

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000940401-96-000017**

([HTML Version](#) on [secdatabase.com](#))

FILER

NORTHERN EMPIRE BANCSHARES

CIK: **746253** | IRS No.: **942830529** | State of Incorpor.: **CA** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **002-91196** | Film No.: **96662909**
SIC: **6021** National commercial banks

Mailing Address
801 FOURTH STREET
SANTA ROSA CA 95404

Business Address
801 FOURTH ST
SANTA ROSA CA 95404
7075792265

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Commission File Number 2-91196

NORTHERN EMPIRE BANCSHARES

(Exact name of registrant as specified in its charter)

California	94-2830529
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

801 Fourth Street, Santa Rosa, California 95404
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code 707-579-2265

NONE

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934
during the preceding 12 months (or for such shorter period that the registrant
was required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practical date.

Title of class: Common Stock, no par value Outstanding shares as of
October 31, 1996: 1,461,346

Transitional Small Business Disclosure Format (check one): Yes No X

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

NORTHERN EMPIRE BANCSHARES AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 1996	December 31, 1995
<S>	<C>	<C>
ASSETS		
Cash and equivalents:		
Cash and due from banks	\$12,400,000	\$11,288,000
Federal funds sold	12,669,000	5,000,000
	-----	-----
Total cash and equivalents	25,069,000	16,288,000

Certificates of deposits in other financial institutions	4,556,000	5,139,000
Investment securities:		
Held to maturity (Market value: 1996 -\$6,686,000; 1995 - \$10,882,000)	6,778,000	10,879,000
Available for sale	1,123,000	0
Loans held for sale	23,404,000	14,324,000
Loans receivable, net	130,870,000	115,263,000
Other real estate owned, net	94,000	0
Leasehold improvements and equipment, net	666,000	747,000
Accrued interest receivable and other assets	4,687,000	4,322,000
	-----	-----
Total assets	\$197,247,000	\$166,962,000
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 30,217,000	\$ 23,017,000
Interest bearing:		
Money market rate	54,345,000	49,913,000
Savings	4,439,000	5,086,000
Demand	9,661,000	9,672,000
Certificates of deposit	84,159,000	66,533,000
	182,821,000	154,221,000
Accrued interest payable and other liabilities	695,000	759,000
	-----	-----
Total liabilities	183,516,000	154,980,000
	-----	-----
Shareholders' equity:		
Common stock, no par value; authorized, 20,000,000 shares; shares issued and outstanding, 1,461,346 in 1996 and 1,322,299 in 1995	8,310,000	7,433,000
Retained earnings	5,418,000	4,549,000
Unrealized gain on investment securities available for sale, net of tax	3,000	0
	-----	-----
Total shareholders' equity	13,731,000	11,982,000
	-----	-----
Total liabilities and shareholders' equity	\$197,247,000	\$166,962,000
	-----	-----

</TABLE>

<TABLE>
<CAPTION>

NORTHERN EMPIRE BANCSHARES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Interest income:				
Loans	\$3,784,000	\$3,221,000	\$10,810,000	\$8,516,000
Certificates of deposits in other financial institutions	64,000	103,000	223,000	263,000
Federal funds sold and investment securities	306,000	184,000	834,000	571,000
	-----	-----	-----	-----
Total interest income	4,154,000	3,508,000	11,867,000	9,350,000
Interest expense	1,862,000	1,475,000	5,210,000	3,881,000
	-----	-----	-----	-----
Net interest income before provision for loan losses	2,292,000	2,033,000	6,657,000	5,469,000
Provision for loan losses	90,000	70,000	270,000	170,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	2,202,000	1,963,000	6,387,000	5,299,000

Other income:				
Service charges on deposits	168,000	106,000	342,000	289,000
Gain on sale of loans	132,000	271,000	399,000	644,000
Other	86,000	122,000	433,000	358,000
Total other income	386,000	499,000	1,174,000	1,291,000
Other expenses:				
Salaries and employee benefits	833,000	834,000	2,472,000	2,346,000
Occupancy	178,000	171,000	531,000	523,000
Furniture & equipment	79,000	70,000	233,000	215,000
Outside customer services	64,000	55,000	191,000	171,000
Deposit and other insurance	35,000	24,000	105,000	199,000
Professional fees	31,000	32,000	139,000	102,000
Advertising & business development	71,000	57,000	230,000	211,000
Other	225,000	190,000	704,000	593,000
Total other expenses	1,516,000	1,433,000	4,605,000	4,360,000
Income before income taxes	1,072,000	1,029,000	2,956,000	2,230,000
Provision for income taxes	455,000	453,000	1,260,000	973,000
Net income	\$617,000	\$576,000	\$1,696,000	\$1,257,000
Common stock earnings per share	\$0.41	\$0.39	\$1.13	\$0.85
Average common shares outstanding for net income per share calculation	1,502,338	1,484,377	1,500,452	1,473,020

</TABLE>

<TABLE>
<CAPTION>

NORTHERN EMPIRE BANCSHARES AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	1996	1995
	<C>	<C>
<S>		
Cash flows from operating activities:		
Net income	\$1,696,000	\$1,257,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses and OREO losses	303,000	170,000
Depreciation and amortization	215,000	166,000
(Increase) decrease in loans held for sale	(9,080,000)	(7,650,000)
Increase in interest receivable and other assets	(365,000)	(483,000)
Increase in accrued interest payable and other liabilities	(64,000)	(14,000)
Net cash (used in) provided by operating activities	(7,295,000)	(6,554,000)
Cash flows from investing activities:		
(Purchases) of investment securities		
Held to maturity	(11,025,000)	(10,810,000)
Available-for-sale	(997,000)	
Maturities of investment securities		
Held-to-maturity	15,000,000	9,000,000
Net decrease in deposits in other financial institutions	583,000	3,000
Net (increase) in loans receivable	(16,001,000)	(24,975,000)
Purchase of leasehold improvements and equipment, net	(134,000)	(164,000)
Net cash used in investing activities	(12,574,000)	(26,946,000)
Cash flows from financing activities:		
Net increase in deposits	28,600,000	27,747,000

Cash dividend and stock dividend fractional share payout	(2,000)	(264,000)
Stock options exercised	52,000	328,000
	-----	-----
Net cash provided by financing activities	28,650,000	27,811,000
	-----	-----
Net increase in cash and cash equivalents	8,781,000	(5,689,000)
Cash and cash equivalents at beginning of year	16,288,000	17,966,000
	-----	-----
Cash and cash equivalents at end of period	\$25,069,000	\$12,277,000
	-----	-----
Cash Flows - Supplemental Disclosures:		
Cash paid during the period for:		
Interest on deposits and other borrowings	\$5,235,000	\$3,836,000
Income taxes	1,390,000	959,000
Non-cash transactions:		
Additions to other real estate owned	97,000	0

</TABLE>

Northern Empire Bancshares and Subsidiary
Notes to Consolidated Financial Statements
September 30, 1996

Note 1 - Basis of Presentation

In the opinion of Management, the unaudited interim consolidated financial statements contain all adjustments of a normal recurring nature, which are necessary to present fairly the financial condition of Northern Empire Bancshares and Subsidiary at September 30, 1996 and the results of operations for the three and nine months then ended.

Certain information and footnote disclosures presented in the Corporation's annual consolidated financial statements are not included in these interim financial statements. Accordingly, the accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's 1995 Annual Report on Form 10-KSB. The results of operations for the three and nine months ended September 30, 1996 are not necessarily indicative of the operating results through December 31, 1996.

Note 2 - Net Income per Common Share

Net income per common and common equivalent share is calculated by using the weighted average number of common shares outstanding, adjusted for stock dividends, during the periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Northern Empire Bancshares (the "Corporation") is the bank holding company of Sonoma National Bank (the "Bank"). Since the principal business of the Corporation is the Bank, the following discussion pertains mainly to the Bank.

Total consolidated assets equaled \$197,247,000 at September 30, 1996 compared to \$166,962,000 at December 31, 1995. Total loans, including loans held for sale, increased \$25.1 million since year-end, with \$14.4 million of that growth occurring in the third quarter. This rapid growth was funded by new deposits which have grown \$28.6 million since year end.

The net income after tax for the nine months of 1996 equaled \$1,696,000 compared to \$1,257,000 for the comparable period of 1995, an increase of 34.9%. The third quarter's net income after tax of \$617,000 increased 7.1% over the third quarter of 1995 when net income equaled \$576,000. The higher profits result from increases in net interest income due to loan growth (higher yielding earning assets), while controlling the Bank's operating costs.

Net Interest Income

Net interest income of \$2,292,000 for the third quarter of 1996 increased 12.7% from \$2,033,000 for the comparable period last year. This increase in net interest income during the third quarter of 1996 compared to 1995 resulted from volume increases of \$37.3 million in average earning assets during the current quarter compared to the third quarter of 1995. \$30.0 million of that increase was in average loans outstanding which have the highest yields. Average interest bearing deposits for the third quarter increased \$31.7 million over the same

period last year.

While net interest income has increased, the net interest margin has declined from 5.72% during the third quarter of 1995 to 5.10% for the third quarter of 1996. This change results from declining rates which have negatively impacted the loan yields while deposit costs have remained at approximately the same

level. The Bank is considered asset sensitive which means that rate increases benefit the Bank and conversely declining rate negatively impact the Bank since more of its assets reprice at a faster rate than deposits. Of the Bank's loan portfolio totaling \$158.1 million at September 30, 1996, 71.2% are floating rate loans which have not reached rate ceilings or floors.

During the third quarter of 1996 the loan yield was 9.2% compared to 10.53% for the third quarter of 1995. Loan yields have declined mainly due the drops in prime rate from last year. The prime rate was 9% at the beginning of the third quarter of 1995 and now equals 8.25%. At September 30, 1996, the Bank had \$23 million in prime based loans which reprice immediately with prime rate changes. In addition, the Small Business Administration (SBA) loan portfolio, totaling \$53 million, is tied to prime and reprices on a quarterly basis. Approximately \$52.4 million of the Bank's loan portfolio is periodically adjustable (generally every six months) based upon the Eleventh District's cost of funds index. This index was 5.14% in September 1995 and has declined to 4.84% as of September 1996.

The net interest margin was also negatively impacted by a new fee imposed by the SBA of 50 basis points on the outstanding balances of all guaranteed SBA loans approved since October 12, 1995. This fee which equaled \$17,000 during the third quarter was deducted from SBA loan yields. As of September 30, 1996 the Bank had \$15 million in SBA guaranteed loans subject to this new fee.

The net interest margin was further impacted by the minimal decline in the cost of funds. There has been a shift from deposit growth in savings deposits which are tied to rates on US Treasuries to time certificates which bear higher interest rate. This shift in the deposit composition has resulted in time certificates now comprising 46.0% of total deposits compared to 38.5% at September 30, 1995. (See Deposits). With the rapid loan growth, the Bank offered very competitive rates on time certificates to fund new loan volume and maintain liquidity. The shift in the deposit composition and the fact that time certificates bear the highest interest cost has resulted in the cost of funds remaining at a similar level as the third quarter of last year.

Interest expense increased from \$1,475,000 in the third quarter of 1995 to \$1,862,000 in the third quarter of 1996. The major factor was the increase of \$31.7 million in average interest bearing deposits when comparing the third quarter of 1996 to 1995, while cost of interest bearing deposits declined only 3 basis points to 4.99% during this same period.

Other Income

Other income decreased 22.6% when comparing the third quarter of 1996 to the same period last year. The income generated from gains on sale of Small Business Administration (SBA) loans can vary significantly based upon the timing of SBA loan sales. Gains on SBA loan sales equaled \$132,000 in the third quarter of 1996 compared to \$271,000 in the third quarter of 1995 with the year to date income equaling \$399,000 compared to last year's level of \$644,000. Included in other income are SBA servicing fees, which equaled \$101,000, and fees for investment services provided through PrimeVest (new product in last quarter of 1995) which added \$8,000 during the third quarter of 1996. Service charges on deposit accounts increased due to an increase in the number of deposit accounts subject to charges, the implementation of a higher service charge schedule in February 1996 and larger overdraft activity due to the increase in the deposit base.

Non-Interest Expenses

The Bank's operating expenses increased by 5.8% over the third quarter of 1995 to \$1,516,000 in the third quarter of 1996. Salaries and benefits were slightly below the 1995 expenses level during the third quarter; however, increased 5.4% for the year due to annual salary increases and incentives on Commercial and SBA loan production. The Bank's loans and deposits has grown rapidly without adding new staff. Occupancy expenses increased 4.1% mainly due to increases in lease rates tied to indexes. Equipment costs increased 13% due to depreciation on new data processing equipment and increased usage of personal computers. Deposit and other insurance has increased when comparing the third quarter of 1995

to 1996 due to the large FDIC insurance refund which was received and recorded in the third quarter of 1995, excluding this refund, this expense has decreased from last year due to the low assessment rate charged for FDIC insurance. There are no assurance that the currently low FDIC assessment rate will not be increased in the future.

Advertising and marketing costs vary significantly based upon marketing activities. Professional expenses have increased due to the higher level of legal activity on problem loans and OREO properties, these were, however, comparable to the third quarter of 1995. Other expenses include: stationery & supplies, telephone, postage, loan expenses, director fees, dues and subscriptions and automobile expenses. Many of these other expense categories have increased due to growth within the Bank. The majority of the increases relate to costs associated with problem loans, foreclosure expenses and Other Real Estate Owned (OREO) costs. During the second and quarter of 1996 a total of \$33,000 for a valuation reserve for potential losses on OREO properties was recorded and included in other expenses.

Income Taxes

The effective tax rate approximated 42.4% for the third quarter of 1996. The provision for the third quarter of 1996 was \$454,000 versus \$453,000 for the same period last year. The provision for the year equaled \$1,259,000 up from \$973,000 last year. This increase resulted from the increase in pre-tax income.

Liquidity and Investment Portfolio

Liquidity is a bank's ability to meet possible deposit withdrawals, to meet loan commitments and increased loan demand, and to take advantage of other investment opportunities as they arise. The Bank's liquidity practices are defined in both the Asset and Liability Policy and the Investment Policy. These policies define internal guidelines for acceptable liquidity measures in terms of ratios to total assets, deposits, liabilities and capital with exceptions being reported to ALCO committee and the Board. As of September 30, 1996, the Bank's liquidity ratio of liquid assets to total assets of 17.9% was above the policy's minimum guideline of 15%. The Bank's liquidity position improved during the third quarter due to an increase in deposits of \$23.2 million. The funds generated by this increase were used to fund the significant loan growth the Bank has been experiencing and to improve the Bank's liquidity position.

Liquidity has also been affected by the Bank's decision to hold the guaranteed portion of SBA loans rather than selling them, to enjoy the higher yield on loans versus other investments. These guaranteed loans are not included in the liquidity calculation; however, they could be sold and converted to cash within a few weeks. At September 30, 1996 the Bank had \$23.4 million in SBA loans which could be sold. If these loans were included in the liquidity calculation the ratio would equal 29.8%.

Cash and due from banks, federal funds sold and certificates of deposit totaled \$29,625,000 or 15.0% of total assets at September 30, 1996, compared to \$21,427,000 or 12.8% of total assets at December 31, 1995. At September 30, 1996 the Bank held a total of \$7.9 million in U.S. Treasuries compared to \$10.9 million at year end. The Bank is required to pledge \$500,000 of its U.S. Treasury investment for Federal Tax Deposits.

Liquidity is also provided through the sale or participation of loans. During the third quarter of 1996 the Bank sold \$1.6 million in SBA loans (guaranteed portion) compared to \$4.1 million for the same period last year. The Bank is currently in the process of selling approximately \$2.3 million in SBA guaranteed loans.

The Bank also has unused federal funds lines of credit totaling \$9 million. The Bank feels this amount of liquidity is adequate to meet any short term cash demands that may arise.

At present, the Corporation's primary sources of liquidity are from short term investments on its capital, exercises of stock options and dividends from the Bank. The Bank's ability to pay dividends to the

Corporation is subject to the restrictions of the national banking laws and, under certain circumstances, the approval of the Comptroller of the Currency.

At September 30, 1996, the Corporation had non-interest and interest bearing cash balances of \$195,000 which management believes is adequate to meet the Corporation's operational expenses.

The Corporation and the Bank do not engage in hedging transactions (interest rate futures, caps, swap agreements, etc.).

Deposits

Deposits grew 18.5% since the end of 1995 to \$182.8 million at September 30, 1996. During the third quarter the Bank offered a time certificate at a very competitive rate, and time certificates increased by approximately \$12.8 million. The deposit growth was used to maintain adequate liquidity and to fund new loan growth.

The overall cost of funds of 4.99% has remained at approximately the same level during the third quarter of 1996 when compared to 5.02% for the third quarter of last year. Eighteen months ago rates on the various deposit products had been compressed to a very narrow margin; however, since then rates offered on certificates of deposit have increased making them more attractive to depositors. Therefore deposit growth has centered in time deposits which grew \$30.7 million to \$84.2 million over the last year. The growth in time certificates is attributable to deposit campaigns which offer competitive rates. The Bank's need for funds and the shift to time certificates, which bear the highest cost, has negatively impacted the Bank's cost of funds during a period when market rates were declining. There has been an increase in the volatility of deposits as a result of these campaigns which offer higher prices.

Deposits include \$54.3 million in the "Sonoma Investors Reserve" account compared to \$50.2 million a year ago. This account is a limited transaction account with a floating rate which is tied to the 13 week treasury bill less a margin of 50 basis points. The rate offered on this account has been very attractive and many of the Bank's customers have held their funds in this deposit product rather than locking in a specific maturity. New customers continue to find this deposit account attractive due to the immediate availability of the funds versus a time certificate bearing a future maturity.

At the end of September 1996, non-interest bearing deposits equaled \$30.2 million compared to \$23.0 million at December 31, 1995. These balances have greater fluctuations on a daily basis with average balances of \$23 million during the current year. Transaction accounts include balances with title companies which held higher than normal balances at the end of the third quarter. This type of deposit account has greater balance fluctuations than other types of deposits based upon their business activity; however, they carry average balances of approximately \$2 million.

At September 30, 1996, certificates of deposits of \$100,000 or more equaled \$23.0 million or 12.6% of total deposits versus \$19.3 million or 12.5% of total deposits at December 31, 1995. The holders of these deposits are primarily local customers of the Bank. While these deposits are considered to be rate sensitive, the Bank believes they are stable deposits, with many of these customers having other banking relationships with the Bank.

The lower interest rate environment over the past few years and the increased competition from the financial services industry has made it more difficult to attract new deposits at favorable rates. The Bank continually monitors competitors' rates, strives to be competitive in pricing deposits, and has offered attractive rates on time deposit to raise funds during periods of high loan growth.

Loans

Loans held for investment plus loans available for sale equaled \$158.1 million, at September 30, 1996,

increasing 18.9% from \$133.0 million at December 31, 1995. The loan demand continued strong in the third quarter with loan growth for the first nine months of 1996 equaling \$25.1 million. The majority of this growth occurred in SBA and commercial real estate lending.

The SBA department experienced strong loan demand, especially in the Arizona market, through the first nine months of 1996. The 7a loan product has been more popular in the Arizona market than California. The California SBA loan market has shown signs of maturing in that new construction has softened, more bank and non-bank lenders are offering the product and conventional and other SBA loan products have been developed to compete with the core 7a loan facility. In Arizona new construction remains strong and growth of that economy is among the strongest in the nation. Improvement in California production may result from recent changes within the SBA loan programs and an improving California economy. The SBA loan program remains subject to budget considerations at the Federal level. Major changes to the program could affect profitability and future SBA loan growth. SBA loans available for sale increased \$9.1 million since December 31, 1995 to \$23.4 million at September 30, 1996.

The Bank continues to emphasize business and real estate lending. At September 30, 1996, 38.7% of the loans held for investment were commercial or business loans and 59.6% were real estate and construction loans, compared to 40% and 58% respectively at December 31, 1995. The Bank has increased the commercial and commercial real estate portfolio through its reputation, in Sonoma and Marin Counties, as an experienced business and real estate lender which facilitates the successful negotiation of complex commercial loans. The Bank maintains high credit qualifications with most real estate loans having 60-70% loan to value ratios. The commercial real estate portfolio are secured by office space (approximately 45%), industrial & warehouse (approximately 36%) and retail space (approximately 15%). Management is aware of the risk factors in making commercial and real estate loans and is continually monitoring the local market place. A decline in real estate values and/or demand could potentially have an adverse impact on the loan portfolio, and on the financial condition of the Bank.

Real estate construction loans are primarily for single family residences and commercial properties located within our targeted market place. Construction loans are made to "owner/occupied" and "owner/users" of the properties and occasionally to developers with a successful history of developing projects in the Corporation's. The construction lending business is subject to, among other things, the volatility of interest rates, real estate prices in the area and market availability of conventional real estate financing to repay such construction loans. As of September 30, 1996, the Bank had \$2.7 million outstanding in construction loan financing.

The Bank has a small portfolio of consumer loans, which equaled 1.7% of the total loan portfolio at September 30, 1996. The Bank offers residential mortgage services on a limited basis.

Allowance for Loan Losses

The allowance for loan losses equaled \$1,893,000 at September 30, 1996 as compared to \$1,676,000 at December 31, 1995. At September 30, 1996, the allowance for loan losses equaled 1.5% of total loans (net of loans held for sale) compared to 1.4% at December 31, 1995. The allowance for loan loss is reviewed on a monthly basis and is based on an allocation for each loan category, plus an allocation for any outstanding loans which have been classified by regulators or internally for the "Watch List". Each loan that has been classified is individually analyzed for the risk involved and reserved for according to the risk assessment.

At September 30, 1996 there were eight loans on non-accrual which totaled \$846,000. There were no loans past due 90 days or more and still accruing interest. Of the nonaccrual loans \$810,000 have real estate security. On December 31, 1995, there were six loans on non-accrual totaling \$398,000, there were no loans past due 90 or more days and still accruing interest. At the end of the third quarter, loans past due 30-89 days totaled \$513,000 of which the Bank held real estate security on \$445,000 of that total.

Other Real Estate Owned

As of September 30, 1996, the Bank owned two commercial buildings, one located in Moraga, California and the other in San Francisco, California. Title was transferred through foreclosure actions on SBA guaranteed loans in which the Bank had previously sold a 75% interest to investors. Based upon recent appraisals, a valuation reserve for \$33,000 has been recorded to adjust the book value to approximate market value. The Bank's basis, after the valuation reserve, for the two properties totaled \$94,000 at September 30, 1996. The Bank held no other real estate owned during 1995.

Capital Resources

Pursuant to regulations under the FDIC Improvement Act of 1991 (FDICIA), five capital levels were prescribed as applicable for banks, ranging from well-capitalized to critically under-capitalized. At September 30, 1996, the Bank's was considered "well capitalized." The Bank's total risk-based capital ratio was 10.3% and leverage capital ratio was 7.2%. Northern Empire Bancshares' (on a consolidated basis) total risk-based capital ratio was 10.6% and leverage capital ratio was 7.4%.

In May 1996, the Corporation declared a 5% stock dividend to shareholders of record on June 14, 1996, new stock certificates representing the stock dividend were issued on July 1, 1996.

<TABLE>
<CAPTION>

SCHEDULES

LOANS HELD FOR INVESTMENT

	September 30, 1996	December 31, 1995
<S>	<C>	<C>
Commercial Loans	\$ 52,167,000	\$ 47,745,000
Real Estate Loans-Construction	2,680,000	6,819,000
Real Estate Loans-Other	77,639,000	61,450,000
Installment Loans	2,242,000	2,702,000
	-----	-----
Total	\$134,728,000	\$118,716,000
	-----	-----

</TABLE>

Of the total loans due in more than one year, \$42.5 million were at fixed interest rates or had reached the loan's floor or ceiling rate \$112.1 million were at adjustable interest rates at September 30,1996. The loan portfolio has no foreign balances.

<TABLE>
<CAPTION>

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	Quarter Ended September 30, 1996	Nine Months Ended September 30, 1996
<S>	<C>	<C>
Balance - Beginning of Period	\$1,858,000	\$1,676,000
Provision for Loan Losses	90,000	270,000
Charge Offs	59,000	59,000
Recoveries	6,000	6,000
	-----	-----
Balance - End of the Period	\$1,893,000	\$1,893,000
	-----	-----

</TABLE>

There were eight loans on non-accrual at September 30, 1996, amounting to \$846,000, of which \$810,000 were secured by real estate collateral.

GAP ANALYSIS

The following schedule represents interest rate sensitivity profile of assets, liabilities and shareholder's equity classified by earliest possible repricing opportunity or maturity date.

<TABLE>
<CAPTION>

Balance Sheet - September 30, 1996	Through 3 Months	Over 3 Months through 1 Year	Over 1 Year through 5 Years	Non-rate Sensitive or Over 5 Years	Total
(\$000)	<C>	<C>	<C>	<C>	<C>
<S>	-----	-----	-----	-----	-----
Assets					
Time Deposits-other financial institutions	\$ 1,287	\$ 3,269			\$4,556

Fed funds sold	12,669				12,669
Investment securities	752	6,026	\$1,000	\$123	7,901
Loans and loans held for sale	83,155	53,139	10,040	11,797	158,131
Non-interest-earning assets (net)				13,990	13,990
	-----	-----	-----	-----	-----
Total Assets	\$97,863	\$62,434	\$11,040	\$25,910	\$197,247
	-----	-----	-----	-----	-----
Liabilities & Shareholders Equity					
Time Deposits \$100,000 and over	\$5,163	\$16,016	\$1,831		\$23,010
All other interest-bearing deposits	77,015	45,231	7,346	4	129,596
Non-interest bearing liabilities				\$30,910	30,910
Shareholders' Equity				13,731	13,731
	-----	-----	-----	-----	-----
Total Liabilities & Shareholders' Equity	\$82,178	\$61,247	\$9,177	\$44,645	\$197,247
	-----	-----	-----	-----	-----
Interest Rate Sensitivity GAP (1)	\$15,685	\$1,187	(\$1,863)	(\$18,735)	
	-----	-----	-----	-----	
Cumulative Int. Rate Sensitivity GAP	\$15,685	\$16,872	\$18,735	\$0	
	-----	-----	-----	-----	

</TABLE>

(1) Interest rate sensitivity gap is the difference between interest rate sensitive assets and interest rate sensitive liabilities within the above time frames.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None other than in the ordinary course of business.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

(3) (a) Articles of Incorporation of the Corporation (filed as Exhibit 3.1 to the Corporation's S-1 Registration Statement, filed May 18, 1984 and incorporated herein by this reference).

(b) Certificate of Amendment to Articles of Incorporation, filed January 17, 1989 (filed as exhibit (3)(b) to the Corporation's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1988 and incorporated herein by this reference).

(c) Bylaws of the Corporation, as amended (filed as Exhibit 3.2 to the Corporation's S-2 Registration Statement, File No. 33-51906 filed September 11, 1992 and incorporated herein by this reference).

(d) Amendment to the Bylaws of the Corporation and revised Bylaws (filed as Exhibit (3)(d) to the Corporation's Annual Report on Form 10-KSB for the Fiscal Year Ended December 31, 1994 and incorporated herein by this reference).

(10) (w) Lease for Bank Premises at 6641 Oakmont Drive, Santa Rosa, California, dated October 1, 1996.

(10) (x) Lease for Loan and Administration Offices at 751 and 755 Fourth Street, Santa Rosa, California, dated June 1, 1996.

(27) (a) Financial Data Schedule

b. Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTHERN EMPIRE BANCSHARES

Date: November 12, 1996

/s/Dennis R. Hunter

/s/Patrick R. Gallaher

Dennis R. Hunter
Chairman of the Board

Patrick R. Gallaher
Director & Chief Accounting Officer

LEASE

THIS LEASE is made as of the 1st day of October 1996, by and between Oakmont Investments, a California General Partnership ("Landlord"), whose address is 6637 Oakmont Drive, Santa Rosa, CA 95405, and Northern Empire Bancshares, a Corporation ("Tenant"), whose address is 801 4th Street, Santa Rosa, California.

This Lease is made with reference to the following facts and objectives:

- A. Landlord is the owner of the premises at 6641 Oakmont Drive, Santa Rosa, CA 95405, consisting of approximately 4,737 square feet commercial office space. In addition, Landlord occupies the premises known as 6637 Oakmont Drive, Santa Rosa, CA 95405, consisting of approximately 4,493 square feet.
- B. Tenant is willing to lease approximately 3,692 square feet of the space located at 6641 Oakmont Drive, Santa Rosa, California from Landlord pursuant to the provisions stated in this Lease for the purposes of operating a bank.
- C. Tenant has examined the premises and is fully informed of their condition.

THE PARTIES HERETO AGREE AS FOLLOWS:

1. Premises. Landlord hereby leases to Tenant and Tenant hereby hires and takes from Landlord, upon the terms and conditions herein set forth, 3,692 square feet of the building located at 6641 Oakmont Drive, Sonoma County, California, together with a proportionate share of the parking and grounds determined on a square footage basis based upon the total square footage of the 6637 and 6641 Oakmont Drive, Santa Rosa, California buildings ("Premises").
2. Term.
 - A. The term of this Lease shall be ten (10) years and shall commence on the 1st day of October 1996, and end on the 30th day of September 2006, inclusive.
 - B. Tenant is given the option to extend the term on all the provisions contained in this Lease, except for rent, for two (2) five (5) year periods ("extended terms") following expiration of the initial term and the first extended term, by giving notice of exercise of the option ("option notice") to Landlord at least six (6) months, but not more

than one (1) year before the expiration of the term, or the first extended term, as the case may be, provided that, if Tenant is in default on the date of giving the option notice, the option notice shall be totally ineffective, or

1

if Tenant is in default on the date an extended term is to commence, the extended term shall not commence and this Lease shall expire at the end of the existing term. The rent for the extended term or terms shall be the base rent then in effect for the last year of the prior term increased effective on the beginning date of the extended term and each year thereafter during the balance of the extended term or terms to reflect any annual increases in the cost of living as provided in Paragraph 4(B) below.

Tenant shall have no other right to extend the term beyond the two extended terms set forth above.

3. Preparation and Acceptance of Premises.

- A. On commencement of the term, the Premises shall be in good condition.
- B. Tenant's taking possession of the Premises on commencement of the term shall constitute Tenant's acknowledgment that it has inspected the Premises and that they are in good condition.

4. Rent.

- A. Tenant shall pay to Landlord, as minimum monthly base rent, without deduction, setoff, prior notice, or demand, the sum of Four Thousand Eight Hundred Dollars (\$4,800.00), in advance on the first day of each month, commencing on the date the term commences, and continuing during the term.

All rent shall be paid to Landlord at the address to which notices to Landlord are given.

- B. The minimum monthly base rent provided for in Paragraph 4 (A) shall be subject to adjustment at the commencement of the second year of the term and each year thereafter, including the extended term or terms. (the "adjustment date"), as follows:

The base for computing the adjustment is the Consumer Price Index for the San Francisco Bay Area, published by the United States Department of Labor, Bureau of Labor Statistics ("Index"), which is published for the month nearest the date of commencement of the term ("Beginning Index"). If the index published nearest the adjustment date ("Extension Index") has increased over the Beginning Index, the minimum monthly base rent for the following year shall be set by multiplying the minimum monthly base rent set forth in Paragraph 4.A., by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the minimum

2

monthly base rent be less than the minimum monthly base rent set forth in Paragraph 4.A. On adjustment of the minimum monthly base rent as provided in this Lease, the parties shall immediately execute an amendment to the Lease stating the new minimum monthly base rent.

If the Index is changed so that the base year differs from that used as of the month immediately preceding the month in which the term commences, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

- C. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to Six Percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the

costs Landlord will incur by reason of late payment by Tenant.

5. Interest on Past-due Obligations. Any amount due to Landlord not paid when due shall bear interest at the maximum annual interest rate then allowable by law from the date due.
6. Security Deposit. On execution of this Lease, Tenant shall deposit with Landlord Five Thousand Five Hundred Thirty- eight Dollars (\$5,538.00) as a security deposit for the performance by Tenant of the provisions of this Lease. If Tenant is in default, Landlord can use the security deposit, or any portion of it, to cure the default or to compensate Landlord for all damage sustained by Landlord resulting from Tenant's default. Tenant shall immediately, on demand, pay to Landlord a sum equal to the portion of the security deposit expended or applied by Landlord as provided in this paragraph so as to maintain the security deposit in the sum initially deposited with Landlord. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the security deposit to Tenant.

3

Landlord's obligations with respect to the security deposit are those of a debtor and not a trustee. Landlord can maintain the security deposit separate and apart from Landlord's general funds or can commingle the security deposit with Landlord's general and other funds. Landlord shall not be required to pay Tenant interest on the security deposit.

7. Personal Property Taxes. Tenant shall pay before delinquency all taxes, assessments, license fees, and other charges ("taxes") that are levied and assessed on Tenant's personal property installed or located in or on the Premises, and that become payable during the term. On demand by Landlord, Tenant shall furnish Landlord satisfactory evidence of these payments.
8. Real Property Taxes.
 - A. Real Property Taxes. Tenant shall pay all real property taxes and general and special assessments ("real property taxes") levied and assessed against the Premises, prorated to reflect Tenant's proportionate interest in the 6637 and 6641 Oakmont Drive property determined on the basis of the square footage of the improvements thereon. Each year, Landlord shall notify Tenant of the real property taxes and immediately upon receipt of the tax bill, shall furnish

Tenant with a copy of the tax bill. Tenant shall pay the real property taxes semi-annually, not later than ten (10) days before the taxing authority's delinquency date or ten (10) days after receipt of the tax bill, whichever is later.

If Landlord's lender requires Landlord to impound real property taxes on a periodic basis during the term, Tenant, on notice from Landlord indicating this requirement, shall pay a sum of money toward its liability under this paragraph to Landlord on a periodic basis in accordance with the lender's requirements. Landlord shall impound the tax payments received from Tenant in accordance with the requirements of the lender.

- B. New Assessments. If any general or special assessment is levied and assessed against the Premises, Landlord can elect to either pay the assessment in full or allow the assessment to go to bond. If Landlord pays the assessment in full, Tenant shall pay to Landlord, each time a payment of real property taxes is made, a sum equal to that which would have been payable (as both principal and interest) had Landlord allowed the assessment to go to bond.
- C. Proration of Tenant's Tax Liability. Tenant's liability to pay real property taxes shall be prorated on the basis of a 365-day year to account for any fractional portion of a fiscal tax year included in the term at its commencement

4

and expiration.

- D. Tenant's Right to Contest Real Property Taxes. Tenant, at its cost, shall have the right, at any time, to seek a reduction in the assessed valuation of the Premises or to contest any real property taxes that are to be paid by Tenant. If Tenant seeks a reduction or contests the real property taxes, the failure on Tenant's part to pay the real property taxes shall not constitute a default as long as Tenant complies with the provisions of this paragraph. Landlord shall not be required to join in any proceeding or contest brought by Tenant unless the provisions of any law require that the proceeding or contest be brought by or in the name of Landlord or any owner of the Premises. In that case, Landlord shall join in the proceeding or contest or permit it to be brought in Landlord's name as long as Landlord is not required to bear any cost. Tenant, on final

determination of the proceeding or contest shall immediately pay or discharge any decision or judgment rendered, together with all costs, charges, interest, and penalties incidental to the decision or judgment.

If Tenant does not pay the real property taxes, when due, and Tenant seeks a reduction or contests them as provided in this paragraph, before the commencement of the proceeding or contest, Tenant shall furnish to Landlord a surety bond issued by an insurance company qualified to do business in California. The amount of the bond shall equal One Hundred Twenty-Five Percent (125%) of the total amount of real property taxes in dispute. The bond shall hold Landlord and the Premises harmless from any damage arising out of the proceeding or contest and shall insure the payment of any judgment that may be rendered.

- E. Substitute Taxes. Tenant shall not be required to pay any municipal county, state or federal income or franchise taxes of Landlord, or any municipal, county, state or federal estate, succession, inheritance, or transfer taxes of Landlord. If, at any time during the term, the laws concerning the methods of real property taxation prevailing at the commencement of the term are changed so that a tax or excise on rents or any other such tax, however described, is levied or assessed against Landlord as a direct substitution, in whole or in part, for any real property taxes, Tenant shall pay before delinquency (but only to the extent that it can be ascertained that there has been a substitution and that as a result Tenant has been relieved from the payment of real property taxes it would otherwise have been obligated to pay) the substitute tax or excise on rents. Tenant's share of any tax or excise on rent shall be substantially the same as, and a substitute for, the payment of such real property taxes as

5

provided in this Lease.

9. Use. The Premises are to be used as bank, and for bank related activities and for no other business or purpose without the prior written consent of Landlord. No use shall be made or permitted to be made of the Premises, nor acts done in or about the Premises, which will in any way conflict with any law, ordinance, rule or regulation affecting the occupancy or use of the Premises which has been or is subsequently enacted or

promulgated by any public authority, or which will increase the existing rate of insurance upon the building, or cause a cancellation of any insurance policy covering the building or any part thereof, nor shall Tenant sell, or permit to be kept, used or sold in or about the Premises, any article which may be prohibited by the standard form of fire insurance policy. Tenant shall not commit, or suffer to be committed, any waste upon the Premises or, any public or private nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant in the building, nor use any apparatus, machinery or device in or about the Premises which shall cause any substantial noise or vibration, or which shall substantially increase the amount of electricity or water, if any, agreed to be furnished or supplied under this Lease. Tenant further agrees not to connect with electric wires or water or other pipes any apparatus, machinery or device without the consent of Landlord.

10. Maintenance and Repairs: Common Expenses. Landlord shall maintain at its own expense the sidewalk, roof, and structural aspects of the Premises. Landlord shall be responsible for administering the maintenance of the parking lot, remaining exterior grounds, landscaping, and the exterior of the building such as painting, glass, etc. (other than structural maintenance) in which the Premises are located, and Tenant shall pay its proportionate share of all such costs determined on a square footage basis based on the total square footage of the 6637 and 6641 Oakmont Drive, Santa Rosa, California building. Tenant waives the provisions of Civil Code Sections 1941 and 1942, with respect to Landlord's obligations for tenantability of the Premises and Tenant's right to make repairs and deduct the expenses of such repairs from rent. Tenant shall maintain, at its sole cost, the entire remainder of the Premises in good condition and repair, ordinary wear and tear excepted. All maintenance and repair work undertaken by Tenant shall be done in a workmanlike manner.

11. Alterations. Except as provided in Paragraph 12, Tenant shall not make any alterations to the Premises without Landlord's prior written consent. All alterations shall remain on and be surrendered with the Premises on expiration or termination of the term; provided, however, that at Landlord's option, Tenant shall, at Tenant's expense, when surrendering the Premises, restore the same to their original condition.

If Tenant makes any alterations to the Premises, as provided in this paragraph, the alterations shall not be commenced until two (2) days after Landlord has received notice from Tenant stating the date the installation of the alterations is to commence, so that Landlord can post and record an appropriate notice of non-responsibility.

12. Trade Fixtures. Subject to the provisions of Paragraphs 11 and 13 hereof, Tenant may install and maintain its trade fixtures on the Premises, provided that such fixtures, by reason of the manner in which they are affixed, do not become an integral part of the building or Premises. Tenant, if not in default hereunder, may at any time or from time to time during the term hereof, or upon the expiration or termination of this Lease, alter or remove any such trade fixtures so installed by Tenant. If not so removed by Tenant on or before the expiration or termination of this Lease, Tenant, upon the request of Landlord so to do, shall thereupon remove the same. Any damage to the Premises caused by any such installation, alteration or removal of such trade fixtures shall be promptly repaired at the expense of the Tenant.
13. Mechanics' Liens. Tenant shall pay all costs for construction done by it, or caused to be done by it, on the Premises, as permitted by this Lease. Tenant shall keep the Premises free and clear of all mechanics' liens resulting from construction done by or for Tenant. Tenant shall have the right to contest the correctness or validity of any such lien if, immediately on demand by Landlord, Tenant procures and records a lien release bond issued by a corporation authorized to issue surety bonds in California in an amount equal to one and one-half (1-1/2) times the amount of the claim of the lien. The bond shall meet the requirements of Civil Code Section 3143 and shall provide for the payment of any sum that the claimant may recover on the claim (together with costs of suit, if it recovers in the action).
14. Utilities. Tenant shall make all arrangements for, and pay for all utilities and services furnished to or use by it, including, without limitation, gas, electricity, water, and trash collection, and for all connection charges. Tenant shall share such expenses on a square footage basis with any other tenants using the building in which the Premises are located.
15. Indemnity and Hold Harmless. Each party agrees to indemnify and hold the other harmless against all claims, and the expense of defending against such claims, for injury or damage to persons or property occurring in or about the Premises or occurring outside the Premises to the extent they result from the act, failure to act, negligence or other fault of a party or its agents, employees or invitees.

16. Insurance.

- A. Tenant, at its cost, shall maintain public liability and property damage insurance with liability limits of not less than Five Hundred Thousand Dollars (\$500,000.00) per person and One Million Dollars (\$1,000,000.00) per occurrence, and property damage limits of not less than One Hundred Thousand Dollars (\$100,000.00) per occurrence, with an aggregate coverage of Two Hundred Thousand Dollars (\$200,000.00), insuring against all liability of Tenant and its authorized representatives arising out of and in connection with Tenant's use or occupancy of the Premises. All public liability insurance, and property damage insurance shall insure performance by Tenant of the indemnity provisions of Paragraph 16. Both parties shall be named as additional insureds, and the policy shall contain cross-liability endorsements.
- B. Not more frequently than three (3) years, if, in the opinion of Landlord's lender or of the insurance broker retained by Landlord, the amount of public liability and property damage insurance coverage at that time is not adequate, Tenant shall increase the insurance coverage as required by either Landlord's lender or Landlord's insurance broker, provided such request is reasonable under the circumstances.
- C. Tenant, at its cost, shall maintain on all its personal property, Tenant's improvements, and alterations, in, on, or about the Premises, a policy of standard fire and extended coverage insurance, with vandalism and malicious mischief endorsements, to the extent of at least Eighty Percent (80%) of their full replacement value. The proceeds from any such policy shall be used by Tenant for the replacement of personal property or the restoration of Tenant's improvements or alterations.
- D. Tenant shall pay its proportionate share (determined on a square footage basis) of maintenance on the building and other improvements that are a part of the Premises, a policy of standard fire and extended coverage insurance with vandalism and malicious mischief endorsements, to the extent of at least full replacement value.

The insurance policy shall be issued in the names of Landlord

and Tenant and any other tenants of the building in which the Premises are located. Tenant shall reimburse Landlord for its proportionate share of any premiums paid by Landlord for maintaining the insurance required by this Paragraph. Reimbursement shall be made by Tenant within ten (10) days after Tenant receives a copy of the premium notice.

8

- E. Tenant's obligation to pay the insurance costs, and to reimburse Landlord for any premiums paid by Landlord, shall be prorated for any partial year, at the commencement and expiration or termination of the term.
- F. All insurance policies maintained by Tenant, under this paragraph, shall contain a provision requiring thirty (30) days' written notice from the insurance company to both parties and Landlord's lender, before cancellation or change in the coverage, scope, or amount of any policy. Each policy, or a certificate of the policy, together with evidence of payment of premiums, shall be deposited with the other party at the commencement of the term, and on renewal of the policy, not less than twenty (20) days before expiration of the term of the policy.

17. Previous period rent overage amortization payment. On the first day of each month of the 120 month term of this lease, tenant shall pay \$1500.00 to landlord in consideration of prior unamortized previous period rent overage amortization. This payment will remain constant during the 120 month lease term and is not subject to rent increases during the lease term and this payment does not extend to lease term extensions for periods beyond September 30, 2006.

18. Waiver of Subrogation. The parties release each other, and their respective authorized representatives, from any claims for damage to any person, or to the Premises and to the fixtures, personal property, Tenant's improvements and alterations of either Landlord or Tenant in or on the Premises that are caused by or result from the risks insured against under any insurance policies carried by the parties and enforced at the time of any such damage.

Each party shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by any policy. Neither party shall be liable to the other for any

damage caused by fire or any of the risks insured against under any insurance policy required by this Lease. If any insurance policy cannot be obtained with a waiver of subrogation, or is obtainable only by the payment of an additional premium charge above that charged by insurance companies issuing policies without waiver of subrogation, the party undertaking to obtain the insurance shall notify the other party of this fact. The other party shall have a period of ten (10) days after receiving the notice either to place the insurance with a company that is reasonably satisfactory to the other party and that will carry the insurance with a waiver of subrogation, or to agree to pay the additional premium if such policy is obtainable at additional cost. If the insurance cannot be obtained or the party in whose favor a waiver of subrogation

9

is desired refuses to pay the additional premium charged, the other party is relieved of the obligation to obtain a waiver of subrogation rights with respect to the particular insurance involved.

19. Destruction. If the whole or any part of the Premises shall be destroyed by fire or other cause, or be so damaged thereby that they are untenable and cannot be rendered tenantable within one hundred twenty (120) days from the date of such destruction or damage, this Lease may be terminated by Landlord or Tenant by written notice. Within forty-five (45) days from date of such destruction or damage, Landlord shall give written notice to Tenant as to whether or not the Premises will be rendered tenantable within one hundred twenty (120) days from the date of such destruction or damage. In case the damage or destruction be not such as to permit termination of the Lease as above provided, or neither Landlord nor Tenant elects to terminate the Lease as above provided, Landlord shall within a reasonable time, render said Premises tenantable, and a proportionate reduction shall be made in the rent herein reserved corresponding to the time during which and to the portion of the Premises of which Tenant shall be deprived of possession. The provisions of Subdivision 2 of Section 1932 of the California Civil Code, and of Subdivision 4 of Section 1933 of that Code, shall not apply to this Lease, and Tenant waives the benefit of such provisions.

20. Condemnation. Should the whole or any part of the Premises be condemned and taken by any competent authority for any public or quasi-public use or purpose, all awards payable on account of such condemnation and taking shall be payable to Landlord, and Tenant hereby waives all interest in or claim to said awards, or

any part thereof. If the whole of the Premises shall be so condemned and taken, then this Lease shall terminate. If a part only of the Premises is condemned and taken and the remaining portion thereof is not suitable for the purposes for which Tenant has leased said Premises, this Lease shall terminate. If a part only of the Premises is condemned and taken and the remaining portion thereof is suitable for the purposes for which Tenant has leased said Premises, this Lease shall continue provided it is still feasible to operate Tenant's business, but the rental shall be reduced in an amount proportionate to the value of the portion taken as it related to the total value of the Premises.

21. Assignment and Subletting.

A. Tenant shall not assign, mortgage or pledge this Lease, or any interest therein, and shall not sublet the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the agents and servants of Tenant excepted) to occupy or use the Premises, or any

10

portion thereof, without the written consent of Landlord first had and obtained, which consent Landlord agrees not to unreasonably withhold. A consent to one assignment, mortgage, pledge, subletting, occupation or use by any other person shall not relieve the Tenant from any obligation under this Lease, and shall not be deemed to be a consent to any subsequent assignment, mortgage, pledge, subletting, occupation or use by another person. Any assignment, mortgage, subletting, occupation or use without such consent shall be void, and shall, at the option of Landlord, terminate this Lease.

B. The provisions of this Paragraph 22 shall be binding on any subtenant or assignee who desires to sub-sublet or sub-assign their interest, and Landlord's actions with respect to one assignment, mortgage, pledge, sublease, occupation or use shall not be deemed to limit the Landlord's options under this Lease with respect to a subsequent assignment, mortgage, pledge, sublease, occupation or use. Landlord's rights under this Paragraph 22 shall prevail over any inconsistent language in any sublease or assignment to which the Landlord consents and are reserved by the Landlord from the grant of the Tenant's leasehold estate. Nothing herein shall be construed to require the Landlord's

consent to any assignment, mortgage, pledge, subletting, occupation or use referred to in Paragraph (so long as the Landlord's consent is not unreasonably withheld). Any exercise of the Landlord's rights under this Paragraph 22 shall be deemed to be reasonable.

Failure of any subtenant or assignee to make any payments to Tenant shall not affect the obligation of the Tenant to pay the lease rent or any other obligation under the Lease owing to the Landlord. The provisions of any sublease or assignment cannot be modified, nor may the sublease or assignment be terminated other than in accordance with its terms, without the written consent of the Landlord.

22. Insolvency and Receivership. Either the appointment of a receiver to take possession of all, or substantially all, of the assets of Tenant or a general assignment by Tenant for the benefit of creditors, or any action taken or suffered by Tenant under any insolvency or bankruptcy act, shall constitute a breach of this Lease by Tenant.

23. Default and Re-Entry. In the event of any breach of the terms and provisions of this Lease by Tenant, or if Tenant's interest herein, or any part thereof, be assigned or transferred without the written consent of Landlord, either voluntarily or by operation of law, whether by judgment, execution, death, receivership or any other means, or if Tenant vacates or abandons the Premises, which shall be conclusively presumed if

Tenant leaves the Premises closed or unoccupied continuously for twenty (20) days, then in any such event, Landlord, besides other rights or remedies it may have, shall have the immediate right of re-entry and may remove all persons and property from the Premises and may store such property at the cost of and for the account and risk of Tenant.

Should Landlord elect to re-enter as herein provided, or should Landlord take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or, pursuant to Section 1951.4 of the California Civil Code, and even though Tenant has breached this Lease and abandoned the Premises, continue the Lease in effect for so long as the Landlord does not terminate the Tenant's right to possession, and the Landlord may enforce all its rights and remedies under the lease, including the right to recover the rent as it becomes due. If Landlord elects to continue the Lease in effect, it may re-let the Premises, or any part thereof, for such term or terms (which may be for a term extending

beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord, in its sole discretion, may deem advisable and shall have the right to make alterations and repairs to the Premises.

Rents received by such Landlord from such re-letting shall be applied: first, to the payment of any costs and expenses of such re-letting, including a reasonable attorney's fee and any real estate commission actually paid, and any costs and expenses of such alterations and repairs; second, to the payment of any indebtedness, other than rent, due hereunder from Tenant to Landlord; third, to the payment of rent due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future rent or other obligations as the same may become due and payable hereunder. If the net rent from such re-letting during any month after first applying the rent received to such fees, costs, expenses and other indebtedness, is less than that to be paid during that month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord, and such deficiency shall be calculated and paid monthly.

No such re-entry or taking possession of said Premises by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such re-letting without termination, Landlord may, at any time thereafter, elect to terminate this Lease for such previous breach.

Should Landlord at any time terminate this Lease for any breach, and thereafter seek relief pursuant to Section 1951.2 of the

California Civil Code, interest shall be allowed upon unpaid rent for the purposes of Section 1951.2(b) at Ten Percent (10%) per annum or the maximum rate permitted by law (as opposed to the legal rate), if greater. Landlord shall be entitled to recover at the time of an award of damages for default the worth of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of the rental loss that the Tenant proves could reasonably be avoided. Unless otherwise agreed between the parties, any proof by Tenant under Subparagraphs (2) or (3) of Subdivision (a) or Subparagraph (1) of Subdivision (c) of Section 1951.2 of the California Civil Code, or any successor statutes, as to the amount of rental loss that could be reasonably avoided, shall be made in the following manner: Landlord and Tenant shall each select a licensed real estate broker in the business of renting property of the same type and use as the leased Premises and

in the same geographic vicinity, they shall select a third licensed real estate broker, and the three so selected shall determine the amount of the rental loss that could be reasonably avoided for the balance of the term of this Lease after the time of award. The decision of the majority of said brokers shall be final and binding upon the parties hereto.

The foregoing rights and remedies shall be in addition to and cumulative with any other rights and remedies available to Landlord under the terms of this Lease or any applicable laws, statutes or regulations.

24. Waiver. The waiver by Landlord of any breach of any term, covenant, or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

25. Removal of Property. Whenever Landlord shall remove any property of Tenant from the Premises and store the same elsewhere for the account, and at the expense and risk, of Tenant, as provided in Paragraph 24, hereof, and Tenant shall fail to pay the cost of storing any such property after it has been stored for a period of ninety (90) days or more, Landlord may sell any or all such property at public or private sale, in such manner and at such times and places as Landlord in its sole discretion, may deem proper, without notice to or demand upon Tenant, for the payment of any part of such charges or the removal of any such property, and shall apply the proceeds of such sale: first, to the cost and expenses of such sale, including reasonable attorney's fees

13

actually incurred; second, to the payment of the cost of or charges for storing any such property; third, to the payment of any other sums of money which may then or thereafter be due to Landlord from Tenant under any of the terms hereof; and fourth, the balance, if any, to Tenant.

26. Waiver of Damages For Re-Entry. Tenant hereby waives all claims for damages that may be caused by Landlord's re-entering and taking possession of the Premises or removing and storing the

property of Tenant as herein provided, and will save Landlord harmless from loss, costs or damages occasioned thereby, and no such re-entry shall be considered or construed to be a forcible entry provided Landlord's actions are reasonable under the circumstances.

27. Attorney's Fees and Costs of Suit. If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the premises, the losing party shall pay the successful party a reasonable sum for attorney's fees in such suit, and such attorney's fees shall be deemed to have accrued on the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.
28. Litigation Against Tenant. Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by or against Tenant, or by or against any person holding under or using the Premises by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to pay to Landlord the amount of any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including all attorney's fees, incurred by Landlord in or in connection with such litigation.
29. Subordination.
- A. This Lease, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation for security now or hereafter placed upon the Premises and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have

this Lease prior to the lien of its mortgage, deed of trust,

or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

B. Tenant agrees to execute any documents required to effectuate such subordination or to make this Lease prior to the lien of any mortgage, deed of trust or ground lease, as the case may be, and failing to do so within ten (10) days after written demand, does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead, to do so. Tenant acknowledges that Tenant's failure to deliver documents referred to above may cause the Landlord serious financial damage by causing the failure of a financing or sale transaction. Tenant shall be liable for consequential damages in the event of such failures.

30. Waiver of Redemption By Tenant, Holding Over. Tenant hereby waives for Tenant and all those claiming under Tenant, all rights now or hereafter existing to redeem the leased Premises after termination of Tenant's right of occupancy by order or judgment of any court or by any legal process or writ. If Tenant holds over after the term hereof, with or without the express or implied consent of Landlord, such tenancy shall be from month to month only, and not a renewal hereof or an extension for any further term, and in such case rental shall be payable in the amount and at the time specified in Paragraph 4 hereof, and such month to month tenancy shall be subject to every other term, covenant and agreement contained herein.

31. Entry and Inspection. Tenant will permit Landlord and its agents to enter into and upon the Premises at all reasonable times for the purpose of inspecting the same, or for the purpose of protecting the interest therein of Landlord or the Owner, or to post notices of non-responsibility, or to make alterations or additions to the Premises, including the erection of scaffolding, props or other mechanical devices, or to provide any service provided by Landlord to Tenant hereunder, without any rebate of rent to Tenant for any loss of occupancy or quiet enjoyment of the Premises, or damage, injury or inconvenience thereby occasioned, and Tenant will permit Landlord, at any time within one hundred eighty (180) days prior to the expiration of this Lease, to bring upon the Premises, for purposes of inspection or display, prospective tenants thereof.

32. Successors and Assigns. Subject to the provisions hereof relating to assignment, mortgaging, pledging and subletting, this Lease is intended to and does bind the heirs, executors,

administrators, successors and assigns of any and all of the parties hereto.

33. Time. Time is of the essence of this Lease.

34. Notices. All notices which Landlord or Tenant may be required, or may desire, to serve on the other may be served, as an alternative to personal service, by mailing the same, postage prepaid, addressed to Landlord at 6637 Oakmont Drive, Santa Rosa, CA 95405, and to Tenant at the Premises, whether or not Tenant has departed from, abandoned or vacated the Premises, or addressed to such other address or addresses as either Landlord or Tenant may from time to time designate to the other in writing.

35. Complete Agreement. It is expressly agreed by the parties, as a material consideration for the execution of this Lease, that there are, and were, no verbal representation, understandings, stipulations, agreements or promises pertaining thereto, not incorporated in writing herein, and it is likewise agreed that this Lease should not be altered, waived, amended or extended otherwise than as provided herein, except by writing signed by both parties.

36. Estoppel Certificate. The Tenant, within ten (10) days of written notice, shall sign and deliver to the Landlord a certificate stating the lease/rental agreement is in full force and its material terms. Failure to deliver a certificate within the time specified shall be conclusive as to the truth of the information contained therein.

37. Signs. Tenant may erect only such sign or signs at or upon the Demised Premises as are approved by Landlord, which approval shall not be unreasonably withheld, and Tenant shall keep the same in presentable condition and repair and shall remove the same upon the expiration or prior termination of the term of this Lease, and repair any damage caused by such removal.

38. Paragraph Headings. The paragraph headings and numbers appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of such paragraphs of this Lease not in any way affect this Lease.

39. Recording. Tenant shall not record this Lease without the

written consent of Landlord.

40. Comptroller of the Currency. Notwithstanding any other provisions of this Lease, in the event that the Comptroller of the Currency appoints, pursuant to law, a conservator or receiver for Northern Empire Bancshares, or should Northern Empire Bancshares be required, pursuant to law, to merge with

16

any other banking institution as a result of any insolvency, said receivership, conservatorship, or merger shall be deemed, without requiring the consent of Landlord, to effect an assignment of this Lease to the receiver or conservator or the successor institution, as the case may be, upon the delivery to Landlord of written notice of such receivership, conservatorship, or merger, which notice shall include an undertaking on the part of the receiver, conservator, or successor institution, as the case may be, to perform all of the terms, covenants, and conditions on the part of Northern Empire Bancshares to be performed hereunder.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the day and year first written above.

"LANDLORD"

"TENANT"

OAKMONT INVESTMENTS, a
California General
Partnership

SONOMA NATIONAL BANK, a
National Banking Association

By _____
Patrick R. Gallaher, Partner

By _____
Deborah A. Meekins, President

Standard Office Lease - Gross
American Industrial Real Estate Association

1. Basic Lease Provisions

1.1 Parties: This lease, dated, for reference purposes only, June 1, 1996, is made between Fritz Brand, Trustee, Fritz Brand Trust, under the Lillian M. Brand Trust Martial Deduction Trust & Exemption Tr. (Herein called "Lessor") and Sonoma National Bank, herein called "Lessee".

1.2 Premises: Suite Number(s) First and Second floors, consisting on approximately 7400 sq. Ft., more or less, as defined in paragraph 2 and as shown on Exhibit "A" hereto (the "Premises").

1.3 Building: Commonly described as being located at 751 & 755 Fourth St. in the City of Santa Rosa, County of Sonoma, State of California, as more particularly described in Exhibit A hereto, and as defined in paragraph 2.

1.4 Use: General Office, subject to paragraph 6.

1.5 Term" 24 months commencing June 1, 1996 ("Commencement Date") and ending May 31, 1998, as defined in paragraph 3.

1.6 Base Rent: \$11,725.00 per month, payable on the 1st day of each month, per paragraph 4.3 below.

1.8 Rent Paid Upon Execution:

1.9 Security Deposit: \$10,697.50

1.10 Lessee's Share of Operating Expense Increase: 0 % as defined in paragraph 4.2.

2. Premises, Parking and Common Areas.

2.1 Premises: The Premises are a portion of a building, herein sometimes referred to as the "Building" identified in paragraph 1.3 of the Basic Lease Provisions. "Building" shall include adjacent parking structures used in connection therewith. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, are herein collectively referred to as the "Office Building Project." Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, the real property referred to in the Basic Lease Provisions, paragraph 1.2, as the "Premises," including rights to the Common Areas as hereinafter specified.

2.2 Vehicle Parking: So long as Lessee is not in default, and subject to the rules and regulations attached hereto, and as established by Lessor from time to time, Lessee shall be entitled to rent and use N/A parking spaces in the Office Building Project at the monthly rate applicable from time to time for monthly parking as set by Lessor and/or it's licensee.

2.2.1 If Lessee commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.2.2 The monthly parking rate per parking space will be \$ per month at the commencement of the term of this Lease, and is subject to change upon five (5) days prior written notice to Lessee. Monthly parking fees shall be

payable one month in advance prior to the first day of each calendar month.

2.3 Common Areas-Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Office Building Project that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Office Building Project and their respective employees, suppliers, shippers, customers and invitees, including but not limited to common entrances, lobbies, corridors, stairways and stairwells, public restrooms, elevators, escalators, parking areas to the extent not otherwise prohibited by this Lease, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas and decorative walls.

2.4 Common Areas-Rules and Regulations. Lessee agrees to abide by and conform to the rules and regulations attached hereto as Exhibit B with respect to the Office Building Project and Common Areas, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to

time, to modify, amend and enforce said rules and regulations. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees, their agents, employees and invitees of the Office Building Project,

2.5 Common Areas - Changes. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Building interior and exterior and Common Areas, including, without limitation, changes in the location, size, shape, number, and appearance thereof, including but not limited to the lobbies, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, decorative walls, landscaped areas and walkways; provided, however, Lessor shall at all times provide the parking facilities required by applicable law;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land and improvements outside the boundaries of the Office Building Project to be a part of the Common Areas, provided that such other land and improvements have a reasonable and functional relationship to the Office Building Project;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Office Building Project, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or

with respect to the Common Areas and Office Building Project as Lessor may, in the exercise of sound business judgment deem to be appropriate.

3. Term.

3.1 Term. The term and Commencement Date of this Lease shall be as specified in paragraph 1.5 of the Basic Lease Provisions.

3.2 Delay in Possession. Notwithstanding said Commencement Date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date and subject to paragraph 3.2.2, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof; but, in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee, as hereinafter defined; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days following said Commencement Date, as the same may be extended under the terms of a Work Letter executed by Lessor and Lessee, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided, however, that, as to Lessee's obligations, Lessee first reimburses Lessor for all costs Incurred for Non-Standard Improvements and, as to Lessor's obligations, Lessor shall return any money previously deposited by Lessee (less any offsets due Lessor for Non-Standard Improvements); and provided further, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.2.1 Possession Tendered - Defined. Possession of the Premises shall be deemed tendered to Lessee ("Tender of Possession") when (1) the improvements to be provided by Lessor under this Lease are substantially completed, (2) the Building utilities are ready for use in the Premises, (3) Lessee has reasonable access to the Premises, and (4) ten (10) days shall have expired following advance written notice to Lessee of the occurrence of the matters described in (1), (2) and (3), above of this paragraph 3.2.1.

3.2.2 Delays Caused by Lessee. There shall be no abatement of rent, and the sixty (60) day period following the Commencement Date before which Lessee's right to cancel this Lease accrues under paragraph 3.2, shall be deemed extended to the extent of any delays caused by acts or omissions of Lessee, Lessee's agents, employees and contractors.

3.3 Early Possession. If Lessee occupies the Premises prior to said Commencement Date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not change the termination date, and Lessee shall pay rent for such occupancy.

3.4 Uncertain commencement In the event commencement of the Lease term is defined as the completion of the improvements, Lessee and Lessor shall execute an amendment to this Lease establishing the date of Tender of Possession (as defined in paragraph 3.2.1) or the actual

taking of possession by Lessee, whichever first occurs, as the Commencement Date.

4. Rent.

4.1 Base Rent Subject to adjustment as hereinafter provided in paragraph 4.3, and except as may be otherwise expressly provided in this Lease, Lessee shall pay to Lessor the Base Rent for the Premises set forth in paragraph 1.6 of the Basic Lease Provisions, without offset or deduction. Lessee shall pay Lessor upon execution hereof the advance Base Rent described in paragraph 1.8 of the Basic Lease Provisions. Rent for any period during the term hereof which is for less than one month shall be prorated based upon the actual number of days of the calendar month involved. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 Operating Expense Increase. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of the amount by which all Operating Expenses, as hereinafter defined, for each Comparison Year exceeds the amount of all Operating Expenses for the Base Year, such excess being hereinafter referred to as the "Operating Expense Increase," in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as the percentage set forth in paragraph 1.10 of the Basic Lease Provisions, which percentage has been determined by dividing the approximate square footage of the Premises by the total approximate square footage of the rentable space contained in the Office Building Project. It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Office Building Project.

(b) "Base Year" is defined as the calendar year in which the Lease term commences.

(c) "Comparison Year" is defined as each calendar year during the term of this Lease subsequent to the Base Year; provided, however, Lessee shall have no obligation to pay s share of the Operating Expense Increase applicable to the first twelve (12) months of the Lease Term (other than such as are mandated by a governmental authority, as to which government mandated expenses Lessee shall pay Lessee's Share, notwithstanding they occur during the first twelve (12) months. Lessee's Share of the Operating Expense Increase for the first and last Comparison Years of the f ease Term shall be prorated according to that portion of such Comparison Year as to which Lessee is responsible for a share of such increase.

(d) "Operating Expenses" is defined, for purposes of this Lease, to include all costs, if any, incurred by Lessor in the exercise of its reasonable discretion, for:

(i) The operation, repair, maintenance, and replacement, in neat, clean, safe, good order and condition, of the Office Building Project, including but not limited to, the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window covering and including parceling areas, loading and unloading areas, trash areas, roadways,

sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, telecommunication and other equipment used in common by, or for the benefit of, lessees or occupants of the Office Building Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(ii) Trash disposal, janitorial and security services; (iii) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense";

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof; (v) The amount of the real property taxes to be paid by Lessor under paragraph 10.1 hereof; (vi) The cost of water, sewer, gas, electricity, and other publicly mandated services to the Office Building Project; (vii) Labor, salaries and applicable fringe benefits and costs, materials,

supplies and tools, used in maintaining and/or cleaning the Office Building Project and accounting and a management fee attributable to the operation of the Office Building Project;

(viii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated thereby amortized over its useful life according to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then reasonable in the judgment of Lessor's accountants); (ix) Replacements of equipment or improvements that have a useful life for depreciation purposes according to Federal income tax guidelines of five (5) years or less, as amortized over such life.

(e) Operating Expenses shall not include the costs of replacements of equipment or improvements that have a useful life for Federal income tax purposes in excess of five (5) years unless it is of the type described in paragraph 4.2(d)(viii), in which case their cost shall be included as above provided.

(f) Operating Expenses shall not include any expenses paid by any lessee directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

(g) Lessee's Share of Operating Expense Increase shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time in advance of Lessee's Share of the Operating Expense Increase for any Comparison Year, and the same shall be payable monthly or quarterly, as Lessor shall designate, during each Comparison Year of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expense Increase as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each Comparison Year a reasonably

detailed statement showing Lessee's Share of the actual Operating Expense Increase incurred during such year. If Lessee's payments under this paragraph 4.2(g) during said Comparison Year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expense Increase next falling due. If Lessee's payments under this paragraph during said Comparison Year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement. Lessor and Lessee shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Lessee is responsible as to Operating Expense Increases, notwithstanding that the Lease term may have terminated before the end of such Comparison Year.

4.3 Rent Increase.

4.3.1 At the times set forth in paragraph 1.7 of the Basic Lease Provisions, the monthly Base Rent payable under paragraph 4.1 of this Lease shall be adjusted by the increase, if any, in the Consumer Price Index of the Bureau of Labor Statistics of the Department of Labor for All Urban Consumers, (1967=100), "All Items," for the city nearest the location of the Building, herein referred to as "C.P.I.," since the date of this Lease.

4.3.2 The monthly Base Rent payable pursuant to paragraph 4.3.1 shall be calculated as follows: the Base Rent payable for the first month of the term of this Lease, as set forth in paragraph 4.1 of this Lease, shall be multiplied by a fraction the numerator of which shall be the C.P.I. of the calendar month during which the adjustment is to take effect, and the denominator of which shall be the C.P.I. for the calendar month in which the original Lease term commences. The sum so calculated shall constitute the new monthly Base Rent hereunder, but, in no event, shall such new monthly Base Rent be less than the Base Rent payable for the month immediately preceding the date for the rent adjustment.

4.3.3 In the event the compilation and/or publication of the C.P.I. shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the C.P.I. shall be used to make such calculations. In the event that Lessor and Lessee cannot agree on such alternative index then the matter shall be submitted for decision to the American Arbitration Association in the County in which the Premises are located, in accordance with the then rules of said association and the decision of the arbitrators shall be binding upon the parties, notwithstanding one party failing to appear after due notice of the proceeding. The cost of said Arbitrators shall be paid equally by Lessor

and Lessee.

4.3.4 Lessee shall continue to pay the rent at the rate previously in effect until the increase, if any, is determined. Within five (5) days following the date on which the increase is determined, Lessee shall make such payment to Lessor as will bring the increased rental current, commencing

with the effective date of such increase through the date of any rental installments then due. Thereafter the rental shall be paid at the increased rate.

4.3.5 At such time as the amount of any change in rental required by this Lease is known or determined, Lessor and Lessee shall execute an amendment to this Lease setting forth such change.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the security deposit set forth in paragraph 1.9 of the Basic Lease Provisions as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly Base Rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 1.6 of the Basic Lease Provisions. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not heretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. Use.

6.1 Use. The Premises shall be used and occupied only for the purpose set forth in paragraph 1.4 of the Basic Lease Provisions or any other use which is reasonably comparable to that use and for no other purpose.

6.2 Compliance with Law.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to alterations or improvements made by Lessee or the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term Commencement Date. In the event It is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in

policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises. Lessee shall conduct its business in a lawful manner and shall not use or permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Office Building Project.

6.3 Condition of Premises.

(a) Lessor shall deliver the Premises to Lessee in a clean condition on the Lease Commencement Date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, and heating system in the Premises shall be in good operating condition. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises and the Office Building Project in their condition existing as of the Lease Commencement Date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any easements, covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that it has satisfied itself by its own independent investigation that the Premises are suitable for its intended use, and that neither Lessor nor Lessor's agent or agents has made any representation or warranty as to the present or future suitability of the Premises, Common Areas, or Office Building Project for the conduct of Lessee's business.

7. Maintenance, Repairs, Alterations and Common Area Services.

7.1 Lessor's Obligations. Lessor shall keep the Office Building Project, including the Premises, interior and exterior walls, roof, and common areas, and the equipment whether used exclusively for the Premises or in common with other premises, in good condition and repair; provided, however, Lessor shall not be obligated to paint, repair or replace wall coverings, or to repair or replace any improvements that are not ordinarily a part of the Building or are above then Building standards. Except as provided in paragraph 9.5, there shall be no abatement of rent or liability of Lessee on account of any injury or interference with Lessee's business with respect to any improvements, alterations or repairs made by Lessor to the Office Building Project or any part thereof. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair.

7.2 Lessee's Obligations.

(a) Notwithstanding Lessor's obligation to keep the Premises in good condition and repair, Lessee shall be responsible for payment of the cost thereof to Lessor as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any

Premises improvements that are not ordinarily a part of the Building or that are above then Building standards. Lessor may, at its option, upon reasonable notice, elect to have Lessee perform any particular such maintenance or repairs the cost of which is otherwise Lessee's responsibility hereunder.

(b) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Lessee. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Except as otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall paneling, ceilings and plumbing on the Premises and in good operating condition.

7.3 Alterations and Additions.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, Utility Installations or repairs in, on or about the Premises, or the Office Building Project. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window and wall coverings, power panels, electrical distribution systems, lighting fixtures, air conditioning, plumbing, and telephone and telecommunication wiring and equipment. At the expiration of the term, Lessor may require the removal of any or all of said alterations, improvements, additions or Utility Installations, and the restoration of the Premises and the Office Building Project to their prior condition, at Lessee's expense. Should Lessor permit Lessee to make its own alterations, improvements, additions or Utility Installations, Lessee shall use only such contractor as has been expressly approved by Lessor, and Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, or use a contractor not expressly approved by Lessor, Lessor may, at

any lime during the term of this Lease, require that Lessee remove any part or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Office Building Project that Lessee shall desire to make shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent to Lessee's making such alteration, improvement, addition or Utility Installation, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from the applicable governmental agencies, furnishing a copy thereof to Lessor prior to the commencement of the work, and compliance by Lessee with all conditions of

said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, the Building or the Office Building Project, or any interest therein.

(d) Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises by Lessee, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, the Building or the Office Building Project, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises, the Building and the Office Building Project free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's reasonable attorneys' fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest so to do,

(e) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made to the Premises by Lessee, including but not limited to, floor coverings, panelings, doors, drapes, built-ins, moldings, sound attenuation, and lighting and telephone or communication systems, conduit, wiring and outlets, shall be made and done in a good and workmanlike manner and of good and sufficient quality and materials and shall be the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Provided Lessee is not in default, notwithstanding the provisions of this paragraph 7.3(e), Lessee's personal property and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Building, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

(f) Lessee shall provide Lessor with as-built plans and specifications for any alterations, improvements, additions or Utility Installations.

7.4 Utility Additions. Lessor reserves the right to install new or additional utility facilities throughout the Office Building Project for the benefit of Lessor or Lessee, or any other lessee of the Office Building Project, including, but not by way of limitation, such utilities as plumbing, electrical systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. Insurance; Indemnity.

8.1 Liability Insurance-Lessee. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GL0404), or equivalent, in an

amount of not less than \$1,000,000 per occurrence of bodily Injury and property damage combined or in a greater amount as reasonably determined by Lessor and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. Compliance with the above requirement shall not, however, limit the liability of Lessee hereunder.

8.2 Liability Insurance - Lessor. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance, plus coverage against such other risks Lessor deems advisable from time to time, insuring Lessor, but not Lessee, against liability arising out of the ownership, use, occupancy or maintenance of the Office Building Project in an amount not less than \$5,000,000.00 per occurrence.

8.3 Property Insurance-Lessee. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease for the benefit of Lessee, replacement cost fire and extended coverage insurance, with vandalism and malicious mischief, sprinkler leakage and earthquake sprinkler leakage endorsements, in an amount sufficient to cover not less than 100% of the full replacement cost, as the same may exist from time to time, of all of Lessee's personal property, fixtures, equipment and tenant improvements.

8.4 Property Insurance-Lessor. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Office Building Project improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in the amount of the full replacement cost thereof, as the same may exist from time to time, utilizing Insurance Services Office standard form, or equivalent, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, plate glass, and . such other perils as Lessor deems advisable or may be required by a lender having a lien on the Office Building Project. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. Lessee will not be named in any such policies carried by Lessor and shall have no right to any proceeds therefrom. The policies required by these paragraphs 8.2 and 8.4 shall contain such deductibles as Lessor or the aforesaid lender may determine. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(f) hereto, the deductible amounts under the applicable insurance policies shall be deemed an Operating Expense. Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall pay the entirety of any increase in the property insurance premium for the Office Building Project over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being Caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 Insurance Policies. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the Commencement Date of this Lease. No such policy shall be cancelable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals thereof.

8.6 Waiver of Subrogation. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other, for direct or consequential loss or damage arising out of or incident to the perils covered by property insurance carried by such party, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. If necessary all property insurance policies required under this Lease shall be endorsed to so provide.

8.7 Indemnity. Lessee shall indemnify and hold harmless Lessor and its agents, Lessor's master or ground lessor, partners and lenders, from and against any and all claims for damage to the person or property of anyone or any entity arising from Lessee's use of the Office Building Project, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless lessor from and against any and all claims, costs and expenses arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, employees, or invitees, and from and against all costs, attorney's fees, expenses and liabilities incurred by Lessor as the result of any such use, conduct, activity, work, things done, permitted or suffered, breach, default or negligence, and in dealing reasonably therewith, including but not limited to the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against Lessor by reason of any such matter, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or Injury to persons, in, upon or about the Office Building Project arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor.

8.8 Exemption of Lessor from Liability. Lessee hereby agrees that Lessor shall not be liable for Injury to Lessee's business or any loss of (income therefrom or for loss of or damage to

the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Office Building Project, nor shall Lessor be liable for Injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or Injury is caused by or results from theft, fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes,

sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or Injury results from conditions arising upon the Premises or upon other portions of the Office Building Project, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of the Office Building Project, or of the equipment, fixtures or appurtenances applicable thereto, and regardless of whether the cause of such damage or Injury or the means of repairing the same is inaccessible, Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Office Building Project, nor from the failure of Lessor to enforce the provisions of any other lease of any other lessee of the Office Building Project.

8.9 No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified in this paragraph 8 are adequate to cover Lessee's property or obligations under this Lease.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Damage" shall mean if the Premises are damaged or destroyed to any extent.

(b) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent (50%) of the then Replacement Cost of the building.

(c) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent (50%) or more of the then Replacement Cost of the Building.

(d) "Office Building Project Buildings" shall mean all of the buildings on the Office Building Project site.

(e) "Office Building Project Buildings Total Destruction" shall mean if the Office Building Project Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent (50%) or more of the then Replacement Cost of the Office Building Project Buildings.

(f) "Insured Loss" shall mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(g) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring, excluding all improvements made by lessees, other than those installed by Lessor at Lessee's expense.

9.2 Premises Damage; Premises Building Partial Damage.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Damage or Premises Building Partial Damage, then Lessor shall, as soon as reasonably possible and to the extent the required materials and labor are readily available through usual commercial channels, at Lessor's expense, repair such damage (but not Lessee's fixtures, equipment or tenant improvements originally paid for by Lessee) to its condition existing at the time of the damage, and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from making any substantial use of the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage, in which event this Lease shall terminate as of the date of the occurrence of such damage.

9.3 Premises Building Total Destruction; Office Building Project Total Destruction. Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, which falls into the classifications of either (i) Premises Building Total Destruction, or (ii) Office Building Project Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction as soon as reasonably possible at Lessor's expense (to the extent the required materials are readily available through usual commercial channels) to its condition existing at the time of the damage, but not Lessee's fixtures, equipment or tenant improvements, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall terminate as of the date of the occurrence of such damage.

9.4 Damage Near End of Term.

(a) Subject to paragraph 9.4(b), if at any time during the last twelve (12) months of the term of this Lease there is substantial damage to the Premises, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Damage during the last twelve (12) months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate

and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 Abatement of Rent; Lessee's Remedies.

(a) In the event Lessor repairs or restores the Building or Premises pursuant to the provisions of this paragraph 9, and any part of the Premises are not usable (including loss of use due to loss of access or essential services), the rent payable hereunder (including Lessee's Share of Operating Expense Increase) for the period during which such damage, repair or restoration continues shall be abated, provided (1) the damage was not the result of the negligence of Lessee, and (2) such abatement shall only be to the extent the operation and profitability of Lessee's business as operated from the Premises is adversely affected. Except for said abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises or the Building under the provisions of this Paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such occurrence, or if Lessor shall not complete the restoration and repair within six (6) months after such occurrence, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement or completion, respectively, of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

(c) Lessee agrees to cooperate with Lessor in connection with any such restoration and repair, including but not limited to the approval and/or execution of plans and specifications required.

9.6 Termination-Advance Payments. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 Waiver. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. Real Property Taxes.

10.1 Payment of Taxes. Lessor shall pay the real property tax, as detained in paragraph 10.3, applicable to the Office Building Project subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise

provided in paragraph 10.2.

10.2 Additional Improvements. Lessee shall not be responsible for paying any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the

Office Building Project by other lessees or by Lessor for the exclusive enjoyment of any other lessee. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 Definition of "Real Property Tax." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Office Building Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Office Building Project or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Office Building Project. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a change in ownership, as defined by applicable local statutes for property tax purposes, of the Office Building Project or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such change of ownership, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 Joint Assessment. If the improvements or property, the taxes for which are to be paid separately by Lessee under paragraph 10.2 or 10.5 are not separately assessed, Lessee's portion of that tax shall be equitably determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information (which may include the cost of construction) as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 Personal Property Taxes. (a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. (b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities.

11.1 Services Provided by Lessor. Lessor shall provide heating, ventilation, air conditioning, and janitorial service as reasonably required, reasonable amounts of electricity for normal lighting and office machines, water for reasonable and normal drinking and lavatory use, and replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures.

11.2 Services Exclusive to Lessee. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services specially or exclusively supplied and/or metered exclusively to the Premises or to Lessee,

together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

11.3 Hours of Service. Said services and utilities shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities and services required at other times shall be subject to advance request and reimbursement by Lessee to Lessor of the cost thereof.

11.4 Excess Usage by Lessee. Lessee shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting or power, or suffer or permit any act that causes extra burden upon the utilities or services, including but not limited to security services, over standard office usage for the Office Building Project. Lessor shall require Lessee to reimburse Lessor for

any excess expenses or costs that may arise out of a breach of this subparagraph by Lessee. Lessor may, in its sole discretion, install at Lessee's expense supplemental equipment and/or separate metering applicable to Lessee's excess usage or loading.

11.5 Interruptions. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. Assignment and Subletting.

12.1 Lessor's Consent Required. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a material default and breach of this Lease without the need for notice to Lessee under paragraph 13.1. "Transfer" within the meaning of this paragraph 12 shall include the transfer or transfers aggregating: (a) if Lessee is a corporation, more than twenty-five percent (25%) of the voting stock of such corporation, or (b) if Lessee is a partnership, more than twenty-five percent (25%) of the profit and loss participation in such partnership.

12.2 Lessee Affiliate. Notwithstanding the provisions of paragraph 12.1 hereof, lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being

conducted on the Premises, all of which are referred to as "Lessee Affiliate"; provided that before such assignment shall be effective, (a) said assignee shall assume, in full, the obligations of Lessee under this Lease and (b) Lessor shall be given written notice of such assignment and assumption. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, no assignment or subletting shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the rent and other sums due Lessor hereunder including Lessee's Share of Operating Expense Increase, and to perform all other obligations to be performed by Lessee hereunder.

(b) Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment.

(c) Neither a delay in the approval or disapproval of such assignment or subletting, nor the acceptance of rent, shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease.

(d) If Lessee's obligations under this Lease have been guaranteed by third parties, then an assignment or sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms hereof.

(e) The consent by Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability under this Lease or said sublease; however, such persons shall not be responsible to the extent any such amendment or modification enlarges or increases the obligations of the Lessee or sublessee under this Lease or such sublease.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) Lessor's written consent to any assignment or subletting of the Premises by

Lessee shall not constitute an acknowledgment that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise

stated by Lessor at the time.

(h) The discovery of the fact that any financial statement relied upon by Lessor in giving its consent to an assignment or subletting was materially false shall, at Lessor's election, render Lessor's said consent null and void.

12.4 Additional Terms and Conditions Applicable to Subletting. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against said sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublessee as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublease shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) In the event Lessee shall default in the performance of its obligations under this lease. Lessor at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) With respect to any subletting to which Lessor has

consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within three (3) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 Lessor's Expenses. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable costs and expenses incurred in connection herewith, including attorneys', architects', engineers' or other consultants fees.

12.6 Conditions to Consent. Lessor reserves the right to condition any approval to assign or sublet upon Lessor's determination that (a) the proposed assignee or sublessee shall conduct a business on the Premises of a quality substantially equal to that of Lessee and consistent with the general character of the other occupants of the Office Building Project and not in violation of any exclusives or rights then held by other tenants, and (b) the proposed assignee or sublessee be at least as financially responsible as Lessee was expected to be at the time of the execution of this Lease or of such assignment or subletting, whichever is greater.

13. Default; Remedies.

13.1 Default. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacation or abandonment of the Premises by Lessee. Vacation of the Premises shall include the failure to occupy the Premises for a continuous period of sixty (60) days or more, whether or not the rent is paid.

(b) The breach by Lessee of any of the covenants, conditions or provisions of paragraphs 7.3(a), (b) or (d) (alterations), 12.1 (assignment or subletting), 13.1(a) (vacation or abandonment), 13.1(e) (insolvency), 13.1(f) (false statement), 16(a) (estoppel certificate), 30(b) (subordination), 33 (auctions), or 41.1 (easements), all of which are hereby deemed to be material, non-curable defaults without the necessity of any notice by Lessor to Lessee thereof.

(c) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(d) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee other than those referenced in subparagraphs (b) and (c), above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of

Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently pursues such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(e) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becoming a "debtor" as defined in 11 U.S.C. Paragraph 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect.

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee, or its successor in interest or by any guarantor of Lessee's obligation hereunder, was materially false.

13.2 Remedies. In the event of any material default or breach of this Lease by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent

and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 Default by Lessor. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30-day period and thereafter diligently pursues the same to completion.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expense Increase or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Office Building Project. Accordingly, if any installment of Base Rent, Operating Expense Increase, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

14. Condemnation. If the Premises or any portion thereof or the Office Building Project are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs; provided that if so much of the Premises or the Office Building Project are taken by such condemnation as would substantially and adversely affect the operation and profitability of Lessee's business conducted from the Premises, Lessee shall have the option, to be exercised only in writing within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), to terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent and Lessee's Share of Operating Expense Increase shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. Common Areas taken shall be excluded from the Common Areas usable by Lessee and no reduction of rent shall occur with respect thereto or by reason thereof. Lessor shall have the option in its sole discretion to terminate this Lease as of the taking of possession by the condemning authority, by giving written notice to Lessee of such election within thirty (30) days after receipt of

notice of a taking by condemnation of any part of the Premises or the Office Building Project. Any award for the taking of all or any part of the Premises or the Office Building Project under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any separate award for loss of or damage to Lessee's trade fixtures, removable personal property and unamortized tenant improvements that have been paid for by Lessee. For that purpose the cost of such improvements shall be amortized over the original term of this Lease excluding any options. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. Broker's Fee.

(a) The brokers involved in this transaction are N/A as "listing broker" and as "cooperating broker," licensed real estate broker(s). A "cooperating broker" is defined as any

broker other than the listing broker entitled to a share of any commission arising under this Lease. Upon execution of this Lease by both parties, Lessor shall pay to said brokers Jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor further agrees that (i) if Lessee exercises any Option, as detained in paragraph 39.1 of this Lease, which is granted to Lessee under this Lease, or any subsequently granted option which is substantially similar to an Option granted to Lessee under this Lease, or (ii) if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or (iii) if Lessee remains in possession of the Premises after the expiration of the term of this Lease after having failed to exercise an Option, or (iv) if said broker(s) are the procuring cause of any other lease or sale entered into between the parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (v) if the Base Rent is increased, whether by agreement or operation of an escalation clause contained herein, then as to any of said transactions or rent increases, Lessor shall pay said broker(s) a fee in accordance with the schedule of said broker(s) in effect at the time of execution of this Lease. Said fee shall be paid at the time such increased rental is determined.

(c) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is

due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Each listing and cooperating broker shall be a third party beneficiary of the provisions of this paragraph 15 to the extent of their interest in any commission arising under this Lease and may enforce that right directly against Lessor; provided, however, that all brokers having a right to any part of such total commission shall be a necessary party to any suit with respect thereto.

(d) Lessee and Lessor each represent and warrant to the other that neither has had any dealings with any person, firm, broker or finder (other than the person(s), if any, whose names are set forth in paragraph 15(a), above) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and no other broker or other person, firm or entity is entitled to any commission or finder's fee in connection with said transaction and Lessee and Lessor do each hereby indemnify and hold the other harmless from and against any costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying party.

16. Estoppel Certificate.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Office Building Project or of the business of Lessee.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Office Building Project, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and

shall be used only for the purposes herein set forth.

17. Lessor's Liability. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Office Building Project, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. Severability. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction shall in no way affect the validity of any other provision hereof.

19. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law or judgments from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. Time of Essence. Time is of the essence with respect to the obligations to be performed under this Lease.

21. Additional Rent All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expense Increase and any other expenses payable by Lessee hereunder shall be deemed to be rent.

22. Incorporation of Prior Agreements; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Office Building Project and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease.

23. Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified or registered mail, and shall be deemed sufficiently given if delivered or addressed to Lessee or to Lessor at the address noted below or adjacent to the signature of the respective parties, as the case may be. Mailed

notices shall be deemed given upon actual receipt at the address required, or forty-eight hours following deposit in the mail, postage prepaid, whichever first occurs. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24.Waivers. No waiver by Lessor of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25.Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. Holding Over. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee,

except that the rent payable shall be two hundred percent (200%) of the rent payable immediately preceding the termination date of this Lease, and all Options, If any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

27.Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28.Covenants and Conditions. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29.Binding Effect; Choice of Law. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Office Building Project is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Office Building Project is located.

30.Subordination.

(a) This Lease, and any Option or right of first refusal granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed

upon the Office Building Project and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. Attorneys' Fees.

31.1 If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, trial or appeal thereon, shall be entitled to his reasonable attorneys' fees to be paid by the losing party as fixed by the court in the same or a separate suit, and whether or not such action is pursued to decision or judgment. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

31.2 The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred in good faith.

31.3 Lessor shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notice of default and consultations in connection therewith, whether or not a legal transaction is subsequently commenced in connection with such default.

32. Lessor's Access.

32.1 Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, performing any services required of Lessor, showing the same to prospective purchasers, lenders, or lessees, taking such safety measures, erecting such scaffolding or other necessary structures, making such alterations, repairs, improvements or additions to the Premises or to the Office Building Project as Lessor may reasonably deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. Lessor may at any time place on or

about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs.

32.2 All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

32.3 Lessor shall have the right to retain keys to the Premises and to unlock all doors in or upon the Premises other than to tiles, vaults and sates. and in the case of emergency to enter the Premises by any reasonably appropriate means, and any such entry shall not be deemed a forcible or unlawful entry or detainer of the Premises or an eviction. Lessee waives any charges for damages or injuries or interference with Lessee's property or business in connection therewith.

33.Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent. The holding of any auction on the Premises or Common Areas in violation of this paragraph shall constitute a material default of this Lease.

34.Signs. Lessee shall not place any sign upon the Premises or the Office Building Project without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Office Building Project.

35.Merger.The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36.Consents. Except for paragraphs 33 (auctions) and 34 (signs) hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38.Quiet Possession. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Office Building Project.

39.Options.

39.1 Definition. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other

property of Lessor; (2) the option of right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Office Building Project or other property of Lessor or the right of first offer to lease other space within the Office Building Project or other property of Lessor; (3) the right or option to purchase the Premises or the Office Building Project, or the right of first refusal to purchase the Premises or the Office Building Project or the right of first offer to purchase the Premises or the Office Building Project, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 Options Personal. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee; provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 Multiple Options. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(c) or 13.1(d) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option, (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants or conditions of this Lease.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, it, after such exercise and during the

term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(d) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessor gives to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, or (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants and conditions of this Lease.

40. Security Measures-Lessor's Reservations.

40.1 Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Office Building Project. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Office Building Project or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

40.2 Lessor shall have the following rights:

(a) To change the name, address or title of the Office Building Project or building in which the Premises are located upon not less than 90 days prior written notice;

(b) To, at Lessee's expense, provide and install Building standard graphics on the door of the Premises and such portions of the Common Areas as Lessor shall reasonably deem appropriate;

(c) To permit any lessee the exclusive right to conduct any business as long as such exclusive does not conflict with any rights expressly given herein;

(d) To place such signs, notices or displays as Lessor reasonably deems necessary or advisable upon the roof, exterior of the buildings or the Office Building Project or on pole signs in the Common Areas;

40.3 Lessee shall not:

(a) Use a representation (photographic or otherwise) of the Building or the Office Building Project or their name(s) in connection with Lessee's business;

(b) Suffer or permit anyone, except in emergency, to go upon the roof of the Building.

41. Easements.

41.1 Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall

constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

41.2 The obstruction of Lessee's view, air, or light by any structure erected in the vicinity of the Building, whether by Lessor or third parties, shall in no way affect this Lease or impose any liability upon Lessor.

42. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

43. Authority. If Lessee is a corporation, trust, or general or limited partnership, Lessee, and each individual executing this Lease on behalf of such entity represent and warrant that such individual is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. Conflict. Any conflict between the printed provisions, Exhibits or Addenda of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. No Offer. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lessee to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by both parties.

46. Lender Modification. Lessee agrees to make such reasonable modifications to this Lease as may be reasonably required by an institutional lender in connection with the obtaining of normal financing or refinancing of the Office Building Project.

47. Multiple Parties. If more than one person or entity is named as either Lessor or Lessee herein, except as otherwise expressly provided herein, the obligations of the Lessor or Lessee herein shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee, respectively.

48. Work Letter. This Lease is supplemented by that certain Work Letter of even date executed by Lessor and

Lessee, attached hereto as Exhibit C, and incorporated herein by this reference.

49. Attachments Attached hereto are the following documents which constitute a part of this Lease:

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR

INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

Dated: June 1, 1996

By and Between Fritz Brand (lessor) and Sonoma National Bank (lessee)

GENERAL RULES

1. Lessee shall not suffer or permit the obstruction of any Common Areas, including driveways, walkways and stairways.
2. Lessor reserves the right to refuse access to any persons Lessor in good faith judges

to be a threat to the safety, reputation, or property of the Office Building Project and its occupants.

3. Lessee shall not make or permit any noise or odors that annoy or interfere with other lessees or persons having business within the Office Building Project.

4. Lessee shall not keep animals or birds within the Office Building Project, and shall not bring bicycles, motorcycles or other vehicles into areas not designated as authorized for same.

5. Lessee shall not make, suffer or permit litter except in appropriate receptacles for that purpose.

6. Lessee shall not alter any lock or install new or additional locks or bolts.

7. Lessee shall be responsible for the inappropriate use of any toilet rooms, plumbing or other utilities. No foreign substances of any kind are to be inserted therein.

8. Lessee shall not deface the walls, partitions or other surfaces of the premises or Office Building Project.

9. Lessee shall not suffer or permit any thing in or around the Premises or Building that causes excessive vibration or floor loading in any part of the Office Building Project.

10. Furniture, significant freight and equipment shall be moved into or out of the building only with the Lessor's knowledge and consent, and subject to such reasonable limitations, techniques and timing, as may be designated by Lessor. Lessee shall be responsible for any damage to the Office Building Project arising from any such activity.

11. Lessee shall not employ any service or contractor for services or work to be performed in the Building, except as approved by Lessor.

12. Lessor reserves the right to close and lock the Building on Saturdays, Sundays and legal holidays, and on other days between the hours of 6 P.M. and 7 A.M. of the following day. If Lessee uses the Premises during such periods, Lessee shall be responsible for securely locking any doors it may have opened for entry.

13. Lessee shall return all keys at the termination of its tenancy and shall be responsible for the cost of replacing any keys that are lost.

14. No window coverings, shades or awnings shall be installed or used by Lessee.

15. No Lessee, employee or invitee shall go upon the roof of the Building.

16. Lessee shall not suffer or permit smoking or carrying of lighted cigars or cigarettes in areas reasonably designated by Lessor or by applicable governmental agencies as non-smoking areas.

17. Lessee shall not use any method of heating or air conditioning other than as provided by Lessor.

18. Lessee shall not install, maintain or operate any vending machines upon the Premises without Lessor's written consent.

19. The Premises shall not be used for lodging or manufacturing, cooking or food preparation.

20. Lessee shall comply with all safety, tire protection and evacuation regulations established by Lessor or any applicable governmental agency.

21. Lessor reserves the right to waive any one of these rules or regulations, and/or as to any particular Lessee, and any such waiver shall not constitute a waiver of any other rule or regulation or any subsequent application thereof to such Lessee.

22. Lessee assumes all risks from theft or vandalism and agrees to keep its Premises locked as may be required.

23. Lessor reserves the right to make such other reasonable rules and regulations as it may from time to time deem necessary for the appropriate operation and safety of the Office Building Project and its occupants. Lessee agrees to abide by these and such rules and regulations,

ADDENDUM #1 TO STANDARD INDUSTRIAL LEASE BY AND BETWEEN FRITZ BRAND (LESSOR) AND SONOMA NATIONAL BANK (LESSEE) FOR 751 AND 755 FOURTH STREET, SANTA ROSA, CALIFORNIA

The undersigned Parties hereby agree as follows:

50. USE PERMIT:

Use permits from previous leases continue to apply to this lease agreement.

51. BUILDING SIGNAGE:

Lessee to pay for any signage on or around the building.

52. SCHEDULE OF BASE RENT:

Months 1-12 13-24 Lease Payment 11,725.00 11,725.00 + CPI

53. HAZARDOUS WASTE:

If Lessee uses, stores, or becomes aware of any hazardous waste or substances as listed by Proposition 65, they will notify Lessor within three (3) days of such existence and obtain approval from Lessor and the appropriate governing agencies within thirty (30) calendar days of notification of Lessor. Lessee shall remove and clean up any hazardous waste spill caused by Lessee to standards required by the appropriate governing agencies within the sixty (60) days set forth above, then Lessor may complete the cleanup which costs therefor shall be the responsibility of Lessee to pay within thirty (30) calendar days of receipt of invoice therefor.

54. OPTION TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for two (2) two (2) year periods ("extended terms") following expiration of the initial term and the first extended term, by giving notice of exercise of the option ("option notice") to Lessor at least two (2) months, but not more than six (6) months before the expiration of the term, or the first extended term, as the case may be, provided that, if Lessee is in default on the date an extended term is to commence, the extended term shall not commence and this Lease shall expire at the end of the existing term. The rent for the extended term or terms shall be the rent then in effect for the last year of the prior term increased effective on the beginning date of the extended term and each year thereafter during the balance of the extended term or terms to reflect any annual increased in the cost of living as provided in Paragraph 4.3 above.

Tenant shall have no other right to extend the term beyond the two extended terms set forth above.

The herein addendum, upon its execution by both parties, is herewith made an integral part of the aforementioned lease.

Lessor

Lessee

Signed by Fritz Brand
Fritz Brand Trustee

Signed by Deborah A. Meekins, Pres. & CEO
Sonoma National Bank

Date 8/15/96

<TABLE> <S> <C>

<ARTICLE>

9

<LEGEND>

This schedule contains summary financial information from the Balance Sheet, and Statement of Income, and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-END>	SEP-30-1996
<CASH>	12,400
<INT-BEARING-DEPOSITS>	4,556
<FED-FUNDS-SOLD>	12,669
<TRADING-ASSETS>	0
<INVESTMENTS-HELD-FOR-SALE>	1,123
<INVESTMENTS-CARRYING>	6,778
<INVESTMENTS-MARKET>	1,123
<LOANS>	156,167
<ALLOWANCE>	1,893
<TOTAL-ASSETS>	197,247
<DEPOSITS>	182,821
<SHORT-TERM>	0
<LIABILITIES-OTHER>	695,000
<LONG-TERM>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	8,310
<OTHER-SE>	5,421
<TOTAL-LIABILITIES-AND-EQUITY>	13,731
<INTEREST-LOAN>	10,810
<INTEREST-INVEST>	834
<INTEREST-OTHER>	223
<INTEREST-TOTAL>	11,867
<INTEREST-DEPOSIT>	5,210
<INTEREST-EXPENSE>	5,210
<INTEREST-INCOME-NET>	6,657
<LOAN-LOSSES>	59
<SECURITIES-GAINS>	0
<EXPENSE-OTHER>	4,605
<INCOME-PRETAX>	2,956
<INCOME-PRE-EXTRAORDINARY>	2,956
<EXTRAORDINARY>	0
<CHANGES>	0

<NET-INCOME>	1,696
<EPS-PRIMARY>	1.13
<EPS-DILUTED>	1.13
<YIELD-ACTUAL>	5.29
<LOANS-NON>	846
<LOANS-PAST>	613
<LOANS-TROUBLED>	0
<LOANS-PROBLEM>	613
<ALLOWANCE-OPEN>	1,676
<CHARGE-OFFS>	59
<RECOVERIES>	2
<ALLOWANCE-CLOSE>	1,893
<ALLOWANCE-DOMESTIC>	1,893
<ALLOWANCE-FOREIGN>	0
<ALLOWANCE-UNALLOCATED>	179

</TABLE>