

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Division of Boating and Ocean Recreation
Honolulu, Hawaii 96819

October 27, 2023

Chairperson and Members
Board of Land and Natural Resources
State of Hawai'i
Honolulu, Hawai'i

Land Board Members:

SUBJECT: Consent to Sublease Under Harbor Lease No. H-83-2, Kona Marine Holdings, LLC, Lessee, to Big Island Activities LLC, Hawaii Domestic Limited Liability Company, Sublessee, Honokohau Small Boat Harbor, Kailua-Kona, North Kona, Hawaii Island, Hawaii, Tax Map Key: (3) 7-4-008:040.

APPLICANT:

Kona Marine Holdings, LLC, a Delaware limited liability company, whose mailing address is 74-381 Kealakehe Parkway, Kailua-Kona, HI 96740, as Sublessor, to:

Big Island Activities LLC, a Hawaii limited liability company, whose mailing address is 77-6488 Akai Street, Kailua-Kona, HI 96740, as sublessee.

LEGAL REFERENCE:

Section 171-36(a)(6), Hawaii Revised Statutes, as amended.

LOCATION:

A portion of Government lands situated at the Honokohau Small Boat Harbor, Kailua-Kona, North Kona, Hawaii Island, Hawaii, Tax Map Key: (3) 7-4-008:040, as shown on the map labeled **EXHIBIT A** and attached hereto.

LEASE AREA:

Total lease area is 13,300 square feet, consisting of 10,000 square feet of fast land and 3,300 square feet of submerged land, more or less.

Item J-1

SUBLEASE AREA:

Approximately 251 square feet, more or less, as shown on the map labeled **EXHIBIT B** and attached hereto.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act: YES NO

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: YES NO

LEASE CHARACTER OF USE:

Kona Marine Holdings, LLC Harbor Lease No. H-83-2 (“Lease”), relative to “use,” reads in its entirety:

“...[F]or the construction of certain improvements which shall be used principally for a marine fueling facility and service station which may include but not be limited to the following:

- A. The LESSEE shall have the right to use the leased premises to sell, advertise for sale, or otherwise contract for sale all types of fuel, oil and lubricants normally used by small boats and to offer for sale or hire any and all good and services reasonably necessary and incidental to the conduct by the LESSEE of such marine fueling facility.
- B. The LESSEE shall be allowed to install vending machines for the purpose of selling soft drinks, cigarettes, candies, sandwiches and other similar items. In, addition, the LESSEE shall be allowed to sell fishing gear, batteries, sparkplugs, packaged ice, packaged soft drinks, packaged beer and wine, and other fishing and boat equipment and supplies normally incidental to the operation of this type of facility.
- C. The categories of items allowed in the preceding paragraphs are not intended to be exclusive. However, any item not falling within the above categories shall be offered for hire or sale only with the prior approval of the LESSOR.
- D. The LESSEE shall have the exclusive right to occupy and use the demised premises for proper fueling purposes during such period of the lease term as the LESSEE is not in default hereunder. The LESSOR shall revoke all tank truck fueling permits for Honokohau Boat Harbor immediately after receiving notice in writing from the LESSEE that it is ready and able to commence its fueling operations. No tank truck fueling permit shall be issued during the lease term. However, the LESSEE’s right to operate a marine fueling facility at the Honokohau Boat Harbor under the terms of this Lease is non-exclusive, the LESSOR reserving the right to continue existing facilities or to provide such additional or similar

facilities as the interest of the public may require.

- E. The use of the easement shall be for fueling and servicing of vessels only.
- F. The LESSEE shall not use the premises, nor any portion thereof, nor permit any of the same to be used by any of its employees, officers, agents, invitees or guest for any of the following purposes:
 - 1. A restaurant or lunch counter operation.
 - 2. Boat brokerage, or ship construction, repair or overhaul facilities.
 - 3. Ship chandlery except to the extent permitted under paragraph B above.
 - 4. To do any act which results or may result in the creation or commission or maintenance of a nuisance on said premises. The LESSEE shall also not cause or produce or permit to be caused or produced upon the premises, or to emanate therefrom, any unusually offensive sounds, or any noxious or objectionable smokes, gases, vapors, or odors.
 - 5. For any illegal purposes.
 - 6. For permanent lodging or sleeping purposes. However, a rest area for employees for their comfort and convenience during working hours is allowed.
 - 7. The sale or service of any intoxicating beverage except to the extent permitted under paragraph B above.”

SUBLEASE CHARACTER OF USE:

For an office for operating a diving/snorkeling business.

TERM OF MASTER LEASE:

Fifty-Five (55) years.

Original term of Harbor Lease No. H-83-2 of thirty-five (35) years commencing November 27, 1984, and ending November 26, 2019.

At its meeting on August 28, 2009, under agenda item J-2, the Board approved a twenty (20) year extension commencing November 27, 2019, and ending on November 26, 2039. The last rental reopening occurred on November 27, 2019, and the next rental reopening is scheduled for November 27, 2024.

TERM OF SUBLEASE:

Original term of one (1) year, commencing July 1, 2021. Under Section 21 of the sublease document (**EXHIBIT C**), it states: “Upon the expiration of the original sublease term, sublease shall automatically renew on a month-to-month basis...”

ANNUAL LEASE RENTAL:

\$28,620 per annum or 5% of the annual gross receipts, whichever is greater.

ANNUAL SUBLEASE RENTAL:

As of July 1, 2023, the annual rent equates to \$6,332.05, payable monthly.

DCCA VERIFICATION:

SUBLESSOR:

Place of business registration confirmed:	YES <u>X</u>	NO <u> </u>
Registered business name confirmed:	YES <u>X</u>	NO <u> </u>
Good standing confirmed:	YES <u>X</u>	NO <u> </u>

SUBLESSEE:

Place of business registration confirmed:	YES <u>X</u>	NO <u> </u>
Registered business name confirmed:	YES <u>X</u>	NO <u> </u>
Good standing confirmed:	YES <u>X</u>	NO <u> </u>

BACKGROUND

On July 19, 1983, the State of Hawaii, Department of Transportation, Harbors Division (DOT-H), as Lessor, entered into Harbor Lease No. H-83-2, with Kona U-Cart, Inc., as Lessee, who was the highest bidder at the public auction. The lease established a marine fueling facility at Honokohau Small Boat Harbor. The lease was issued for a term of 35 years and covers a total area of 13,300 square feet, of which 10,000 square feet is fast land and 3,300 square feet is submerged land.

The lease was amended November 10, 1983 by mutual consent, moving the same area of the demised premises approximately 30 feet south due to DOT-H plans to widen the main harbor channel.

On September 10, 1984, Kona U-Cart, Inc. changed its name to Kona Fuel & Marine, Inc. ("KFM"). And on October 10, 1986, DOT-H consented to the retroactive amendment of the name of the Lessee in the lease to reflect the change in corporate name.

In 1989, James and Diane Dahlberg acquired KFM with funding from a first mortgage from Bank of America ("BOA"), formerly known as Honolulu Federal Savings, with KFM taking a second mortgage through Lenders Document Service, Inc. ("Lenders").

In 1993, the Dahlbergs fell into arrears with the State. Lenders and BOA jointly filed for foreclosure. While Lenders negotiated with BOA to acquire the first mortgage, Lenders entered into an agreement with Island Petroleum, Inc. to loan funds to Lenders to pay off BOA.

On November 15, 1993, KFM was involuntarily dissolved.

On November 15, 1994, Lenders entered into a Petroleum Supply Agreement with Island Petroleum, Inc. to supply fuel.

On December 28, 1994, a different corporate entity with the same name as the prior dissolved entity, Kona Fuel & Marine, Inc. ("Kona Fuel"), was assigned the Dahlbergs' lease interest in lieu of foreclosure.

On August 28, 2009, under item J-2, the Board approved the consent to assignment, mortgage, and amendment to extend the lease term for Harbor Lease No. H-83-2, from Kona Fuel & Marine, Inc., Assignor, to Kona Marine Holdings, LLC, Assignee.

On December 11, 2009, under item J-3, the Board approved the consent to assignment, update of subleases and assignment of Petroleum Supply Agreement for Harbor Lease No. H-83-2, from Kona Fuel & Marine, Inc., Assignor, to Kona Marine Holdings, LLC, Assignee.

REMARKS:

The rental income from this sublease, in addition to its other sublease rental income and fuel sales revenue, constitute the Lessee's gross receipts, which are subject to percentage rent.

Kona Marine Holdings, LLC's sublease requires the sublessee to carry liability insurance coverage of \$1,000,000. These differ from the limits contained in the State of Hawaii's leases for general liability insurance, which have limits of at least \$1,000,000 for each occurrence and \$2,000,000 aggregate.

Staff recommends that the sublessees' general liability insurance policy limits be changed to bring them in line with those contained in State leases and be issued by insurance carriers licensed to do business in the State of Hawaii with an AM Best rating of not less than "A- VIII". In addition, staff recommends the State of Hawaii be named as additional insured on the sublessees' general liability insurance policy.

Staff recommends the Board consent to the sublease under Harbor Lease No. H-83-2, Kona Marine Holdings, LLC, Lessee, to Big Island Activities LLC.

RECOMMENDATION:

That the Board consent to the subleases under Harbor Lease No. H-83-2 between Kona Marine Holdings, LLC, as Sublessor and Sublessee, Big Island Activities LLC, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:

1. Sublessees' general liability insurance policies shall:
 - a) Contain limits in an amount of at least \$1,000,000 for each occurrence and \$2,000,000 aggregate;
 - b) Be issued by carriers licensed to do business in the State of Hawaii, with an AM Best rating of at least A-, VIII;
 - c) Name the State of Hawaii as additional insured;
2. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
3. Review and approval by the Department of the Attorney General; and
4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



EDWARD R. UNDERWOOD, Administrator
Division of Boating and Ocean Recreation

APPROVED FOR SUBMITTAL:



DAWN N. S. CHANG, Chairperson
Board of Land and Natural Resources

Attachments:

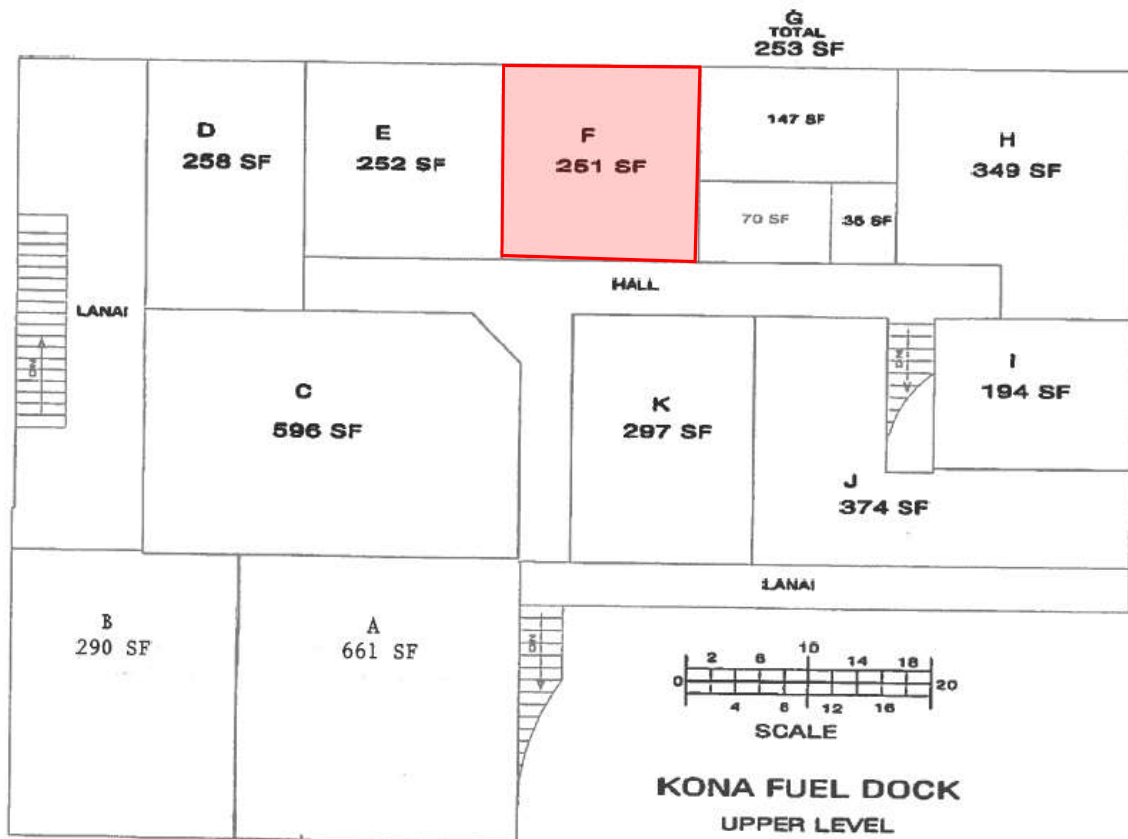
- A Site Location
- B Sublessee location on the Premises
- C Sublease Agreement Between Kona Marine Holdings, LLC, and Big Island Activities LLC

Exhibit A
Site Location
Honokohau Small Boat Harbor, Hawaii Island



Exhibit B

Big Island Activities LLC located in Suite "F"



**KONA MARINE HOLDINGS, LLC
74-381 Kealakehe Parkway
Kailua-Kona, HI 96740
PHONE: (808) 325-5310**

THE FUEL DOCK – SUBLEASE SUMMARY

Tenant: Big Island Activities LLC
Coral Reef Divers
77-6488 Akai Street
Kailua-Kona, Hawaii 96740
Phone: 808 987 1584
Email: coralreefadventures@gmail.com

Premises: Suite "F"

Rental Area: 251 Square Feet

LEASE TERMS

Begins: July 1, 2021
Term: One (1) Year
Option to Renew: Automatic Month-to-month
Notice: Thirty (30) Days

MONTHLY RENTAL PAYMENTS (First year, increases 3% per year)

Total Rent:	\$445.00	(\$1.77 square foot)
Electricity:	30.00	Set amount per month
% G.E.T.:	<u>22.38</u>	(4.712%)
TOTAL MONTHLY RENT:	\$497.38	

SECURITY DEPOSIT: \$497.38

MANAGING AGENT: Robert Curtis

THE FUEL DOCK

Sublease

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SUBLEASE

THIS INDENTURE OF Sublease is effective November 1, 2020 by and between **KONA MARINE HOLDINGS, LLC.**, a Delaware Limited Liability Company, with its principal place of business located at 74-381 Kealakehe Parkway, Kailua-Kona, Hawaii 96740 hereinafter called "Lessor", and Big Island Activities LLC and its Affiliates with a mailing address at 77-6488 Akai Street, Kailua-Kona, Hawaii 96740 hereinafter collectively called "Tenant";

W I T N E S S E T H:

(1) Lessor is the owner of those certain leasehold premises, together with all improvements therein, demised by State Harbor Lease No. H-83-2, at Honokohau Harbor, North Kona, Hawaii, commonly known as "The Fuel Dock", with a street address of 74-381 Kealakehe Parkway, Kailua-Kona, Hawaii 96740, having space therein to sublet.

(2) Tenant desires to lease space on the second floor of the premises as an office for operating a diving/snorkeling business.

(3) The parties desire to enter into a lease agreement defining their respective rights, duties and liabilities relating to the premises. In consideration of the mutual covenants contained herein, the parties agree as follows:

Section 1. Description of Premises. Lessor does hereby demise and lease to Tenant, and Tenant does hereby hire and lease from the Lessor, a portion of the premises described above commonly known as "The Fuel Dock", which portion is designated on Exhibit A attached hereto as office Suite "F" (containing an area of approximately 251 square feet), on the second floor, hereinafter called the "premises". Together with the full right of access to said premises in common with others over, across and through any alleys, common entrances, stairways, halls and corridors in or around said building, subject to the terms, covenants and conditions contained herein.

The premises shall be used for the purposes of office space, and for no other purpose.

Section 2. Term of Sublease. The term of this Sublease shall be for **One (1) year**, commencing **July 1st, 2021**, unless sooner terminated as provided herein, or unless renewed as provided herein. Tenant shall surrender the premises to Lessor immediately on termination of the Sublease.

Section 3. Delivery of Possession. Leased premises will be available for occupancy on July 1, 2021.

Section 4. Total Rent Due. Tenant shall pay to Lessor at the office of Lessor or at such other place as Lessor shall designate, in equal monthly installments of **FOUR HUNDRED NINETY SEVEN AND 38/100 DOLLARS (\$497.38)** each, in advance on the first day of each and every calendar month. Initial rent amount comprises \$445.00 base rent, \$30.00 electricity charge plus \$22.38 Hawaii General Excise Tax. At each anniversary of this agreement, rent amounts will increase by 3%.

Any and all sums due hereunder which are unpaid when due shall draw interest at the rate of one percent (1%) per month until fully paid. In addition, a 5% late fee shall be charged on a one-time basis for each late monthly payment of base rent.

In the event that the rent under State Harbor Lease No. H-83-2 shall increase during the term of this Sublease; Tenant shall pay to Lessor, as additional base rent, an amount equal to the percentage of such increase. For example, if the rent under the State Harbor Lease increases by an amount equal to 5%, then the base rent under this Sublease shall likewise increase by 5%. Additionally, should the applicable General Excise Tax rate increase, that increase will apply to the tax amount as stated in this section.

Section 5. Payment of Building Operating Costs. Lessor shall pay when due all real property taxes and State lease rent, and shall provide and pay for common area lights, all insurance including but not limited to fire, and public liability insurance on the building and common areas as required by any government agencies and as required under Harbor Lease No. H-83-2, water, air conditioning, trash pickup, yard work, repairs, maintenance, management services and all other operating costs of the building ("annual operating costs"), except those specifically agreed to be provided by Tenant.

- (1.) Tenant shall be responsible for his own janitorial services, and Lessor shall not provide any such services.

Section 6. Security Deposit. Before taking occupancy, Tenant shall place with Lessor a security deposit in the amount of **FOUR HUNDRED NINETY SEVEN AND 38/100 DOLLARS (\$497.38)**, which may be used by Lessor to remedy any deficiencies in leased

premises, or in rent received, upon termination of lease. Amounts not expended will be returned to Tenant at termination of lease or completion of remediation, if required.

Section 7. Restrictions on Use. Tenant shall not use nor permit the premises, or any part thereof, to be used for any purposes other than those set forth herein. Tenant shall neither permit on the premises any act, sale or storage that may be prohibited under standard forms of fire insurance policies, nor use the premises for any such purpose. In addition, no use shall be made nor permitted to be made that shall result in (1) waste on the premises, (2) a public or private nuisance that may disturb the quiet enjoyment of other tenants in the building, (3) improper, unlawful or objectionable use, including sale, storage, or preparation of food, alcoholic beverages, or materials generating an odor on the premises, or (4) noises or vibrations that may disturb other tenants. Tenant shall comply with all governmental regulations and statutes affecting the premises either now or in the future. Tenant shall also comply with such rules and regulations as may be adopted by Lessor from time to time and made available in written form to Tenant; said rules and regulations may affect not only occupancy of leased premises, but also use of common and public areas, but in any event shall be uniform as to all tenants and tenants of the building. No animals or birds of any kind shall be permitted in or around the building without the prior written permission of Lessor.

Section 8. Abandonment of Premises. Tenant shall not vacate nor abandon the premises at any time during the term, but if Tenant does vacate or abandon the premises or is dispossessed by process of law for nonpayment of rent or any other reason, any personal property belonging to Tenant, other than the business files and records of Tenant, left on the premises shall be deemed abandoned. At the option of Lessor, such abandoned property, including all trade fixtures shall either become the property of Lessor or shall be removed and stored at the Tenant's expense. Tenant shall also be charged with any and all costs incurred by the Lessor in placing the premises in a condition suitable for releasing to another Tenant.

Section 9. Utilities.

A. Telephone and Internet. Tenant shall, in its own name, contract for and obtain communications services for the demised premises at its own liability and expense and shall indemnify Lessor from any liability thereunder.

B. Electric. Tenant shall pay Lessor a set amount of **\$30 per month** for their electricity usage.

Section 10. Condition of Premises. The taking of possession by Tenant shall be conclusive evidence as against the Tenant that the premises were in good order and satisfactory condition when Tenant took possession.

Section 11. Maintenance.

A. Tenant's Duties. Tenant will, at its own expense, keep the interior of the premises in good repair and tenantable condition during the term of this Sublease, and Tenant shall promptly and adequately repair all damage to the interior of the premises and replace or repair all damaged broken glass, fixtures, and appurtenances under the supervision and with the approval of Lessor and within any reasonable period of time specified by Lessor. If Tenant does not do so, Lessor may, but need not, make such repairs and replacements, and Tenant shall pay Lessor the cost thereof forthwith upon billing for same. Lessor may, but shall not be required to do so, enter the premises at all reasonable times to make such repairs, alterations, improvements and additions. Tenant shall, at the termination of this Sublease, surrender the premises to Lessor in as good condition and repair, as reasonable and proper use thereof will permit.

B. Lessor's Duties. Lessor shall keep the exterior and common areas of the building in which the premises are located in good condition and repair, reasonable wear and tear excepted.

Section 12. Certain Rights Reserved by Lessor. Lessor shall have the following rights, exercisable without notice except as provided herein and without liability to Tenant for damage or injury to property, persons or business and without effecting an eviction, constructive or actual, or disturbance of Tenant's use or possession or giving rise to any claim for set-off or abatement of rent:

(a) To install, affix and maintain any and all signs on the exterior and interior of the building.

(b) To designate and approve, prior to installation, all types of window shades, blinds, drapes, awnings, window ventilators and other similar equipment, and to control all internal lighting that may be visible from the exterior of the building.

(c) To inspect the premises at reasonable hours and, during the last sixty (60) days of the term, to show them to prospective tenants at reasonable hours and, if they are vacated, to prepare them for re-occupancy.

(d) To retain at all times, and to use in appropriate instances, keys to all doors within and into the premises; no locks shall be changed or added without the prior written consent of Lessor which consent shall not be unreasonably withheld. It is hereby understood by Lessor that Tenant has a duty of confidentiality to its clients and, therefore, Lessor may never enter the premises without Tenant's presence except in cases of imminent danger to life or property.

(e) To prohibit the placing of vending or dispensing machines of any kind in or about the premises without the prior written permission of Lessor.

(f) So long as Tenant's use of the premises and rights created under this Sublease are not substantially affected, Lessor may from time to time adopt such rules and regulations as in its discretion are required and as may affect not only the occupancy of the leased premises, but also the use of common and public areas; said rules and regulations shall be uniform and written notice thereof given. Lessor may enter upon the premises and may exercise any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Tenant's use or possession and without being liable in any manner to Tenant.

Section 13. Liability of Lessor. Tenant waives all claims against Lessor for damages to goods or for injuries to persons on or about the premises from any cause arising at any time except those actions resulting from the negligent acts or omissions of Lessor or its agents and employees. Tenant will indemnify Lessor on account of any damage or injury to any person, or to the goods of any person, arising from the use of the premises by Tenant, or arising from the failure of Tenant to keep the premises in good condition as provided herein. Tenant agrees to pay for all damage to the building, as well as all damage or injury suffered by tenants or occupants thereof caused by misuse or neglect of the premises by Tenant.

Section 14. Destruction of Premises. In the event of a partial destruction of the premises during the term from any insured cause, Lessor shall forthwith repair the same provided the repairs can be made within sixty (60) days under the laws and regulations of applicable governmental authorities. Any such partial destruction from any insured cause shall neither annul

nor void this Sublease, except that Tenant shall be entitled to a proportionate reduction of rent while the repairs are being made, any proportionate reduction being based on the extent to which the making of repairs shall interfere with the business carried on by Tenant in the premises. If the repairs cannot be made in the specified time, Lessor may, at its option, make repairs within a reasonable time, this Sublease continuing in full force and effect and the rent to be proportionately rebated as previously set forth in this paragraph. In the event that Lessor does not elect to make repairs that cannot be made in the specified time, this Sublease may be terminated at the option of either party. In the event of any partial destruction of the premises during the term from any uninsured cause, then Lessor may, at Lessor's option, terminate this Sublease upon written notice to Tenant. A total destruction of the building in which the premises are situated shall terminate this Sublease.

In the event Lessor elects to reconstruct or materially renovate the Building, notice shall be provided to Tenant at least ninety (90) days prior to the start of such project. In such case, the leased premises may be required to be closed (or relocated) until such project is completed. At this time, and subject to the ninety (90) day notice requirement, Lessor and Tenant shall each have the option of terminating this Sublease at no cost or further obligation but agree to work in good faith toward the negotiation and execution of a new sublease within the reconstructed or materially renovated Building.

Section 15. Condemnation. A condemnation of the entire building or a condemnation of the portion of the premises occupied by Tenant shall result in a termination of this Sublease with no further obligations by the parties.

Section 16. Assignment and Subletting. Tenant shall not assign any rights or duties under this Sublease nor sublet any part of the premises without the prior written consent of Lessor, which consent shall not be unreasonably withheld. A consent to one assignment or sublease shall not waive Lessor's rights hereunder. This Sublease shall not be assignable by operation of law without the written consent of Lessor, which consent shall not be unreasonably withheld.

Section 17. Breach or Default. Tenant shall have breached this Sublease and shall be considered in default hereunder if (1) Tenant files a petition in bankruptcy or insolvency or for reorganization under any bankruptcy act or makes an assignment for the benefit of creditors, (2) involuntary bankruptcy proceedings are instituted against Tenant under any bankruptcy

act and such proceedings adjudge Tenant a bankrupt, (3) Tenant fails to pay any monthly rent or operation costs when due and Lessor has given Tenant fifteen (15) days written notice to pay the rent or operation costs, or (4) Tenant fails to perform or comply with any of the covenants or conditions of this Sublease and such failure continues for a period of thirty (30) days after written notice thereof is given to Tenant.

Section 18. Effect of Breach. In the event of a breach of this Sublease as set forth in Section 17 Breach or Default, the rights of Lessor shall be as follows:

(1) Lessor shall have the right to cancel and terminate this Sublease, as well as all of the right, title and interest of Tenant hereunder, by giving to Tenant not less than ten (10) days' written notice of the cancellation and termination. On expiration of the time fixed in the notice, this Sublease and the right, title and interest of Tenant hereunder shall terminate in the same manner and with the same force and effect, except as to Tenant's liability, as if the date fixed in the notice of cancellation and termination were the end of the term herein originally determined.

(2) Without affecting Lessor's duty to mitigate damages, on termination Lessor may recover from Tenant all damages proximately resulting from the breach, including the cost of recovering the premises and the worth of the balance of this Sublease over the reasonable rental value of the premises for the remainder of the Sublease term, which sum shall be immediately due Lessor from Tenant.

Without affecting Lessor's duty to mitigate damages and after reasonable time allowed Tenant to release the premises, Lessor may re-let the premises or any part thereof for any term without terminating the Sublease. Lessor may make alterations and repairs to the premises. The duties and liabilities of the parties if the premises are re-let as provided herein shall be as follows:

(a) In addition to Tenant's liability to Lessor for breach of the Sublease, Tenant shall be liable for all expenses of the re-letting, for the alterations and repairs made, and for the difference between the rent received by Lessor under the new lease agreement and the rent installments that are due for the same period under this Sublease.

(b) The rent received from re-letting the premises shall be applied: (1) to reduce Tenant's indebtedness to Lessor under this Sublease, (2) to expenses of the re-letting and alterations and repairs made, (3) to rent due under this

Sublease, or (4) to payment of future rent under this Sublease as it becomes due.

If the new tenant does not pay a rent installment promptly to Lessor and the rent installment has been credited in advance of payment to the indebtedness of Tenant other than rent or if rentals from the new tenant have been otherwise applied by Lessor as provided for herein and, during any rent installment period, are less than the rent payable for the corresponding installment period under this Sublease, Tenant shall pay Lessor the deficiency separately for each rent installment deficiency period and before the end of that period.

Section 19. Subordination and Financing. Tenant agrees upon request of Lessor to subordinate this Sublease and its rights hereunder to the lien of any mortgage, deed of trust or other encumbrance, together with any conditions, renewals, extensions or replacements thereof, now or hereafter placed, charged or enforced against the Lessor's interest in this Sublease and the leasehold estate hereby created, the premises or the land, building or improvements included thereon or of which the premises are a part, and to execute and deliver, (but without cost to Tenant) at any time and from time to time upon demand by Lessor such documents as may be required to effectuate such subordination, and, in the event that Tenant shall fail, neglect or refuse to execute and deliver any such document within ten (10) days after Lessor has given written notice to do so, Tenant hereby appoints Lessor, its successors and assigns, the attorney-in-fact of Tenant irrevocably to execute and deliver any and all such documents for and on behalf of Tenant; provided, however, that Tenant shall not be required to effectuate such subordination nor shall Lessor be authorized to effect such subordination on behalf of Tenant, unless the mortgagee or beneficiary named in such mortgage, deed of trust or other encumbrance shall first agree in writing for the benefit of Tenant that, so long as Tenant is not in default under any of the provisions, covenants or conditions of this Sublease on the part of Tenant to be kept and performed, neither this Sublease nor any of the rights of Tenant hereunder shall be terminated or modified or be subject to termination or modification nor shall Tenant's possession of the premises be disturbed or interfered with by any trustee's sale or by an action or proceeding to foreclose said mortgage, deed of trust or other encumbrance.

Section 20. Liability Insurance. Tenant shall, during the term hereof, procure and keep in full force and effect a policy of liability insurance in an amount of not less than One Million Dollars (\$1,000,000.00). Such policy shall contain a clause that the insurer will not cancel or change the insurance without first

giving Lessor thirty (30) day's prior written notice. The policy shall name Lessor and the STATE OF HAWAII as additional insureds.

Section 21. Option to Renew. Upon the expiration of the original Sublease Term, Sublease shall automatically renew on a month to month basis, under the existing terms and conditions, unless terminated by either party with 30 days written notice.

Section 22. Subject to State Harbor Lease No. H-83-2 and Consent. Tenant agrees that this Sublease is subject to the terms and conditions of State Harbor Lease No. H-83-2, and Tenant agrees to abide by such terms and conditions. Tenant acknowledges that this Sublease is subject to the consent of the State of Hawaii. Lessor will use his best efforts to obtain such consent; however, if consent is not given by the State of Hawaii, this Sublease shall be terminated; Tenant shall abandon the leased premises as soon as practicable, with no liability accruing to Lessor as a result of said refusal.

Section 23. Attorney's Fees. In case suit shall be brought for an unlawful detainer of the premises, for the recovery of any rent due under the provisions of this Sublease or for breach of any condition contained herein by either party, the prevailing party in such action shall recover in addition to damages and costs a reasonable attorney's fee which shall be fixed by the court.

Section 24. Partial Invalidity. If any term, provision or condition of this Sublease shall be held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of this Sublease shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

Section 25. Captions and Pronouns.

(1) Captions. The captions appearing at the beginning of the articles, sections and paragraphs hereof are descriptive only and intended for convenience in reference to this Sublease and should there be any conflict or inconsistency between any such caption and the text of any such article, section or paragraph at the head of which it appears, the text of the article, section or paragraph, as the case may be, and not such caption shall control and govern in the construction of the terms of this Sublease.

(2) Pronouns. Masculine or feminine pronouns shall be substituted for the neuter form and vice versa, and the plural

shall be substituted for the singular and vice versa in any place herein in which the context requires such substitution(s).

Section 26. Successors and Assigns. The terms, provisions, covenants and conditions contained in this Sublease shall apply to, bind and inure to the benefit of the heirs, personal representatives, administrators, legal representatives, successors and assigns (where assignment is permitted) of Lessor and Tenant, respectively.

Section 27. Entire Agreement. This Sublease constitutes the entire agreement of Lessor and Tenant and supersedes all oral and written agreements and understandings made and entered into by the parties hereto prior to the date hereof, except any agreements entered into by Lessor and Tenant relating to the construction of improvements by Lessor for the benefit of Tenant concerning the premises. Except as herein and otherwise provided, no subsequent alteration, amendment, change or addition to this Sublease shall be binding upon Lessor and Tenant unless reduced to writing and signed by each of them.

Section 28. Special Conditions.

(1) Parking. Tenant acknowledges and understands this Sublease does NOT include designated parking for Tenant or Tenant's guests. Furthermore, the DNLR controls the parking areas adjacent to the premises and as such, Tenant is subject to the parking regulations imposed by the DNLR. Tenant violations of DNLR parking regulations may be considered a Breach of this Sublease and as such grounds for termination.

(2) Dock Usage. This document does not confer upon tenant any privileges or rights with respect to usage of the dock area, beyond those accorded the general public.

IN WITNESS WHEREOF, the parties hereto have executed this Sublease in duplicate, the day and year first above written.

"Lessor"

KONA MARINE HOLDINGS, LLC.

By


Craig Stevenson its Managing Member

"Tenant"

BIG ISLAND ACTIVITIES LLC.

By


Title Co - President

For purposes of this form, electronically transmitted signatures shall be considered as original.

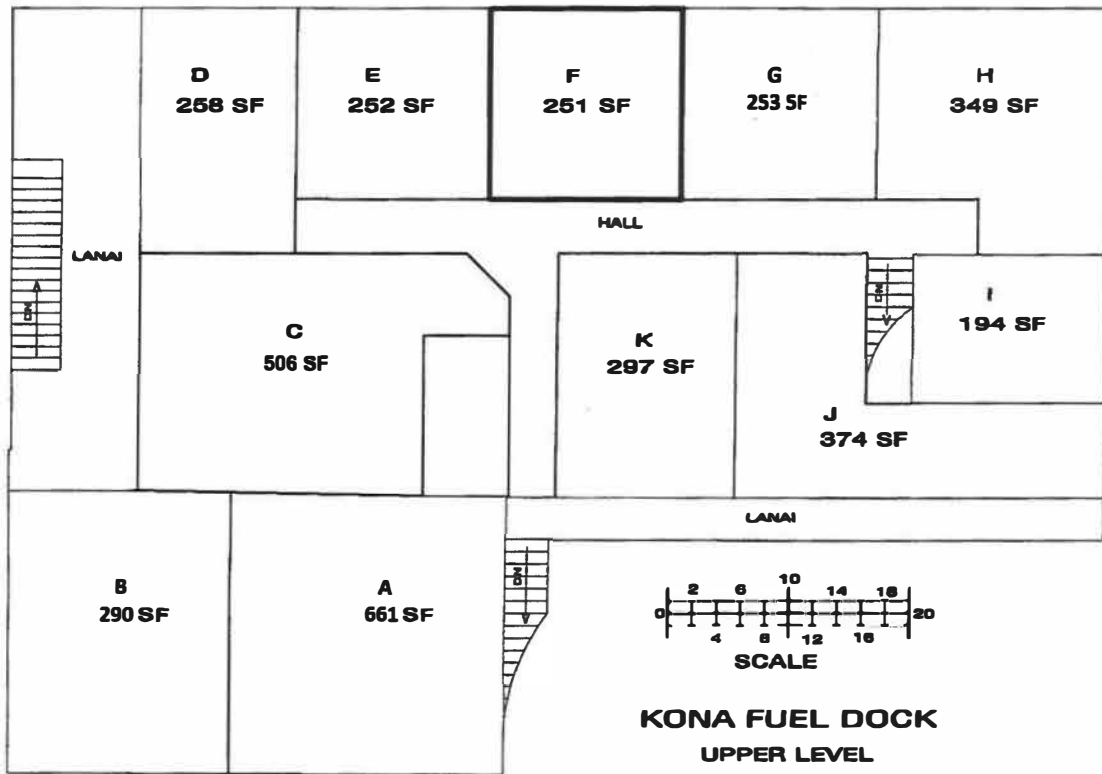


Exhibit A