatives shall have the right to inspect and audit all books and records of Owner, during normal business hours, pertaining to the statements, reports and information required under this Article XI in order to

obtain and verify such information as Lender deems necessary or appropriate. Lender shall also have the right to examine, copy and audit the books, records and accounting data and other documents of Owner's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Owner reasonable notice prior to exercising its rights hereunder, and the costs thereof shall be borne by Lender, unless the results thereof shall reveal a material adverse discrepancy from the information reported to Lender.

11.07 Further Assurances. Owner, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XII

EVENTS OF DEFAULT

12.01 Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Owner does not proceed diligently with the Project and the completion thereof, subject to the provisions of Section 5.02, including those provisions dealing with force majeure, as herein provided;

(b) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents within ten (10) days of demand therefor by Lender;

(c) Any representation or warranty made by Owner hereunder or in the Note, Security Documents, any other documents executed by Owner in connection with the Loan proves to have been false or misleading in any material respect when made;

(d) Owner shall fail to observe or perform any non-monetary term, obligation, agreement or other provision contained herein or in the Note, the Security Documents, in any other contract or instrument executed in connection herewith, and fails to remedy such default within thirty (30) days after notice from Lender, or, if the same is not reasonably susceptible to cure within such thirty (30) day period, fails to commence to cure within such period, or thereafter fails to diligently prosecute such cure to completion, provided, however, that in no event will the time for completion of the Project be extended beyond the date provided in Section 5.02, nor shall the maturity date of the Note be extended beyond the date set forth therein;

(e) Any default or defined event of default under the Note, any of the Security Documents, any other documents executed in connection with the Loan or any default or defined event of default under the \$12,575,000 Loan, the \$1,363,000 Loan, or the Subordinate Financing, or any documents executed in connection therewith, after passage of any applicable cure period without cure;

(f) If at any time the maturity date of the indebtedness under the Subordinate Financing becomes earlier than June 30, 2008;

(g) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due to a condition involving an act of God or force majeure, the Owner shall not be deemed in default under this subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within sixty (60) days (provided the same is possible, taking into account the facts and circumstances associated with the force majeure), and (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note, any of the Security Documents, except as provided in Section 5.02, above;

(h) If Lender should determine that said work is not in conformance with the engineering Plans and Specifications and the terms of this Agreement (in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it) and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender, unless said work cannot reasonably be completed within such thirty (30) day period and Owner has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding ninety (90) days shall be granted;

(i) If Owner shall default, beyond any applicable cure period, under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other instrument executed in connection with the development of the Project;

(j) Owner shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors;

(k) Owner shall file a voluntary petition in bankruptcy, or seek reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or decodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect, or any involuntary petition or proceeding

pursuant to said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Owner, or Owner shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition, or Owner shall be adjudicated a bankrupt, or an order for relief shall be entered by any court of competent jurisdiction under said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors;

(l) The filing of a notice of judgment lien against Owner, or the recording of any abstract of judgment against Owner, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Owner, or the entry of a judgment, order or decree against Owner, any or all of which would have a material and adverse effect upon Owner's ability to perform under this Agreement or the Security Documents, and Owner's failure to cause removal of same within a reasonable period of time, but in no event more than sixty (60) days after such filing, recordation or entry;

(m) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation thereof;

(n) The dissolution or liquidation of Owner or any of its members, or Owner, its members or the members of any of its members, shall take action seeking to effect the dissolution or liquidation of Owner or any of its members; or

(o) Except as otherwise specifically permitted in this Agreement or the Security Documents, if Owner shall convey title to, or any interest in, any of the Property.

Unless a time frame is otherwise specified above, and in connection with any default of a non-monetary covenant or agreement, so long as such failure or non-compliance is susceptible to cure, Owner shall be entitled to thirty (30) days written notice from Lender of same before such failure or non-compliance shall constitute an Event of Default. Provided further, if such non-monetary failure or non-compliance is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Trustor or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure, provided, however, that in no event will the time for completion of the Project be extended beyond the date provided in Section 5.02, nor shall the Maturity Date of the Note be extended beyond the date set forth therein during the period otherwise applicable for said cure.

ARTICLE XIII

REMEDIES

13.01 Remedies. Upon or at any time after the happening of any Event of Default hereunder, and during the continuance thereof, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, shall have the following rights and remedies:

Declare all Loan funds previously disbursed hereunder to be due and payable and terminate any obligation of Lender to disburse any remaining funds hereunder to Owner and proceed as authorized by law to satisfy the indebtedness of Owner to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Owner of the obligations evidenced by said Note and by this Agreement.

(a) Take possession of the Property and let contracts for or otherwise proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be considered and be an additional loan to Owner and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Owner agrees to pay the same. Owner further hereby authorizes Lender at its option at any time, either in its own name or in the name of Owner, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

(b) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any Impounds shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the Beneficiary or Trustee under the Deed of Trust.

(c) Upon the happening of any Event of Default which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of the Lender's own funds shall not, however, be deemed to cure such default by Owner, and the same shall not be so cured unless and until Owner shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount

which Lender determines to be necessary to provide for such completion shall be deposited by Owner pursuant to the terms of Section 3.09 hereof. If Lender advances its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Owner shall immediately upon demand reimburse Lender with interest at the default interest rate provided for in the Note from the date of such advance until the date of reimbursement.

13.02 Remedies Cumulative. All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

13.03 Contest of Third Party Claims. Notwithstanding anything to the contrary herein contained, Owner shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Owner shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Owner or the adverse claimant.

13.04 No Waivers. No waiver by Lender of any default or breach by Owner hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XIV

SALES FACILITIES; MODELS

For so long as any amounts are owing by Owner to Lender under the Loan or under the \$12,575,000 Loan or under the \$1,363,000 Loan, or under any other loans or advances made by Lender to Owner in connection with the Property, Owner shall maintain adequate sales facilities and support staff therefor, as determined by Lender, for the marketing of the Units, including the

four Model Units constructed with the aid of the Loan, representing the four plans which Owner intends to construct with the aid of the proceeds of this Loan. Owner has determined that the Model Units are necessary for the marketing, sale or promotion of Units within the Property and the Project, and therefore Lender has required that Owner maintain the Model Units in good condition and repair (including without limitation upkeep and replacement of all landscaping, furniture and furnishings) and in compliance with all applicable laws, ordinances, restrictions and requirements, including without limitation disabilities accommodation and access laws. The Model Units shall not be offered for sale until all amounts owing to Lender, as set forth above, have been paid in full.

ARTICLE XV

SALES OF UNITS

15.01 Sales Agreements. Each Unit shall be sold under a written agreement, approved by Lender as to form and conforming to any and all rules or regulations promulgated by any federal, state or local governmental entity with jurisdiction over the Property, including, without limitation, the County of Riverside and/or the California Department of Real Estate which requires disclosures to prospective and actual buyers (collectively referred to as "Sales Agreements", and individually referred to as a "Sale Agreement").

15.02 Authority to Execute Sales Agreements. For purposes of this Agreement, a sale is considered to occur only if a Sales Agreement is executed which meets the requirements of this Agreement. For purposes of this Agreement, a sale is considered to close, or close of escrow occurs, only when title passes to the buyer and Owner receives full payment in cash of all net proceeds of the sale. Owner may enter into sales of Units in the ordinary course of business with bona fide third party buyers without Lender's prior written consent if:

(a) A Sales Agreement is executed with the buyer which conforms to the requirements of this Agreement, including subsections (b) and (c), below;

(b) Owner, acting in good faith in following exercise of due diligence, has determined that the buyer is financially capable of performing all of its obligations under the Sales Agreement; and

(c) The sales price, as to any Production Unit is not less than an amount which, after taking into account all closing costs, will result in net sales proceeds of not less than Lender's minimum release price ("Minimum Release Price") for the corresponding Unit set forth in Exhibit "E" attached hereto and made a part hereof. The Minimum Release Price will be reduced, as provided on said Exhibit "E," at such time as all amounts under the \$1,363,000 Loan are paid in full, with no commitment left outstanding thereunder. The initial Minimum Release Price ("Initial Minimum Release Price") is calculated at 120% of the pro rata par amount of the Loan, and the reduced Minimum Release Price ("Reduced Minimum Release Price") is calculated at 116% of the pro rata par amount of the Loan, as shown on said Exhibit "E."

15.03 Default. If Owner is in default under this Agreement, or would be in default but for the requirements of notice or the passage of time, or both, Lender may make written demand on Owner to submit all future Sales Agreements for Lender's approval prior to execution, together in each instance with all accompanying financial statements and other information that Owner may have pertaining to the prospective buyer.

15.04 Buyer Financing. Owner acknowledges that Lender has not, by this Agreement, committed to provide any financing to or for the buyers.

15.05 Partial Reconveyance. At Owner's request upon the close of escrow of a Production Unit ("Release Parcel") to a residential purchaser, Lender shall issue a partial reconveyance of such Release Parcel from the Deed of Trust, so long as all of the following conditions are satisfied at the time of, and with respect to, the partial reconveyance:

(a) No Event of Default under this Agreement by Owner shall have occurred and be continuing, nor would there be an Event of Default but for the requirements of notice or the passage of time, or both.

(b) Owner shall have given Lender at least fifteen (15) days prior written notice of the request for such reconveyance. Each such request by Owner shall be in writing delivered to the trustee under the Deed of Trust and to Lender.

(c) Each such request shall be accompanied by a legal description of the property to be reconveyed, which in all events shall constitute a legal lot in compliance with the California Subdivision Map Act and part of the subdivision as contemplated under the Plans and Specifications, including without limitation having direct access to public streets or roads. Notwithstanding the foregoing, no portion of the Property shall be released which will prevent Lender's means of ingress and egress to property not yet released unless there is provided to Lender an easement for access to unreleased property or the property to be released contains streets or roads dedicated to the public use which would allow access by Lender to property not yet released.

(d) Owner shall pay all costs required in connection with the execution and recording of such reconveyances, including without limitation the cost of preparing and delivering the partial reconveyance, any title insurance endorsements required by Lender insuring the continued interest and priority of the Deed of Trust in favor of Lender, and any attorneys' fees and costs incurred in connection with the foregoing.

(e) For each Release Parcel requested to be reconveyed, and so long as the \$1,363,000 Loan has not been repaid in full, Owner shall pay either to Lender or to the Trustee under the Deed of Trust for the account of Lender, the greater of (i) the Initial Minimum Release Price for the particular Unit as set forth in Exhibit "E" hereto, or (ii) the net sales proceeds for such Unit. The term "net sales proceeds" as used herein shall mean the gross sales amount for the Unit, less reasonable and customary closing costs, including escrow, title and recording fees and reasonable real estate sales commissions incurred in connection with such sale.

(f) For each Release Parcel requested to be reconveyed, and after the \$1,363,000 Loan has been repaid in full, Owner shall pay either to Lender or to the Trustee under the Deed of Trust for the account of Lender, the Reduced Minimum Release Price for the particular Unit as set forth in Exhibit "E" hereto.

All sums so paid to Lender for reconveyances shall be applied as follows: an amount equal to the Reduced Minimum Release Price shall be applied against the outstanding balance of the Loan, with the balance of such sums applied against the outstanding balance of the \$1,363,000 Loan. Once the \$1,363,000 Loan is paid in full, the Reduced Minimum Release Price shall be applied against the outstanding balance of the Loan.

If Lender accepts any payment or issues any partial reconveyance, it shall not affect Owner's obligation to repay all amounts and perform all obligations that are owing under the Security Documents or secured by the Deed of Trust on the Property which is not reconveyed. If Lender does not require satisfaction of all of the conditions described above before releasing one or more Release Parcels, that alone shall not be a waiver of such conditions, and Lender reserves the right to require their satisfaction in full before releasing any further parcels from the Deed of Trust.

Except as set forth above in connection with Production Units, Owner shall have no right to a partial reconveyance of any other lot or portion of the Property.

ARTICLE XVI

SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full. The foregoing notwithstanding, such warranties, representations, covenants and agreements set forth herein which specifically refer to the \$1,363,000 Note shall continue in full force and effect until the indebtedness evidenced thereby shall be paid in full.

ARTICLE XVII

ASSIGNMENT

17.01 Owner's Assignment. Owner shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon, except in each case in the ordinary course of business in connection with Unit sales in the subdivision in accordance with the requirements of this Agreement, without the prior written consent of Lender.

17.02 Lender's Assignment. Lender may at any time assign this Agreement, the Note, the \$1,363,000 Note, and/or the Security Documents, and any guaranty thereof, and upon such assignment, Lender shall have no further obligation or liability of any nature in connection herewith if and to the extent the assignee expressly assumes the liability of Lender. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, the \$1,363,000 Note, and the Security Documents.

17.03 Participation. Owner understands that Lender may transfer and assign its interest in the Loan, this Agreement, and/or the Security Documents, pledge its interest in the Loan, this Agreement, and/or the Security Documents or grant or sell participations in some or all of Owner's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan or the \$1,363,000 Loan. Owner shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XVIII

ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT OWNER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST OWNER NOTWITHSTANDING OWNER'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS ARBITRATION AGREEMENT, OWNER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, OWNER'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Owner's Initials


Lender's Initials

ARTICLE XIX

MISCELLANEOUS

19.01 No Partial Release of Other Lots. Owner intends to construct residences on the 86 lots comprising the Property with the assistance of this and further production loans from Lender, which further production loans are subject to Lender approval. Should any such

production loan or loans be approved, the lots will be released into the production loan at a price of \$160,800 per lot. Other than as specified herein, Owner shall not be entitled to, and Lender shall not be obligated to issue partial release of any of the Property.

19.02 Amendment. This Agreement, the Security Documents, the Note and the \$1,363,000 Note and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.

19.03 Return of Documents. If the Loan is not consummated within thirty (30) days after the date hereof, Owner shall return all documents and instruments to Lender upon demand.

19.04 Regulatory Restrictions. It is understood and agreed by Owner that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including, but not limited to, legal lending requirements.

19.05 Notices. All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

If to Owner: BEG, LLC
c/o Cameo Homes
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

If to Lender: CALIFORNIA NATIONAL BANK
1301 Dove Street, Suite 101
Newport Beach, CA 92660-2458
Attn: Real Estate Group

or such other address as shall, from time to time, be supplied in writing by any party to the others. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. Postal Service or private courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

19.06 Time of Essence. Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

19.07 No Third Parties Benefited. This Agreement is made for the sole benefit and protection of Owner and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.

19.08 Actions. Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Owner agrees to pay the same.

19.09 Reliance on Representations. Lender may conclusively assume that the statements, acts, information and representations made by Owner or its agents contained in any affidavits, orders, receipts or other written instruments which were filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.

19.10 Relationship. Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.

19.11 Headings. The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

19.12 Governing Law. This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.

19.13 Attorneys' Fees and Costs. If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.

19.14 Signs. Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.

C

19.15 Nondiscrimination. During the term of this Agreement, neither Owner, its respective partners, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or lessee or prospective purchaser or lessee of all or any portion of the Property, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900, *et seq.*, of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0, *et seq.*), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for Construction Loan Agreement

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

LENDER:

CALIFORNIA NATIONAL BANK,
a national banking association

By: _____

Its: _____

Andrew J. [Signature]

Vice President

OWNER:

BEG, LLC, a California limited liability company

By: G Companies Homebuilding, LLC, a
California limited liability company, Manager

By: CAMEO HOMES, a California
corporation, Manager

By: _____

[Signature]
James C. Gianulias, President

EXHIBIT A

Legal Description

Real property in the inincorporated area of Wildomar, County of Riverside, State of California, described as follows:

PARCEL 1:

THOSE PORTIONS OF LOT 47 AND OF THE VACATED STREET (FORMERLY HAND STREET), ADJOINING SAID LOT ON THE EAST, IN BLOCK "L" OF ELSINORE, AS SHOWN BY MAP OF BLOCKS "K", "L" AND "M" OF ELSINORE, ON FILE IN BOOK 4 PAGE 174 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTER LINE OF SAID VACATED STREET, FORMERLY HAND STREET, WITH THE EASTERLY PROLONGATION OF THE SOUTH LINE OF PALOMAR STREET AS SHOWN ON SAID MAP;
THENCE SOUTH 36 DEGREES 32' WEST ON THE CENTER LINE OF HAND STREET TO THE NORTHEASTERLY LINE OF THE ATCHISON, TOPEKA AND SANTA FE RAILROAD RIGHT OF WAY;
THENCE NORTHWESTERLY ON THE NORTHEASTERLY LINE OF SAID RAILROAD RIGHT OF WAY 476.67 FEET;
THENCE NORTH 36 DEGREES 32' EAST TO SAID SOUTH LINE OF PALOMAR STREET;
THENCE SOUTH 49 DEGREES 54' EAST ON THE SOUTH LINE OF PALOMAR STREET PROLONGATED EASTERLY TO THE POINT OF BEGINNING.

PARCEL 2:

THOSE PORTIONS OF LOTS 48 AND 49 AND THE VACATED STREET (FORMERLY HAND STREET) ABUTTING SAID LOT 48 ALL IN BLOCK L OF MAP OF BLOCKS K, L AND M, ELSINORE, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 4 PAGE(S) 174 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA, DESCRIBED AS A WHOLE AS FOLLOWS:

BEGINNING ON THE MOST EASTERLY CORNER OF SAID LOT 49;
THENCE SOUTH 36° 32' 00" WEST 845.66 FEET ON THE SOUTHEAST LINE OF SAID LOT;
THENCE NORTH 49° 54' 00" WEST 515.10 FEET TO THE MOST WESTERLY CORNER OF THE LAND DESCRIBED IN THE DEED TO FORD BEEBE AND BESSIE L. BEEBE, HUSBAND AND WIFE, RECORDED OCTOBER 2, 1963 AS INSTRUMENT NO. 103498 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, AND THE TRUE POINT OF BEGINNING;
THENCE CONTINUING NORTH 49° 54' 00" WEST 775.12 FEET TO THE CENTERLINE OF SAID VACATED STREET;
THENCE NORTH 36° 32' 00" EAST 845.66 FEET ON SAID CENTER LINE TO THE

NORTHWESTERLY PROLONGATION OF THE NORTHEAST LINE OF SAID LOT 48;
THENCE SOUTH 49° 54' 00" EAST 775.12 FEET ON SAID PROLONGATION AND
NORTHEAST LINE AND THE NORTHEAST LINE OF SAID LOT 49 TO THE MOST
NORTHERLY CORNER OF SAID LAND DESCRIBED IN THE DEED TO FORD BEEBE
ET UX;
THENCE SOUTH 36° 32' 00" WEST 845.66 FEET ON THE NORTHWEST LINE OF SAID
LAND TO THE TRUE POINT OF BEGINNING;

EXCEPTING THEREFROM THAT PORTION OF LOT 49 IN BLOCK L OF MAP OF
BLOCKS K, L AND M OF ELSINORE, IN THE COUNTY OF RIVERSIDE, STATE OF
CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 4, PAGE(S) 174 OF MAPS,
RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTHEAST LINE OF SAID LOT 49, NORTH 49° 54'
00" WEST 515.10 FEET THEREON FROM THE MOST EASTERLY CORNER OF SAID
LOT, SAID POINT OF BEGINNING BEING THE MOST NORTHERLY CORNER OF THE
LAND DESCRIBED IN DEED TO JOHN M. NISHIDA, A SINGLE MAN, RECORDED
SEPTEMBER 6, 1973 AS INSTRUMENT NO. 117534 OF OFFICIAL RECORDS OF
RIVERSIDE COUNTY, CALIFORNIA;
THENCE SOUTH 49° 54' 00" EAST, 23.00 FEET ON SAID NORTHEAST LINE OF LOT 49;
THENCE SOUTH 39° 40' 57" WEST 422.04 FEET TO THE INTERSECTION OF THE
NORTHWEST LINE OF THE LAND DESCRIBED IN SAID DEED TO JOHN M. NISHIDA
AND THE TRUE POINT OF BEGINNING;
THENCE SOUTH 36° 33' 52" WEST, 422.83 FEET ON SAID NORTHWEST LINE TO THE
MOST WESTERLY CORNER OF THE LAND DESCRIBED IN SAID DEED;
THENCE NORTH 49° 54' 00" WEST, 23.00 FEET, PARALLEL WITH THE NORTHEAST
LINE OF SAID LOT 49;
THENCE NORTH 39° 40' 57" EAST 422.04 FEET TO THE TRUE POINT OF BEGINNING.

APN: 380-140-002-2 and 380-140-003-3

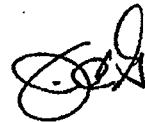


EXHIBIT A-1

Description of Model Units and Phase 1 and 2 Lots

The following lot numbers refer to tentative tract no. 30939 for the Property.

Model Units:

Lots 2-5

Phase 1:

Lots 7-21

Phase 2:

Lots 22-33

A handwritten signature in black ink is written over a circular stamp. The signature is stylized and appears to be "J. L. Smith". The stamp is partially obscured by the signature.

EXHIBIT "B"

DESCRIPTION OF PLANS AND SPECIFICATIONS

Those certain undated engineering plans and specifications, bearing Job Number _____, as the same may be amended or supplemented, prepared by Albert A. Webb Associates, under contract dated _____.

Those certain architectural plans and specifications dated _____, prepared by LSA Architecture, Inc., under Job Number _____, pursuant to contract dated _____, as said plans and specifications and contract may be amended or supplemented.



EXHIBIT "C"

INSURANCE REQUIREMENTS

A. Workers' Compensation:

Coverage A. Statutory policy form.

Coverage B. Employers Liability \$100,000

B. Owner's Broad Form Comprehensive General Liability or Commercial General Liability:

The limits of liability shall not be less than:

1. Broad Form Comprehensive General Liability:

\$2,000,000 Combined Single limit

\$1,000,000 Bodily/Property Damage per Occurrence

Or,

2. Commercial General Liability:

The limits of liability shall not be less than:

Each Occurrence Limit \$1,000,000

Personal Advertising Injury Limit \$1,000,000

Products Completed Operations

Aggregate Limit \$1,000,000

General Aggregate Limit \$2,000,000

(Other than Products-completed
Operations)

Both policy forms must include:

- a. Premises and operations with no X, C, or U exclusions.

- b. Products and completed operations coverage. (This coverage to be maintained for a minimum of ten (10) years following completion of work and to continue to name Owner as named insured and Lender as additional insured, for the entire ten (10) year period).
 - c. Blanket contractual coverage with Employee Exclusion deleted.
 - d. Broad Form Property Damage including completed operations or its equivalent.
 - e. An endorsement naming Lender and any other required interests as additional insured(s).
 - f. An endorsement stating: "Such coverage as is afforded by this policy for the benefit of the additional insured(s) is primary and any other coverage maintained by such additional insured(s) shall be non-contributing with the coverage provided under this policy."
 - g. Cross Liability and Severability of Interest Clause.
 - h. Limited Independent Contractors language should be included.
 - i. Subsidence coverage, if available, at commercially reasonable rates.
- C. General Contractor's Broad Form Comprehensive General Liability or Commercial General Liability:
- 1. All requirements are the same as in Owner's general liability insurance as set forth hereinabove.
 - 2. In addition, general contractor's general liability coverage must also include:
 - a. Manufacturers and contractors protective coverage.
 - b. Automobile liability coverage including owned, hired and non-owned vehicles.
- D. All Risk/Special Form Property Insurance – Full Replacement Cost (Real and Personal Property), Course of Construction, Secured Collapse, if available at commercially reasonable rates, Business Interruption and Loss of Profits for a minimum one (1) year term. Such insurance shall also contain an agreed value clause or other provision sufficient to eliminate any risk of co-insurance.
- E. Other Requirements:
- 1. Lender must be named as an additional insured on all liability policies and as the mortgagee and certificate holder (with lender's loss payable endorsement) on all

property insurance coverage. Property insurance coverage must include standard 438 BFU language and cover all property described in the Security Documents. The endorsement must contain the following wording: "With respect to a loss payee designated in this policy, this insurance will continue in force throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew, of (c) issuance of a Notice of Reduction Coverage."

2. All policies must provide that the named insured correspond with the named borrower on the loan documents; that Lender's Loan Number be shown on all policies, certificates and correspondence; and that the complete property address be shown on the declaration page of the policy or certificate evidencing such insurance.
3. The deductible under any policies required hereunder shall be no more than \$5,000.00.
4. An authorization signed by the Owner must accompany all mid-term and anniversary date changes in the agent or broker of record shown in Lender's files.
5. All policies must contain an endorsement affording an unqualified thirty (30) days' notice of cancellation to the additional insured(s) in the event of cancellation, non-renewal or material reduction in coverage.
6. All policies must be written by insurance companies acceptable to Lender whose rating in the most recent Best's rating guide is not less than A:IX. All policies shall be written for not less than a one (1) year term (or annual continuous) with one year's premiums prepaid.
7. Certificates of insurance, with the endorsements evidencing the required coverage, and copies of the policies, must be delivered to Lender prior to funding and each year thereafter until the indebtedness evidenced by the Note and Security Documents is paid in full.
8. No earthquake insurance shall be required unless required by law or regulation.

A handwritten signature in dark ink is written over a circular stamp. The stamp contains some illegible text, possibly a date or a reference number.

EXHIBIT "D"

BUDGET

SOURCES AND USES OF FUNDS EXHIBIT A							10-Feb-06
BORROWER: BEG, LLC			CONTRACTOR: Classic Pacific, Ltd.				
NUMBER OF UNITS:		31	NUMBER OF SQUARE FEET:		95,070		
ITEM	TOTAL	PER	PER	COST	COST	LOAN	
COST	COST	UNIT	SQ. FT.	TO BE PAID	PAID	BUDGET	
1 Finished Lot Cost	\$5,317,942	\$171,547	\$23.83	\$1,363,000	\$333,142	\$3,621,800	
2 Direct Construction	\$5,921,749	\$191,024	\$62.29	\$0	\$0	\$5,921,749	
Total Direct & Land cost	\$11,239,691	\$362,571	\$118.23	\$1,363,000	\$333,142	\$9,543,549	
3 Permits & Fees	\$1,086,339	\$35,043	\$11.43	\$0	\$0	\$1,086,339	
4 Indirect Costs	\$250,000	\$8,065	\$2.63	\$0	\$0	\$250,000	
5 G&A 1.7%	\$250,000	\$8,065	\$2.63	\$0	\$0	\$250,000	
6 Sales & Marketing	\$500,000	\$16,129	\$5.26	\$0	\$0	\$500,000	
7 Taxes, Insurance, Legal	\$150,000	\$4,839	\$1.58	\$0	\$0	\$150,000	
8 Contingency	\$150,000	\$4,839	\$1.58	\$0	\$0	\$150,000	
Total Soft Costs	\$2,386,339	\$76,979	\$13.67	\$0	\$0	\$2,386,339	
9 Interest Reserve	\$595,000	\$19,194	\$6.26	\$0	\$0	\$595,000	
10 Bank Loan Fees 0.91%	\$115,400	\$3,723	\$1.21	\$0	\$0	\$115,400	
11 Appraisal/Environmental	\$5,000	\$161	\$0.05	\$0	\$0	\$5,000	
12 Legal	\$10,000	\$323	\$0.11	\$0	\$0	\$10,000	
13 Inspection	\$6,700	\$216	\$0.07	\$0	\$0	\$6,700	
14 Title/Closing	\$8,012	\$258	\$0.08	\$0	\$0	\$8,012	
Total Loan Cost	\$740,112	\$23,875	\$7.78	\$0	\$0	\$740,112	
Total Costs	\$14,366,142	\$463,424	\$151.11	\$1,363,000	\$333,142	\$12,670,000	
FOOTNOTES: COST TO LOAN RATIOS:				9%	2%	88%	
Interest Rate =	8.50%	Ave Outstanding =	55%	# of Months =		18	



EXHIBIT "E"

RELEASE PRICES

Lot	Plan	Sqft	Base Value	Premium	Retail Value	Par Loan	Min Release 120%	CNB Secured 116%
2	1B	2,545	\$475,000	\$49,000	\$524,000	\$398,815		
3	2C	2,834	\$515,000	\$54,000	\$569,000	\$433,065		
4	3M	3,292	\$540,000	\$64,000	\$604,000	\$459,703		
5	4C	3,587	\$570,000	\$70,000	\$640,000	\$487,103		
7	3M	3,292	540,000	(\$1,000)	\$539,000	\$410,232	\$492,278	\$477,200
8	1C	2,545	475,000	(\$1,000)	\$474,000	\$360,760	\$432,913	\$419,700
9	2A	2,834	515,000	(\$1,000)	\$514,000	\$391,204	\$469,445	\$455,100
10	4C	3,587	570,000	(\$1,000)	\$569,000	\$433,065	\$519,678	\$503,800
11	3M	3,292	540,000	(\$1,000)	\$539,000	\$410,232	\$492,278	\$477,200
12	2B	2,834	515,000	(\$1,000)	\$514,000	\$391,204	\$469,445	\$455,100
13	3C	3,076	530,000	(\$1,000)	\$529,000	\$402,621	\$483,145	\$468,400
14	4A	3,363	560,000	(\$1,000)	\$559,000	\$425,454	\$510,545	\$494,900
15	4C	3,587	570,000	\$2,000	\$572,000	\$435,348	\$522,418	\$506,400
16	1B	2,545	475,000	\$0	\$475,000	\$361,522	\$433,826	\$420,600
17	2C	2,834	515,000	\$0	\$515,000	\$391,966	\$470,359	\$456,000
18	1A	2,545	475,000	\$0	\$475,000	\$361,522	\$433,826	\$420,600
19	4C	3,587	570,000	\$0	\$570,000	\$433,826	\$520,591	\$504,700
20	1C	2,545	475,000	\$0	\$475,000	\$361,522	\$433,826	\$420,600
21	2A	2,834	515,000	\$0	\$515,000	\$391,966	\$470,359	\$456,000
22	4A	3,363	560,000	\$12,000	\$572,000	\$435,348	\$522,418	\$506,400
23	2C	2,834	515,000	\$8,000	\$523,000	\$398,054	\$477,665	\$463,100
24	2B	2,834	515,000	\$6,000	\$521,000	\$396,532	\$475,839	\$461,300
25	4A	3,363	560,000	\$0	\$560,000	\$426,215	\$511,458	\$495,800
26	4C	3,363	570,000	\$0	\$570,000	\$433,826	\$520,591	\$504,700
27	3A	3,076	530,000	\$3,000	\$533,000	\$405,665	\$486,798	\$471,900
28	2B	2,834	515,000	\$4,000	\$519,000	\$395,010	\$474,012	\$459,500
29	1A	2,545	475,000	\$2,000	\$477,000	\$363,044	\$435,653	\$422,300
30	4C	3,587	570,000	\$0	\$570,000	\$433,826	\$520,591	\$504,700
31	2C	2,834	515,000	\$2,000	\$517,000	\$393,488	\$472,185	\$457,700
32	3M	3,292	540,000	\$1,000	\$541,000	\$411,754	\$494,105	\$479,000
33	4C	3,587	570,000	\$3,000	\$573,000	\$436,109	\$523,331	\$507,300
TOTALS		95,070	\$16,375,000	\$272,000	\$16,647,000	\$12,670,000	\$13,069,577	\$12,670,000



Exhibit 4

213 Banning, LLC

Claim \$1,155,454.95

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated February 2, 2005 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Loan Agreement dated February 2, 2005 (as amended, modified, and/or supplemented, the "Loan Agreement") by which Cal National lent 213 Banning, LLC (the "Borrower") the stated principal amount of \$19,400,000. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loan.

On January 28, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; and (iii) Breach of Written Guaranty in the Superior Court of the State of California for the County of Riverside, Case No. RIC 491664, against the Debtor as defendant concerning, the Cal National Guaranty. On April 4, 2008, the property was sold at public auction for \$2,600,000.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$1,155,454.95 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreement to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreement. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date

Amount due at Foreclosure Sale	at least \$3,755,454.95
Amount property sold for at Foreclosure Sale	\$2,600,000.00
Total Amount of Claim	at least <u>\$1,155,454.95</u>

WHEN RECORDED MAIL TO:

BANNING HOMES, LLC., A CALIFORNIA
LIMITED LIABILITY COMPANY
1301 DOVE STREET, SUITE 101
NEWPORT BEACH, CA 92660

MAIL TAX STATEMENTS TO

Same as above

This is to certify that this is a True and Correct copy
of the Original recorded 4-8-08
Instrument No. 08-173576
NORTH AMERICAN TITLE COMPANY
By *NA*
County of Riverside

Space above this line for recorder's use only

Trustee Sale No. 2007-CA004873 Loan No. 7600003755 Title Order No. 43-83148-65

TRUSTEE'S DEED UPON SALE

APN 537-170-002-1, 537-170-003-2, 537-150-005-2, 537-150-006-3, 537-150-007-4, 537-190-001-2, 537-190-002-3, 537-190-003-4, 537-190-004-5, 537-190-005-6, 537-190-019-9, 537-190-020-9, 537-190-021-0

The undersigned grantor declares:

- 1) The Grantee herein was the foreclosing beneficiary.
- 2) The amount of the unpaid debt together with costs was\$3,755,454.95
- 3) The amount paid by the grantee at the trustee sale was\$2,600,000.00
- 4) The documentary transfer tax is\$NONE
- 5) Said property is in RIVERSIDE

and R.E.F.S. INC., A CALIFORNIA CORPORATION (herein called Trustee), as the duly appointed Trustee or substituted Trustee under the Deed of Trust hereinafter described, does hereby grant and convey, but without covenant or warranty, express or implied, to BANNING HOMES, LLC., A CALIFORNIA LIMITED LIABILITY COMPANY (herein called Grantee), all of its right, title and interest in and to that certain property situated in the County of RIVERSIDE, State of California, described as follows: FOR LEGAL DESCRIPTION SEE EXHIBIT "A" ATTACHED HEERTO AND MADE A PART HEREOF

Situs: VACANT LAND, , RIVERSIDE, CA
RECITALS:

This conveyance is made pursuant to the powers conferred upon Trustee by that certain Deed of Trust dated 02-02-2005 and executed by 213 BANNING, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, as Trustor, and Recorded 02-15-2005, Book N/A, Page N/A, Instrument 2005-0124005 of official records of RIVERSIDE County, California, and after fulfillment of the conditions specified in said Deed of Trust authorizing this conveyance.

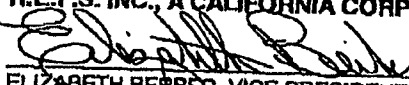
Default occurred as set forth in a Notice of Default and Election to Sell which was recorded in the Office of the Recorder of said County, and such default still existed at the time of sale.

All requirements of law regarding the mailing of copies of notices or the publication of a copy of the Notice of Default or the personal delivery of the copy of the Notice of Default and the posting and publication of copies of the Notice of a Sale have been complied with.

Trustee, in compliance with said Notice of Trustee's Sale and in exercise of its powers under said Deed of Trust, sold the herein described property at public auction on 04-04-2008. Grantee, being the highest bidder at said sale, became the purchaser of said property for the amount bid being \$2,600,000.00 in lawful money of the United States, or by credit bid if the Grantee was the beneficiary of said Deed of Trust at the time of said Trustee's Sale.

DATE: April 07, 2008

R.E.F.S. INC., A CALIFORNIA CORPORATION, as said Trustee

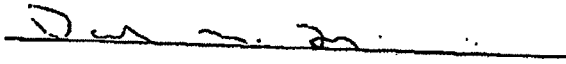

ELIZABETH BERBER, VICE PRESIDENT

STATE OF California
COUNTY OF Orange

On April 07, 2008 before me, DANH N. LE, a Notary Public, personally appeared ELIZABETH BERBER, who 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.

I certify under PENALTY OF PERJURY under the laws of of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



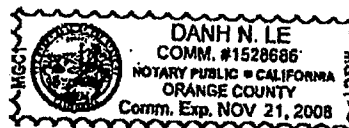


EXHIBIT B

1. Guaranty Agreement dated February 2, 2005 by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
2. Construction Loan Agreement dated February 2, 2005.

Exhibit B -1

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of the 2nd day of February 2005, is hereby given by CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (collectively "Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. 213 BANNING, LLC, a California limited liability company ("Borrower"), has agreed to obtain a refinance and construction (manufacture of lots) loan from Lender in the principal sum of Nineteen Million Four Hundred Thousand Dollars (\$19,400,000) (the "Loan") to be secured by certain real property located in the City of Banning, County of Riverside, California (the "Property").

B. The Loan is evidenced by a Construction Deed of Trust Note of even date herewith in the amount of Nineteen Million Four Hundred Thousand Dollars (\$19,400,000) given by Borrower to Lender (the "Note"), governed by a Construction Loan Agreement ("Construction Loan Agreement") by and between Borrower and Lender, and secured by a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Deed of Trust"), all of even date herewith, and which Loan is further evidenced and secured by additional documents of even date herewith ("Loan Documents").

C. Lender is willing to make the Loan if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in making the Loan. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from the Loan, desires to enter into this Guaranty to induce Lender to make the Loan.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender

to any other party, all amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other instruments or documents evidencing or securing the Loan (the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with consent of Borrower, to amend any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Note, the Construction Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, or for any modification of the terms thereof. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the Note or other Loan Documents by operation of law or otherwise; or (e) any modification of the Note or other Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the Note, the other Loan Documents or any part thereof, including increase or decrease of the rate of interest thereon. Until the Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation. Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging Borrower's obligations under the Note (including without limitation Sections 726 and 580d of the California Code of Civil Procedure as from time to time amended). In addition, Guarantor waives all rights and protections of any kind which Guarantor may have for any reason which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial or judicial foreclosure of any security for the Indebtedness, including, without limitation, the right to any fair market value hearing pursuant to Section 580a of the California Code of Civil Procedure. Until the Indebtedness shall have been paid in full, Guarantor further waives any right to enforce any remedy which Lender now has or may hereafter have against

Borrower, any other guarantor or any other person, and waives any benefit of, or any right to participate in any security whatsoever now or hereafter held by Lender.

c. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (2) if Lender forecloses on any real property collateral pledged by Borrower: (a) The amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Guarantor further waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor specifically waives any and all defenses and rights that may be waived pursuant to Union Bank v. Gradsky (1968) 265 Cal.App. 2d 40, and any cases, statutes or authority subsequently interpreting such decision.

d. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California Civil Code.

e. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

f. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

g. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the Indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability thereunder.

h. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which

Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Note, the Construction Loan Agreement, the Deed of Trust, and/or any of the other Loan Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and any other Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, and the Loan Documents. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under, the Note, the Loan Agreement, the Deed of Trust, and the other Loan Documents have been paid in full.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise

disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Construction Loan Agreement, the Deed of Trust, and all of the other Loan Documents and any other documents executed in connection with the Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

g. Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Property will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation on the Property shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in accordance with this paragraph. If any notice, request, demand, direction or other

communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor: **JAMES C. GIANULIAS**
 CAMEO HOMES
 1105 Quail Street
 Newport Beach, CA

If to Lender: **CALIFORNIA NATIONAL BANK**
 1301 Dove Street, Suite 101
 Newport Beach, CA 92660-2458

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the Note.

13. Context and Construction; Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE NOTE, THE CONSTRUCTION LOAN AGREEMENT, THE DEED OF TRUST, OR UNDER ANY OTHER LOAN DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DOCUMENT SECURING THE NOTE OR THIS GUARANTY, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;


(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Guarantors' Initials



Lender's Initials

18. Joint and Several Liability.

The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Guaranty is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each independently to enforce the terms and conditions of this Guaranty.

19. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.


IN WITNESS WHEREOF, Guarantors hereunder have executed this Guaranty as of the date first above written.

GUARANTORS:

CAMEO HOMES, a California
corporation,

By 
James C. Gianulias, President


James C. Gianulias, Individually


James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

**AFFIRMATION OF GUARANTY AND
ENVIRONMENTAL INDEMNITY AGREEMENTS**

Loan Nos.: 7600003755

This Affirmation of Guaranty and Environmental Indemnity Agreements ("Affirmation"), dated as of June 18, 2007, is given by CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, individually, and JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS 1998 TRUST (all, collectively "Guarantors/Indemnitors"), in favor of CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), in connection with a two (2) month maturity extension (the "Extension") to that certain \$19,400,000 loan (the "Loan") made by Lender to 213 BANNING, LLC, a California limited liability company ("Borrower"), which closed on February 15, 2005.

WHEREAS, Lender made the Loan in connection with the final mapping and manufacturing of 213 finished lots with 20,000-sqft minimum sizes on approximately 145-acres in the City of Banning, County of Riverside, State of California (the "Property");

WHEREAS, in connection with the Loan, Guarantors/Indemnitors, acting as Guarantors, entered into a Guaranty Agreement, and, acting as Indemnitors, entered into an Environmental Indemnity Agreement in connection with the Loan, both dated as of February 2, 2005;

WHEREAS, Borrower has requested Extension, extending the maturity date under the Loan from May 15, 2007, to July 15, 2007, to afford Borrower more time to complete a revised request for the final mapping and manufacturing of 213 residential lots; and

WHEREAS, Lender is willing to accommodate Borrower by granting the Extension, subject to the terms of that certain Loan Extension Agreement of even date herewith, conditioned upon, among other things, Guarantors/Indemnitors affirming their obligations under the Guaranty Agreement and the Environmental Indemnity Agreement, notwithstanding the granting of the Extension.

NOW, THEREFORE, the Guarantors/Indemnitors agree as follows:

1. Each Guarantor/Indemnitor hereby affirms the Guaranty Agreement and acknowledges that the Guaranty Agreement is in full force and effect, notwithstanding the Extension, and that each Guarantor/Indemnitor has no defenses to the enforcement thereof.
2. Each Guarantor/Indemnitor hereby affirms the Environmental Indemnity Agreement and acknowledges that the Environmental Indemnity Agreement is in full force and effect notwithstanding the Extension, and that each Guarantor/Indemnitor has no defenses to the enforcement thereof.

SIGNATURES ONLY ON FOLLOWING PAGE

EXHIBIT (9)

Signature page for Affirmation of Guaranty etc.

IN WITNESS WHEREOF, Guarantors/Indemnitors have executed this Affirmation as of the date first hereinabove written.

GUARANTORS/INDEMNITORS:

CAMEO HOMES, a California
corporation

By 
James C. Gianulias, President


James C. Gianulias, Individually



James C. Gianulias, as Trustee of the
James Chris Gianulias 1998 Trust

Exhibit B -2

CONSTRUCTION LOAN AGREEMENT

BY AND BETWEEN

213 BANNING, LLC, a California limited liability company

and

CALIFORNIA NATIONAL BANK, a national banking association

Dated: February 2, 2005

Loan No.: 7600003755

EXHIBIT (3)

Loan Agreement

Table of Contents

	<u>Page</u>
ARTICLE I LOAN ACCOMMODATION.....	2
1.01 The Loan.....	2
1.02 Documents.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	3
2.01 Legal Status.....	3
2.02 Authorization and Validation.....	3
2.03 Financial Information.....	3
2.04 Conformance with Plans and Specifications.....	3
2.05 No Defaults.....	4
2.06 Correct Information.....	4
2.07 Title.....	4
2.08 Permits, Franchises.....	4
2.09 Utilities.....	4
2.10 Taxes.....	4
2.11 Pending Litigation.....	4
2.12 Unpaid Materialmen.....	5
2.13 Agreements and Deposits.....	5
2.14 Encumbrances.....	5
2.15 Other Financing.....	5
2.16 Principal Place of Business.....	5
2.17 Compliance.....	5
ARTICLE III CONDITIONS PRECEDENT.....	6
3.01 Title Policy.....	6
3.02 Title Endorsements.....	6
3.03 Reports and Other Documents.....	6
3.04 Insurance.....	6
3.05 Correctness of Representations; No Defaults.....	7
3.06 Legal Review.....	7
3.07 List of Materialmen.....	7
3.08 No Change in Conditions.....	7
3.09 Sufficient Sums; Owner's Equity.....	7
3.10 Liens.....	8
ARTICLE IV DISBURSEMENT PROCEDURE.....	8
4.01 Accounts.....	8
4.02 Budget.....	9
4.03 Security Interest in Undisbursed Funds.....	9
4.04 Requests for Funds.....	9

4.05	Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement	11
4.06	Authorized Signatures	12
4.07	Trust Funds	12
4.08	Non-Liability of Lender	12
ARTICLE V AFFIRMATIVE COVENANTS.....		12
5.01	Punctual Payments	12
5.02	Progress of the Project	12
5.03	Offsite Improvements	13
5.04	Changes to Plans and Specifications.....	13
5.05	Notice of Casualty.....	13
5.06	Use of Materials.....	13
5.07	Construction Schedules.....	14
5.08	Intentionally Omitted	14
5.09	Watchmen	14
5.10	Maintenance of Existence; Compliance with Law	14
5.11	Insurance	14
5.12	Facilities.....	14
5.13	Taxes and Other Liabilities	14
5.14	Litigation.....	15
5.15	Other Notifications.....	15
ARTICLE VI INSPECTIONS.....		15
6.01	Construction Work.....	15
6.02	Non-Conformance.....	15
6.03	No Duty.....	16
6.04	Independent Cost Analyses.....	16
ARTICLE VII NEGATIVE COVENANTS.....		16
7.01	Use of Funds	16
7.02	Assessment Districts	16
7.03	Liens.....	16
7.04	Leases.....	16
ARTICLE VIII EXCULPATORY PROVISIONS.....		16
8.01	Status as Lender	17
8.02	Defective Construction	17
8.03	Non-Liability.....	17
8.04	No Representation.....	17
8.05	Brokers' Fees	17
8.06	Construction.....	17
8.07	Indemnity	18
ARTICLE IX PROTECTION AGAINST LIENS.....		18
9.01	Paid Claims	18
9.02	Release of Liens.....	18
9.03	Notice of Lien	19
9.04	Payment of Costs	19
ARTICLE X REMOVAL OF PERSONALTY		19
10.01	Removal of Personality.....	19

ARTICLE XI BOOKS AND RECORDS.....	20
11.01 Working Drawings.....	20
11.02 Books of Account.....	20
11.03 Financial Information.....	20
11.04 Intentionally Omitted.....	20
11.05 Appraisals.....	21
11.06 Lender Audit Rights.....	21
11.07 Further Assurances.....	21
ARTICLE XII EVENTS OF DEFAULT	21
12.01 Events of Default.....	21
ARTICLE XIII REMEDIES.....	24
13.01 Remedies.....	24
13.02 Remedies Cumulative.....	25
13.03 Contest of Third Party Claims.....	25
13.04 No Waivers.....	25
ARTICLE XIV SURVIVAL OF WARRANTIES AND COVENANTS	26
ARTICLE XV ASSIGNMENT	26
15.01 Owner's Assignment.....	26
15.02 Lender's Assignment.....	26
15.03 Participation.....	26
ARTICLE XVI ARBITRATION OF DISPUTES.....	26
ARTICLE XVII MISCELLANEOUS.....	28
17.01 Partial Release.....	28
17.02 Amendment.....	28
17.03 Return of Documents.....	28
17.04 Regulatory Restrictions.....	28
17.05 Notices.....	28
17.06 Time of Essence.....	29
17.07 No Third Parties Benefited.....	29
17.08 Actions.....	29
17.09 Reliance on Representations.....	29
17.10 Relationship.....	30
17.11 Headings.....	30
17.12 Governing Law.....	30
17.13 Attorneys' Fees and Costs.....	30
17.14 Signs.....	30
17.15 Nondiscrimination.....	30
Table of Contents.....	i

CONSTRUCTION LOAN AGREEMENT

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of February 2, 2005, by and between 213 BANNING, LLC, a California limited liability company ("Owner"), and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

This Agreement is executed by Owner for the purpose of obtaining a \$19,400,000 construction loan (the "Loan") from Lender, to be evidenced by a Construction Deed of Trust Note made by Owner in favor of Lender and secured by, among other things, that certain Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith, to be recorded upon the closing of the Loan in Official Records, Riverside County, California, (the "Deed of Trust"), which Deed of Trust encumbers approximately 145 acres of real property located in the City of Banning, County of Riverside, State of California, described on Exhibit "A" attached to and made a part of this Agreement and all improvements now or in the future erected on such real property (such real property and improvements now or in the future erected on such real property are collectively hereinafter referred to as the "Property").

The Loan is to aid Owner in the final mapping of the Property and the manufacture of 213 finished lots thereon (with minimum lot sizes of approximately 20,000 sq. ft.) (collectively hereinafter referred to as the "Project"). As used herein, "finished lots" shall not require payment of impact fees. Owner intends to bulk sell 83 of the finished lots to a merchant builder, and Lender shall partially release said lots as described in Section 17.01, below, and in accordance with the conditions for partial release thereof set forth in the Deed of Trust.

Owner has obtained certain mezzanine financing in connection with the Property from MW Housing Partners III, L.P., a California limited partnership ("MW Housing") in the amount of \$6,240,000, and secured by, among other documents, a deed of trust on the Property (the "Subordinate Financing"). The Subordinate Financing is being subordinated to the Deed of Trust. The Subordinate Financing also encumbers approximately 223 acres located in proximity to the Property.

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

LOAN ACCOMMODATION

1.01 **The Loan.** Owner agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, the Loan, which is a construction loan in the principal sum of Nineteen Million Four Hundred Thousand Dollars (\$19,400,000).

1.02 **Documents.** In order to consummate the Loan, Owner will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:

- (a) Construction Deed of Trust Note ("Note") in the principal amount of \$19,400,000 and bearing interest at the rate set forth in the Note.
- (b) Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust").
- (c) Assignment of Engineer's Contract and Plans and Specifications.
- (d) Assignment of Architect's Contract and Plans and Specifications.
- (e) Assignment of Rights under Sales Agreements, Permits and Development Documents.
- (f) Guaranty Agreement (of the Loan by Cameo Homes, James C. Gianulias, individually, and James C. Gianulias, as Trustee of the James Chris Gianulias 1998 Trust).
- (g) Environmental Indemnity Agreement.
- (i) Limited Liability Company Certification
- (k) Trust Certificate re Guaranty and Environmental Indemnity Agreement.
- (l) Corporate Resolution from Cameo Homes.
- (m) Subordination Agreement from MW Housing in connection with the Subordinate Financing.
- (n) Lender's form Disbursement Request and Authorization, Agreement to Provide Insurance, and such other form acknowledgements and authorizations as Lender may require.
- (o) Such other items as Lender may reasonably require.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Owner represents and warrants to Lender that as of the date of recording the Deed of Trust:

2.01 Legal Status. Owner is a limited liability company which is duly organized and validly existing under the laws of the State of California, and is qualified and licensed to do business in all jurisdictions in which such qualification or licensing is required.

2.02 Authorization and Validation. The execution, delivery and performance by Owner of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Owner, (b) have received the approval of Owner's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Owner is a party or by which Owner, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note, each of the Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Owner enforceable in accordance with their terms.

2.03 Financial Information. All financial data that has been given to Lender with respect to Owner and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Owner and the Property as of the date on which, and the results of Owner's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles or tax based accounting consistently applied throughout the periods covered. All balance sheets disclose all known material liabilities (excluding current accounts payable), direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Owner since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.04 Conformance with Plans and Specifications. No construction of the Project has been or will be undertaken other than in accordance with the final plans and specifications for the Project, as more particularly described on Exhibit "B" attached hereto and incorporated herein, copies of which Owner has initialed for identification and delivered to Lender (the "Plans and Specifications"). The Plans and Specifications submitted to Lender shall be true and correct, satisfactory to Owner, approved by all governmental authorities having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the general contractor. Any construction already performed on the Property has been performed in

accordance with the approved Plans and Specifications; there are no structural defects in the Project of which Owner has been advised or of which Owner has noticed or acknowledged; no violation of any applicable law, ordinance, order, rule or regulation exists; and the use of the Project and the Property shall not constitute a violation of any applicable laws, ordinances, orders, rules or regulations.

2.05 No Defaults. Owner is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, the Note, or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, including in connection with the Subordinate Financing, which default would have a material and adverse effect upon its ability to perform under this Agreement, the Note, or the Security Documents.

2.06 Correct Information. All reports, papers, data and information given to Lender with respect to Owner or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

2.07 Title. Owner has, or will have at the time of the recordation of the Deed of Trust, good and marketable title in fee simple to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender (or reflected of record at closing).

2.08 Permits, Franchises. Owner possesses all permits, memberships, franchises, contracts, and licenses required and all trademark rights, trade names, trade name rights, patents, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict, to the knowledge of Owner, with the rights of others.

2.09 Utilities. All utility services necessary for the development of the Project and the operation thereof for its intended purpose are either available at the boundaries of the Property or all necessary steps have been taken by Owner to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.

2.10 Taxes. Owner has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes prior to delinquency pursuant to such returns or pursuant to any assessments received by it (with payment to be made prior to delinquency), and Owner does not know of any basis for additional assessment in respect of any such taxes, except in connection with any reassessment for a change in ownership. Owner has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

2.11 Pending Litigation. There is not now pending against or affecting Owner or the Property, nor, to the knowledge of Owner is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if

adversely determined, would materially impair or affect the Property or the financial condition or business operations of Owner.

2.12 Unpaid Materialmen. Except as disclosed to Lender in writing, and except in connection with current work at the Project, no person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid at the time of execution of this Agreement other than payments to be made in connection with the advances hereunder.

2.13 Agreements and Deposits. Owner has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.

2.14 Encumbrances. Except for the Subordinate Financing, which has been approved by Lender, no other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Owner agrees that no junior lien of any nature against all or any portion of the Property shall be given, permitted or suffered by Owner without Lender's written consent. Said consent shall be at Lender's sole option and discretion.

2.15 Other Financing. Except for that financing extended by Lender and the Subordinate Financing, which has a maturity date of February 14, 2008, and contains no penalty or charge for prepayment, Owner has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.

2.16 Principal Place of Business. Owner's principal place of business is at the address set forth in this Agreement as the address for notices to Owner. Owner shall promptly notify Lender in writing of any change in Owner's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.

2.17 Compliance. Owner has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances of record affecting the Property. The Property in all material respects conforms to and complies with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan, and Owner shall comply with all requirements of law and the governing body having jurisdiction in connection with the process of finalizing the current tentative map for the Property.

ARTICLE III

CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Owner's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

3.01 Title Policy. Owner shall furnish to Lender an ALTA Lender's Policy of Title Insurance with such endorsements as Lender may require, which shall insure that the Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.

3.02 Title Endorsements. At Lender's sole and absolute discretion, in addition to the requirements of Section 3.01 hereof, Lender may require Owner to obtain, in connection with any or all requested disbursements, at Owner's sole cost and expense, Endorsement 122, and such other endorsements as Lender may require, which endorsements are to be attached to and be a part of Lender's Policy of Title Insurance on the Deed of Trust.

3.03 Reports and Other Documents. Owner shall furnish to Lender, at Owner's sole cost and expense, (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Substances" (as that term is defined in the Environmental Indemnity Agreement referred in Section 1.02 above) are present in, on, under or about the Property, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property, (c) all documents required under Section 1.02 above, (d) any other documents or funds required by this Agreement, and (e) an appraisal of the Property by or on behalf of Lender utilizing Lender's required appraiser, in form and content acceptable to Lender. With respect to (a) and (b), above, Lender acknowledges that it is using the existing reports which it has in its possession and same are acceptable.

3.04 Insurance. Owner shall furnish to Lender, at Owner's sole cost and expense, such policies of insurance in such amounts and in accordance with the standards set forth on Exhibit "C" attached hereto and incorporated herein, with standard mortgagee's endorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Owner in writing (other than earthquake insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. Certifications evidencing the originals of all such policies in form and content acceptable to Lender shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Owner or any other person, and Owner assumes the full risk, responsibility and liability, if any, with respect to such matters. If Owner fails to secure and maintain insurance as required hereunder, Lender shall have the

immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Owner, in which event Owner shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents.

3.05 Correctness of Representations; No Defaults. The representations and warranties of Owner contained in Article II hereof shall be true and correct on and as of the date of Lender's advancing any of the proceeds of the Loan, with the same effect as though such representations and warranties had been made on and as of such date, and on such date no Event of Default as defined in Article XII hereof shall have occurred and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default shall have occurred and be continuing or shall exist.

3.06 Legal Review. All legal matters incidental to the granting of the Loan shall be satisfactory to counsel of Lender.

3.07 List of Materialmen. At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Owner (but no more often than once a month), Owner shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.

3.08 No Change in Conditions. There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.

3.09 Sufficient Sums; Owner's Equity. Within five (5) days after notice from Lender, Owner shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project and/or any phase thereof within the purview of the Budget (described in Section 4.02, below) and/or the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or costs in excess of the "Maximum Loan Amount" under the Note which may be due and unpaid from time to time, or otherwise. Owner agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. It is expressly understood and agreed that the Loan shall at all times be "in balance," and that Owner will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to

keep the Loan "in balance." The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its reasonable discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Owner to perform and satisfy all of Owner's covenants contained in this Agreement, the Note and the Security Documents. The Loan is "out of balance" if Lender in its reasonable discretion determines at any time that the undisbursed Funds are not sufficient for all the above purposes, and Owner shall forthwith cause the Loan to be "in balance" by depositing the amount of such deficiency with Lender within five (5) days after the date of Lender's notice of the deficiency. Such amount shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article IV below. In addition, whenever the Loan becomes "out of balance," Owner shall submit, for Lender's approval, a revised Budget for the Project, or each phase thereof, if the Project is phased, then under construction and/or unsold, within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Owner to deposit additional funds as described above, Owner and Lender hereby agree that prior to the first advance, Owner shall furnish to Lender: (i) evidence satisfactory to Lender that Owner has title to land equity in the Property in the amount of \$3,880,900 (which takes into account the portion of the proceeds of the Subordinate Financing used by Owner to purchase the Property); and (ii) an appraisal prepared in accordance with Section 3.03 (e) hereof and acceptable to Lender showing "as is" value of the Property totaling \$4,260,000, and a finished lot retail value for the Property (as subdivided into 213 lots of approximately 20,000 sq. ft. each) totaling \$29,766,822 (\$150,000 per lot, less an adjustment of \$26,303 per lot for the 83 lots anticipated to be sold in bulk, to reflect the fact that the improvement budget does not include funds to complete the street improvements for that portion of the Project). In this connection, Lender is in receipt of a satisfactory appraisal prepared by Chute Realty Services, Inc., dated October 12, 2004. In addition to the foregoing, prior to any disbursement of any land development funds as described in the Budget (defined below), Owner shall provide satisfactory evidence to Lender that it has advanced at least \$893,768 in costs toward the Project, not including land equity.

3.10 Liens.

Owner shall furnish proof satisfactory to Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded, with the exception of any of the same that Owner has caused, in accordance with statutory requirements, to be bonded over.

ARTICLE IV

DISBURSEMENT PROCEDURE

4.01 Accounts. All funds deposited by Owner with Lender pursuant to this Agreement will be placed in an interest bearing account with Lender and under Lender's sole control (the

"Borrower's Funds Account"). The Loan funds under the Loan (the "Loan Account") and the Owner's funds and interest thereon held in the Borrower's Funds Account are hereinafter sometimes collectively referred to as the "Funds." Owner agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan Account will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.

4.02 Budget. Attached to and made a part of this Agreement as Exhibit "D" is a detailed cost breakdown for the Project ("Budget"). All disbursements and Requests for Funds shall be in accordance with the cost breakdown contained in the Budget, which Lender has approved. If Owner becomes aware of any material change in the approved construction costs which would increase the total cost of construction of the Project as shown on the Budget, then Owner shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its reasonable discretion.

4.03 Security Interest in Undisbursed Funds. Owner hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Owner's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Owner in the Borrower's Funds Account and all monies in the Loan Account.

4.04 Requests for Funds.

(a) Following commencement of the Project, Owner shall submit to Lender or to Lender's designated agents from time to time a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Owner setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Owner and, if required by Lender, the general contractor, engineer and/or the architect, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman to be paid pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services,

equipment and materials performed or supplied by such party, as appropriate. If requested by Lender, Owner shall also submit copies of statements, bills or invoices from any architects, contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained herein, Lender shall make disbursements to Owner's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the contractors, subcontractors, laborers or materialmen during the continuance of any default by Owner.

(b) Lender will make disbursements to pay for the construction costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for one hundred percent (100%) of the first ninety percent (90%) of the construction costs for each line item of expense (by reference to the Budget) as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for the percentage of completion of each line item, (ii) in no event shall any disbursement of any line item of the Budget exceed the percentage of completion of such line item or such line item as a whole, as applicable, and (iii) the final disbursement equal to ten percent (10%) of the construction costs shall be subject to the requirements of subsection (d) below. Disbursements to pay for construction costs will be made not more frequently than twice monthly.

(c) Lender will make disbursements to pay for Owner's approved financing, development and other non-construction Project costs shown on the most recently approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Owner, and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due: any Loan fees owing to Lender, including without limitation a Loan fee at the time of recordation of the Deed of Trust in the sum of One Hundred Ninety-Four Thousand Dollars (\$194,000) (1.00%); interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Owner to Lender with respect to the Loan. Such payments may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Owner. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for reasonable legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the miscellaneous title and closing costs category shown on Exhibit "D". Owner agrees that any Loan funds allocated on Exhibit "D" and/or any phase budget for interest reserve or for contingency reserve, together with any Loan funds or Owner's funds not otherwise disbursed, shall be disbursed for interest payments on the Note and/or for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender's reasonable discretion Lender

pays. Should interest on the Loan herein exceed the amount of interest reserve reserved herein, Lender shall bill Owner monthly for said interest or require payment thereof in accordance with Section 3.09, and Owner shall promptly pay said bill. Any overages and/or savings resulting from expenditures in the categories described herein or in the budget shall, in Lender's reasonable discretion, be allocated to interest reserve and other miscellaneous cost category herein. Owner further agrees that the Loan fee payable to Lender with respect to this Loan shall be disbursed to Lender upon recordation of the Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

(d) The final disbursement of Funds for construction costs shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following:

(i) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property or obtaining satisfactory releases from all liens which may have been filed or bonding in accordance with California law to provide for payment of such liens;

(ii) Verification by Lender of completion of the Project in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require; and

(iii) Evidence that a title company approved by Lender (First American Title Company or another title company reasonably satisfactory to Lender) is in a position to issue to Lender its ALTA rewrite policy of title insurance with a CLTA Form 100 Endorsement modified, and, at Lender's discretion, a CLTA Form 101.3 or 101.13 Endorsement attached.

4.05 Additional Conditions to Disbursements; Advance Restrictions on Loan to Value; Remargin Requirement. Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (i) an Event of Default has occurred and is continuing (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), or (ii) there are unreleased and unbonded mechanics' liens or stop notices in existence, or (iii) such disbursement would cause the loan to value ratio for the 130 finished lots to exceed sixty-eight percent (68%) or the loan to value ratio for the 83 semi-finished lots to exceed sixty percent (60%), as reasonably determined by Lender and with reference to the Budget. For the purpose of establishing the value of said lots, the most recent appraised value (finished or semi-finished lot value), as determined by or on behalf of Lender shall be used. At any time that the loan to value ratio exceeds the foregoing limits for either the finished or semi-finished lots, Owner, within ten (10) days of Lender's written demand, shall remargin the Loan by depositing sufficient cash with Lender so as to bring the Loan into conformity with the above-stated loan to value ratios.

4.06 Authorized Signatures. The following persons, by their specimen signatures as set forth below, are hereby designated by Owner as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Owner, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person authorized to sign such requests:

Victor Mahony



James C. Gianulias



David Gianulias

4.07 Trust Funds. Owner covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Owner.

4.08 Non-Liability of Lender. Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Owner acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Owner further acknowledges that disbursements hereunder may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE V

AFFIRMATIVE COVENANTS

Owner covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner shall:

5.01 Punctual Payments. Punctually pay: The interest and principal of the Note at the times and place and in the manner specified in the Note; and any fees or other liabilities due hereunder and under the Note and any of the Security Documents at the times and place and in the manner specified in this Agreement, the Note or the Security Documents, as appropriate.

5.02 Progress of the Project. Diligently prosecute the Project until completion in a workmanlike manner, subject to force majeure. In any and all events Owner shall complete the Project on or before the "Maturity Date" under the Note, all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The Maturity Date of the Note shall be

adjusted on a day for day basis for each day that the Project is delayed by reason of force majeure, but in no event shall the Maturity Date be extended for more than ninety (90) days beyond the current Maturity Date under the Note. In the event a force majeure causes an extension of the Maturity Date as herein provided, and no written extension agreement is entered into between Owner and Lender providing for such an extension, Owner shall pay to Lender an "extension fee" in the proportionate amount of the Loan fee paid by Owner reflected in Section 4.04 (c), above.

5.03 Offsite Improvements. Diligently pursue and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and when approved, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of improvement of the Project. Owner expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing a bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.

5.04 Changes to Plans and Specifications. Agree that no material change in the engineering Plans and Specifications shall be made without first obtaining the written consent of Lender. Any changes desired by Owner which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the plans and specifications and/or working drawings applicable to the changes; provided, however, that if and to the extent such changes are submitted to Lender in writing and not approved or disapproved within 15 business days after submittal, the same shall be deemed to be approved by Lender. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost of the Project (except in connection with Owner's deposit of funds to cover such increased costs), and Lender shall have the right to require Owner to deposit additional funds with Lender to pay for such changes.

Owner acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Owner consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Owner shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.

5.05 Notice of Casualty. Give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Owner to commence the Project or to complete it in a timely manner.

5.06 Use of Materials. Agree that all materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no

other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.

5.07 Construction Schedules. From time to time during the course of construction, but not more frequently than once per quarter (except during the continuance of a default), and within ten (10) days after written request by Lender, furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees, interest during construction, and contractor's overhead.

5.08 Intentionally Omitted.

5.09 Watchmen. Provide such watchmen and take such other measures to protect the physical security of the Property as reasonably necessary.

5.10 Maintenance of Existence; Compliance with Law. Preserve and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises; conduct its business in an orderly, efficient and regular manner; comply in all material respects with the provisions of all documents pursuant to which Owner is organized and/or which govern Owner's continued existence; and comply with the requirements of all applicable laws, rules, regulations, orders of any governmental authority and requirements for the maintenance of Owner's insurance, licenses, permits, governmental approvals, rights, privileges and franchises.

5.11 Insurance. Maintain and keep in force insurance of the types, in the amounts, in the form and with the carriers required under this Agreement and under any and all of the Security Documents, provided, however, that Owner shall not be required to maintain earthquake or terrorism insurance, unless required by law or regulation.

5.12 Facilities. Keep all of Owner's properties useful or necessary to Owner's business, including without limitation the Property, in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that Owner's properties, and the Property, shall be fully and efficiently preserved and maintained.

5.13 Taxes and Other Liabilities. Pay, at least fifteen (15) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand during the continuance of an Event of Default, Owner shall, until all indebtedness secured by the Security Documents has been paid in full, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and

premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall be placed in an interest-bearing account by Lender, shall not be commingled with the general funds of Lender and shall, unless Owner is otherwise in default hereunder or under the Note or Security Documents, be released to Owner for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Owner is in default thereunder.

5.14 Litigation. Promptly give notice in writing to Lender of any litigation pending or threatened against Owner or, to Owner's knowledge, the Property having a potential or claimed liability in excess of Fifty Thousand Dollars (\$50,000.00).

5.15 Other Notifications. Promptly (but in no event more than five (5) business days after the occurrence of each such event or matter and knowledge thereof by Owner) give notice in writing to Lender of: (a) any termination or cancellation of any insurance policy which Owner is required to maintain; (b) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Owner's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (c) the change in the name or the organizational structure, dissolution or adverse change in financial condition of Owner; (d) the death, disability or legal incapacity of James C. Gianulias.

ARTICLE VI

INSPECTIONS

6.01 Construction Work. Lender, through its officers, agents and employees, shall have the right at any time and from time to time to enter upon the Property during normal business hours, and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof) of Owner and general contractor to the extent that the same may relate to the Property or the Project. Owner shall pay all reasonable costs associated with Lender or Lender's agents' inspection of the Project.

6.02 Non-Conformance. If Lender determines that any work or materials are not in material conformity with the Plans and Specifications as approved by Lender, or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.

6.03 No Duty. It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.

6.04 Independent Cost Analyses. Owner will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may reasonably require, and shall deliver forthwith to Lender, upon Lender's written request therefore, true and correct copies of all inspections or cost analyses prepared or made by or for Owner.

ARTICLE VII

NEGATIVE COVENANTS

Owner further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner will not without prior written consent of Lender:

7.01 Use of Funds. Use any of the proceeds of the Loan for any purposes other than as stated in Article IV hereof.

7.02 Assessment Districts. Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.

7.03 Liens. Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof or as bonded over in accordance with this Agreement.

7.04 Leases. Enter into any new leases of all or any portion of the Property, or amend, modify or cancel any leases of all or any portion of the Property, without the prior written approval of Lender, which shall not be unreasonably withheld.

ARTICLE VIII

EXCULPATORY PROVISIONS

Owner acknowledges, understands and agrees as follows:

8.01 Status as Lender. The relationship between Owner and Lender is and shall at all times remain, solely that of borrower and lender and Lender neither undertakes nor assumes any responsibility or duty to Owner to select, review, inspect, supervise, pass judgment upon or inform Owner of the quality, adequacy or suitability of the following:

- (a) The engineering or architectural Plans and Specifications or amendments, alterations and additions thereto;
- (b) Architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or
- (c) The progress or course of construction and its conformance or non-conformance with the engineering Plans and Specifications or amendments, alterations and changes thereto.

8.02 Defective Construction. Lender owes no duty of care to protect Owner against negligent, faulty, inadequate or defective building or construction at the Property.

8.03 Non-Liability. Lender shall not be responsible or liable to Owner for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Owner or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Owner shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

8.04 No Representation. By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

8.05 Brokers' Fees. Owner agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan, if and to the extent a claim therefor is determined to be a claim arising by or through Owner (it being understood that any such commission, charge or brokerage fees will be paid directly by Owner to the party(ies) entitled thereto).

8.06 Construction. Lender shall in no way be liable for any acts or omissions of Owner, or any agent, contractor, architect, engineer or other person furnishing labor and/or materials used in relation to any construction at the Property.

8.07 Indemnity. Owner agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to the later of (i) completion of any foreclosure proceeding or recordation of a deed in lieu thereof, or (ii) the time Owner is in control or occupancy of the Property (either (i) or (ii) a "Change in Control"), (b) Lender's performance of any act permitted under this Agreement, the Note or any of the Security Documents (unless arising out of Lender's willful misconduct), (c) breach of any representation or warranty made by Owner or any obligation of Owner contained in this Agreement, and (d) any allegation that Lender is liable for any act or omission committed by or on behalf of Owner, prior to a Change in Control, in connection with the ownership, operation or development of the Property. Upon demand by Lender, Owner shall defend any action or proceeding brought against Lender covered by this indemnity, at Owner's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Owner, in which event all reasonable fees and reasonable costs of such defense shall be paid by Owner upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE IX

PROTECTION AGAINST LIENS

9.01 Paid Claims. Owner agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan Funds; provided, however, that bonding in accordance with statutory requirements shall in all events be considered "reasonable steps." Owner irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note or the Security Documents.

9.02 Release of Liens. Upon demand by Lender, Owner shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Owner shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Owner to pay any claims for labor, materials, or services which Owner in good faith disputes and which Owner, at its own expense, is currently and diligently contesting; provided that Owner shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of

the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

9.03 Notice of Lien. Owner agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Owner and (b) to the Property, which are addressed to "California National Bank" or to "Construction Lender" shall be promptly delivered to Lender. Owner further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

9.04 Payment of Costs. Owner shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Owner shall pay:

- (a) All fees and commissions lawfully due to any brokers claiming by or through Owner, and all fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;
- (b) All taxes and recording expenses;
- (c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and
- (d) All reasonable costs, charges, and expenses agreed to be paid by Owner and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE X

REMOVAL OF PERSONALTY

10.01 Removal of Personalty. Owner agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Owner will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Owner, free and clear of any lien or security interest.

ARTICLE XI

BOOKS AND RECORDS

11.01 Working Drawings. Owner shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

11.02 Books of Account. Owner shall maintain or cause to be maintained full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with tax accounting (fairly presenting Owner's financial position), or generally accepted accounting principles or tax based accounting, consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time after an Event of Default, such financial data as Lender shall reasonably request relating to the ownership or operation of the Property.

11.03 Financial Information. Owner understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers, guarantors, and such other parties as Lender relies upon in its underwritings of its loans. Accordingly, Owner hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

(a) Within ninety (90) days following the end of each calendar semi-annual period for Cameo Homes, James C. Gianulias (consolidated), internally prepared, unaudited financial statements (including without limitation personal financial statements, asset and liability statements, income and expense statements, cash flow statements and such other financial information as was previously provided to Lender or as Lender may reasonably request), all of which data to be certified as true and accurate and as having been prepared in accordance with generally accepted accounting or tax based accounting principles consistently applied; and

(b) Within thirty (30) days of filing, a copy of the most current federal tax return for Owner and for each party referenced in (a), above. With respect to Owner, in lieu of providing Lender its tax return, it may furnish its audited financial statement, if any.

Owner agrees that the requirements of this Section 11.03 shall remain in full force and effect so long as there remain any outstanding obligations under this Agreement, the Note, or the Security Documents. Owner further agrees that the failure of Owner to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

11.04 Intentionally Omitted.

11.05 Appraisals. Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Owner shall obtain, as promptly as possible and at Owner's expense, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its reasonable discretion.

11.06 Lender Audit Rights. Lender and its agents and representatives shall have the right to inspect and audit all books and records of Owner, during normal business hours, pertaining to the statements, reports and information required under this Article XI in order to obtain and verify such information as Lender deems necessary or appropriate. Lender shall also have the right to examine, copy and audit the books, records and accounting data and other documents of Owner's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Owner reasonable notice prior to exercising its rights hereunder, and the costs thereof shall be borne by Lender, unless the results thereof shall reveal a material adverse discrepancy from the information reported to Lender.

11.07 Further Assurances. Owner, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XII

EVENTS OF DEFAULT

12.01 Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Owner does not proceed diligently with the Project and the completion thereof, subject to the provisions of Section 5.02, including those provisions dealing with force majeure, as herein provided;

(b) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents within ten (10) days of demand therefor by Lender;

(c) Any representation or warranty made by Owner hereunder or in the Note, Security Documents, any other documents executed by Owner in connection with the Loan proves to have been false or misleading in any material respect when made;

(d) Owner shall fail to observe or perform any non-monetary term, obligation, agreement or other provision contained herein or in the Note, the Security Documents, in any other contract or instrument executed in connection herewith, and fails to remedy such default within thirty (30) days after notice from Lender, or, if the same is not reasonably susceptible to cure within such thirty (30) day period, fails to commence to cure within such period, or thereafter fails to diligently prosecute such cure to completion, provided, however, that in no event will the time for completion of the Project be extended beyond the date provided in Section 5.02, nor shall the maturity date of the Note be extended beyond the date set forth therein;

(e) Any default or defined event of default under the Note, any of the Security Documents, any other documents executed in connection with the Loan or any default or defined event of default under the Subordinate Financing, or any documents executed in connection therewith, after passage of any applicable cure period without cure;

(f) If at any time the maturity date of the indebtedness under the Subordinate Financing becomes earlier than February 14, 2008;

(g) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due to a condition involving an act of God or force majeure, the Owner shall not be deemed in default under this subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within sixty (60) days (provided the same is possible, taking into account the facts and circumstances associated with the force majeure), and (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note, any of the Security Documents, except as provided in Section 5.02, above;

(h) If Lender should determine that said work is not in conformance with the engineering Plans and Specifications and the terms of this Agreement (in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it) and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender, unless said work cannot reasonably be completed within such thirty (30) day period and Owner has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding ninety (90) days shall be granted;

(i) If Owner shall default, beyond any applicable cure period, under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other instrument executed in connection with the development of the Project;

(j) Owner shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors;

(k) Owner shall file a voluntary petition in bankruptcy, or seek reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or decodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect, or any involuntary petition or proceeding pursuant to said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Owner, or Owner shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition, or Owner shall be adjudicated a bankrupt, or an order for relief shall be entered by any court of competent jurisdiction under said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors;

(l) The filing of a notice of judgment lien against Owner, or the recording of any abstract of judgment against Owner, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Owner, or the entry of a judgment, order or decree against Owner, any or all of which would have a material and adverse effect upon Owner's ability to perform under this Agreement or the Security Documents, and Owner's failure to cause removal of same within a reasonable period of time, but in no event more than sixty (60) days after such filing, recordation or entry;

(m) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation thereof;

(n) The dissolution or liquidation of Owner or any of its members, or Owner, its members or the members of any of its members, shall take action seeking to effect the dissolution or liquidation of Owner or any of its members; or

(o) Except as otherwise specifically permitted in this Agreement or the Security Documents, if Owner shall convey title to, or any interest in, any of the Property.

Unless a time frame is otherwise specified above, and in connection with any default of a non-monetary covenant or agreement, so long as such failure or non-compliance is susceptible to cure, Owner shall be entitled to thirty (30) days written notice from Lender of same before such failure or non-compliance shall constitute an Event of Default. Provided further, if such non-monetary failure or non-compliance is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Trustor or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure, provided, however, that in no event will the time for completion of the Project be extended beyond the date

provided in Section 5.02, nor shall the Maturity Date of the Note be extended beyond the date set forth therein during the period otherwise applicable for said cure.

ARTICLE XIII

REMEDIES

13.01 Remedies. Upon or at any time after the happening of any Event of Default hereunder, and during the continuance thereof, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, shall have the following rights and remedies:

Declare all Loan funds previously disbursed hereunder to be due and payable and terminate any obligation of Lender to disburse any remaining funds hereunder to Owner and proceed as authorized by law to satisfy the indebtedness of Owner to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Owner of the obligations evidenced by said Note and by this Agreement.

(a) Take possession of the Property and let contracts for or otherwise proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be considered and be an additional loan to Owner and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Owner agrees to pay the same. Owner further hereby authorizes Lender at its option at any time, either in its own name or in the name of Owner, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

(b) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any Impounds shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of

Default or any act done pursuant to such notice and shall not prejudice any rights of the Beneficiary or Trustee under the Deed of Trust.

(c) Upon the happening of any Event of Default which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of the Lender's own funds shall not, however, be deemed to cure such default by Owner, and the same shall not be so cured unless and until Owner shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount which Lender determines to be necessary to provide for such completion shall be deposited by Owner pursuant to the terms of Section 3.09 hereof. If Lender advances its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Owner shall immediately upon demand reimburse Lender with interest at the default interest rate provided for in the Note from the date of such advance until the date of reimbursement.

13.02 Remedies Cumulative. All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

13.03 Contest of Third Party Claims. Notwithstanding anything to the contrary herein contained, Owner shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Owner shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Owner or the adverse claimant.

13.04 No Waivers. No waiver by Lender of any default or breach by Owner hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XIV

SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XV

ASSIGNMENT

15.01 Owner's Assignment. Owner shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon, except in each case in the ordinary course of business in connection with Unit sales in the subdivision in accordance with the requirements of this Agreement, without the prior written consent of Lender.

15.02 Lender's Assignment. Lender may at any time assign this Agreement, the Note, and/or the Security Documents, and any guaranty thereof, and upon such assignment, Lender shall have no further obligation or liability of any nature in connection herewith if and to the extent the assignee expressly assumes the liability of Lender. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, and the Security Documents.

15.03 Participation. Owner understands that Lender may transfer and assign its interest in the Loan, this Agreement, and/or the Security Documents, pledge its interest in the Loan, this Agreement, and/or the Security Documents or grant or sell participations in some or all of Owner's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan. Owner shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XVI

ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON

A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT OWNER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST OWNER NOTWITHSTANDING OWNER'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT

INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS ARBITRATION AGREEMENT, OWNER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, OWNER'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Owner's Initials


Lender's Initials

ARTICLE XVII

MISCELLANEOUS

17.01 Partial Release. Owner intends to bulk sell 83 of the finished lots to a merchant builder, reasonably acceptable to Lender, and, in connection with such bulk sale, Lender shall partially release those 83 lots from the lien of the Deed of Trust upon satisfaction of conditions for a partial release as provided in the Deed of Trust. Owner shall pay to Lender, in connection with such partial release, the sum of \$7,411,900. Owner intends to construct residences on the remaining 130 lots with the assistance of production loans from Lender, which production loans are subject to Lender approval. Should any such production loan or loans be approved, the 130 lots will be released into the production loan at a price of \$111,890 per lot. Other than as specified herein, Owner shall not be entitled to, and Lender shall not be obligated to issue, partial release of any of the Property.

17.02 Amendment. This Agreement, the Security Documents, and the Note and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.

17.03 Return of Documents. If the Loan is not consummated within thirty (30) days after the date hereof, Owner shall return all documents and instruments to Lender upon demand.

17.04 Regulatory Restrictions. It is understood and agreed by Owner that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including, but not limited to, legal lending requirements.

17.05 Notices. All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier

service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

If to Owner: 213 BANNING, LLC
c/o Cameo Homes
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

If to Lender: CALIFORNIA NATIONAL BANK
1301 Dove Street, Suite 101
Newport Beach, CA 92660-2458
Attn: Real Estate Group

or such other address as shall, from time to time, be supplied in writing by any party to the others. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. Postal Service or private courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

17.06 Time of Essence. Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

17.07 No Third Parties Benefitted. This Agreement is made for the sole benefit and protection of Owner and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.

17.08 Actions. Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Owner agrees to pay the same.

17.09 Reliance on Representations. Lender may conclusively assume that the statements, acts, information and representations made by Owner or its agents contained in any

affidavits, orders, receipts or other written instruments which were filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.

17.10 Relationship. Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.

17.11 Headings. The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

17.12 Governing Law. This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.

17.13 Attorneys' Fees and Costs. If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.

17.14 Signs. Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.

17.15 Nondiscrimination. During the term of this Agreement, neither Owner, its respective partners, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or lessee or prospective purchaser or lessee of all or any portion of the Property, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900, *et seq.*, of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0, *et seq.*), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

SIGNATURES ONLY ON FOLLOWING PAGE

Signature page for Construction Loan Agreement

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

LENDER:

CALIFORNIA NATIONAL BANK,
a national banking association

By: _____

Andrew J. [Signature]

Its: _____

Vice President

OWNER:

213 BANNING, LLC,
a California limited liability company

By: CAMEO HOMES, a California
corporation, Manager

By: _____

[Signature]
James C. Gianulias, President

EXHIBIT A

Legal Description

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

TENTATIVE TRACT NO. 30774, BEING A SUBDIVISION OF THE FOLLOWING:

PARCEL 1:

LOTS 1 THROUGH 9, 15 AND 16, INCLUSIVE, OF ALMCOT TRACT, AS SHOWN BY MAP ON FILE IN BOOK 18 PAGE(S) 3 OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA;

EXCEPT FROM SAID LOT 16 THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID LOT 16;
THENCE SOUTH, 200.00 FEET, ON THE EAST LINE OF SAID LOT 16;
THENCE WEST, 20.00 FEET, PARALLEL WITH THE NORTH LINE OF SAID LOT;
THENCE NORTH 200.00 FEET, PARALLEL WITH SAID EAST LINE TO SAID NORTH LINE;
THENCE EAST, 20.00 FEET ON SAID NORTH LINE TO THE POINT OF BEGINNING.

PARCEL 2:

ADJUSTED LOT 11 AS SHOWN ON LOT LINE ADJUSTMENT LLA NO. 1999-04 RECORDED AUGUST 18, 1999, AS INSTRUMENT NO. 371259 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, ALSO DESCRIBED IN THE DOCUMENT AS FOLLOWS:

THAT PORTION OF LOTS 10, 11, 12 AND 13 OF ALMCOT TRACT, AS SHOWN BY MAP ON FILE IN BOOK 18 PAGE(S) 3 OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, DESCRIBED AS FOLLOWS;

BEGINNING AT THE NORTHWEST CORNER OF LOT 10, SAID POINT BEING THE INTERSECTION OF THE SOUTHERLY RIGHT OF WAY OF VICTORY AVENUE (FORMERLY CRAWFORD AVENUE) AND THE WESTERLY RIGHT OF WAY OF TWENTY-SECOND STREET;
THENCE NORTH 00° 34' 00" WEST A DISTANCE OF 166.63 FEET;
THENCE NORTH 49° 31' 00" WEST A DISTANCE OF 37.33 FEET TO THE MOST NORTHERLY CORNER OF SAID LOT 10;
THENCE SOUTHERLY ALONG VARIOUS COURSES OF THE WESTERLY LINE OF SAID LOT 10 DESCRIBED AS FOLLOWS:

THENCE SOUTH 33° 10' 00" WEST A DISTANCE OF 127.15 FEET;

THENCE SOUTH 43° 15' 00" WEST A DISTANCE OF 200.33 FEET;
THENCE SOUTH 13° 31' 00" WEST A DISTANCE OF 139.04 FEET;
THENCE SOUTH 06° 31' 00" EAST A DISTANCE OF 316.07 FEET;
THENCE SOUTH 15° 03' 00" WEST A DISTANCE OF 354.51 FEET;
THENCE SOUTH 03° 48' 00" EAST A DISTANCE OF 222.23 FEET;
THENCE SOUTH 34° 55' 00" EAST A DISTANCE OF 288.59 FEET TO THE NORTH LINE
OF THE SOUTH HALF OF SECTION 17, RANGE 1 EAST, TOWNSHIP 3 SOUTH, SAN
BERNARDINO BASE AND MERIDIAN, AS SHOWN ON SAID MAP;
THENCE NORTH 89° 26' 00" EAST ALONG SAID LINE A DISTANCE OF 1,518.59 FEET;
THENCE NORTH 00° 34' 00" WEST A DISTANCE OF 668.46 FEET;
THENCE SOUTH 89° 26' 00" WEST A DISTANCE OF 1,360 FEET;
THENCE NORTH 00° 34' 00" WEST A DISTANCE OF 641.47 FEET TO THE POINT OF
BEGINNING.

PARCEL 3:

PARCEL 1 TOGETHER WITH LETTERED LOTS A, B, C AND L OF PARCEL MAP 28972,
RECORDED IN BOOK 204 PAGES 31 AND 32 OF PARCEL MAPS, RECORDS OF
RIVERSIDE COUNTY, CALIFORNIA.

PARCEL 4:

ADJUSTED LOT 14 AS SHOWN ON LOT LINE ADJUSTMENT LLA NO. 1999-04
RECORDED AUGUST 18, 1999, AS INSTRUMENT NO. 99-371259 OF OFFICE RECORDS
OF RIVERSIDE COUNTY, CALIFORNIA, ALSO DESCRIBED IN THE DOCUMENT AS
FOLLOWS:

THAT PORTION OF LOTS 12, 13 AND 14 OF ALMCOT TRACT AS SHOWN BY MAP ON
FILE IN BOOK 18 PAGE(S) 3 OF MAPS, RECORDS OF RIVERSIDE COUNTY,
CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT THE EAST ONE-QUARTER CORNER OF SECTION 17, TOWNSHIP 3
SOUTH, RANGE 1 EAST, SAN BERNARDINO BASE AND MERIDIAN, SAID POINT
ALSO BEING THE SOUTHEAST CORNER OF LOT 12 OF SAID MAP;
THENCE NORTH 00° 58' 00" WEST ALONG THE EAST LINE OF SAID SECTION 17
A DISTANCE OF 668.48 FEET TO THE TRUE POINT OF BEGINNING;
THENCE SOUTH 89° 26' 00" WEST A DISTANCE OF 695.05 FEET; THENCE NORTH 00°
34' 00" WEST A DISTANCE OF 783.78 FEET TO THE NORTHWEST CORNER OF SAID
LOT 14;
THENCE ALONG VARIOUS COURSES OF THE NORTH LINE OF SAID LOT 14
DESCRIBED AS FOLLOWS:

THENCE NORTH 86° 35' 00" EAST A DISTANCE OF 120.91 FEET;
THENCE SOUTH 67° 02' 00" EAST A DISTANCE OF 122.00 FEET;
THENCE NORTH 88° 05' 00" EAST A DISTANCE OF 216.00 FEET;
THENCE NORTH 67° 02' 00" EAST A DISTANCE OF 200.00 FEET;

THENCE NORTH 88° 43' 00" EAST A DISTANCE OF 56.86 FEET TO THE EAST LINE OF SAID SECTION 17;

THENCE SOUTH 00° 58' 00" EAST ALONG THE EAST LINE OF SAID SECTION 17 A DISTANCE OF 823.10 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL 5:

ADJUSTED LOT 12 AS SHOWN ON LOT LINE ADJUSTMENT LLA NO. 1999-04 RECORDED AUGUST 18, 1999, AS INSTRUMENT NO. 371259 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, ALSO DESCRIBED IN THE DOCUMENT AS FOLLOWS:

THAT PORTION OF LOTS 11, 12 AND 14 OF ALMCOT TRACT AS SHOWN BY MAP ON FILE IN BOOK 18 PAGE(S) 3 OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA DESCRIBED AS FOLLOWS:

BEGINNING AT THE EAST ONE-QUARTER CORNER SECTION 17, TOWNSHIP 3 SOUTH, RANGE 1 EAST, SAN BERNARDINO BASE AND MERIDIAN, SAID POINT ALSO BEING THE SOUTHEAST CORNER OF LOT 12 OF SAID MAP;
THENCE SOUTH 89° 26' 00" WEST A DISTANCE OF 699.73 FEET;
THENCE NORTH 00° 34' 00" WEST A DISTANCE OF 668.46 FEET;
THENCE NORTH 89° 26' 00" EAST A DISTANCE OF 695.06 FEET;
THENCE SOUTH 00° 58' 00" EAST A DISTANCE OF 668.48 FEET TO THE POINT OF BEGINNING.

APN: 537-170-002-1 and 537-170-003-2 and 537-150-005-2 and 537-150-006-3 and 537-150-007-4 and 537-190-001-2 and 537-190-002-3 and 537-190-003-4 and 537-190-004-5 and 537-190-005-6 and 537-190-006-7 and 537-190-014-4 and 537-190-015-5 and 537-190-017-7 and 537-200-031-9



EXHIBIT "B"

DESCRIPTION OF PLANS AND SPECIFICATIONS

Those certain undated engineering plans and specifications, bearing Job Number 17013, as the same may be amended or supplemented, prepared by Pardue Cornwell & Associates, Inc., under contract dated May 17, 2004.

Those certain architectural plans and specifications dated January 27, 2005, prepared by LSA Architecture, Inc., under Job Number 275, pursuant to contract dated January 31, 2005, as said plans and specifications and contract may be amended or supplemented.



EXHIBIT "C"

INSURANCE REQUIREMENTS

A. Workers' Compensation:

Coverage A. Statutory policy form.

Coverage B. Employers Liability \$100,000

B. Owner's Broad Form Comprehensive General Liability or Commercial General Liability:

The limits of liability shall not be less than:

1. Broad Form Comprehensive General Liability:

\$2,000,000 Combined Single limit

\$1,000,000 Bodily/Property Damage per Occurrence

Or,

2. Commercial General Liability:

The limits of liability shall not be less than:

Each Occurrence Limit \$1,000,000

Personal Advertising Injury Limit \$1,000,000

Products Completed Operations

Aggregate Limit \$1,000,000

General Aggregate Limit \$2,000,000

(Other than Products-completed
Operations)

Both policy forms must include:

- a. Premises and operations with no X, C, or U exclusions.

- b. Products and completed operations coverage. (This coverage to be maintained for a minimum of ten (10) years following completion of work and to continue to name Owner as named insured and Lender as additional insured, for the entire ten (10) year period).
 - c. Blanket contractual coverage with Employee Exclusion deleted.
 - d. Broad Form Property Damage including completed operations or its equivalent.
 - e. An endorsement naming Lender and any other required interests as additional insured(s).
 - f. An endorsement stating: "Such coverage as is afforded by this policy for the benefit of the additional insured(s) is primary and any other coverage maintained by such additional insured(s) shall be non-contributing with the coverage provided under this policy."
 - g. Cross Liability and Severability of Interest Clause.
 - h. Limited Independent Contractors language should be included.
 - i. Subsidence coverage, if available, at commercially reasonable rates.
- C. General Contractor's Broad Form Comprehensive General Liability or Commercial General Liability:
- 1. All requirements are the same as in Owner's general liability insurance as set forth hereinabove.
 - 2. In addition, general contractor's general liability coverage must also include:
 - a. Manufacturers and contractors protective coverage.
 - b. Automobile liability coverage including owned, hired and non-owned vehicles.
- D. All Risk/Special Form Property Insurance – Full Replacement Cost (Real and Personal Property), Course of Construction, Secured Collapse, if available at commercially reasonable rates, Business Interruption and Loss of Profits for a minimum one (1) year term. Such insurance shall also contain an agreed value clause or other provision sufficient to eliminate any risk of co-insurance.
- E. Other Requirements:
- 1. Lender must be named as an additional insured on all liability policies and as the mortgagee and certificate holder (with lender's loss payable endorsement) on all

property insurance coverage. Property insurance coverage must include standard 438 BFU language and cover all property described in the Security Documents. The endorsement must contain the following wording: "With respect to a loss payee designated in this policy, this insurance will continue in force throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew, of (c) issuance of a Notice of Reduction Coverage."

2. All policies must provide that the named insured correspond with the named borrower on the loan documents; that Lender's Loan Number be shown on all policies, certificates and correspondence; and that the complete property address be shown on the declaration page of the policy or certificate evidencing such insurance.
3. The deductible under any policies required hereunder shall be no more than \$5,000.00.
4. An authorization signed by the Owner must accompany all mid-term and anniversary date changes in the agent or broker of record shown in Lender's files.
5. All policies must contain an endorsement affording an unqualified thirty (30) days' notice of cancellation to the additional insured(s) in the event of cancellation, non-renewal or material reduction in coverage.
6. All policies must be written by insurance companies acceptable to Lender whose rating in the most recent Best's rating guide is not less than A:IX. All policies shall be written for not less than a one (1) year term (or annual continuous) with one year's premiums prepaid.
7. Certificates of insurance, with the endorsements evidencing the required coverage, and copies of the policies, must be delivered to Lender prior to funding and each year thereafter until the indebtedness evidenced by the Note and Security Documents is paid in full.
8. No earthquake insurance shall be required unless required by law or regulation.



EXHIBIT "D"

BUDGET

SOURCES AND USES OF FUNDS							08-Feb-05
BORROWER: 213 Banning, LLC				CONTRACTOR: Groove Construction, Inc.			
ITEM	TOTAL	PER	PER	COST	COST	LOAN	
COST	COST	UNIT	SQFT	TO BE PAID	PAID	BUDGET	
LAND & DEVELOPMENT							
1 Land Cost	\$3,880,900	\$18,220	\$0.91	\$0	\$3,880,900	\$0	
2 Site Work	\$14,282,859	\$67,056	\$3.35	\$0	\$0	\$14,282,859	
3 Site Work Retention	\$1,586,984	\$7,451	\$0.37	\$0	\$0	\$1,586,984	
Total Land & Development	\$19,750,743	\$92,726	\$4.64	\$0	\$3,880,900	\$15,869,843	
INDIRECT & SOFT COSTS							
4 A&E	\$1,396,945	\$6,558	\$0.33	\$548,530	\$345,238	\$503,177	
5 Permits, Fees & Bonds	\$934,798	\$4,389	\$0.22	\$0	\$0	\$934,798	
6 G&A 1%	\$150,000	\$704	\$0.04	\$0	\$0	\$150,000	
7 Taxes, Insurance & Legal	\$719,082	\$3,376	\$0.17	\$0	\$0	\$719,082	
8 Contingency 1%	\$350,000	\$1,643	\$0.08	\$0	\$0	\$350,000	
Total Finished Lot Cost	\$23,301,568	\$109,397	\$5.47	\$548,530	\$4,226,138	\$18,526,900	
LOAN COST							
9 Interest Reserve	\$635,000	\$2,981	\$0.15	\$0	\$0	\$635,000	
10 Loan Fee 1.00%	\$194,000	\$911	\$0.05	\$0	\$0	\$194,000	
11 Appraisal & Environmental	\$0	\$0	\$0.00	\$0	\$0	\$0	
12 Inspection(CNB)	\$7,200	\$34	\$0.00	\$0	\$0	\$7,200	
13 Legal	\$19,400	\$91	\$0.00	\$0	\$0	\$19,400	
14 Title/Closing/Misc	\$17,500	\$82	\$0.00	\$0	\$0	\$17,500	
Total Loan Cost	\$873,100	\$4,099	\$0.20	\$0	\$0	\$873,100	
CUMULATIVE TOTALS	\$24,174,668	\$113,496	\$5.67	\$548,530	\$4,226,138	\$19,400,000	
FOOTNOTES:				LOAN TO TOTAL COST RATIOS:			
Interest Rate = 6.25%				2% 17% 80%			
Total Number of Lots = 213				Average Outstanding 26% # of Months 24			
Total Lot SQFT = 4,260,000							

Exhibit 5

Silver Oaks 183, LLC

Claim \$4,555,113.06

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated May 4, 2007 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Loan Agreement dated May 4, 2007 (as amended, modified, and/or supplemented, the "Loan Agreement"), and that certain Unsecured Construction Loan Promissory Note dated May 4, 2007 (as amended, modified, and/or supplemented, the "Unsecured Loan") by which Cal National lent Silver Oaks 183, LLC (the "Borrower") the stated principal amount of \$9,570,000 pursuant to the Loan Agreement, secured by Borrower's real property, and an additional principal sum of \$1,200,000 pursuant to the Unsecured Loan. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loans.

On January 9, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; (iii) Breach of Note; (iv) Breach of Written Guaranty of Secured Loan; and (v) Breach of Written Guaranty of Unsecured Loan in the Superior Court of the State of California for the County of Riverside, Case No. RIC 489848, against the Debtor as defendant concerning, the Cal National Guaranty. On April 9, 2008, the property was sold at public auction for \$2,444,000.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$4,555,113.06 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreement and Unsecured Loan to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreement and Unsecured

Loan. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date – Loan Agreement

Amount due at Foreclosure Sale	at least \$5,558,148.54
Amount property sold for at Foreclosure Sale	\$2,444,000.00
Amount of Claim	at least <u>\$3,114,148.54</u>

As of the Petition Date – Unsecured Loan

Principal Outstanding	at least \$1,199,999.99
Accrued Interest	at least \$215,266.67
Late Charges	at least \$10,343.33
Other Fees	at least \$15,354.53
Amount of Claim	at least <u>\$1,440,964.52</u>

TOTAL UNSECURED CLAIM \$4,555,113.06

WHEN RECORDED MAIL TO
SILVER OAKS HOMES, LLC
c/o CALIFORNIA NATIONAL BANK
1301 DOVE STREET, SUITE 101
NEWPORT BEACH, CA 92660

MAIL TAX STATEMENTS TO

This is to certify that this is a True and Correct copy
of the Original recorded
Instrument No. 08-183750
NORTH AMERICAN TITLE COMPANY
By WJ
County of Riverside

Space above this line for recorder's use only

Trustee Sale No. 2007-CA004987 Loan No. 7600009901 Title Order No. 43-83327-65

TRUSTEE'S DEED UPON SALE AND BILL OF SALE

APN 480-040-010-1 AND 480-040-020-0

The undersigned grantor declares:

- 1) The Grantee herein was the foreclosing beneficiary.
- 2) The amount of the unpaid debt together with costs was\$5,558,148.54
- 3) The amount paid by the grantee at the trustee sale was\$2,444,000.00
- 4) The documentary transfer tax is\$NONE
- 5) Said property is in RIVERSIDE

and R.E.F.S. INC., A CALIFORNIA CORPORATION, as Trustee (herein called Trustee), as the duly appointed Trustee or substituted Trustee under the Deed of Trust hereinafter described, does hereby grant and convey, but without covenant or warranty, express or implied, to SILVER OAKS HOMES, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY (herein called Grantee), all of its right, title and interest in and to that certain property situated in the County of RIVERSIDE, State of California, described as follows: LOT 76 THOROUGH 79 INCLUSIVE, 83, 84, 86 THROUGH 88 INCLUSIVE AND 109 THROUGH 124 INCLUSIVE, OF TRACT 31118 IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 419 OF MAPS, PAGE(S) 22 THROUGH 28 INCLUSIVE, RECORDS OF SAID COUNTY.

Situs: VACANT LAND, , RIVERSIDE, CA

RECITALS:

This conveyance is made pursuant to the powers conferred upon Trustee by that certain Deed of Trust dated 05-04-2007 and executed by SILVER OAKS 183, L.L.C., A CALIFORNIA LIMITED LIABILITY COMPANY, as Trustor, and Recorded 06-13-2007, Book N/A, Page N/A, Instrument 2007-0387797 of official records of RIVERSIDE County, California, and after fulfillment of the conditions specified in said Deed of Trust authorizing this conveyance.

Default occurred as set forth in a Notice of Default and Election to Sell which was recorded in the Office of the Recorder of said County, and such default still existed at the time of sale.

All requirements of law regarding the mailing of copies of notices or the publication of a copy of the Notice of Default or the personal delivery of the copy of the Notice of Default and the posting and publication of copies of the Notice of a Sale have been complied with.

Trustee Sale No.: 2007-CA004887
Loan No.: 7600009901
Title Order No.: 43-83327-65

Trustee, in compliance with said Notice of Trustee's Sale and in exercise of its powers under said Deed of Trust, sold the herein described property at public auction on 04-09-2008. Grantee, being the highest bidder at said sale, became the purchaser of said property for the amount bid being \$2,444,000.00 in lawful money of the United States, or by credit bid if the Grantee was the beneficiary of said Deed of Trust at the time of said Trustee's Sale.

This sale was a unified sale of real and personal property. The undersigned further sells, transfers and conveys by quitclaim to grantee the personal property security and collateral under that certain Security Agreement dated 5/04/2007, by and between CALIFORNIA NATIONAL BANK, A NATIONAL BANKING ASSOCIATION and SILVER OAKS 183, L.L.C., A CALIFORNIA LIMITED LIABILITY COMPANY and that certain financing statement dated 5/04/2007 and filed in the Office of the Secretary of State as Instrument No. 077117562692 on 6/14/2007 and any amendments or modifications to either of them, as described in the Notice of Sale, and set forth below. Such sale on behalf of the Secured Party is "AS IS, WHERE IS" WITH ALL FAULTS, AND WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND.

DATE: April 10, 2008

R.E.F.S. INC., A CALIFORNIA CORPORATION, as said Trustee



ELIZABETH BERBER, VICE PRESIDENT

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

On April 10, 2008 before me, DANH N. LE, a Notary Public, personally appeared ELIZABETH BERBER who 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..

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.


Notary Public in and for said County and State

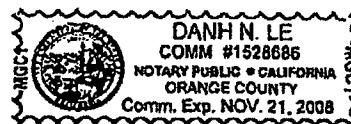


EXHIBIT B

1. Guaranty Agreement dated May 4, 2007, by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
2. Construction Loan Agreement dated May 4, 2007.
3. Unsecured Construction Loan Promissory Note dated May 4, 2007.

Exhibit B -1

CONTINUING GUARANTY AGREEMENT

THIS CONTINUING GUARANTY AGREEMENT ("Agreement"), dated as of May 4, 2007, is hereby given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, as Trustee of The James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998 ("Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), with respect to the following facts:

RECITALS:

A. SILVER OAKS 183, L.L.C., a California limited liability company ("Borrower") has agreed to borrow the principal sum of Ten Million Seven Hundred Seventy Thousand Dollars (\$10,770,000.00) ("Loan") from Lender to finance the cost of constructing certain improvements (the "Improvements") on land in the County of Riverside, California more specifically described in Exhibit "A" attached hereto and made a part hereof (said land and Improvements are hereinafter referred to collectively as the "Property"), all as more particularly set forth in that certain Construction Loan Agreement of even date herewith by and between Borrower and Lender (the "Construction Loan Agreement"). The Loan is to be evidenced by (i) a Construction Loan Promissory Note of even date herewith in the sum of Nine Million Five Hundred Seventy Thousand Dollars (\$9,570,000.00) (the "A Note"), and (ii) a Construction Loan Promissory Note (Unsecured) of even date herewith in the sum of One Million Two Hundred Thousand Dollars (\$1,200,000.00) (the "B Note"), both executed by Borrower and payable and delivered to Lender (the A Note and the B Note and all amendments thereto are hereafter collectively referred to as the "Note") and the A Note is secured by a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Deed of Trust") of even date herewith encumbering the Property. Unless otherwise defined herein, capitalized terms shall have the same meanings as set forth in the Construction Loan Agreement.

B. Guarantor is a related party to Borrower and will receive a direct and substantive benefit from the Loan.

C. The execution and delivery of this Agreement to Lender by Guarantor is a condition precedent to Lender's making the Loan, is a material inducement to Lender in the making of the Loan, and Lender would not make the Loan without this further assurance of payment and performance.

NOW, THEREFORE, in consideration of the foregoing recitals, the terms and conditions set forth below, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. **Guaranty.** Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees as follows:

- (a) Borrower shall construct, equip, complete and pay for the Improvements in accordance with the Construction Loan Agreement and comply with all other obligations contained therein;
- (b) Borrower shall timely repay to Lender all amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust and each of the other Security Documents;
- (c) Borrower shall perform fully and when required any and all of the terms, covenants, conditions and agreements contained in the Note, the Construction Loan Agreement, the Deed of Trust, and each of the other Security Documents; and
- (d) Borrower shall keep the Property free and clear of all liens connected with or arising from the construction, equipment or completion of the Improvements.

2. **Performance by Guarantor.**

- (a) If Borrower fails to do any or all of the matters specified in Paragraph 1 on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do.
- (b) If Borrower fails to pay to or reimburse Lender for any expenses incurred by, or other moneys due, Lender pursuant to the Note, the Construction Loan Agreement, the Deed of Trust, or any other Security Documents, Guarantor shall promptly, whether or not notice thereof is received from Lender, pay to or reimburse Lender such sums.
- (c) If Guarantor fails to take any such action promptly, Lender may pursue any remedies at law or in equity against Guarantor without having to proceed first against Borrower, or may itself take such action and expend such sums as Lender deems proper and necessary to do, and Guarantor shall be jointly and severally liable to Lender for all expenses, including attorneys' fees, incurred by Lender therefor, and for all amounts paid by Lender in taking any such action.

3. **Certain Rights of Lender.** Lender may, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with the consent of Borrower prior to an Event of Default by Borrower under the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, amend or modify the plans and specifications for the Improvements or the contracts with any general contractor, subcontractor or materialman of the Improvements; (b) with the consent of Borrower, amend any provision of the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, including any change in the interest rate therein or any change in the time or manner of payment thereunder; (c) make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, or

for any modification of the terms thereof; (d) make any advance under the Note, Construction Loan Agreement or any other Security Documents or, with the consent of Borrower (except as otherwise expressly permitted under the Construction Loan Agreement, the Note, the Deed of Trust, or any other Security Documents), increase or decrease the principal amount thereof; (e) transfer, assign, negotiate or sell participations in the Note, the Construction Loan Agreement, the Deed of Trust, and any other Security Documents; and (f) surrender to Borrower or release, deal with or modify the form of any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed. The guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

4. Waivers by Guarantor.

(a) Guarantor waives any right to require Lender to: (i) proceed against Borrower; (ii) proceed against or exhaust any security for the indebtedness; (iii) give notice of the terms, time and place of any public or private sale of any real or personal property security for the indebtedness; or (iv) pursue any other remedy in Lender's power whatsoever. Guarantor waives any defense arising by reason of any disability or other defense of Borrower, or by reason of the cessation from any cause whatsoever of the liability of Borrower, or by reason of any act or omission of Lender or others which directly or indirectly results in or aids the discharge or release of Borrower of any indebtedness or any security therefor by operation of law or otherwise. Until all indebtedness of Borrower to Lender shall have been paid in full, Guarantor shall have no right of subrogation, and waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by Lender. Guarantor waives all set-offs and counterclaims and all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Agreement and of the existence, creation or incurring of new or additional indebtedness. Guarantor further waives the right to plead any and all statutes of limitation as a defense to any demand under or enforcement of this Agreement.

(b) Guarantor acknowledges that all or a portion of the indebtedness of Borrower to Lender is or may be secured by the Deed of Trust covering the Property. Guarantor authorizes Lender, at its sole option, without notice or demand and without affecting the liability of Guarantor under this Agreement, to foreclose the Deed of Trust and the interests in the Property secured thereby by nonjudicial sale, or to exercise any other right or remedy with respect to the Deed of Trust or the Property. No such action by Lender shall release or limit the liability of Guarantor hereunder, even if the effect of that action is to deprive Guarantor of the right to reimbursement from Borrower for any sums paid by Guarantor to Lender with respect to the indebtedness. Guarantor specifically agrees that Guarantor shall not be released from liability hereunder by any action taken by Lender, including without limitation a nonjudicial sale under the Deed of Trust, that would afford Borrower or Guarantor a defense based on California anti-deficiency laws. Guarantor expressly acknowledges that (1) such a nonjudicial foreclosure would eliminate Guarantor's subrogation rights against the Borrower, (2) the destruction of subrogation rights creates a defense to a deficiency judgment against Guarantor hereunder, and (3) Guarantor expressly waives such defense to a judgment hereby. Guarantor waives all rights and defenses arising out of an election of remedies by

Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to the Deed of Trust, has destroyed the Guarantor's rights of subrogation and reimbursement against the Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor expressly waives (i) any defense to the recovery of a deficiency against Guarantor after such a nonjudicial sale, (ii) any defense which may be waived pursuant to *Union Bank v. Gradsky* (1968) 265 Cal.App.2d 40, and any cases, statutes or authority subsequently interpreting such decision, (iii) any defense that may be waived or benefits that may be derived from or under California Code of Civil Procedure Section 580a, and any cases, statutes or authority interpreting such section and its applicability to Guarantor, (iv) any defense or benefits that may be derived from California Code of Civil Procedure Sections 580b, 580d or 726, (v) all suretyship defenses it would otherwise have under California law, including without limitation all rights and protections under Sections 2809, 2810, 2819, 2845, 2848, 2849, 2850 and 3433 of the California Civil Code, (vi) all rights of subrogation and reimbursement and any other rights and defenses available to Guarantor by reason of California Civil Code Sections 2787 through 2855 inclusive, and (vii) any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including without limitation under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code. Guarantor further expressly acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability hereunder.

(c) Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

(d) All remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of any one of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

(e) Guarantor acknowledges and agrees that the obligations of Guarantor under this Agreement to Lender are separate and independent from any obligations of Borrower to Lender under the Note, the Construction Loan Agreement, the Deed of Trust and the Security Documents, and that this Agreement and the obligations of Guarantor hereunder are not intended to be and are not secured by the Deed of Trust or any of the other Security Documents.

5. **No Release.** Until the Improvements are fully erected, equipped and completed as provided in the Construction Loan Agreement, and until all of the terms, covenants and conditions of this Agreement are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Deed of Trust, the Note, the Construction Loan Agreement and/or any of the other Security Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

6. **Subrogation.** If Guarantor shall make any payments under this Agreement, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Deed of Trust and the Construction Loan Agreement; provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Deed of Trust, the Note and the Construction Loan Agreement. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under the Deed of Trust, the Note and the Construction Loan Agreement have been paid.

7. **Representations and Warranties.** Guarantor hereby makes the following representations and warranties to Lender as of the date of this Agreement:

(a) **Authorization and Validation.** The execution, delivery and performance by Guarantor of this Agreement (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

(b) **Financial Information.** All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial

statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

(c) No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

(d) Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Construction Loan Agreement, the Deed of Trust, and all of the other Security Documents and any other documents executed in connection with the Loan, including without limitation this Agreement, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

(e) Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

(f) Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

(g) Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Project will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with the Loan and Owner's acquisition of the Property.

8. Notices. Any notice, demand or request by Lender to Guarantor shall be in writing and shall be deemed to have been duly given or made if either delivered personally or if mailed by U.S. registered or certified mail as follows:

c/o G Companies Homebuilding
1105 Quail Street

Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

9. **Payment by Borrower.** Notwithstanding anything herein contained, this Agreement shall become null and void if Borrower shall fully perform all acts and pay to Lender in full the amount of principal and interest thereon then owing to Lender, or its successors or assigns, and all other sums and payments which may be or become owing under the Deed of Trust, the Note, the Construction Loan Agreement, and all the other Security Documents; provided, however, that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

10. **Governing Law; Venue.** This Agreement is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

11. **Binding Effect.** This Agreement shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor. This Agreement shall follow the Note, the Construction Loan Agreement, the Deed of Trust and the other Security Documents, and in the event that the Note, the Construction Loan Agreement, the Deed of Trust and the Security Documents are sold, transferred, assigned, or conveyed by Lender, this Agreement may be likewise sold, transferred, assigned or conveyed by Lender to the successor holder, and in such event, the successor holder of this Agreement may enforce this Agreement as if such holder had been originally named as Lender hereunder.

12. **Severability.** Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

13. **Attorneys' Fees and Costs.** Guarantor agrees to pay all attorneys' fees and all other costs and expenses which may be incurred by Lender in the collection from Borrower and/or Guarantor of any sums owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, or any of the other Security Documents, and in the enforcement by Lender of this Agreement, including without limitation, those incurred in connection with any case, action, proceeding, claim or otherwise under Chapters 7, 11 or 13 of the Federal Bankruptcy Code or any successor statute or statutes thereto whether the same be commenced or filed by Borrower, Guarantor or any other person or entity.

14. **Joint and Several Liability.** The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Agreement is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor,

and each party comprising Guarantor hereby agrees that suit may be brought against each such party independently to enforce the terms and conditions of this Agreement. In addition, the obligations of all parties comprising Guarantor hereunder are joint and several with Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against any of the parties comprising Guarantor whether action is brought against Borrower or any other party comprising Guarantor or whether Borrower or any other party comprising Guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Agreement, and that this Agreement is in full force and effect and is binding on each party comprising Guarantor.

15. **ARBITRATION.** EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS LLC IN ORANGE COUNTY, CALIFORNIA PURSUANT TO THE JAMS LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT, THE LOAN AGREEMENT, THE NOTE OR ANY OF THE SECURITY DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.


THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Guarantor's Initials



Lender's Initials

16. **Entire Agreement; Amendments.** This Agreement embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Agreement may be changed, waived, revoked or amended without Lender's prior written consent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK, SIGNATURES FOLLOW]

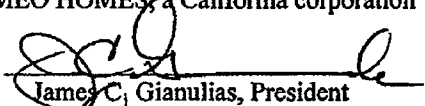
IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date first above written.

G COMPANIES HOMEBUILDING, LLC,
a California limited liability company

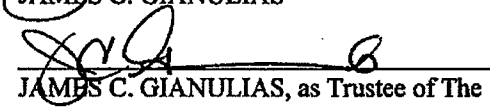
By: Cameo Homes, a California corporation,
its Manager

By: 
James C. Gianulias, President

CAMEO HOMES, a California corporation

By: 
James C. Gianulias, President


JAMES C. GIANULIAS


JAMES C. GIANULIAS, as Trustee of The
James Chris Gianulias Trust dated October 14, 2003

LEGAL DESCRIPTION

LOTS 76 THROUGH 79, 83, 84, 86 THROUGH 88 AND 109 THROUGH 124, INCLUSIVE OF TRACT 31118, AS SHOWN BY MAP ON FILE IN BOOK 419, PAGE(S) 22 THROUGH 28, INCLUSIVE OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.



Exhibit B -2

**CONSTRUCTION LOAN AGREEMENT
(Residential)**

BY AND BETWEEN

SILVER OAKS 183, L.L.C., a California limited liability company

AND

CALIFORNIA NATIONAL BANK, a national banking association

Dated: May 4, 2007

Loan Nos. 7600009901
7600009912

CONSTRUCTION LOAN AGREEMENT

Table of Contents

	<u>Page</u>
ARTICLE I LOAN ACCOMMODATION.....	1
1.01 The Loan.....	1
1.02 Documents.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES	2
2.01 Legal Status	2
2.02 Authorization and Validation	3
2.03 Financial Information	3
2.04 Improvements	3
2.05 No Defaults.....	3
2.06 Correct Information	4
2.07 Title.....	4
2.08 Taxes.....	4
2.09 Utilities	4
2.10 Pending Litigation	4
2.11 Unpaid Materialmen.....	4
2.12 Agreements and Deposits	4
2.13 Other Financing	4
2.14 Encumbrances.....	4
2.15 Principal Place of Business	5
2.16 Compliance.....	5
ARTICLE III CONDITIONS PRECEDENT.....	5
3.01 Title Policy	5
3.02 Reports and Other Documents.....	5
3.03 Title Indorsements	6
3.04 Insurance.....	6
3.05 No Defaults.....	6
3.06 List of Materialmen	6
3.07 No Change in Conditions	7
3.08 Sufficient Sums; Owner's Equity	7
3.09 Liens	8
3.10 Commencement and Completion; Performance Bond	8
3.11 Correctness of Representations; No Defaults.....	8
3.12 Entity Documents	9
3.13 Property Documents	9
ARTICLE IV DISBURSEMENT PROCEDURE.....	9
4.01 Accounts	9
4.02 Budget.....	10
4.03 Security Interest in Undisbursed Funds.....	10

CONSTRUCTION LOAN AGREEMENT

Table of Contents (continued)

	<u>Page</u>
4.04 Requests for Funds	10
4.05 Additional Conditions to Disbursements.....	12
4.06 Authorized Signatures	12
4.07 Trust Funds	13
4.08 Non-Liability of Lender	13
ARTICLE V OWNER'S COVENANTS.....	13
5.01 Progress of Construction	13
5.02 Offsite Improvements.....	13
5.03 Changes to Plans and Specifications	14
5.04 Notice of Casualty	14
5.05 Use of Materials	14
5.06 Construction Schedules; Limitation on Starts	14
5.07 Watchmen.....	15
5.09 Maintenance of Existence; Compliance with Law	15
5.10 Insurance.....	15
5.11 Facilities.....	15
5.12 Taxes and Other Liabilities.....	15
5.13 Litigation.....	16
5.14 Other Notifications.....	16
(a) Use of Funds.....	16
(b) Assessment Districts.....	16
(c) Liens.....	16
(d) Leases.....	17
5.16 No Occupancy	17
5.17 Limitation on Construction.....	17
ARTICLE VI INSPECTIONS.....	17
6.01 Construction Work	17
6.02 Non-Conformance	17
6.03 No Duty	17
6.04 Independent Cost Analyses	17
ARTICLE VII EXCULPATORY PROVISIONS	18
7.01 Status as Lender.....	18
7.02 Defective Construction.....	18
7.03 Non-Liability	18
7.04 No Representation	18
7.05 Brokers' Fees.....	18
7.06 Construction	19
7.07 Indemnity.....	19

CONSTRUCTION LOAN AGREEMENT

Table of Contents (continued)

	<u>Page</u>
ARTICLE VIII TAXES AND ASSESSMENTS.....	19
ARTICLE IX PROTECTION AGAINST LIENS	19
9.01 Paid Claims.....	19
9.02 Release of Liens	20
9.03 Notices of Lien	20
9.04 Payment of Costs.....	20
ARTICLE X REMOVAL OF PERSONALTY; PAYMENT OF SALES DEPOSITS.....	20
10.01 Removal of Personalty	20
10.02 Payment of Sales Deposits	21
ARTICLE XI BOOKS AND RECORDS	21
11.01 Books of Account.....	21
11.02 Working Drawings	21
11.03 Financial Information	21
11.04 Property Information	22
11.05 Appraisals	22
11.06 Lender Audit Rights	22
11.07 Further Assurances	23
ARTICLE XII DEFAULT	23
12.01 Events of Default.....	23
ARTICLE XIII REMEDIES	25
13.01 Remedies Upon Default	25
13.02 Remedies Cumulative.....	26
13.03 Contest of Third Party Claims	26
13.04 No Waivers	27
ARTICLE XIV MODELS.....	27
14.01 Models	27
14.02 Restrictions on Use of Models	27
ARTICLE XV SALES OF UNITS	27
15.01 Sales Agreements	27
15.02 Authority to Execute Sales Agreements.....	27
15.03 Default	28
15.04 Buyer Financing	28
15.05 Partial Reconveyance	28
ARTICLE XVI SURVIVAL OF WARRANTIES AND COVENANTS.....	29
ARTICLE XVII ASSIGNMENT	29
17.01 Owner's Assignment	29
17.02 Lender's Assignment.....	30

CONSTRUCTION LOAN AGREEMENT

Table of Contents (continued)

	<u>Page</u>
17.03 Participation.....	30
ARTICLE XVIII ARBITRATION OF DISPUTES	30
ARTICLE XIX MISCELLANEOUS.....	31
19.01 Amendment	31
19.02 Additional Fees.....	31
19.03 Return of Documents.....	32
19.04 Regulatory Restrictions	32
19.05 Notices.....	32
19.06 Time of Essence	32
19.07 No Third Parties Benefited	32
19.08 Actions.....	33
19.09 Reliance on Representations.....	33
19.10 Relationship.....	33
19.11 Headings	33
19.12 Governing Law.....	33
19.13 Attorneys' Fees and Costs.....	33
19.14 Signs	33
19.15 Nondiscrimination	33
Signatures.....	34

Exhibits

- "A" Description of Property
- "B" Description of Plans and Specifications
- "C" Insurance
- "D" Budget
- "E" Minimum Release Prices/Appraised Values

Loan Nos. 7600009901
7600009912

CONSTRUCTION LOAN AGREEMENT
(Residential)

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of May 4, 2007, by and between SILVER OAKS 183, L.L.C., a California limited liability company ("Owner"), and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS:

This Agreement is executed by Owner for the purpose of obtaining a loan from Lender, to be evidenced by a Construction Loan Promissory Note made by Owner in favor of Lender and secured by, among other things, a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing affecting real property in the County of Riverside, State of California, described on Exhibit "A" attached to and made a part of this Agreement and all improvements now or in the future erected on such real property (such real property and improvements now or in the future erected on such real property are collectively hereinafter referred to as the "Property"), which loan is to refinance an existing loan encumbering the Property and to aid Owner in the construction on the Property of twenty-five (25) single family detached dwellings (each hereinafter a "Unit" and collectively, "Units"), and other related improvements (collectively hereinafter referred to as the "Project").

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

LOAN ACCOMMODATION

1.01 **The Loan.** Owner agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, a loan in the maximum principal sum of Ten Million Seven Hundred Seventy Thousand Dollars (\$10,770,000.00) (the "Loan"), to be evidenced by (i) a Construction Loan Promissory Note of even date herewith in the sum of Nine Million Five Hundred Seventy Thousand Dollars (\$9,570,000.00) (the "A Note"), and (ii) a Construction Loan Promissory Note (Unsecured) of even date herewith in the sum of One Million Two Hundred Thousand Dollars (\$1,200,000.00) (the "B Note"), both executed by Owner and payable and delivered to Lender (the A Note and the B Note and all amendments thereto are hereafter collectively referred to as the "Note").

1.02 **Documents.** In order to consummate the Loan, Owner will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:

- (a) The A Note.
- (b) The B Note.
- (c) Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust").
- (d) UCC-1 Financing Statement.
- (e) Assignment of Architect's Plans and Specifications.
- (f) Assignment of Construction Contract.
- (g) Assignment of Rights Under Covenants Conditions and Restrictions, Sales Agreements, Permits, and Development Documents.
- (h) Environmental Indemnity Agreement.
- (i) Limited Liability Certification (2).
- (j) Corporate Borrowing Resolution.
- (k) Trust Certification.
- (l) Continuing Guaranty Agreement.
- (m) Subordination Agreement.
- (n) Lender's form Disbursement Request and Authorization (2), Agreement to Provide Insurance, and such other form acknowledgements and authorizations as Lender may require.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Owner represents and warrants to Lender that as of the date of recording the Deed of Trust:

2.01 **Legal Status.** Owner is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of California, and is qualified and licensed to do business in all jurisdictions in which such qualification or licensing is required.

2.02 **Authorization and Validation.** The execution, delivery and performance by Owner of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the A Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Owner, (b) have received the approval of Owner's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Owner is a party or by which Owner, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note and each of the Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Owner enforceable in accordance with their terms.

2.03 **Financial Information.** All financial data that has been given to Lender with respect to Owner and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Owner and the Property as of the date on which, and the results of Owner's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles or tax based accounting consistently applied throughout the periods covered. All balance sheets disclose all known liabilities (excluding current accounts payable), direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Owner since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.04 **Improvements.** The copies of the final plans and specifications, as more particularly described on Exhibit "B" attached hereto and incorporated herein, copies of which Owner has initialed for identification and delivered to Lender (the "Plans and Specifications"), are true and correct, are satisfactory to Owner, have been or will be approved by all governmental authorities having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the general contractor. Any construction already performed on the Property has been performed in accordance with the Plans and Specifications; there are no structural defects in the Project of which Owner has been advised or of which Owner has notice or knowledge; no violation of any applicable law, ordinance, order, rule or regulation exists; and the use of the Project and Property shall not constitute a violation of any applicable laws, ordinances, orders, rules or regulations.

2.05 **No Defaults.** Owner is a party to no agreement or instrument that will materially interfere with its performance under this Agreement or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, which default would have a material and adverse effect upon its ability to perform under this Agreement or the Security Documents.

2.06 **Correct Information.** All reports, papers, data and information given to Lender with respect to Owner or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

2.07 **Title.** Owner has good and marketable title in fee simple to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender.

2.08 **Taxes.** Owner has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes prior to delinquency pursuant to such returns or pursuant to any assessments received by it (with payment made prior to delinquency), and Owner does not know of any basis for additional assessment in respect of any such taxes. Owner has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

2.09 **Utilities.** All utility services necessary for the development of the Property and the operation thereof for its intended purpose are either available at the boundaries of the Property or all necessary steps have been taken by Owner to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.

2.10 **Pending Litigation.** There is not now pending against or affecting Owner or the Property, nor, to the knowledge of Owner is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Owner.

2.11 **Unpaid Materialmen.** Except as disclosed to Lender in writing and being contested by Owner in accordance with Section 13.03 below, and except in connection with current work at the Project, no person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid other than payments to be made in connection with the advances hereunder.

2.12 **Agreements and Deposits.** At the time of execution of this Agreement, Owner has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.

2.13 **Other Financing.** Owner has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.

2.14 **Encumbrances.** No other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Owner agrees that no junior lien of any

nature against all or any portion of the Property shall be given, permitted or suffered by Owner without Lender's written consent. Said consent shall be at Lender's sole option and discretion.

2.15 **Principal Place of Business.** Owner's principal place of business is at the address set forth in this Agreement as the address for notices to Owner. Owner shall promptly notify Lender in writing of any change in Owner's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.

2.16 **Compliance.** Owner has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Project will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan and Owner's acquisition of the Property.

ARTICLE III

CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Owner's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

3.01 **Title Policy.** Prior to the first advance, Owner shall furnish to Lender an ALTA Lender's Policy of Title Insurance (LP-10 with provision for rewrite), with such indorsements as Lender may require, which shall insure that the Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.

3.02 **Reports and Other Documents.** Owner shall furnish to Lender, upon Lender's request, at Owner's sole cost and expense, (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Materials" (as that term is defined in the Environmental Indemnity Agreement referred in Section 1.02 above) are present in, on, under or about the Property, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property and that the proposed construction of the Project is feasible under existing soils conditions, (c) all of the documents required under Section 1.02 above, (d) the documents required by Article IV, and (e) a current Project appraisal, by or on behalf of Lender utilizing Lender's required appraiser, in form and content acceptable to Lender. In connection with (a) and (b), above,

Lender acknowledges that Lender is in possession of a Phase I report and a soils report that satisfy Lender's requirements.

3.03 **Title Indorsements.** At Lender's sole and absolute discretion, in addition to the requirements of Section 3.01 hereof, Lender may require Owner to obtain, in connection with any or all requested disbursements, at Owner's sole cost and expense, Indorsements 102.5, 122, and such other indorsements as Lender may require, which indorsements are to be attached to and be a part of Lender's Policy of Title Insurance.

3.04 **Insurance.** Owner shall furnish to Lender, at Owner's sole cost and expense, such policies of insurance in such amounts and in accordance with the standards set forth on **Exhibit "C"** attached hereto and incorporated herein, with standard mortgagee's indorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Owner in writing (other than earthquake insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. Certifications evidencing the originals of all such policies in form and content acceptable to Lender shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Owner or any other person, and Owner assumes the full risk, responsibility and liability, if any, with respect to such matters. If Owner fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Owner, in which event Owner shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents. The foregoing notwithstanding, Owner shall not be required to provide all risk/property insurance unless and until Owner improves the Property.

3.05 **No Defaults.** Owner shall furnish written notice to Lender upon Lender's request that no default exists under this Agreement or under the Note or Security Documents and that each of the representations and warranties of Article II hereof is true (or, if not true, then a description of the discrepancy).

3.06 **List of Materialmen.** At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Owner (but not more often than once per month), Owner shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.

3.07 **No Change in Conditions.** There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.

3.08 **Sufficient Sums; Owner's Equity.** Within five (5) days after notice from Lender, Owner shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project within the purview of the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or costs in excess of the "Maximum Loan Amount" under the Note which may be due and unpaid from time to time, or otherwise. Owner agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. The good faith judgment of Lender shall be final and conclusive. It is expressly understood and agreed that the Loan shall at all times be "in balance", and that Owner will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to keep the Loan "in balance". The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its sole and absolute discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Owner to perform and satisfy all of Owner's covenants contained in this Agreement, the Note and the Security Documents (collectively, the "In-Balance Costs"). The Loan is "out of balance" if (i) the then-outstanding principal balance of the A Note exceeds seventy-six percent (76%) of the Project's most recent appraised aggregate retail value, as determined by or on behalf of Lender or the then-outstanding principal balance of the Loan exceeds eighty-six percent (86%) of the Project's most recent appraised aggregate retail value, as determined by or on behalf of Lender, or (ii) Lender in its reasonable discretion determines at any time that the undisbursed Funds are not sufficient for all In-Balance Costs. If the Loan is "out of balance", Owner shall forthwith cause the Loan to be "in balance" by depositing with Lender within five (5) business days after the date of Lender's notice of the deficiency, (y) such amount as may be necessary to reduce the total outstanding principal balance of the Loan to achieve the required loan-to-value ratio set forth in clause (i) hereof, or (z) the amount of any In-Balance Costs deficiency. Any amounts delivered by Owner to Lender pursuant to clause (z) hereof shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article IV below. In addition, whenever the Loan becomes "out of balance", Owner shall submit, for Lender's approval, a revised Budget (as defined below) within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Owner to deposit additional funds as described above, Owner and Lender hereby agree that prior to the first advance Owner shall deposit with Lender (i) evidence satisfactory to Lender that all certifications and city approvals as required for the Project are in place, (ii) cash in the amount of One Million One Hundred Eighty-Six Thousand Six Hundred Twenty Dollars (\$1,186,620.00) to be used towards the payoff of that certain acquisition and

development loan made by Bank Midwest to Owner secured by the Property, (iii) evidence satisfactory to Lender that Owner has incurred and paid One Hundred Ninety-Two Thousand Three Hundred Twenty-Eight Dollars (\$192,328.00) for "Finished Lot Cost" costs of the Project as set forth in the Budget using Owner's own funds, (iv) an appraisal performed in accordance with Section 3.02 above and approved by Lender demonstrating that the Project has an aggregate retail value of not less than Twelve Million Five Hundred Eighty-Five Thousand Dollars (\$12,585,000.00), and (vi) an appraisal performed in accordance with Section 3.02 above and approved by Lender demonstrating that the property has an as-is value of not less than Four Million Three Hundred Thirty Hundred Thousand Dollars (\$4,330,000.00).

3.09 **Liens.** Owner shall furnish proof satisfactory to Lender upon request of Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded, unless the same is being contested by Owner in accordance with Section 13.03 below.

3.10 **Commencement and Completion; Performance Bond.** If requested by Lender, Owner shall furnish evidence satisfactory to Lender that Lender is a named beneficiary on payment and performance bonds for the construction of the Project, said payment and performance bonds to be in such form and amounts as Lender may require. Regardless of whether Lender requires any payment and performance bonds, Owner hereby covenants and agrees that:

(a) Construction of the Project shall be commenced within ninety (90) days from the date of recordation of the Deed of Trust, shall thereafter be diligently prosecuted, and shall be fully completed within the time required herein;

(b) The Project shall be constructed and completed in strict accordance with the Plans and Specifications;

(c) Should the general contractor fail to commence or complete the Project within the time and in the manner herein provided, Owner shall commence and complete the same at its own cost and expense;

(d) Owner will protect and indemnify Lender against any loss sustained by Lender by reason of Lender's having waived a payment and performance bond;

(e) If any liens are filed against the Property in connection with the Project or any attachments or executions are filed against undisbursed Loan funds, Owner will pay upon demand by Lender the amount necessary for the release of such liens, attachments or executions.

3.11 **Correctness of Representations; No Defaults.** The representations and warranties of Owner contained in Article II hereof (other than under Sections 2.10 [which after the initial advance shall be governed by Section 5.13 below] and 2.12) shall be true and correct on and as of the date of Lender's advancing any of the proceeds of the Loan, with the same effect as though such representations and warranties had been made on and as of such date, and on such date no Event of Default as defined in Article XII hereof shall have occurred and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default shall have occurred and be continuing or shall exist.

3.12 **Entity Documents.** Prior to the first advance, Owner shall furnish to Lender copies of the following documents, which Owner hereby represents and warrants to Lender will be true and complete copies of such documents, fully executed and/or certified as appropriate:

(a) Filed Articles of Organization, fully executed copies of operating agreements and trust agreements (or certified statements in lieu of the entire trust agreements), and current Certificates of Good Standing, of Owner and of each party comprising the "Guarantor" under the Guaranty Agreement described in Section 1.02 above, and all modifications, amendments and related documents thereto;

(b) Current certified financial statements in form and content required by Lender, and copies of filed tax returns, of Owner and of each party comprising the "Guarantor" under the Guaranty Agreement described in Section 1.02 above; and

(c) Such other documentation relating to Owner, and/or any such "Guarantor" as Lender may request.

3.13 **Property Documents.** Prior to the first advance, Owner shall furnish to Lender copies of the following documents, which Owner hereby represents and warrants to Lender will be true and complete copies of such documents, fully executed and/or certified as appropriate:

(a) To the extent requested by Lender, all executed purchase agreements, use agreements, license agreements, leases, and any amendments, addendums or agreements related thereto;

(b) To the extent requested by Lender, approvals, licenses, permits, plans, maps, surveys, parcel or tract maps, and related documents pertaining to the development of the Project and use of the Property;

(c) To the extent requested by Lender, copies of tax bills, soils reports, environmental reports, insurance policies, architectural contracts, engineering contracts, construction contracts and related documents pertaining to the ownership and proposed development of the Property; and

(d) Such other information and documentation with respect to the Property as Lender may request.

ARTICLE IV

DISBURSEMENT PROCEDURE

4.01 **Accounts.** All funds deposited by Owner with Lender pursuant to this Agreement will be placed in an account with Lender and under Lender's sole control (the "Borrower's Funds Account"). For so long as no Event of Default has occurred and is continuing, such account shall be an interest bearing account at a rate determined by Lender in no event greater than Lender's money market funds rate. The Loan funds under the Loan and the Owner's funds

and interest thereon held in the Borrower's Funds Account are hereinafter sometimes collectively referred to as the "Funds". Owner agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.

4.02 **Budget.** Attached to and made a part of this Agreement as **Exhibit "D"** is a detailed cost breakdown for the Project ("Budget"). All disbursements and Requests for Funds shall be in accordance with the cost breakdown contained in the Budget, which Lender has approved. If Owner becomes aware of any change in the approved construction costs which would increase the total cost of construction of the Project as shown on the Budget above any available contingency funds in the Budget, then Owner shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its reasonable discretion.

4.03 **Security Interest in Undisbursed Funds.** Owner hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Owner's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Owner in the Borrower's Funds Account and all monies in the Loan.

4.04 **Requests for Funds.**

(a) Following commencement of the Project, Owner shall submit to Lender or to Lender's designated agents from time to time a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Owner setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Owner and, if required by Lender, the general contractor, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman to be paid pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services, equipment and materials performed or supplied by such party, as appropriate. If requested by Lender, Owner shall also submit copies of statements, bills or invoices from any contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained

herein, Lender shall make disbursements to Owner's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the architects, engineers, contractors, subcontractors, laborers or materialmen during the continuance of any Event of Default by Owner.

(b) Lender will make disbursements to pay for the construction costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for one hundred percent (100%) of the construction costs for each Unit as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for the percentage of completion of each line item of the Budget attached hereto and incorporated herein by this reference, (ii) in no event shall such disbursements exceed the maximum amounts allocated for each line item of the Budget attached hereto and incorporated herein by this reference, and (iii) the final disbursement shall be subject to satisfaction of the requirements in subsection (d) hereof. Disbursements to pay for construction costs will be made not more frequently than twice monthly.

(c) Lender will make disbursements to pay for Owner's approved financing, development and other non-construction Project costs shown on the most recently approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Owner, and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due: any Loan fees owing to Lender, including without limitation a Loan fee in the sum of Ninety Thousand Dollars (\$90,000.00); interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Owner to Lender with respect to the Loan. Such payments may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Owner. It is understood and agreed that Loan funds from the B Note in the amount of One Million Two Hundred Thousand Dollars (\$1,200,000.00), plus the cash deposited by Owner under Section 3.08(ii) above, shall be disbursed to First American Title Company for the payoff of Bank Midwest's existing loan to Owner for the Property. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the "Legal" and/or "Title/Closing/Misc" categories shown in the Budget. Owner agrees that any Loan funds allocated in the Budget for interest reserve or for contingency reserve, together with any Loan funds or Owner's funds not otherwise disbursed, shall be disbursed for interest payments on the A Note only and/or for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender's reasonable discretion Lender pays. Should interest on the A Note herein exceed the amount of interest reserve reserved herein, Lender shall bill Owner monthly for said interest or require payment thereof in accordance with Section 3.08, and Owner shall promptly make such payment. Owner acknowledges and agrees that all interest on the B Note shall be paid by Owner as and when due by Owner from Owner's own funds, and no funds from the interest reserve category of the Budget, other loan funds, or funds in the Borrower's Funds Account, shall be used to pay interest under the B Note. Any

overages and/or savings resulting from expenditures in the categories described herein or in the Budget shall, at Lender's reasonable discretion, be allocated to interest reserve and other miscellaneous cost category herein. Owner further agrees that the loan fee payable to Lender with respect to this Loan shall be disbursed to Lender upon recordation of the Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

(d) The final disbursement of Funds for construction costs for the Project shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following with respect to the Project:

- (i) Proof that a valid Notice of Completion has been filed for all Units;
- (ii) Proof that a Permanent Certificate of Occupancy or its equivalent has been issued by the required governmental agency for all Units;
- (iii) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property or obtaining satisfactory releases from all liens which may have been filed unless Owner is contesting the same in accordance with Section 13.03 below;
- (iv) Verification by Lender of completion of each Unit in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require;
- (v) At Lender's discretion, evidence of approval of completion of each Unit by a civil engineer acceptable to Lender.

4.05 **Additional Conditions to Disbursements.** Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (a) an Event of Default has occurred and is continuing (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), (b) there are unreleased and unbonded mechanics' liens or stop notices in existence, or (c) such disbursement would cause the outstanding principal balance of the A Note to exceed seventy-six percent (76%) or the Loan to exceed eighty-six percent (86%) of the Project's most recent appraised value, as determined by or on behalf of Lender. At any time that the loan to value ratio exceeds the foregoing limit, Owner, within ten (10) days of Lender's written demand, shall remargin the Loan by depositing sufficient cash with Lender so as to bring the Loan into conformity with the above-stated loan to value ratio.

4.06 **Authorized Signatures.** Any one (1) of the following persons, by their specimen signatures as set forth below, are hereby designated by Owner as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Owner, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person(s) authorized to sign such requests:


Name: JAMES C. GIANOULAS


Name: VICTOR MAHONY

4.07 **Trust Funds.** Owner covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Owner.

4.08 **Non-Liability of Lender.** Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Owner acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Owner further acknowledges that disbursements hereunder may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE V

OWNER'S COVENANTS

Owner covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note:

5.01 **Progress of Construction.** Owner shall commence construction of the Project not later than fifteen (15) days after recordation of the Deed of Trust, and agrees to continue such construction diligently until completion, and in a workmanlike manner. In any and all events Owner shall complete the Project and record a valid Notice of Completion for the Project on or before fifteen (15) months following recordation of the Deed of Trust, all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The materials used on the Project shall be of the quality called for by the Plans and Specifications.

5.02 **Offsite Improvements.** Owner agrees promptly to commence and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of improvement of the Project. Owner expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.

5.03 Changes to Plans and Specifications. Owner agrees that no change in the Plans and Specifications shall be made without first obtaining the written consent of Lender; provided however, that any such change may be made upon written notice to Lender, but without Lender's prior written consent, if (a) the amount or effect of such change on the costs of the Project is less than Fifteen Thousand Dollars (\$15,000.00), (b) the amount or effect of all changes (whether made with or without the consent of Lender) in the aggregate is less than Twenty-Five Thousand Dollars (\$25,000.00), (c) the proposed change does not adversely affect the number of Units, the square footage of any of the Units, or the overall aesthetic quality of the Project, and (d) Owner has obtained in writing and delivered to Lender copies of all consents required to be obtained from any governmental agencies and authorities, surety companies, and any other entities having jurisdiction over the Project, with respect to such change. Any changes desired by Owner which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the plans and specifications and/or working drawings applicable to the changes. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost of the Project (unless Owner has deposited with Lender funds to cover such increased costs in accordance with Section 3.08), and Lender shall have the right to require Owner to deposit additional funds with Lender to pay for such changes.

Owner acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Owner consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Owner shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.

5.04 Notice of Casualty. Owner shall give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Owner to complete the Project.

5.05 Use of Materials. All materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.

5.06 Construction Schedules; Limitation on Starts. From time to time during the course of construction, but not more frequently than once per quarter (except during the continuance of an Event of Default), within ten (10) days after request by Lender, Owner shall furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees,

interest during construction, and contractor's overhead. Notwithstanding anything to the contrary contained in this Agreement, in no event shall Owner commence construction on more than twelve (12) Units and the Models as described below (and in no event shall Owner receive any disbursements of Funds with respect to more than twelve (12) Units and the Models as described below) if less than twelve (12) Units have sold. For purposes hereof, a Unit shall be deemed to have "sold" if (i) Owner has entered into a Sales Agreement (as defined in Section 15.01 below) with a bona fide third party purchaser who has been pre-qualified by Owner for financing to pay the purchase price of the Unit under such Sales Agreement, (ii) the purchaser has paid a cash down payment (to serve as liquidated damages in the event of such purchaser's default under the Sales Agreement) in an amount of not less than one percent (1%) of the purchase price, and (iii) the Sales Agreement does not include a provision conditioning the purchaser's obligation to purchase the Unit upon the purchaser's sale of a home or other real property owned by the purchaser.

5.07 **Watchmen.** Owner shall provide such watchmen and take such other measures to protect the physical security of the Property as Lender may determine reasonably necessary.

5.08 **Punctual Payments.** Owner shall punctually pay the interest and principal of the Note at the times and place and in the manner specified in the Note, and any fees or liabilities due under this Agreement and under the Note and any of the Security Documents at the times and place and in the manner specified in this Agreement, the Note or the Security Documents, as appropriate and giving effect to any applicable cure periods.

5.09 **Maintenance of Existence; Compliance with Law.** Owner shall preserve and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises; conduct its business in an orderly, efficient and regular manner; comply in all material respects with the provisions of all documents pursuant to which Owner is organized and/or which govern Owner's continued existence; and comply with the requirements of all applicable laws, rules, regulations, orders of any governmental authority and requirements for the maintenance of Owner's insurance, licenses, permits, governmental approvals, rights, privileges and franchises.

5.10 **Insurance.** Owner shall maintain and keep in force insurance of the types, in the amounts, in the form and with the carriers required under this Agreement and under any and all of the Security Documents, provided, however, that Owner shall not be required to maintain earthquake or terrorism insurance, unless required by law or regulation.

5.11 **Facilities.** Owner shall keep all of Owner's properties useful or necessary to Owner's business, including without limitation the Property, in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that Owner's properties, and the Property, shall be fully and efficiently preserved and maintained.

5.12 **Taxes and Other Liabilities.** Owner shall pay, at least fifteen (15) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand during the continuance of an Event of Default, Owner

shall, until all indebtedness secured by the Security Documents has been paid in full, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall be placed in an account with Lender and under Lender's control (for so long as no Event of Default has occurred and is continuing, such account shall be an interest bearing account at a rate determined by Lender in no event greater than Lender's money market funds rate), shall not be commingled with the general funds of Lender and shall, unless Owner is otherwise in default hereunder or under the Note or Security Documents, be released to Owner for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Owner is in default thereunder.

5.13 **Litigation.** Owner shall promptly give notice in writing to Lender of any litigation pending or threatened against Owner or, to Owner's knowledge, the Property having a potential or claimed liability in excess of Fifty Thousand Dollars (\$50,000.00).

5.14 **Other Notifications.** Owner shall promptly (but in no event more than five (5) business days after the occurrence of each such event or matter and knowledge thereof by Owner) give notice in writing to Lender of: (a) any termination or cancellation of any insurance policy which Owner is required to maintain; (b) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Owner's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (c) the change in the name or the organizational structure, dissolution or adverse change in financial condition of Owner; (d) the death, disability or legal incapacity of James C. Gianulias.

5.15 **Negative Covenants.** Owner further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner will not without the prior written consent of Lender:

(a) **Use of Funds.** Use any of the proceeds of the Loan for any purposes other than as stated in Article IV hereof.

(b) **Assessment Districts.** Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.

(c) **Liens.** Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof or as bonded over in accordance with this Agreement.

(d) Leases. Enter into any leases of all or any portion of the Property, or amend, modify or cancel any permitted leases of all or any portion of the Property, without the prior written approval of Lender, which shall not be unreasonably withheld.

5.16 No Occupancy. Owner shall not permit any person at any time to occupy all or any portion of any Unit prior to the closing of the sale of such Unit and payment to Lender of its release price for such Unit in accordance with Section 15.05 below, unless consented to in writing by Lender in its sole and absolute discretion.

5.17 Limitation on Construction. Notwithstanding anything to the contrary, Owner shall not commence or pursue any vertical construction on any of the real property under Tract 31118 (which includes the Property) that is not financed with loan proceeds from Lender.

ARTICLE VI

INSPECTIONS

6.01 Construction Work. Lender, through its officers, agents and employees, shall have the right at any time and from time to time to enter upon the Property during normal business hours and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof) of Owner and general contractor to the extent that the same may relate to the Property or the Project. Owner shall pay all reasonable costs associated with Lender or Lender's agents' inspection of the Project.

6.02 Non-Conformance. If Lender determines that any work or materials are not in conformity with the Plans and Specifications as approved by Lender (subject to any changes thereto as permitted under Section 5.03 above), or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.

6.03 No Duty. It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.

6.04 Independent Cost Analyses. Owner will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may require, and shall deliver forthwith to Lender true and correct copies of all inspections or cost analyses prepared or made by or for Owner.

ARTICLE VII
EXCULPATORY PROVISIONS

Owner acknowledges, understands and agrees as follows:

7.01 **Status as Lender.** The relationship between Owner and Lender is, and shall at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility or duty to Owner to select, review, inspect, supervise, pass judgment upon or inform Owner of the quality, adequacy or suitability of the following:

- (a) The Plans and Specifications or amendments, alterations and additions thereto;
- (b) Architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or
- (c) The progress or course of construction and its conformance or non-conformance with the Plans and Specifications or amendments, alterations and changes thereto.

7.02 **Defective Construction.** Lender owes no duty of care to protect Owner against negligent, faulty, inadequate or defective building or construction.

7.03 **Non-Liability.** Lender shall not be responsible or liable to Owner for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Owner or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Owner shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

7.04 **No Representation.** By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

7.05 **Brokers' Fees.** Owner agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan if and to the extent such claim arises by or through Owner, it being understood that any such commission, charge or brokerage fees will be paid directly by Owner to the party(ies) entitled thereto.

7.06 **Construction.** Lender shall in no way be liable for any acts or omissions of Owner, or any agent, contractor, architect, engineer or other person furnishing labor and/or materials used in relation to any construction at the Property.

7.07 **Indemnity.** Owner agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to the later of (i) completion of any foreclosure proceeding or recordation of a deed in lieu thereof; or (ii) the time Owner is no longer in control or occupancy of the Property (either (i) or (ii) a "Change in Control"), (b) the construction of the Project, including without limitation, any defective workmanship or materials, (c) Lender's performance of any act permitted under the Loan Documents (as that term is defined in the Deed of Trust) unless arising out of Lender's willful misconduct, (d) breach of any representation or warranty made by Owner or any obligation of Owner contained in this Agreement, and (e) any allegation that Lender is liable for any act or omission committed by or on behalf of Owner, prior to a Change in Control, in connection with the ownership, operation or development of the Property and the Project. Upon demand by Lender, Owner shall defend any action or proceeding brought against Lender covered by this indemnity, at Owner's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Owner, in which event all reasonable fees and reasonable costs of such defense shall be paid by Owner upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE VIII

TAXES AND ASSESSMENTS

[INTENTIONALLY OMITTED]

ARTICLE IX

PROTECTION AGAINST LIENS

9.01 **Paid Claims.** Owner agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan funds, unless Owner is contesting the same in accordance with Section 13.03 below. Owner irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other

notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note, or the Security Documents.

9.02 **Release of Liens.** Upon demand by Lender, Owner shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Owner shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Owner to pay any claims for labor, materials, or services which Owner in good faith disputes and which Owner, at its own expense, is currently and diligently contesting; provided that Owner shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

9.03 **Notices of Lien.** Owner agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Owner and (b) to the Property, addressed to "California National Bank" or to "Construction Lender" shall be promptly delivered to Lender. Owner further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

9.04 **Payment of Costs.** Owner shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Owner shall pay:

- (a) All fees and commissions lawfully due to any brokers claiming by or through Owner, and all fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;
- (b) All taxes and recording expenses;
- (c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and
- (d) All reasonable costs, charges, and expenses agreed to be paid by Owner and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE X

REMOVAL OF PERSONALTY; PAYMENT OF SALES DEPOSITS

10.01 **Removal of Personalty.** Owner agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any

person other than Lender reserves or acquires a lien upon such items. Owner will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Owner, free and clear of any lien or security interest.

10.02 **Payment of Sales Deposits.** Owner understands, acknowledges and agrees that, in connection with any proposed sale of all or any portion of the Property or any Unit, Lender requires, as a part of Lender's standard procedures and practices, that any funds which get released to Owner prior to the closing of such sale either directly from the buyer, from the escrow, or otherwise, be paid over to Lender. Provided Owner is not in default under the Loan, all such released funds so paid over to Lender shall be held by Lender and credited to any release price which Lender may require in connection with a release of the lien of the Deed of Trust from that portion of the Property which is the subject of such sale. No payment by Owner or receipt by Lender of any such funds described herein shall be deemed to constitute an agreement by Lender to release the lien of its Deed of Trust against all or any portion of the Property or any Unit (except only and to the extent expressly otherwise provided in this Agreement), or constitute any representation as to a release price which Lender may accept with respect to the release of the lien of its Deed of Trust, or otherwise bind Lender with respect to the lien of its Deed of Trust or its use of such funds.

ARTICLE XI

BOOKS AND RECORDS

11.01 **Books of Account.** Owner shall maintain or cause to be maintained full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with tax based accounting (fairly presenting Owner's financial position), or generally accepted accounting principles, consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time, the books and records referenced in this Section 11.01 or so much thereof as Lender may request.

11.02 **Working Drawings.** Owner shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

11.03 **Financial Information.** Owner understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers, guarantors, and such other parties as Lender relies upon in its underwritings of its loans. Accordingly, Owner hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

(a) Within ninety (90) days following the end of each calendar semi-annual period for Cameo Homes, G Companies Homebuilding, LLC, James C. Gianulias (consolidated), internally prepared, unaudited financial statements (including without limitation personal financial statements, asset and liability statements, income and expense statements, cash flow statements and such other financial information as was previously provided to Lender or as Lender may reasonably request), all of which data to be certified as true and accurate and as having been prepared in accordance with generally accepted accounting or tax based accounting principles consistently applied; and

(b) Within thirty (30) days of filing, a copy of the most current federal tax return for Owner and for each party referenced in (a), above. With respect to Owner, in lieu of providing Lender its tax return, it may furnish its audited financial statement, if any.

Owner agrees that the requirements of this Section 11.03 shall remain in full force and effect so long as there remain any outstanding obligations under this Agreement, the Note, or the Security Documents. Owner further agrees that the failure of Owner to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

11.04 Property Information. Owner shall submit to Lender semi-annual financial and operating statements of the Project commencing from and after commencement of construction of the Project, setting out in reasonable detail income and expenditures from the ownership, operation, construction, marketing and sale of the Project, depreciation charges, and net income before and after federal income taxes, all to be received by Lender within ninety (90) days from the end of each semi-annual period. Such statements are to be certified as true and accurate by Owner, Owner's accountant or Owner's chief financial officer, and as having been prepared in accordance with generally accepted accounting principles or tax based accounting, consistently applied. In addition, Owner shall submit to Lender weekly sales reports of the Units in the Project, within two (2) business days following the end of each calendar week, detailing the number of persons viewing the Models (as defined in Section 14.01 below) during the prior week, the number of Units for which sales escrows were opened during the prior week and the location and purchase price of such Units, the number of Units that have closed escrow and the location and purchase price thereof during the prior week, and such other sales information as Lender may from time to time request. Such reports are to be certified as true and accurate by Owner or Owner's chief financial or operating officer.

11.05 Appraisals. Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Owner shall obtain, as promptly as possible and at Owner's expense, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its reasonable discretion.

11.06 Lender Audit Rights. Lender and its agents and representatives shall have the right to inspect and audit all books and records of Owner, during normal business hours, pertaining to the statements, reports and information required under this Article XI in order to

obtain and verify such information as Lender deems necessary or appropriate. The cost of any and all such inspections and audits shall be paid by Owner. Lender shall also have the right to examine, copy and audit the books, records and accounting data and other documents of Owner's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Owner reasonable notice prior to exercising its rights hereunder, and the costs thereof shall be borne by Lender, unless the results thereof shall reveal a material adverse discrepancy from the information reported to Lender.

11.07 **Further Assurances.** Owner, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further instruments (including, without limitation, a declaration of no set-off) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XII

DEFAULT

12.01 **Events of Default.** The occurrence of any of the following shall be deemed an "Event of Default" under this Agreement:

- (a) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents within ten (10) days of demand therefor by Lender, or
- (b) If Owner does not proceed with the erection, construction and completion of the Project as herein provided, subject to the provisions of subsection (e) hereof, or
- (c) If any of the warranties or representations made by Owner herein or in the Note, Security Documents or other documents executed by Owner in connection with the Loan are false or misleading in any material respect when made, or
- (d) If Owner should default in the performance of or breach any of the terms, covenants and provisions contained in this Agreement or in the Note or Security Documents and which is not cured within the cure period provided in the last paragraph of this Section 12.01, or
- (e) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due a condition involving an act of God or force majeure, then Owner shall not be deemed in default under this subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within sixty (60) days, (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note or any of the

Security Documents, and (iii) the deadline for completion in Section 5.01 hereof shall not be extended beyond the period provided therein, or

(f) If Owner should commit any act of bankruptcy or if any relief under the Bankruptcy Act is sought by or against Owner, or if a receiver is appointed to take charge of the assets or affairs of Owner, or if Owner should make an assignment for the benefit of creditors, or if Owner should become insolvent, or upon any liquidation or termination of Owner or its member or manager, or

(g) Except as specifically allowed in this Agreement, if Owner shall convey title to or any interest in any of the Property, or

(h) Should any condition or circumstance arise or exist at any time by reason of governmental order, decree, regulation, shortage of materials, or for any other reason whatsoever (other than for force majeure, which shall be governed by the grace periods in subsection (e) hereof), which would prevent or preclude the construction and completion of the Project in compliance with the Plans and Specifications in an orderly and expeditious manner, or

(i) If Lender should determine that said work is not in conformance with the Plans and Specifications and the terms of this Agreement (in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it) and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender, unless said work cannot reasonably be completed within such thirty (30) day period and Owner has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding ninety (90) days shall be granted, or

(j) The filing of a notice of judgment lien against Owner, or the recording of any abstract of judgment against Owner, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Owner, or the entry of a judgment, order or decree against Owner, any or all of which would have a material and adverse effect upon Owner's ability to perform under this Agreement or the Security Documents, and Owner's failure to cause removal of same within a reasonable period of time, but in no event more than sixty (60) days after such filing, recordation or entry, or

(k) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation of the Deed of Trust, or

(l) Owner shall default, beyond any applicable cure period without cure, under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other instrument executed in connection with the development of the Project, or

If any party comprising the "Guarantor" under the Continuing Guaranty Agreement described in Section 1.02 hereof defaults thereunder, or any representation or warranty given thereunder is false or misleading in any material respect when made, or if any party comprising Guarantor

commences any of the acts described in subsections (f) or (j) hereof Unless a time frame is otherwise specified above, and in connection with any default of a non-monetary covenant or agreement, so long as such failure or non-compliance is susceptible to cure, Owner shall be entitled to thirty (30) days written notice from Lender of same before such failure or non-compliance shall constitute an Event of Default. Provided further, if such non-monetary failure or non-compliance is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Owner or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure, provided, however, that in no event shall the time for completion of the Project be extended beyond the date set forth in Section 5.01 above, nor shall the "Maturity Date" of the Note be extended beyond the date set forth therein during the period otherwise applicable for said cure.

ARTICLE XIII

REMEDIES

13.01 Remedies Upon Default. Upon or at any time after the happening of any Event of Default hereunder and during the continuance thereof, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, or under the Deed of Trust or other Security Documents, shall have the following rights and remedies:

(a) Declare such of the Funds which have previously been disbursed by Lender under the provisions hereof to be due and payable and terminate any obligation of Lender to disburse the remainder of the Loan proceeds under the provisions hereof and proceed as authorized by law to satisfy the indebtedness of Owner to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Owner of the obligations evidenced by said Note and by this Agreement.

(b) Take possession of the Property and let contracts for or proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be considered and be an additional loan to Owner and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Owner agrees to pay the same. Owner further hereby authorizes Lender at its option at any time, either in its own name or in the name of Owner, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and

remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

(c) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any impounds (as described in Section 2.03 of the Deed of Trust) shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the beneficiary or trustee under the Deed of Trust.

(d) Upon the happening of any default contemplated herein which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of Lender's own funds shall not, however, be deemed to cure such default by Owner, and the same shall not be so cured unless and until Owner shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount which Lender determines to be necessary to provide for such completion shall be deposited by Owner pursuant to the terms of Section 3.08 hereof. If Lender advanced its own funds for such purposes, such funds shall be considered advances under the A Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the A Note or the amount committed to be advanced pursuant to this Agreement, and Owner shall immediately upon demand reimburse Lender with interest at the default rate provided for in the A Note from the date of such advance until the date of reimbursement.

13.02 Remedies Cumulative. All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

13.03 Contest of Third Party Claims. Notwithstanding anything to the contrary herein contained, Owner shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Owner shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Owner or the adverse claimant.

13.04 **No Waivers.** No waiver by Lender of any default or breach by Owner hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XIV

MODELS

14.01 **Models.** The Units to be constructed on Lots 83 through 88 of the Property shall be owned by Owner and used as models and sales offices for the marketing and sales of like Units to be constructed on the remaining lots within the Property. Such models and sales offices are hereinafter collectively referred to as "Models" and individually as "Model".

14.02 **Restrictions on Use of Models.** For so long as any amounts are owing by Owner to Lender under the Note, the Deed of Trust or any of the other Security Documents, and Lender determines, in its sole and absolute discretion, that one or more of the Models is necessary for the marketing, sale or promotion of Units situated on the Property, (a) the Models shall be used solely for the marketing and sale of Units within the Project, and (b) Owner shall maintain the Models in good condition and repair (including without limitation upkeep and replacement of all landscaping, furniture and furnishings) and in compliance with all applicable laws, ordinances, restrictions and requirements, including without limitation disabilities accommodation and access laws.

ARTICLE XV

SALES OF UNITS

15.01 **Sales Agreements.** Each Unit shall be sold under a written agreement, approved by Lender as to form and conforming to any and all rules or regulations promulgated by any federal, state or local governmental entity with jurisdiction over the Property, including, without limitation, the California Department of Real Estate which requires disclosures to prospective and actual buyers (collectively referred to as "Sales Agreements", and individually referred to as a "Sale Agreement").

15.02 **Authority to Execute Sales Agreements.** For purposes of this Agreement, a sale of a Unit is considered to occur only if a Sales Agreement is executed which meets the requirements of this Agreement. For purposes of this Agreement, a sale is considered to close, or close of escrow occurs, only when title to the Unit passes to the buyer and Owner receives full payment in cash of all net proceeds of the sale. Owner may enter into sales of Units in the ordinary course of business with bona fide third party buyers without Lender's prior written consent if:

(a) A Sales Agreement is executed with the buyer which conforms to the requirements of this Agreement;

(b) Owner, acting in good faith in following exercise of due diligence, has determined that the buyer is financially capable of performing all of its obligations under the Sales Agreement; and

The sales price is not less than an amount which, after taking into account all closing costs, will result in net sales proceeds of not less than the Minimum Release Prices set forth in Exhibit "E" attached hereto and made a part hereof.

15.03 Default. If Owner is in default under this Agreement, or would be in default but for the requirements of notice or the passage of time, or both, Lender may make written demand on Owner to submit all future Sales Agreements for Lender's approval prior to execution, together in each instance with all accompanying financial statements and other information that Owner may have pertaining to the prospective buyer. Owner shall immediately comply with any such demand by Lender.

15.04 Buyer Financing. Owner acknowledges that Lender has not, by this Agreement, committed to provide any financing to or for the buyers of any individual Units.

15.05 Partial Reconveyance. At Owner's request upon the close of escrow of a Unit, Lender shall issue a partial reconveyance of the Unit from the Deed of Trust, so long as all of the following conditions are satisfied at the time of, and with respect to, the partial reconveyance:

(a) No Event of Default under this Agreement by Owner shall have occurred and be continuing, nor would there be an Event of Default but for the requirements of notice or the passage of time, or both.

(b) Each such request by Owner shall be in writing delivered to the trustee under the Deed of Trust and to Lender.

(c) Each such request shall be accompanied by a legal description of the property to be reconveyed, which in all events shall constitute a legal lot in compliance with the California Subdivision Map Act and part of the subdivision as contemplated under the Plans and Specifications, including without limitation having direct access to public streets or roads. Notwithstanding the foregoing, no portion of the Property shall be released which will prevent Lender's means of ingress and egress to Property not yet released unless there is provided to Lender an easement for access to unreleased Property or the Property to be released contains streets or roads dedicated to the public use which would allow access by Lender to Property not yet released.

(d) For each Unit requested to be reconveyed, Owner shall pay either to Lender or to the trustee under the Deed of Trust for the account of Lender, a release price equal to the greater of (i) one hundred percent (100%) of the net sales price (i.e., gross sales price less actual out-of-pocket costs and expenses for escrow fees, title fees, transfer taxes and brokerage commissions paid to unaffiliated third parties in connection with such sale, provided that in no event shall the total of all such costs and expenses exceed eight percent (8%) of the gross sales

price) of the Unit requested to be reconveyed, or (ii) the Minimum Release Price for such Unit as set forth in Exhibit "E" attached hereto and made a part hereof. All proceeds up to the Minimum Release Price for each Unit shall be applied to the outstanding principal under the A Note, and all proceeds in excess of the Minimum Release Price for each Unit shall be applied to the outstanding principal under the B Note; provided, however, that if the amount of the gross sales price of the Unit requested to be reconveyed is less than ninety percent (90%) of the appraised value of the Unit requested to be reconveyed as set forth in Exhibit "E" attached hereto and made a part hereof, then Owner shall pay to Lender the difference between the gross sales price of the Unit requested to be reconveyed and ninety percent (90%) of the appraised value of such Unit as set forth in Exhibit "E" attached hereto, and Lender shall apply such payment from Owner to the outstanding principal under the B Note. The failure of Owner to make such payment to Lender at the time of the sale of such Unit shall constitute an Event of Default by Owner under this Agreement.

(e) Owner shall pay all costs required in connection with the execution and recording of such reconveyances, including without limitation the cost of preparing and delivering the partial reconveyance, any title insurance endorsements required by Lender insuring the continued interest and priority of the Deed of Trust in favor of Lender, and any attorneys' fees and costs incurred in connection with the foregoing.

If Lender accepts any payment or issues any partial reconveyance, it shall not affect Owner's obligation to repay all amounts which are owing under the Security Documents or secured by the Deed of Trust of the Property which is not reconveyed. If Lender does not require satisfaction of all of the conditions described above before releasing one or more Units, that alone shall not be a waiver of such conditions, and Lender reserves the right to require their satisfaction in full before releasing any further Units from the Deed of Trust.

ARTICLE XVI

SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XVII

ASSIGNMENT

17.01 Owner's Assignment. Owner shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon without the prior written consent of Lender. Notwithstanding the foregoing, in the event of any such assignment, conveyance or encumbrance, Lender may nevertheless at its option continue to make disbursements under this Agreement to Owner or to those who succeed to Owner's title; and all sums shall be deemed to

be disbursements under this Agreement, and not to be modifications hereof, and shall be secured by the Security Documents.

17.02 **Lender's Assignment.** Lender may at any time assign this Agreement, the Note, Security Documents, and the Impounds, and upon such assignment, Lender shall have no further obligation or liability of any nature in connection herewith. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, the Security Documents and the Impounds.

17.03 **Participation.** Owner understands that Lender may transfer and assign its interest in the Loan, this Agreement and the Security Documents, pledge its interest in the Loan, this Agreement and the Security Documents or grant or sell participations in some or all of Owner's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan. Owner shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XVIII

ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS LLC IN ORANGE COUNTY, CALIFORNIA PURSUANT TO THE JAMS LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

(1) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(2) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

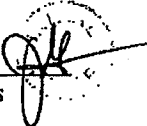
(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT OWNER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST OWNER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, OWNER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.

Owner's Initials



Lender's Initials



ARTICLE XIX

MISCELLANEOUS

19.01 **Amendment.** This Agreement, the Security Documents and the Note, and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.

19.02 **Additional Fees.** In the event, and if for any reason, the Loan is not paid in full on or before the Maturity Date of the Note, and Lender elects not to immediately proceed with foreclosure proceedings, whether by formal or informal agreement, Owner shall pay to Lender a fee which is to be established at the Maturity Date, for each consecutive thirty (30) day period or

any portion thereof after the Maturity Date, in addition to the interest provided, which fee shall not be less than the proportionate amount of the fee for the initial period of the Loan.

19.03 **Return of Documents.** If the Loan is not consummated within thirty (30) days after the date hereof, Owner shall return all documents and instruments to Lender upon demand.

19.04 **Regulatory Restrictions.** It is understood and agreed by Owner that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including but not limited to legal lending requirements.

19.05 **Notices.** All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

If to Owner: SILVER OAKS 183, L.L.C.
c/o G Companies Homebuilding
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

If to Lender: CALIFORNIA NATIONAL BANK
1301 Dove Street, Suite 101
Newport Beach, California 92660
Attn: Real Estate Group

or such other address as shall, from time to time, be supplied in writing by any party to the others. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. postal service or private courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

19.06 **Time of Essence.** Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

19.07 **No Third Parties Benefited.** This Agreement is made for the sole benefit and protection of Owner and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the

successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.

19.08 **Actions.** Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Owner agrees to pay the same.

19.09 **Reliance on Representations.** Lender may conclusively assume that the statements, acts, information and representations made by Owner or its agents contained in any affidavits, orders, receipts or other written instruments which are filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.

19.10 **Relationship.** Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.

19.11 **Headings.** The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

19.12 **Governing Law.** This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.

19.13 **Attorneys' Fees and Costs.** If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.

19.14 **Signs.** Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.

19.15 **Nondiscrimination.** During the term of this Agreement, neither Owner, its respective members, officers, managers, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or lessee or prospective purchaser or lessee of all or any portion of the Property, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900 et seq.

of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0 et seq.), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

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

LENDER:

CALIFORNIA NATIONAL BANK,
a national banking association

By: 

Its: Vice President

OWNER:

SILVER OAKS 183, L.L.C., a California limited
liability company

By: G Companies Homebuilding, LLC,
a California limited liability company,
its Manager

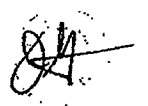
By: Cameo Homes, a California
corporation, its Manager

By: 

James C. Gianulias,
President

DESCRIPTION OF PROPERTY

LOTS 76 THROUGH 79, 83, 84, 86 THROUGH 88 AND 109 THROUGH 124, INCLUSIVE
OF TRACT 31118, AS SHOWN BY MAP ON FILE IN BOOK 419, PAGE(S) 22 THROUGH
28, INCLUSIVE OF MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

A handwritten signature or set of initials, possibly "JA", is written in the bottom right corner of the page.

DESCRIPTION OF PLANS AND SPECIFICATIONS

Those certain Plans and Specifications for the Project prepared by _____ as Job No.
_____.



INSURANCE REQUIREMENTS

A. Workers' Compensation:

Coverage A. Statutory policy form.

Coverage B. Employers Liability \$100,000

B. Owner's Broad Form Comprehensive General Liability or Commercial General Liability:

The limits of liability shall not be less than:

1. Broad Form Comprehensive General Liability:

\$2,000,000 Combined Single Limit

\$1,000,000 Bodily/Property Damage per Occurrence

Or,

2. Commercial General Liability:

The limits of liability shall not be less than:

Each Occurrence Limit \$1,000,000

Personal Advertising Injury Limit \$1,000,000

Products Completed Operations Aggregate Limit \$1,000,000

General Aggregate Limit \$2,000,000
(Other than Products-Completed Operations)

Both policy forms must include:

- a. Premises and operations with no X, C, or U exclusions.
- b. Products and completed operations coverage. (This coverage to be maintained for a minimum of ten (10) years following completion of work and to continue to name Owner as named insured and Lender as additional insured, for the entire ten (10) year period).
- c. Blanket contractual coverage with Employee Exclusion deleted.
- d. Broad Form Property Damage including completed operations or its equivalent.

- e. An endorsement naming Lender and any other required interests as additional insured(s).
 - f. An endorsement stating: "Such coverage as is afforded by this policy for the benefit of the additional insured(s) is primary and any other coverage maintained by such additional insured(s) shall be non-contributing with the coverage provided under this policy."
 - g. Cross Liability and Severability of Interest Clause.
 - h. Limited Independent Contractors language should be included.
 - i. Subsidence coverage, if available, at commercially reasonable rates.
- C. General Contractor's Broad Form Comprehensive General Liability or Commercial General Liability:
- 1. All requirements are the same as in Owner's general liability insurance as set forth hereinabove.
 - 2. In addition, general contractor's general liability coverage must also include:
 - a. Manufacturers and contractors protective coverage.
 - b. Automobile liability coverage including owned, hired and non-owned vehicles.
- D. All Risk/Special Form Property Insurance – Full Replacement Cost (Real and Personal Property), Course of Construction, Secured Collapse, if available at commercially reasonable rates, Business Interruption and Loss of Profits. Such insurance shall also contain an agreed value clause or other provision sufficient to eliminate any risk of co-insurance.
- E. Other Requirements:
- 1. Lender must be named as an additional insured on all liability policies and as the mortgagee and certificate holder (with lender's loss payable endorsement) on all property insurance coverage. Property insurance coverage must include standard 438 BFU language and cover all property described in the Security Documents. The endorsement must contain the following wording: "With respect to a loss payee designated in this policy, this insurance will continue in force throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew, or (c) issuance of a Notice of Reduction of Coverage."
 - 2. All policies must provide that the named insured correspond with the named borrower on the loan documents; that Lender's Loan Number be shown on all policies, certificates and correspondence; and that the complete property address

be shown on the declaration page of the policy or certificate evidencing such insurance.

3. The deductible under any policies required hereunder shall be no more than \$5,000.00.
4. An authorization signed by the Owner must accompany all mid-term and anniversary date changes in the agent or broker of record shown in Lender's files.
5. All policies must contain an endorsement affording an unqualified thirty (30) days' notice of cancellation to the additional insured(s) in the event of cancellation, non-renewal or material reduction in coverage.
6. All policies must be written by insurance companies acceptable to Lender whose rating in the most recent Best's rating guide is not less than A:IX. All policies shall be written for not less than a one (1) year term (or annual continuous) with one (1) year's premiums prepaid.
7. Certificates of insurance, with the endorsements evidencing the required coverage, and copies of the policies, must be delivered to Lender prior to funding and each year thereafter until the indebtedness evidenced by the Note and Security Documents is paid in full.
8. No earthquake insurance shall be required unless required by law or regulation.



BUDGET

SOURCES AND USES OF FUNDS							18-Apr-07
BORROWER: Silver Oaks 183, LLC				CONTRACTOR:			
NUMBER OF HOMES: 25		AVERAGE HOME SIZE: 2,998					
TOTAL LOT SF: 221,771		TOTAL HOME SF: 74,940					
ITEM	TOTAL	PER	PER	COST	COST	LOAN	
COST	COST	UNIT	SQ. FT.	TO BE PAID	PAID	BUDGET	
LAND & DEVELOPMENT							
1 Finished Lot Cost	\$4,871,953	\$194,878	\$21.97	\$2,386,620	\$192,328	\$2,293,005	
Total Land & Development	\$4,871,953	\$194,878	\$21.97	\$2,386,620	\$192,328	\$2,293,005	
DIRECT CONSTRUCTION							
2 Direct Costs	\$4,461,233	\$178,449	\$59.53	\$0	\$0	\$4,461,233	
INDIRECT & SOFT COSTS							
3 Taxes, Insurance, & Legal	\$295,231	\$11,809	\$3.94	\$0	\$0	\$295,231	
4 Indirect Costs	\$452,943	\$18,118	\$6.04	\$0	\$0	\$452,943	
5 Marketing	\$767,475	\$30,699	\$10.24	\$0	\$0	\$767,475	
6 G&A	\$856,644	\$26,266	\$8.76	\$0	\$0	\$856,644	
7 Contingency 0%	\$0	\$0	\$0.00	\$0	\$0	\$0	
Total House Cost	\$11,505,478	\$460,219	\$110.49	\$2,386,620	\$192,328	\$8,926,530	
LOAN COST							
8 Interest Reserve	\$517,970	\$20,719	\$6.91	\$0	\$0	\$517,970	
9 Loan Fee 0.75%	\$72,000	\$2,880	\$0.96	\$0	\$0	\$72,000	
10 Loan Fee (Unsecured) 1.50%	\$18,000	\$720	\$0.24	\$0	\$0	\$18,000	
11 Appraisal & Environmental	\$6,500	\$260	\$0.09	\$0	\$0	\$6,500	
12 Inspection(CNB)	\$7,000	\$280	\$0.09	\$0	\$0	\$7,000	
13 Legal	\$12,000	\$480	\$0.16	\$0	\$0	\$12,000	
14 Title/Closing/Misc	\$10,000	\$400	\$0.13	\$0	\$0	\$10,000	
Total Loan Cost	\$643,470	\$25,739	\$8.59	\$0	\$0	\$643,470	
CUMULATIVE TOTALS	\$12,148,948	\$485,958	\$162.12	\$2,386,620	\$192,328	\$9,570,000	
LOAN TO COST RATIO:				20%	2%	79%	

EXHIBIT "D"

MINIMUM RELEASE PRICES/APPRaised VALUES

Lot	Plan	Anticipated Net Sale Proceeds	90% of Appraised Value	A NOTE Min. Release
83	5	\$538,200	\$526,500	\$489,300
84	4	\$527,160	\$515,700	\$479,200
86	3	\$509,680	\$498,600	\$463,300
87	2	\$492,200	\$481,500	\$447,400
88	1	\$473,800	\$463,500	\$430,700
76	5	\$482,080	\$471,600	\$438,200
77	4	\$459,080	\$449,100	\$417,300
78	1	\$417,680	\$408,600	\$379,700
79	3	\$447,580	\$437,850	\$406,900
109	4	\$461,380	\$451,350	\$419,400
110	2	\$437,000	\$427,500	\$397,300
111	4	\$483,000	\$472,500	\$439,100
123	3	\$445,280	\$435,600	\$404,800
124	4	\$461,380	\$451,350	\$419,400
112	2	\$436,080	\$426,600	\$396,400
113	4	\$460,000	\$450,000	\$418,200
114	5	\$486,680	\$476,100	\$442,400
115	4	\$459,080	\$449,100	\$417,300
116	3	\$445,280	\$435,600	\$404,800
117	5	\$482,080	\$471,600	\$438,200
118	4	\$460,000	\$450,000	\$418,200
119	1	\$420,440	\$411,300	\$382,200
120	2	\$438,840	\$429,300	\$398,900
121	2	\$437,000	\$427,500	\$397,300
122	1	\$417,680	\$408,600	\$379,700
25		\$11,578,660	\$11,326,950	

EXHIBIT "E"

Exhibit B -3

CONSTRUCTION LOAN PROMISSORY NOTE
(Unsecured)

\$1,200,000.00
Loan No. 7600009912

May 4, 2007
Newport Beach, California

FOR VALUE RECEIVED, the undersigned (together with its permitted successors and assigns being herein referred to as "Maker"), jointly and severally (and hereinafter referred to in the singular, whether one or more), promises to pay to the order of **CALIFORNIA NATIONAL BANK**, a national banking association, its successors or assigns or any subsequent holder of this Note (hereinafter sometimes collectively referred to as "Payee"), at 1301 Dove Street, Suite 101, Newport Beach California 92660-2458, or at such other place as Payee may designate in writing, the principal sum of One Million Two Hundred Thousand Dollars (\$1,200,000.00) ("Maximum Loan Amount"), or so much of that sum as may be advanced under this Construction Loan Promissory Note ("Note"), with interest thereon as set forth below.

Unless otherwise defined herein, capitalized terms used in this Note shall have the same meanings as set forth in that certain Construction Loan Agreement by and between Maker and Payee of even date herewith ("Construction Loan Agreement"). Payee shall not be required to make any advances that would cause the outstanding principal of this Note to exceed the Maximum Loan Amount. Any and all advances under this Note shall be made pursuant to the terms and conditions set forth in the Construction Loan Agreement.

The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the Wall Street Journal Prime Rate (the "Index"). The Index is not necessarily the lowest rate charged by Payee on its loans. If the Index becomes unavailable during the term of this loan, Payee may designate a substitute index after notice to Maker. Interest shall accrue on the principal from time to time outstanding at a rate of 100 basis points (1.0%) over the Index. Any change in the Index shall result in a change in the rate of interest payable under this Note, effective on the date of each such change, without notice to Maker. The interest payable under this Note shall be computed on the basis of a 360-day year, but accrue on the actual number of days elapsed. Interest shall accrue under this Note only upon such sums as shall be advanced hereunder, as of the date of advancement, and upon such other amounts as may be owing to Payee under any instrument securing payment of this Note.

Interest only shall be payable monthly as it accrues on the principal from time to time outstanding, commencing on the first day of the first calendar month following recordation of the Deed of Trust (as defined in the Companion Note hereafter defined), and continuing on the first day of each month thereafter. The balance of said principal sum with all unpaid interest thereon and any unpaid late charge or other sums owing to Payee hereunder shall be due and payable in full on the date which is eighteen (18) months following the date of recordation of said Deed of Trust (the "Maturity Date").

All installments of principal and interest under this Note shall be payable in lawful money of the United States of America without offset or deduction of any kind. Payment by check shall be credited only when collected by Payee, and payment by wire transfer or other

means shall be credited only when actually received by Payee. All payments made hereunder shall be applied first to any late charges or other expenses, premiums, penalties, or fees due hereunder, next to unpaid interest due hereunder, and last to any unpaid principal due or outstanding.

Maker may prepay in whole or in part the principal amount outstanding under this Note, together with accrued and unpaid interest thereon computed to the date of prepayment and any unpaid late charge or other sums owing to Payee hereunder, without penalty or premium. Maker shall have no right to re-borrow any amount prepaid. Prepayments received by Payee after 11:30 a.m. shall be deemed and treated as received on the next following business day.

The occurrence of the following shall constitute an "Event of Default" under this Note:

- (i) failure to pay any installments due hereunder within ten (10) days of when due;
- (ii) failure to perform or comply with any of the covenants or agreements contained herein, or in any instrument securing payment of this Note, provided that with respect to any failure to perform or comply with any non-monetary covenant or agreement, so long as such failure is susceptible to cure, Maker shall be entitled to thirty (30) days written notice from Payee of such failure before such failure shall constitute an Event of Default. Provided further, if the non-monetary failure is of a nature requiring more than thirty (30) days to cure, there shall be no Event of Default so long as Maker or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure. In no event shall any such grace period extend the Maturity Date hereof; or
- (iii) any "Event of Default" (beyond applicable cure periods) under the Construction Loan Agreement; or
- (iv) any "Event of Default" (beyond applicable cure periods) under that certain Construction Loan Promissory Note of even date herewith given by Maker to Payee in the principal amount of Nine Million Five Hundred Seventy Thousand Dollars (\$9,570,000.00) (the "Companion Note").

Upon the occurrence of an Event of Default, then, at the option of Payee, the entire debt then remaining unpaid at once shall become due and payable. During the period commencing with any such Event of Default and continuing until such Event of Default is cured, the interest rate hereunder shall be eighteen percent (18%) per annum, whether or not the aforesaid option has been exercised.

In addition to and without limitation on any other rights or remedies Payee may have hereunder or at law or in equity, if Maker shall fail to make any payment of interest or principal within ten (10) days after the date the same is due and payable, a late charge by way of damages shall be immediately due and payable. Maker recognizes that default by Maker in making the payments herein agreed to be paid when due will result in Payee incurring additional expense in servicing the loan, in loss to Payee of the use of the money due and in frustration to Payee in meeting its other financial and loan commitments. Maker agrees that, if for any reason Maker fails to pay the amounts due under this Note within ten (10) days of when due, Payee shall be

entitled to damages for the detriment caused thereby, but that it is extremely difficult and impractical to ascertain the extent of such damages. Maker therefore agrees that a sum equal to five cents (\$.05) for each one dollar (\$1.00) of each interest payment which becomes delinquent is a reasonable estimate of said damages to Payee, which sum Maker agrees to pay on demand.

If this Note is not paid when due, whether at the Maturity Date or by acceleration as hereinabove provided, Maker promises to pay all costs of collection and all expenses incurred for the protection of or realization upon any collateral securing this Note; such costs and expenses shall include, without limitation, all costs, expenses and attorneys' fees incurred by Payee in connection with any insolvency, bankruptcy, reorganization, arrangement or other similar proceedings involving any person or entity liable for the payment of this Note or having rights in any collateral securing payment of this Note. Maker further promises to pay all costs, expenses and attorneys' fees incurred by Payee in connection with any default hereunder and in any proceeding brought to enforce any of the provisions of this Note. All such sums shall bear interest from the date incurred by Payee until paid at the default interest rate set forth hereinabove.

Should interest under this Note or any late charge, fees, expenses or any other sums owing to Payee not be paid in full when due, the amount thereof shall be added to the principal amount outstanding under this Note and thereafter shall bear like interest as principal.

Upon the happening of any Event of Default hereunder which may be cured by payment of money, Payee shall have the right, but not the obligation, and without limitation as to any other rights or remedies of Payee, to make such payment from its own funds on Maker's behalf. The making by Payee of such payment from its own funds shall not be deemed to cure such default hereunder by Maker. If Payee advances its own funds for such purposes, such funds shall be considered additional advances under the Companion Note (or, if the Companion Note has been repaid in full, then under this Note), notwithstanding that such advances may cause the total amount advanced under the Companion Note (or, if the Companion Note has been repaid in full, then under this Note), to exceed the Maximum Loan Amount. Maker shall immediately upon demand reimburse Payee for any such advances, with interest thereon at the default interest rate set forth under the Companion Note (or, if the Companion Note has been repaid in full, then under this Note), from the date of such advance until the date of reimbursement.

This Note inures to and binds the heirs, successors and assigns of Maker and Payee. Maker understands that Payee may transfer and assign its interest in this Note, pledge its interest in this Note or grant or sell participations in some or all of Maker's indebtedness outstanding under this Note. In connection with any such transaction, Payee may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the loan evidenced by this Note, provided that Payee requires that such parties keep such information confidential. If Payee so requests, Maker shall sign and deliver a new note to be issued in exchange for this Note, provided that Payee concurrently delivers this Note, marked canceled, or indemnifies Payee for claims of others holding the original Note. Maker may not assign any rights or obligations under this Note without Payee's prior written consent, which consent may be withheld in Payee's sole discretion.

If any provision of this Note is held to be invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Note shall remain in full force and effect and shall be liberally construed in favor of the Payee in order to effect the provisions of this Note. In addition, in no event shall the rate of interest payable under this Note exceed the maximum rate of interest permitted to be charged by applicable law (including the choice of law rules), and any interest paid in excess of the permitted rate shall be refunded to Maker. Such refund shall be made by application of the excessive amount of interest paid against any sums outstanding. If the excessive amount of interest paid exceeds the sums outstanding, the portion exceeding the sums outstanding shall be refunded in cash by the Payee. Any such crediting or refund shall not cure or waive any default by Maker hereunder.

Maker (except to the extent expressly provided herein) and any guarantors and sureties hereof severally waive presentment, protest and demand, notice of protest, demand and of dishonor and non-payment of this Note, waive the right to plead any and all statutes of limitation as a defense to any demand under this Note, and expressly agree that this Note, or any payment hereunder, may be extended from time to time without in any way affecting the liability of the Maker, said guarantors and sureties hereof. The obligations of Maker and all guarantors and sureties hereof shall be joint and several, and all words used herein in the singular shall be deemed to have been used in the plural when the context and construction so require.

No previous waiver and no failure or delay in acting by Payee with respect to any of the terms hereof or of any instrument securing payment of this Note shall constitute a waiver of any breach, default or failure of condition under this Note or any instrument securing payment hereof. The acceptance by Payee of any payments under this Note in an amount less than the amount due and owing or after the date that such payment is due shall not constitute a waiver of the right to require prompt and full payment when due of future or succeeding payments or to declare a default as herein provided.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS NOTE SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS LLC IN ORANGE COUNTY, CALIFORNIA PURSUANT TO THE JAMS LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT PAYEE FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY PAYEE SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;


(B) LIMIT OR PROHIBIT PAYEE FROM EXERCISING ANY OF ITS RIGHTS AS PAYEE UNDER THIS NOTE INCLUDING, WITHOUT LIMITATION, THE USE OF ANY SET-OFF OR LIEN RIGHTS;


(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THIS NOTE, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT MAKER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST MAKER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS NOTE, MAKER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Maker's Initials


Payee's Initials

This Note is to be governed by and construed in accordance with the laws of the State of California. Time is of the essence with regard to each and every term, covenant, provision and condition of this Note.

This Note is executed by Maker in connection with the Construction Loan Agreement. Said Construction Loan Agreement contains provisions for the acceleration of the Maturity Date of this Note. This Note is currently unsecured, but the obligations of Maker hereunder are guaranteed pursuant to that certain Continuing Guaranty Agreement of even date herewith given to Payee and describing, among other things, the indebtedness described in this Note. Maker agrees that Payee may accept security for this Note, or release any security or any party liable for this Note, or extend or renew this Note, all without notice to Maker and without affecting the liability of Maker.

Maker acknowledges and agrees that the credit worthiness and expertise of Maker in owning and operating the Property is the basis upon which Payee has determined that it is protected against impairment of the security and risk of default and thereby has agreed to lend Maker the principal sum set forth above. Therefore, if Maker, or any permitted successor or assign, unless otherwise permitted in the Construction Loan Agreement (i) sells, conveys, alienates, leases, assigns, transfers or encumbers the Property, or (ii) except in connection with Sales Agreements for individual Units, contracts to sell, convey, alienate, lease, assign, transfer or encumber, all or any part of the Property or any interest in the Property, or (iii) allows, suffers or undergoes a material change in the identity, control or ownership of Maker, or if there is a material change in the management of the Property, in any manner, whether voluntarily, involuntarily or by operation of law, then, and in any such event, the entire unpaid balance of the principal sum and all accrued but unpaid interest thereon shall become immediately due and payable at the election of Payee, without notice. For purposes of this paragraph, a "material" change shall include, but not be limited to: (x) if Cameo Homes, a California corporation, ceases to be the sole manager, sole member and sole owner of G Companies Homebuilding, LLC, a California limited liability company ("G Companies"), G Companies being the manager of Maker; or (y) if G Companies ceases to be the sole manager of Maker; or (z) if G Companies sells, conveys, transfers, charges or encumbers any of its membership interest in Maker, and if after such sale, conveyance, transfer, charge or encumbrance, G Companies shall fail to hold at least 51% of the ownership interests in Maker; and in addition, James C. Gianulias must continue to hold no less than 75% of the ownership interests in Cameo Homes. Any transaction in violation of the above restrictions shall cause the then outstanding principal balance and interest thereon and other sums, at the option of Payee, to immediately become due and payable.

SILVER OAKS 183, L.L.C., a California limited liability company

By: G Companies Homebuilding, LLC,
a California limited liability company,
its Manager

By: Cameo Homes, a California
corporation, its Manager

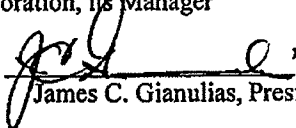
By: 
James C. Gianulias, President

Exhibit 6

100 San Jacinto, LLC

Claim \$2,886,940.10

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated February 15, 2007 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Loan Agreement dated February 15, 2007 (as amended, modified, and/or supplemented, the "Loan Agreement") by which Cal National lent 100 San Jacinto, LLC (the "Borrower") the stated principal amount of \$8,730,000.00. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loan.

On January 28, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; and (iii) Breach of Written Guaranty in the Superior Court of the State of California for the County of Riverside, Case No. RIC 491669, against the Debtor as defendant concerning, the Cal National Guaranty. On April 24, 2008, R.E.F.S. Inc., ("Trustee") sold the property at public auction for \$1,728,000.00.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$2,886,940.10 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreement to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreement. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date

Amount due at Foreclosure Sale	at least \$4,614,940.10
Amount property sold for at Foreclosure Sale	\$1,728,000.00
Total Amount of Claim	at least <u>\$2,886,940.10</u>

WHEN RECORDED MAIL TO:

San Jacinto Property Holdings, LLC

C/O California National Bank
221 S. Figueroa Street, Suite 310
Los Angeles, Ca 90012
Attn: Jyotsna Desai

MAIL TAX STATEMENTS TO:

Same As Above

This is to certify that this is a True and Correct copy
of the Original recorded
Instrument No. **08-217005**
NORTH AMERICAN TITLE COMPANY
By *JA*
County of Riverside

Space above this line for recorder's use only

Trustee Sale No. 2007-CA004906 Loan No. 7600005597 Title Order No. 43-83430-65

**TRUSTEE'S DEED UPON SALE
AND BILL OF SALE**

APN 431-090-010-8; 431-090-038-4; 431-090-039-5; 431-090-021-8

The undersigned grantor declares:

- 1) The Grantee herein was the foreclosing beneficiary.
- 2) The amount of the unpaid debt together with costs was \$4,614,940.10
- 3) The amount paid by the grantee at the trustee sale was \$1,728,000.00
- 4) The documentary transfer tax is \$ NONE
- 5) Said property is in SAN JACINTO

and R.E.F.S. INC., A CALIFORNIA CORPORATION, as Trustee (herein called Trustee), as the duly appointed Trustee or substituted Trustee under the Deed of Trust hereinafter described, does hereby grant and convey, but without covenant or warranty, express or implied, to SAN JACINTO PROPERTY HOLDINGS, LLC., A California Limited Liability Company (herein called Grantee), all of its right, title and interest in and to that certain property situated in the County of RIVERSIDE, State of California, described as follows: **FOR LEGAL DESCRIPTION SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.**

Situs: VACANT LAND, , SAN JACINTO, CA 92582**RECITALS:**

This conveyance is made pursuant to the powers conferred upon Trustee by that certain Deed of Trust dated 02-15-2007 and executed by 100 SAN JACINTO, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, as Trustor, and Recorded 04-05-2007, Book N/A, Page N/A, Instrument 2007-0231060 of official records of RIVERSIDE County, California, and after fulfillment of the conditions specified in said Deed of Trust authorizing this conveyance.

Default occurred as set forth in a Notice of Default and Election to Sell which was recorded in the Office of the Recorder of said County, and such default still existed at the time of sale.

All requirements of law regarding the mailing of copies of notices or the publication of a copy of the Notice of Default or the personal delivery of the copy of the Notice of Default and the posting and publication of copies of the Notice of a Sale have been complied with.

Trustee, in compliance with said Notice of Trustee's Sale and in exercise of its powers under said Deed of Trust, sold the herein described property at public auction on 04-24-2008. Grantee, being

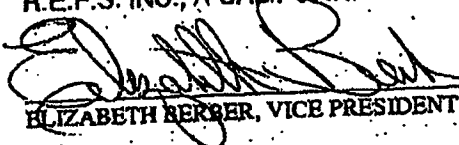
Trustee Sale No.: 2007-CA004906
Loan No.: 7600005597
Title Order No.: 43-83430-65

the highest bidder at said sale, became the purchaser of said property for the amount bid being \$1,728,000.00 in lawful money of the United States, or by credit bid if the Grantee was the beneficiary of said Deed of Trust at the time of said Trustee's Sale.

This sale was a unified sale of real and personal property. The undersigned further sells, transfers and conveys by quitclaim to grantee the personal property security and collateral under that certain Security Agreement dated 02/15/2007, by and between CALIFORNIA NATIONAL BANK, A NATIONAL BANKING ASSOCIATION and 100 SAN JACINTO, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, and that certain financing statement dated 02/15/2007 and filed in the Office of the Secretary of State as Instrument No. 077109003300 on 04/04/2007 and any amendments or modifications to either of them, as described in the Notice of Sale, and set forth below. Such sale on behalf of the Secured Party is "AS IS, WHERE IS" WITH ALL FAULTS, AND WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND.

DATE: April 28, 2008

R.E.F.S. INC., A CALIFORNIA CORPORATION, as said Trustee



ELIZABETH BERBER, VICE PRESIDENT

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

On 04/28/2008 before me, Danh N. Le, a Notary Public in and for said county, personally appeared ELIZABETH BERBER, who 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.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.


Notary Public in and for said County and State

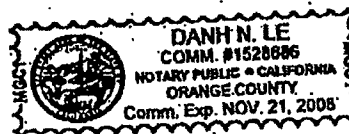


EXHIBIT B

1. Guaranty Agreement dated February 15, 2007 by and among G. Companies Homebuilding, LLC, Cameo Homes, James C. Gianulias, an individual, and James C. Gianulias, as Trustee of the James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998, as Guarantors for the benefit of California National Bank.
2. Construction Loan Agreement dated February 15, 2007.

Exhibit B -1

CONTINUING GUARANTY AGREEMENT

THIS CONTINUING GUARANTY AGREEMENT ("Agreement"), dated as of February 15, 2007, is hereby given by G COMPANIES HOMEBUILDING, LLC, a California limited liability company, CAMEO HOMES, a California corporation, JAMES C. GIANULIAS, an individual, and JAMES C. GIANULIAS, as Trustee of The James Chris Gianulias Trust dated October 14, 2003, fka The James Chris Gianulias 1998 Trust dated December 22, 1998 ("Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), with respect to the following facts:

RECITALS:

A. 100 SAN JACINTO, LLC, a California limited liability company ("Borrower") has agreed to borrow the principal sum of Eight Million Seven Hundred Thirty Thousand Dollars (\$8,730,000.00) ("Loan") from Lender to finance the cost of constructing certain improvements (the "Improvements") on land in the County of Riverside, California more specifically described in Exhibit "A" attached hereto and made a part hereof (said land and Improvements are hereinafter referred to collectively as the "Property"), all as more particularly set forth in that certain Construction Loan Agreement of even date herewith by and between Borrower and Lender (the "Construction Loan Agreement"). The Loan is to be evidenced by a Construction Loan Promissory Note given by Borrower to Lender (the "Note") and secured by a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "Deed of Trust") of even date herewith encumbering the Property. Unless otherwise defined herein, capitalized terms shall have the same meanings as set forth in the Construction Loan Agreement.

B. Guarantor is a related party to Borrower and will receive a direct and substantive benefit from the Loan.

C. The execution and delivery of this Agreement to Lender by Guarantor is a condition precedent to Lender's making the Loan, is a material inducement to Lender in the making of the Loan, and Lender would not make the Loan without this further assurance of payment and performance.

NOW, THEREFORE, in consideration of the foregoing recitals, the terms and conditions set forth below, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Guaranty. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees as follows:

(a) Borrower shall construct, equip, complete and pay for the Improvements in accordance with the Construction Loan Agreement and comply with all other obligations contained therein;

(b) Borrower shall timely repay to Lender all amounts owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust and each of the other Security Documents;

(c) Borrower shall perform fully and when required any and all of the terms, covenants, conditions and agreements contained in the Note, the Construction Loan Agreement, the Deed of Trust, and each of the other Security Documents; and

(d) Borrower shall keep the Property free and clear of all liens connected with or arising from the construction, equipment or completion of the Improvements.

2. **Performance by Guarantor.**

(a) If Borrower fails to do any or all of the matters specified in Paragraph 1 on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do.

(b) If Borrower fails to pay to or reimburse Lender for any expenses incurred by, or other moneys due, Lender pursuant to the Note, the Construction Loan Agreement, the Deed of Trust, or any other Security Documents, Guarantor shall promptly, whether or not notice thereof is received from Lender, pay to or reimburse Lender such sums.

(c) If Guarantor fails to take any such action promptly, Lender may pursue any remedies at law or in equity against Guarantor without having to proceed first against Borrower, or may itself take such action and expend such sums as Lender deems proper and necessary to do, and Guarantor shall be jointly and severally liable to Lender for all expenses, including attorneys' fees, incurred by Lender therefor, and for all amounts paid by Lender in taking any such action.

3. **Certain Rights of Lender.** Lender may, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with the consent of Borrower prior to an Event of Default by Borrower under the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, amend or modify the plans and specifications for the Improvements or the contracts with any general contractor, subcontractor or materialman of the Improvements; (b) with the consent of Borrower, amend any provision of the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, including any change in the interest rate therein or any change in the time or manner of payment thereunder; (c) make any agreement with Borrower for the extension, payment, compounding, compromise, discharge or release of any provision of the Construction Loan Agreement, the Note, the Deed of Trust or any other Security Documents, or for any modification of the terms thereof; (d) make any advance under the Note, Construction Loan Agreement or any other Security Documents or, with the consent of Borrower (except as otherwise expressly permitted under the Construction Loan Agreement, the Note, the Deed of Trust, or any other Security Documents), increase or decrease the principal amount thereof; (e) transfer, assign, negotiate or sell participations in the Note, the Construction Loan Agreement, the Deed of Trust, and any other Security Documents; and (f) surrender to Borrower or release, deal with or modify the form of any security which Lender may at any time hold to

secure the performance of any obligation hereby guaranteed. The guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

4. Waivers by Guarantor.

(a) Guarantor waives any right to require Lender to: (i) proceed against Borrower; (ii) proceed against or exhaust any security for the indebtedness; (iii) give notice of the terms, time and place of any public or private sale of any real or personal property security for the indebtedness; or (iv) pursue any other remedy in Lender's power whatsoever. Guarantor waives any defense arising by reason of any disability or other defense of Borrower, or by reason of the cessation from any cause whatsoever of the liability of Borrower, or by reason of any act or omission of Lender or others which directly or indirectly results in or aids the discharge or release of Borrower of any indebtedness or any security therefor by operation of law or otherwise. Until all indebtedness of Borrower to Lender shall have been paid in full, Guarantor shall have no right of subrogation, and waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by Lender. Guarantor waives all set-offs and counterclaims and all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Agreement and of the existence, creation or incurring of new or additional indebtedness. Guarantor further waives the right to plead any and all statutes of limitation as a defense to any demand under or enforcement of this Agreement.

(b) Guarantor acknowledges that all or a portion of the indebtedness of Borrower to Lender is or may be secured by the Deed of Trust covering the Property. Guarantor authorizes Lender, at its sole option, without notice or demand and without affecting the liability of Guarantor under this Agreement, to foreclose the Deed of Trust and the interests in the Property secured thereby by nonjudicial sale, or to exercise any other right or remedy with respect to the Deed of Trust or the Property. No such action by Lender shall release or limit the liability of Guarantor hereunder, even if the effect of that action is to deprive Guarantor of the right to reimbursement from Borrower for any sums paid by Guarantor to Lender with respect to the indebtedness. Guarantor specifically agrees that Guarantor shall not be released from liability hereunder by any action taken by Lender, including without limitation a nonjudicial sale under the Deed of Trust, that would afford Borrower or Guarantor a defense based on California anti-deficiency laws. Guarantor expressly acknowledges that (1) such a nonjudicial foreclosure would eliminate Guarantor's subrogation rights against the Borrower, (2) the destruction of subrogation rights creates a defense to a deficiency judgment against Guarantor hereunder, and (3) Guarantor expressly waives such defense to a judgment hereby. Guarantor waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to the Deed of Trust, has destroyed the Guarantor's rights of subrogation and reimbursement against the Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor expressly waives (i) any defense to the recovery of a deficiency against Guarantor after such a nonjudicial sale, (ii) any defense which may be waived pursuant to *Union Bank v. Gradsky* (1968) 265 Cal.App.2nd 40, and any cases, statutes or authority subsequently interpreting such decision, (iii) any

defense that may be waived or benefits that may be derived from or under California Code of Civil Procedure Section 580a, and any cases, statutes or authority interpreting such section and its applicability to Guarantor, (iv) any defense or benefits that may be derived from California Code of Civil Procedure Sections 580b, 580d or 726, (v) all suretyship defenses it would otherwise have under California law, including without limitation all rights and protections under Sections 2809, 2810, 2819, 2845, 2848, 2849, 2850 and 3433 of the California Civil Code, (vi) all rights of subrogation and reimbursement and any other rights and defenses available to Guarantor by reason of California Civil Code Sections 2787 through 2855 inclusive, and (vii) any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including without limitation under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code. Guarantor further expressly acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability hereunder.

(c) Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

(d) All remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of any one of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

(e) Guarantor acknowledges and agrees that the obligations of Guarantor under this Agreement to Lender are separate and independent from any obligations of Borrower to Lender under the Note, the Construction Loan Agreement, the Deed of Trust and the Security Documents, and that this Agreement and the obligations of Guarantor hereunder are not intended to be and are not secured by the Deed of Trust or any of the other Security Documents.

5. **No Release.** Until the Improvements are fully erected, equipped and completed as provided in the Construction Loan Agreement, and until all of the terms, covenants and conditions of this Agreement are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower, such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or

otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Deed of Trust, the Note, the Construction Loan Agreement and/or any of the other Security Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

6. **Subrogation.** If Guarantor shall make any payments under this Agreement, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Deed of Trust and the Construction Loan Agreement; provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Deed of Trust, the Note and the Construction Loan Agreement. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under the Deed of Trust, the Note and the Construction Loan Agreement have been paid.

7. **Representations and Warranties.** Guarantor hereby makes the following representations and warranties to Lender as of the date of this Agreement:

(a) **Authorization and Validation.** The execution, delivery and performance by Guarantor of this Agreement (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

(b) **Financial Information.** All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

(c) **No Defaults.** Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or

fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

(d) Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Construction Loan Agreement, the Deed of Trust, and all of the other Security Documents and any other documents executed in connection with the Loan, including without limitation this Agreement, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

(e) Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

(f) Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

(g) Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Project will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with the Loan and Owner's acquisition of the Property.

8. Notices. Any notice, demand or request by Lender to Guarantor shall be in writing and shall be deemed to have been duly given or made if either delivered personally or if mailed by U.S. registered or certified mail as follows:

c/o G Companies Homebuilding
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

9. Payment by Borrower. Notwithstanding anything herein contained, this Agreement shall become null and void if Borrower shall fully perform all acts and pay to Lender in full the amount of principal and interest thereon then owing to Lender, or its successors or

assigns, and all other sums and payments which may be or become owing under the Deed of Trust, the Note, the Construction Loan Agreement, and all the other Security Documents; provided, however, that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

10. **Governing Law; Venue.** This Agreement is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

11. **Binding Effect.** This Agreement shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor. This Agreement shall follow the Note, the Construction Loan Agreement, the Deed of Trust and the other Security Documents, and in the event that the Note, the Construction Loan Agreement, the Deed of Trust and the Security Documents are sold, transferred, assigned, or conveyed by Lender, this Agreement may be likewise sold, transferred, assigned or conveyed by Lender to the successor holder, and in such event, the successor holder of this Agreement may enforce this Agreement as if such holder had been originally named as Lender hereunder.

12. **Severability.** Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

13. **Attorneys' Fees and Costs.** Guarantor agrees to pay all attorneys' fees and all other costs and expenses which may be incurred by Lender in the collection from Borrower and/or Guarantor of any sums owing to Lender under the Note, the Construction Loan Agreement, the Deed of Trust, or any of the other Security Documents, and in the enforcement by Lender of this Agreement, including without limitation, those incurred in connection with any case, action, proceeding, claim or otherwise under Chapters 7, 11 or 13 of the Federal Bankruptcy Code or any successor statute or statutes thereto whether the same be commenced or filed by Borrower, Guarantor or any other person or entity.

14. **Joint and Several Liability.** The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Agreement is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each party comprising Guarantor hereby agrees that suit may be brought against each such party independently to enforce the terms and conditions of this Agreement. In addition, the obligations of all parties comprising Guarantor hereunder are joint and several with Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against any of the parties comprising Guarantor whether action is brought against Borrower or any other party comprising Guarantor or whether Borrower or any other party

comprising Guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Agreement, and that this Agreement is in full force and effect and is binding on each party comprising Guarantor.

15. **ARBITRATION.** EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS LLC IN ORANGE COUNTY, CALIFORNIA PURSUANT TO THE JAMS LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

(I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT, THE LOAN AGREEMENT, THE NOTE OR ANY OF THE SECURITY DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;


(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.


THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE

ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Guarantor's Initials


Lender's Initials

16. **Entire Agreement; Amendments.** This Agreement embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Agreement may be changed, waived, revoked or amended without Lender's prior written consent.

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date first above written.

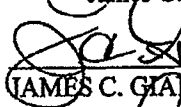
G COMPANIES HOMEBUILDING, LLC,
a California limited liability company

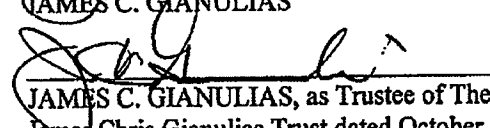
By: Cameo Homes, a California corporation,
its Manager

By: 
James C. Gianulias, President

CAMEO HOMES, a California corporation

By: 
James C. Gianulias, President


JAMES C. GIANULIAS


JAMES C. GIANULIAS, as Trustee of The
James Chris Gianulias Trust dated October 14, 2003

LEGAL DESCRIPTION

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

PARCEL A:

THE NORTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LANDS OF THE SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGE 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

EXCEPTING THAT PORTION IN LYON STREET.

PARCEL B:

THE SOUTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LANDS OF SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8, PAGE(S) 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THAT PORTION IN LYON STREET;

ALSO EXCEPTING THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTER LINE OF COTTONWOOD AVENUE WITH THE CENTER LINE OF LYON AVENUE BEING THE SOUTHWEST CORNER OF SAID LOT 142' THENCE NORTH 566.41 FEET OF SAID CENTER LINE OF LYON AVENUE TO THE SOUTHWEST CORNER OF SAID NORTH 20.00 ACRES;
THENCE SOUTH 89 DEGREES 58' 42" EAST, 579.69 FEET ON THE SOUTH LINE OF SAID NORTH 20.00 ACRES TO THE TRUE POINT OF BEGINNING;
THENCE CONTINUING SOUTH 89 DEGREES 58' 42" EAST, 579.69 FEET ON SAID SOUTH LINE OF THE EAST LINE OF SAID WEST 35.00 ACRES;
THENCE NORTH 377.60 FEET ON SAID WEST LINE TO THE NORTHEAST CORNER OF SAID SOUTH HALF;
THENCE WEST 579.69 FEET ON THE NORTH LINE OF SAID SOUTH HALF;
THENCE SOUTH 377.60 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL C:

THAT PORTION OF THE SOUTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LAND OF THE SAN JACINTO LAND ASSOCIATION, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGE 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, DESCRIBED AS

FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTERLINE OF COTTONWOOD AVENUE WITH THE CENTERLINE OF LYON AVENUE, BEING THE SOUTHWEST CORNER OF SAID LOT 142; THENCE NORTH 566.41 FEET ON SAID CENTERLINE OF LYON AVENUE TO THE SOUTHWEST CORNER OF SAID NORTH 20 ACRES; THENCE SOUTH 89° 58' 42" EAST 579.69 FEET ON THE SOUTH LINE OF SAID NORTH 20 ACRES TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING SOUTH 89° 58' 42" EAST 579.69 FEET ON SAID SOUTH LINE TO THE EAST LINE OF SAID WEST 35 ACRES; THENCE NORTH 377.60 FEET ON SAID WEST LINE TO THE NORTHEAST CORNER OF SAID SOUTH HALF; THENCE WEST 579.69 FEET ON THE NORTH LINE OF SAID SOUTH HALF; THENCE SOUTH 377.60 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL D:

THAT PORTION OF THE SOUTH HALF OF FARM LOT 142 OF THE LANDS OF THE SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGES 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

COMMENCING AT THE SOUTHEAST CORNER OF SAID FARM LOT; THENCE WEST, ON THE SOUTH LINE OF SAID LOT, 52 RODS; THENCE NORTH, AT RIGHT ANGLES TO SAID SOUTH LINE, 50 10/19 RODS, TO THE TRUE POINT OF BEGINNING; THENCE WEST, AT RIGHT ANGLES TO SAID LAST LINE, 38 RODS; THENCE NORTH, AT RIGHT ANGLES TO THE LAST LINE 29 9/19 RODS, MORE OR LESS, TO THE NORTH LINE OF SAID SOUTH HALF OF SAID FARM LOT 142; THENCE EAST, ON THE SAID NORTH OF SAID SOUTH HALF OF SAID FARM LOT, 38 RODS; THENCE SOUTH, AT RIGHT ANGLE TO THE LAST LINE, 29 9/19, TO THE TRUE POINT OF BEGINNING.



Exhibit B -2

**CONSTRUCTION LOAN AGREEMENT
(Lot Development)**

BY AND BETWEEN

100 SAN JACINTO, LLC, a California limited liability company

AND

CALIFORNIA NATIONAL BANK, a national banking association

Dated: February 15, 2007

Loan No. 7600005597

CONSTRUCTION LOAN AGREEMENT

Table of Contents

	<u>Page</u>
ARTICLE I LOAN ACCOMMODATION	1
1.01 The Loan	1
1.02 Documents	1
ARTICLE II REPRESENTATIONS AND WARRANTIES	2
2.01 Legal Status	2
2.02 Authorization and Validation	2
2.03 Financial Information	3
2.04 Improvements	3
2.05 No Defaults	3
2.06 Correct Information	3
2.07 Title	3
2.08 Taxes	3
2.09 Utilities	4
2.10 Pending Litigation	4
2.11 Unpaid Materialmen	4
2.12 Agreements and Deposits	4
2.13 Other Financing	4
2.14 Encumbrances	4
2.15 Principal Place of Business	5
2.16 Compliance	5
ARTICLE III CONDITIONS PRECEDENT	5
3.01 Title Policy	5
3.02 Reports and Other Documents	5
3.03 Title Indorsements	6
3.04 Insurance	6
3.05 No Defaults	6
3.06 List of Materialmen	6
3.07 No Change in Conditions	7
3.08 Sufficient Sums; Owner's Equity	7
3.09 Liens	8
3.10 Commencement and Completion; Performance Bond	8
3.11 Correctness of Representations; No Defaults	8
3.12 Entity Documents	8
3.13 Property Documents	9
ARTICLE IV DISBURSEMENT PROCEDURE	9
4.01 Accounts	9
4.02 Budget	9
4.03 Security Interest in Undisbursed Funds	10

CONSTRUCTION LOAN AGREEMENT

Table of Contents (continued)

	<u>Page</u>
4.04 Requests for Funds.....	10
4.05 Additional Conditions to Disbursements	12
4.06 Authorized Signatures.....	13
4.07 Trust Funds.....	13
4.08 Non-Liability of Lender	13
ARTICLE V OWNER'S COVENANTS	13
5.01 Progress of Construction.....	13
5.02 Offsite Improvements.....	13
5.03 Changes to Plans and Specifications	14
5.04 Notice of Casualty.....	14
5.05 Use of Materials	14
5.06 Construction Schedules.....	14
5.07 Watchmen.....	15
5.09 Maintenance of Existence; Compliance with Law.	15
5.10 Insurance.	15
5.11 Facilities.	15
5.12 Taxes and Other Liabilities.	15
5.13 Litigation.	16
5.14 Other Notifications.	16
5.15 Negative Covenants.....	16
ARTICLE VI INSPECTIONS	17
6.01 Construction Work	17
6.02 Non-Conformance	17
6.03 No Duty.....	17
6.04 Independent Cost Analyses	17
ARTICLE VII EXCULPATORY PROVISIONS.....	17
7.01 Status as Lender	17
7.02 Defective Construction.....	18
7.03 Non-Liability.....	18
7.04 No Representation.....	18
7.05 Brokers' Fees.....	18
7.06 Construction.....	18
7.07 Indemnity	18
ARTICLE VIII TAXES AND ASSESSMENTS.....	19
ARTICLE IX PROTECTION AGAINST LIENS	19
9.01 Paid Claims	19
9.02 Release of Liens	19
9.03 Notices of Lien.....	20
9.04 Payment of Costs.....	20

CONSTRUCTION LOAN AGREEMENT

Table of Contents (continued)

	<u>Page</u>
ARTICLE X REMOVAL OF PERSONALTY; PAYMENT OF SALES DEPOSITS	20
10.01 Removal of Personalty	20
10.02 Payment of Sales Deposits	20
ARTICLE XI BOOKS AND RECORDS	21
11.01 Books of Account	21
11.02 Working Drawings	21
11.03 Financial Information.....	21
11.04 Property Information.....	22
11.05 Appraisals	22
11.06 Lender Audit Rights.....	22
11.07 Further Assurances	22
ARTICLE XII DEFAULT.....	23
12.01 Events of Default.....	23
ARTICLE XIII REMEDIES	25
13.01 Remedies Upon Default	25
13.02 Remedies Cumulative	26
13.03 Contest of Third Party Claims.....	26
13.04 No Waivers.....	26
ARTICLE XIV [INTENTIONALLY OMITTED].....	27
ARTICLE XV SURVIVAL OF WARRANTIES AND COVENANTS	27
ARTICLE XVI ASSIGNMENT	27
16.01 Owner's Assignment	27
16.02 Lender's Assignment	27
16.03 Participation	27
ARTICLE XVII ARBITRATION OF DISPUTES	28
ARTICLE XVIII MISCELLANEOUS	29
18.01 Amendment	29
18.02 Additional Fees	29
18.03 Return of Documents	29
18.04 Regulatory Restrictions	29
18.05 Notices.....	29
18.06 Time of Essence	30
18.07 No Third Parties Benefited	30
18.08 Actions	30
18.09 Reliance on Representations	30
18.10 Relationship.....	31
18.11 Headings	31
18.12 Governing Law.....	31

CONSTRUCTION LOAN AGREEMENT

Table of Contents
(continued)

	<u>Page</u>
18.13 Attorneys' Fees and Costs.....	31
18.14 Signs	31
18.15 Nondiscrimination.....	31
Signatures	31

Exhibits

- "A" Description of Property
- "B" Description of Plans and Specifications
- "C" Insurance
- "D" Budget

CONSTRUCTION LOAN AGREEMENT
(Lot Development)

THIS CONSTRUCTION LOAN AGREEMENT ("Agreement") is entered into as of February 15, 2007, by and between 100 SAN JACINTO, LLC, a California limited liability company ("Owner"), and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS:

This Agreement is executed by Owner for the purpose of obtaining a loan from Lender, to be evidenced by a Construction Loan Promissory Note made by Owner in favor of Lender and secured by, among other things, a Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing affecting real property in the County of Riverside, State of California, described on Exhibit "A" attached to and made a part of this Agreement and all improvements now or in the future erected on such real property (such real property and improvements now or in the future erected on such real property are collectively hereinafter referred to as the "Property"), which loan is to refinance an existing loan from Lender and to aid Owner in the development on the Property of ninety-eight (98) single family residential lots (each hereinafter a "Lot" and collectively, "Lots"), and other related improvements (collectively hereinafter referred to as the "Project").

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

LOAN ACCOMMODATION

1.01 **The Loan.** Owner agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, a loan in the maximum principal sum of Eight Million Seven Hundred Thirty Thousand Dollars (\$8,730,000.00) (the "Loan").

1.02 **Documents.** In order to consummate the Loan, Owner will hand Lender the following documents, fully executed, in the form prescribed by Lender, together with any additional documents, items and funds as Lender may require in connection with this Agreement:

(a) Construction Loan Promissory Note ("Note") in the principal amount set forth above and bearing interest at the rate set forth in the Note.

(b) Construction Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Deed of Trust").

- (c) UCC-1 Financing Statement.
- (d) Assignment of Engineer's Contract, Plans and Specifications.
- (e) Assignment of Rights Under Covenants Conditions and Restrictions, Sales Agreements, Permits, and Development Documents.
- (f) Environmental Indemnity Agreement.
- (g) Limited Liability Certification (2).
- (h) Corporate Borrowing Resolution.
- (i) Trust Certification.
- (j) Continuing Guaranty Agreement.
- (k) Lender's form Disbursement Request and Authorization, Agreement to Provide Insurance, and such other form acknowledgements and authorizations as Lender may require.
- (l) Subordination Agreement.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Owner represents and warrants to Lender that as of the date of recording the Deed of Trust:

2.01 **Legal Status.** Owner is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of California, and is qualified and licensed to do business in all jurisdictions in which such qualification or licensing is required.

2.02 **Authorization and Validation.** The execution, delivery and performance by Owner of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Owner, (b) have received the approval of Owner's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Owner is a party or by which Owner, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note and each of the

Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Owner enforceable in accordance with their terms.

2.03 **Financial Information.** All financial data that has been given to Lender with respect to Owner and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Owner and the Property as of the date on which, and the results of Owner's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with generally accepted accounting principles or tax based accounting consistently applied throughout the periods covered. All balance sheets disclose all known liabilities (excluding current accounts payable), direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Owner since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

2.04 **Improvements.** The copies of the final plans and specifications, as more particularly described on **Exhibit "B"** attached hereto and incorporated herein, copies of which Owner has initialed for identification and delivered to Lender (the "Plans and Specifications"), are true and correct, are satisfactory to Owner, have been or will be approved by all governmental authorities having or claiming jurisdiction over the Property, and have been examined, approved and initialed for identification by the general contractor. Any construction already performed on the Property has been performed in accordance with the Plans and Specifications; there are no structural defects in the Project of which Owner has been advised or of which Owner has notice or knowledge; no violation of any applicable law, ordinance, order, rule or regulation exists; and the use of the Project and Property shall not constitute a violation of any applicable laws, ordinances, orders, rules or regulations.

2.05 **No Defaults.** Owner is a party to no agreement or instrument that will materially interfere with its performance under this Agreement or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, which default would have a material and adverse effect upon its ability to perform under this Agreement or the Security Documents.

2.06 **Correct Information.** All reports, papers, data and information given to Lender with respect to Owner or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.

2.07 **Title.** Owner has good and marketable title in fee simple to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender.

2.08 **Taxes.** Owner has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes prior to delinquency pursuant to such returns or pursuant to any assessments received by it (with payment made prior to

delinquency), and Owner does not know of any basis for additional assessment in respect of any such taxes. Owner has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

2.09 Utilities. All utility services necessary for the development of the Property and the operation thereof for its intended purpose are either available at the boundaries of the Property or all necessary steps have been taken by Owner to assure the complete construction and installation thereof, including water supply, storm and sanitary sewer facilities, gas, electric, and telephone facilities.

2.10 Pending Litigation. There is not now pending against or affecting Owner or the Property, nor, to the knowledge of Owner is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Owner.

2.11 Unpaid Materialmen. Except as disclosed to Lender in writing and being contested by Owner in accordance with Section 13.03 below, and except in connection with current work at the Project, no person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid other than payments to be made in connection with the advances hereunder.

2.12 Agreements and Deposits. At the time of execution of this Agreement, Owner has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.

2.13 Other Financing. Except for the loan secured by the Subordinate Deed of Trust (defined below), Owner has not received and will not receive other financing for the construction of the Project without the prior written consent of Lender.

2.14 Encumbrances. There is an existing deed of trust in favor of Famille Holdings, L.P., a California limited partnership on the Property securing a note which, as of the date of this Agreement, has an outstanding balance less than ~~(and in the future will never have an outstanding balance of more than)~~ \$1,500,000.00 ("Subordinate Deed of Trust"); there are no defaults under such indebtedness or the deed of trust securing the same nor are there any existing circumstances which, with the passage of time or the giving of notice or both, would constitute an event of default under such indebtedness or security; and Borrower has obtained or caused to be obtained all necessary consents and approvals from the holder of the aforesaid note to the lien of the Deed of Trust being placed upon the Property so as not to violate any due on encumbrance or other prohibition or limitation contained in the aforesaid deed of trust or any other document executed in connection with the aforesaid indebtedness. Except for the aforesaid existing encumbrance, no other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Owner agrees that no junior lien of any nature against all

or any portion of the Property shall be given, permitted or suffered by Owner without Lender's written consent. Said consent shall be at Lender's sole option and discretion.

2.15 **Principal Place of Business.** Owner's principal place of business is at the address set forth in this Agreement as the address for notices to Owner. Owner shall promptly notify Lender in writing of any change in Owner's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.

2.16 **Compliance.** Owner has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Project will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation of the Project shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof and the Project shall not encroach upon any easement affecting the Property. All applicable requirements of the California Subdivision Map Act have been complied with in connection with this Loan and Owner's acquisition of the Property.

ARTICLE III

CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Owner's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied prior to each (except as otherwise stated) advance hereunder:

3.01 **Title Policy.** Prior to the first advance, Owner shall furnish to Lender an ALTA Lender's Policy of Title Insurance (LP-10 with provision for rewrite), with such indorsements as Lender may require, which shall insure that the Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.

3.02 **Reports and Other Documents.** Owner shall furnish to Lender, upon Lender's request, at Owner's sole cost and expense, (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Materials" (as that term is defined in the Environmental Indemnity Agreement referred in Section 1.02 above) are present in, on, under or about the Property, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property and that the proposed construction of the Project is feasible under existing soils conditions, (c) all of the documents required under Section 1.02 above, (d) the documents required by Article IV, and (e) a current Project appraisal, by or on behalf of Lender utilizing Lender's required appraiser, in form and content acceptable to Lender. In connection with (a) and (b), above,

Lender acknowledges that Lender is in possession of a Phase I report and a soils report that satisfy Lender's requirements.

3.03 **Title Indorsements.** At Lender's sole and absolute discretion, in addition to the requirements of Section 3.01 hereof, Lender may require Owner to obtain, in connection with any or all requested disbursements, at Owner's sole cost and expense, Indorsement 122, and such other indorsements as Lender may require, which indorsements are to be attached to and be a part of Lender's Policy of Title Insurance.

3.04 **Insurance.** Owner shall furnish to Lender, at Owner's sole cost and expense, such policies of insurance in such amounts and in accordance with the standards set forth on **Exhibit "C"** attached hereto and incorporated herein, with standard mortgagee's indorsements naming Lender as first mortgagee and as additional insured, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Owner in writing (other than earthquake insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. Certifications evidencing the originals of all such policies in form and content acceptable to Lender shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Owner or any other person, and Owner assumes the full risk, responsibility and liability, if any, with respect to such matters. If Owner fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Owner, in which event Owner shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents. The foregoing notwithstanding, Owner shall not be required to provide all risk/property insurance unless and until Owner improves the Property.

3.05 **No Defaults.** Owner shall furnish written notice to Lender upon Lender's request that no default exists under this Agreement or under the Note or Security Documents and that each of the representations and warranties of Article II hereof is true (or, if not true, then a description of the discrepancy).

3.06 **List of Materialmen.** At Lender's sole and absolute discretion, fifteen (15) days after notice given by Lender to Owner (but not more often than once per month), Owner shall supply Lender with correct lists of all contractors, subcontractors and all other persons who have or will perform or furnish any work, labor or material in connection with the construction of the Project. Each such list shall show the name, address and telephone number of each such contractor or subcontractor, a general statement of the nature of the work to be done, the labor and materials to be supplied, the names of materialmen, if known, the approximate dollar value of such labor, work and materials with respect to each, and the status of such work or whether such materials have been delivered. Lender and its agents shall have the right (without either the obligation or the duty) to directly contact each contractor, subcontractor and materialman to verify the facts disclosed by said list.

3.07 No Change in Conditions. There shall be no damage or destruction, condemnation proceeding, construction moratorium, withdrawal of approvals, strikes, unavailability of materials, or any other change in conditions which would impair, impede, prevent or delay the construction, completion, marketing and sale of the Project.

3.08 Sufficient Sums; Owner's Equity. Within five (5) days after notice from Lender, Owner shall deposit with Lender such sums as Lender may determine are required to pay the Project costs in order to assure completion of the Project within the purview of the Plans and Specifications, whether such additional sums are required due to error of estimating costs, or increases in costs of labor and/or materials, or increased costs resulting from any changes in or to the Plans and Specifications which may or may not have been approved by Lender, or unbudgeted costs, or costs in excess of the "Maximum Loan Amount" under the Note which may be due and unpaid from time to time, or otherwise. Owner agrees that any such sums required over and above the proceeds of the Loan which are so deposited with Lender shall be disbursed by Lender prior to the disbursement of any remaining proceeds of the Loan. The good faith judgment of Lender shall be final and conclusive. It is expressly understood and agreed that the Loan shall at all times be "in balance", and that Owner will do all things which are, or may be necessary (including without limitation depositing with Lender all funds required) to keep the Loan "in balance". The Loan will be deemed "in balance" only at such time, and from time to time, as the then undisbursed Funds (as hereafter defined) equals or exceeds the amount which Lender in its sole and absolute discretion from time to time determines will or may be necessary to: (a) pay, through completion, all Project costs; (b) pay all sums which may accrue under the Security Documents prior to repayment of the Loan; and (c) enable Owner to perform and satisfy all of Owner's covenants contained in this Agreement, the Note and the Security Documents. The Loan is "out of balance" if Lender in its reasonable discretion determines at any time that the undisbursed Funds are not sufficient for all the above purposes, and Owner shall forthwith cause the Loan to be "in balance" by depositing the amount of such deficiency with Lender within five (5) days after the date of Lender's notice of the deficiency. Such amount shall be deposited by Lender in the Borrower's Funds Account (as hereinafter defined) and disbursed in accordance with the provisions of Article IV below. In addition, whenever the Loan becomes "out of balance", Owner shall submit, for Lender's approval, a revised Budget (as defined below) within fifteen (15) days after Lender's written demand.

Notwithstanding the foregoing and without Lender waiving any rights it may have to require Owner to deposit additional funds as described above, Owner and Lender hereby agree that prior to the first advance Owner shall deposit with Lender (i) evidence satisfactory to Lender that all certifications and city approvals as required for the Project are in place, (ii) evidence satisfactory to Lender that Owner has land equity in the Property in the amount of Three Million Twenty Thousand Seven Hundred Twenty-Two Dollars (\$3,020,722.00), (iii) evidence satisfactory to Lender that Owner has incurred and paid Three Hundred Ninety-Four Thousand Four Hundred Ninety-Three Dollars (\$394,493.00) for "Finance Costs To Date" costs of the Project as set forth in the Budget using Owner's own funds, (iii) an appraisal performed in accordance with Section 3.02 above and approved by Lender demonstrating that the Project has a aggregate finished lot value of not less than Fourteen Million Seven Hundred Thousand Dollars (\$14,700,000.00).

3.09 **Liens.** Owner shall furnish proof satisfactory to Lender upon request of Lender that no notice to withhold or stop notice has been filed and no mechanic's lien has been recorded, unless the same is being contested by Owner in accordance with Section 13.03 below.

3.10 **Commencement and Completion; Performance Bond.** If requested by Lender, Owner shall furnish evidence satisfactory to Lender that Lender is a named beneficiary on payment and performance bonds for the construction of the Project, said payment and performance bonds to be in such form and amounts as Lender may require. Regardless of whether Lender requires any payment and performance bonds, Owner hereby covenants and agrees that:

(a) Construction of the Project shall be commenced within ninety (90) days from the date of recordation of the Deed of Trust, shall thereafter be diligently prosecuted, and shall be fully completed within the time required herein;

(b) The Project shall be constructed and completed in strict accordance with the Plans and Specifications;

(c) Should the general contractor fail to commence or complete the Project within the time and in the manner herein provided, Owner shall commence and complete the same at its own cost and expense;

(d) Owner will protect and indemnify Lender against any loss sustained by Lender by reason of Lender's having waived a payment and performance bond;

(e) If any liens are filed against the Property in connection with the Project or any attachments or executions are filed against undisbursed Loan funds, Owner will pay upon demand by Lender the amount necessary for the release of such liens, attachments or executions.

3.11 **Correctness of Representations; No Defaults.** The representations and warranties of Owner contained in Article II hereof (other than under Sections 2.10 [which after the initial advance shall be governed by Section 5.13 below] and 2.12) shall be true and correct on and as of the date of Lender's advancing any of the proceeds of the Loan, with the same effect as though such representations and warranties had been made on and as of such date, and on such date no Event of Default as defined in Article XII hereof shall have occurred and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default shall have occurred and be continuing or shall exist.

3.12 **Entity Documents.** Prior to the first advance, Owner shall furnish to Lender copies of the following documents, which Owner hereby represents and warrants to Lender will be true and complete copies of such documents, fully executed and/or certified as appropriate:

(a) Filed Articles of Organization, fully executed copies of operating agreements and trust agreements (or certified statements in lieu of the entire trust agreements), and current Certificates of Good Standing, of Owner and of each party comprising the "Guarantor" under the Guaranty Agreement described in Section 1.02 above, and all modifications, amendments and related documents thereto;

(b) Current certified financial statements in form and content required by Lender, and copies of filed tax returns, of Owner and of each party comprising the "Guarantor" under the Guaranty Agreement described in Section 1.02 above; and

(c) Such other documentation relating to Owner, and/or any such "Guarantor" as Lender may request.

3.13 **Property Documents.** Prior to the first advance, Owner shall furnish to Lender copies of the following documents, which Owner hereby represents and warrants to Lender will be true and complete copies of such documents, fully executed and/or certified as appropriate:

(a) To the extent requested by Lender, all executed purchase agreements, use agreements, license agreements, leases, and any amendments, addendums or agreements related thereto;

(b) To the extent requested by Lender, approvals, licenses, permits, plans, maps, surveys, parcel or tract maps, and related documents pertaining to the development of the Project and use of the Property;

(c) To the extent requested by Lender, copies of tax bills, soils reports, environmental reports, insurance policies, architectural contracts, engineering contracts, construction contracts and related documents pertaining to the ownership and proposed development of the Property; and

(d) Such other information and documentation with respect to the Property as Lender may request.

ARTICLE IV

DISBURSEMENT PROCEDURE

4.01 **Accounts.** All funds deposited by Owner with Lender pursuant to this Agreement will be placed in an account with Lender and under Lender's sole control (the "Borrower's Funds Account"). For so long as no Event of Default has occurred and is continuing, such account shall be an interest bearing account at a rate determined by Lender in no event greater than Lender's money market funds rate. The Loan funds under the Loan and the Owner's funds and interest thereon held in the Borrower's Funds Account are hereinafter sometimes collectively referred to as the "Funds". Owner agrees that all disbursements will be conclusively deemed to have been made first from any Funds in the Borrower's Funds Account until the Borrower's Funds Account is exhausted, after which Funds remaining in the Loan will be disbursed. All disbursements of Funds shall be in the manner and for the purposes set forth herein.

4.02 **Budget.** Attached to and made a part of this Agreement as Exhibit "D" is a detailed cost breakdown for the Project ("Budget"). All disbursements and Requests for Funds shall be in accordance with the cost breakdown contained in the Budget, which Lender has approved. If Owner becomes aware of any change in the approved construction costs which

would increase the total cost of construction of the Project as shown on the Budget above any available contingency funds in the Budget, then Owner shall immediately notify Lender in writing and promptly submit to Lender for its approval a revised Budget for the Project. No further disbursements need be made by Lender unless and until the revised Budget is received and approved by Lender. Lender reserves the right to approve or disapprove any proposed revisions to the Budget in its reasonable discretion.

4.03 Security Interest in Undisbursed Funds. Owner hereby irrevocably assigns to Lender, as security for the obligations secured by the Security Documents, all of Owner's right, title and interest in and to all undisbursed Funds, including monies that may be deposited by Owner in the Borrower's Funds Account and all monies in the Loan.

4.04 Requests for Funds.

(a) Following commencement of the Project, Owner shall submit to Lender or to Lender's designated agents from time to time a request for funds ("Request for Funds") on Lender's form "Request for Payment and Authorization to Disburse" or its equivalent acceptable to Lender, containing a statement of Owner setting forth the amount of the disbursement sought, the estimated cost of labor performed on and materials stored on or incorporated into the improvement of the Property, and the applicable percentages of completion for the Project and for each line item for which disbursement is sought. The original of such Request for Funds certified true and correct by Owner and, if required by Lender, the general contractor, shall be submitted to Lender for payment. Upon request of Lender, each Request for Funds shall also be accompanied by (i) a Conditional Waiver and Release Upon Progress Payment or a Conditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman to be paid pursuant to such Request for Funds and covering all labor, services, equipment and materials to be paid thereunder, and (ii) an Unconditional Waiver and Release Upon Progress Payment or an Unconditional Waiver and Release Upon Final Payment, as appropriate, in the prescribed statutory form and approved by Lender, executed by each architect, engineer, contractor, subcontractor, supplier and materialman intended to be paid from the immediately preceding Request for Funds, covering all labor, services, equipment and materials performed or supplied by such party, as appropriate. If requested by Lender, Owner shall also submit copies of statements, bills or invoices from any contractors, subcontractors, laborers or materialmen, as Lender may require, to verify the accuracy of the Request for Funds. Upon verification of the accuracy of the Request for Funds, including by Lender's inspection of the Property and the Project or otherwise, and satisfaction of all applicable conditions contained herein, Lender shall make disbursements to Owner's designated bank account with Lender, provided, however, that Lender reserves the right, at Lender's option, to make any disbursements directly to the architects, engineers, contractors, subcontractors, laborers or materialmen during the continuance of any Event of Default by Owner.

(b) Lender will make disbursements to pay for the construction costs approved by Lender as shown on the most recently approved Budget, upon each approved Request for Funds, for one hundred percent (100%) of the construction costs for the Project as shown on such Request for Funds, provided however, that (i) in no event shall such disbursements exceed at any time the stated amounts for the percentage of completion of each

line item of the Budget attached hereto and incorporated herein by this reference, (ii) in no event shall such disbursements exceed the maximum amounts allocated for each line item of the Budget attached hereto and incorporated herein by this reference, and (iii) the final disbursement shall be subject to satisfaction of the requirements in subsection (d) hereof. Disbursements to pay for construction costs will be made not more frequently than twice monthly.

(c) Lender will make disbursements to pay for Owner's approved financing, development and other non-construction Project costs shown on the most recently approved Budget upon delivery to Lender of satisfactory evidence that such costs have been incurred and are payable. Disbursements for such approved financing, development and other non-construction Project costs will be made in amounts equal to one hundred percent (100%) of the approved Requests for Funds for such costs. Notwithstanding the foregoing, Lender may, without further notice to or authorization by Owner, and shall (provided no default has occurred and is continuing), disburse Funds to pay, as and when due: any Loan fees owing to Lender, including without limitation a Loan fee in the sum of Eighty-Seven Thousand Three Hundred Dollars (\$87,300.00); interest payments on the Loan; escrow and title insurance charges; inspection fees; disbursement fees; real property taxes; and such other sums as may be owing from time to time by Owner to Lender with respect to the Loan. Such payments may be made, at the option of Lender, by disbursing Funds in the amount of such payments without first disbursing such amount to Owner. It is understood and agreed that Loan funds allocated in the Budget for "Total Land & Entitlement" in the amount of Three Million Nine Hundred Thousand Eight Hundred Eighty-One Dollars (\$3,900,881.00) shall be disbursed to and retained by Lender for the payoff of Lender's existing acquisition loan to Owner for the Property under Lender's Loan No. 7600003959. Lender is hereby authorized to make disbursements of Funds to Lender's legal counsel for legal fees pursuant to invoices from time to time received from said law firm for acting as special counsel for Lender in connection with this Loan. Said disbursements for legal fees and expenses shall be disbursed out of the "Legal" category shown in the Budget. Owner agrees that any Loan funds allocated in the Budget for interest reserve or for contingency reserve, together with any Loan funds or Owner's funds not otherwise disbursed, shall be disbursed for interest payments on the Note and/or for any other miscellaneous costs related to the improvement of the Property or the Loan which in Lender's reasonable discretion Lender pays. Should interest on the Loan herein exceed the amount of interest reserve reserved herein, Lender shall bill Owner monthly for said interest or require payment thereof in accordance with Section 3.08, and Owner shall promptly make such payment. Any overages and/or savings resulting from expenditures in the categories described herein or in the Budget shall, at Lender's reasonable discretion, be allocated to interest reserve and other miscellaneous cost category herein. Owner further agrees that the loan fee payable to Lender with respect to this Loan shall be disbursed to Lender upon recordation of the Deed of Trust and shall be non-refundable and fully earned by Lender at such time.

(d) The final disbursement of Funds for construction costs for the Project shall be made by Lender upon satisfaction of all of the conditions set forth herein and upon receipt by Lender of all of the following with respect to the Project:

(i) Proof that a valid Notice of Completion has been filed for all Lots;

(ii) Proof that the time for the filing of mechanic's and/or materialmen's liens has run without there being filed any liens against the Property or obtaining satisfactory releases from all liens which may have been filed unless Owner is contesting the same in accordance with Section 13.03 below;

(iii) Verification by Lender of completion of each Lot in substantial accordance with the Plans and Specifications, by such inspection and investigation as Lender may require;

(iv) The final tract map for the Project has been recorded;

(v) At Lender's discretion, evidence of approval of completion of each Lot by a civil engineer acceptable to Lender.

4.05 Additional Conditions to Disbursements. Notwithstanding anything to the contrary contained in the foregoing, in no event shall Lender be obligated to make any disbursement under this Agreement if (a) an Event of Default has occurred and is continuing (or an event or non-event has occurred or not occurred that with notice or the passage of time or both would become an Event of Default), (b) there are unreleased and unbonded mechanics' liens or stop notices in existence, or (c) such disbursement would cause the outstanding principal balance of the Loan to exceed fifty-nine percent (59%) of the Project's most recent appraised value, as determined by or on behalf of Lender. At any time that the loan to value ratio exceeds the foregoing limit, Owner, within ten (10) days of Lender's written demand, shall remargin the Loan by depositing sufficient cash with Lender so as to bring the Loan into conformity with the above-stated loan to value ratio.

In addition to the foregoing, and notwithstanding anything to the contrary contained in this Agreement, the following additional restrictions shall apply to disbursements of the Funds:

(a) Lender shall not fund any disbursements from the "Land Development" categories of the Budget, until such time as Owner has complied with each and all of the following:

(i) Owner has obtained all final discretionary and administrative approvals required from any governing authorities with respect to the development and construction of the Project then being performed, and all applicable appeal periods with respect to such approvals have expired without an appeal having been filed;

(ii) Owner has delivered to Lender and Lender has approved Owner's development agreement (if any) for the Project; and

(iii) Owner has caused Owner's development agreement (if any) for the Project to be assigned to Lender using Lender's standard form of assignment, and such assignment has been consented to in writing by the developer.

The failure of Owner to have satisfied each and all of the conditions and requirements set forth in clauses (i) through (iii) hereof within sixty (60) days of recordation of the Deed of Trust shall, at Lender's option, constitute an Event of Default under this Agreement.

4.06 **Authorized Signatures.** Any one (1) of the following persons, by their specimen signatures as set forth below, are hereby designated by Owner as persons authorized to sign Requests for Funds in accordance with the terms of this Agreement, and Owner, with the consent of Lender, shall have the sole right to revoke such designation, and substitute any other person (with specimen signature) as the person(s) authorized to sign such requests:


Name: JAMES C. GIANULIAS

Name: _____

4.07 **Trust Funds.** Owner covenants that any disbursements received by it hereunder shall be held as trust funds to be applied first for the purpose of paying for the appropriate Project costs and for no other purpose, but nothing herein shall impose upon Lender any obligation to see to the proper application of such payments by Owner.

4.08 **Non-Liability of Lender.** Lender shall not be liable for any error, omission, irregularity, or action taken in good faith with respect to the disbursement of the Funds. Owner acknowledges that it has no right to the Funds other than to have them disbursed by Lender in accordance with this Agreement. Owner further acknowledges that disbursements hereunder may not be made earlier than five (5) business days following Lender's approval of all conditions to disbursement as set forth in this Agreement.

ARTICLE V

OWNER'S COVENANTS

Owner covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note:

5.01 **Progress of Construction.** Owner shall commence construction of the Project not later than ninety (90) days after recordation of the Deed of Trust, and agrees to continue such construction diligently until completion, and in a workmanlike manner. In any and all events Owner shall complete the Project and record a valid Notice of Completion for the Project on or before fifteen (15) months following recordation of the Deed of Trust, all in accordance with the Plans and Specifications and in accordance with all requirements of all governmental authorities having or asserting jurisdiction, and will pay the cost thereof. The materials used on the Project shall be of the quality called for by the Plans and Specifications.

5.02 **Offsite Improvements.** Owner agrees promptly to commence and complete the offsite improvements of the public streets, walks and like areas adjoining the Property, as required, and to provide utilities and other facilities, all to be in accordance with the subdivision requirements or the requirements of the governmental body having jurisdiction thereof. Unless otherwise provided for, such offsite improvements shall be deemed a part of the work of

improvement of the Project. Owner expressly agrees to indemnify Lender and to hold it harmless against any claim of any surety furnishing bond for such work to the governmental body having jurisdiction, whether such claim be founded upon existing or future liability, and whether such liability is expressed or implied.

5.03 Changes to Plans and Specifications. Owner agrees that no change in the Plans and Specifications shall be made without first obtaining the written consent of Lender; provided however, that any such change may be made upon written notice to Lender, but without Lender's prior written consent, if (a) the amount or effect of such change on the costs of the Project is less than Fifteen Thousand Dollars (\$15,000.00), (b) the amount or effect of all changes (whether made with or without the consent of Lender) in the aggregate is less than Twenty-Five Thousand Dollars (\$25,000.00), (c) the proposed change does not adversely affect the number of Lots, the square footage of any of the Lots, or the overall aesthetic quality of the Project, and (d) Owner has obtained in writing and delivered to Lender copies of all consents required to be obtained from any governmental agencies and authorities, surety companies, and any other entities having jurisdiction over the Project, with respect to such change. Any changes desired by Owner which require Lender's approval shall be submitted to Lender for approval on forms acceptable to Lender, and shall be accompanied by a copy of the plans and specifications and/or working drawings applicable to the changes. As a condition to any such approval, Lender may require satisfactory confirmation that performance of the work required by the changed contract or plans will not increase the total cost of the Project (unless Owner has deposited with Lender funds to cover such increased costs in accordance with Section 3.08), and Lender shall have the right to require Owner to deposit additional funds with Lender to pay for such changes.

Owner acknowledges that the process of obtaining the information and confirmations needed to put Lender in a position to approve any such changes may cause delays, and Owner consents to all reasonable delays and agrees to cooperate diligently with Lender in the gathering of the information required. All contracts let by Owner shall, to the extent reasonably possible, contain provisions implementing the provisions of this paragraph.

5.04 Notice of Casualty. Owner shall give to Lender prompt written notice of any fire, explosion, accident, flood, storm, earthquake or other casualty or strike, lockout, act of God or interruption of the construction of the Project which may interfere with the ability of Owner to complete the Project.

5.05 Use of Materials. All materials contracted or purchased for delivery to the Property or for use in construction, and all labor contracted or hired for or in connection with construction, shall be used and employed solely on the Property and in construction, and for no other purpose. No materials, equipment, fixtures or any other part of the Project or articles of personal property placed on the Property shall be purchased or installed under any conditional sales contract, security agreement or other arrangement wherein the seller reserves or purports to reserve title to or the right to remove or to repossess any such items or to consider them personal property after their incorporation in the work of construction, unless specifically authorized by Lender in writing.

5.06 Construction Schedules. From time to time during the course of construction, but not more frequently than once per quarter (except during the continuance of an Event of

Default), within ten (10) days after request by Lender, Owner shall furnish Lender with current construction progress schedules and contractor's cost breakdowns for the Property itemized as to trade description and item and showing the name of the contractor(s) and/or subcontractor(s), including therein, without limitation, such indirect costs as real estate taxes, legal and accounting fees, insurance, architects' and engineers' fees, loan fees, interest during construction, and contractor's overhead.

5.07 **Watchmen** Owner shall provide such watchmen and take such other measures to protect the physical security of the Property as Lender may determine reasonably necessary.

5.08 **Punctual Payments** Owner shall punctually pay the interest and principal of the Note at the times and place and in the manner specified in the Note, and any fees or liabilities due under this Agreement and under the Note and any of the Security Documents at the times and place and in the manner specified in this Agreement, the Note or the Security Documents, as appropriate and giving effect to any applicable cure periods.

5.09 **Maintenance of Existence; Compliance with Law** Owner shall preserve and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises; conduct its business in an orderly, efficient and regular manner; comply in all material respects with the provisions of all documents pursuant to which Owner is organized and/or which govern Owner's continued existence; and comply with the requirements of all applicable laws, rules, regulations, orders of any governmental authority and requirements for the maintenance of Owner's insurance, licenses, permits, governmental approvals, rights, privileges and franchises.

5.10 **Insurance** Owner shall maintain and keep in force insurance of the types, in the amounts, in the form and with the carriers required under this Agreement and under any and all of the Security Documents, provided, however, that Owner shall not be required to maintain earthquake or terrorism insurance, unless required by law or regulation.

5.11 **Facilities** Owner shall keep all of Owner's properties useful or necessary to Owner's business, including without limitation the Property, in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that Owner's properties, and the Property, shall be fully and efficiently preserved and maintained.

5.12 **Taxes and Other Liabilities** Owner shall pay, at least fifteen (15) days prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. At Lender's option and upon its demand during the continuance of an Event of Default, Owner shall, until all indebtedness secured by the Security Documents has been paid in full, pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall be placed in an account with Lender and under Lender's control (for so long as no Event of Default has occurred and is continuing, such account shall be an interest bearing account at a rate

determined by Lender in no event greater than Lender's money market funds rate), shall not be commingled with the general funds of Lender and shall, unless Owner is otherwise in default hereunder or under the Note or Security Documents, be released to Owner for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Owner is in default thereunder.

5.13 **Litigation**. Owner shall promptly give notice in writing to Lender of any litigation pending or threatened against Owner or, to Owner's knowledge, the Property having a potential or claimed liability in excess of Fifty Thousand Dollars (\$50,000.00).

5.14 **Other Notifications**. Owner shall promptly (but in no event more than five (5) business days after the occurrence of each such event or matter and knowledge thereof by Owner) give notice in writing to Lender of: (a) any termination or cancellation of any insurance policy which Owner is required to maintain; (b) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Owner's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (c) the change in the name or the organizational structure, dissolution or adverse change in financial condition of Owner; (d) the death, disability or legal incapacity of James C. Gianulias.

5.15 **Negative Covenants**. Owner further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Owner to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Owner will not without the prior written consent of Lender:

(a) **Use of Funds**. Use any of the proceeds of the Loan for any purposes other than as stated in Article IV hereof.

(b) **Assessment Districts**. Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.

(c) **Liens**. Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof or as bonded over in accordance with this Agreement.

(d) **Leases**. Enter into any new leases of all or any portion of the Property, or amend, modify or cancel any leases of all or any portion of the Property, without the prior written approval of Lender, which shall not be unreasonably withheld.

ARTICLE VI
INSPECTIONS

6.01 **Construction Work.** Lender, through its officers, agents and employees, shall have the right at any time and from time to time to enter upon the Property during normal business hours and inspect the work of construction and all materials, plans or other matters relating thereto, and to examine the books, subcontractor records, accounting data and other documents (and make extracts therefrom or copies thereof) of Owner and general contractor to the extent that the same may relate to the Property or the Project. Owner shall pay all reasonable costs associated with Lender or Lender's agents' inspection of the Project.

6.02 **Non-Conformance.** If Lender determines that any work or materials are not in conformity with the Plans and Specifications as approved by Lender (subject to any changes thereto as permitted under Section 5.03 above), or are not in conformity with sound building practice, or otherwise depart from any of the requirements of this Agreement, Lender shall have the right to stop the work and order disbursements withheld hereunder and to order the replacement or correction of any such work or materials regardless of whether or not such work or materials have been incorporated in the Project.

6.03 **No Duty.** It is expressly understood and agreed that Lender is not under any duty to supervise or to inspect the work or construction or examine any books and records, and that any such inspection or examination is for the sole purpose of protecting the security of Lender and preserving Lender's rights hereunder. Failure to inspect the work or any part thereof shall not constitute a waiver of any rights of Lender; and inspection not followed by notice of default shall not constitute a waiver of any default then existing. In no event shall any inspection by Lender constitute a representation that there has been or will be compliance with the Plans and Specifications or that the construction is free from defective materials or workmanship.

6.04 **Independent Cost Analyses.** Owner will make or cause to be made such other independent cost analyses and inspections as it may desire for its own protection or as Lender may require, and shall deliver forthwith to Lender true and correct copies of all inspections or cost analyses prepared or made by or for Owner.

ARTICLE VII
EXCULPATORY PROVISIONS

Owner acknowledges, understands and agrees as follows:

7.01 **Status as Lender.** The relationship between Owner and Lender is, and shall at all times remain, solely that of borrower and lender, and Lender neither undertakes nor assumes any responsibility or duty to Owner to select, review, inspect, supervise, pass judgment upon or inform Owner of the quality, adequacy or suitability of the following:

(a) The Plans and Specifications or amendments, alterations and additions thereto;

(b) Architects, contractors, subcontractors, and materialmen employed or utilized in the construction, or workmanship of or the materials used by any of them; or

(c) The progress or course of construction and its conformance or non-conformance with the Plans and Specifications or amendments, alterations and changes thereto.

7.02 Defective Construction. Lender owes no duty of care to protect Owner against negligent, faulty, inadequate or defective building or construction.

7.03 Non-Liability. Lender shall not be responsible or liable to Owner for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Owner or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Owner shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

7.04 No Representation. By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

7.05 Brokers' Fees. Owner agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan if and to the extent such claim arises by or through Owner, it being understood that any such commission, charge or brokerage fees will be paid directly by Owner to the party(ies) entitled thereto.

7.06 Construction. Lender shall in no way be liable for any acts or omissions of Owner, or any agent, contractor, architect, engineer or other person furnishing labor and/or materials used in relation to any construction at the Property.

7.07 Indemnity. Owner agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to the later of (i) completion of any foreclosure proceeding or recordation of a deed in lieu thereof, or (ii) the time Owner is in control or occupancy of the Property (either (i)

or (ii) a "Change in Control", (b) the construction of the Project, including without limitation, any defective workmanship or materials, (c) Lender's performance of any act permitted under the Loan Documents (as that term is defined in the Deed of Trust) unless arising out of Lender's willful misconduct, (d) breach of any representation or warranty made by Owner or any obligation of Owner contained in this Agreement, and (e) any allegation that Lender is liable for any act or omission committed by or on behalf of Owner, prior to a Change in Control, in connection with the ownership, operation or development of the Property and the Project. Upon demand by Lender, Owner shall defend any action or proceeding brought against Lender covered by this indemnity, at Owner's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Owner, in which event all reasonable fees and reasonable costs of such defense shall be paid by Owner upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE VIII

TAXES AND ASSESSMENTS

[INTENTIONALLY OMITTED]

ARTICLE IX

PROTECTION AGAINST LIENS

9.01 Paid Claims. Owner agrees to fully pay and discharge all claims for labor done, material and services furnished in connection with the construction of the Project, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction, to diligently file or procure the filing of a notice of cessation upon the event of a cessation of labor on the work of improvement for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Property or any part thereof and/or claims against undisbursed Loan funds, unless Owner is contesting the same in accordance with Section 13.03 below. Owner irrevocably appoints, designates and authorizes Lender as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any Notice of Completion, cessation of labor, or any other notice that Lender deems necessary or desirable to protect its interests hereunder, or under the Note, or the Security Documents.

9.02 Release of Liens. Upon demand by Lender, Owner shall make such demands or claims upon laborers, materialmen, subcontractors or other persons who have furnished or claimed to have furnished labor, services or materials in connection with construction of the Project as Lender shall specify. Upon recordation of any mechanics' or materialmen's lien against the Property, Owner shall cause the same to be discharged and removed within thirty (30) days after recording thereof. Nothing herein contained shall require Owner to pay any claims for labor, materials, or services which Owner in good faith disputes and which Owner, at its own expense, is currently and diligently contesting; provided that Owner shall, within thirty (30) days after recordation of any mechanics' or materialmen's lien, record in the Office of the Recorder of

the county where the Property is located a surety bond sufficient to release said claim of lien or post such other security or make such other arrangements as Lender may approve in writing.

9.03 **Notices of Lien**. Owner agrees that copies of all preliminary notices of lien, or other notices of lien, delivered pursuant to Division 3, Part 4, Title XV of the California Civil Code (a) to Owner and (b) to the Property, addressed to "California National Bank" or to "Construction Lender" shall be promptly delivered to Lender. Owner further agrees that Lender and Lender's agents shall have the right at all times to enter upon the Property and post such notices and other written or printed material thereon as it may deem necessary or desirable for its protection as lender.

9.04 **Payment of Costs**. Owner shall pay all costs and expenses required to satisfy the provisions of this Agreement. Without limiting the generality of the foregoing, Owner shall pay:

(a) All fees and commissions lawfully due to any brokers claiming by or through Owner, and all fees and expenses of counsel for Lender in connection with this transaction or the making, purchase or refinancing of the Loan;

(b) All taxes and recording expenses;

(c) All reasonable costs and expenses of Lender incurred in the exercise of any rights or remedies of Lender under this Agreement; and

(d) All reasonable costs, charges, and expenses agreed to be paid by Owner and incurred in connection with the closing or disbursement of the Loan or the implementation of this Agreement, or payable pursuant to this Agreement or any of the Security Documents.

ARTICLE X

REMOVAL OF PERSONALTY; PAYMENT OF SALES DEPOSITS

10.01 **Removal of Personalty**. Owner agrees not to install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Owner will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Owner, free and clear of any lien or security interest.

10.02 **Payment of Sales Deposits**. Owner understands, acknowledges and agrees that, in connection with any proposed sale of all or any portion of the Property or any Lot, Lender requires, as a part of Lender's standard procedures and practices, that any funds which get released to Owner prior to the closing of such sale either directly from the buyer, from the escrow, or otherwise, be paid over to Lender. Provided Owner is not in default under the Loan, all such released funds so paid over to Lender shall be held by Lender and credited to any release

price which Lender may require in connection with a release of the lien of the Deed of Trust from that portion of the Property which is the subject of such sale. No payment by Owner or receipt by Lender of any such funds described herein shall be deemed to constitute an agreement by Lender to release the lien of its Deed of Trust against all or any portion of the Property or any Lot (except only and to the extent expressly otherwise provided in this Agreement), or constitute any representation as to a release price which Lender may accept with respect to the release of the lien of its Deed of Trust, or otherwise bind Lender with respect to the lien of its Deed of Trust or its use of such funds.

ARTICLE XI

BOOKS AND RECORDS

11.01 Books of Account. Owner shall maintain or cause to be maintained full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with tax based accounting (fairly presenting Owner's financial position), or generally accepted accounting principles, consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time, the books and records referenced in this Section 11.01 or so much thereof as Lender may request.

11.02 Working Drawings. Owner shall maintain at all times a full and current set of working drawings on the site of the Project and available for inspection by Lender or its representatives.

11.03 Financial Information. Owner understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers, guarantors, and such other parties as Lender relies upon in its underwritings of its loans. Accordingly, Owner hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

(a) Within ninety (90) days following the end of each calendar semi-annual period for Cameo Homes, G Companies Homebuilding, LLC, James C. Gianulias (consolidated), internally prepared, unaudited financial statements (including without limitation personal financial statements, asset and liability statements, income and expense statements, cash flow statements and such other financial information as was previously provided to Lender or as Lender may reasonably request), all of which data to be certified as true and accurate and as having been prepared in accordance with generally accepted accounting or tax based accounting principles consistently applied; and

(b) Within thirty (30) days of filing, a copy of the most current federal tax return for Owner and for each party referenced in (a), above. With respect to Owner, in lieu of providing Lender its tax return, it may furnish its audited financial statement, if any.

Owner agrees that the requirements of this Section 11.03 shall remain in full force and effect so long as there remain any outstanding obligations under this Agreement, the Note, or the Security Documents. Owner further agrees that the failure of Owner to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall constitute a default under this Agreement.

11.04 Property Information. Owner shall submit to Lender semi-annual financial and operating statements of the Project commencing from and after commencement of construction of the Project, setting out in reasonable detail income and expenditures from the ownership, operation, construction, marketing and sale of the Project, depreciation charges, and net income before and after federal income taxes, all to be received by Lender within ninety (90) days from the end of each semi-annual period. Such statements are to be certified as true and accurate by Owner, Owner's accountant or Owner's chief financial officer, and as having been prepared in accordance with generally accepted accounting principles or tax based accounting, consistently applied.

11.05 Appraisals. Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have declined in a material respect since the date of Lender's last appraisal of the Property, Owner shall obtain, as promptly as possible and at Owner's expense, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its reasonable discretion.

11.06 Lender Audit Rights. Lender and its agents and representatives shall have the right to inspect and audit all books and records of Owner, during normal business hours, pertaining to the statements, reports and information required under this Article XI in order to obtain and verify such information as Lender deems necessary or appropriate. The cost of any and all such inspections and audits shall be paid by Owner. Lender shall also have the right to examine, copy and audit the books, records and accounting data and other documents of Owner's contractors, subcontractors and materialmen with respect to the Project. Provided no Event of Default has occurred and is continuing under this Agreement, Lender shall give Owner reasonable notice prior to exercising its rights hereunder, and the costs thereof shall be borne by Lender, unless the results thereof shall reveal a material adverse discrepancy from the information reported to Lender.

11.07 Further Assurances. Owner, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further instruments (including, without limitation, a declaration of no set-off) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE XII

DEFAULT

12.01 Events of Default. The occurrence of any of the following shall be deemed an "Event of Default" under this Agreement:

- (a) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents within ten (10) days of demand therefor by Lender, or
- (b) If Owner does not proceed with the development, construction and completion of the Project as herein provided, subject to the provisions of subsection (e) hereof, or
- (c) If any of the warranties or representations made by Owner herein or in the Note, Security Documents or other documents executed by Owner in connection with the Loan are false or misleading in any material respect when made, or
- (d) If Owner should default in the performance of or breach any of the terms, covenants and provisions contained in this Agreement or in the Note or Security Documents and which is not cured within the cure period provided in the last paragraph of this Section 12.01, or
- (e) Should work cease on the Project, specifically including stoppage by Lender under the terms of this Agreement, or for any reason whatsoever, for fifteen (15) calendar days, provided however, that if work should cease due a condition involving an act of God or force majeure, then Owner shall not be deemed in default under this subparagraph for the period that such condition shall continue, provided further however, (i) in all events work shall recommence within sixty (60) days, (ii) in no event shall any such cessation of work extend the date of payment of any monetary obligation under this Agreement, the Note or any of the Security Documents, and (iii) the deadline for completion in Section 5.01 hereof shall not be extended beyond the period provided therein; or
- (f) If Owner should commit any act of bankruptcy or if any relief under the Bankruptcy Act is sought by or against Owner, or if a receiver is appointed to take charge of the assets or affairs of Owner, or if Owner should make an assignment for the benefit of creditors, or if Owner should become insolvent, or upon any liquidation or termination of Owner or its member or manager, or
- (g) Except as specifically allowed in this Agreement, if Owner shall convey title to or any interest in any of the Property, or
- (h) Should any condition or circumstance arise or exist at any time by reason of governmental order, decree, regulation, shortage of materials, or for any other reason whatsoever (other than for force majeure, which shall be governed by the grace periods in subsection (e) hereof), which would prevent or preclude the construction and completion of the Project in compliance with the Plans and Specifications in an orderly and expeditious manner, or

(i) If Lender should determine that said work is not in conformance with the Plans and Specifications and the terms of this Agreement (in which event Lender shall have the right to stop said work and order its replacement whether or not said unsatisfactory work has theretofore been incorporated in said improvements and to withhold any further disbursements until such work is reasonably satisfactory to it) and if the said work is not made reasonably satisfactory to Lender within thirty (30) calendar days from the date of stoppage by Lender, unless said work cannot reasonably be completed within such thirty (30) day period and Owner has been, in the sole discretion of Lender, diligently proceeding with such work, in which event an additional period of time not exceeding ninety (90) days shall be granted, or

(j) The filing of a notice of judgment lien against Owner, or the recording of any abstract of judgment against Owner, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Owner, or the entry of a judgment, order or decree against Owner, any or all of which would have a material and adverse effect upon Owner's ability to perform under this Agreement or the Security Documents, and Owner's failure to cause removal of same within a reasonable period of time, but in no event more than sixty (60) days after such filing, recordation or entry, or

(k) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation of the Deed of Trust, or

(l) Owner shall default, beyond any applicable cure period without cure, under any permits, development documents, construction contracts, bond agreements, surety agreements, or any other instrument executed in connection with the development of the Project, or

(m) If Owner shall have failed to have the final tract map subdividing the Property into ninety-eight (98) residential lots as contemplated in the Plans and Specifications and approved by Lender, to have been recorded in the Official Records of Riverside County, California within thirty (30) days after the recordation of the Deed of Trust, or

(n) If any party comprising the "Guarantor" under the Continuing Guaranty Agreement described in Section 1.02 hereof defaults thereunder, or any representation or warranty given thereunder is false or misleading in any material respect when made, or if any party comprising Guarantor commences any of the acts described in subsections (f) or (j) hereof, or

(o) If the Owner defaults, beyond any applicable cure period, under the Subordinate Deed of Trust, or any representation or warranty given thereunder is or becomes false or misleading in any material respect.

Unless a time frame is otherwise specified above, and in connection with any default of a non-monetary covenant or agreement, so long as such failure or non-compliance is susceptible to cure, Owner shall be entitled to thirty (30) days written notice from Lender of same before such failure or non-compliance shall constitute an Event of Default. Provided further, if such non-monetary failure or non-compliance is of a nature requiring more than thirty (30) days to cure,

there shall be no Event of Default so long as Owner or the party obligated commences such cure within thirty (30) days of such notice and thereafter diligently pursues such cure, provided, however, that in no event shall the time for completion of the Project be extended beyond the date set forth in Section 5.01 above, nor shall the "Maturity Date" of the Note be extended beyond the date set forth therein during the period otherwise applicable for said cure.

ARTICLE XIII

REMEDIES

13.01 **Remedies Upon Default.** Upon or at any time after the happening of any Event of Default hereunder and during the continuance thereof, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, or under the Deed of Trust or other Security Documents, shall have the following rights and remedies:

(a) Declare such of the Funds which have previously been disbursed by Lender under the provisions hereof to be due and payable and terminate any obligation of Lender to disburse the remainder of the Loan proceeds under the provisions hereof and proceed as authorized by law to satisfy the indebtedness of Owner to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Owner of the obligations evidenced by said Note and by this Agreement.

(b) Take possession of the Property and let contracts for or proceed with the finishing of the Project and pay the cost thereof, plus a reasonable fee for supervision of construction, disbursing all or any part of the Loan for such purposes, and should the cost of finishing the Project plus such fee amount to more than the undisbursed balance of the Loan then such additional costs may be expended at its option by Lender, in which event it shall be considered and be an additional loan to Owner and the repayment thereof, together with interest thereon at the rate provided in the above Loan, shall be secured by the Security Documents and shall be repaid within thirty (30) days after the completion of the Project, and Owner agrees to pay the same. Owner further hereby authorizes Lender at its option at any time, either in its own name or in the name of Owner, to do any and all things necessary or expedient in the opinion of Lender to secure the performance of the construction contracts and to secure the erection and completion of the Project substantially in accordance with the Plans and Specifications, and to accept the Project as completed or substantially completed, and to do any and every act or thing pertaining to or arising out of the construction or completion of the Project or any contract therefor, disbursing all or any part of the Loan funds for such purposes, including the payment of attorneys' fees and other expenses incurred to appear in any action pertaining to the Project including any action relating to compliance with any law. In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any existing law or laws.

(c) Upon acceleration of the due date of the Note, Lender's obligations to disburse Loan funds and any Impounds shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the

Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the beneficiary or trustee under the Deed of Trust.

(d) Upon the happening of any default contemplated herein which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from undisbursed Loan funds or from its own funds. The making by Lender of such payment out of Lender's own funds shall not, however, be deemed to cure such default by Owner, and the same shall not be so cured unless and until Owner shall have reimbursed Lender for such payment. If the payment of any such sum is made from undisbursed Loan funds and results, or may, in Lender's good faith determination, result in a shortage of Loan funds below that required to complete the Project, the amount which Lender determines to be necessary to provide for such completion shall be deposited by Owner pursuant to the terms of Section 3.08 hereof. If Lender advanced its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Owner shall immediately upon demand reimburse Lender with interest at the default rate provided for in the Note from the date of such advance until the date of reimbursement.

13.02 Remedies Cumulative. All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

13.03 Contest of Third Party Claims. Notwithstanding anything to the contrary herein contained, Owner shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Owner shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Owner or the adverse claimant.

13.04 No Waivers. No waiver by Lender of any default or breach by Owner hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XIV

[INTENTIONALLY OMITTED]

ARTICLE XV

SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XVI

ASSIGNMENT

16.01 Owner's Assignment. Owner shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon without the prior written consent of Lender. Notwithstanding the foregoing, in the event of any such assignment, conveyance or encumbrance, Lender may nevertheless at its option continue to make disbursements under this Agreement to Owner or to those who succeed to Owner's title; and all sums shall be deemed to be disbursements under this Agreement, and not to be modifications hereof, and shall be secured by the Security Documents.

16.02 Lender's Assignment. Lender may at any time assign this Agreement, the Note, Security Documents, and the Impounds, and upon such assignment, Lender shall have no further obligation or liability of any nature in connection herewith. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, the Security Documents and the Impounds.

16.03 Participation. Owner understands that Lender may transfer and assign its interest in the Loan, this Agreement and the Security Documents, pledge its interest in the Loan, this Agreement and the Security Documents or grant or sell participations in some or all of Owner's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan. Owner shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XVII

ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS LLC IN ORANGE COUNTY, CALIFORNIA PURSUANT TO THE JAMS LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT

(1) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR

(2) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

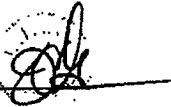
(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT OWNER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST OWNER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT

INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, OWNER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Owner's Initials


Lender's Initials

ARTICLE XVIII

MISCELLANEOUS

18.01 Amendment. This Agreement, the Security Documents and the Note, and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.

18.02 Additional Fees. In the event, and if for any reason, the Loan is not paid in full on or before the Maturity Date of the Note, and Lender elects not to immediately proceed with foreclosure proceedings, whether by formal or informal agreement, Owner shall pay to Lender a fee which is to be established at the Maturity Date, for each consecutive thirty (30) day period or any portion thereof after the Maturity Date, in addition to the interest provided, which fee shall not be less than the proportionate amount of the fee for the initial period of the Loan.

18.03 Return of Documents. If the Loan is not consummated within thirty (30) days after the date hereof, Owner shall return all documents and instruments to Lender upon demand.

18.04 Regulatory Restrictions. It is understood and agreed by Owner that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including but not limited to legal lending requirements.

18.05 Notices. All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

If to Owner: 100 SAN JACINTO, LLC
c/o G Companies Homebuilding
1105 Quail Street
Newport Beach, CA 92660
Attn: Mr. James C. Gianulias

If to Lender: CALIFORNIA NATIONAL BANK
1301 Dove Street, Suite 101
Newport Beach, California 92660
Attn: Real Estate Group

or such other address as shall, from time to time, be supplied in writing by any party to the others. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. postal service or private courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

18.06 Time of Essence. Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.

18.07 No Third Parties Benefited. This Agreement is made for the sole benefit and protection of Owner and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.

18.08 Actions. Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Owner agrees to pay the same.

18.09 Reliance on Representations. Lender may conclusively assume that the statements, acts, information and representations made by Owner or its agents contained in any affidavits, orders, receipts or other written instruments which are filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.

18.10 **Relationship.** Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.

18.11 **Headings.** The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

18.12 **Governing Law.** This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.

18.13 **Attorneys' Fees and Costs.** If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.

18.14 **Signs.** Lender shall have the right to erect at least one (1) sign on the Property referring to this financing at a visibly prominent location on the Property, which sign(s) shall be of Lender's design, and Lender shall have the right, at any time, to announce or advertise its financing in newspapers and trade journals of Lender's choosing.

18.15 **Nondiscrimination.** During the term of this Agreement, neither Owner, its respective members, officers, managers, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or lessee or prospective purchaser or lessee of all or any portion of the Property, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900 et seq. of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0 et seq.), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.


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

LENDER:

CALIFORNIA NATIONAL BANK,
a national banking association

By:

Its:


Vice President

[SIGNATURES CONTINUED]

OWNER:

100 SAN JACINTO, LLC, a California limited liability company

By: G Companies Homebuilding, LLC,
a California limited liability company,
its Manager

By: Cameo Homes, a California
corporation, its Manager

By: 
James C. Gianulias,
President

DESCRIPTION OF PROPERTY

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

PARCEL A:

THE NORTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LANDS OF THE SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGE 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

EXCEPTING THAT PORTION IN LYON STREET.

PARCEL B:

THE SOUTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LANDS OF SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8, PAGE(S) 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

EXCEPTING THEREFROM THAT PORTION IN LYON STREET;

ALSO EXCEPTING THEREFROM THAT PORTION DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTER LINE OF COTTONWOOD AVENUE WITH THE CENTER LINE OF LYON AVENUE BEING THE SOUTHWEST CORNER OF SAID LOT 142; THENCE NORTH 566.41 FEET OF SAID CENTER LINE OF LYON AVENUE TO THE SOUTHWEST CORNER OF SAID NORTH 20.00 ACRES;
THENCE SOUTH 89 DEGREES 58' 42" EAST, 579.69 FEET ON THE SOUTH LINE OF SAID NORTH 20.00 ACRES TO THE TRUE POINT OF BEGINNING;
THENCE CONTINUING SOUTH 89 DEGREES 58' 42" EAST, 579.69 FEET ON SAID SOUTH LINE OF THE EAST LINE OF SAID WEST 35.00 ACRES;
THENCE NORTH 377.60 FEET ON SAID WEST LINE TO THE NORTHEAST CORNER OF SAID SOUTH HALF;
THENCE WEST 579.69 FEET ON THE NORTH LINE OF SAID SOUTH HALF;
THENCE SOUTH 377.60 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL C:

THAT PORTION OF THE SOUTH HALF OF THE NORTH 20 ACRES OF THE WEST 35 ACRES OF THE SOUTHWEST QUARTER OF FARM LOT 142 OF THE LAND OF THE SAN JACINTO LAND ASSOCIATION, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGE 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, DESCRIBED AS

FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE CENTERLINE OF COTTONWOOD AVENUE WITH THE CENTERLINE OF LYON AVENUE, BEING THE SOUTHWEST CORNER OF SAID LOT 142; THENCE NORTH 566.41 FEET ON SAID CENTERLINE OF LYON AVENUE TO THE SOUTHWEST CORNER OF SAID NORTH 20 ACRES; THENCE SOUTH 89° 58' 42" EAST 579.69 FEET ON THE SOUTH LINE OF SAID NORTH 20 ACRES TO THE TRUE POINT OF BEGINNING; THENCE CONTINUING SOUTH 89° 58' 42" EAST 579.69 FEET ON SAID SOUTH LINE TO THE EAST LINE OF SAID WEST 35 ACRES; THENCE NORTH 377.60 FEET ON SAID WEST LINE TO THE NORTHEAST CORNER OF SAID SOUTH HALF; THENCE WEST 579.69 FEET ON THE NORTH LINE OF SAID SOUTH HALF; THENCE SOUTH 377.60 FEET TO THE TRUE POINT OF BEGINNING.

PARCEL D:

THAT PORTION OF THE SOUTH HALF OF FARM LOT 142 OF THE LANDS OF THE SAN JACINTO LAND ASSOCIATION, AS SHOWN BY MAP ON FILE IN BOOK 8 PAGES 357 OF MAPS, RECORDS OF SAN DIEGO COUNTY, CALIFORNIA;

COMMENCING AT THE SOUTHEAST CORNER OF SAID FARM LOT; THENCE WEST, ON THE SOUTH LINE OF SAID LOT, 52 RODS; THENCE NORTH, AT RIGHT ANGLES TO SAID SOUTH LINE, 50 10/19 RODS, TO THE TRUE POINT OF BEGINNING; THENCE WEST, AT RIGHT ANGLES TO SAID LAST LINE, 38 RODS; THENCE NORTH, AT RIGHT ANGLES TO THE LAST LINE 29 9/19 RODS, MORE OR LESS, TO THE NORTH LINE OF SAID SOUTH HALF OF SAID FARM LOT 142; THENCE EAST, ON THE SAID NORTH OF SAID SOUTH HALF OF SAID FARM LOT, 38 RODS; THENCE SOUTH, AT RIGHT ANGLE TO THE LAST LINE, 29 9/19, TO THE TRUE POINT OF BEGINNING.



DESCRIPTION OF PLANS AND SPECIFICATIONS

Those certain Plans and Specifications for the Project prepared by GW ENGINEERING as Job No. C08005.



INSURANCE REQUIREMENTS

A. Workers' Compensation:

Coverage A. Statutory policy form.

Coverage B. Employers Liability \$100,000

B. Owner's Broad Form Comprehensive General Liability or Commercial General Liability:

The limits of liability shall not be less than:

1. Broad Form Comprehensive General Liability:

\$2,000,000 Combined Single Limit

\$1,000,000 Bodily/Property Damage per Occurrence

Or,

2. Commercial General Liability:

The limits of liability shall not be less than:

Each Occurrence Limit \$1,000,000

Personal Advertising Injury Limit \$1,000,000

Products Completed Operations Aggregate Limit \$1,000,000

General Aggregate Limit \$2,000,000
(Other than Products-Completed Operations)

Both policy forms must include:

- a. Premises and operations with no X, C, or U exclusions.
- b. Products and completed operations coverage. (This coverage to be maintained for a minimum of ten (10) years following completion of work and to continue to name Owner as named insured and Lender as additional insured, for the entire ten (10) year period).
- c. Blanket contractual coverage with Employee Exclusion deleted.
- d. Broad Form Property Damage including completed operations or its equivalent.

- e. An endorsement naming Lender and any other required interests as additional insured(s).
 - f. An endorsement stating: "Such coverage as is afforded by this policy for the benefit of the additional insured(s) is primary and any other coverage maintained by such additional insured(s) shall be non-contributing with the coverage provided under this policy."
 - g. Cross Liability and Severability of Interest Clause.
 - h. Limited Independent Contractors language should be included.
 - i. Subsidence coverage, if available, at commercially reasonable rates.
- C. General Contractor's Broad Form Comprehensive General Liability or Commercial General Liability:
- 1. All requirements are the same as in Owner's general liability insurance as set forth hereinabove.
 - 2. In addition, general contractor's general liability coverage must also include:
 - a. Manufacturers and contractors protective coverage.
 - b. Automobile liability coverage including owned, hired and non-owned vehicles.
- D. All Risk/Special Form Property Insurance – Full Replacement Cost (Real and Personal Property), Course of Construction, Secured Collapse, if available at commercially reasonable rates, Business Interruption and Loss of Profits. Such insurance shall also contain an agreed value clause or other provision sufficient to eliminate any risk of co-insurance.
- E. Other Requirements:
- 1. Lender must be named as an additional insured on all liability policies and as the mortgagee and certificate holder (with lender's loss payable endorsement) on all property insurance coverage. Property insurance coverage must include standard 438 BFU language and cover all property described in the Security Documents. The endorsement must contain the following wording: "With respect to a loss payee designated in this policy, this insurance will continue in force throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew, or (c) issuance of a Notice of Reduction of Coverage."
 - 2. All policies must provide that the named insured correspond with the named borrower on the loan documents; that Lender's Loan Number be shown on all policies, certificates and correspondence; and that the complete property address

be shown on the declaration page of the policy or certificate evidencing such insurance.

3. The deductible under any policies required hereunder shall be no more than \$5,000.00.
4. An authorization signed by the Owner must accompany all mid-term and anniversary date changes in the agent or broker of record shown in Lender's files.
5. All policies must contain an endorsement affording an unqualified thirty (30) days' notice of cancellation to the additional insured(s) in the event of cancellation, non-renewal or material reduction in coverage.
6. All policies must be written by insurance companies acceptable to Lender whose rating in the most recent Best's rating guide is not less than A:IX. All policies shall be written for not less than a one (1) year term (or annual continuous) with one (1) year's premiums prepaid.
7. Certificates of insurance, with the endorsements evidencing the required coverage, and copies of the policies, must be delivered to Lender prior to funding and each year thereafter until the indebtedness evidenced by the Note and Security Documents is paid in full.
8. No earthquake insurance shall be required unless required by law or regulation.



BUDGET

SOURCES AND USES OF FUNDS							23-Jan-07
BORROWER: 100 San Jacinto, LLC							CONTRACTOR:
NUMBER OF LOTS: 98							
TOTAL LOT SF: 720,000							
ITEM COST	TOTAL COST	PER UNIT	PER SQ. FT.	COST TO BE PAID	COST PAID	LOAN BUDGET	
LAND ACQUISITION							
1 Land Cost	\$3,858,319	\$39,371	\$5.36	\$0	\$3,070,722	\$787,597	
2 Entitlement Costs To Date	\$2,738,749	\$27,946	\$3.80	\$0	\$0	\$2,738,749	
4 Finance Costs To Date	\$769,028	\$7,847	\$1.07	\$0	\$394,493	\$374,535	
Total Land & Entitlement	\$7,366,096	\$75,164.24	\$10.23	\$0	\$3,465,215	\$3,900,881	
LAND DEVELOPMENT							
5 Land Development	\$3,641,495	\$37,158	\$5.06	\$0	\$0	\$3,641,495	
Total Land Development	\$3,641,495	\$37,158	\$5.06	\$0	\$0	\$3,641,495	
INDIRECT COSTS							
6 Permits & Fees (Final Map)	\$229,753	\$2,344	\$0.32	\$0	\$0	\$229,753	
7 Indirect Costs	\$15,792	\$161	\$0.02	\$0	\$0	\$15,792	
8 G&A	\$20,477	\$209	\$0.03	\$0	\$0	\$20,477	
9 Taxes, Insurance & Legal	\$157,070	\$1,603	\$0.22	\$0	\$0	\$157,070	
10 Contingency 0%	\$0	\$0	\$0.00	\$0	\$0	\$0	
Total Finished Lot Cost	\$11,430,683	\$116,640	\$15.88	\$0	\$3,465,215	\$7,965,468	
LOAN COSTS							
11 Interest Reserve	\$649,232	\$6,625	\$0.90	\$0	\$0	\$649,232	
12 Loan Fee 1.00%	\$87,300	\$891	\$0.12	\$0	\$0	\$87,300	
13 Appraisal & Environmental	\$3,000	\$31	\$0.00	\$0	\$0	\$3,000	
14 Inspection(CNB)	\$5,000	\$51	\$0.01	\$0	\$0	\$5,000	
15 Legal	\$10,000	\$102	\$0.01	\$0	\$0	\$10,000	
16 Title/Closing/Misc	\$10,000	\$102	\$0.01	\$0	\$0	\$10,000	
Total Loan Cost	\$764,532	\$7,801	\$1.06	\$0	\$0	\$764,532	
CUMULATIVE TOTALS	\$12,195,215	\$124,441	\$16.94	\$0	\$3,465,215	\$8,730,000	
LOAN TO COST RATIO:				0%	28%	72%	

Exhibit 7

MS, LLC

Claim \$2,788,371.12

RIDER TO PROOF OF CLAIM OF CALIFORNIA NATIONAL BANK

I. Basis for Claim.

The Claim of California National Bank ("Cal National"), against James Chris Gianulias (the "Debtor") arises from obligations due and owing under that certain Guaranty Agreement dated June 24, 2005 (as amended, modified, and/or supplemented, the "Cal National Guaranty"), guarantying that certain Term Loan Agreement dated June 24, 2005 (as amended, modified, and/or supplemented, the "Loan Agreement") by which Cal National lent MS, LLC (the "Borrower") the stated principal amount of \$2,000,000. On August 11, 2005 Cal National and the Debtor entered into a Modification Agreement and Notice of Additional Advance, increasing the stated principal amount from \$2,000,000 to \$2,520,000. Pursuant to the terms of the Cal National Guaranty, the Debtor unconditionally guaranteed all of the obligations of the Borrower under the loan.

On January 28, 2008, Cal National, as plaintiff, filed that certain Complaint for (i) Judicial Foreclosure; (ii) Specific Performance for Appointment of a Receiver; and (iii) Breach of Written Guaranty in the Superior Court of the State of California for the County of Riverside, Case No. RIC 491662, against the Debtor as defendant concerning, the Cal National Guaranty.

II. Amount of Indebtedness Existing at Petition Date.

As of June 6, 2008 (the "Petition Date"), at least \$2,788,371.12 was due and owing by the Debtor, as Guarantor, to Cal National for loans made under the Loan Agreement to the Borrower, inclusive of accrued and unpaid interest and fees and expenses incurred in connection therewith, as provided for under the Loan Agreement. This total amount consists of the amounts set forth on the itemized statement attached hereto as Exhibit A.

III. Supporting Documents.

The documents evidencing Cal National's claim are attached hereto as Exhibit B.

IV. Amendments.

Cal National reserves its right to amend and supplement this Proof of Claim or to file additional Proofs of Claim for additional claims, including, without limitation, claims for interest accruing after the Petition Date, administrative expenses, and/or other claims entitled to priority and any and all other claims at law or in equity.

EXHIBIT A

As of the Petition Date

Principal Outstanding	at least \$2,520,000
Accrued Interest	at least \$268,371.12
Total Amount of Claim	at least <u>\$2,788,371.12</u>

EXHIBIT B

1. Guaranty Agreement dated June 24, 2005 by and among James C. Gianulias, as Guarantor for the benefit of California National Bank.
2. Term Loan Agreement dated June 24, 2005.

Exhibit B -1

Loan No. 7600003859

The undersigned, JAMES C. GIANULIAS (herein called "Guarantor"), at the solicitation of M.S. LLC, a California limited liability company (herein called "Borrower"), request(s) CALIFORNIA NATIONAL BANK (herein called "Lender") to extend Credit to Borrower. In order to induce Lender to extend Credit to Borrower, and in consideration of Credit heretofore, now or hereafter granted to Borrower by Lender, Guarantor agrees as follows:

1. The term "Credit" is used throughout this Continuing Guaranty ("Guaranty") in its most comprehensive sense and means and includes, without limitation, any and all loans, advances, debts, obligations and liabilities of any kind or nature owed by Borrower to Lender, heretofore, now, or hereafter made, incurred or created, arising from that certain Promissory Note dated June 6, 2005, in the original principal amount of TWO MILLION AND NO/100THS DOLLARS (\$2,000,000.00), between Borrower and Lender ("Note") and the documents and instruments executed by Borrower further evidencing or securing the obligations evidenced by the Note, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, secured or unsecured, whether on original, renewed, extended or revised terms (including, without limitation, those evidenced by new or additional instruments or agreements or those changing the applicable rate of interest or which release any obligor with respect thereto), whether principal, interest, fees, or expenses, whether Borrower may be liable individually or jointly with others, whether recovery upon such indebtedness may be or hereafter becomes barred by any statute of limitations, and whether such indebtedness may be or hereafter becomes invalid or otherwise unenforceable. In the event a petition under the United States Bankruptcy Code is filed by or against Borrower, the term "Borrower" shall also mean and include Borrower in its status as a debtor, debtor-in-possession and/or reorganized debtor under the United States Bankruptcy Code.
2. (a) If there is more than a single entity or person included in the terms "Guarantor" or "Borrower," respectively, each reference herein to such terms shall mean any and all, and one or more of such entities and persons both jointly and severally; and (b) if more than one person or entity executes this Guaranty, the obligations and liabilities hereunder of Guarantors are and shall be both joint and several. If Borrower is a corporation, partnership, limited liability company or association, each reference herein to the term "Borrower" shall include any successor entity to Borrower. If there is more than one guaranty of the obligations of Borrower, the liabilities of all Guarantors are joint and several. As used in this Guaranty, neuter terms include the masculine and feminine, and vice versa.
3. Unless specified herein to the contrary, Guarantor's liability hereunder shall be unlimited. In addition to any maximum liability hereunder, Guarantor agrees to bear and be liable to Lender for the interest and expenses enumerated in paragraph 21 hereof. Notwithstanding the foregoing, Lender, at its discretion, may allow Credit to exceed Guarantor's maximum liability hereunder. Any payment by Guarantor shall not reduce the maximum obligation of Guarantor hereunder unless written notice to that effect is actually received by Lender at or prior to the time of such payment. Any payment received by Lender from Borrower, from any other person or from proceeds of collateral granted by Borrower or any other person shall not reduce Guarantor's maximum liability hereunder.
4. Subject to any maximum dollar limitation on Guarantor's liability as may be specified in this Guaranty, Guarantor unconditionally guarantees and agrees to pay to Lender, on demand, in lawful money of the United States of America, an amount equal to the amount of the Credit, and to otherwise perform any obligations of Borrower undertaken pursuant to any Credit. This Guaranty is a guaranty of payment and not of collection. No payment received by Lender from Borrower or any other person or from proceeds of collateral granted by Borrower or any other person shall reduce Guarantor's maximum liability hereunder.

EXHIBIT (5)

5. Either before or after revocation hereof, Guarantor authorizes Lender at its sole discretion, with or without notice, and without affecting Guarantor's continuing liability hereunder, from time to time to (a) change the time or manner of payment of any Credit by modification, renewal, extension, acceleration or otherwise, (b) amend or change any other provision of any Credit including the rate of interest thereon, (c) accept partial payment on any Credit, (d) accept new or additional instruments, agreements or documents relative to any Credit, (e) release, substitute or add one or more endorsers, cosigners or guarantors for any Credit, (f) enter into forbearances with Borrower even though the result of such forbearance is to increase the amount of accrued and unpaid interest, cost, fees and/or expenses attributable to the Credit, (g) amend or modify the terms of any guaranty executed by a co-guarantor, including the maximum liability thereunder, (h) obtain collateral for the payment of any Credit and/or any guaranty thereof, (i) waive, release, exchange, substitute, or modify, in whole or in part, existing, after-acquired or later acquired collateral securing payment of the Credit or any guaranty therefor on such terms as Lender at its sole discretion shall determine, (j) subordinate payment of all or any part of the Credit to other creditors of Borrower or other persons on such terms as Lender deems appropriate, (k) apply any sums received from Borrower, any other guarantor, endorser or cosigner or from the sale or collection of collateral or its proceeds to any indebtedness whatsoever in any order and regardless of whether or not such indebtedness is guaranteed hereby, is secured by collateral, or is due and payable, (l) without limiting the foregoing, apply any sums received from Guarantor or from the sale of collateral granted by Guarantor to any, all, or any portion of the Credit in any order regardless of whether or not the Credit is secured by collateral or is due and payable, and (m) exercise any right or remedy it may have with respect to any Credit or any collateral securing any Credit, this Guaranty or any other guaranty, including, without limitation, bidding and purchasing at any sale of any such collateral, and compromising, collecting or otherwise liquidating any collateral or any Credit.
6. Guarantor acknowledges that Guarantor may have certain rights under applicable law that, if not waived by Guarantor, might provide Guarantor with defenses against Guarantors' liability under this Guaranty. Among those rights, are certain rights of subrogation, reimbursement, indemnification and contribution, and rights provided in sections 2787 to 2855, inclusive, of the California Civil Code. Guarantor waives all of Guarantor's rights of subrogation, reimbursement, indemnification, and contribution, and any other rights and defenses that are or may become available to Guarantor by reason of any or all of California Civil Code sections 2787 to 2855, inclusive, including, without limitation, Guarantor's rights:
- 6.1 To require Lender to notify Guarantor of any default by Borrower, provide Guarantor with notice of any sale or other disposition of security for any Credit, disclose information with respect to the Credit, Borrower, or any other guarantor, co-signer or endorser, or with respect to any collateral;
 - 6.2 That Guarantor's obligation under this Guaranty must be commensurate with that of Borrower;
 - 6.3 To be discharged based upon the absence of any liability of Borrower, at any time, by virtue of operation of law, or otherwise, or due to any other disability or defense of Borrower or any other guarantor, endorser or co-signer;
 - 6.4 To be discharged if any of the terms, conditions or provisions of the Credit are altered in any respect;
 - 6.5 To be discharged upon acceptance by Lender of anything in partial satisfaction of the Credit, and/or if Lender designates the portion of the Credit to be satisfied;
 - 6.6 To be discharged upon any modification of the Credit or the release by Lender of Borrower or any other guarantor, endorser or co-signer;

- 6.7 To require Lender to proceed against Borrower, or any other guarantor, endorser, co-signer, or other person, or to pursue or refrain from pursuing any other remedy in Lender's power;
 - 6.8 To receive the benefit of or participate in any and all security for repayment and/or performance of the Credit;
 - 6.9 To have any security for the Credit first applied to satisfy or discharge the Credit;
 - 6.10 That any arbitration award rendered against Borrower not constitute an award against Guarantor;
 - 6.11 To be discharged based upon any failure by Lender to perfect or continue perfection of any lien, use due diligence to collect all or any part of any Credit, or if recovery against Borrower becomes barred by any statute of limitations, or if Borrower is not liable for any deficiency after Lender realizes upon any collateral; and
 - 6.12 To be discharged due to the release or discharge of any collateral for any Credit or guaranty, or relating to the validity, value or enforceability of any collateral.
- 7. Guarantor also waives all rights and defenses that Guarantor may have because the Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged or assigned by Borrower; (2) If Lender forecloses on any real property collateral pledged by the Borrower: (a) The amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses directly or indirectly based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure.
 - 8. Guarantor also waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against the principal by the operation of Section 580d of the California Code of Civil Procedure or otherwise.
 - 9. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of acceptance, notices of the existence, creation or increase of any new or additional credit, notice of sale in regard to judicial or non-judicial foreclosure of real or personal property collateral and all other notices and demands of any kind or nature whatsoever except as expressly set forth herein.
 - 10. Notwithstanding any foreclosure of the lien of any security agreements, deeds of trust, mortgages or other security instruments, with respect to the Credit or any other guaranty, whether by the exercise of the power of sale contained therein, by any action for judicial foreclosure, or by any acceptance of a deed or other transfer in lieu of foreclosure, whether or not such method of foreclosure or transfer in lieu of foreclosure was for a consideration equal to or greater than the fair market value of the security property, Guarantor shall remain bound under this Guaranty for the obligations of Borrower to Lender and shall be liable to Lender for any and all of the Credit remaining unpaid after any such foreclosure.
 - 11. Guarantor represents and warrants to Lender that: (a) Lender has made no representation to Guarantor in regard to Borrower, the Credit or any matters pertaining thereto, upon which Guarantor is relying in giving this Guaranty; and (b) Guarantor has established adequate means

and assumes the responsibility for being and keeping informed of the financial condition of Borrower and of all other circumstances bearing upon the risk of nonpayment of the credit which diligent inquiry would reveal, and Lender shall have no duty to advise Guarantor of information known to Lender regarding such condition or any such circumstance.

12. Intentionally deleted.
13. Any and all indebtedness of Borrower now or hereafter owed to Guarantor and all claims of Guarantor against Borrower, whenever arising, are hereby subordinated to the Credit and assigned to Lender as additional collateral. If Lender so requests, any note or other instrument evidencing such indebtedness and all claims of Guarantor against Borrower shall be delivered to Lender, and such indebtedness and all claims of Guarantor against Borrower shall be collected, enforced and received by Guarantor as trustee for Lender and be paid over to Lender on account of the Credit but without reducing or affecting in any manner the liability of Guarantor hereunder. Should Guarantor fail to collect proceeds of debt owed to it by Borrower and pay the proceeds to Lender, Lender, as Guarantor's attorney-in-fact may do such acts and sign such documents in Guarantor's name as Lender considers necessary, at its discretion, to effect such collection, and Guarantor hereby irrevocably appoints Lender as Guarantor's attorney-in-fact for such purposes.
14. Guarantor agrees that to the extent Borrower makes a payment or payments or is credited for any payment or payments made for the account of or on behalf of Borrower to Lender, which payment or payments, or any part thereof, are subsequently invalidated, determined to be fraudulent or preferential, voided, set aside and/or required to be repaid to any trustee, receiver, assignee or any other party whether under any Bankruptcy, State or Federal Law, common law or equitable cause or otherwise, then to the extent thereof, the obligation or part thereof intended to be satisfied thereby, together with the guaranty thereof hereunder, shall be revived, reinstated and continued in full force and effect as if said payment or payments had not originally been made by or for the account of or on behalf of Borrower.
15. Guarantor agrees that to the extent Guarantor makes a payment or payments or is credited for any payment or payments made for the account of or on behalf of Guarantor to Lender, which payment or payments, or any part thereof, are subsequently invalidated, determined to be fraudulent or preferential, voided, set aside and/or required to be repaid to any trustee, receiver, assignee or any other party whether under any Bankruptcy, State or Federal Law, common law or equitable cause or otherwise, then to the extent thereof, the obligation or part thereof intended to be satisfied thereby, shall be revived, reinstated and continued in full force and effect as if said payment or payments had not originally been made by or for the account of or on behalf of Guarantor.
16. Guarantor's obligations hereunder are not contingent upon and are independent of the obligations of Borrower, or any other guarantor or surety of the Credit. This Guaranty is not made in consideration of the liability of any other guarantor or surety of the Credit. The release or death of any guarantor of the Credit or the revocation of any guaranty shall not release or otherwise affect the liability of any other non-revoking guarantor. A separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor be joined in any such action or actions.
17. To the maximum extent permitted by law, Guarantor specifically waives the benefit of the statute of limitations affecting its liability hereunder or the enforcement hereof, or the collection of any Credit, including, without limiting the foregoing, any and all special statutes of limitations arising out of California Code of Civil Procedure sections 580a or 726(b). Any partial payment by Borrower that operates to toll any statute of limitations as to Borrower shall likewise toll the statute of limitations as to Guarantor.
18. Any married person who signs this Guaranty expressly agrees that recourse may be had against his/her separate property as well as all community property over which that person has a power of management and control, for all of his/her obligations hereunder.

19. Should any one or more provisions of this Guaranty be determined to be illegal or unenforceable, all other provisions shall remain effective.
20. Lender may, with or without notice, assign this Guaranty in whole or in part. This Guaranty shall inure to the benefit of Lender, its successors and assigns, and shall bind Guarantor and Guarantor's heirs, executors, administrators, representatives, successors and assigns.
21. Guarantor agrees to pay to Lender, on demand, reasonable attorneys' fees and all other costs and expenses which may be incurred by Lender in the collection or attempted collection from Borrower of any Credit and/or in the interpretation, enforcement or attempted enforcement by Lender of this Guaranty or any collateral therefor, including, but not limited to, proceedings in any bankruptcy or other insolvency case or other proceedings touching the Credit or this Guaranty, or both, in any manner, whether or not legal proceedings or suit are instituted, together with interest thereon at the rate applicable to the Credit and including, without limitation, all attorneys' fees and related costs of enforcement of any and all judgments and awards and upon any appeal relating thereto.
22. Guarantor warrants and represents to Lender that:
- 22.1 All financial statements and other financial information furnished or to be furnished to Lender by Guarantor are or will be true and correct and do and will fairly represent the financial condition of Guarantor (including all contingent liabilities) as of the dates thereof; and
- 22.2 There has been no material adverse change in Guarantor's financial condition since the dates of the financial statements and other information furnished to Lender, except as previously disclosed to Lender in writing.
23. Lender may declare Guarantor in default under this Guaranty upon the occurrence of any of the following events:
- 23.1 Guarantor fails to pay or perform any of Guarantor's obligations under this Guaranty; or
- 23.2 Any representation or warranty made or given by Guarantor to Lender proves to be false or misleading in any material respect when made; or
- 23.3 A petition or action for relief shall be filed by or against Guarantor, pursuant to the Federal Bankruptcy Code (Title 11, U.S. Codes) in effect from time to time, or under any other law relating to bankruptcy, insolvency, reorganization, moratorium, creditor composition, arrangement or other relief from debts; the appointment of a receiver, trustee, custodian or liquidator of or for any property of Guarantor; or upon the death, incapacity, insolvency, dissolution, or termination of the business of Guarantor; or
- 23.4 Guarantor revokes or attempts to revoke this Guaranty.
24. If Borrower is a corporation, limited liability company or partnership, Lender need not inquire into the power of Borrower or the authority of its officers, directors, partners, agents, members or managers acting or purporting to act in its behalf, and any Credit granted in reliance upon the purported exercise of such power or authority is guaranteed hereunder.
25. Receipt of a true copy of this Guaranty is hereby acknowledged by Guarantor. Guarantor understands and agrees that Lender's acceptance of this Guaranty shall not constitute a commitment of any nature whatsoever by Lender to extend, renew or hereafter extend credit to Borrower. Guarantor agrees that this Guaranty shall be effective with or without notice from Lender of its acceptance of this Guaranty.

26. If Guarantor has executed more than one guaranty of Credit owed to Lender, any limits of liability thereunder and hereunder shall be cumulative, and a subsequent guaranty executed by Guarantor shall not supersede or replace this Guaranty unless such subsequent guaranty so provides.
27. **GUARANTOR WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INSTITUTED BY LENDER OR GUARANTOR WHICH PERTAINS DIRECTLY OR INDIRECTLY TO THIS GUARANTY, THE CREDIT, THE COLLATERAL THEREFOR OR ANY MATTER ARISING THEREFROM OR RELATING HERETO OR THERETO.**
28. Guarantor waives all rights to interpose any setoffs or counterclaims of any nature in any action or proceeding instituted by Lender with respect to this Guaranty, the collateral therefor, or any matter arising therefrom or relating thereto and the posting of any bond which may otherwise be required, and waives any and all benefits of cross-demands pursuant to section 431.70 of the California Code of Civil Procedure.
29. Guarantor hereby irrevocably submits and consents to the jurisdiction of any federal or state court of competent jurisdiction within California in connection with any action or proceeding arising out of or relating to this Guaranty. In any such litigation, Guarantor consents to service of process by any means authorized by California or federal law or as otherwise agreed in writing between Lender and Guarantor.
30. All rights, remedies, powers and benefits granted to Lender under this Guaranty, the Credit, any oral or other written agreement or applicable law whether expressly granted or implied in law or otherwise, are cumulative and not exclusive, and are enforceable alternatively, successively, or concurrently on any one or more occasions at Lender's discretion.
31. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any security interest granted to Lender hereunder or Lender's rights, powers and/or remedies hereunder (including any right of setoff) unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any default, right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such default, right, power and/or remedy which Lender would otherwise have on any future occasion whether similar in kind or otherwise. Any failure by Lender to file or enforce a claim against the estate (whether in administration, bankruptcy, probate or other proceeding) of Borrower or of any others, shall not affect Guarantor's liability hereunder.
32. Neither this Guaranty nor any related agreement, document or instrument nor any provision hereof or thereof shall be amended, modified or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender expressly referring to this Guaranty and to the provisions so amended, modified or discharged.
33. Lender's books and records showing the account(s) between Lender and Borrower shall be admissible in evidence in any action or proceeding as prima facie proof of the items set forth therein. Lender's statements rendered to Borrower, to the extent to which no objection is made within thirty (30) days after date thereof, shall be deemed conclusively correct and constitute an account stated absent manifest error, which shall be binding on Guarantor whether or not Guarantor receives a copy of any such statement or notice thereof.
34. This is a continuing guaranty of the Credit, including those arising after any repayment and reborrowing and under any successive and future transactions, which may increase, renew or continue the original Credit. Revocation of this Guaranty, if permitted by applicable law, shall be effective only upon the close of the next business day after written notice thereof is received by an officer of Lender by certified or registered mail, return receipt requested at 221 S. Figueroa Street, Suite 400, Los Angeles, California 90012, or at any other office of Lender designated in a written notice mailed by Lender to Guarantor at its address set forth below. Any such revocation shall be

effective only as to the revoking party and shall not affect that party's obligations with respect to Credit existing before the revocation became effective or as to any renewals, extensions or modifications of any Credit, whether such renewal, extension or modification is made prior to or after revocation, including those evidenced by a new or additional instrument or agreement or which change the rate of interest on any Credit, or for post-revocation interest and collection expenses accruing or incurred by Lender with respect thereto. Notwithstanding any revocation hereof, this Guaranty shall not be terminated until Lender has received indefeasible payment in full of all Credit which is guaranteed hereby and, in regard to which Credit, Lender no longer has an outstanding commitment to lend. Credit existing before revocation becomes effective shall be deemed to include, without limitation, all Credit or advances which Lender has committed to make to Borrower in reliance upon this Guaranty, even though the amount of such Credit or advances has not been advanced as of the effective date of revocation, and even though Lender may have defenses or defaults which would relieve it of such commitment, if asserted.

35. The provisions of this Guaranty shall be construed and interpreted and all rights and obligations hereunder determined in accordance with the laws of the State of California.
36. **GUARANTOR ACKNOWLEDGES THAT LENDER HAS OR MAY IN THE FUTURE EXTEND CREDIT TO BORROWER IN RELIANCE ON GUARANTOR'S UNCONDITIONAL PROMISE TO REPAY ANY AND ALL CREDIT AND LENDER IS RELYING ON THE WAIVERS, WARRANTIES AND PROMISES MADE BY GUARANTOR IN THIS GUARANTY. GUARANTOR AGREES THAT EACH OF THE WAIVERS, WARRANTIES AND PROMISES SET FORTH IN THIS GUARANTY ARE MADE WITH GUARANTOR'S UNDERSTANDING OF THEIR SIGNIFICANCE AND CONSEQUENCES AND THAT THEY ARE REASONABLE. IF ANY WAIVERS, WARRANTIES AND PROMISES ARE DETERMINED TO BE CONTRARY TO ANY APPLICABLE LAW OR PUBLIC POLICY, SUCH WAIVERS, WARRANTIES AND PROMISES SHALL BE EFFECTIVE TO THE MAXIMUM EXTENT PERMITTED BY LAW. BEFORE SIGNING THE GUARANTY, GUARANTOR HAS EITHER SOUGHT THE ADVICE OF COUNSEL TO EXPLAIN THE WAIVERS OF ITS RIGHTS AND DEFENSES AS STATED HEREIN AND THE EFFECT THEREOF, OR HAS HAD THE OPPORTUNITY TO SEEK SUCH COUNSEL, AND IN ANY EVENT, INTENDS THIS GUARANTY TO BE AS UNRESTRICTED AS POSSIBLE. GUARANTOR THEREFORE HAS CONSCIOUSLY AND INTENTIONALLY WAIVED ALL DEFENSES OF GUARANTOR AND RIGHTS WHICH COULD EXONERATE GUARANTOR HEREUNDER TO THE FULL EXTENT PERMITTED BY THE LAWS OF THE STATE OF CALIFORNIA, WHETHER OR NOT EACH AND EVERY DEFENSE, RIGHT OR WAIVER IS EXPLAINED OR DESCRIBED IN DETAIL IN THIS GUARANTY.**
37. **GUARANTOR ACKNOWLEDGES THAT NEITHER LENDER NOR ANY OF LENDER'S OFFICERS OR EMPLOYEES HAVE MADE ANY PROMISE OR REPRESENTATION, NOT INCORPORATED HEREIN, WHETHER ORAL, WRITTEN OR IMPLIED, TO CAUSE GUARANTOR TO SIGN THIS GUARANTY. GUARANTOR IS NOT SIGNING THIS GUARANTY IN RELIANCE ON ANY PROMISE, CONDITION OR THE ANTICIPATION OF THE OCCURRENCE OF ANY EVENT, AND THERE ARE NO ORAL UNDERSTANDINGS, STATEMENTS OR AGREEMENTS THAT HAVE NOT BEEN INCLUDED IN THIS GUARANTY. GUARANTOR UNDERSTANDS THAT LENDER HAS THE RIGHT TO ENFORCE PAYMENT OF THE CREDIT AGAINST BORROWER OR GUARANTOR IN ANY ORDER AND LENDER IS NOT OBLIGATED TO OBTAIN ANY OTHER OR ADDITIONAL GUARANTORS OF THE CREDIT OR TO TAKE ANY OTHER COURSE OF ACTION.**

THIS SPACE BELOW IS INTENTIONALLY LEFT BLANK.

38. This Guaranty constitutes the entire agreement between the parties with respect to the subject matter of this Guaranty, and any and all previous or contemporaneous correspondence, statements, or agreements by or between the parties hereto with respect to the subject matter of this Guaranty (but not previous or other guarantees given to Lender by Guarantor) are superseded hereby. This Guaranty may be modified only by a written instrument signed by the parties hereto.

Dated: June 24, 2005

"GUARANTOR"


JAMES C. GIANULIAS

Address: 1105 Quail Street
Newport Beach, California 92660
Telephone: (949) 955-3832
Tax ID No. 558-46-1701



Loan No. 7600003859


CONSENT AND REAFFIRMATION OF GUARANTOR

The undersigned has executed and delivered to CALIFORNIA NATIONAL BANK, a national banking corporation ("Lender"), a Continuing Guaranty ("Guaranty") dated June 24, 2005 in favor of Lender in consideration of financial accommodations granted by Lender M.S. LLC, a California limited liability company ("Borrower"). Borrower has requested that Lender increase the amount by FIVE HUNDRED TWENTY THOUSAND AND NO/100THS DOLLARS (\$520,000.00) of that certain Promissory Note ("Note") dated June 24, 2005 executed by Borrower in favor of Lender in the original principal amount of TWO MILLION AND NO/100TH DOLLARS (\$2,000,000.00). Lender has agreed to make said accommodation to Borrower and to modify certain provisions of the Loan Documents as defined in the Note and/or other loan documents.

The undersigned hereby (a) confirms receipt of a copy of the within Modification Agreement and Notice of Additional Advance (No. 1) dated August 11, 2005 (the "Modification") between Borrower and Lender; (b) consents to the Modification; and (c) reaffirms its guaranty of the obligations of Borrower to Lender, as set forth in the Guaranty

Effective Date: August 11, 2005

CAMEO HOMES,
a California corporation

By: 
James C. Gianulias, President

Address: 1105 Quail Street
Newport Beach, California 92660
Telephone: (949) 955-3832
Tax ID No. 95-2593087

EXHIBIT (7)



Loan No. 7600003859

CONSENT AND REAFFIRMATION OF GUARANTOR

The undersigned has executed and delivered to CALIFORNIA NATIONAL BANK, a national banking corporation ("Lender"), a Continuing Guaranty ("Guaranty") dated June 24, 2005 in favor of Lender in consideration of financial accommodations granted by Lender M.S. LLC, a California limited liability company ("Borrower"). Borrower has requested that Lender increase the amount by FIVE HUNDRED TWENTY THOUSAND AND NO/100THS DOLLARS (\$520,000.00) of that certain Promissory Note ("Note") dated June 24, 2005 executed by Borrower in favor of Lender in the original principal amount of TWO MILLION AND NO/100TH DOLLARS (\$2,000,000.00). Lender has agreed to make said accommodation to Borrower and to modify certain provisions of the Loan Documents as defined in the Note and/or other loan documents.

The undersigned hereby (a) confirms receipt of a copy of the within Modification Agreement and Notice of Additional Advance (No. 1) dated August 11, 2005 (the "Modification") between Borrower and Lender; (b) consents to the Modification; and (c) reaffirms its guaranty of the obligations of Borrower to Lender, as set forth in the Guaranty

Effective Date: August 11, 2005


JAMES C. GIANULIAS

Address: 1105 Quail Street
Newport Beach, California 92660
Telephone: (949) 955-3832
Tax ID No. 558-46-1701

AFFIRMATION OF GUARANTY AGREEMENTS

Loan No.: 7600003859

This Affirmation of Guaranty Agreements ("Affirmation"), dated as of August 28, 2007, is given by CAMEO HOMES, a California corporation, and JAMES C. GIANULIAS, individually (all, collectively "Guarantors"), in favor of CALIFORNIA NATIONAL BANK, a national banking association ("Lender"), in connection with a three (3) month maturity extension (the "Extension") to that certain \$2,520,000 loan (the "Loan") made by Lender to M.S. LLC, a California limited liability company ("Borrower"), which closed on June 30, 2005, at a Loan amount of \$2,000,000, which was increased by \$520,000 to \$2,520,000 pursuant to that certain Modification Agreement and Notice of Additional Advance (No.1) dated August 11, 2005 ("Modification Agreement").

WHEREAS, Lender made the Loan in connection with the refinance of certain real property consisting of approximately 20.8 acres located in the unincorporated are of Wildomar, Riverside County, California (the "Property"), and the additional entitlement thereof as well as the subsequent Modification Agreement to increase the loan for the purposes of acquiring an additional and contiguous 2.38 acres to entitle a total of approximately 23.18 acres of land as a future apartment project.

WHEREAS, Guarantors entered into those certain Continuing Guaranties dated June 24, 2005 ("Guaranty Agreements"), in connection with the Loan;

WHEREAS, Borrower has requested that the maturity of the Loan be extended from July 1, 2007, to October 1, 2007 (the "Extension"), to afford Borrower more time to complete entitlements for a future 370-unit apartment development.

WHEREAS, Lender is willing to accommodate Borrower by granting the Extension, subject to the terms of that certain Loan Extension Agreement of even date herewith, conditioned upon, among other things, Guarantors affirming their obligations under the Guaranty Agreements, notwithstanding the granting of the Extension.

NOW, THEREFORE, the Guarantors agree as follows:

1. Each Guarantor hereby affirms the Guaranty Agreements which each such Guarantor has previously executed, and acknowledges that each respective Guaranty Agreement is in full force and effect, notwithstanding the Extension, and that each Guarantor has no defenses to the enforcement thereof.

EXHIBIT (9)

2. Each Guarantor hereby acknowledges and consents to the Extension.

IN WITNESS WHEREOF, Guarantors have executed this Affirmation as of the date first hereinabove written.

GUARANTORS:

CAMEO HOMES, a California
corporation

By: 
James C. Gianulias, President


James C. Gianulias, Individually

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT ("Guaranty"), dated as of August 28, 2007, is hereby given by JAMES C. GIANULIAS, AS TRUSTEE OF THE JAMES CHRIS GIANULIAS TRUST DATED OCTOBER 14, 2003 ("Guarantor"), to CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

A. M.S. LLC, a California limited liability company ("Borrower"), has borrowed the sum of \$2,520,000 (the "Loan") for the purpose of aiding the Borrower in the refinancing of 4 parcels of land consisting of approximately 20.8 acres located in the unincorporated are of Wildomar, Riverside County, California, and the subsequent acquisition of an additional and contiguous 2.38-acre parcel of land (the "Property"), and the additional entitlement thereof.

B. The Loan is evidenced by, among other documents, that certain Term Loan Agreement dated June 24, 2005 (the "Loan Agreement") and that certain Promissory Note dated June 24, 2005 (the "Note"), originally in the amount of \$2,000,000, but which was increased to \$2,520,000 pursuant to that certain Modification Agreement and Notice of Additional Advance ("Modification Agreement") dated August 11, 2005, in order to accommodate the acquisition of the additional 2.38-acre parcel of land. The Loan is secured by, among other documents, that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated June 24, 2005, and recorded on June 30, 2005, as Instrument No. 2005-0523673 of Official Records, Riverside County, California (the "Deed of Trust"), and which Loan is further evidenced and secured by additional documents of ("Loan Documents").

C. Borrower has requested a maturity extension of the Loan, from July 1, 2007, to October 1, 2007, to afford Borrower more time to secure entitlements related to a planned 370-unit apartment development on the Property. Lender is willing to accommodate Owner by granting the Extension, if, among other conditions, it receives this Guaranty from Guarantor, and the giving of this Guaranty to Lender is a material inducement to Lender in granting the Extension. Accordingly, Guarantor, who is affiliated with Borrower and will receive a direct and substantive benefit from receiving the Extension, desires to enter into this Guaranty to induce Lender to make the Extension.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Guarantor

hereby agrees as follows:

1. Guaranty.

a. Guarantor hereby unconditionally and independently of any liability of Borrower guarantees and agrees to pay to Lender, without any requirement whatsoever of resort by Lender to any other party, all amounts owing to Lender under the Note, the Loan Agreement, the Deed of Trust, and any other instruments or documents evidencing or securing the Loan (the "Indebtedness"). Guarantor further guarantees to Lender the timely performance of each and every obligation of Borrower under the Note, the Loan Agreement, the Deed of Trust, and the Loan Documents.

b. If Borrower fails to perform any or all of the matters specified in Section 1(a), above, on or before the times such matters are to be done by Borrower, Guarantor shall promptly, and whether or not notice thereof is received from Lender, do, at Guarantor's expense, any such matter which Borrower has failed to do or pay.

c. If Guarantor fails to make such payments or perform such obligations promptly, Lender may pursue any remedies at law or in equity against Guarantor, without having to proceed first against Borrower, and Guarantor shall be jointly and severally liable to Lender for all expenses, including reasonable attorneys' fees incurred by Lender, and all amounts paid by Lender in taking any such action.

d. The obligations of Guarantor hereunder are joint and several with the Borrower, and independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor are joined in any such action or actions. Guarantor acknowledges that there are no conditions precedent to the effectiveness of this Guaranty, and that this Guaranty is in full force and effect and is binding on Guarantor as of the date written below, regardless of whether Lender obtains collateral or similar guaranties from others or takes any other actions contemplated by Guarantor. Guarantor acknowledges that James Chris Gianulias, individually, and Cameo Homes, a California corporation, have heretofore guaranteed the Loan.

2. Authorizations to Lender.

Guarantor authorizes Lender, without notice to or the consent of Guarantor, at any time and from time to time, either before or after the maturity of the Note, (a) with consent of Borrower, to amend any provision of the Note, the Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, including any change in the interest rate therein or any change in the time or manner of payment thereunder, or (b) to make any agreement with Borrower for the extension, payment, compounding, compromise, discharge

or release of any provision of the Note, the Loan Agreement, the Deed of Trust, or any other documents evidencing or securing the Loan from Lender, or for any modification of the terms thereof. Without limiting the generality of the foregoing, Lender is expressly authorized to surrender to Borrower, or to deal with or modify the form of, any security which Lender may at any time hold to secure the performance of any obligation hereby guaranteed, and the guaranties herein made by Guarantor shall not be impaired or affected by any of the foregoing.

3. Representations and Warranties of Guarantor.

Guarantor represents and warrants that: (a) this Guaranty is executed at Borrower's request; (b) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (c) Guarantor has established adequate means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Guarantor agrees to keep adequately informed by such means of any facts, events or circumstances which might in any way affect Guarantor's risks hereunder, and Guarantor further agrees that Lender shall have no obligation to disclose to Guarantor information or material acquired in the course of Lender's relationship with Borrower.

4. Guarantor's Waivers.

a. Guarantor waives any right to require Lender to: (a) proceed against any person, including Borrower; (b) proceed against or exhaust any security held from Borrower, any other guarantor or any other party; (c) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or otherwise to comply with Section 9504 of the California Uniform Commercial Code; (d) pursue any other remedy in Lender's power whatsoever; or (e) make any presentments, demands for performance, or give any notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any obligations or evidences of the Indebtedness guaranteed hereunder.

b. Guarantor waives any defense arising by reason of: (a) any disability or other defense of Borrower, any other guarantor or any other person; (b) the cessation from any cause whatsoever, other than payment in full, of the obligations of Borrower, any other guarantor or any other person; (c) the application by Borrower of the proceeds of the Note for purposes other than the purposes represented by Borrower to Lender or intended or understood by Lender or Guarantor; (d) any act or omission by Lender which directly or indirectly results in or aids the discharge of Borrower or the Note or other Loan Documents by operation of law or otherwise; or (e) any modification of the Note or other Loan Documents, in any form whatsoever, including without limitation the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of the Note, the other Loan Documents or any part thereof, including increase or decrease of the rate of interest thereon. Until the Indebtedness shall have been paid in full, Guarantor shall have no right of subrogation. Guarantor waives any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging

Borrower's obligations under the Note (including without limitation Sections 726 and 580d of the California Code of Civil Procedure as from time to time amended). In addition, Guarantor waives all rights and protections of any kind which Guarantor may have for any reason which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial or judicial foreclosure of any security for the Indebtedness, including, without limitation, the right to any fair market value hearing pursuant to Section 580a of the California Code of Civil Procedure. Until the Indebtedness shall have been paid in full, Guarantor further waives any right to enforce any remedy which Lender now has or may hereafter have against Borrower, any other guarantor or any other person, and waives any benefit of, or any right to participate in any security whatsoever now or hereafter held by Lender.

c. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (2) if Lender forecloses on any real property collateral pledged by Borrower: (a) The amount of the Indebtedness may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (b) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure. Guarantor further waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor specifically waives any and all defenses and rights that may be waived pursuant to Union Bank v. Gradsky (1968) 265 Cal.App. 2d 40, and any cases, statutes or authority subsequently interpreting such decision.

d. Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of Sections 2787 to 2855, inclusive, and 3433 of the California Civil Code.

e. Guarantor waives any defense or benefits arising out of any voluntary or involuntary filing by or on behalf of Borrower for protection under any federal or state bankruptcy, insolvency, or debtor relief laws, including, without limitation, under Sections 364 or 1111(b)(2) of the United States Bankruptcy Code.

f. Guarantor acknowledges and waives the suretyship rights and defenses set forth in California Civil Code Section 2856, each and all of the provisions of which are incorporated herein by this reference as if set forth in full.

g. Guarantor waives any right to receive notice of any judicial or nonjudicial sale or foreclosure of any Deed of Trust securing the Indebtedness, and Guarantor's failure to receive any such notice shall not impair or affect Guarantor's liability thereunder.

h. Guarantor further waives any duty on the part of Lender to disclose to Guarantor any facts Lender may now have or hereafter acquire concerning Borrower, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond which Guarantor has contemplated hereunder or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower and of all circumstances bearing on the obligations of Guarantor under this Agreement.

5. Waiver of Statute of Limitations.

Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof, and agrees that any payment of the Note or other act which shall toll any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to Guarantor's liability hereunder. The liability of Guarantor hereunder shall be reinstated and revived, and the rights of Lender shall continue, with respect to any amount at any time paid on account of the Indebtedness guaranteed hereby, which shall thereafter be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or for any other reason, all as though such amount had not been paid.

6. Guarantor's Understandings With Respect to Waivers.

Guarantor warrants and agrees that each of the waivers set forth above are made with Guarantor's full knowledge of their significance and consequences, and that under the circumstances, the waivers are reasonable. If any of said waivers are determined to be contrary to any applicable law or public policy, such waivers shall be effective only to the maximum extent permitted by law. Guarantor further understands that all remedies afforded to Lender by reason of this Agreement are separate and cumulative remedies and none of such remedies, whether exercised by Lender or not, shall be deemed to be in exclusion of anyone of the other remedies available to Lender, and shall not in any way limit or prejudice any other legal or equitable remedy available to Lender.

7. No Release.

Until all of the terms, covenants and conditions of the Loan Documents and this Guaranty are fully performed, Guarantor shall not be released by any act or thing which might, but for this paragraph, be deemed a legal or equitable discharge of a surety (including any act by Lender which might have the effect of destroying Guarantor's rights of subrogation against Borrower,

such as in the case of foreclosure), or by reason of any waiver, extension, modification, forbearance or delay of Lender or its failure to proceed promptly or otherwise, or by reason of any further obligation or agreement between any then owner of the Property and the then holder of the Note, the Loan Agreement, the Deed of Trust, and/or any of the other Loan Documents relating to the payment of any sum secured thereby, or to any of the other terms, covenants and conditions contained therein, and Guarantor hereby expressly waives and surrenders any defense to its liability under this Agreement based upon any of the foregoing acts, things, agreements or waivers.

8. Subrogation.

If Guarantor shall make payments under this Guaranty, Guarantor shall, to the extent of such payments, be subrogated to the rights and remedies of Lender under the Note, the Loan Agreement, the Deed of Trust, and any other Loan Documents, provided, however, that any such rights of subrogation shall at all times be subordinate as to lien, time of payment, and, in all other respects, to the amounts owing to Lender under the Note, the Loan Agreement, the Deed of Trust, and the Loan Documents. Guarantor shall not be entitled to take any action to enforce or receive payment thereof until all sums owing to Lender under, the Note, the Loan Agreement, the Deed of Trust, and the other Loan Documents have been paid in full.

9. Representations and Warranties.

Guarantor hereby makes the following representations and warranties to Lender as of the date of this Guaranty.

a. Authorization and Validation. The execution, delivery and performance by Guarantor of this Guaranty (i) is within the powers of Guarantor, (ii) has received all necessary approvals on behalf of Guarantor, (iii) has received all necessary governmental approvals, and (iv) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Guarantor enforceable in accordance with its terms.

b. Financial Information. All financial data that has been given to Lender with respect to Guarantor and the Property (i) is complete and correct in all material respects, (ii) accurately represents the financial condition of Guarantor and the Property as of the date on which, and the results of Guarantor's or the Property's operations for the period for which, the same have been furnished, and (iii) has been prepared in accordance with generally accepted accounting principles or tax accounting principles consistently applied throughout the periods

covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Guarantor since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.

c. No Defaults. Guarantor is a party to no agreement or instrument that will materially interfere with its performance under this Agreement, and is not, except as otherwise disclosed or known to Lender, in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party.

d. Review of Documents. Guarantor has reviewed, understood and approved all of the terms and conditions of the Note, the Loan Agreement, the Deed of Trust, the Modification Agreement and all of the other Loan Documents and any other documents executed in connection with the Loan, including, without limitation, this Guaranty, and Guarantor has been afforded the full and fair opportunity to consult with independent legal counsel of Guarantor's choice with respect to each and all of such matters and documents and has done so to the extent deemed appropriate by Guarantor.

e. Litigation. There is not now pending against or affecting Guarantor or the Property, nor, to the knowledge of Guarantor is there threatened, any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would impair or adversely affect the Property or the financial condition or business operations of Guarantor.

f. Taxes. Guarantor has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become delinquent pursuant to such returns or pursuant to any assessments received by it except as to those expressly disclosed to Lender in writing and approved by Lender, and Guarantor does not know of any basis for additional assessment in respect of any such taxes. Guarantor has no knowledge or any pending assessments or adjustments of its taxes payable with respect to any year.

g. Compliance. Guarantor has examined and is familiar with all conditions, restrictions, reservations and zoning ordinances affecting the Property. The Property will in all material respects conform to and comply with all of the requirements of said conditions, restrictions, reservations and zoning ordinances and all construction and installation on the Property shall conform in all respects with applicable ordinances and statutes, including subdivision laws and environmental impact laws, and shall be in accordance with all requirements of the regulatory authorities having jurisdiction thereof.

10. Notices.

All notices, requests, demands, directions and other communications provided for hereunder must be in writing and must be mailed, telegraphed, delivered or sent by telefacsimile or cable to the appropriate party at their respective address set forth below or, as to any party, at any other address as may be designated by it in a written notice sent to the other parties in accordance with this paragraph. If any notice, request, demand, direction or other communication is given by mail, it shall be effective two (2) days after it is deposited in the mail with first class or air mail postage prepaid; if given by telegraph, when delivered to a telegraph company with charges prepaid; if given by telefacsimile, when sent; or if given by personal delivery or by overnight nationally marketed courier services (e.g., Federal Express or Airborne), when delivered. Notices are to be sent as follows:

If to Guarantor: **JAMES C. GIANULIAS**
 1105 Quail Street
 Newport Beach, CA

If to Lender: **CALIFORNIA NATIONAL BANK**
 1301 Dove Street, Suite 101
 Newport Beach, CA 92660-2458

11. Payment by Borrower.

Notwithstanding anything herein contained, this Guaranty shall become null and void if Borrower shall pay to Lender in full the amount of the Indebtedness then owing to Lender, or its successors or assigns; provided that if all or any part of such payment or performance is avoided or recovered directly or indirectly from Lender as a preference, fraudulent transfer or otherwise under the Federal Bankruptcy Code or any other federal or state laws, then this Agreement shall be reinstated and shall remain in full force and effect.

12. Costs, Expenses and Attorneys' Fees.

All payments, advances, charges, costs and expenses, including reasonable attorneys' fees, made or incurred by Lender in the enforcement of this Guaranty or in the collection of the Note, or in connection with any case, action, proceeding or claim under Chapter 7, 11 or 13 of the Federal Bankruptcy Code, regardless of whether commenced, filed or concerning Guarantor or Borrower, shall be paid by Guarantor immediately and upon demand, together with interest at a rate per annum equal to the interest rate specified in the Note.

13. Context and Construction; Obligations of Married Persons.

When the context and construction so require, all words used in the singular shall be deemed to have been used in the plural and the masculine shall include the feminine and neuter. Any married person who signs this Guaranty agrees that recourse may be had against separate property for all obligations under this Guaranty.

14. Governing Law; Venue.

This Guaranty is and shall be deemed to be a contract entered into and pursuant to the laws of the State of California and shall in all respects be governed, construed, applied and enforced in accordance with the laws thereof. Guarantor hereby consents to venue for purposes of any action brought by Lender under this Agreement in any court located in the County of Orange, State of California.

15. Binding Effect.

This Guaranty shall inure to the benefit of Lender and its successors and assigns and shall be binding upon the heirs, personal representatives, successors and assigns of Guarantor.

16. Severability.

Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all other provisions of this Agreement shall remain in effect as if the provision(s) determined to be illegal, invalid or unenforceable did not exist.

17. Arbitration.

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS GUARANTY SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS/ENDISPUTE IN ORANGE COUNTY, CALIFORNIA, PURSUANT TO THE JAMS/ENDISPUTE COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NON-APPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

(A) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR

JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY GUARANTOR SHALL NOT

- (I) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
- (II) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;

(B) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS LENDER UNDER THIS GUARANTY, THE NOTE, THE CONSTRUCTION LOAN AGREEMENT, THE DEED OF TRUST, OR UNDER ANY OTHER LOAN DOCUMENTS INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DOCUMENT SECURING THE NOTE OR THIS GUARANTY, EXERCISING ANY RIGHTS RELATING TO PERSONAL PROPERTY, INCLUDING TAKING OR DISPOSING OF SUCH PROPERTY WITH OR WITHOUT JUDICIAL PROCESS UNDER ARTICLE 9 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE, OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

(C) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THE ARBITRATOR SHALL HAVE NO RIGHT OR POWER TO ENJOIN OR RESTRAIN ANY ACT OF ANY PARTY.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT GUARANTOR FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST GUARANTOR NOTWITHSTANDING GUARANTOR'S FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL, RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS/ENDISPUTE ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS GUARANTY, GUARANTOR DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE, GUARANTOR'S RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL

EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.



Guarantor's Initials



Lender's Initials

18. Joint and Several Liability.

The obligations of all parties comprising Guarantor hereunder shall be joint and several and all words used herein in the singular shall be deemed to have been used in the plural as the contents and construction so require. If for any reason this Guaranty is held to be unenforceable against any of the parties comprising Guarantor, such unenforceability shall not affect the obligations of the remaining parties comprising Guarantor, and each independently to enforce the terms and conditions of this Guaranty.

19. Entire Agreement; Amendments.

This Guaranty embodies the entire agreement of Guarantor and Lender with respect to the matters set forth herein, and supersedes all prior or contemporaneous agreements (whether oral or written) between Guarantor and Lender with respect to the matters set forth herein. No course of prior or subsequent dealing between Guarantor and Lender shall be used to supplement, modify or vary the terms hereof, and no term or provision of this Guaranty may be changed, waived, revoked, or amended without Lender's prior written consent.

IN WITNESS WHEREOF, Guarantor hereunder has executed this Guaranty as of the date first above written.

GUARANTOR:



James C. Gianulias, as Trustee of the
James Chris Gianulias Trust Dated
October 14, 2003

Exhibit B -2



Loan No. 7600003859

THIS TERM LOAN AGREEMENT ("Agreement") is entered into as of June 24, 2005, by and between M.S. LLC, a California limited liability company ("Borrower") and CALIFORNIA NATIONAL BANK, a national banking association ("Lender").

RECITALS

This Agreement is executed by Borrower for the purpose of obtaining a loan from Lender, to be evidenced by a Promissory Note made by Borrower in favor of Lender and secured by, among other things, a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, affecting real property in the County of Riverside, State of California, described on Exhibit "A" attached hereto and made a part of this Agreement and all improvements now or in the future erected on such real property.

NOW, THEREFORE, in consideration of the foregoing recitals, the making of the loan and of the mutual promises contained in this Agreement, and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I – DEFINITIONS

- 1.1 **Definitions.** The definitions set forth in the Recitals or elsewhere in this Agreement are incorporated herein by this reference. For the purposes of this Agreement, the following terms shall have the following meanings:

"Affiliate" shall mean any person or business entity, directly or indirectly, related to, in control of, controlled by or under the common control of Borrower, or of a successor thereof, whether through merger, consolidation, transfer of assets or otherwise.

"Agreement" shall mean this Term Loan Agreement, either as originally executed or as it may be amended from time to time.

"Anti-Money Laundering Laws" means the USA Patriot Act of 2001, the Bank Secrecy Act, as amended through the date hereof, Executive Order 13324—Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as amended through the date hereof, and other federal laws and regulations and executive orders administered by the United States Department of the Treasury, Office of Foreign Assets Control ("OFAC") which prohibit, among other things, the engagement in transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals (such individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanction and embargo programs), and such additional laws and programs administered by OFAC which prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on any of the OFAC lists.

"Appraisal" shall mean an appraisal of the Project performed and prepared for Lender at Borrower's sole expense by a duly licensed or certified appraiser designated by Lender and possessing all qualifications required by Lender and applicable Laws, setting forth the appraiser's opinion and determination of the fair market value of the Property before construction of the Improvements, and the fair market value of the Project as though all Improvements thereon have been completed in full and timely compliance with this Agreement; said Appraisal shall be prepared in full narrative form meeting all requirements and approaches to value as shall be necessary or appropriate in order to comply with all customary and generally accepted

appraisal standards within the appraisal industry and in accordance with Lender's requirements and all applicable Laws governing Lender's operations.

"Approved Liens" shall mean the following (a) the Deed of Trust dated November 14, 2002, executed by Mary Lou Sisler-Williams as trustor for the benefit of Accredited Home Lenders, Inc., as beneficiary; and (b) the Deed of Trust dated November 23, 2004, executed by Borrower as trustor for the benefit of Mary Lou Sisler-Williams and Roger Williams, as beneficiary.

"Assets" shall have the meaning usually given that term in accordance with accounting principles consistent with accounting principles used in preparing financial statements previously furnished to Lender and which fairly presenting the financial condition of the party which submitted the same, but shall exclude sums due to Borrower from Affiliates (other than subsidiaries).

"Business Day" shall mean a day of the year on which banks are not required or authorized to close in California.

"Continuing Guaranty" shall mean the continuing guaranty duly executed by the Continuing Guarantor, unconditionally and irrevocably guaranteeing payment and performance of Borrower's obligations to Lender in connection with the Loan.

"Continuing Guarantor" shall mean JAMES C. GIANULIAS and CAMEO HOMES, a California corporation.

"Debt" shall mean and includes all of Borrower's debts and liabilities as determined in accordance with GAAP.

"Deed of Trust" shall mean the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated June 24, 2005 duly executed by Borrower for the benefit of Lender, as Beneficiary, to secure the Loan and encumbering the Property and other assets and rights therein provided.

"Environmental Indemnity Agreement" shall mean the environmental indemnity agreement by Borrower in favor of Lender of even date herewith.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, and, unless the context otherwise required, the regulations thereunder.

"Event of Default" shall mean any of those events specified in Article 10 hereof.

"Financial Statements" means balance sheets, income statements, reconciliation of capital structure, statement of sources and applications of funds together with appropriate notes and footnotes prepared in accordance with accounting principles consistent with accounting principles used in preparing financial statements previously furnished to Lender and which fairly presenting the financial condition of the party which submitted the same.

"Financing Statements" shall mean one or more financing statements (form UCC-1) covering Furniture, Fixtures and Equipment ("FF&E"), Contract Documents, project rights, contracts, Loan Funds, fees and all other personal property and/or fixtures included in the Project.

"Fixtures" shall mean the fixtures as defined in the Deed of Trust.

"Governmental Agency" or "Government Agency" shall mean any federal, state or local governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, court, administrative tribunal, or public utility.

"Grace Period" shall mean the following: (a) with respect to any obligation which requires the payment of money, a period of 10 days from the date such payment is due; and (b) with respect to all other obligations, a period of 30 days from date that performance of such obligation is due unless otherwise specified, provided, however, that if the same cannot reasonably be remedied within such period, then the Grace Period shall be extended for a period of up to ninety (90) days if and to the extent Borrower commences a cure within thirty (30) days and diligently prosecutes the same to completion and provided payments due under the Note are paid when due.

"Insurance Policies" shall mean any of the policies of insurance specified in Section 4.3 hereof.

"Laws" shall mean, collectively, all federal, state, and local laws, rules, regulations, ordinances and codes.

"Liabilities" shall have the meaning usually given that term in prepared in accordance with accounting principles consistent with accounting principles used in preparing financial statements previously furnished to Lender and which fairly presenting the financial condition of the party which submitted the same.

"Loan" shall mean the loan in the maximum principal sum of TWO MILLION AND NO/100THS DOLLARS (\$2,000,000.00) described in Article 2 of this Agreement.

"Loan Documents" shall mean the Note, Deed of Trust, Financing Statement, Environmental Indemnity Agreement, this Agreement and such other documents as Lender may reasonably require Borrower to give Lender as evidence of and/or security for and/or guaranty of the Loan.

"Loan Fee" shall mean the sum of TWENTY THOUSAND AND NO/100THS DOLLARS (\$20,000.00) payable by Borrower to Lender at loan closing.

"Loan Proceeds" shall mean all funds advanced by Lender as a loan to Borrower under this Agreement.

"Maturity Date" shall mean July 1, 2007 as set forth in the Note, at which time the entire principal balance of the Loan, plus accrued interest thereon, is and shall be due and payable as provided in this Agreement and the Note, subject to acceleration as provided in the Loan Documents.

"Note" shall mean the Promissory Note of even date herewith in the amount of the Loan executed by Borrower in favor of Lender to evidence the Loan and bearing interest at the rate set forth in the Note.

"OFAC Prohibited Person" means, a country, territory, individual or person (i) listed on, included within or associated with any of the countries, territories, individuals or entities referred to on The Office of Foreign Assets Control's List of Specially Designated Nationals and Blocked Persons or any other prohibited person lists maintained by governmental authorities, or otherwise included within or associated with any of the countries, territories, individuals or entities referred to in or prohibited by OFAC or any other Anti-Money Laundering Laws, or (ii) which is obligated or has any interest to pay, donate, transfer or otherwise assign any property, money, goods, services, or other benefits from the Property directly or indirectly, to any countries, territories, individuals or entities on or associated with anyone on such list or in such laws.

"Organizational Documents" shall mean:

- (a) Borrower's Articles of Organization and Operating Agreement; and
- (b) Resolution of Borrower signed by the Manager of Borrower, where applicable, in form and substance satisfactory to Lender affirming the authority of Borrower to borrow the Loan

and enter into the Loan Documents, and affirming the names and signatures of manager of Borrower authorized to execute documents in connection with the Loans.

"Permitted Encumbrances" shall mean only those matters and exceptions to title approved by Lender shown in the preliminary title report and all supplements thereto of the Title Company covering the Property.

"Permitted Transfer" shall mean in addition to transfers permitted pursuant to the Deed of Trust, a transfer of the Property to a Transferee ("Transferee") subject to the following conditions:

- (a) The Transferee is a limited partnership in which James C. Giamulias is the owner of more than 50% of the limited partnership interests in the Transferee and the general partner of the limited partnership is an entity, directly or indirectly controlled by James C. Giamulias.
- (b) The Transferee signs an assumption agreement with respect to the Loan Documents in a form acceptable to Lender;
- (c) The limited partnership agreement of the Transferee is acceptable to Lender;
- (d) Borrower provides an endorsement to the Title Policy covering the transfer in a form acceptable to Lender;
- (e) Payment to Lender of a fee of \$2,500.00

"Personalty and Fixtures" shall mean the personalty and fixtures as defined in the Deed of Trust.

"Property" shall mean the real property located 33305 and 36625 Elizabeth Lane, city of Wildomar in the County of Riverside, State of California described on Exhibit A attached hereto and made a part of this Agreement and all improvements now or in the future erected on such real property.

"Security Documents" shall mean all documents securing the repayment of the indebtedness evidenced by the Note including without limitation, the Deed of Trust and other documents described in Section 2.7.

"Title Company" shall mean FIRST AMERICAN TITLE INSURANCE COMPANY, which shall issue the Title Policy.

"Title Policy" shall mean a standard American Land Title Association Lender's policy of title insurance for the Property, insuring Lender in the amount of the Loan and with such other endorsements as Lender may request.

- 1.2 **Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with accounting principles consistent with those applied in the preparation of the Financial Statements referred to in Section 9.2 and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.
- 1.3 **Use of Defined Terms.** Any defined terms used in the plural shall include the singular and such terms shall encompass all members of the relevant class.
- 1.4 **Schedules and Exhibits.** All schedules and exhibits to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by reference.

- 1.5 **References.** Any reference to this Agreement or any other document shall include such document both as originally executed and as it may from time to time be supplemented and modified. References herein to Paragraphs, Sections and Exhibits shall be construed as references to this Agreement unless a different document is named.
- 1.6 **Other Terms.** The term "document" is used in its broadest sense and encompass agreements, certificates, opinions, consents, instruments and other written material of every kind. The terms "including" and "include" shall mean "including (include), without limitation"

ARTICLE II – LOAN ACCOMMODATION

- 2.1 **The Loan.** Borrower agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, a loan in the maximum principal sum of TWO MILLION AND NO/100THS DOLLARS (\$2,000,000.00).
- 2.2 **Note.** The Loan shall be evidenced by the Note. Each payment under the Loan shall be evidenced and recorded by Lender upon Lender's Loan Records, which recordation shall be prima facie evidence of such payment; provided, however, that the failure by Lender to make any such recordation shall not limit or otherwise affect the obligation of Borrower hereunder or under the Note.
- 2.3 **Interest.** Interest on the outstanding principal balance under the Note shall accrue at the rate provided for in the Note and shall be paid as provided for in the Note.
- 2.4 **Use Of Proceeds.** The Loan Proceeds shall be used by Borrower to refinance several notes and pay for interest on the Loan and for paydown of a line of credit. Borrower will pay for entitlement processing with respect to a 20.8 acre parcel of land, later to be developed into a 320 unit multi-family residential complex located in Wildomar, Riverside County, California.
- 2.5 **Documents.** The obligation of Lender to make the Loan is subject to and expressly conditioned upon the following:
- (a) Borrower, at its sole expense, shall deliver to Lender, at its office in Los Angeles, California, on or before the date of the first Advance the following documents, in form and substance satisfactory to Lender, in Lender's sole opinion and judgment, together with any additional documents, items and funds as Lender may require in connection with this Agreement:
- (i) Promissory Note;
 - (ii) Continuing Guaranty;
 - (iii) Deed of Trust;
 - (iv) Term Loan Agreement;
 - (v) Agreement to Provide Insurance;
 - (vi) Disbursement Request and Authorization;
 - (vii) Environmental Indemnity Agreement;
 - (viii) Certification of Limited Liability Company;
 - (ix) Resolution of Corporation Authorizing Officers of Corporation to Guarantee;
 - (x) Title Policy or evidence of a commitment therefore;
 - (xi) If required by Lender, a survey or surveys prepared by a licensed surveyor satisfactory to Lender, certified to the Title Company and to Lender and its successors, nominees, and assigns, and showing all easements. The survey shall be conducted in compliance with ALTA standards as applied in California and shall be certified to the Title Company, Lender, and Borrower. The Title Policy shall show no blanket exceptions for anything a survey would show;

- (xii) Such additional assignments, agreements, certificates, reports, approvals, instruments, documents, financing statements, consents, and opinions as Lender may reasonably request.
- (b) Review and approval by Lender, its counsel, or both, of true and correct copies of Borrower's Organizational Documents, matters affecting the Property, and all other Loan Documents;
- (c) Review and approval by Lender of true and correct copies of Financial Statements of Borrower;
- (d) No suit, action, or other proceeding of material consequence shall be pending or threatened which seeks to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or to obtain damages or other relief in connection therewith.

2.6 Limitations On Advances And Payments.

- (a) The Loan Proceeds shall be disbursed in accordance with the provisions of Section 2.4 above;
- (b) The Loan Proceeds shall be disbursed in accordance with the provisions of Section 2.1 above and Section 2.10 below;
- (c) The Note may be prepaid as provided for in the Note;
- (d) Payments shall be as provided for in the Note;
- (e) Borrower hereby authorizes Lender, if and to the extent any payment of principal or interest or sum otherwise due hereunder is not promptly made pursuant to the Note, and to the extent of any obligation of Borrower to Lender under this Agreement or any other agreement, to charge against any account of Borrower with Lender an amount equal to part or all of the principal costs and expenses, and accrued interest from time to time due and payable to Lender under the Note or otherwise. Lender is under no obligation to charge such past due payments against any account of Borrower, but may elect to do so in Lender's sole and absolute opinion and judgment;
- (f) If, with respect to the Loan there is, due to either (i) the introduction of or any change (including, without limitation, any change by way of imposition or increase of reserve requirements) in any Law or regulation or in the interpretation thereof, or (ii) the compliance by Lender with any guidelines or request from any central bank or other governmental authority (whether or not having the force of Law), any increase in the cost of Lender of agreeing to make or making, funding or maintaining such Loan, then Borrower shall from time to time, upon demand by Lender, pay to Lender additional amounts sufficient to indemnify Lender against such increased costs. A certificate as to the amount of such increased costs submitted to Borrower by Lender shall be prima facie evidence of the increased costs, and shall be immediately due and payable upon demand.

2.7 Security. The Loan shall be secured by the following, in each case subject only to the Permitted Encumbrances:

- (a) The Deed of Trust;
- (b) The assignments referenced in Section 2.5 above;

- (c) A first priority perfected security interest in all existing and future tangible and intangible personal property and/or fixtures relating to the Property owned by Borrower, including, but not limited to, the FF&E, as evidenced by the Deed of Trust;
- 2.8 **Continuing Guaranty.** As further support for the repayment of the Loan, Continuing Guarantor shall guaranty repayment thereof, except as limited therein pursuant to the Continuing Guaranty.
- 2.9 **Loan Fee.** The Loan Fee will be paid by Borrower to Lender at Loan Closing from Loan Proceeds and will be in addition to all other fees mentioned in this Agreement. The Loan Fee shall be deemed fully earned and non-refundable when paid, whether or not any Loan Proceeds are disbursed at any time.
- 2.10 **Lender Holdback.** At loan closing, Lender will holdback \$515,000.00 ("Holdback Amount") in Loan Proceeds. The Holdback Amount will be used to payoff the Approved Liens. The Holdback Amount shall be disbursed subject to the conditions set forth below.
- (a) Borrower is not in default under any terms and provisions of the Note, Deed of Trust, or any other documents;
 - (b) The Holdback Amount shall be disbursed on November 14, 2005 or the date prepayment penalty expires for Parcel A of the Deed of Trust, which currently are secured by: (a) first lien deed of trust dated November 14, 2002, executed by Mary Lou Sisler-Williams, as trustor for the benefit of Accredited Homes Lenders, Inc., as beneficiary; and (b) a second lien deed of trust dated November 23, 2004, executed by Borrower, as trustor for the benefit of Mary Lou Sisler-Williams and Roger William, as beneficiary;
 - (c) Borrower to provide Lender with copies of updated demand for payoff, executed full reconveyance of the first and second deeds of trust or any other documents deemed acceptable to Lender;
 - (d) Lender's, Deed of Trust is a first and valid lien as to Parcel A in the original amount of \$2,000,000.00.
 - (e) Any and all costs arising out of or as a result of this holdback agreement, including all costs of Lender, costs of recordation, title insurance endorsements, etc., shall be paid by Borrower, but in no event shall any costs be borne by Lender.

ARTICLE III – REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that as of the date of this Agreement, the date the Loan Proceeds are disbursed to Borrower, that:

- 3.1 **Legal Status.** Borrower is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of California, and is qualified and licensed to do business in the State of California and all other jurisdictions in which such qualification or licensing is required.
- 3.2 **Authorization and Validation.** The execution, delivery and performance by Borrower of this Agreement, the Note, and all documents securing the repayment of the indebtedness evidenced by the Note, including, without limitation, the Deed of Trust and other documents described above (all documents securing such repayment being collectively called the "Security Documents"), and the borrowings evidenced by the Note (a) are within the powers of Borrower, (b) have received the approval of Borrower's principals, if any, (c) have received all necessary governmental approvals, and (d) will not violate any provisions of law, any order of any court or other agency of government, or any indenture, agreement or any other instrument to which Borrower is a party or

by which Borrower, or any of its property, is bound, or be in conflict with, result in any breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of its property or assets, except as contemplated by the provisions of this Agreement. This Agreement, the Note and each of the Security Documents, when executed and delivered to Lender, will constitute legal, valid and binding obligations of Borrower enforceable in accordance with their terms, except as such terms may be limited by bankruptcy, insolvency, reorganization or similar laws limiting the rights of creditors.

- 3.3 **Financial Information.** All financial data that has been given to Lender with respect to Borrower and the Property (a) is complete and correct in all material respects, (b) accurately represents the financial condition of Borrower and the Property as of the date on which, and the results of Borrower's or the Property's operations for the period for which, the same have been furnished, and (c) has been prepared in accordance with financial accounting principles fairly presenting the financial status of Borrower and consistently applied throughout the periods covered. All balance sheets disclose all known liabilities, direct and contingent, as of their respective dates. There has been no adverse change in the financial condition of Borrower since the date of the most recent of such financial statements given to Lender other than changes in the ordinary course of business, none of which changes has been materially adverse.
- 3.4 **No Defaults.** Borrower is not a party to any agreement or instrument that will materially interfere with its performance under this Agreement or the Security Documents; and is not in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions set forth in any agreement or instrument to which it is a party, which default would have a material and adverse effect upon its ability to perform under this Agreement or the Security Documents.
- 3.5 **Correct Information.** All reports, papers, data and information given to Lender with respect to Borrower or the Property are accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matters thereof.
- 3.6 **Title.** Borrower has good and marketable title to the Property and good and marketable title to all fixtures and personalty now located on the Property, free and clear of any liens, charges, encumbrances, security interests and adverse claims whatsoever except as approved in writing by Lender (or reflected of record at Closing).
- 3.7 **Permits, Franchises.** Borrower possesses all permits, memberships, franchises, contracts, and licenses required and all trademark rights, trade names, trade name rights, patents, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict with the rights of others.
- 3.8 **Improvements.** All improvements located upon the Property have been constructed in accordance with all governmental laws, statutes, ordinances, rules and regulations and requirements; all of said improvements are structurally sound, free of construction defects and suitable for their present and intended uses; there is adequate ingress to and egress from the Property, public water service, sanitary sewer service, electricity, gas, telephone and all other utility services sufficient for the uses of the Property; the Property is zoned for its present and intended uses; and all such uses comply with any and all laws, statutes, ordinances, rules and regulations, covenants, conditions and restrictions applicable to said uses or which relate to or affect the Property.
- 3.9 **Taxes.** Borrower has filed all federal, state, county and municipal income tax returns required to have been filed by it, and has paid all taxes which have become due pursuant to such returns or pursuant to any assessments received by it, and Borrower does not know of any basis for

additional assessment in respect of any such taxes. Borrower has no knowledge of any pending assessments or adjustments of its taxes payable with respect to any year.

- 3.10 **Pending Litigation.** There is not now pending against or affecting Borrower or the Property, nor, to the knowledge of Borrower is there threatened any claim, investigation, action, suit or proceeding at law, or in equity, or before any court or administrative agency which, if adversely determined, would materially impair or affect the Property or the financial condition or business operations of Borrower.
- 3.11 **Unpaid Materialmen.** No person, firm or corporation has performed any construction work or furnished services in connection with any construction carried on or to be carried on at the Property who or which remains unpaid at the time of execution of this Agreement other than payments to be made in connection with the advances hereunder.
- 3.12 **Agreements and Deposits.** Borrower has not received any payment, deposit, rental prepayment or other amounts of any nature from any occupant or prospective occupant, nor executed any lease or purchase agreement with any such occupant or prospective occupant, of the Property or any part thereof without the written consent of Lender.
- 3.13 **Encumbrances.** Except for Approved Liens, no other encumbrance on the Property exists or is contemplated which shall be subordinate to the Deed of Trust, and Borrower agrees that no junior lien of any nature against all or any portion of the Property shall be given, permitted or suffered by Borrower without Lender's written consent. Said consent shall be at Lender's sole option and discretion.
- 3.14 **Principal Place of Business.** Borrower's principal place of business is at the address set forth in this Agreement as the address for notices to Borrower. Borrower shall promptly notify Lender of any change in Borrower's principal place of business at any time prior to repayment in full to Lender of the indebtedness secured by the Security Documents.
- 3.15 **Compliance With Zoning Ordinances And Environmental Laws.** Borrower and the Property presently comply with, and will in the future comply fully with, all applicable Laws, and all permits and approvals issued thereunder, affecting the improvements to be located upon the Property, the sale, operation, leasing or financing of the Property and the intended occupancy, use and enjoyment of the Property, including, but not limited to, all applicable subdivision Laws, licenses and permits, building codes, zoning ordinances, environmental protection Laws, flood disaster Laws, and all Laws pertaining to industrial hygiene and the environmental conditions on, under or about the Property, including, but not limited to, soil and groundwater condition. Borrower does not presently, and will not in the future, use, store, manufacture, generate, transport to or from, or dispose of any toxic substances, hazardous materials, hazardous wastes, radioactive materials, flammable explosives or related material on or in connection with the Property or the business of Borrower on the Property. Borrower does not presently, and will not in the future, permit any lessee on the Property to use, store, manufacture, generate, transport to or from, or dispose of any toxic substances, hazardous materials, hazardous waste, radioactive materials, flammable explosives, related material on or in connection with the Property or the business on the Property. ("Toxic substances," "hazardous materials" and "hazardous waste" shall include, but not be limited to, such substances, materials and wastes which are or become regulated under applicable Laws or which are classified as hazardous or toxic under applicable Laws.) Borrower shall not seek, make or consent to any change in the zoning, conditions of use, or any other applicable land use permits, approvals or regulations pertaining to the Property, or any portion thereof, which would constitute a violation of the warranties and representations herein contained, or would otherwise impair the ability of Borrower to complete construction of any improvements now underway constituting the Property, or would change the nature of the use or occupancy of the Property.

- 3.16 **Violation of Laws.** Borrower has no knowledge of any violations or notices of violations of any Laws relating to the Property.

ARTICLE IV – CONDITIONS PRECEDENT

As a condition to Lender's obligation to make the Loan and of Borrower's right to receive any of the proceeds of the Loan, the following conditions precedent and other requirements shall have been satisfied:

- 4.1 **Title Policy.** Borrower shall furnish to Lender an ALTA Lender's Policy of Title Insurance, with such endorsements as Lender may require, which shall insure that the Deed of Trust is a first lien on the Property, free and clear of all liens, encumbrances and restrictions or other matters except those, if any, to which Lender may agree to take subject to in writing. Said Policy of Title Insurance shall be in the principal amount of the Loan.
- 4.2 **Reports and Other Documents.** Borrower shall furnish to Lender, upon Lender's request and at Borrower's sole cost and expense (a) a report prepared by a licensed environmental consultant acceptable to Lender indicating to Lender's satisfaction that no "Hazardous Material" (as that term is defined in the Environmental Indemnity Agreement) is present in, on, under or about the Property in violation of applicable laws, (b) a soils report relating to the Property by a licensed registered soils engineer acceptable to Lender indicating to Lender's satisfaction that no unusual or hazardous soils conditions exist in, on, under or about the Property, (c) all of the documents required under Section 2.5 above, (d) any other documents or funds required by this Agreement, and (e) an appraisal of the Property by or on behalf of Lender utilizing such appraiser as Lender may determine in its sole discretion.
- 4.3 **Insurance.** Borrower shall furnish to Lender, at Borrower's sole cost and expense, such policies of insurance in such amounts, form and issued by a company or companies satisfactory to Lender, with standard mortgagee's endorsements naming Lender as first mortgagee under the hazard insurance and as additional insured under the liability insurance, and shall also deliver to Lender such other insurance as Lender, from time to time, may require upon notice to Borrower in writing (other than earthquake and terrorism insurance). The all risk/special form property insurance shall provide for the loss proceeds to be payable to Lender or its assigns as mortgagee. In the event any portion of the Property is determined to be in a Flood Hazard Area at any time as reported by the U.S. Secretary of the Department of Housing and Urban Development, Borrower shall obtain and at all times maintain flood hazard insurance satisfactory to Lender. The originals of all such policies shall be deposited with Lender. It is understood and agreed that the approval of any insurer by Lender shall not be deemed or construed to be any representation, warranty or determination by Lender as to the form or legal sufficiency of any insurance contract, or the solvency of any insurance company, or the sufficiency of the amounts carried for the protection of Borrower or any other person, and Borrower assumes the full risk, responsibility and liability, if any, with respect to such matters. If Borrower fails to secure and maintain insurance as required hereunder, Lender shall have the immediate right (without waiver of any other rights Lender may have upon an Event of Default under this Agreement) to secure same in the name and for the account of Borrower, in which event Borrower shall pay the costs thereof upon demand by Lender with interest thereon at the default rate as set forth in the Note from the date of disbursement by Lender until paid in full, and all such amounts shall be deemed secured by the Security Documents.
- 4.4 **No Defaults.** Borrower shall furnish written notice to Lender upon Lender's request that no default exists under this Agreement or under the Note or Security Documents and that each of the representations and warranties of Article 3 hereof is true.
- 4.5 **Legal Review.** All legal matters incidental to the granting of the Loan shall be satisfactory to counsel of Lender.

- ## 4.6

ARTICLE V – AFFIRMATIVE COVENANTS

Borrower covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Borrower shall:

- ## 5.1

- 5.6 **Litigation.** Promptly give notice in writing to Lender of any litigation pending or threatened against Borrower or the Property having a potential or claimed liability in excess of Twenty-Five Thousand Dollars (\$25,000.00).
- 5.7 **Other Notifications.** Promptly (but in no event more than five (5) business days after the occurrence of each such event or matter) give notice in writing to Lender of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, under this Agreement or under the Note or any of the Security Documents; (b) any default by either Borrower or the lessee under any lease of all or any portion of the Property (other than residential leases); (c) any termination or cancellation of any insurance policy which Borrower is required to maintain; (d) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting any of Borrower's property, or the Property, in excess of Ten Thousand Dollars (\$10,000.00) in the aggregate; (e) the change in the name of the organizational structure, dissolution or adverse change in financial condition of Borrower; (f) the death, disability or legal incapacity of James C. Gianulias and William L. Bachelor.
- 5.8 **Right Of Entry.** Lender and Lender's employees or agents shall have the right at all times with prior written notice to enter upon Borrower's premises for whatever purpose Lender deems appropriate, including, without limitation, inspection of the premises and the posting of such notices and other written or printed material thereon as Lender may deem appropriate or desirable.
- 5.9 **Terrorism and Anti-Money Laundering.** Borrower warrants and agrees as follows:
- (a) As of the date hereof and throughout the term of the Loan: (i) Borrower; (ii) any Person controlling or controlled by Borrower; (iii) if Borrower is a privately held entity, any Person having a beneficial interest in Borrower; or (iv) any Person for whom Borrower is acting as agent or nominee in connection with this transaction, is not an OFAC Prohibited Person.
 - (b) To comply with applicable U.S. Anti-Money Laundering Laws and regulations, all payments by Borrower to Lender or from Lender to Borrower will only be made in Borrower's name and to and from a bank account of a bank based or incorporated in or formed under the laws of the United States or a bank that is not a "foreign shell bank" within the meaning of the U.S. Bank Secrecy Act (31 U.S.C. § 5311 et seq.), as amended, and the regulations promulgated thereunder by the U.S. Department of the Treasury, as such regulations may be amended from time to time.
 - (c) To provide Lender at any time and from time to time during the term of the Loan with such information as Lender determines to be necessary or appropriate to comply with the Anti-Money Laundering Laws and regulations of any applicable jurisdiction, or to respond to requests for information concerning the identity of Borrower, any Person controlling or controlled by Borrower or any Person having a beneficial interest in Borrower, from any governmental authority, self-regulatory organization or financial institution in connection with its anti-money laundering compliance procedures, or to update such information.
 - (d) The representations and warranties set forth in this Section 5.9 shall be deemed repeated and reaffirmed by Borrower as of each date that Borrower makes a payment to Lender under the Note, this Agreement and the other Loan Documents or receives any payment from Lender. Borrower agrees promptly to notify Lender in writing should Borrower become aware of any change in the information set forth in these representations.

ARTICLE VI – NEGATIVE COVENANTS

Borrower further covenants that so long as the Loan remains outstanding or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Lender hereunder or under any contracts or instruments executed in connection herewith remain outstanding, and until payment in full of the Note, Borrower will not without prior written consent of Lender:

- 6.1 **Use of Funds.** Use any of the proceeds of the Loan for any purposes other than as stated in Section 2.4 hereof.
- 6.2 **Removal of Personalty.** Install or otherwise use any materials, equipment or fixtures purchased and/or installed under a conditional sales agreement, lease or under any security agreements or similar agreements however denominated whereby the right is reserved or accrued to anyone to remove or repossess any such items or whereby any person other than Lender reserves or acquires a lien upon such items. Borrower will not at any time remove or permit the removal of any of the fixtures or personalty located on or used in connection with the Property from the Property without the prior written consent of Lender unless actually replaced by an article of equal suitability and value, owned by Borrower, free and clear of any lien or security interest.
- 6.3 **Assessment Districts.** Join, participate in or consent to the formation of any special assessment or other assessment district which will result in any lien being placed on all or any portion of the Property to secure the payment thereof without the prior written approval of Lender.
- 6.4 **Liens.** Create, suffer or permit to exist any security interest, liens, claims or encumbrances on any assets pledged to Lender, other than disclosed to Lender in writing prior to the date hereof.
- 6.5 **Leases.** Except with respect to leases of 2,500 square feet or less, enter into any new leases of all or any portion of the Property, or amend, modify or cancel any such leases, without the prior written approval of Lender, which shall not be unreasonably withheld.

ARTICLE VII – EXCULPATORY PROVISIONS

Borrower acknowledges, understands and agrees as follows:

- 7.1 **Status as Lender.** The relationship between Borrower and Lender is, and shall at all times remain, solely that of borrower and lender.
- 7.2 **Defective Construction.** Lender owes no duty of care to protect Borrower against negligent, faulty, inadequate or defective building or construction. Lender shall in no way be liable for any acts or omissions of Borrower, or any agent, contractor or other person furnishing labor and/or materials used in relation to any construction at the Property.
- 7.3 **Non-Liability.** Lender shall not be responsible or liable to Borrower for any loss, damage or expense of any kind to person or property caused by Lender's activities taken in accordance with this Agreement whether as to Borrower or as to any other persons or group of persons or for negligent, faulty, inadequate or defective building or construction and Borrower shall protect, indemnify, defend and hold Lender free and harmless from any such liability, loss, damage or expense, including any attorneys' fees incurred, relating to acts or occurrences prior to foreclosure. The consent or approval by Lender shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.
- 7.4 **No Representation.** By accepting or approving anything required to be observed, performed or fulfilled, or to be given to Lender pursuant hereto or pursuant to the Security Documents, including, but not limited to, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal or insurance policy, Lender shall not be deemed to

have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation to anyone with respect thereto by Lender.

- 7.5 **Brokers' Fees.** Borrower agrees to protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender free and harmless from any responsibility, cost and/or liability, including, without limitation, any attorneys' fees and costs incurred, for the payment of any commission, charge or brokerage fees which may be payable in connection with this Loan, as a result of agreement of Borrower or any party directly or indirectly related to Borrower, it being understood that any such commission, charge or brokerage fees will be paid directly by Borrower to the party(ies) entitled thereto.
- 7.6 **Indemnity.** Borrower agrees to and shall protect, indemnify, defend (with counsel acceptable to Lender) and hold Lender, its affiliates, and their directors, officers, agents, employees, successors and assigns free and harmless from and against any and all claims, actions, damages, demands, liabilities, losses, costs and expenses (including without limitation, attorneys' fees) directly or indirectly arising out of or in any way attributable to (a) all actual or alleged damage or injury of whatsoever nature arising out of or in any way connected with the Property prior to foreclosure of the Deed of Trust (b) Lender's performance of any act permitted under this Agreement, the Note or any of the Security Documents (unless arising out of Lender's gross negligence or willful misconduct), (c) breach of any representation or warranty made by Borrower or any obligation of Borrower contained in this Agreement, and (d) any allegation that Lender is liable for any act or omission committed by or on behalf of Borrower in connection with the ownership, operation or development of the Property and the Project prior to foreclosure of the Deed of Trust. Upon demand by Lender, Borrower shall defend any action or proceeding brought against Lender covered by this indemnity, at Borrower's sole cost and expense, unless Lender elects to conduct its own defense at the expense of Borrower, in which event all fees and costs of such defense shall be paid by Borrower upon demand and shall bear interest at the default rate set forth in the Note from the date of demand until paid.

ARTICLE VIII – TAXES AND ASSESSMENTS

Borrower shall pay, prior to delinquency, all taxes, assessments, levies and charges imposed by any public authority or utility company which are or may become a lien affecting the Property or any part thereof or interest therein, including, but without limitation, assessments on any appurtenant water stock. Upon the occurrence and during the continuance of an Event of Default, at Lender's option and upon its demand, Borrower shall, until all indebtedness secured by the Security Documents has been paid in full, if the Loan is in default pay to Lender each month an amount estimated by Lender to be equal to the taxes, assessments, levies, charges and premiums for fire, other hazard and mortgage insurance next to become due, divided by, in each instance, the number of months to lapse preceding the month in which the same, respectively, will become due. All sums so paid (hereinafter referred to as "Impounds") shall not bear interest, may be commingled with the general funds of Lender, and shall, unless Borrower is otherwise in default hereunder or under the Note or Security Documents, be released to Borrower for application to or shall be applied directly to payment of such taxes, assessments, levies, charges and insurance premiums; provided, however, that at the option of Lender all or any part thereof may be applied to indebtedness secured by the Security Documents while Borrower is in default thereunder.

ARTICLE IX – BOOKS AND RECORDS

- 9.1 **Books of Account.** Borrower shall maintain full and complete books of account and other records reflecting the results of its operations (in conjunction with its other operations as well as specifically its operation of the Property), in accordance with accounting principles consistently applied, and in addition to the reports and data specifically requested by Lender pursuant to this Agreement, shall furnish or cause to be furnished to Lender, at any time and from time to time,

such financial data as Lender shall reasonably request relating to the ownership or operation of the Property.

- 9.2 **Financial Information.** Borrower understands, acknowledges and agrees that Lender requires, as a part of Lender's standard procedures and practices, updated financial information regarding borrowers, principals of borrowers and guarantors. Accordingly, Borrower hereby agrees to provide the following updated financial information to Lender for all parties and at the times herein specified:

- (a) As soon as available and in any event, no later than 90 days following the end of Borrower's fiscal year, a copy of Borrower's annual Financial Statements for the year ended, prepared by Borrower in form and substance acceptable to Lender;
- (b) As soon as available and in any event, no later than 15 days after the filing date, giving effect to extensions for the tax reporting period ended, a copy of Borrower's federal income tax returns, prepared by a tax professional satisfactory to Lender, including schedules, K-1's and exhibits;
- (c) As soon as available and in any event, no later than 60 days following the end of Cameo Homes, a California corporation ("Cameo Homes") fiscal year, a copy of Cameo Homes annual Financial Statements for the year ended, prepared by Cameo Homes in form and substance acceptable to Lender;
- (d) As soon as available and in any event, no later than 90 days following the end of James C. Gianulias ("Gianulias") fiscal year effective December 31st of such year, a copy of Gianulias annual Financial Statements representing both personal and business investments assets and liabilities for the year ended, prepared by Gianulias in form and substance acceptable to Lender; and
- (e) As soon as available and in any event, no later than 15 days after the applicable filing date for the tax reporting period ended, giving effect to extensions filed a copy of Cameo Homes' and Gianulias federal income tax returns, prepared by a tax professional satisfactory to Lender, including schedules, K-1's and exhibits.

Borrower further agrees that the failure of Borrower to comply or to cause compliance with the foregoing requirements within the time and in the manner set forth herein shall after expiration of the applicable notice and cure periods, constitute a default under this Agreement.

- 9.3 **Property Information.** Intentionally deleted.

- 9.4 **Appraisals.** Upon receipt of written notice from Lender that either Lender or any federal or state regulatory agencies having jurisdiction over Lender reasonably believe that the fair market value of the Property may have substantially declined in a material respect, since the date of Lender's last appraisal of the Property, Lender shall obtain at Borrower's expense, as promptly as possible, an updated appraisal of the Property in form and substance satisfactory to Lender and such regulatory agencies from an appraiser satisfactory to Lender in its sole discretion. The foregoing notwithstanding, Borrower shall not be required to pay for more than one such appraisal in any twelve (12) month period.

- 9.5 **Lender Audit Rights.** Lender and its agents and representatives shall have the right to inspect and audit all books and records of Borrower pertaining to the statements, reports and information required under this Article 9 in order to obtain and verify such information as Lender deems necessary appropriate in its reasonable judgment in the normal course of business. The cost of any and all such inspections and audits to be conducted no more than once each year shall be paid by Borrower. Provided no Event of Default has occurred and is continuing under this

Agreement, Lender shall give Borrower no less than seventy-two (72) hours' notice prior to exercising its rights hereunder.

- 9.6 **Further Assurances.** Borrower, upon the request of Lender, will at its expense, execute, acknowledge and deliver such further instruments (including, without limitation, a declaration of no set-off) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes hereof and of the Security Documents, and/or subject to the liens thereof any portion of the Property or any interest relating thereto concerning which Lender may have any doubt as to its being subject to the lien or charge of the Security Documents.

ARTICLE X – EVENTS OF DEFAULT

- 10.1 **Events of Default.** The occurrence of any of the following shall be deemed an "Event of Default" under this Agreement:

- (a) Owner shall fail to pay within ten (10) days of when due any principal or interest under the Note, or shall fail to pay within ten (10) days of when due any fees, costs, charges, or other amounts payable under this Agreement, the Note or any of the Security Documents; or
- (b) Any of the warranties, covenants or representations made by Borrower herein or in the Note, Security Documents or other documents executed by Borrower in connection with the Loan shall have been false or misleading in any material respect when made; or
- (c) Borrower shall fail to observe or perform within the Grace Period any non-monetary term, obligation, agreement or other provision contained herein or in the Note, the Security Documents or in any other contract or instrument executed in connection herewith; or
- (d) Any non-monetary Event of Default under the Note, any of the Security Documents or any other documents executed in connection with the Loan; or
- (e) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; or
- (f) If Borrower should commit any act of bankruptcy or if any relief under the Bankruptcy Act is sought by or against Borrower or if a receiver is appointed to take charge of the assets or affairs of Borrower or if Borrower should make an assignment for the benefit of creditors, or if Borrower should become insolvent, or upon any liquidation or termination of Borrower; or
- (g) Except as specifically allowed in this Agreement, if Borrower shall convey title to or any interest in any of the Property, or
- (h) The dissolution or liquidation of Borrower or any of its principals, or Borrower, its partners or the partners of any of its general partners, shall take action seeking to effect the dissolution or liquidation of Borrower or any of its general partners; or
- (i) The filing of a notice of judgment lien against Borrower or the recording of any abstract of judgment against Borrower or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower, or the entry of a judgment, order or decree against Borrower, any or all of which would have a material and adverse effect upon Borrower's ability to perform under this Agreement or the Security Documents, or

- (j) The Deed of Trust shall cease to be a legal, valid, binding and enforceable lien or security interest on all or any portion of the property encumbered thereby with not less than the same priority as on the date of recordation of the Deed of Trust, or
- (k) If Borrower defaults in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument pursuant to which Borrower has incurred any debt or other liability to any person or entity, including without limitation, Lender which default is not cured within any grace and cure period expressly provided in such contract or this Agreement; or
- (l) Intentionally deleted
- (m) Intentionally deleted
- (n) A levy shall be made on the Property under any process and such levy shall not be bonded over or shall continue unstayed for thirty (30) days or more; or
- (o) Execution shall have been levied against the Property or any lien creditor shall commence suit to enforce a judgment lien against the Property and such action or suit shall not have been bonded or shall continue unstayed for a period of thirty (30) days or more; or
- (p) Intentionally deleted
- (q) Borrower has made certain statements and disclosures in order to induce Lender to make the Loan and enter into this Agreement, and, in the event Borrower has made material misrepresentations, Lender may treat such misrepresentation or omission as a breach of this Agreement. Such action shall not affect any remedies Lender may have for such misrepresentation or non-disclosure, as such, or under its Deed of Trust for such misrepresentation or concealment; or
- (r) Intentionally deleted
- (s) There is a default under the terms of the Continuing Guaranty.

ARTICLE XI – REMEDIES

11.1 Remedies Upon Default. Upon or at any time after the happening of any Event of Default hereunder, Lender, in addition to any and all rights and remedies otherwise available to it by law or in equity, shall have the following rights and remedies:

- (a) Declare all Loan funds disbursed hereunder to be due and payable and terminate any obligation of Lender to disburse any of the funds hereunder to Borrower and proceed as authorized by law to satisfy the indebtedness of Borrower to Lender, and, in that regard, Lender shall be entitled to all of the rights, privileges and benefits contained in the Security Documents or any other instrument relating to the hypothecation of the Property as such collateral security for the performance by Borrower of the obligations evidenced by said Note and by this Agreement.
- (b) Take possession of the Property and let contracts for or otherwise proceed to operate and maintain the same, and all costs of operating and maintaining the Property shall be considered and be an additional loan to Borrower and the repayment thereof, together with interest thereon at the default interest rate set forth in the Note, shall be secured by

the Security Documents and shall be repaid within thirty (30) days after demand therefore, and Borrower agrees to pay the same.

- (c) Upon the happening of any default contemplated herein which may be cured by payment of money, Lender shall have the right (but not the obligation) to make such payment from its own funds. The making by Lender of such payment out of Lender's own funds shall not, however, be deemed to cure such default by Borrower, and the same shall not be so cured unless and until Borrower shall have reimbursed Lender for such payment. If Lender advanced its own funds for such purposes, such funds shall be considered advances under the Note and shall be secured by the Security Documents, notwithstanding that such advances may cause the total amount advanced hereunder to exceed the face amount of the Note or the amount committed to be advanced pursuant to this Agreement, and Borrower shall immediately upon demand reimburse Lender with interest at the default interest rate provided for in the Note from the date of such advance until the date of reimbursement.

11.2 **Application of Other Funds.** Upon acceleration of the due date of the Note, Lender's obligations to disburse funds under any other loans from Lender to Borrower, and any other funds held on account of Borrower, shall forthwith terminate; and Lender may, at its option, apply all or any part of such funds as it deems appropriate in its sole discretion, provided that such application shall not operate to waive or cure any default existing hereunder or under the Note or Security Documents, nor to invalidate any Notice of Default or any act done pursuant to such notice and shall not prejudice any rights of the Beneficiary or Trustee under the Deed of Trust.

11.3 **Remedies Cumulative.** All remedies of Lender provided for herein are cumulative and shall be in addition to any and all other rights and remedies provided in the Note or Security Documents, or provided by law. The exercise of any right or remedy by Lender hereunder shall not in any way constitute a cure or waiver of default hereunder or under the Note or Security Documents, or invalidate any act done pursuant to any notice of default, or prejudice Lender in the exercise of any of its rights hereunder or under the Note or Security Documents unless, in the exercise of said rights, Lender realizes all amounts owed to it under the Note, the Security Documents and hereunder.

11.4 **Contest of Third Party Claims.** Notwithstanding anything to the contrary herein or in other loan documents to the contrary, Borrower shall have the right to contest in good faith any claim, demand, levy or assessment by any third party, the assertion of which would constitute a default hereunder. Any such contest shall be prosecuted diligently and in a manner not prejudicial to Lender or its rights hereunder. Upon demand by Lender, Borrower shall make suitable provision by deposit of funds with Lender, by bond satisfactory to Lender, or by such other device as Lender may approve in writing, for the possibility that the contest will be unsuccessful. Such provision shall be made within ten (10) days after demand therefor and, if made by deposit of funds with Lender, the amount so deposited shall be disbursed in accordance with the resolution of the contest either to Borrower or the adverse claimant.

11.5 **No Waivers.** No waiver by Lender of any default or breach by Borrower hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and it shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition.

ARTICLE XII – SURVIVAL OF WARRANTIES AND COVENANTS

The warranties, representations, covenants and agreements set forth herein and in the Security Documents shall survive the making of the Loan and the execution and delivery of the Note, and shall

continue in full force and effect until the indebtedness secured by the Security Documents shall have been paid in full.

ARTICLE XIII – ASSIGNMENT

- 13.1 **Borrower's Assignment.** Borrower shall not assign this Agreement or any interest it may have in the monies due hereunder, or convey or encumber the Property or any personalty or fixtures now or hereafter located thereon without the prior written consent of Lender.
- 13.2 **Lender's Assignment.** Lender may at any time assign this Agreement, the Note, Security Documents, and upon such assignment and assumption by the assignee, Lender shall have no further obligation or liability of any nature in connection herewith. Upon such assignment, the provisions of this Agreement shall continue to apply to the Loan and such assignee shall be substituted in the place and stead of Lender hereunder with all rights, obligations and remedies of Lender herein provided, including, without limitation, the right to so further assign this Agreement, the Note, the Security Documents.
- 13.3 **Participation.** Borrower understands that Lender may transfer and assign its interest in the Loan, this Agreement and the Security Documents, pledge its interest in the Loan, this Agreement and the Security Documents or grant or sell participations in some or all of Borrower's indebtedness outstanding under the Loan. In connection with any such transaction, Lender may disclose to each prospective and actual transferee, pledgee, purchaser or participant, any and all documents and information relating to the Loan. Borrower shall execute such estoppels and confirmations as Lender may require in order to facilitate such financings or participations.

ARTICLE XIV – ARBITRATION OF DISPUTES

EXCEPT AS SPECIFICALLY PROVIDED HEREIN, ALL DISPUTES, CLAIMS, OR CONTROVERSIES (WHETHER SOUNDING IN TORT OR CONTRACT OR BASED UPON A STATUTE) (HEREINAFTER "CLAIMS") ARISING OUT OF, BASED UPON, OR RELATING TO THIS AGREEMENT SHALL BE SUBMITTED TO BINDING ARBITRATION BEFORE A RETIRED JUDGE OF JAMS, LLC IN CALIFORNIA PURSUANT TO THE JAMS, LLC COMPREHENSIVE ARBITRATION RULES AND PROCEDURES. JUDGMENT UPON THE ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF AND SHALL BE FINAL, BINDING, AND NONAPPEALABLE. NOTWITHSTANDING THE FOREGOING, THIS CLAUSE SHALL NOT:

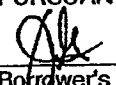
- (a) LIMIT OR PROHIBIT LENDER FROM BRINGING ANY ACTION IN ANY COURT OF COMPETENT JURISDICTION FOR INJUNCTIVE RELIEF; FOR APPOINTMENT OF A RECEIVER; FOR PROVISIONAL REMEDIES, INCLUDING TEMPORARY PROTECTIVE ORDERS AND WRITS OF ATTACHMENT; OR FOR JUDICIAL FORECLOSURE; AND THE FILING OF SUCH ACTIONS BY LENDER SHALL NOT
 - (i) CONSTITUTE A WAIVER OF THIS ARBITRATION PROVISION; OR
 - (ii) LIMIT THE COURT FROM REFERRING AS MUCH OF THE CLAIMS IN THE ACTION TO ARBITRATION AS POSSIBLE;
- (b) LIMIT OR PROHIBIT LENDER FROM EXERCISING ANY OF ITS RIGHTS AS A LENDER UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THE INVOCATION OF THE POWER OF SALE UNDER ANY DEED OF TRUST OR THE USE OF ANY SET-OFF OR LIEN RIGHTS;

- (c) APPLY TO CLAIMS UNDER THE ENVIRONMENTAL INDEMNITY AGREEMENT GIVEN IN CONNECTION WITH THE LOAN, WHICH CLAIMS MAY BE FILED IN ANY COURT OF COMPETENT JURISDICTION.

THIS ARBITRATION PROVISION SHALL BE DEEMED TO BE SELF-EXECUTING AND IN THE EVENT THAT BORROWER FAILS TO APPEAR AT ANY PROPERLY NOTICED ARBITRATION PROCEEDING, AN AWARD MAY BE ENTERED AGAINST BORROWER NOTWITHSTANDING ITS FAILURE TO APPEAR.

THE ARBITRATOR IS SPECIFICALLY AUTHORIZED TO, AND AS APPROPRIATE, SHALL RECOMMEND OR AWARD TO THE PREVAILING PARTY IN THE ARBITRATION PROCEEDINGS ITS REASONABLE ATTORNEYS' FEES AND COSTS, INCLUDING, WITHOUT LIMITATION, JAMS, LLC ADMINISTRATION FEES AND THE ARBITRATOR'S FEES. THE PREVAILING PARTY SHALL ALSO BE ENTITLED TO RECOVER THE REASONABLE ATTORNEYS' FEES AND COSTS IT INCURS IN CONNECTION WITH THE CONFIRMATION OF THE AWARD AND ANY PROCEEDINGS REQUIRED TO ENFORCE A JUDGMENT BASED ON THE AWARD.

BY EXECUTING THIS AGREEMENT, BORROWER DOES HEREBY WAIVE TO THE FULLEST EXTENT POSSIBLE ITS RIGHT TO JURY TRIAL UNDER THE UNITED STATES CONSTITUTION, THE CONSTITUTION OF THE STATE OF CALIFORNIA AND ALL APPLICABLE STATUTES, AND SUCH WAIVER SHALL EXTEND TO ANY AND ALL CLAIMS, REGARDLESS OF WHETHER SUCH CLAIMS ARE ULTIMATELY ARBITRATED PURSUANT TO THIS PROVISION OR DECIDED THROUGH JUDICIAL PROCEEDINGS.


Borrower's Initials


Lender's Initials

ARTICLE XV – MISCELLANEOUS

- 15.1 **Amendment.** This Agreement, the Security Documents and the Note, and the terms of each and all of them, may not be changed, waived, discharged or terminated, except by an instrument or instruments in writing signed by the party against which enforcement of the change, waiver, discharge or termination is asserted.
- 15.2 **Additional Fees.** In the event, and if for any reason, the Loan is not paid in full on or before the Maturity Date of the Note, and Lender elects not to immediately proceed with foreclosure proceedings, whether by formal or informal agreement, Borrower shall pay to Lender a fee which is to be established at the Maturity Date, for each consecutive thirty (30) day period or any portion thereof after the Maturity Date, in addition to the interest provided, which fee shall not be less than the proportionate amount of the fee for the initial period of the Loan (giving effect to extensions).
- 15.3 **Return of Documents.** If the Loan is not consummated within thirty (30) days after the date hereof, Borrower shall return all documents and instruments to Lender upon demand.
- 15.4 **Regulatory Restrictions.** It is understood and agreed by Borrower that Lender shall not be obligated to disburse any proceeds of the Loan, notwithstanding any language herein or in any other document or instrument executed in connection with the Loan, if and so long as the making of such disbursement would cause the Loan to be in violation of any law or regulation applicable to Lender, including but not limited to legal lending requirements.
- 15.5 **Notices.** All notices required or permitted by this Agreement shall be in writing and may be delivered in person to either party or may be sent by registered or certified mail, with postage prepaid, return receipt requested, or delivered by Federal Express or any other courier service guaranteeing overnight delivery, charges prepaid, or may be transmitted by facsimile with a hard copy to follow via overnight courier and addressed:

Lender: CALIFORNIA NATIONAL BANK
221 South Figueroa Street, Suite 400
Los Angeles, CA 90012-2552
Attn: Jennifer Gordon, Assistant Vice President

Borrower: M.S. LLC
1105 Quail Street
Newport Beach, CA 92660
Attn: James C. Gianulias, Manager

or such other address as shall, from time to time, be supplied in writing by any party to the others. The failure of Lender to provide any courtesy copy notice hereunder shall in no event invalidate any notice otherwise given to Borrower in accordance herewith. If any notice or other document is sent by registered or certified mail, postage prepaid, with return receipt requested, addressed as above provided, the same shall be deemed served or delivered within forty-eight (48) hours after deposit in the United States mail. Notices delivered by overnight service shall be deemed to have been given twenty-four (24) hours after delivery of the same, charges prepaid, to the U.S. postal service or courier. If any notice is sent by facsimile transmission the same shall be deemed served or delivered upon receipt if followed by overnight courier. Any notice or other document sent or delivered in any other manner shall be effective only if and when received.

- 15.6 **Time of Essence.** Time is of the essence of this Agreement, and of each and every provision hereof. The waiver by Lender of any breach or breaches hereof shall not be deemed, nor shall the same constitute, a waiver of any subsequent breach or breaches.
- 15.7 **No Third Parties Benefited.** This Agreement is made for the sole benefit and protection of Borrower and Lender, and Lender's agents, successors and assigns, and no other person shall have any right of action or right to rely thereon and the parties hereto hereby agree that nothing contained in this Agreement shall be construed to vest in any contractor or the successors or assigns of any contractor, or any materialman or laborer, any interest in or claim upon the funds so set aside by this Agreement or any rights under this Agreement.
- 15.8 **Actions.** Lender shall have the right to commence, appear in, or to defend any action or proceeding purporting to affect the rights or duties of the parties hereunder or the payment of any undisbursed Loan funds, and in connection therewith Lender may pay necessary expenses, employ counsel and pay its reasonable fees. All sums paid or expended by Lender under the terms of this Agreement in excess of the Loan amount shall be considered and be a part of the Loan and the repayment thereof, together with interest thereon at the rate specified herein, shall be secured by the Security Documents and shall be immediately due and payable upon demand, and Borrower agrees to pay the same.
- 15.9 **Reliance on Representations.** Lender may conclusively assume that the statements, acts, information and representations made by Borrower or its agents contained in any affidavits, orders, receipts or other written instruments which are filed with Lender or exhibited to it are true and correct and may rely thereon without any investigation or inquiry, and any payment made by Lender in reliance thereon shall completely release Lender from liability with respect to all sums so paid.
- 15.10 **Relationship.** Nothing contained herein shall be deemed or construed by the parties hereto or any third person to create a partnership or joint venture or any association between the parties other than the relationship of lender and borrower.
- 15.11 **Headings.** The headings of the paragraphs hereof are for convenience only and shall not be deemed to be a part of or in any way modify the terms hereof.

- 15.12 **Governing Law.** This Agreement, as well as the Note and the Security Documents, and each and every provision hereof and thereof, shall be governed by and construed in accordance with the laws of the State of California.
- 15.13 **Attorneys' Fees and Costs.** If a dispute arises with regard to any of the terms, conditions or provisions of this Agreement, the prevailing party in such dispute shall be entitled to recover from the other party, in addition to any and all other rights, remedies and damages available to the prevailing party, its reasonable attorneys' fees and costs incurred in connection with such dispute.
- 15.14 **Nondiscrimination.** During the term of this Agreement, neither Borrower, its respective partners, nor any of their affiliates, employees or agents shall unlawfully discriminate against any employee or applicant for employment, or any purchaser or prospective purchaser of a Lot or Unit, because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Without limiting the generality of the foregoing, all such parties shall comply with the provisions of the California Fair Employment and Housing Act (Section 12900 et seq. of the California Government Code) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0 et seq.), the Unruh Civil Rights Act and the rules and regulations promulgated therein, and Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated therein.

IN WITNESS WHEREOF, Borrower and Lender have hereunto caused these presents to be executed on the date first above written.

"LENDER"

CALIFORNIA NATIONAL BANK,
a national banking association

By: 
Jennifer Gordon, Commercial Real Estate

"BORROWER"

M.S. LLC,
a California limited liability company

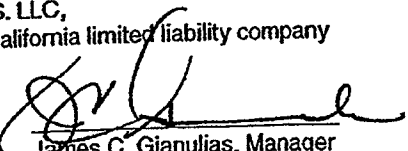
By: 
James C. Gianulias, Manager

EXHIBIT "A"
Legal Description

Commonly known as 33605 and 36625 Elizabeth Lane and 36630 Estes Street, Wildomar, California 92592.

PARCEL A:

PARCEL 1 AND 2, AS SHOWN BY PARCEL MAP 17667, ON FILE IN BOOK 119, PAGE 92, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL B:

PARCEL 3 OF PARCEL MAP NO. 12214, AS PER MAP RECORDED IN BOOK 67, PAGE 44 OF PARCEL MAPS, AS RECORDED IN THE OFFICE OF RIVERSIDE COUNTY RECORDS.

PARCEL C:

PARCEL 4 OF MAP 11793, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 61 PAGE 38 OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

APN: PARCEL A: 380-280-010-2 and 380-280-011-3

PARCEL B: 380-280-004-7

PARCEL C: 380-280-012-4



RECORDING REQUESTED BY:
FIRST AMERICAN TITLE COMPANY
3625 Fourteenth Street
Riverside California 92501

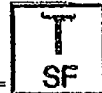
Attn: Matt Hooks, Title Officer
Order No. 0625-1568639 (22)

WHEN RECORDED MAIL TO:
California National Bank
221 South Figueroa, 3rd Floor
Los Angeles, CA 90012-2552

Attn: Manny Santa Romana
Loan No. 7600003859

M	S	U	PAGE	SIZE	DA	PCOR	NOCOR	SMF	MISC.
			7						
A	R	L			COPY	LONG	REFUND	NCHG	EXAM

Assessor's Parcel No. Parcel A: 380-280-010-2
and 380-280-011-3, Parcel B: 380-280-004-4,
Parcel C: 380-280-012-4, and Parcel D: 380-
280-009-2



**MODIFICATION AGREEMENT
AND NOTICE OF ADDITIONAL ADVANCE
(No. 1)**

THIS MODIFICATION AGREEMENT AND NOTICE OF ADDITIONAL ADVANCE (No.1) ("Modification Agreement") is entered into effective as of August 11, 2005, by and between M.S. LLC, a California limited liability company, hereinafter called "Borrower", and CALIFORNIA NATIONAL BANK, a national banking association, hereinafter called "Lender".

RECITALS

- A. Pursuant to the terms of a Term Loan Agreement between Borrower and Lender dated as of June 24, 2005 ("Loan Agreement"), Lender made a loan to Borrower in the original maximum amount of TWO MILLION AND NO/100THS/100TH DOLLARS (\$2,000,000.00) ("Loan") for the purchase of 3 parcels. Such Loan is evidenced by a Promissory Note dated June 24, 2005 executed by Borrower in favor of Lender in the original principal amount of TWO MILLION AND NO/100THS/100TH DOLLARS (\$2,000,000.00) ("Note"), and is secured by a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture filing dated June 24, 2005 ("Deed of Trust") and recorded on June 30, 2005 as Instrument No. 2005-0523673 in the Official Records of the County Recorder of Riverside County, State of California, encumbering real property as described in Exhibit A of the Deed of Trust (the "Property").
- B. On June 24, 2005, Borrower signed and delivered an Environmental Indemnity Agreement (the "Environmental Indemnity") in favor of Lender covering the Property.
- C. The Note, the Deed of Trust, the Loan Agreement and the Environmental Indemnity are collectively hereinafter referred to as the "Loan Documents."
- D. As of August 11, 2005, the Note has an outstanding principal balance of \$1,304,352.00 and undisbursed balance of \$695,648.00 for a total loan commitment \$2,000,000.00.
- E. Borrower has now requested that Lender agree to modify the terms and conditions of the Loan Documents as set forth herein and to grant Borrower an additional advance in the amount of FIVE

1568639-22

RECORDING REQUESTED BY:
FIRST AMERICAN TITLE COMPANY
3625 Fourteenth Street
Riverside California 92501

Attn: Matt Hooks, Title Officer
Order No. 0625-1568639 (22)

WHEN RECORDED MAIL TO:
California National Bank
221 South Figueroa, 3rd Floor
Los Angeles, CA 90012-2552

Attn: Manny Santa Romana
Loan No. 7600003859

Assessor's Parcel No. Parcel A: 380-280-010-2
and 380-280-011-3, Parcel B: 380-280-004-4,
Parcel C: 380-280-012-4, and Parcel D: 380-
280-009-2

COPY of Document Recorded
AUG 31 2005 as No. **0721603**
has not been compared with
original.
LARRY W. WARD
County Recorder
RIVERSIDE COUNTY CALIFORNIA

**MODIFICATION AGREEMENT
AND NOTICE OF ADDITIONAL ADVANCE
(No. 1)**

THIS MODIFICATION AGREEMENT AND NOTICE OF ADDITIONAL ADVANCE (No.1) ("Modification Agreement") is entered into effective as of August 11, 2005, by and between M.S. LLC, a California limited liability company, hereinafter called "Borrower", and CALIFORNIA NATIONAL BANK, a national banking association, hereinafter called "Lender".

RECITALS

- A. Pursuant to the terms of a Term Loan Agreement between Borrower and Lender dated as of June 24, 2005 ("Loan Agreement"), Lender made a loan to Borrower in the original maximum amount of TWO MILLION AND NO/100THS/100TH DOLLARS (\$2,000,000.00) ("Loan") for the purchase of 3 parcels. Such Loan is evidenced by a Promissory Note dated June 24, 2005 executed by Borrower in favor of Lender in the original principal amount of TWO MILLION AND NO/100THS/100TH DOLLARS (\$2,000,000.00) ("Note"), and is secured by a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture filing dated June 24, 2005 ("Deed of Trust") and recorded on June 30, 2005 as Instrument No. 2005-0523673 in the Official Records of the County Recorder of Riverside County, State of California, encumbering real property as described in Exhibit A of the Deed of Trust (the "Property").
- B. On June 24, 2005, Borrower signed and delivered an Environmental Indemnity Agreement (the "Environmental Indemnity") in favor of Lender covering the Property.
- C. The Note, the Deed of Trust, the Loan Agreement and the Environmental Indemnity are collectively hereinafter referred to as the "Loan Documents."
- D. As of August 11, 2005, the Note has an outstanding principal balance of \$1,304,352.00 and undisbursed balance of \$695,648.00 for a total loan commitment \$2,000,000.00.
- E. Borrower has now requested that Lender agree to modify the terms and conditions of the Loan Documents as set forth herein and to grant Borrower an additional advance in the amount of FIVE

HUNDRED TWENTY THOUSAND AND NO/100THS DOLLARS (\$520,000.00) and to change the description of the Property.

TERMS AND CONDITIONS

NOW, THEREFORE, for valuable consideration and the mutual promises of the parties hereto, said parties do hereby acknowledge and agree as follows:

1. **THE NOTE IS AMENDED AS FOLLOWS:**

- 1.1 In the first paragraph on page 1 of the Note, the principal amount of the loan which reads "TWO MILLION AND NO/100TH DOLLARS (\$2,000,000.00)" is hereby amended to read "TWO MILLION FIVE HUNDRED TWENTY THOUSAND AND 00/100THS DOLLARS (\$2,520,000.00)" (the "New Loan Amount"). The New Loan Amount represents the original principal amount of the Loan plus FIVE HUNDRED TWENTY THOUSAND AND NO/100THS DOLLARS (\$520,000.00) ("Additional Advance").

2. **THE DEED OF TRUST IS AMENDED AS FOLLOWS:**

- 2.1 The second paragraph on the 1st page of the Deed of Trust is hereby amended in its entirety to read as follows:

"WHEREAS, Trustor is justly indebted to Beneficiary for money actually loaned to Trustor under a Promissory Note dated June 24, 2005 ("Original Note"), in the original sum of TWO MILLION AND NO/100TH DOLLARS (\$2,000,000.00). The Original Note has been increased to TWO MILLION FIVE HUNDRED TWENTY THOUSAND AND 00/100THS DOLLARS (\$2,520,000.00), under that certain Modification Agreement and Notice of Additional Advance (No. 1) dated August 11, 2005, executed by Trustor and Beneficiary herein (the "Modification Agreement"). The terms, provisions, conditions, covenants, stipulations and agreements contained in Original Note as modified by the Modification Agreement being hereby made a part of this Deed of Trust to the same extent and with the same and like force and effect as if they were fully set forth herein." The term "Note" as used herein means the Original Note as modified by the Modification Agreement.

- 2.2 The land described in Exhibit "A" on page 1 of the Deed of Trust is hereby amended to include the land described in the "Amended Exhibit A" attached hereto and made a part hereof.

3. **THE AGREEMENT IS AMENDED AS FOLLOWS:**

- 3.1 The following Definitions on Article 1 of the Agreement are hereby amended to read as follows:

"Deed of Trust" shall mean the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated June 24, 2005, as modified by the Modification Agreement, duly executed by Borrower for the benefit of Lender, as Beneficiary, to secure the Loan and encumbering the Property and other assets and rights therein provided.

"Loan" shall mean the loan in the maximum principal sum of TWO MILLION FIVE HUNDRED TWENTY THOUSAND AND 00/100THS DOLLARS (\$2,520,000.00) described in the Recitals and in Article 2 of this Agreement.

"Loan Fee" shall mean (a) the sum of \$20,000.00 previously paid by Borrower to Lender, for the granting of the Loan and; (b) an additional sum of \$5,200.00 payable by Borrower to Lender, for the granting of the additional advance on the Loan.

"Note" shall mean the Promissory Note dated June 24, 2005, in the amount of the Loan executed by Borrower in favor of Lender to evidence the Loan and bearing interest at the rate set forth in the Note and as subsequently modified by this Modification Agreement.

- 3.2 The following definition is hereby added to Article 1 of the Loan Agreement to read as follows:

"Modification Agreement" shall mean the Modification Agreement and Notice of Additional Advance (No. 1) dated August 11, 2005, by and between Borrower and Lender.

- 3.3 Section 2.1 of the Agreement to read as follows:

"2.1 The Loan. Borrower agrees to take, and Lender agrees to make, upon the terms and conditions contained in this Agreement, a loan in the maximum principal sum of TWO MILLION FIVE HUNDRED TWENTY THOUSAND AND 00/100THS DOLLARS (\$2,520,000.00)".

- 3.4 "Exhibit "A" attached to the Agreement is amended to read as set forth in the Amended Exhibit "A" attached hereto and made a part hereof.

4. Exhibit "A" attached to the Environmental Indemnity is amended to include the Property described in the Amended Exhibit "A" attached hereto and made a part hereof.
5. Exhibit "A" attached to the UCC-1 Financing Statement is amended to include the Property described in the Amended Exhibit "A" attached hereto and made a part hereof.
6. Concurrently with the execution of this Agreement, Borrower hereby agrees to pay Lender, a loan modification fee of \$5,200.00, and any and all costs arising out of or as a result of this Modification Agreement, including costs of recordation, title insurance endorsements etc, and agrees to provide endorsements 110.5, 108.8, 116.3 to Lender's title policy.
7. The Consent and Reaffirmation of Guaranty shall have been duly executed and delivered by the parties thereto and shall be in full force and effect concurrently with the execution of this Agreement.
8. Except as provided herein, the terms, conditions and provisions of the Note, Deed of Trust, and other related documents shall remain in full force and effect unchanged and unmodified under the terms of this Modification Agreement.
9. ✓ The terms, conditions and provisions of this Modification Agreement are hereby incorporated in said Loan Documents, and shall have the same force and effect as if originally incorporated therein.
10. This Modification Agreement shall be binding upon and inure to the benefit of assignee, heirs, devisees and representative of the parties hereto.

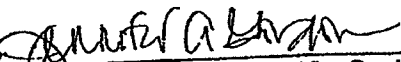
It is specifically agreed by the parties hereto that this Modification Agreement shall not affect or impair any other covenant or condition of the said Loan Documents herein referred to. The Borrower hereby accepts the foregoing terms and, in consideration thereof, does hereby agree to pay the said indebtedness represented by the said Loan Documents according to the terms thereof as hereby modified and amended.

THIS SPACE BELOW IS INTENTIONALLY LEFT BLANK.

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

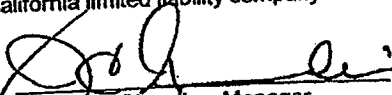
"LENDER"

CALIFORNIA NATIONAL BANK,
a national banking association

By: 
Jennifer Gordon, Assistant Vice President
Commercial Real Estate Lending Los Angeles

"BORROWER"

M.S. LLC,
a California limited liability company

By: 
James C. Gianulias, Manager

(ALL SIGNATURES MUST BE ACKNOWLEDGED)

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of

Orange

SS.

On August 30, 2005, before me,

Angelina P. Webb

Name and Title of Officer (e.g., "Jane Doe, Notary Public")

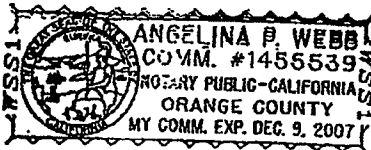
personally appeared

James C. Bianchi

Name(s) of Signer(s)

☒ personally known to me

☐ 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]
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document:

Document Date: Number of Pages:

Signer(s) Other Than Named Above:

Capacity(ies) Claimed by Signer

Signer's Name:

☐ Individual

☐ Corporate Officer — Title(s):

☐ Partner — ☐ Limited ☐ General

☐ Attorney in Fact

☐ Trustee

☐ Guardian or Conservator

☐ Other:

Signer Is Representing:

RIGHT THUMBPRINT
OF SIGNER

Top of thumb here

Under the provisions of Government Code 27361.7 I certify under the penalty of perjury that the notary seal on the document to which this statement is attached reads as follows:


Name of Notary: Angelina P. Webb

Commission #: 1455539

Place of Execution: Orange Co., CA

Date Commission Expires: 12-9-07

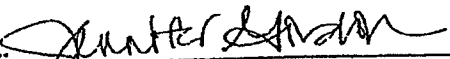
Date: 8/31/05

Signature: 

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

"LENDER"

CALIFORNIA NATIONAL BANK,
a national banking association

By: 
Jennifer Gordon, Assistant Vice President
Commercial Real Estate Lending Los Angeles

"BORROWER"

M.S. LLC,
a California limited liability company

By: _____
James C. Gianulias, Manager

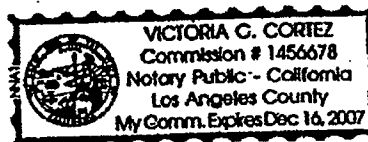
(ALL SIGNATURES MUST BE ACKNOWLEDGED)

STATE OF CALIFORNIA
COUNTY OF _____ ss.

On this 31st day of August, 2005, before me, Victoria C. Cortez
a Notary Public in and for the State of California, personally appeared Jennifer Gordon
personally known to me (or proved 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 Victoria C. Cortez
My commission expires Dec. 16, 2007



STATE OF CALIFORNIA
COUNTY OF _____ ss.

On this ____ day of _____, 20____, before me, _____
a Notary Public in and for the State of California, personally appeared _____
personally known to me (or proved 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 _____
My commission expires _____

STATE OF CALIFORNIA
COUNTY OF _____ ss.

On this ____ day of _____, 20____, before me, _____
a Notary Public in and for the State of California, personally appeared _____
personally known to me (or proved 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 _____
My commission expires _____

AMENDED EXHIBIT "A"
Legal Description

Commonly known as 33605 and 36625 Elizabeth Lane and 36630 Estes Street, Wildomar, California 92592.

PARCEL A:

PARCEL 1 AND 2, AS SHOWN BY PARCEL MAP 17667, ON FILE IN BOOK 119, PAGE 92, OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

PARCEL B:

PARCEL 3 OF PARCEL MAP NO. 12214, AS PER MAP RECORDED IN BOOK 67, PAGE 44 OF PARCEL MAPS, AS RECORDED IN THE OFFICE OF RIVERSIDE COUNTY RECORDS.

PARCEL C:

PARCEL 4 OF MAP 11793, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, AS SHOWN BY MAP ON FILE IN BOOK 61 PAGE 38 OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

APN: PARCEL A: 380-280-010-2 and 380-280-011-3
PARCEL B: 380-280-004-4
PARCEL C: 380-280-012-4

PARCEL D:

PARCEL 2 AS SHOWN ON BY PARCEL MAP 11793, ON FILE IN BOOK 61, PAGE 38 OF PARCEL MAPS, RECORDS OF RIVERSIDE COUNTY, CALIFORNIA.

APN: 380-280-009-2

PROOF OF SERVICE

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES)

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 2029 Century Park East, Suite 2600, Los Angeles, California 90067.

On November 5, 2008, I served the foregoing document(s): **PROOF OF CLAIM** on the interested parties in this action by placing a true copy thereof enclosed in sealed envelopes, addressed as follows:

Alan J. Friedman, Esq.
William Lobel, Esq.
IRELL & MANELLA, LLP
840 Newport Center Drive, Ste. 400
Newport Beach, CA 92660IST

☒ By Mail. I am "readily familiar" with the firm's practice of collecting and processing correspondence for mailing. Under that practice, it would be deposited with the U.S. Postal Service on the same day with postage thereon fully prepaid at Los Angeles, California in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.

☐ By Overnight Courier. I caused the above-referenced document(s) to be delivered to an overnight courier service (Federal Express/California Overnight Courier), for delivery to the above address(es).

☐ By Facsimile. I caused the above-referenced documents(s) to be transmitted to the noted addressee(s) at the fax number as stated. Attached to this declaration is a "TX Confirmation Report" confirming the status of transmission.

☐ By Personal Service. I delivered such envelope by hand to the addressee(s) listed above.

Executed on November 5, 2008 at Los Angeles, California.

☐ **STATE** I declare under the penalty of perjury under the laws of the State of California that the above is true and correct.

☒ **FEDERAL** I declare that I am employed in the office of a member of the bar of this court at whose direction the service was made.

/s/Mamie Hardy
Mamie Hardy

Central District Of California Claims Register

8:08-bk-13150-RK James C Gianulias CASE CONVERTED on 07/02/2008

Judge: Robert N. Kwan


Chapter: 11

Office: Santa Ana

Last Date to file claims: 11/12/2008

Trustee:

Last Date to file (Govt):

<i>Creditor:</i> (20546769) California National Bank Andrew Zinn 1301 Dove #101 Newport Beach CA 92660	Claim No: 22 <i>Filed:</i> 11/05/2008 <i>Entered:</i> 11/05/2008	<i>Status:</i> <i>Filed by:</i> CR <i>Entered by:</i> Wayser, Joshua <i>Modified:</i>
Unsecured claimed: \$21553014.25 Total claimed: \$21553014.25		
<i>History:</i>  22-1 11/05/2008 Claim #22 filed by California National Bank , total amount claimed: \$21553014.25 (Wayser, Joshua)		
<i>Description:</i> (22-1) Proof of Claim		
<i>Remarks:</i>		

Claims Register Summary