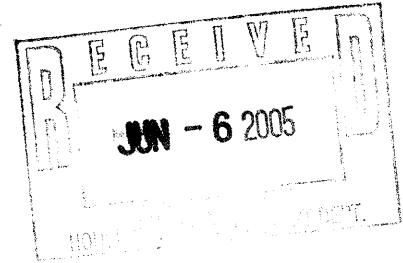


DEPARTMENT OF BOATING AND WATERWAYS

2000 Evergreen Street, Suite 100
SACRAMENTO, CA 95815-3888
(888) 326-2822
www.dbw.ca.gov



June 3, 2005



Contract C-00-168

Jerry Scharlin, Redevelopment Manager
City of Stockton
425 North El Dorado Street
Stockton, CA 95202

Subject: Stockton Waterfront Marina Collateral Documents

Dear Mr. Scharlin:

Thank you for your May 24, 2005 letter and attached documents, including the county recorder's receipt copy of the Collateral Assignment of Rents & Leases.

With this letter, we enclose two fully executed copies of the following collateral documents for your records:

1. Security Agreement Exhibit F-1
2. Deposit Account Agreement Exhibit F-2

We look forward to working with the City of Stockton on this project.

Please feel free to contact me at (916) 263-8133, should you have any comments regarding this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Just".

Mary Just, Analyst
Planning Unit
(916) 263-0358

Enclosures

SECURITY AGREEMENT

The CITY OF STOCKTON, California, a charter city, ("Debtor), and STATE OF CALIFORNIA, DEPARTMENT OF BOATING AND WATERWAYS, a public agency of the State of California ("Secured Party") agree, effective June 21, 2004, as follows:

1. Background and Purpose.

1.1. Secured Party has previously loaned Debtor \$280,000 for project planning and now agrees to loan up to Thirteen Million Three Hundred Thousand Dollars (\$13,300,000) for marina construction, collectively (the "Loans").

1.2. Concurrently with entering into this Agreement, the Debtor and Secured Party have entered into a Standard Agreement STD 213.

1.3. As a condition to entering into a contract for, and commencing disbursements of the Loans, Secured Party has required that Debtor provide security for the Loans and any future loans made to Debtor by the Secured Party pursuant to an agreement that states that it is secured by the terms of this Agreement. Debtor has agreed to pledge collateral to secure repayment of the Loans and any such future loans made to Debtor by Secured Party.

1.4. The parties desire to set forth more fully the terms of their agreement.

2. Grant of Security Interest. To secure Debtor's Obligations defined in paragraph 3 below, Debtor grants to Secured Party a security interest in the Collateral, defined in paragraph 4 below.

3. Obligations. For purposes of this Agreement, "Obligations" means any and all debts, obligations and liabilities of Debtor to Secured Party arising out of, or relating in any way to the Standard Agreement STD 213, any contract evidencing the Loans, any agreement that by its terms is secured by this Agreement, and any obligations of Debtor to Secured Party pursuant to this Agreement, whether or not existing or hereafter arising, voluntary or involuntary, jointly owned with others, direct or indirect, or absolute or contingent, and whether or not from time to time increased, decreased, extinguished, created or incurred.

4. Collateral. For purposes of this Agreement, "Collateral" means:

4.1. The account within the Treasury of the City of Stockton, known as the "Reserved for Debt Service/SC Invest – Dept Boat/Water Account", numbered 010-0000-283.30-12, in the amount of \$1,100,000 (the "D/S Reserve Account").

4.2. Assignment of Rents and Leases to real property described in the Standard Agreement STD 213, Exhibit A, and as further described in the Collateral Assignment of Rents and Leases, to be recorded in the official records of San Joaquin County.

The parties shall cooperate in obtaining the greatest interest rate on funds in the D/S Reserve Account. Upon payment in full of all payments due and owing under the Standard Agreement STD 213 any loan contract pertaining to the Loans, and any agreement that by its terms is secured by this Agreement, all funds in the D/S Reserve Account shall be released from the lien of this Agreement.

5. Representations and Warranties. As a material inducement to Secured Party hereunder, Debtor represents and warrants that the following are and shall remain true and correct:

5.1. Title. Debtor is the owner of or controls all right, title and interest in the Collateral free and clear of all liens, encumbrances and security interests, except the security interest created by this Agreement.

5.2. Truth. All information that Debtor has provided to Secured Party concerning the Collateral is true and correct.

5.3. No Defenses. No defenses, offsets, claims or counterclaims exist against Debtor which may be asserted against Secured Party in any proceeding to enforce Secured Party's rights in the Collateral.

5.4. No Conflict. The execution, delivery and performance of this Agreement by Debtor is not in violation of any applicable law or regulation or contractual obligation of Debtor.

5.5. First Priority Lien. The liens granted to Secured Party under this Agreement are a valid and binding pledge of Collateral by the Debtor pursuant to, without limitation, Government Code Section 5451, and will constitute a first priority lien on the Collateral upon the filing of a Uniform Commercial Code (UCC-1) Financing Statement and entry into the Deposit Account Agreement more fully described in Section 6.1. Debtor's grant of such lien to Secured Party does not constitute a fraudulent conveyance under any applicable law.

6. Covenants of Debtor.

6.1. Protection of Security Interest. Contemporaneously with the execution of this Agreement, Debtor shall properly execute and deliver to Secured Party a UCC-1 Financing Statement and a Deposit Account Agreement by and between the Debtor and Secured Party, in a form approved by the Secured Party, each to enable Secured Party to perfect its security interest in the Collateral. Debtor agrees also to execute, file and record such other statements, notices and agreements, take such action and obtain such certificates and documents, in accordance with all applicable laws, statutes and regulations as may be necessary or advisable to perfect, evidence and continue Secured Party's security interest in the Collateral.

6.2. Transactions Involving Collateral. Debtor shall not, without the prior written consent of Secured Party and except as required by law, (i) sell, offer to sell, or otherwise transfer the Collateral except in the ordinary course of business, or (ii) pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest or charge, other than the security interest created by this Agreement.

6.3. Compliance with Laws. Debtor shall comply with all laws, statutes and regulations pertaining to the Collateral.

6.4. Taxes, Assessments and Liens. Debtor shall pay when due all taxes, assessments and liens with regard to the Collateral. Debtor may withhold any such payment or may elect to contest any lien if Debtor is conducting appropriate proceedings in good faith to contest the obligation to pay and so long as Secured Party's interest is not jeopardized.

7. Authorized Action by Secured Party. Debtor irrevocably appoints Secured Party as its attorney in fact to do any act which Debtor is obligated to do pursuant to this Agreement to preserve or protect the Collateral and to preserve, protect or establish Secured Party's lien on the Collateral. Debtor further irrevocably appoints Secured Party to exercise such rights and powers as Debtor might exercise with respect to the Collateral following an Event of Default, as defined below. These powers shall

include without limitation the right to (i) collect by legal proceedings or otherwise and endorse, receive and receipt all dividends, interest, payments, proceeds, and other sums and property now or hereafter payable on account of the Collateral, (ii) transfer the Collateral to its own or its nominee's name, and (iii) make any compromise or settlement and take any action Secured Party deems advisable with respect to the Collateral. Debtor agrees to reimburse Secured Party upon demand for any costs and expenses, including without limitation attorneys' fees, which Secured Party may incur while acting as Debtor's attorney in fact hereunder, all of which costs and expenses are included in the Obligations secured hereby. Secured Party shall have no obligation to act pursuant to this paragraph and shall not be required to make any presentment, demand or protest, or give any notice or take any action to preserve any rights against any other person in connection with the Collateral.

8. Defaults and Remedies.

8.1. Event of Default. Any of the following events or conditions shall constitute an Event of Default under this Agreement:

- (a) Default in payment of the Obligations in accordance with the terms of the Loans;
- (b) Default in the performance of any Obligations or breach of any agreement, representation or warranty contained in this Agreement, the Loans, the Standard Agreement STD 213, the Assignment of Rents and Leases, or the Deposit Account Agreement;
- (c) Any levy or proceeding against the Collateral or Debtor's interest therein, except if Debtor is conducting appropriate proceedings in good faith to contest the levy or proceeding; or
- (d) The filing of a petition by or against Debtor under the provisions of the Bankruptcy Code.

8.2. Remedies. Upon the occurrence of an Event of Default, and at any time thereafter, Secured Party:

- (a) Shall have and may exercise all rights and remedies accorded to Secured Party by the California Uniform Commercial Code, or by law;
- (b) May declare all unperformed Obligations, in whole or in part, of Debtor immediately due and payable without demand or notice;
- (c) May require Debtor to take any and all action necessary to make the Collateral available to Secured Party, and;
- (d) May immediately satisfy any default in whole or in part by withdrawing funds from the D/S Reserve Account.

8.3. Remedies Cumulative. All of Secured Party's rights and remedies, whether evidenced hereby or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Secured Party to pursue any remedy shall not exclude pursuit of any other remedy.

9. Waiver of Hearing. Debtor expressly waives any constitutional or other right to a judicial hearing prior to the time Secured Party takes possession or disposes of the Collateral upon an Event of Default as provided in paragraph 8 above.

10. Waiver. Secured Party shall not be deemed to have waived any rights under this Agreement unless such waiver is in writing and signed by Secured Party. No delay or omission on the part of Secured Party in exercising any right shall operate as a waiver of such right or any other right.

11. Additional Documentation; Cooperation. Each party shall, upon the request of the other, execute, acknowledge and deliver to the other any instrument that may be required to accomplish the intent of this Agreement. Each party agrees to cooperate to effectuate the intent of this Agreement and shall take all appropriate action necessary or useful in doing so.

12. Miscellaneous.

12.1. Successors and Assigns. Subject to the provisions otherwise contained in this Agreement, this Agreement shall inure to the benefit of and be binding on the successors and assigns of the respective parties.

12.2. Notices. Any notice under this Agreement shall be in writing, and any written notice or other document shall be deemed to have been duly given (i) on the date of personal service on the addressee (ii) on the third business day after mailing, if the document is mailed by registered or certified mail, (iii) one day after being sent by overnight courier or messenger service guaranteeing one-day delivery, with receipt confirmed by the courier, or (iv) on the date of transmission if sent by telecopy or other means of electronic transmission resulting in written copies, with receipt confirmed. Any such notice shall be delivered or addressed to the applicable party at the applicable address set forth below or at the most recent address specified by the addressee through written notice under this provision. Failure to conform to the requirement that mailings be done by the means set forth herein shall not defeat the effectiveness of notice actually received by the addressee.

12.3. Amendment. The provisions of this Agreement may be modified at any time by written agreement of the parties. Any such agreement hereafter made shall be ineffective to modify this Agreement in any respect unless in writing and signed by Debtor and Secured Party.

12.4. Attorneys' Fees; Prejudgment Interest. If the services of an attorney are required by Secured Party to secure the performance of this Agreement or otherwise upon the breach or default of this Agreement, or if any judicial remedy or arbitration is necessary to enforce or interpret any provision of this Agreement or the rights and duties of any person in relation thereto, Secured Party shall be entitled to reasonable attorneys' fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of the breach of this Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law.

12.5. Captions. All paragraph captions are for reference only and shall not be considered in construing this Agreement.

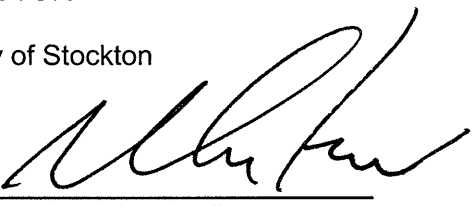
12.6. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the Agreement which can be given effect without the invalid provision shall continue in full force and effect and shall in no way be impaired or invalidated.

12.7. Governing Law. The rights and obligations of the parties and the interpretation and performance of this Agreement shall be governed by the law of California, excluding its conflict of laws rules.

12.8. Entire Agreement. This document, the Standard Agreement STD213 and its exhibits constitute the entire agreement between the parties regarding the Collateral, all oral agreements being merged herein, and supersede all prior representations. There are no representations, agreements, arrangements, or understandings, oral or written, between or among the parties relating to the subject matter of this Agreement that are not fully expressed herein or therein.

DEBTOR

City of Stockton

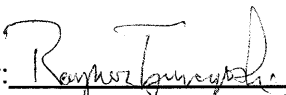
By: 
Mark Lewis, Esq.

Its: City Manager

Address: 425 North El Dorado Street
Stockton, CA 95202

SECURED PARTY

State of California, Department of
Boating and Waterways

By: 
Raynor Tsuneyoshi

Its: Director

Address: 2000 Evergreen Street, Suite 100
Sacramento, CA 95815

APPROVED AS TO FORM AND CONTENT

By: 
City Attorney

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

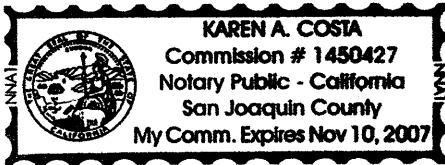
County of San Joaquin } ss.

On May 12, 2005, before me, Karen A. Costa, Notary Public,
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared Mark Lewis,
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.

Place Notary Seal Above

Karen A. Costa
Signature of Notary Public

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(s)

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): _____
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

Signer Is Representing: _____

Signer's Name: _____

- Individual
- Corporate Officer — Title(s): _____
- Partner — Limited General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: _____

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

Signer Is Representing: _____

DEPOSIT ACCOUNT AGREEMENT

THIS DEPOSIT ACCOUNT AGREEMENT ("Agreement") is made and entered into as of this 1st day of July, 2004, by the City of Stockton, (the "City"), and the State Of California, Department Of Boating And Waterways, a public agency of the State of California (the "Secured Party"), collectively, (the "Parties").

The Parties agree, effective the dated date set forth above, as follows:

A. Pursuant to that certain Security Agreement dated June 21, 2004, between the City and Secured Party, as amended, supplemented or otherwise modified from time to time (the "Security Agreement"), Secured Party has agreed to make loans and extend other financial accommodations to City.

B. City has established a reserve account within the Treasury of the City of Stockton, known as the "Reserved for Debt Service/SC Invest – Dept Boat/Water Account", numbered 010-0000-283.30-12, in the amount of \$1,100,000 (the "D/S Reserve Account").

C. The Parties hereto desire to enter into this Agreement in order to set forth their relative rights and duties with respect to the D/S Reserve Account and all funds on deposit therein from time to time.

D. Secured Party intends to terminate this Deposit Account Agreement and said D/S Reserve Account upon verification in a form acceptable to Secured Party that revenues collected from marina operations at the Stockton Waterfront Marina are sufficient to cover marina operating expenses including loan repayment for a minimum two-year period.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereafter set forth, the parties agree as follows:

1. Security Interest; Agency. As collateral security for City's obligations to Secured Party under the Security Agreement and the other loan documents described therein, City hereby grants to Secured Party a present and continuing security interest in (a) the D/S Reserve Account, (b) all contract rights, claims, and privileges with respect to the D/S Reserve Account, and (c) all cash, checks, money orders, and other items of value of City now or hereafter paid, deposited, credited, held (whether for collection, provisionally or otherwise), or otherwise in the possession or under the control of, or in transit to any agent, bailee, or custodian (collectively, "Receipts"), and all proceeds of the foregoing with respect to the D/S Reserve Account, and City acknowledges that this Agreement constitutes notice of Secured Party's security interest in that collateral and does hereby consent to the security interest. Secured Party appoints the City's Director of Administrative Services ("Director") as Secured Party's Bailee and pledgee in possession for the D/S Reserve Account and all Receipts, and Director hereby accepts such appointment and shall be bound by the terms of this Agreement. City hereby agrees to such appointment and further agrees that Director, on behalf of Secured Party, shall be entitled to exercise, on the written instructions of Secured Party, and DELETE "AND" all rights that Secured Party may have under the Security Agreement, the other loan documents described therein, or under applicable law with respect to the D/S Reserve Account, all Receipts, and all other collateral described in this paragraph.

2. Control of D/S Reserve Account. The D/S Reserve Account shall be under the sole dominion and control of Secured Party, and Director will comply with Secured Party's instructions directing disposition of the funds in the D/S Reserve Account without further consent by City. The D/S Reserve Account shall be maintained by Director in the name of the City, and, unless and until a notice of default is provided by Secured Party (the terms of such notice shall be in the sole discretion of the Secured Party) to Director, City shall have the right from time to time to write checks against amounts from the D/S Reserve Account that are made payable to the Secured Party. Before Director's receipt of any such notice from Secured Party, Director shall be entitled to honor City's instructions and directions with respect to any transfer of funds from the D/S Reserve Account, if such transfers are to an account in the name of or held on behalf of the Secured Party. No other disbursements, withdrawals or transfers, by check, wire transfer, or otherwise, shall be permitted from the D/S Reserve Account without the written approval of the Secured Party.

3. Statements and Other Information.

a. City covenants and agrees that during the term of this Agreement, it will maintain the D/S Reserve Account in the amount of no less than \$1,100,000 pursuant to the terms of this Agreement. All interest earnings on funds in the D/S Reserve Account shall be retained in that account. Debtor will not make any transfers or withdrawals from the Deposit Account except to make payments on the Loans, or any future loan made to Debtor by the Secured Party pursuant to an agreement that states that it is secured by the terms of this Agreement (a "Permitted Loan Payment"), and then only in the event Debtor has no other funds available to make such payments. In the event Debtor uses funds from the Deposit Account to make a Permitted Loan Payment, Debtor shall immediately notify the Secured Party and shall replenish the D/S Reserve Account from next available funds until the D/S Reserve Account is fully funded. In no event shall Debtor permit the D/S Reserve Account to be less than fully funded for (not from) a period greater than 180 days.

b. City hereby (i) guaranties replenishment of the D/S Reserve Account from its general fund; and (ii) affirms that such future funds are legally available for such purpose.

c. Upon Secured Party's request, Director shall provide Secured Party with copies of the regular monthly statements/reports provided to/by City and such other information relating to the D/S Reserve Account as shall reasonably be requested by Secured Party. Director shall also deliver a copy of all notices and statements required to be sent to City pursuant to any agreement governing or related to the D/S Reserve Account to Secured Party at such times as provided therein.

4. Fees. City agrees to pay on demand all usual and customary service charges, transfer fees, and account maintenance fees (collectively, "Fees") of Director in connection with the D/S Reserve Account. In the event City fails to make a timely payment to Director of any Fees, Director may thereafter exercise its right of setoff against the D/S Reserve Account for such amounts. Secured Party shall not have any responsibility or liability for the payment of any Fees.

5. Setoff. Director hereby agrees that Director will not exercise or claim any right of setoff or security interest or Director's lien against the D/S Reserve Account or any Receipts on deposit therein, and Director hereby further waives until such date any such right or lien that it may have against any Receipts deposited in the D/S Reserve Account, except to the extent expressly set forth in paragraph 4 above.

6. Exculpation of Director; Indemnification by City. City and Secured Party agree that Director shall have no liability to either of them for any loss or damage that either or both may claim to have suffered or incurred, either directly or indirectly, by reason of this Agreement or any transaction or service contemplated by its provisions, unless occasioned by the gross negligence or willful misconduct of Director. In no event shall Director be liable for losses or delays resulting from computer malfunction, interruption of communication facilities, labor difficulties, or other causes beyond Director's reasonable control or for indirect, special, or consequential damages. City agrees to indemnify Director and hold it harmless from and against any and all claims, other than those ultimately determined to be founded on gross negligence or willful misconduct of Director, and from and against any damages, penalties, judgments, liabilities, losses, or expenses (including reasonable attorney fees and disbursements) incurred as a result of the assertion of any claim, by any person or entity, arising out of, or otherwise related to, any transaction conducted or service provided by Director through the use of any account at Director pursuant to the procedures provided for or contemplated by this Agreement.

7. Termination. This Agreement may be terminated by City only upon delivery to Director of a written notification jointly executed by City and Secured Party. This Agreement may be terminated by Secured Party at any time, with or without cause, upon its delivery of written notice to City and Director.

8. Irrevocable Agreements. City acknowledges that the agreement made by it and the authorizations granted by it in paragraphs 1 and 2 are irrevocable and that the authorizations granted in paragraphs 2 and 3 are powers coupled with an interest.

9. Notices. All notices, requests, or other communications given to City, Secured Party, or Director shall be given in writing (including by facsimile) at the address specified on the signature page.

10. Miscellaneous.

a. This agreement may be amended only by a written instrument executed by Secured Party and City acting by their respective duly authorized representatives.

b. This Agreement shall be binding on and shall inure to the benefit of the parties and their respective successors and assigns, but City shall not be entitled to assign or delegate any of its rights or duties under this Agreement without first obtaining the express prior written consent of Secured Party.

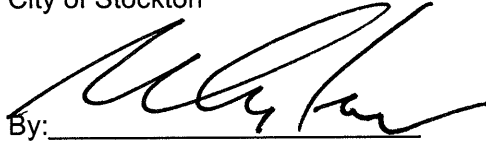
c. This Agreement may be executed in any number of several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

d. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, each of the parties has executed and delivered this Deposit Account Agreement as of the day and year first above set forth.

CITY

City of Stockton

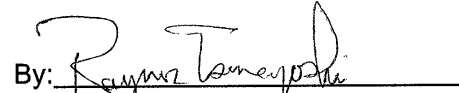
By: 
Mark Lewis, Esq.

Its: City Manager

Address: 425 North El Dorado Street
Stockton, CA 95202

SECURED PARTY

State of California, Department of
Boating and Waterways

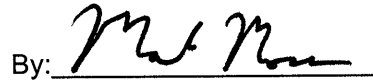
By: 
Raynor Tsuneyoshi

Its: Director

Address: 2000 Evergreen Street,
Suite 100
Sacramento, CA 95815

DIRECTOR

Administrative Services, City of Stockton

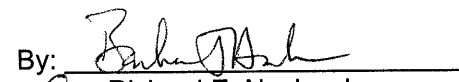
By: 
Mark Moses

Its: Director

Address: 425 North El Dorado Street
Stockton, CA 95202

ATTORNEY

City of Stockton

By: 
Richard E. Nosky, Jr.

Its: City Attorney

Address: 425 North El Dorado Street
Stockton, CA 95202