

OPERATING COVENANT AGREEMENT

between

THE CITY OF ONTARIO
a California municipal corporation,

and

HOME DEPOT U.S.A., INC., a Delaware corporation

[Dated as of _____, for reference purposes only]

RECITALS

WHEREAS, Home Depot U.S.A., Inc., a Delaware corporation (“Owner”), is considering leasing a new build-to-suit facility of between 600,000 and 900,000 square foot or locating a new point of sale in an existing facility, to be occupied as an E-Commerce Distribution Facility (as defined herein), within the City of Ontario (“City”); and

WHEREAS, the incentives provided in this Operating Covenant Agreement (“Covenant Agreement”) are intended to encourage and incentivize Owner to (1) lease a new build-to-suit facility of between 600,000 and 900,000 square feet or locate a new point of sale in an existing facility, for purposes of operating an E-Commerce Distribution Facility within the City, (2) expand its operations within the City as appropriate, and (3) serve as a community partner and remain in the City for 15 years; and

WHEREAS, the City has determined that the establishment by Owner of an E-Commerce Distribution Facility that participates in the sales process within the City will generate substantial revenue for the City, create approximately 100-250 permanent jobs that will revitalize an underserved area of the City, and result in community and public improvements that might not otherwise be available to the community for many years; and

WHEREAS, Owner wishes to locate in the City because of the operational advantages including, but not limited to, a qualified workforce, cost advantages, access to customers, and capacity to staff a certain number of jobs in said City; and

WHEREAS, the incentives herein are intended exclusively to reward and encourage the Owner for job creation within the City of Ontario. The incentives are available to Owner for job creation regardless of where within the City the jobs are located (excluding jobs created at retail storefronts).

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for such other good and valuable consideration, the receipt of which is hereby acknowledged, the City of Ontario and Owner agree as follows:

ARTICLE 1. EFFECTIVE DATE; PARTIES; DEFINITIONS

1.1 Effective Date of Covenant Agreement. This Covenant Agreement is dated [_____], for reference purposes only. This Covenant Agreement will not become effective until the date (“Effective Date”) on which all of the following are true:

1.1.1 This Covenant Agreement has been approved and executed by an authorized signatory of Owner and delivered to the City;

1.1.2 Following all legally required notices and hearings, this Covenant Agreement has been approved by the City Council;

1.1.3 This Covenant Agreement has been executed by the appropriate authorities of the City and delivered to Owner;

1.1.4 Owner has entered into an agreement to lease an E-Commerce Distribution Facility within the City; and

1.1.5 The E-Commerce Distribution Facility is generating Sales Tax Revenues for the City, with sales directly to the consumer.

If all of the foregoing conditions precedent have not been satisfied within five (5) years of the Effective Date then this Covenant Agreement shall not thereafter become effective and any prior signatures and approvals of the Parties will be deemed void and of no force or effect. The City Manager shall be able to administratively extend this Section 1.1.5 beyond that initial five (5) year term, annually. Owner will provide quarterly updates on the status of site selection to City until that time the site selection for Facility has been completed.

1.2 Parties to Covenant Agreement.

1.2.1 The City. The address of the City is 303 East B Street, Ontario, California 91764, Attention: Scott Ochoa, City Manager; with copies to Ruben Duran, City Attorney, 2855 E. Guasti Rd., Suite 400, Ontario, CA 91761, Telephone: (213) 787-2569.

The City represents and warrants to Owner that, to the best of City's actual current knowledge:

(a) The City is a public body, corporate and politic, exercising governmental functions and powers and organized and existing under the laws of the State of California;

(b) The City has taken all actions required by law to approve the execution of this Covenant Agreement;

(c) The City's entry into this Covenant Agreement and/or the performance of the City's obligations under this Covenant Agreement does not violate any contract, agreement or other legal obligation of the City;

(d) The City's entry into this Covenant Agreement and/or the performance of the City's obligations under this Covenant Agreement does not constitute a violation of any state or federal statute or judicial decision to which the City is subject;

(e) There are no pending lawsuits or other actions or proceedings which would prevent or impair the timely performance of the City's obligations under this Covenant Agreement;

(f) The City has the legal right, power and authority to enter into this Covenant Agreement and to consummate the transactions contemplated hereby, and the execution, delivery and performance of this Covenant Agreement has been duly authorized and no other action by the City is requisite to the valid and binding execution, delivery and performance of this Covenant Agreement, except as otherwise expressly set forth herein; and

(g) The individual executing this Covenant Agreement is authorized to execute this Covenant Agreement on behalf of the City.

The representations and warranties set forth above are material considerations to Owner and the City acknowledges that Owner is relying upon the representations set forth above in undertaking Owner's obligations set forth in this Covenant Agreement.

As used in this Covenant Agreement, the term "City's actual current knowledge" shall mean, and shall be limited to, the actual current knowledge of the City Manager as of the Effective Date, without having undertaken any independent inquiry or investigation for the purpose of making such representation or warranty and without any duty of inquiry or investigation.

All of the terms, covenants and conditions of this Covenant Agreement shall be binding on and shall inure to the benefit of the City and its nominees, successors and assigns.

1.2.2 Owner. The address of Owner for purposes of this Covenant Agreement is 2455 Paces Ferry Road, Atlanta, Georgia, 30339; Attn: Property Management; with a copy to Home Depot U.S.A., Inc., 2455 Paces Ferry Road, Atlanta, Georgia, 30339; Attn: John Chescavage, Esq.; telephone (770) 384-2864.

Owner represents and warrants to the City that, to the best of its actual current knowledge:

(a) Owner is a duly formed Delaware corporation, qualified and in good standing to do business under the laws of the State of California;

(b) The individual(s) executing this Covenant Agreement is/are authorized to execute this Covenant Agreement on behalf of Owner;

(c) Owner has taken all actions required by law to approve the execution of this Covenant Agreement;

(d) Owner's entry into this Covenant Agreement and/or the performance of its obligations under this Covenant Agreement does not violate any contract, agreement or other legal obligation of Owner;

(e) Owner's entry into this Covenant Agreement and/or the performance of its obligations under this Covenant Agreement does not constitute a violation of any state or federal statute or judicial decision to which Owner is subject;

(f) There are no pending lawsuits or other actions or proceedings which would prevent or impair the timely performance of Owner's obligations under this Covenant Agreement; and

(g) Owner has the legal right, power and authority to enter into this Covenant Agreement and to consummate the transactions contemplated hereby, and the execution, delivery and performance of this Covenant Agreement have been duly

authorized and no other action by Owner is requisite to the valid and binding execution, delivery and performance of this Covenant Agreement, except as otherwise expressly set forth herein;

(h) Owner's managerial personnel located, or to be located, at the E-Commerce Distribution Facility possess, or will possess, sufficient experience and qualifications necessary, as determined by Owner in its sole discretion, to conduct Owner's Sales Activities (hereinafter defined) as required by this Covenant Agreement; and

(i) Owner covenants that nothing in this Agreement or the implementation thereof shall violate the provisions or intent of Government Code Section 53084.5.

The representations and warranties set forth herein are material considerations to the City and Owner acknowledges that the City is relying upon the representations set forth above in undertaking the City's obligations set forth above.

As used in this Covenant Agreement, the term "actual current knowledge of Owner" shall mean, and shall be limited to, the actual current knowledge of John Chescavage, the individual executing this Covenant Agreement on behalf of Owner, as of the Effective Date, without having undertaken any independent inquiry or investigation for the purpose of making such representation or warranty and without any duty of inquiry or investigation.

All of the terms, covenants and conditions of this Covenant Agreement shall be binding on and shall inure to the benefit of Owner and its permitted nominees, successors and assigns. Wherever the term "Owner" is used herein, such term shall include any permitted nominee, assignee or successor of Owner.

The qualifications and identity of Owner are of particular concern to the City, and it is because of such qualifications and identity that the City has entered into this Covenant Agreement with Owner. No voluntary or involuntary successor-in-interest of Owner shall acquire any rights or powers under this Covenant Agreement except as expressly set forth herein.

1.2.3 The City and Owner are sometimes individually referred to as a "Party" and together as the "Parties."

1.3 Definitions.

1.3.1 "CDTFA" means the California Department of Tax and Fee Administration.

1.3.2 "City" means the City of Ontario, a California municipal corporation, and any nominee, assignee of, or successor to, its rights, powers and responsibilities.

1.3.3 "Computation Quarter" means each three-month period within the Covenant Term beginning on the first day of each Fiscal Quarter, and ending on the last day of such Fiscal Quarter. The first Computation Quarter within the Eligibility Period is referred to herein as "Computation Quarter 1," with each succeeding Computation Quarter within the

Eligibility Period being consecutively numbered, concluding with Computation Quarter 60. The first Computation Quarter within the Eligibility Period shall commence at the time that all the conditions are met under Section 1.1, including that the E-Commerce Facility is generating Sales Tax Revenue for the City, with sales directly to the consumer. After the Effective Date, Computation Quarter 1 shall start at the next subsequent Fiscal Quarter.

1.3.4 “Covenant Payment(s)” means those contingent payments to be made by the City to the Owner pursuant to Section 3.2 of this Covenant Agreement in consideration of the Covenants and Owner’s timely and faithful performance thereunder.

1.3.5 “Covenant Term” means, a period of fifteen (15) years following the Effective Date (unless terminated sooner pursuant to specific provisions of this Covenant Agreement).

1.3.6 “Covenants” means those five (5) covenants described in Section 3.1 herein.

1.3.7 “Eligibility Period” means the period commencing as of the first (1st) day of Computation Quarter 1 and ending the last day of the final Computation Quarter contemplated by the lease of the E-Commerce Distribution Facility, but not less than Computation Quarter 60.

1.3.8 “E-Commerce Distribution Facility” means a 600,000 to 900,000 square foot new build-to-suit facility, or new point of sale in an existing facility, within the City of Ontario that Owner will lease for 15 years

1.3.9 “Fiscal Quarter” means one three-month period, or portion thereof, within the Covenant Term and commencing on February 1, May 1, August 1, or November 1, and ending on, as applicable, the immediately following April 30, July 31, October 31, or January 31..

1.3.10 “Fiscal Year” means Owner’s fiscal year for financial accounting purposes beginning on the Monday following the Sunday nearest January 31 of each year and ending on the Sunday nearest January 31 of the following year.

1.3.11 “Material” means any and all tangible personal property offered for to Owner’s customers/clients distributed through the E-Commerce Distribution Facility which is subject to the Sales Tax Law.

1.3.12 “Owner” means and refers to Home Depot U.S.A., Inc., a Delaware corporation, and its successors and assigns, cumulatively.

1.3.13 “Owner’s Sales Activities” means all sales of Material conducted electronically on the internet to any person or entity distributed through the E-Commerce Distribution Facility. “Owner’s Sales Activities” also include any of the above-described activities which are conducted by a parent, subsidiary or wholly or partially owned affiliate of Owner, provided that such parent, subsidiary or affiliate did not previously conduct such activities in the City, which is subject to the Sales Tax Law and which generates Sales Tax Revenues subject to this Agreement.

1.3.14 “Penalty Assessments” means and refers to penalties, assessments, collection costs and other costs, fees or charges resulting from late or underpaid payments of Sales Tax and which are levied, assessed or otherwise collected from Owner.

1.3.15 “Property” means that real property within the City of Ontario on which the E-Commerce Distribution Facility is located.

1.3.16 “Sales Tax” means and refers to all sales and use taxes levied under the authority of the Sales Tax Law attributable to the E-Commerce Distribution Facility in City and Owner’s Sales Activities excluding that which is to be refunded to Owner because of an overpayment of such tax.

1.3.17 “Sales Tax Law” means and refers to: (a) California Revenue and Taxation Code Section 7200 et seq., and any successor law thereto; (b) any legislation allowing City or other public agency with jurisdiction in City to levy any form of local Sales Tax on the operations of Owner; and (c) regulations of CDTFA and other binding rulings and interpretations relating to (a) and (b) of this Section 1.3.17 by relevant California State authorities.

1.3.18 “Sales Tax Revenues” means the net Sales Tax actually received by the City from the CDTFA pursuant to the application of the Sales Tax Law (as such statutes may hereafter be amended, substituted, replaced, re-numbered, moved or modified by any successor law) attributable to the E-Commerce Distribution Facility in City in a particular Computation Quarter. Sales Tax Revenues shall not include: (i) Penalty Assessments; (ii) any Sales Tax levied by, collected for or allocated to the State of California, the County of San Bernardino, or a district or any entity (including an allocation to a statewide or countywide pool); (iii) any administrative fee charged by the CDTFA; (iv) any Sales Tax subject to any sharing, rebate, offset or other charge imposed pursuant to any applicable provision of federal, state or local (except City’s) law, rule or regulation; (v) any Sales Tax attributable to any transaction not consummated within the Eligibility Period; or (vi) any Sales Tax (or other funds measured by Sales Tax) required by the State of California to be paid over to another public entity (including the State) or set aside and/or pledged to a specific use other than for deposit into or payment from the City’s general fund.

ARTICLE 2. ADDITIONAL RECITALS

2.1 The previously stated Recitals are incorporated herein and made a part hereof as though fully set forth.

2.2 The City has determined that the long-term operation of the E-Commerce Distribution Facility will result in substantial benefits to the City, and its citizens including, without limitation, the creation of significant new numbers of employment opportunities, property tax revenues, sales tax revenues and other ancillary benefits. Accordingly, the City has also determined that its entry into this Covenant Agreement and the performance of the Covenants by Owner serve a significant public purpose, while providing only incidental benefits to a private party.

ARTICLE 3. COVENANTS RUNNING WITH THE LAND; COVENANT PAYMENTS; REMEDIES FOR BREACH.

3.1 Covenants Running with the Land.

3.1.1 Operating and Use Covenant. Owner covenants and agrees that for the Covenant Term Owner shall operate, or cause to be operated upon the Property, the E-Commerce Distribution Facility in City, consistent with all applicable provisions of federal, state and local laws and regulations. Owner will operate its business at the E-Commerce Distribution Facility in a commercially reasonable manner. Owner's obligations pursuant to the immediately preceding sentence include, without limitation, the obligation to obtain all federal, state and local licenses and permits required for the operation of the business at the E-Commerce Distribution Facility. For the term of this Operating Covenant, the Owner may use the Property for the purposes of the operation of the E-Commerce Distribution Facility or comparable function, with the intent, but subject to Owner's exercise of its business judgement to modify operations from time to time, of generating the greatest feasible amount of Sales Tax Revenues over the Covenant Term, and otherwise conducting Owner's Sales Activities in accordance with this Covenant Agreement.

3.1.2 Covenant to Designate City as Point of Sale. Owner covenants and agrees that, for the term of the Operating and Use Covenant as described in Section 3.1.1, Owner shall maintain such licenses and permits as may be required by any governmental agency to conduct Owner's Sales Activities related to the E-Commerce Distribution Facility and shall consummate at the E-Commerce Distribution Facility all taxable sales transactions resulting from Owner's Sales Activities and identify the City as such in all reports to the CDTFA in accordance with the Bradley-Burns Uniform Local Sales and Use Tax Law (Revenue and Taxation Code 7200, et seq.), as it may be amended or substituted. Owner shall designate City as a point of sale for Owner's products sold, including but limited to, through an internet website or phone sales which are designated within California at the E-Commerce Distribution Facility in the City. Owner shall maintain the appropriate master sales permits applicable to and required for the operation of the E-Commerce Distribution Facility. The Owner shall consummate all taxable sales transactions for Owner's Sales Activities at the E-Commerce Distribution Facility, consistent with all applicable statutory and CDTFA regulatory requirements applicable to Owner's Sales Activities and the designation of the City as the "point of sale" for all Owner's taxable sales occurring as a result of Owner's Sales Activities.

3.1.3 Economic Subsidy Reporting Obligations. Owner covenants and agrees that for the term of the Operating Use Covenant, Owner shall assist City by providing the requisite information relevant to Owner's operation of the E-Commerce Distribution Facility, required by California Government Code section 53083.1, upon written request of City, and in advance of the requisite reporting obligations described therein.

3.1.4 Covenant Against Solicitation and Acceptance of Economic Incentives During the Term of the Operating Use Covenant. Owner covenants and agrees that, during the Covenant Term, Owner will not directly or indirectly solicit or accept any "Financial Assistance" from any other public or private person or entity, if such Financial Assistance is given for the purpose of causing or would result in an Owner Default (as defined herein). For purposes of this Section 3.1.4 the term "Financial Assistance" means any direct or indirect payment, subsidy, rebate, or other similar or dissimilar monetary or non-monetary benefit, including, without implied limitation, payment of land subsidies, relocation expenses, public financings, property or sales tax relief, rebates, exemptions or credits, relief from public improvement obligations, and payment for

public improvements to or for the benefit of Owner.

3.1.5 Covenant With Respect to Other Owner Agreements. City understands, acknowledges and agrees that Owner has established and may establish other distribution centers outside the City (“Additional Offices”). Subject to Section 3.1.4, nothing in this Covenant Agreement limits Owner’s right to conduct sales and other business and operations at or from the Additional Offices, but City makes no representations or warranties with respect to Owner’s operations with respect to Additional Offices. Owner covenants and agrees that under no circumstances will Owner’s agreements with respect to Additional Offices impact Owner’s obligations under Section 3.1.2 with respect to City’s designation as point of sale for Owner’s Sales Activities consummated at or through the E-Commerce Distribution Facility in the City, and, subject to this Section 3.1.5, any other representations, warranties and covenants of Owner contained in this Agreement.

3.2 Covenant Payments.

3.2.1 Statement of Intent. The consideration to be paid to the Owner in exchange for the Covenants and Owner’s performance of its obligations set forth in this Covenant Agreement, and subject to satisfaction of all conditions precedent thereto, shall consist of City’s payment to the Owner for each Computation Quarter during the Eligibility Period that the City receives Sales Tax Revenue, an amount equal to the sum of fifty percent (50%) of the Sales Tax Revenues attributable to annual taxable sales at the E-Commerce Distribution Facility received by the City (“Covenant Payment”). The City’s obligations under this Section 3.2 are contingent on a Computation Quarter-to-Quarter basis and, for each Computation Quarter, City’s obligations to make any payments hereunder are expressly contingent upon the Owner having, for the entirety of such Computation Quarter, completely fulfilled its material obligations under this Covenant Agreement, including, without limitation, the Covenants. Should such condition precedent not be satisfied for each Computation Quarter, then City shall have no obligation under this Section 3.2 to make any Covenant Payments to Owner in such Computation Quarter.

3.2.2 Computation Quarter Covenant Payments. Within thirty (30) days following the end of each Computation Quarter, Owner shall submit to City copies of its quarterly reports to the CDTFA for the applicable Computation Quarter arising from Owner’s Sales Activities conducted at the E-Commerce Distribution Facility. Within one hundred twenty (120) days following the end of each Computation Quarter, City shall pay to Owner any Computation Quarter Covenant Payment due for such Computation Quarter.

3.2.3 No Carry Forward or Back. The determination of the Covenant Payment(s) shall be determined and calculated on a Computation Quarter to Computation Quarter basis. Except as provided in Section 3.2.4, no Sales Tax Revenue which is generated in a Computation Quarter other than the Computation Quarter for which the Covenant Payment is being determined shall be used or considered in the calculation of any Covenant Payment which may be due for that Computation Quarter.

3.2.4 CDTFA Determination of Improperly Allocated Local Sales Tax Revenues. If, at any time during or after the Eligibility Period of this Covenant Agreement, the CDTFA determines that all or any portion of the Sales Tax Revenues received by the City were

improperly allocated and/or paid to the City, and if the CDTFA requires repayment of, offsets against future sales tax payments, or otherwise recaptures from the City those improperly allocated and/or paid Sales Tax Revenues, then Owner shall, within thirty (30) calendar days after written demand from the City, repay all Covenant Payments (or applicable portions thereof) theretofore paid to Owner which are attributable to such repaid, offset or recaptured Sales Tax Revenues. If Owner fails to make such repayment within thirty (30) calendar days after the City's written demand, then Owner shall be in breach of this Covenant Agreement and such obligation shall accrue interest from the date of the City's original written demand at the then-maximum legal rate imposed by the California Code of Civil Procedure on prejudgment monetary obligations, compounded monthly, until paid. Additionally, the City may deduct any amount required to be repaid by Owner under this Section 3.2.4 from any future Covenant Payments otherwise payable to Owner under this Covenant Agreement.

3.2.5 Not a Pledge of Sales Tax. Owner acknowledges that the City is not making a pledge of Sales Tax Revenues, or any other particular source of funds; the definition of Sales Tax Revenues, as used herein, is used merely as a measure of the amount of the payment due hereunder and as means of computing the City's payment in consideration for the Covenants. It is acknowledged by Owner that, as to each Computation Quarter, the City's obligation to make payments is specifically contingent upon receipt by the City of the Sales Tax Revenues derived from the operation of the E-Commerce Distribution Facility for such Computation Quarter.

3.3 Default.

3.3.1 Owner Default. City shall provide Owner with written notice of Owner's failure ("Owner Default") to comply with any material provision of this Covenant Agreement, including, without limitation, the Covenants. Owner shall have thirty (30) days from the date of such notice to either cure such Owner Default, or, if such Owner Default cannot be reasonably cured during such thirty (30) day period, to commence to cure within said thirty (30) day period and diligently prosecute such cure to completion thereafter.

3.3.2 City Default. Owner shall provide City with written notice of City's failure ("City Default") to strictly abide by any material provision of this Covenant Agreement. City shall have thirty (30) days from the date of such notice to either cure such City Default, or, if such City Default cannot be reasonably cured during such thirty (30) day period, to commence to cure within said thirty (30) day period and diligently prosecute such cure to completion thereafter. If Owner intends to terminate this Agreement resulted from an uncured City Default, it shall provide City 6 months' notice.

3.4 General Remedies for Default. Upon either a City or an uncured Owner Default, after expiration of all applicable notice and cure periods, Owner or City (as applicable) shall have the right to seek all available legal and equitable remedies, unless otherwise expressly provided to the contrary herein. Notwithstanding anything in this Covenant Agreement to the contrary, (a) neither Party shall be liable to the other Party for consequential damages and (b) in no event shall the City have the right of specific performance or other mandatory injunctive relief to compel the Owner to operate the E-Commerce Distribution Facility. Unless prohibited by law or otherwise provided by a specific term of this Covenant Agreement, the rights and remedies of the City and the Owner under this Covenant Agreement are nonexclusive and all remedies hereunder may be

exercised individually or cumulatively, and either Party may simultaneously pursue inconsistent and/or alternative remedies. Either Party may, upon the default of the other Party, after expiration of all applicable notice and cure periods, and in addition to pursuing all remedies otherwise available to it, terminate this Covenant Agreement and all of its obligations hereunder without cost, expense or liability to itself.

3.5 The City's Rights to Terminate its Obligations under Section 3.2. The City's obligations under Section 3.2 shall automatically terminate without cost, expense, or liability to City, upon the occurrence of any one or more of the following: (i) Owner Default, as to which any applicable notice and cure period provided for herein has expired; (ii) the end of the Eligibility Period; or (iii) upon the final determination by a court of competent jurisdiction that any one or more of the Covenants are void, voidable, invalid, or even unenforceable for any reason whatsoever, including, without limitation, legal infirmity. Termination of the City's obligations under Section 3.2 in accordance with this Section 3.5 shall not operate to forgive, modify, discharge or excuse Owner's obligations arising under this Covenant Agreement.

3.6 Owner Termination. Notwithstanding any other provisions of this Agreement, Owner may, at its option, upon written notice to City, terminate this Agreement and/ or relocate the E-Commerce Distribution Facility to any other city or county in California or elsewhere and reallocate Owner's Sales Activities accordingly and in conformance with applicable Sales Tax Law. Owner shall provide at least three (3) months of written notice to the City prior to termination.

ARTICLE 4. GENERAL TERMS

4.1 Tax Consequences. Owner acknowledges that it may experience tax consequences as a result of its receipt of the payments provided for in this Covenant Agreement and agrees that it shall bear any and all responsibility, liability, costs, and expenses connected in any way therewith.

4.2 Rights Not Granted Under Covenant Agreement. This Covenant Agreement is not, and shall not be construed to be, a Development Agreement under Government Code Section 65864 et seq., or a disposition and development agreement under Health and Safety Code Section 33000 et seq. This Covenant Agreement is not, and shall not be construed to be, an approval or an agreement to issue permits or a granting of any right or entitlement by the City concerning the E-Commerce Distribution Facility, Owner's Sales Activities or any other project, development, or construction by the Owner in the City. This Covenant Agreement does not, and shall not be construed to, exempt Owner from the application and/or exercise of the City's or City's power of eminent domain or its police power, including, but not limited to, the regulation of land uses and the taking of any actions necessary to protect the health, safety, and welfare of its citizenry.

4.3 Consent Whenever consent or approval of any party is required under this Covenant Agreement, that party shall not unreasonably withhold, delay or condition such consent or approval unless otherwise allowed by a specific provision of this Covenant Agreement.

4.4 Notices and Demands. All notices or other communications required or permitted between the City and Owner under this Covenant Agreement shall be in writing, and may be (i)

personally delivered, (ii) sent by United States registered or certified mail, postage prepaid, return receipt requested, or (iii) sent by nationally recognized overnight courier service (e.g., Federal Express), addressed to the Parties at the addresses provided in Article 1, subject to the right of either party to designate a different address for itself by notice similarly given. Any notice so given by registered or certified United States mail shall be deemed to have been given on the second business day after the same is deposited in the United States mail. Any notice not so given by registered or certified mail, such as notices delivered by courier service (e.g., Federal Express), shall be deemed given upon receipt of the same by the party to whom the notice is given.

4.5 Nonliability of the City or City Officials and Employees. No board member, official, contractor, consultant, attorney or employee of the City or City shall be personally liable to Owner, any voluntary or involuntary successors or assignees, or any lender or other party holding an interest in the Property, in the event of any default or breach by the City, or for any amount which may become due to the Owner or to its successors or assignees, or on any obligations arising under this Covenant Agreement.

4.6 Conflict of Interests. No board member, official, contractor, consultant, attorney or employee of the City or City shall have any personal interest, direct or indirect, in this Covenant Agreement nor shall any such board member, official or employee participate in any decision relating to this Covenant Agreement which affects his/her personal interests or the interests of any corporation, partnership or association in which he/she is directly or indirectly interested.

4.7 Pledge or Hypothecation of Covenant Payments. Owner may assign any Covenant Payment(s) due in accordance with the terms of this Covenant Agreement (but not any other right or obligation of this Covenant Agreement) upon thirty (30) days' prior written notice to City as collateral for any loan or financing obtained by the Owner in connection with the E-Commerce Distribution Facility; provided that nothing in this Section 4.7 shall be deemed to limit the operation of Section 4.16. Without limiting the general applicability of the foregoing, Owner acknowledges that Owner's lender and any transferee of Owner's lender shall be subject to the transfer restrictions of Section 4.16.

4.8 Entire Agreement; Disclosure. This Covenant Agreement contains all of the terms and conditions agreed upon by the Parties and supersedes any previous agreements between the Parties concerning the subject matter of this Covenant Agreement. No other understanding, oral or otherwise, regarding the subject matter of this Covenant Agreement shall be deemed to exist or to bind any of the parties hereto. All prior written or oral offers, counteroffers, memoranda of understanding, proposals and the like are superseded by this Covenant Agreement. The terms and existence of this Agreement will not be publicized or made public beyond what is required by applicable Federal and State law, including but not limited to City approval of this Agreement and the California Public Records Act (Gov. Code § 6250, *et seq.*).

The Parties acknowledge that this Covenant Agreement is the product of mutual arms-length negotiations and that each party has been, or has had the opportunity to have been, represented by legal counsel in the negotiation and drafting of this Covenant Agreement. Accordingly, the rule of judicial construction which provides that ambiguities in a document are to be construed against the drafter of that document shall have no application to the interpretation or enforcement of this Covenant Agreement. In any action or proceeding to interpret and/or

enforce this Covenant Agreement, the trier of fact may refer to extrinsic evidence not in conflict with any specific provision of this Covenant Agreement to ascertain and give effect to the intent of the Parties hereto.

4.9 Time Deadlines Critical; Extensions and Delays; No Excuse Due to Economic Changes. Time is of the essence in the performance of the City's and Owner's obligations under this Covenant Agreement. In addition to specific provisions of this Covenant Agreement providing for extensions of time, times for performance hereunder shall be extended where delays or defaults are due to war; insurrection; any form of labor dispute; lockouts; riots; floods; earthquakes; fires; acts of God or of third parties; third party litigation; acts of a public enemy; initiative or referenda; acts of governmental authorities (except that the failure of the City to act as required hereunder shall not excuse its performance); moratoria; epidemics; quarantine restrictions; and freight embargoes (collectively, "Enforced Delays") provided, however, that the Party claiming the extension notify the other Party of the nature of the matter causing the default; and, provided further, that the extension of time shall be only for the period of the Enforced Delays. However, deadlines for performance may not be extended as provided above due to any inability of the Owner to obtain or maintain acceptable financing for the operation of the E-Commerce Distribution Facility.

ANYTHING IN THIS COVENANT AGREEMENT TO THE CONTRARY NOTWITHSTANDING, OWNER ASSUMES THE RISK OF UNFORESEEABLE CHANGES IN ECONOMIC CIRCUMSTANCES AND/OR MARKET DEMAND/CONDITIONS AND WAIVES, TO THE GREATEST LEGAL EXTENT, ANY DEFENSE, CLAIM, OR CAUSE OF ACTION BASED IN WHOLE OR IN PART ON ECONOMIC NECESSITY, IMPRACTICABILITY, FRUSTRATION OF PURPOSE, CHANGED ECONOMIC CIRCUMSTANCES OR SIMILAR THEORIES.

OWNER EXPRESSLY AGREES THAT ADVERSE CHANGES IN ECONOMIC CONDITIONS, EITHER OF OWNER SPECIFICALLY OR THE ECONOMY GENERALLY, OR CHANGES IN THE MARKET CONDITIONS OR DEMANDS, SHALL NOT OPERATE TO EXCUSE OR DELAY THE STRICT OBSERVANCE OF EACH AND EVERY OF THE OBLIGATIONS, COVENANTS, CONDITIONS AND REQUIREMENTS OF THIS COVENANT AGREEMENT. OWNER EXPRESSLY ASSUMES THE RISK OF SUCH ADVERSE ECONOMIC OR MARKET CHANGES, WHETHER OR NOT FORESEEABLE AS OF OWNER'S EXECUTION OF THIS COVENANT AGREEMENT.

OWNER'S INITIALS _____

4.10 Attorneys' Fees. In the event of the bringing of an arbitration, action or suit by a Party hereto against another Party hereunder by reason of any breach of any of the covenants or agreements or any intentional inaccuracies in any of the representations and warranties on the part of the other Party arising out of this Covenant Agreement or any other dispute between the Parties concerning this Covenant Agreement or the Property, then, in that event, each party shall be responsible for its own costs at the outset of any arbitration, action or suit between the Parties. Any judgment, order or award entered in any final judgment or award in favor of one Party shall contain a specific provision providing for the recovery of all costs and expenses of suit or claim,

including actual attorneys' fees (collectively, the "Costs") incurred in enforcing, perfecting and executing such judgment or award. For the purposes of this Section 4.10, "Costs" shall include, without implied limitation, attorneys' and experts' fees, costs and expenses incurred in the following: (i) post judgment motions and appeals, (ii) contempt proceedings, (iii) garnishment, levy and debtor and third party examination, (iv) discovery; and (v) bankruptcy litigation. This Section 4.10 shall survive any termination of this Covenant Agreement.

4.11 Amendments to This Covenant Agreement. Any amendments to this Covenant Agreement must be in writing and signed by the appropriate authorities of both the City and Owner. The City Manager is authorized on behalf of the City to approve and execute minor amendments to this Covenant Agreement, including, but not limited to, the granting of extensions of time to Owner, not to exceed ninety (90) days in the aggregate.

4.12 Jurisdiction and Venue. Any legal action or proceeding concerning this Covenant Agreement shall be filed and prosecuted in the appropriate California state court in the County of San Bernardino, California. Both Parties hereto irrevocably consents to the personal jurisdiction of that court. The City and Owner each hereby expressly waive the benefit of any provision of federal or state law or judicial decision providing for the filing, removal, or change of venue to any other court or jurisdiction, including, without implied limitation, federal district court, due to any diversity of citizenship between the City and Owner, due to the fact that the City is a party to such action or proceeding or due to the fact that a federal question or federal right is involved or alleged to be involved. Without limiting the generality of the foregoing, the City and Owner specifically waive any rights provided to it pursuant to California Code of Civil Procedure Section 394. Owner acknowledges that the provisions of this Section 4.12 are material consideration to the City for its entry into this Covenant Agreement, in that the City will avoid the potential cost, expense and inconvenience of litigating in a distant forum.

4.13 Interpretation. The City and Owner acknowledge that this Covenant Agreement is the product of mutual arms-length negotiation and drafting and that both Parties have been represented by legal counsel in the negotiation and drafting of this Covenant Agreement. Accordingly, the rule of construction which provides that ambiguities in a document shall be construed against the drafter of that document shall have no application to the interpretation and enforcement of this Covenant Agreement. In any action or proceeding to interpret or enforce this Covenant Agreement, the finder of fact may refer to any extrinsic evidence not in direct conflict with any specific provision of this Covenant Agreement to determine and give effect to the intention of the Parties.

4.14 Counterpart Originals; Integration. This Covenant Agreement may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute but one and the same instrument. This Covenant Agreement and any exhibits represent the entire understanding of the Parties and supersedes all negotiations, letters of intent, memoranda of understanding or previous agreements between the parties with respect to all or any part of the subject matter hereof.

4.15 No Waiver. Failure to insist on any one occasion upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such term, covenant or condition, nor shall any waiver or relinquishment of any rights or powers hereunder at any one

time or more times be deemed a waiver or relinquishment of such other right or power at any other time or times.

4.16 Successors and Assigns. The terms, covenants and conditions of this Covenant Agreement shall be binding upon and inure to the benefit of the Parties hereto and their successors and assigns. Owner may not assign, transfer, encumber or hypothecate its rights or obligations under this Covenant Agreement to any person or entity, without the written consent of City, which may not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, Owner shall have the right to assign this Covenant Agreement or any right or obligation hereunder to its immediate or ultimate parent, or to an affiliate, by providing advance written notice to City. An “affiliate” shall mean any legal entity that, at the applicable time, directly or indirectly controls, is controlled with or by, or is under common control with, Owner. Upon the permitted sale, transfer or conveyance by Owner of its interest therein, such owner shall thereupon be relieved of its obligations under this Covenant Agreement from and after the date of sale, transfer or conveyance except with respect to any defaults in the performance of its obligations hereunder or thereunder which occurred prior to such sale, transfer or conveyance, and the transferee shall thereafter be solely responsible for the performance of all of the duties and obligations of Owner under this Covenant Agreement.

4.17 No Third Party Beneficiaries. The performance of the respective obligations of the City and Owner under this Covenant Agreement are not intended to benefit any party other than the City or Owner, except as expressly provided otherwise herein. No person or entity not a signatory to this Covenant Agreement shall have any rights or causes of action against any party to this Covenant Agreement as a result of that party’s performance or non-performance under this Covenant Agreement, except as expressly provided otherwise herein.

4.18 No Effect on Eminent Domain Authority. Nothing in this Covenant Agreement shall be deemed to limit, modify, or abridge or affect in any manner whatsoever the City’s or City’s eminent domain powers with respect to the E-Commerce Distribution Facility, or any other property owned by the E-Commerce Distribution Facility.

4.19 Warranty Against Payment of Consideration for Covenant Agreement. Owner warrants that it has not paid or given, and will not pay or give, any third party any money or other consideration for obtaining this Covenant Agreement. Third parties, for the purposes of this Section 4.19, shall not include persons to whom fees are paid for professional services if rendered by attorneys, financial consultants, accountants, engineers, architects and the like when such fees are considered necessary by Owner.

4.20 Severability. The City and Owner declare that the provisions of this Covenant Agreement are severable. If it is determined by a court of competent jurisdiction that any term, condition or provision hereof is void, voidable, or unenforceable for any reason whatsoever, then such term, condition or provision shall be severed from this Covenant Agreement and the remainder of the Covenant Agreement enforced in accordance with its terms.

4.21 Further Acts and Releases. The City and Owner each agree to take such additional acts and execute such other documents as may be reasonable and necessary in the performance of their obligations hereunder.

4.22 Estoppels. At the request of Owner or any holder of a mortgage or deed of trust secured by all or any portion of the Property, the City shall promptly execute and deliver to Owner or such holder a written statement of the City as to any of the following matters as to which Owner or such holder may inquire: (i) that no default or breach exists, or would exist with the passage of time, or giving of notice, or both, by Owner pursuant to this Covenant Agreement, if such be the case; (ii) the total amount of Covenant Payments made by the City to Owner pursuant to this Covenant Agreement prior to the date of such written statement; (iii) the amount of any Covenant Payments earned by or due and owing to Owner pursuant to this Covenant Agreement as of the date of such written statement; (iv) the Covenant Payments for a particular Computation Quarter; (v) if the City has determined that Owner is in default or breach hereunder, the nature of such default and the action or actions required to be taken by Owner to cure such default or breach; and (vi) any other matter affecting the rights or obligations of Owner hereunder as to which Owner or such holder may reasonably inquire. The form of any estoppel letter shall be prepared by Owner or such holder at its sole cost and expense and shall be reasonably acceptable in form and content to the City and Owner. The City may make any of the representations described above based on the actual current knowledge of the then-current City Manager.

4.23 Indemnity. Owner shall defend (using counsel of City's choosing), indemnify and hold harmless the City, its elected officials, officers, employees and agents from and against any and all third party claims, losses, proceedings, damages, causes of action, liability, cost and expense (including reasonable attorney's fees) arising from, in connection with or related to this Agreement or the functions or operations of the E-Commerce Distribution Facility (other than to the extent arising as a result of the City's active negligence or willful misconduct). The City shall fully cooperate in the defense of any such actions and upon written request of Owner shall provide to Owner such documents and records in possession of the City that are relevant to such actions and not otherwise protected by law. Notwithstanding the foregoing, should any third party bring any such action or proceeding Owner shall have the right to terminate this Covenant Agreement, and as of such date of termination, all unaccrued liabilities of the parties under this Agreement shall cease except for Owner's obligation of indemnity owed to the City as provided in this Section 4.23.

4.24 Public Benefits.

4.24.1 Community Participation. As additional consideration for the benefits conferred under this Agreement, Owner further agrees to participate in supporting community benefit events and activities consistent with Owner's practices and policies.

4.24.2 Employment Outreach for Local Residents. A goal of the City in entering into this Agreement is to foster employment opportunities for City's residents. To that end, Owner will use commercially reasonable efforts to recruit and hire City's residents for any full and part time employment opportunities as determined Owner in its sole discretion. The City shall be authorized to post and advertise any job recruitment information provided to the City on the City's website and other jobs available and job recruitment sites within the region. Any offers of employment will be at Owner's sole discretion and all employment will be at-will employment. Nothing in this paragraph will require Owner to offer employment to individuals who are not otherwise qualified for such employment. Without limiting the generality of the foregoing, the provisions of this Section are not intended, and will not be construed, to benefit or be enforceable

by any person whatsoever other than City.

4.25 State of California Legislation Impact on Covenant Payment. Owner acknowledges that the California Legislature has in the past adopted certain legislation which diverted to the State of California a portion of the Sales Tax Revenues which were otherwise payable to the City. Owner acknowledges that it is possible that the legislature may enact similar legislation in the future which would cause a corresponding reduction of and/or delay in the payment of the Sales Tax Revenues and that such reduction will cause Owner a corresponding reduction and/or delay in the payment of the Covenant Payments due to Owner during such time as such legislation is in effect. Furthermore, Owner acknowledges that it is possible that the legislation described above, or some variant thereof, may be enacted and effective during one or more subsequent times during the Eligibility Period and may materially and negatively impact the amount of Sales Tax Revenues and, accordingly, Covenant Payments. The City does not make any representation, warranty or commitment concerning the future actions of the California legislature with respect to the allocation of Sales Tax Revenues to the City. Owner agrees that it is undertaking its obligations under this Covenant Agreement after having considered, and is expressly assuming the risk of, the possibility of the enactment of such legislation.

The foregoing paragraph notwithstanding, City acknowledges that the California legislature may provide for the payment to City of other revenues for the purpose of offsetting any losses in Sales Tax Revenues resulting from the enactment of legislation of the type described in the immediately preceding paragraph. City agrees that, should the California legislature provide for such offsetting revenues, then for purposes of this Covenant Agreement and the computation of any Covenant Payments which may become due to Owner hereunder, City will consider any such offsetting revenues which are (i) indexed to Sales Tax and offset the loss of Sales Tax Revenues to the City on a dollar for dollar basis, (ii) actually received by the City, and (iii) not subject to any restrictions on use beyond those which are otherwise generally applicable to sales tax revenues received by California municipalities, to be Sales Tax Revenues within the meaning of this Covenant Agreement.

[Signatures on the following pages]

**SIGNATURE PAGE TO THE
HOME DEPOT U.S.A., INC.
OPERATING COVENANT AGREEMENT**

CITY OF ONTARIO
a California municipal corporation

By: _____

ATTEST:

By: _____

APPROVED AS TO FORM:

By: _____
Ruben Duran
City Attorney

**SIGNATURE PAGE TO THE
HOME DEPOT U.S.A., INC.
OPERATING COVENANT AGREEMENT**

HOME DEPOT U.S.A., INC.
a Delaware corporation

Dated: _____

By: _____

Name:

Title: _____