

July 29, 2004

Dr. John Bayless, Superintendent
Cabrillo Unified School District
498 Kelly Avenue
Half Moon Bay, CA 94019

RE: Letter Agreement Supplementing Amended and Restated Purchase
and Sale Agreement of July 29, 2004

Dear Dr. Bayless:

As part of the consideration for the Amended and Restated Purchase and Sale Agreement and Joint Escrow Instructions ("Agreement") between Wavecrest Village, LLC, ("Seller") and Cabrillo Unified School District ("School District"), Seller agrees, subject to Seller receiving Final Approvals for its project ("Project") as defined in the Agreement, 1) to make a one-time payment of \$80,000 to the District no later than December 31, 2004, and 2) to cooperate in the formation and establishment of a community facilities district (the "CFD") as described herein pursuant to the Mello-Roos Community Facilities Act of 1982 (California Government Code Section 53311, et seq.) with respect to the market rate residential development within Seller's Project.

The market rate residential units in the Project shall be subject to an annual special tax pursuant to the CFD of the equivalent of \$1,000 per residential dwelling unit per year, for a term of 30 years ("Special Taxes"). The Parties shall mutually agree on a fee allocation that is legally permissible, taking into consideration the size of lots or units and benefit to such lots or units. The Special Taxes shall be subject to escalation of 2% per year. The CFD formation shall include authorization for the issuance of bonds in an amount that, including costs of issuance, can be retired by the Special Taxes to be generated from the CFD ("Bonds"). No Special Taxes shall be levied as to any residential unit until issuance by the City of Half Moon Bay of a final certificate of occupancy (or its legal equivalent) for such residential unit.

Seller shall cooperate with District in all actions requested by District to accomplish formation of the CFD, authorization of the Special Taxes, and authorization of the issuance of the Bonds, at no additional cost to Seller (except as expressly set forth below). District shall be responsible for initiating the process necessary for formation of the CFD. Seller shall take no action to prevent levy and collection of the Special Taxes and issuance of the Bonds, so long as such authorization and issuance is consistent with the terms of this letter.

In addition, as part of the CFD formation process, subject to Seller receiving Final Approvals for its Project, Seller will advance to District fifty percent (50%), up to a total of \$40,000, of actual costs that District incurs with respect to forming the CFD, including District's legal fees and costs; costs of special tax consultant; costs of preparing the CFD boundary map; and any associated election costs. Subject to Seller receiving Final Approvals for its Project, within ten (10) days of District's request, Seller will advance to District \$25,000 for the CFD formation costs. District will reimburse Seller any unused portions of this advanced amount within ninety (90) days following completion of formation of the CFD, authorization of the Special Taxes, and authorization of the issuance of the Bonds. In the event that formation costs exceed advanced funds, Seller shall advance the balance within forty-five (45) days of District's written request for such funds. To the extent permissible under California and federal law, after issuance of the Bonds (if issued), District will reimburse Seller from the Bond proceeds for any funds advanced by Seller with respect to formation of the CFD. To the extent permitted by law, if the Bonds are not issued, District will reimburse Seller for any funds advanced by Seller from the Special Taxes as and when the Special Taxes are paid.

Seller agrees that the obligations described above for formation of the CFD and implementation of the Special Taxes shall run with the land, be binding upon any successors in interest, and shall be included in the deed restrictions to be placed on the land pursuant to Section 2.5.9 of the Agreement. Seller agrees that a memorandum acknowledging terms of this Letter Agreement may be recorded with respect to the property within the Project no sooner than thirty (30) days after the Final Approval Date.

District shall have sixty (60) days from the date of this letter to consider and accept Seller's irrevocable offer 1) to make a one-time payment of \$80,000 to the District no later than December 31, 2004, as provided in this letter and 2) to cooperate in the formation of the CFD as described above. Upon District's written acceptance of the offer, the above provisions shall be incorporated into the terms of the Agreement.

WAVECREST VILLAGE, LLC

By: NORTH WAVECREST PARTNERS, L.P., a California limited partnership

By: _____
its General Partner

By: _____
President

Date: _____

By: CONCAR ENTERPRISES, INC., a California corporation

By: *[Signature]*
G.L. Atkinson, President

Date: 6/8/04

By: PEPPER LANE-HALF MOON BAY, LLC, a California limited liability company

By: Pepper Lane Properties, Inc., a California corporation, its Managing Member

By: _____
Myra Reinhard, President

Date: _____

ACCEPTED:

CABRILLO UNIFIED SCHOOL DISTRICT

By: *[Signature]*
Ken Jones
President of Governing Board

By: *[Signature]*
John Bayless, Ed.D.
Superintendent

Date: 7/29/04

Approved as to form:

Date: _____