

**LEASE
EXHIBIT E**

**LEASEHOLD IMPROVEMENT AGREEMENT FOR
OPTION SPACE**

This Leasehold Improvement Agreement for Option Space (this "Option Space Agreement") is an incorporated exhibit to that certain written Commercial Lease first dated above, entered and executed by and between KHM Humboldt Properties, LLC, a California limited liability company, as "Landlord", and the County of Humboldt, a political subdivision of the State of California, as "Tenant" (the "Lease").

1. Design and Construction of Option Space Improvements.

1.1 Design Service. Landlord's architect shall be the architect of record for the Building and Premises improvements under the Lease, including those to the Option Space, as said term is defined in Section 1.5.1 of the Lease. Should Tenant exercise its right to lease the Option Space pursuant to Section 1.5.1 of the Lease, this Option Space Agreement shall govern the construction of improvements to the Option Space and the parties agree to use all reasonable efforts to complete the design documents for the additional space. Tenant shall provide Landlord with a detailed architectural program and outline specification for the improvements in the Option Space (the "Program"). Based on said Program, Landlord's architect shall develop schematic design drawings and other documents illustrating the scale and relationship of the improvements to the option area within the Building ("Option Space Schematic Design Documents"). Landlord's architect shall submit to Tenant a preliminary estimate of the construction cost based on estimated unit costs together with an estimated schedule for the work. The Option Space Schematic Design Documents and related work shall be completed at Landlord's sole cost and expense and shall not be funded by Tenant. Landlord shall provide the following additional professional architectural services to the County:

1.1.1 Design Development. Based on the approved Option Space Schematic Design Documents, estimated schedule and construction cost estimate, Landlord's architect shall prepare, for approval by Tenant, Option Space Design Development Documents to fix and describe the size and character of the project as to architectural, structural, mechanical, electrical, telecommunications, data and other elements. In addition, the design development documents shall include the following details: (1) a specific electrical distribution and lighting plan; (2) a separate telecommunications and computer systems wiring plan; (3) millwork and cabinet elevation drawings and door details; (4) design development mechanical plans including a zoned HVAC system showing supply and return diffusers and location of controls; and (5) other details, including, without limitation, building security and safety system plans. Landlord's architect shall advise Tenant of any adjustments to the construction cost estimate and schedule. The reasonable costs of the design development phase shall be funded by the Landlord, and Tenant shall pay and reimburse the Landlord the entire cost thereof within thirty (30) days of Tenant's receipt of Landlord's reimbursement request. The Option Space Design Development Documents shall be delivered to Tenant no later than thirty (30) days after Tenant submits the Program to Landlord.

1.1.2 Construction Documents. Based on the approved Option Space Design Development Documents, construction estimate and schedule, Landlord's architect shall prepare, for approval by Tenant, detailed engineered construction documents for the improvements to the Option Space ("Option Space Plans and Specifications"). At Tenant's option, Landlord's architect shall provide construction cost estimates, prepared by a qualified construction cost estimator, to Tenant at fifty (50%) and ninety (90%) completion of the construction documents. The cost of the Option Space Plans and Specifications and the cost estimates shall be the responsibility of Tenant and Tenant shall reimburse Landlord the cost thereof within sixty (60) days of Tenant's receipt of Landlord's reimbursement request.

The Option Space Plans and Specifications shall be delivered to Tenant no later than sixty (60) days after Tenant approves the Option Space Schematic Design Documents, construction estimate and schedule.

1.2 Improvement Construction. Landlord shall construct the improvements pursuant to the Option Space Plans and Specifications. Except for work directly performed by K.H. McKenny, Inc., for which no additional bid(s) shall be required, Landlord shall obtain at least three (3) competitive bids for the work of improvement described in the Preliminary Premises Plans and Specifications in compliance with the Uniform Public Construction Cost Accounting Act, Public Contract Code (PCC §22000 et seq.). Landlord shall provide said bids to Tenant for review. Landlord shall require all bidders to provide unit price guarantees, for a period not less than one year, for all materials, fixtures, finishes and labor which shall serve as the basis for change orders. Landlord shall agree to construct the improvements to the Option Space for the lowest qualified bid amount.

(A) Uniform Cost Accounting Bid Procedures (PCC § 22000 et seq.). Landlord shall comply with the bid procedures of the Uniform Public Construction Cost Accounting Act set forth in the Public Contract Code §§ 22032, 22033, 22034, 22036, 22037, 22038(b), 22040, 22042.5, and 22044.

(1) Bid Protest

Landlord shall notify Tenant within 24 hours of receipt of a bid protest on any work to be performed by a third party contractor (i.e., a contractor other than K.H. McKenny, Inc.). The notice shall be in writing and shall specify the name of the contractor protesting, the nature of the protest and the time in which the protest shall be resolved. Landlord is responsible for the bid protest procedures, review of the bid protest, and resolution of bid protest.

(2) Substitution of Subcontractor

(a) It shall be the responsibility of Landlord to comply with any request for substitution of subcontractor in accordance with the procedures set forth in the Public Contract Code § 4107 et seq. Landlord shall notify Tenant within 24 hours of receipt of a request for a substitution of subcontractor. The notice shall be in writing and shall specify the name of the subcontractor to be substituted, the reason for the substitution, the nature of the substitution and if allowed, the time in which the substitution shall be effective.

(b) The filing of a request for substitution of subcontractor with Landlord shall not be cause for an extension or delay of the commencement date specified in the lease amendment executed between both parties as set forth in Section 1.5.2 of the lease.

(B) Hold Harmless. Landlord shall indemnify and hold harmless and, at its own risk, cost, and expense, defend Tenant, its Board of Supervisors, officers, agents, employees, and volunteers from and against any and all liability expense, including defense costs, legal fees, and claims for damages arising from Landlord's negligence or intentional failure to comply with the provisions herein including but not limited to any bid protest or substitution of subcontractor.

(C) Prevailing Wage. Landlord shall comply with the applicable provisions of California Labor Code sections 1720.2 and 1770 et seq., regarding general prevailing wages, when constructing the improvements to the Option Space.

1.3 Substantial Completion of Option Space. Landlord shall construct, perform the work and make the installations in the Option Space in accordance with the approved Option Space Plans and Specifications. Landlord shall, when construction progress so permits, notify Tenant in advance of

the approximate date on which the Option Space will be substantially completed in accordance with the Option Space Plans and Specifications. Landlord agrees to use its best efforts to provide Tenant with at least thirty (30) days' advance notice of the date on which the Premises are expected to be substantially completed. The work to be done in the Option Space by Landlord pursuant to the provisions of this Agreement shall be "substantially completed" when Landlord has delivered to Tenant a signed final permit card for the Option Space and Landlord's work has been substantially performed, although minor details or adjustments that do not interfere with Tenant's use of such space may have not been completed. Landlord shall diligently pursue completion of any minor details or adjustments that have not been performed at the time Landlord gives the aforesaid notice of substantial completion to Tenant.

Tenant shall have the right to present to Landlord within thirty (30) days after the Option Space have been delivered to Tenant, or as soon thereafter as practicable, a written "punch list" which will consist of the items that have not been finished or furnished by Landlord in accordance with the provisions of the Option Space Plans and Specifications. Upon presentation of the punch list to Landlord by Tenant, Landlord shall, with due diligence, proceed to complete all defective or incomplete items on the punch list. Landlord shall execute all of the items on the punch list to Tenant's satisfaction within fourteen (14) days of Landlord's receipt of the punch list. If Landlord fails to complete all of the items within such time frame, Tenant may complete such items and Landlord shall reimburse Tenant upon demand for the reasonable costs incurred by Tenant for such work. If such costs are not paid within ten (10) days after demand, such costs shall be credited to and deducted from Tenant's next monthly installments of Rent, payable hereunder.

1.4 Change Orders. If Tenant requests any change, addition, alteration or deletion in the tenant improvement work following approval of the Option Space Schematic Design Documents, then Landlord shall promptly give Tenant a written estimate of the cost, if any, of the professional and other services required to prepare a change order and the time delay expected, if any, because of such request. If Tenant, in writing, approved such cost and/or delay within five (5) business days, then Landlord shall have the change order prepared, and the cost thereof shall be charged to the Tenant and Tenant shall reimburse Landlord said cost.