

Meeting No. 795

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

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Pages 1 - 66

June 30, 1983

Austin, Texas

MEETING NO. 795

THURSDAY, JUNE 30, 1983.--The members of the Board of Regents of The University of Texas System convened at 2:05 p.m. on Thursday, June 30, 1983, in the Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, with the following in attendance:

ATTENDANCE.--

Present

Chairman Newton, presiding
Vice-Chairman Baldwin
Regent (Mrs.) Milburn
Regent Rhodes
Regent Richards

Absent*

Vice-Chairman (Mrs.) Briscoe
Regent Hay
Regent Powell
Regent Yzaguirre

Executive Secretary Dilly

Chancellor Walker

Chairman Newton announced a quorum present and called the special meeting of the Board to order.

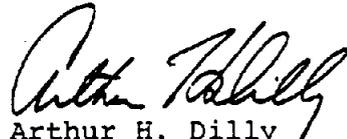
RECESS FOR EXECUTIVE SESSION.--Chairman Newton announced that the Board would recess to convene in Executive Session pursuant to Vernon's Texas Civil Statutes, Article 6252-17, Section 2(f), to consider the proposal from Gill-Richter-Cordier to lease and operate a commercial wine grape vineyard and an associated winery on Permanent University Fund Lands in Pecos County, Texas.

RECONVENE.--At 2:25 p.m., the members of the Board reconvened in open session to consider the item listed on the agenda. In response to Chairman Newton's inquiry regarding the wishes of the Board, the following action was taken:

U. T. SYSTEM: APPROVAL OF LEASE AGREEMENT WITH GILL-RICHTER-CORDIER CORPORATION FOR OPERATION OF A COMMERCIAL WINE GRAPE VINEYARD AND AN ASSOCIATED WINERY ON PERMANENT UNIVERSITY FUND LANDS IN PECOS COUNTY, TEXAS.--Regent Milburn moved that the Board approve the lease agreement with Gill-Richter-Cordier Corporation for the West Texas Lands vineyard/winery project as revised after the Board meeting on June 17, 1983. Vice-Chairman Baldwin seconded the motion which carried by unanimous vote.

The lease agreement is set out on Pages 2 - 66.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 2:28 p.m.


Arthur H. Dilly
Executive Secretary

June 30, 1983

*Those Regents who were absent were excused because of previous commitments.

LEASE AGREEMENT

UNIVERSITY OF TEXAS PERMANENT FUND LAND
PECOS COUNTY, TEXAS

FOR
OPERATING A COMMERCIAL WINE GRAPE
VINEYARD AND WINERY

THE BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM
LESSOR

GILL-RICHTER-CORDIER CORPORATION
LESSEE

CONTENTS

<u>PARAGRAPH</u>		<u>PAGE</u>
1	Definitions	1
2	Description of Leased Premises; Term	4
3	Rent; Payment; Accounting	8
4	Condition of the Premises	15
5	Use	19
6	Construction of Winery	21
7	Maintenance	21
8	Utilities	24
9	Taxes	25
10	Insurance	26
11	Permits and Licenses	29
12	Lessor's Right of Access	29
13	Lessee's Right of Access	30
14	Liability	31
15	Assignment or Subletting	33
16	Expiration or Termination of Lease Agreement	33
17	Landlord-Tenant Relation	34
18	Events of Default	34
19	Remedies on Default	39
20	Force Majeure	43
21	Condemnation	43
22	1983 Production	44
23	Attorney's Fees	44
24	Landlord's Lien	44
25	Interest	45
26	Nondisclosure Agreement	45
27	Right of First Refusal	46
28	Experimental Vineyards and Wineries	48
29	Trademarks and Tradenames	48

CONTENTS (cont'd)

<u>PARAGRAPH</u>		<u>PAGE</u>
30	Artifacts	49
31	Real Estate Commissions	49
32	Parties Bound	49
33	Time of the Essence	49
34	Number and Gender	49
35	Laws of Texas	50
36	Paragraph Headings	50
37	Revenue Ruling	50
38	Notices	51
39	Recordation, Shortform	51
40	Financing Conditions; Marketing; Advertising	52
41	Minimum Capitalization	54
42	Severability	55
43	Entire Agreement; Modification	55

LEASE AGREEMENT

THE STATE OF TEXAS §
 § KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF PECOS §

THIS LEASE AGREEMENT is made as of the 30th day of June, 1983, by and between The Board of Regents of The University of Texas System (hereinafter referred to as the "U.T. System"), as "Lessor," and Gill-Richter-Cordier Corporation, a Texas corporation (hereinafter referred to as "G-R-C"), as "Lessee."

1. DEFINITIONS.

1.1 Effective Date - The day and year first written above.

1.2 Leased Premises - The collective description of all property leased hereunder, including the Initial Acreage, the Additional Vineyard Acreage, and those portions of the Warehouse/Office Building in the possession of G-R-C pursuant to paragraph 2.2.

1.3 Initial Acreage - The collective description of the land referred to herein as the Existing Vineyard Acreage and the Winery Acreage.

1.4 Existing Vineyard Acreage - The collective description of the land referred to herein as Tract A, Tract B, Tract C and Tract D.

1.5 Additional Vineyard Acreage - 1,920 Vineyard Acres, more or less, to be selected by U.T. System out of Tract F in consultation with G-R-C for the purpose of leasing additional

acreage for vineyards to G-R-C in accordance with paragraph 2.3 hereof.

1.6 Winery Acreage - A tract of land located in Pecos County, Texas, sometimes referred to herein as Tract E, and more particularly described in Exhibit E attached hereto and incorporated herein by reference. The Winery Acreage is to be used by G-R-C for the construction and maintenance of a winery or wineries and such other facilities as may be necessary for on-site processing of wine grapes produced upon the Leased Premises.

1.7 Vineyard Acre - An acre of land planted with a minimum of 454 wine grape plants spaced approximately twelve feet between rows and eight feet within rows or as may be otherwise prescribed by the Vineyard Guidelines.

1.8 March 1 of Year of Third Leaf - March 1 of the start of the third growing season after the plants have been planted in their permanent vineyard acreage site.

1.9 Plan of Development - A description and/or depiction of the approximate locations of fences, access roads, roads within vineyards and water wells located or to be located on the Existing Vineyard Acreage described in Exhibit F which is to be attached hereto and incorporated herein by reference.

1.10 Tract A - A tract of land located in Pecos County, Texas, containing 200 acres, more or less, which land is more particularly described in Exhibit A attached hereto and incorporated herein by reference.

1.11 Tract B - A tract of land located in Pecos County, Texas, containing 225 acres, more or less, which land is more particularly described in Exhibit B attached hereto and incorporated herein by reference.

1.12 Tract C - A tract of land located in Pecos County, Texas, containing 428 acres, more or less, which land is more particularly described in Exhibit C attached hereto and incorporated herein by reference.

1.13 Tract D - A tract of land located in Pecos County, Texas, containing 476 acres, more or less, which land is more particularly described in Exhibit D attached hereto and incorporated herein by reference.

1.14 Tract E - A tract of land located in Pecos County, Texas, and containing 150 acres, more or less, which shall be selected by the mutual agreement of G-R-C and U.T. System out of that land which is more particularly described in Exhibit E attached hereto and incorporated herein by reference. Tract E is also sometimes referred to herein as the Winery Acreage.

1.15 Tract F - That land located in University Blocks 18, 19, 20, 21, and 23 in Pecos County, Texas, out of which the Additional Vineyard Acreage shall be selected.

1.16 Warehouse/Office Building - The existing building located as of the Effective Date on Tract D.

1.17 On-Site Winery - Buildings, facilities, fixtures and equipment necessary for the on-site processing of wine grape production from the Leased Premises, which buildings, facilities, fixtures and equipment are to be constructed by G-R-C, or acquired by G-R-C, for installation upon the Winery Acreage.

1.18 Rent or Rentals - The Base Rent, the Percentage Rent and all other payments required to be made to U.T. System by G-R-C under the terms of this Lease Agreement.

1.19 Base Rent - A sum of money equal to One and No/100 Dollars (\$1.00) per acre per year to be paid to U.T. System by G-R-C in accordance with the terms of this Lease Agreement.

1.20 Percentage Rent - As defined in paragraph 3.1.

1.21 Ton - Two Thousand (2,000) pounds.

1.22 Gallon - Four (4) quarts, or Three and 785/1000 (3.785) liters.

1.23 Vineyard Parcel - Any area of approximately twenty (20) acres established by U.T. System at the time of developing and planting the Vineyard Acres within the Existing Vineyard Acreage and any Additional Vineyard Acreage.

1.24 U.T. System - The Board of Regents of the University of Texas System; provided, however, that U.T. System shall designate in writing a limited number of individuals who shall be entitled to act on behalf of U.T. System in granting any consent or approval or giving or receiving any notice required hereunder.

2. DESCRIPTION OF LEASED PREMISES; TERM.

2.1 U.T. System hereby leases to G-R-C, and G-R-C hereby leases from U.T. System, for the term and upon the conditions herein described, that certain real property located in Pecos County, Texas, described herein as the Initial Acreage, together with the vineyards and improvements now or hereafter erected thereon under the terms of this Lease Agreement (except as described or otherwise limited herein).

2.2 G-R-C shall also be entitled, as of the Effective Date, to a non-exclusive right to use the warehouse portion of the Warehouse/Office Building. Until the date full possession of the Warehouse/Office Building has been transferred to G-R-C, as

provided for in this paragraph 2.2, U.T. System and G-R-C shall jointly use and occupy the warehouse space in the Warehouse/Office Building; U.T. System shall retain the exclusive right to use the office portion of the building; and G-R-C and U.T. System shall jointly have the right to use the restroom facilities located therein. U.T. System also hereby grants to G-R-C a non-exclusive easement and right of ingress and egress across land belonging to U.T. System for access to said building. Notwithstanding anything herein to the contrary, U.T. System shall be entitled, at any time prior to the date of transfer of full possession of the Warehouse/Office Building to G-R-C, to move onto the tract on which the Warehouse/Office Building is located, or to construct thereon, one or more temporary or permanent buildings for the exclusive use and occupancy of U.T. System. These buildings may be removed by U.T. System at any time prior to transfer of full possession of said tract to G-R-C. Beginning on the date on which possession of the last portion of the Existing Vineyard Acreage is transferred to G-R-C, G-R-C shall be entitled to full possession of the entire Warehouse/Office Building referred to in this paragraph, including all office and warehouse space then located therein. G-R-C shall at all times be responsible for the repair and maintenance of whatever portion of the Warehouse/Office Building is in its possession.

2.3 In addition to the Initial Acreage, U.T. System agrees to lease to G-R-C the Additional Vineyard Acreage which shall consist of an additional 1,920 acres, more or less, of vineyards, together with the land necessary to accommodate the accompanying improvements, which additional acreage shall be selected by U.T. System in consultation with G-R-C out of University Blocks 18, 19, 20, 21, and 23 located in Pecos County, Texas. This Lease Agreement shall apply to and cover the Additional Vineyard Acreage selected. At any time before January 1, 1988, U.T. System and G-R-C can mutually agree to terminate this Lease Agreement as to this Additional Vineyard Acreage, and, in that event, U.T. System will not be required to

develop and plant such Additional Vineyard Acreage as set forth in paragraph 2.3.1, and G-R-C shall not be required to expand the capacity of the winery to accommodate the Additional Vineyard Acreage. Similarly, prior to January 1 of any year during which U.T. System will commence preparation for planting any tract of Additional Vineyard Acreage pursuant to the schedule set out in paragraph 2.3.1 below, the parties can agree to terminate this Lease Agreement as to any of the remaining Additional Vineyard Acreage for which preparation for planting has not then been commenced, and, in that event, U.T. System will not be required to develop and plant such Additional Vineyard Acreage as set forth in paragraph 2.3.1, and G-R-C will not be required to make the corresponding expansion of the capacity of the winery.

2.3.1 If the parties have not agreed to terminate this Lease Agreement with regard to the Additional Vineyard Acreage, or any tract thereof, as provided for in paragraph 2.3, such Additional Vineyard Acreage shall be developed and planted by U.T. System in tracts of no less than 320 acres and, subject to paragraph 2.3, shall be planted according to the following schedule:

First additional tract planted in Spring, 1989
Second additional tract planted in Spring, 1990
Third additional tract planted in Spring, 1991
Fourth additional tract planted in Spring, 1992
Fifth additional tract planted in Spring, 1993
Sixth additional tract planted in Spring, 1994

2.3.2 Notwithstanding anything to the contrary in paragraphs 2.3, 2.3.1, or 4.3, in fulfilling its obligation to develop and plant the Additional Vineyard Acreage, U.T. System shall not be required to develop and plant an amount of acreage that requires U.T. System to expend in any year more than two times the cumulative total of Rent then received by U.T. System reduced by such sum as U.T. System may have previously expended for developing and planting of Additional Vineyard Acreage.

Provided that, if in any year set forth in paragraph 2.3.1 the restrictions of this paragraph result in the development and planting of less than 320 acres of the Additional Vineyard Acreage, such deficit acreage shall be developed and planted at the earliest date that funds become available for that purpose within the restrictions of this paragraph 2.3.2.

2.4 This Lease Agreement and the rights of G-R-C hereunder are subject to all easements, covenants, restrictions, and mineral leases heretofore executed or executed subsequent hereto, including oil, gas and other mineral leases, uranium leases, sulphur leases and others, mineral reservations, and any and all other encumbrances of record in the Office of the County Clerk of Pecos County, Texas, to the extent the same are valid and subsisting and affect the Leased Premises.

2.5 The transfer of possession of the Leased Premises shall be as follows:

as to Tract A, on the Effective Date;

as to Tract B, on the later of (i) March 1, 1984, or (ii) completion of the 1984 Spring pruning of the vineyards located, or to be located, on Tract B;

as to Tract C, on the later of (i) March 1, 1985, or (ii) completion of the 1985 Spring pruning of the vineyards located, or to be located, on Tract C;

as to Tract D, on the later of (i) March 1, 1986, or (ii) completion of the 1986 Spring pruning of the vineyards located, or to be located, on Tract D;

as to Tract E, on the Effective Date;

as to the Additional Vineyard Acreage, March 1 of the year of third leaf of vineyards planted pursuant to paragraph 2.3; and

as to the Warehouse/Office Building, as described in paragraph 2.2 hereof.

2.6 Unless earlier terminated as provided herein, this Lease Agreement shall be for a term of thirty (30) years from the Effective Date. If, at the expiration of thirty (30) years, G-R-C

is not then in default under this Lease Agreement, G-R-C shall have the option to renew this Lease Agreement for an additional term of thirty (30) years on the same terms and conditions as set forth herein for the original term of this Lease Agreement. G-R-C's right of renewal shall apply only to the Leased Premises and any Vineyard Acres that at the expiration of the initial term of thirty (30) years have been developed and planted thereon in accordance with the terms of this Lease Agreement, and U.T. System shall have no obligation to develop and plant any Additional Vineyard Acreage during the period of renewal of this Lease Agreement other than as may be required by paragraph 4.4, but U.T. System will have the replanting obligations required by paragraphs 7.5 and 7.6. The option granted in this paragraph 2.6 must be exercised on or before January 1, 2012, or this option to renew will be forfeited.

2.6.1 At any time during the initial thirty (30) year term of this Lease Agreement, or any renewal or extension thereof, either G-R-C or U.T. System may request that the parties meet to discuss whether any paragraph or provision of this Lease Agreement has become unfeasible, and in the event that it is agreed that a paragraph or provision has become unfeasible, U.T. System and G-R-C shall be obligated to enter into good faith negotiations to attempt to agree upon an appropriate amendment to make such paragraph or provision feasible.

3. RENT; PAYMENT; ACCOUNTING.

G-R-C agrees to pay Rent to U.T. System during the term of this Lease Agreement as follows:

3.1 G-R-C shall pay to U.T. System (i) the Base Rent plus (ii) a Percentage Rent of 8 percent (8%) of the gross revenue derived from the operation of the combined vineyard, winery or wineries, tasting rooms, and other operations conducted by G-R-C, or its sub-lessees, licensees, concessionaires, or assigns, in, upon or in connection with the operation of the Leased Premises,

whether such revenues are derived from operations conducted either upon or off the Leased Premises. For purposes of computing the Percentage Rent, gross revenue shall include, but shall not be limited to: (i) all proceeds from sales of wine produced from grapes grown on the Leased Premises whether processed or sold on the Leased Premises or elsewhere; (ii) all proceeds from sales of wine produced or processed in any winery or wineries located on the Leased Premises; (iii) all proceeds from sales of cuttings, root stock, grapes, wine, juice, or any other merchandise, inventory or product, which sales are either made on the Leased Premises or are of products produced on the Leased Premises; and (iv) all proceeds from sales of goods or services at any winery, tasting room, or retail or service establishment located on the Leased Premises or off such premises when a primary purpose of such off-premises establishment is to sell or promote the sale of wine produced from the Leased Premises. For purposes hereof "proceeds" shall include, without limitation, all monies or things of value received, of any nature or character.

3.2 Each year, as wine grapes are harvested by G-R-C from the Leased Premises, G-R-C shall make and keep a record of the age of the planting and the tons per acre yield of each variety of wine grape according to each Vineyard Parcel on the Leased Premises. The sum of such recorded tons per acre for all varieties shall be the actual combined tonnage production from the Leased Premises for that year. The expected combined tonnage production from the Leased Premises shall be the total of the number of tons the various varieties of wine grape are predicted to yield that year. The predicted yield for each variety of wine grape shall be calculated by taking the tons per acre that each variety of wine grape can reasonably be predicted to yield at maturity and multiplying that number by the percentage of the predicted maturity yield that an acre of vines of that age can reasonably be predicted to produce and, in turn, multiplying that product by the number of acres of that age. G-R-C and U.T. System have agreed that the predicted maturity yields, in tons

per acre, for the following varieties are: Chenin Blanc - 11; French Colombard - 9; Sauvignon Blanc - 8; Ruby Cabernet - 6; and Barbera - 7. Vines of these, and most other, wine grape varieties can reasonably be expected to produce mature yields the fourth year after a tract has been transferred from the U.T. System to G-R-C under the terms of this Lease Agreement. Prior to maturity, the yield for the year of transfer to G-R-C through the fourth year after transfer, expressed as a percentage of mature yield, is: year of transfer - 15%; first year after transfer - 35%; second year after transfer - 70%; third year after transfer - 90%; and fourth year after transfer - 100%. The predicted maturity yield in tons per acre for any variety of wine grape planted on the Leased Premises that is not set forth in this paragraph shall be determined from data recorded and maintained by G-R-C, if such variety is planted on the Leased Premises, or recorded and maintained by U.T. System, if such variety has been planted in experimental vineyards operated by U.T. System or, if appropriate, by a combination of the data for a variety maintained by both G-R-C and U.T. System. In either event, the predicted maturity yield of other varieties shall be calculated by (a) dividing the tons per acre produced by such variety in each year of the first three years of production after planting by the following factors: the first year - 0.15; the second year - 0.35; and the third year - 0.70, and (b) dividing the sum of the three figures so calculated by three (3). That figure shall be the predicted maturity yield in tons per acre for a Vineyard Parcel of that particular variety. Based upon actual experience in the operation of the Leased Premises by G-R-C or the operation of experimental vineyards by U.T. System, G-R-C and U.T. System may by mutual agreement alter the predicted maturity yield of any variety of grape and/or the percentage of predicted maturity yield expected at a particular age for that variety. When G-R-C and U.T. System have so agreed, the figures so agreed to shall be reduced to writing, approved and signed by the appropriate officials of G-R-C and U.T. System, and attached to this Lease Agreement as an amendment to this paragraph. In any

year that the actual combined tonnage is as much as twenty percent (20%) less than the expected combined tonnage, and such reduction in production is not the result of any default by G-R-C under this Lease Agreement or the result of an event that would require U.T. System to bear the expense of any vineyard replanting required by paragraphs 7.5 or 7.6, then G-R-C may, at its election, purchase or acquire grapes, juice, or wine in a quantity not greater than is necessary to replace the reduction in production and use same for purposes of blending with wine produced from the Leased Premises and, provided that any recovery for such loss of production received from insurance that G-R-C is required to keep in effect pursuant to paragraph 10 hereof is insufficient to cover the cost of grapes, juice, or wine purchased by G-R-C for blending purposes under this paragraph, then, in such event only, gross revenue shall not include, and there shall be no duty to pay U.T. System Percentage Rent on, that volume of wine used for blending under this paragraph which is attributable to grapes, juice, or wine from premises other than the Leased Premises and purchased with funds in excess of those recovered by G-R-C under any insurance policy or policies.

3.3 G-R-C agrees to make no sales, at a price or on terms more advantageous than the sales price or terms then currently being offered in the normal course of business, to unrelated persons, corporations, or entities, to (i) any person owning an interest in G-R-C, (ii) any person or any entity which directly or indirectly controls or is controlled by any of such persons, corporations, or multiple tiered corporations, (iii) any family member of any such persons, and (iv) any entity in which any of the foregoing directly or indirectly owns at least a one percent (1%) interest. In the event that G-R-C shall make sales in violation of this paragraph, U.T. System shall be entitled to the greater of either fifty percent (50%) of the difference between the price at which such products were sold and the price at which such products could have been sold to a bona fide purchaser, or eight percent (8%) of the proceeds that would have

been realized had such sale been made to a bona fide purchaser. In addition to the payments provided for in this paragraph, the sale of five hundred (500) gallons or more of wine in any twelve (12) month period in violation of this paragraph shall be considered an event of default on the part of G-R-C.

3.4 Base Rent payable hereunder shall be payable in advance beginning with the Effective Date of this Lease Agreement and thereafter on or before January 1 of each year. Percentage Rent payable under the terms of this Lease Agreement shall begin to accrue on January 1, 1988, with the first Percentage Rent payment due hereunder on February 29, 1988. The Percentage Rent payment due on February 29, 1988, shall be based on gross revenues realized during January, 1988. Percentage Rent shall be payable monthly thereafter on the last day of each calendar month during the term hereof, based on gross revenues received during the previous calendar month. Contemporaneously with the delivery of each Percentage Rent payment, G-R-C shall deliver to U.T. System a statement itemized in reasonable detail setting forth the amount of gross revenues and the computation of the Percentage Rent payable.

3.5 Beginning on June 15, 1985, and on June 15 of each calendar year thereafter, G-R-C will deliver to U.T. System a fully audited statement by an independent certified public accountant of gross revenues realized from sales covered by paragraph 3.1 during the immediately preceding calendar year, which statement shall be itemized in reasonable detail. Contemporaneously with the delivery of the statement of gross revenues, G-R-C will also deliver a fully audited balance sheet and income statement for the preceding calendar year, prepared in accordance with generally accepted accounting principles, consistently applied, along with the opinion of the independent certified public accountant on the financial statements. In addition to the audited statements and balance sheets required by this paragraph 3.5, beginning with calendar year 1984, G-R-C shall

deliver to U.T. System an unaudited balance sheet and income statement for each quarter of every calendar year of the term of this Lease Agreement and any extension or renewal thereof. Such unaudited balance sheet and income statement shall be due within thirty (30) days of the end of each quarter, shall be prepared in accordance with generally accepted accounting principles, and shall, inter alia, reflect the current assets and current liabilities of G-R-C as of the end of the applicable quarter.

3.6 If there has been a deficiency in the amount of Percentage Rent theretofore paid, the audited statement of gross revenue referenced to in paragraph 3.5 shall be accompanied by payment of any such deficiency, together with interest from the date such payment was due at the rate provided in paragraph 25. In the event the statement of gross revenues indicates G-R-C has paid more Percentage Rent than it should have paid during the preceding year, U.T. System shall have the right to apply any overage to any sum or sums owing to U.T. System at the time such statement is delivered. Provided that the audits required hereunder are timely received, any overage remaining after application to sums owing to U.T. System in accordance with the foregoing will be paid to G-R-C within thirty (30) days of receipt of request therefor, if such notice is delivered to U.T. System within sixty (60) days after the receipt of the certified audit to which it applies.

3.7 Full and adequate records and books of account, including supporting documentation, tax returns, and all state and federal filings related to the production and sale of alcoholic beverages, will be accurately maintained by G-R-C on all business operations in any manner relating to the Leased Premises or the sale of any product upon which a Percentage Rent is payable under paragraph 3.1 and will be preserved for a period of at least five (5) years after preparation or filing. Such records, books, and documents will be open to inspection by U.T. System, or its representative, at all reasonable times.

3.8 U.T. System may, at its own expense, cause an audit to be made of any of the books and records of G-R-C related to the vineyard and/or winery or any operation which generates gross revenue upon which a Percentage Rent is payable under paragraph 3.1, and acceptance of Rent will not prejudice this right. If such audit indicates a deficiency in the amount of Percentage Rent theretofore paid, G-R-C shall pay such deficiency on request from U.T. System, together with interest from the date such payment was due at the rate provided in paragraph 25. If such audit indicates a deficiency of five percent (5%) or more in the amount of the Percentage Rent payable for the year being audited, which deficiency, if disputed, is verified pursuant to paragraph 3.11, G-R-C shall pay the cost of such audit.

3.9 G-R-C agrees to pay all Rent payments due to U.T. System to The Board of Regents of the University of Texas System, in care of Office of Investments and Trusts, at P.O. Box 7968, Austin, Texas, 78712, or at such other place as U.T. System shall designate from time to time in writing. U.T. System may at any time require that all Rent and other sums due under this Lease Agreement shall be paid in cash, money order or cashier's check.

3.10 U.T. System may recover damages for breach of G-R-C's obligation to pay Rent under this Lease Agreement, notwithstanding any allegations made by G-R-C of U.T. System's breach of its obligations hereunder. All monies received by U.T. System from G-R-C shall first be applied to non-Rent items owed hereunder and then to Rent.

3.11 In the event of a dispute as to the proper amount of Percentage Rent due after an audit of the accounts and records of G-R-C, U.T. System and G-R-C each will, at its own expense, select a qualified third party independent certified public accountant who will in turn select, at the joint expense of U.T. System and G-R-C, a third qualified third party independent certified public accountant. The three certified public

accountants will then audit all the books and records of G-R-C and make a determination as to the proper Percentage Rent due, and their judgment, which shall be rendered within sixty (60) days after the notice of the appointment of the first third party certified public accountant, shall be deemed conclusive. The failure of either U.T. System or G-R-C to so name a qualified third party certified public accountant within ten (10) days of the date the first certified public accountant is named shall be deemed a waiver of the right to name a certified public accountant, and any audit of the books and records of G-R-C shall be performed by the certified public accountants already named.

3.12 If at any time during the term of this Lease Agreement, or any renewal or extension thereof, the Internal Revenue Code is amended or reinterpreted by the Internal Revenue Service or a court so that in the opinion of a tax attorney or tax consultant selected by U.T. System it would no longer be to the advantage of U.T. System to receive Percentage Rent based upon the gross revenues of G-R-C, then U.T. System may request G-R-C to enter into good faith negotiations to adjust the Percentage Rate payable under the terms of this Lease Agreement in a manner that is acceptable to U.T. System. G-R-C shall be obligated to negotiate in good faith to attempt to arrive at an agreement with U.T. System for the change provided for in this paragraph.

4. CONDITION OF THE PREMISES.

4.1 Prior to delivery of possession of the Existing Vineyard Acreage, or any portion thereof, U.T. System will do the following: U.T. System will plant and, for a period until March 1 of the year of third leaf, maintain vineyards suitable for production of wine grapes. U.T. System and G-R-C will agree as to the variety of wine grapes to be planted on any Vineyard Acres not planted at the Effective Date of this Lease Agreement, provided that: (i) if G-R-C requests that a wine grape variety be planted that is subject to a royalty or patent fee associated with the purchase and/or propagation of the vines for such wine grape

variety, U.T. System need not agree to purchase and plant such vines unless G-R-C first shall agree to pay any and all royalty or patent fees arising out of the purchase, planting and/or propagation of such vines; or (ii) if G-R-C requests that a variety of wine grape vines be purchased from a sole source, U.T. System need not agree to purchase and plant such vines unless G-R-C shall first agree that it will pay the difference between the cost of such vines from the sole source and the price that U.T. System could purchase the same or similar vines from the sources that U.T. System has previously purchased from in establishing the vineyards subject to this Lease Agreement. Vineyard plantings will consist of: (i) one hundred sixty (160) Vineyard Acres, more or less, of Tract A; (ii) one hundred sixty (160) Vineyard Acres, more or less, of Tract B; (iii) three hundred twenty (320) Vineyard Acres, more or less, of Tract C; and (iv) three hundred twenty (320) Vineyard Acres, more or less, of Tract D. The specific locations of vineyards planted on each tract shall be determined by U.T. System. U.T. System will, prior to the time possession of any portion of the Existing Vineyard Acreage is transferred, (i) operate and maintain the vineyards in accordance with the Vineyard Guidelines agreed upon by U.T. System and G-R-C, and (ii) construct fencing, access roads, and water wells with connected irrigation system upon the Existing Vineyard Acreage in approximately the locations shown on the Plan of Development to be attached hereto as Exhibit F. U.T. System will maintain said fencing, roads, water wells, and other improvements until possession is transferred to G-R-C in accordance with the terms hereof. All maintenance of vineyards and other improvements shall become the responsibility of G-R-C after the time of transfer of possession.

4.2 On the date of transfer of possession of any portion of the Existing Vineyard Acreage, G-R-C will be entitled to inspect the portion to be transferred. The inspection provided for by this paragraph 4.2 shall be carried out according to Vineyard Parcels. If in any Vineyard Parcel G-R-C's inspector

shall find more than five percent (5%) of the plants to be in a condition other than healthy and productive and if such condition is confirmed by an inspector selected by U.T. System, then such Vineyard Parcel may be rejected by G-R-C and possession thereof will not transfer. In case of a dispute, G-R-C and U.T. System each will, at its own expense, select a qualified third party inspector who will in turn select, at the joint expense of G-R-C and U.T. System, a third qualified third party inspector. The three third party inspectors will then make the inspection required by this paragraph, and their judgment, which shall be rendered within thirty (30) days after the notice of the appointment of the first third party inspector, will be deemed conclusive. The failure of either G-R-C or U.T. System to so name a qualified third party inspector within ten (10) days of the date the first third party inspector is named shall be deemed a waiver of the right to name an inspector, and any inspection required hereunder shall be performed by the inspectors already named. If the inspectors find that more than five percent (5%) of the plants located on a Vineyard Parcel are not healthy and productive, then U.T. System shall be obligated, at its option, to either (i) restore the plants within the Vineyard Parcel to a healthy and productive condition by such means as may be appropriate under the circumstances, including replacement of plants, or (ii) plant an equivalent replacement parcel with new vines and maintain same in a healthy and productive condition until the year of the third leaf and, in either event, tender such original or replacement parcel to G-R-C for acceptance and transfer under this paragraph.

4.3 The procedures for the development and transfer of the Additional Vineyard Acreage pursuant to paragraph 2.3 shall be the same as set forth herein in paragraphs 4.1 and 4.2 for the Existing Vineyard Acreage, except that the Additional Vineyard Acreage shall be developed in tracts of sufficient size to accommodate three hundred and twenty Vineyard Acres and the fencing, access roads, water wells and connecting irrigation system shall be located and constructed according to a Development

Plan adopted by U.T. System during preparation of such tracts for planting.

4.4 G-R-C expressly covenants and agrees that this Lease Agreement and the possession of the Leased Premises is taken subject to the rights of lessees, their contractors and assigns under the terms of any mineral leases, including, without limitation, any oil, gas and other mineral leases, any uranium leases and any sulphur leases, executed and effective as of the date hereof, or which may be executed or effective at any time during the term hereof. Without limiting the foregoing, G-R-C covenants and agrees that G-R-C will provide ingress and egress over the Leased Premises for oil and gas companies and others to whom U.T. System, by conveyance of a mineral interest or otherwise, has granted, or in the future may grant, permission to cross or use the Leased Premises for the purpose of exploration for or production of minerals of any character. Use of the Leased Premises by lessees under mineral leases granted by U.T. System may include the exploration for and the production of minerals, and all operations incident thereto, including the location of drill sites, within the Leased Premises. However, in the event that any such oil, gas and other mining operations shall prevent, and continue to prevent, G-R-C from conducting usual and customary vineyard or winery operations on the particular tract of land thereby affected, U.T. System will, in consultation with G-R-C, develop replacement vineyards upon similar lands designated by U.T. System which are comparable to the damaged lands and easily accessible from the remainder of the Leased Premises, and U.T. System will plant, or cause to be planted, on such land new vineyard acreage equivalent to the portion of the vineyard that has been damaged. In case of a dispute as to whether any such oil, gas and other mining operations of a lessee under a lease granted by U.T. System have prevented, and will continue to prevent, G-R-C from conducting usual and customary vineyard or winery operations on a particular tract, G-R-C and U.T. System each will, at its own expense, select a qualified third party

expert who will in turn select, at the joint expense of G-R-C and U.T. System, a third qualified third party expert and the three third party experts shall make a determination within thirty (30) days after the appointment of the first third party expert as to whether the oil, gas or other mining operations in question have in fact prevented, and will continue to prevent, G-R-C from conducting usual and customary vineyard or winery operations on the tract alleged to be affected. The decision of the experts shall be deemed conclusive. U.T. System further agrees to use its best efforts to recover, through provisions included in leases or by other appropriate means, sufficient compensation from its mineral lessees to compensate U.T. System for the development and planting of such new vineyard acreage and U.T. System and G-R-C for loss of production from the affected vineyard acreage. U.T. System further agrees that it will use its best efforts to see that any oil, gas and mineral operations conducted on such Leased Premises will be conducted with the least possible interference with the operations of G-R-C.

4.5 NOTWITHSTANDING THE FOREGOING OR ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS PROVIDED IN PARAGRAPH 4.2, U.T. SYSTEM MAKES NO WARRANTY OF ANY KIND, EXPRESSED OR IMPLIED, WITH RESPECT TO THE CONDITION OF THE VINEYARDS OR THE LEASED PREMISES OR ANY IMPROVEMENT LOCATED ON THE LEASED PREMISES AT THE TIME OF EXECUTION HEREOF OR AT THE TIME OF TRANSFER OF POSSESSION, INCLUDING, WITHOUT LIMITATION, U.T. SYSTEM MAKES NO WARRANTY AS TO THE HABITABILITY OR FITNESS OF THE VINEYARDS OR THE LEASED PREMISES OR ANY IMPROVEMENT LOCATED THEREON.

5. USE.

5.1 G-R-C shall use the Existing Vineyard Acreage and the Additional Vineyard Acreage solely for the purpose of operating a vineyard for the production of wine grapes suitable for wine production and for purposes incident thereto. G-R-C shall use the Winery Acreage and the Warehouse/Office Building solely for purposes incident to the operation of a vineyard for

the production of wine grapes, the operation of a winery or wineries suitable for producing wine from such grapes, and at the option of G-R-C for the construction and operation of a tasting room or rooms. G-R-C shall obtain the prior written consent of U.T. System before (i) making any structural modification of any existing structure on the Leased Premises; or (ii) constructing or moving onto the Leased Premises any building, structure or other improvement including, without limitation, any wineries, tasting rooms, warehouses, housing facilities, septic systems, antennas, fences and roads. Prior to commencement of construction, G-R-C shall submit to U.T. System for its written approval the plans and specifications of the Winery, including all equipment therein, and all buildings or improvements to be constructed or moved onto the Leased Premises. U.T. System shall within thirty (30) days submit to G-R-C its objections to such plans and specifications with the reasons therefor. Any consent of U.T. System which is to be obtained under the terms of this paragraph shall not be unreasonably withheld.

5.2 G-R-C covenants and agrees, inter alia, that during the entire term of this Lease Agreement, or any renewal or extension thereof:

(a) G-R-C will keep the Leased Premises in its possession in a reasonably clean, sanitary, and well maintained condition;

(b) Without limiting the foregoing, G-R-C will properly dispose of waste by-products of any winery, vineyard, or associated operations conducted on the Leased Premises and will properly dispose of human waste in a manner which (i) conforms with all state and county health regulations, (ii) will not have a detrimental effect on the water supply, and (iii) conforms with sound land and water management practices, and with sound business practices, including those practiced by producers within the wine producing industry;

(c) G-R-C will comply with all applicable laws, ordinances, covenants, rules and regulations relating to the use, condition or occupancy of the Leased Premises, including, without limitation, any rules or regulations of the Texas Alcoholic Beverage Commission and any federal authorities regulating the production and distribution of alcoholic beverages;

(d) Within ninety (90) days after execution of this Lease Agreement, Vineyard Guidelines will be proposed by technical personnel of G-R-C after consultation with technical personnel of U.T. System. Upon approval of such Guidelines by U.T. System, G-R-C will thereafter comply with same in the operation and maintenance of the vineyards. The Vineyard Guidelines may from time to time be amended by U.T. System and G-R-C, and G-R-C shall be responsible for compliance with the Vineyard Guidelines as amended;

(e) G-R-C will be responsible for processing and disposing of all wine grapes grown on the Leased Premises and will use its best efforts to dispose of the products produced from such wine grapes in a manner which maximizes the gross revenue derived therefrom; and

(f) In operating the vineyard and winery or wineries, G-R-C will act in accordance with usual and customary practices observed in the vineyard and wine producing industry and will use its best efforts to keep the vineyards and winery or wineries fully productive.

6. CONSTRUCTION OF WINERY.

G-R-C shall construct and operate, at its sole cost and expense, one or more wineries of sufficient capacity to process all of the wine grape production from all vineyards located on the Leased Premises. The capacity of the winery or wineries may, at G-R-C's option, be increased in stages, but by July 1, 1995, the winery or wineries shall be capable of producing at least 1,400,000 gallons of wine each year, or such additional capacity as may be necessary to process the wine grapes produced on the Leased Premises. Sufficient portions of the winery or wineries shall be constructed and shall be completed in time to process the 1984 wine grape production from the Leased Premises.

7. MAINTENANCE.

7.1 From and after transfer of possession of each portion of the Existing Vineyard Acreage and any Additional Vineyard Acreage, G-R-C shall be obligated to maintain the vineyards in accordance with the standards set forth in the Vineyard Guidelines. Except as otherwise provided in paragraphs 4.2, 4.4, 7.5, and 7.6 hereof, G-R-C shall at its sole expense replant all vines that require replanting under customary and usual vineyard practices in order to maintain the vines in each

Vineyard Parcel in the condition specified as acceptable for transfer under paragraph 4.2.

7.2 G-R-C shall be responsible for maintenance of the winery or wineries and all equipment used in the operation of the wineries in accordance with customary and usual practices in the wine producing industry.

7.3 After possession is transferred as to any given tract in accordance with the terms hereof, G-R-C shall be obligated to repair and maintain all buildings, fences, trellis wires and poles, water wells, irrigation equipment, roads and other equipment and improvements on those portions of the Leased Premises for which possession has been transferred. Notwithstanding the foregoing, G-R-C shall only be responsible for maintenance of those portions of the Warehouse/Office Building which are in its actual or constructive possession.

7.4 U.T. System agrees that, prior to the time that possession of any tract of the Initial Acreage or the Additional Vineyard Acreage is transferred to G-R-C, U.T. System will, at its sole cost and expense, drill and equip wells and install necessary drip irrigation equipment determined by U.T. System to be capable of supplying and distributing a volume of water adequate to support the vineyard operations located on the Initial Acreage and Additional Vineyard Acreage. After transfer of possession of each vineyard tract, G-R-C shall be solely responsible for (i) costs associated with pumping or otherwise transporting the water; (ii) costs of maintaining and, when necessary, re-equipping, repairing, or re-drilling existing water wells, and drilling and equipping replacement water wells; and (iii) costs of maintenance and the repair and replacement of the drip irrigation system or the construction or reconstruction of other water gathering and transporting facilities. Initial costs associated with drilling and casing the water well or wells for purposes of operating the On-Site Winery shall be borne by U.T. System, and costs associated

with operating, equipping, and maintaining the water well or wells, re-drilling and equipping of such wells, or drilling and equipping of necessary replacement wells for purposes of operating the On-Site Winery shall be borne by G-R-C. In carrying out its obligations under this paragraph, U.T. System shall case and equip the wells and construct the irrigation system with equipment and material of a quality at least equal to that currently installed and in use upon the Initial Vineyard Acreage at the Effective Date of this Lease Agreement.

7.5 It is understood by the parties that the vineyards planted by U.T. System are reasonably expected to remain commercially productive for approximately thirty (30) years from the time of planting. When any Vineyard Parcel of a variety within a tract of the vineyards ceases to be commercially productive because of age, G-R-C shall replant the unproductive Vineyard Parcel with new plants of either the same variety or a different variety chosen after consultation with U.T. System. G-R-C shall be entitled to recover the costs of such replanting from U.T. System by withholding no more than twenty percent (20%) of the monthly Percentage Rent payments due to U.T. System until the replanting costs have been recovered. G-R-C shall maintain records of the tons per acre produced by each variety according to the Vineyard Parcels within a tract of the vineyards. The average annual production for a Vineyard Parcel of a variety within a tract over the period beginning with the sixth and through the fifteenth leaf shall be the average production from that variety for that Vineyard Parcel. For the purposes of this paragraph the determination of when a Vineyard Parcel of a variety within a tract of vineyard ceases to be commercially productive shall be made as follows: at any time after the fifteenth leaf when there is either a progressive decline in the average production from plants of the same age for a particular variety within a tract for three (3) consecutive years with a cumulative total decline of at least fifteen percent (15%), or when the production from plants of the same age for a particular variety within a tract is thirty

percent (30%) below the average production for that age and variety within a tract each year for two (2) consecutive years, the parties will, at their own expense, each select an expert to determine whether the plants of the same age for a variety within a tract has ceased to be commercially productive due to age. If the two experts cannot agree, then those experts shall select, at the joint expense of the parties, a third expert who shall make the determination.

7.6 In the event of death or destruction of twenty percent (20%) or more of the vines resulting from a risk that could not be insured through normal, customary, and commercially available insurance, G-R-C shall replace the dead or destroyed vines and, provided that such death or destruction is not due to an event of default on the part of G-R-C, (1) if the damage or destruction occurs within ten (10) years of the signing of this Lease Agreement or, if renewed pursuant to paragraph 2.6, during years fifty-one through sixty, then G-R-C shall be entitled to reimbursement from U.T. System for one hundred percent (100%) of the reasonable costs incurred in replacing the dead or destroyed vines, (2) if the death or destruction occurs with the eleventh through the twentieth years after the signing of this Lease Agreement or, if renewed pursuant to paragraph 2.6, during years forty-one through fifty, then G-R-C shall be entitled to reimbursement from U.T. System for fifty percent (50%) of the reasonable costs incurred in replacing the dead or destroyed vines, and (3) if the death or destruction occurs within the twenty-first through the thirtieth years after the signing of this Lease Agreement or, if renewed pursuant to paragraph 2.6, during years thirty-one through forty, G-R-C will bear the entire replacement cost without contribution from U.T. System. The reimbursement from U.T. System to G-R-C shall be accomplished by G-R-C withholding a percentage of the monthly Percentage Rent payments due to U.T. System until the amount of reimbursement to which G-R-C is entitled under this paragraph has been recovered. For purposes of any reimbursement due to G-R-C from U.T. System

under this paragraph, the percentage to be withheld by G-R-C from the monthly Percentage Rent due to U.T. System shall not exceed fifty percent (50%) during the first ten years after the signing of this Lease Agreement or thirty percent (30%) during any other period for which G-R-C is entitled to reimbursement. In the event of the death or destruction of less than twenty percent (20%) of the vines, whether from a cause that is insured or uninsured, G-R-C shall, at its sole expense, replace such dead or destroyed vines.

8. UTILITIES.

All gas, water, electricity, telephone, sewer, trash removal and other utility connections and services required by G-R-C on those portions of the Leased Premises for which possession has been transferred to G-R-C are and shall be the sole responsibility of G-R-C. With respect to the Warehouse/Office Building and other portions of the Leased Premises during the periods in which possession is being shared by U.T. System and G-R-C, utilities shall be separately metered or the expenses associated therewith shall be allocated in proportion to their relative use. G-R-C agrees to indemnify U.T. System and hold it harmless from any cost, expense or liability in any way relating to utility services supplied to any portion of the Leased Premises during the period of G-R-C's possession.

9. TAXES.

9.1 All ad valorem taxes on real estate located on the Leased Premises paid with funds of the State of Texas in accordance with Article 7, §16(a) of the Constitution of the State of Texas shall continue to be paid by the State of Texas. If the Constitution or other laws of the State of Texas are modified or if for any other reason U.T. System becomes directly liable for ad valorem taxes on all or any portion of the Leased Premises, G-R-C agrees to pay the taxes. In any event, G-R-C agrees to pay any personal property ad valorem taxes which may be levied as a result of the use or occupancy of the Leased Premises by G-R-C including,

without limitation, any ad valorem taxes related to vines in the vineyards located, or to be located, upon portions of the Leased Premises.

9.2 Except as expressly provided in paragraph 9.1, G-R-C agrees to pay in full all taxes, assessments, levies and governmental charges of any kind and character which may be lawfully assessed or charged against the Leased Premises or any property located thereon, whether the same shall be assessed, levied or charged by the United States Government, or by the State Government, or by any authority or subdivision thereof.

10. INSURANCE.

10.1 During the term of this Lease Agreement, or any extension or renewal thereof, G-R-C, at its sole cost and expense, shall keep all buildings, equipment and improvements located on the Leased Premises, including all alterations, additions and improvements, and all inventory, including raw materials, work in process and finished products, whether located on the Leased Premises or elsewhere, insured for the mutual benefit of G-R-C and U.T. System against loss or damage by fire, theft, and all standard extended coverage. U.T. System shall be a named insured on any insurance required to be carried by G-R-C by this paragraph 10, and also on any other insurance carried by G-R-C on the Leased Premises or any improvement thereon. Said insurance policies shall provide for appropriate deductibles and shall be written by such companies as G-R-C may elect, subject to approval by U.T. System. The coverages shall be in amounts equal to the fair replacement value or other appropriate insurable value thereof, to be agreed upon by U.T. System and G-R-C. G-R-C's principal lender or lenders may be an additional named insured under the terms of any insurance policy when required by such lender or lenders.

10.2 In addition, during the term hereof, or any extension or renewal of this Lease Agreement, G-R-C shall provide and keep in force Worker's Compensation Insurance as may be

required by law and shall provide and keep in force for the mutual benefit of U.T. System and G-R-C general public liability insurance against claims for personal injury, death, or property damage occurring in, on or about the Leased Premises, or premises immediately adjacent to the Leased Premises; against claims arising out of the transportation of workers by G-R-C, or its contractors, to or from the Leased Premises; and against claims for personal injury, death, or property damage resulting from the consumption or use of any product produced and/or sold by G-R-C pursuant to this Lease Agreement. Such policy or policies of insurance shall be purchased from companies authorized to do business in the State of Texas, and the limits of liability shall be in such amount or amounts as shall have been agreed to by U.T. System, which agreement shall not be unreasonably withheld. The limits of liability shall be subject to change from time to time as circumstances may warrant.

10.3 All premiums and charges for all policies of insurance shall be paid by G-R-C, and if G-R-C shall fail to make any such payment when due, or if G-R-C shall fail to carry any such policy, then U.T. System may, but shall not be obligated to, make such payment or carry such policy. The amount paid by U.T. System, with interest thereon as provided in paragraph 25, shall be repaid to U.T. System by G-R-C on demand. All amounts due to U.T. System under the terms of this paragraph 10.3, together with interest thereon, shall be considered additional Rent payable hereunder.

10.4 Fifteen (15) days prior to the expiration of each such policy, G-R-C shall promptly pay the premiums for renewal insurance and promptly thereafter deliver to U.T. System a certificate of insurance (showing U.T. System as an insured loss payee) and duplicate receipt evidencing payment thereof.

10.5 G-R-C shall not violate, or permit to be violated, any of the conditions or provisions of any such policies, and

G-R-C shall so perform and satisfy the requirements of the companies writing such policies that at all times companies of good standing satisfactory to U.T. System shall be willing to write or continue such insurance.

10.6 G-R-C, U.T. System and any lender named as an additional named insured in accordance with paragraph 10.1 shall cooperate with each other in connection with the collection of any insurance monies that may be due in the event of loss.

10.7 During the term of this lease, G-R-C, at its sole cost and expense, shall insure the vineyards against all risks that can be insured through normal, customary, and commercially available insurance.

10.8 In the event that all or any portion of the Warehouse/Office Building, the winery or wineries, the vineyards or any other building or improvement now existing, or hereafter constructed or planted on the Leased Premises, or any winery building or facility, wherever located, the principal purpose of which is to process or store wine produced from the Leased Premises, is damaged by fire or any other casualty, G-R-C shall within ninety (90) days from the date of such damage or destruction, commence the repair, reconstruction or replacement of the damaged or destroyed building, improvement, or vineyard and prosecute the same with reasonable diligence so that the building, improvement, or vineyard shall be restored to substantially the condition that it was in prior to the happening of the casualty. Provided that G-R-C commences such repair, reconstruction, or replacement within ninety (90) days and G-R-C is not then in default hereunder, U.T. System agrees to turn over the proceeds of any applicable insurance policy or policies to G-R-C for the purpose of applying such proceeds to the cost of repairing, restoring, reconstructing, or replacing said premises. The amount of any insurance recovery for damage to the vineyards shall be applied to restoration of the vines destroyed. If for any reason

G-R-C shall so perform and satisfy the requirements of the companies writing such policies that at all times companies of good standing satisfactory to U.T. System shall be willing to write or continue such insurance.

10.6 G-R-C, U.T. System and any lender named as an additional named insured in accordance with paragraph 10.1 shall cooperate with each other in connection with the collection of any insurance monies that may be due in the event of loss.

10.7 During the term of this lease, G-R-C, at its sole cost and expense, shall insure the vineyards against all risks that can be insured through normal, customary, and commercially available insurance.

10.8 In the event that all or any portion of the Warehouse/Office Building, the winery or wineries, the vineyards or any other building or improvement now existing, or hereafter constructed or planted on the Leased Premises, or any winery building or facility, wherever located, the principal purpose of which is to process or store wine produced from the Leased Premises, is damaged by fire or any other casualty, G-R-C shall within ninety (90) days from the date of such damage or destruction, commence the repair, reconstruction or replacement of the damaged or destroyed building, improvement, or vineyard and prosecute the same with reasonable diligence so that the building, improvement, or vineyard shall be restored to substantially the condition that it was in prior to the happening of the casualty. Provided that G-R-C commences such repair, reconstruction, or replacement within ninety (90) days and G-R-C is not then in default hereunder, U.T. System agrees to turn over the proceeds of any applicable insurance policy or policies to G-R-C for the purpose of applying such proceeds to the cost of repairing, restoring, reconstructing, or replacing said premises. The amount of any insurance recovery for damage to the vineyards shall be applied to restoration of the vines destroyed. If for any reason

said insurance recovery is not used to restore the vines destroyed, then all such insurance proceeds received or receivable due to vine or vineyard destruction shall become the sole property of U.T. System.

10.9 Any insurance recovery for damage to or destruction of any property, product, or merchandise, the sale of which would constitute gross revenue under paragraph 3.1, shall likewise be considered gross revenue for purposes of computing the amount of Rent payable under the terms of this Lease Agreement.

11. PERMITS AND LICENSES.

G-R-C shall obtain all necessary permits and licenses from the Texas Alcoholic Beverage Commission, or its successors, and from the federal authorities responsible for overseeing the production and distribution of alcoholic beverages, and G-R-C shall obtain all other necessary regulatory permits or licenses required by any state or federal authority for G-R-C's use and occupancy of the Leased Premises as contemplated by the terms of this Lease Agreement.

12. LESSOR'S RIGHT OF ACCESS.

12.1 U.T. System will have the right, but not the obligation, to enter the Leased Premises at all reasonable hours, for any reasonable business purpose or purposes, including, without limitation, the following: (i) inspecting or making repairs; (ii) verification of compliance with the standards set forth in the Vineyard Guidelines, compliance with which is required by paragraphs 5.2 and 7 of this Lease Agreement; (iii) extermination of insects; (iv) preventive maintenance; (v) leaving notices; (vi) retrieving property owned by U.T. System; (vii) emergency safety or fire inspections; or (viii) exercising a landlord's lien. U.T. System shall have the right to enter under the terms of this paragraph, whether G-R-C is present and without the requirement of prior notification, to determine if corrective steps are required to be made by G-R-C pursuant to the terms

hereof. U.T. System may demand that G-R-C take necessary corrective steps forthwith, and if G-R-C refuses or neglects to commence such corrective steps and complete the same within a reasonable time under the circumstances, then U.T. System may, but shall not be obligated to, take such corrective steps or cause such corrective steps to be made and shall not be responsible to G-R-C for any loss or damage that may accrue by reason thereof. If U.T. System takes such corrective steps or causes such corrective steps to be taken, G-R-C shall on demand by U.T. System, pay to U.T. System the cost and expense thereof, together with interest thereon, computed in accordance with paragraph 25. If U.T. System fails to take such corrective steps for whatever reason, G-R-C shall remain liable for any damage caused by the failure to take such corrective steps.

12.2 U.T. System shall also have the right to enter upon the Leased Premises at all reasonable hours for the purpose of bringing visitors onto the Leased Premises and conducting tours of the Leased Premises. Any entry under this paragraph 12.2 shall only be made after U.T. System gives G-R-C reasonable prior notice, written or oral, of such intent to bring visitors upon the Leased Premises and G-R-C gives its consent to such visit, which consent shall not be unreasonably withheld.

13. LESSEE'S RIGHT OF ACCESS

Prior to the transfer of possession of the Existing Vineyard Acreage and the Additional Vineyard Acreage pursuant to paragraph 2.5 above, G-R-C will have the right, but not the obligation, to enter the Existing Vineyard Acreage and the Additional Vineyard Acreage at all reasonable hours, for any reasonable business purpose or purposes, including, without limitation, the following: (i) inspecting or making repairs; (ii) verification of compliance with the standards set forth in the Vineyard Guidelines, compliance with which is required by paragraph 4.1 of this Lease Agreement; (iii) extermination of insects; (iv) preventive maintenance; (v) leaving notices; or

(vi) emergency safety or fire inspections. G-R-C shall have the right to enter under the terms of this paragraph, whether U.T. System is present and without the requirement of prior notification, to determine if corrective steps are required to be taken by U.T. System pursuant to the terms hereof. G-R-C may demand that U.T. System take necessary corrective steps forthwith, and if U.T. System refuses or neglects to commence such corrective steps and complete the same within a reasonable time under the circumstances, then G-R-C may, but shall not be obligated to, take such corrective steps or cause such corrective steps to be taken and shall not be responsible to U.T. System for any loss or damage that may accrue by reason thereof. If G-R-C takes such corrective steps or causes such corrective steps to be taken, U.T. System shall on demand by G-R-C, pay to G-R-C the cost or expense thereof, together with interest thereon, computed in accordance with paragraph 25. If G-R-C fails to take such corrective steps, for whatever reason, U.T. System shall remain liable for any damage caused by the failure to take such corrective steps.

14. LIABILITY.

14.1 U.T. System shall not be liable to G-R-C, or the employees, agents, servants, invitees or visitors of G-R-C, on or about the Leased Premises for any damage or injury to persons or property caused (i) by the condition of the Leased Premises, (ii) by fire or destruction of the Leased Premises or any portion thereof, (iii) by any intentional or negligent act or omission of G-R-C, or G-R-C's employees, agents, servants, invitees or visitors, or (iv) by theft, vandalism, water, rain, ice, snow, smoke, explosion, sonic booms, interruption of utilities, acts of others holding interest under U.T. System, acts of God, or other causes whatsoever.

14.2 If U.T. System's employees render services at the request and for the benefit of G-R-C, such employees shall be deemed agents of G-R-C (regardless of whether payment is arranged for such services), and G-R-C agrees to indemnify and hold U.T.

System harmless from any liability resulting from such service. Obligations of U.T. System as landlord under the terms of this Lease Agreement shall in no event constitute or be considered the rendering of services to G-R-C.

14.3 G-R-C agrees that it will indemnify and hold harmless U.T. System from and against all fines, suits, claims, demands and causes of action of every kind and character by reason of any breach, violation or non-performance of any term, provision, covenant, agreement or condition on the part of G-R-C hereunder. Additionally, G-R-C hereby covenants and agrees to indemnify and hold harmless U.T. System from and against all claims, causes of action, damages, liability and expenses asserted against U.T. System due to personal injury, including death, to persons or damage to property of any person as a result of the use and occupancy of the Leased Premises by G-R-C, its agents, employees, contractors and invitees, or when any such injury or damage is the result, proximate or remote, of the violation by G-R-C, or any of its agents, employees, contractors and invitees of any law, ordinance or governmental order of any kind. Furthermore, G-R-C agrees that it will reimburse U.T. System for any and all costs (including, but not limited to, attorney's fees) incurred in defending any of the foregoing.

14.4 G-R-C agrees to reimburse U.T. System promptly for any loss, property damage, or cost of repairs or service caused by the negligence or improper use of the Leased Premises by G-R-C, its agents, employees, contractors or invitees. In addition to the transfer of ownership of permanent improvements provided for in paragraph 16.1, after occupancy by G-R-C, G-R-C shall be responsible for returning the Leased Premises to substantially the same condition it was in at the time G-R-C entered into possession of the Leased Premises reasonable wear and tear excepted, and G-R-C agrees to reimburse U.T. System for any damages incurred as a result of a failure by G-R-C to return the Leased Premises to said condition. Such reimbursement is due when U.T. System's

representative makes demand. U.T. System's failure or delay in demanding damage reimbursements or other sums due to U.T. System under the terms of this paragraph 14 shall not be deemed a waiver, and U.T. System may demand the same at any time.

15. ASSIGNMENT OR SUBLETTING.

15.1 G-R-C may sublease, assign, or mortgage the whole or any part or parts of this Lease Agreement or the leasehold estate only with the written consent of U.T. System. Such consent by U.T. System shall not be unreasonably withheld.

15.2 U.T. System may assign the whole, or any part or parts of, its obligations and rights with respect to the Additional Vineyard Acreage only with the written consent of G-R-C. Such consent by G-R-C shall not be unreasonably withheld.

15.3 Contracts by U.T. System or G-R-C with third parties to perform services or install equipment and materials related to the performance of their obligations under this Lease Agreement shall not be considered an assignment within the meaning of this paragraph.

16. EXPIRATION OR TERMINATION OF LEASE AGREEMENT.

16.1 In the event of the early termination of this Lease Agreement, if U.T. System is not then in default under the terms hereof, or upon the expiration of the term of this Lease Agreement, all permanent improvements on the Leased Premises shall become the property of U.T. System, subject only to such liens and encumbrances as are held by lenders with whom U.T. System has entered into agreements in accordance with paragraph 40.2.

16.2 If G-R-C shall hold over after the expiration of the term of this Lease Agreement, without the written consent of U.T. System, such holding over shall be a mere monthly tenancy at sufferance and may be terminated at any time upon thirty (30) days' written notice by U.T. System to G-R-C. During such hold

over period, the Rent payable under the terms of this Lease Agreement shall be increased to one hundred fifty percent (150%) of the amount payable in accordance with paragraph 3 above.

17. LANDLORD-TENANT RELATION.

The relation created by this Lease Agreement is that of landlord and tenant. Neither the provisions for Percentage Rent nor any other provision of this Lease Agreement shall be construed in such a way as to constitute U.T. System and G-R-C as joint venturers or co-partners or to make G-R-C the agent of U.T. System or to make U.T. System liable for the debts of G-R-C. The provisions of this instrument relating to Percentage Rent, if any, payable by G-R-C hereunder are included solely for the purpose of providing for the payment of rental in excess of the Base Rent, and providing for a method whereby such additional rental is to be measured, ascertained and paid.

18. EVENTS OF DEFAULT.

18.1 Each of the following events shall be deemed a default by G-R-C:

18.1.1 The failure of G-R-C to pay installments of Rent or other sums when due hereunder after the expiration of fifteen (15) days following written notice of failure to pay the same when due; provided, however, that interest, calculated in accordance with paragraph 25, shall commence to run on any sum or sums not paid when due as of the date they become due.

18.1.2 The inability of G-R-C to pay its debts as they become due, or bankruptcy of G-R-C, or the filing of a petition against G-R-C for adjudication as a bankrupt, if not dismissed within 120 days, or the filing by G-R-C of a petition for voluntary bankruptcy, or for reorganization or arrangement under the Federal Bankruptcy Code as now or hereafter amended or supplemented;

18.1.3 Final action terminating the right of G-R-C to do business under the laws of the State of Texas whether instituted by or against G-R-C, or the appointment of a receiver or trustee for all or a portion of the property of G-R-C, except with the express written consent of U.T. System;

18.1.4 The making by G-R-C of an assignment for the benefit of creditors;

18.1.5 Failure to substantially comply with standards imposed on G-R-C by the terms of the Vineyard Guidelines, after Vineyard Guidelines have been proposed and approved as provided in paragraph 5.2(d), and as the same may from time to time be amended, or a failure to comply with the standards imposed by the terms of this Lease Agreement, provided that G-R-C shall not be considered in default for failure to substantially comply with the Vineyard Guidelines, if within ten (10) days after G-R-C knows, or should have known, of such failure, whether through knowledge of its own agents or employees or by either oral or written notice from U.T. System, G-R-C shall bring its activities into compliance with such Vineyard Guidelines, and within thirty (30) days after such knowledge or notice, or such shorter period as may be appropriate under the circumstances then existing, G-R-C, at its sole expense, shall undertake to repair and correct, and diligently pursue such repair or corrective action to completion, any and all damage, whether to improvements, equipment, or vines, including the replacement of any damaged or destroyed vines, that proximately resulted from the failure of G-R-C to follow the Vineyard Guidelines. Provided further, that any loss of production attributable to the failure of G-R-C to follow the Vineyard Guidelines shall not be considered a loss of production for purposes of paragraphs 3.2, 7.5, or 7.6, and for purposes of arriving at the Percentage Rent payable to U.T. System, the affected Vineyard Parcel or Vineyard Acres shall be considered to have produced the expected tonnage for vines of that age and variety;

18.1.6 Failure to complete the winery or wineries with the capacity required hereunder within the time limits herein described, unless G-R-C shall have obtained a written extension of time for the scheduled completion of such winery or wineries from U.T. System and provided that G-R-C, at its sole expense, shall provide alternate equipment and facilities adequate for processing and fermenting any wine grape production from the Leased Premises that is then in excess of the capacity of G-R-C's existing winery or wineries, and G-R-C shall be obligated to sell the wine so produced on the same basis as if such wine had been produced in G-R-C's winery or wineries;

18.1.7 Failure to comply with any governmental rule or regulation or to obtain and retain all necessary licenses and permits required by state or federal law for the performance of the obligations of G-R-C under the terms of this Lease Agreement; provided that G-R-C shall not be considered in default during such time as G-R-C shall diligently pursue to final determination, through available administrative and/or judicial forums, any good faith contention by G-R-C that such rule or regulation is not applicable to G-R-C or that G-R-C is not required to obtain the license or permit in question;

18.1.8 Any assignment or subletting by G-R-C in violation of paragraph 15.1 of this Lease Agreement;

18.1.9 Any action taken by any of G-R-C's creditors that results in the foreclosure on any property of G-R-C located on the Leased Premises or used for the sale or promotion of the sale of wine produced from the Leased Premises or that results in a declaration that G-R-C is in default under the terms of any obligation of G-R-C to said creditors;

18.1.10 The merger or consolidation with another corporation or entity, or any change in the legal or beneficial ownership of the outstanding shares (including both voting and

nonvoting shares) of stock of G-R-C where the effect of such merger, consolidation, or change in ownership of shares would deprive or divest those principals in G-R-C, as of the date of the execution of this Lease Agreement, of the right to operate and manage the Leased Premises under this Lease Agreement, without the express written approval by U.T. System of those persons, corporations, partnerships, or other legal entities that would assume such operating and management responsibilities, which approval shall not be unreasonably withheld;

18.1.11 The discovery by U.T. System that any statement, representation, or warranty in this Lease Agreement or otherwise made pursuant to or in performance of this Lease Agreement is false, misleading, or erroneous in any material respect;

18.1.12 During the term of this Lease Agreement, the sale, lease, assignment, transfer, or other disposition of the assets belonging to G-R-C, except obsolete or worn-out property, other than in the ordinary course of business;

18.1.13 The incurring of any indebtedness in the name of G-R-C under circumstances where the proceeds of such indebtedness are not received by G-R-C;

18.1.14 The failure of G-R-C to comply with paragraph 40.3, where the provisions thereof are applicable to any document executed by G-R-C, provided that G-R-C shall not be considered in default if G-R-C has mailed a copy of such document to U.T. System and, upon notice from U.T. System that such document does not comply with paragraph 40.3, G-R-C shall have cured such default within thirty (30) days of such notice; and

18.1.15 G-R-C remaining in default for failing to perform any of the other covenants performable by G-R-C hereunder after the expiration of thirty (30) days following written notice of such violation or failure. The foregoing shall not be

considered an event of default if G-R-C has begun to cure such default at the expiration of thirty (30) days after written notice of such default from U.T. System, but only for so long as G-R-C is diligently pursuing such cure to substantial completion.

18.2 Each of the following events shall be deemed a default by U.T. System:

18.2.1 The failure of U.T. System to plant and maintain, pursuant to paragraphs 4.1, 4.2, and 4.3 hereof, and to transfer possession pursuant to paragraph 2.5 of the Existing Vineyard Acreage and the Additional Vineyard Acreage subject to the provisions of paragraph 2.3. The foregoing shall not be considered an event of default if U.T. System has begun to cure such default at the expiration of thirty (30) days after written notice of such default from G-R-C, but only for so long as U.T. System is diligently pursuing such cure to substantial completion;

18.2.2 The lease of any Permanent University Fund land in violation of paragraph 27.1;

18.2.3 Failure of U.T. System, in the performance of its obligations with regard to the Existing Vineyard Acreage and any Additional Vineyard Acreage, to substantially comply with standards imposed on U.T. System by the terms of the Vineyard Guidelines, after Vineyard Guidelines have been proposed and approved as provided in paragraph 5.2(d), and as the same may from time to time be amended, or the failure to comply with the standards imposed by the terms of this Lease Agreement. The foregoing shall not be considered an event of default if U.T. System has begun to cure such default at the expiration of thirty (30) days after written notice, but only for so long as U.T. System is diligently pursuing such cure to substantial completion;

18.2.4 The discovery by G-R-C that any statement or representation in this Lease Agreement or otherwise made pursuant

to or in performance of this Lease Agreement is false, misleading, or erroneous in any material respect;

18.2.5 Any assignment by U.T. System of its rights or obligations under this Lease Agreement in violation of paragraph 15.2; and

18.2.6 U.T. System remaining in default for failing to perform any of the other covenants and obligations performable by U.T. System hereunder after the expiration of thirty (30) days following written notice of such violation or failure. The foregoing shall not be considered an event of default if U.T. System has begun to cure such default at the expiration of thirty (30) days after written notice, but only for so long as U.T. System is diligently pursuing such cure to substantial completion.

19. REMEDIES ON DEFAULT.

19.1 Subject to the provisions of paragraphs 40.2 and 40.3, upon the occurrence of any event of default by G-R-C for which no right of cure has been provided or upon the failure of G-R-C to cure an event of default within the time provided herein for such cure to be accomplished, U.T. System may, in addition to any other remedy or right given hereunder or by law, immediately, without judicial process, reenter the premises, by summary proceedings or otherwise, and take possession of said premises and remove all persons and property therefrom. U.T. System may elect to either cancel this Lease Agreement or relet the premises as agent for G-R-C, and receive the Rent therefor, applying the same first to the payment of such expenses as U.T. System may be put to in entering and reletting and then to the payment of the Rent payable by G-R-C under this Lease Agreement and the fulfillment of G-R-C's covenants and obligations hereunder; the balance, if any, shall be paid to G-R-C. However, in the event there is a deficit, G-R-C shall remain liable for the payment thereof, together with interest calculated pursuant to paragraph 25. U.T. System may

elect to alter locks or other security devices at the Leased Premises.

19.2 In the event U.T. System elects to terminate this Lease Agreement by reason of an event of default, then notwithstanding such termination, G-R-C shall be liable for and shall pay to U.T. System at Austin, Travis County, Texas, the sum of all Rent and other indebtedness accrued to the date of such termination, plus, as damages, an amount equal to the difference between (i) the total Rent (Base Rent and Percentage Rent) required to be paid by G-R-C to U.T. System until the date of expiration of this Lease Agreement had there been no event of default and (ii) the then present value of the fair rental value of the Leased Premises for such period. In the event U.T. System elects to repossess the Leased Premises without terminating the Lease Agreement, then G-R-C shall be liable and shall pay to U.T. System all Rent and other indebtedness accrued to the date of such repossession, plus Rent required to be paid by G-R-C to U.T. System until the date of expiration of the lease term had there been no event of default, diminished by any net sums thereafter received by U.T. System through reletting the Leased Premises during said period, after deducting expenses incurred by U.T. System. Actions to collect amounts due from G-R-C as provided in this paragraph may be brought from time to time, on one or more occasions, without the necessity of waiting until the expiration of the lease term. U.T. System shall use its best efforts to relet or attempt to relet the Leased Premises, or any portion thereof, and to collect rental after reletting. In the event of reletting U.T. System may relet the whole or any portion of the Leased Premises for any period, to any tenant, for any use and purpose.

19.3 For purposes of assessing damages to U.T. System as a result of a default by G-R-C hereunder, in determining the Rent which would be due and payable by G-R-C to U.T. System hereunder, subsequent to such default, the annual Rent for each year of the

unexpired term shall be equal to the average annual Rent paid or payable by G-R-C during (i) the period from January 1, 1988 until the time of default, if such period is less than three (3) full calendar years; or (ii) the preceding three (3) full calendar years. Such damages shall be offset by any rental collected by U.T. System after reletting.

19.4 Pursuing any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any of the remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any Rent due to U.T. System hereunder or of any damages accruing to U.T. System by reason of the violation of any of the terms, provisions and covenants herein contained. Upon the occurrence of any event of default by G-R-C, forbearance by U.T. System to enforce one or more of the remedies herein provided or any of the remedies provided by law shall not be deemed to constitute a waiver of such default.

19.5 In the event that U.T. System shall have taken possession of the Leased Premises pursuant to the authority herein granted: (i) subject only to existing mortgages, liens, and security interests made in compliance with paragraphs 40.2 or 40.3, U.T. System shall have the right to keep in place and use all of the furniture, fixtures and equipment at the Leased Premises, including that which is owned by or leased to G-R-C, at all times prior to any foreclosure thereon by U.T. System or repossession thereof by any lessor thereof or third party having a lien thereon; (ii) U.T. System shall also have the right to remove from the Leased Premises (without the necessity of obtaining a distress warrant, writ of sequestration or other legal process) all or any portion of such furniture, fixtures, equipment and other property located thereon and place the same in storage at any premises within Pecos County, Texas; and in such event G-R-C and any mortgagee, lienor, or security interest holder shall be liable to U.T. System for costs incurred by U.T. System in

connection with such removal and storage and shall indemnify and hold U.T. System harmless from all loss, damage, cost, expense and liability in connection with such removal and storage; and (iii) U.T. System shall also have the right to relinquish possession of all or any portion of such furniture, fixtures, equipment and other property to any person ("Claimant") claiming to be entitled to possession thereof who presents to U.T. System a copy of any instrument represented to U.T. System by Claimant to have been executed by G-R-C granting Claimant the right under various circumstances to take possession of such furniture, fixtures, equipment or other property, without the necessity on the part of U.T. System to inquire into the authenticity of said instrument copy or G-R-C's signature thereon and without the necessity of U.T. System making any investigation or inquiry as to the validity of the factual or legal basis upon which Claimant purports to act. G-R-C agrees to indemnify and hold U.T. System harmless from all cost, expense, loss, damage and liability incident to U.T. System's relinquishment of possession of all or any portion of such furniture, fixtures, equipment or other property to Claimant. G-R-C stipulates and agrees that the rights herein granted to U.T. System are commercially reasonable.

19.6 Upon the occurrence of any event of default by U.T. System for which no right of cure has been provided or upon the failure of U.T. System to cure an event of default within the time provided herein for such cure to be accomplished, G-R-C may, in addition to any other remedy or right given hereunder or by law, elect any one or more of the remedies described in this paragraph. G-R-C may elect to cancel this Lease Agreement and vacate the Leased Premises and, provided that G-R-C is not then in default, the contract liens and security interests given by G-R-C to U.T. System pursuant to paragraph 24 shall be cancelled and of no further force or effect. Alternatively, at its election, G-R-C may cure the default of U.T. System at its own expense and recover reimbursement for such expenses by withholding no more than twenty

percent (20%) of the monthly Percentage Rent payments otherwise due U.T. System under this Lease Agreement.

20. FORCE MAJEURE.

In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any covenant or act required hereunder by reason of strikes, lockouts, failure of power, riots, insurrection, war or other reason of like nature, not the fault of the party delayed in performing work or doing acts required under the terms of this Lease Agreement, the performance of such act shall be excused for the period of the delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay.

21. CONDEMNATION.

21.1 In the event that all of the Leased Premises are taken or condemned by any competent authority, this Lease Agreement will terminate as of the date of possession of said premises by the condemning authority. In the event that a portion of the Leased Premises is taken or condemned by any competent authority, this Lease Agreement will terminate for the portion of the Leased Premises so taken, and G-R-C shall continue to pay the Rent due hereunder with regard to the portion of the Leased Premises not so taken.

21.2 If any award is made for the condemning or taking of all or any part of the improvements on the Leased Premises during the original term of this Lease Agreement, or any extension thereof, U.T. System, any mortgagee, G-R-C and any leasehold mortgagees shall share in the net proceeds of any award received on the basis of their respective rights determined according to law and equity based on all relevant facts existing at the time of such taking, including the provisions of this Lease Agreement.

21.3 Termination of this Lease because of condemnation shall be without prejudice to the rights of either U.T. System or

G-R-C to recover from the condemning authority compensation and damages for the injury and loss sustained by them as a result of such taking.

22. 1983 PRODUCTION

The rights and obligations of U.T. System and G-R-C under the terms of this Lease Agreement are subject to the terms of that certain 1983 Lease Agreement executed by U.T. System and Richardson B. Gill as of _____, 1983.

23. ATTORNEY'S FEES.

G-R-C agrees that in the event U.T. System receives a judgment against G-R-C, G-R-C shall pay all court costs, including reasonable attorney's fees, that may be incurred by U.T. System because of any adjudicated breach of any condition or covenant of this Lease Agreement.

24. LANDLORD'S LIEN.

Subject to the provisions of paragraphs 40.2 and 40.3, to secure the payment of all Rent due and to become due hereunder and the faithful performance of this Lease Agreement by G-R-C, G-R-C hereby gives to U.T. System an express first and prior contract lien and security interest on all property (including fixtures, equipment, chattels and merchandise) which may be placed on the Leased Premises and also upon all proceeds of any insurance which may accrue to G-R-C by reason of destruction of or damage to any such property. All exemption laws are hereby waived in favor of said lien and security interest. This lien and security interest is given in addition to U.T. System's statutory lien and shall be cumulative thereto. This lien may be foreclosed with or without court proceedings by public or private sale, provided U.T. System gives G-R-C at least ten (10) days' notice of the time and place of said sale. U.T. System shall have the right to become the purchaser, upon being the highest bidder at such sale. Contemporaneous with the execution of this Lease Agreement (and if required hereafter by U.T. System), G-R-C shall execute and

deliver to U.T. System Texas Uniform Commercial Code Financing Statements in sufficient form so that when properly filed, the security interest hereby given shall thereupon be perfected. If requested hereafter by U.T. System, G-R-C shall also execute and deliver to U.T. System Texas Uniform Commercial Code Financing Statement Change Instruments in sufficient form to reflect any proper amendment of, modification in or extension of the aforesaid contract lien and security interest hereby granted. U.T. System shall, in addition to all of its rights hereunder, also have all of the rights and remedies of a secured party under the Texas Uniform Commercial Code (the Texas Business and Commerce Code).

25. INTEREST.

Any sums not paid to U.T. System when due under the terms of this Lease Agreement shall bear interest from the date due until paid at the greater of (i) quarterly ceiling rate for loans from time to time in effect under Article 5069-1.04 of Vernon's Annotated Texas Statutes, as amended, as published by the Office of the Consumer Credit Commissioner of Texas, or (ii) the rate ceiling for business loans in excess of \$1,000 from time to time allowed under 12 U.S.C. §86a, as amended, if such sum due is in fact in excess of \$1,000.

26. NONDISCLOSURE AGREEMENT.

From time to time, in the operation of the vineyards or winery by G-R-C during the term of this Lease Agreement, it may be necessary or desirable for G-R-C to disclose certain trade secrets or proprietary information of a confidential nature to U.T. System personnel. It shall be the obligation of G-R-C to identify such trade secrets or proprietary information in writing prior to the time of disclosure and to specifically request in writing that such information be kept confidential by those persons to whom it is disclosed. G-R-C may require, as a condition of such disclosure, that the individual U.T. System personnel to whom such confidential information will be disclosed execute a nondisclosure agreement with G-R-C prior to the release of such information to

such personnel by G-R-C. It shall be the obligation of G-R-C to obtain the signature of U.T. System personnel upon any such agreement. Upon receipt of such written identification and request for confidentiality, U.T. System shall be obligated to take all reasonable steps to prevent the disclosure to third parties of such information as has been identified as confidential, provided that U.T. System's obligation hereunder shall not apply to information: (i) that has not been identified in writing by G-R-C as being a trade secret or proprietary information of a confidential nature prior to its disclosure; (ii) that is already in the possession of U.T. System or its personnel at the time of disclosure from sources other than G-R-C; (iii) that is or later becomes public knowledge through no fault of U.T. System; (iv) that is disclosed to the receiving party by a third party who did not obtain such information from U.T. System or its personnel; (v) that must be disclosed to an agency of the State of Texas or the United States in order to comply with an applicable law; or (vi) that is compelled to be disclosed pursuant to subpoena or court order. G-R-C hereby recognizes that U.T. System cannot assure that U.T. System personnel who receive confidential information from G-R-C will not disclose same to third parties; therefore, provided that U.T. System has taken reasonable steps to prevent such disclosure, the disclosure of confidential information by U.T. System personnel shall not be considered an act of default of U.T. System under this Lease Agreement, and the sole remedy of G-R-C in such event shall be an action for damages or injunctive relief against the persons making such disclosure and the third party to whom such disclosure was made.

27. RIGHT OF FIRST REFUSAL

27.1 Until March 1, 1992, U.T. System agrees not to lease any land controlled by U.T. System in University Blocks 18, 19, 20, 21, or 23 in Pecos County, Texas, to any person or entity other than G-R-C, for the express purpose of creating or operating a wine grape vineyard or winery. After March 1, 1992, U.T. System will give G-R-C the right of first refusal on any such lease or

other agreement concerning the lease, development, or use of U.T. System lands in University Blocks 18, 19, 20, 21, or 23 in Pecos County, Texas, for the express purpose of creating or operating a wine grape vineyard or winery. The right of first refusal shall operate as follows: U.T. System shall give to G-R-C notice of the terms and conditions of any bona fide offer received from a third party, which offer U.T. System desires to accept, to lease or otherwise use any land controlled by U.T. System for the purpose of creating or operating a wine grape vineyard or winery in University Blocks 18, 19, 20, 21, or 23 in Pecos County, Texas. G-R-C shall have ninety (90) days from the receipt of such notice to accept the proposal on the same terms and conditions as the third party offered. If G-R-C does not accept the proposal within the 90-day period, then U.T. System shall be free to accept the third party's offer.

27.2 Notwithstanding anything in paragraph 27.1, U.T. System retains the right to lease land controlled or owned by U.T. System for the production of Thompson Seedless, Flame Seedless, Beauty Seedless, Ruby Seedless, Perlette, Centennial, Fiesta, Queen, Red Globe or any other variety of grape that is usually and customarily grown to be sold as table grapes or raisins rather than for producing wine. U.T. System agrees to include in all such leases of land located in University Blocks 18, 19, 20, 21, or 23 in Pecos County, Texas, a provision that prohibits such lessee from operating a winery to make wine from such table grapes or raisin grapes and that further requires the lessee to give to G-R-C a right of first refusal to purchase at a price at least equal to the price at which lessee could sell to another bona fide purchaser all grapes from such leased premises that the lessee determines not to offer for sale as table grapes or raisins. All such leases of land located in University Blocks 18, 19, 20, 21, or 23 in Pecos County, Texas, shall further provide that should G-R-C decline to buy such grapes as lessee shall offer for sale as other than table grapes or raisins, then any sales contract entered into by such lessee for the disposition of such grapes

shall contain a provision that prohibits the purchaser from producing and selling any wine or brandy that is identified in any manner as having been produced, either in whole or in part, from grapes grown on land belonging to U.T. System. In the event that it is brought to the attention of U.T. System that wine or brandy is being sold in violation of such contractual provision, U.T. System shall take all reasonable action available to prohibit such sales.

28. EXPERIMENTAL VINEYARDS AND WINERIES.

U.T. System retains the right to operate and maintain experimental vineyards and a winery or wineries of such type, size, and capacity and at such location or locations as U.T. System, in its sole discretion, shall determine. And, in conjunction with the operation of such vineyards and wineries, U.T. System may develop and maintain experimental projects either alone or in cooperation with any party or parties that U.T. System may deem appropriate. Such vineyards and wineries will be operated and maintained by U.T. System in furtherance of U.T. System's responsibilities as an educational, research, and service agency of higher education, and all products thereof shall be disposed of in conformity with all applicable state and federal laws and regulations. Such information as U.T. System may develop as a result of the operation of its experimental vineyards or wineries shall be available to the public, unless the disclosure of such information would be in violation of a written confidential disclosure agreement entered into by U.T. System with G-R-C or any third party.

29. TRADEMARKS AND TRADENAMES.

It is specifically understood and agreed that all trademarks, tradenames, service marks and all other marks of identification used by U.T. System shall at all times remain the exclusive property of U.T. System, and G-R-C shall have no right to use of any of said trademarks, service marks, tradenames, signs or other marks of identification without the express written

permission of U.T. System. Without in any way limiting the foregoing, U.T. System shall have the final right of approval of any product with U.T. System's name or marks on it, including any product which is produced as a result of the use and occupancy of the Leased Premises by G-R-C.

30. ARTIFACTS.

G-R-C covenants and agrees that it will comply with all laws, rules and regulations of the State of Texas, and the United States Government, and of any agency or instrumentality of the state or federal government, related to any archaeological find or the finding of any artifact during the course of the use and occupancy of the Leased Premises by G-R-C. Any archaeological find made by G-R-C during the course of its use and occupancy of the Leased Premises shall be and remain the sole property of U.T. System.

31. REAL ESTATE COMMISSIONS.

G-R-C hereby agrees to indemnify and hold harmless U.T. System from the claims of any agent, broker, or other similar party arising out of the negotiation or execution of this Lease Agreement, claiming by, through, or under G-R-C.

32. PARTIES BOUND.

The terms, covenants, agreements, conditions and undertakings contained herein shall be binding upon and shall inure to the benefit of the heirs, successors-in-interest and assigns of the parties hereto.

33. TIME OF THE ESSENCE.

Time is of the essence of this Lease Agreement.

34. NUMBER AND GENDER.

All of the terms and words used in this Lease Agreement, regardless of the number and gender in which they are used, shall be deemed and construed to include any other number (singular or

plural) and any other gender (masculine, feminine or neuter), as the context or sense of this Lease Agreement or any paragraph or clause herein may require, the same as if the words had been fully and properly written in the number and gender.

35. LAWS OF TEXAS.

This Lease Agreement shall be construed under and in accordance with the laws of the State of Texas, and all payment obligations of G-R-C hereunder are performable in Travis County, Texas. Venue for any action brought by any party hereto concerning the subject matter of this Lease Agreement shall be in Travis County, Texas.

36. PARAGRAPH HEADINGS.

The paragraph headings contained in this Lease Agreement are for convenience only, and the same shall in no way enlarge or limit the scope or meaning of the provisions of this Lease Agreement.

37. REVENUE RULING.

U.T. System may, in its sole discretion and at its expense, request a ruling from the Internal Revenue Service that the Percentage Rent payments to be received by U.T. System under the terms of this Lease Agreement will not constitute unrelated business taxable income or will be excludable from unrelated business taxable income, as well as other rulings on tax issues selected by U.T. System in its sole discretion. U.T. System and G-R-C agree that if an unfavorable ruling or rulings (as determined by U.T. System in its sole discretion) is received by U.T. System on any such issue or issues, this Lease Agreement, at the option of U.T. System, may be amended in a manner that will enable U.T. System to obtain a favorable ruling on such issue or issues.

38. NOTICES.

38.1 Any notice required or permitted to be given hereunder by one party to the other shall be in writing, and the same shall be given and shall be deemed to have been served and given if delivered in person to the address set forth hereinbelow for the party to whom the notice is given or placed in the United States mail, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address hereinafter specified.

38.2 The address of U.T. System for all purposes under this Lease Agreement and for all notices hereunder shall be:

Mr. Leroy Billy Carr
Manager of University Lands --Surface Interests
P. O. Drawer 553
Midland, Texas 78702

Copy to:
Mr. W. O. Shultz II
General Attorney and Associate General Counsel
201 West 7th Street
Austin, Texas 78701

38.3 The address of G-R-C for all purposes under this Lease Agreement and for all notices hereunder shall be:

Gill-Richter-Cordier Corporation
& John M. Harmon
Graves, Dougherty, Hearon & Moody
P. O. Box 98
Austin, Texas 78767

38.4 From time to time either party may designate another address within the United States of America for all purposes of this Lease Agreement by giving the other party not less than ten (10) days' advance written notice of such change of address in accordance with the provisions hereof.

39. RECORDATION, SHORTFORM.

U.T. System agrees, upon G-R-C's request, to execute a shortform of this Lease Agreement, entitled "Memorandum of Lease." G-R-C may record such shortform lease at its sole cost and

expense. The provisions of this Lease Agreement shall control, however, in regard to any omissions from said shortform lease, or in respect to any provisions hereof which may be in conflict with such shortform lease.

40. FINANCING CONDITIONS; MARKETING; ADVERTISING.

40.1 This Lease Agreement is conditioned upon G-R-C obtaining financing adequate to perform its obligations under this Lease Agreement within six (6) months of the execution hereof; provided that should such financing not be obtained within this time period, the Lease Agreement shall terminate. If G-R-C does not notify U.T. System that such financing is not available within said six (6) month period, then G-R-C will be deemed to have waived the condition described in this paragraph.

40.2 U.T. System agrees that, upon the written request of G-R-C, U.T. System will subordinate its contractual and statutory landlord's liens and security interests to the lien of G-R-C's lender or lenders upon the condition that said lender or lenders shall enter into an agreement with U.T. System in which said lender or lenders agree, inter alia, to a substitution of a third party in place of G-R-C as Lessee under the Lease Agreement and as borrower under the terms of said lender's or lenders' note or notes upon the occurrence of an event of default and a retaking of the Leased Premises by U.T. System. Such lender or lenders may condition the substitution of a third party lessee and borrower upon the express written consent of said lender or lenders, provided that such consent shall not be unreasonably withheld.

40.3 G-R-C agrees that if any machinery or equipment that is essential to the harvesting of the wine grapes grown on the Leased Premises or the operation of the winery in the processing and fermenting of such wine grapes is obtained by G-R-C under a financing agreement or operating lease arrangement, then the lease or other financing documents shall include a provision requiring the secured party under the financing agreement or the

lessor of such machinery or equipment to enter into an agreement with U.T. System which provides, inter alia, that, in the event U.T. System shall retake possession of the premises upon which such machinery or equipment is located, said party agrees to a substitution of a third party in place of G-R-C under the terms of said lease or other financing agreement. The substitution in place of G-R-C may be conditioned upon the express written consent of the secured party or lessor, provided that such consent shall not be unreasonably withheld. G-R-C agrees to mail to U.T. System, within fifteen (15) days after the execution thereof, a copy of all lease or other financing documents for machinery or equipment covered by this paragraph.

40.4 G-R-C agrees that within sixty (60) days after obtaining the financing commitment required by this paragraph, G-R-C will contract for and pursue to completion a marketing survey designed to produce a recommendation for a pricing position in the wine market and an advertising strategy appropriate for maximizing the sale of the wine or wines produced and to be produced from the wine grapes grown upon the Leased Premises. The persons, partnerships, or corporations conducting such marketing survey shall be subject to the approval of U.T. System, provided that such approval shall not be unreasonably withheld.

40.5 G-R-C agrees that in addition to the market survey required to be undertaken as set forth in paragraph 40.4, it will contract for and diligently pursue an advertising and promotional campaign designed to maximize the sale of the wine or wines produced, or to be produced, from the wine grapes grown on the Leased Premises. The annual sum to be expended by G-R-C for such advertising and promotional campaign during the first three (3) years of this Lease Agreement shall be no less than Five Hundred Thousand and No/100 Dollars (\$500,000.00) per year. Thereafter, G-R-C shall budget five percent (5%) of its projected sales for such purpose; however, such budgeted amount may be adjusted from time to time as may be necessitated by sound business practices

under the circumstances then existing. The persons, partnerships, or corporations conducting such advertising and promotional campaign shall be subject to the approval of U.T. System, provided that such approval shall not be unreasonably withheld.

41. MINIMUM CAPITALIZATION

Within six (6) months after execution of this Lease Agreement, G-R-C will be capitalized with equity funds contributed by the principal stockholders of G-R-C in an aggregate amount of at least two million dollars (\$2,000,000.00), which amount shall not be withdrawn from the corporation by its shareholders, whether by redemption of stock or otherwise, during the term of this Lease Agreement and any renewals or extensions thereof. During the term of this Lease Agreement, and any renewal or extension thereof, neither G-R-C nor the principal stockholders of G-R-C shall take any action, or fail to take any action, that would permit or cause G-R-C to (i) merge or consolidate G-R-C with any corporation or other entity, which merger or consolidation would have the effect of substantially impairing the above capitalization of G-R-C, or (ii) pay funds out of the corporation or transfer other assets from the corporation to a principal in or shareholder of G-R-C, or any related person or entity, as (a) salaries, if such salaries are not reasonable or are not purely for services rendered; (b) dividends, if the effect of payment of those dividends would decrease the net worth of G-R-C below two million dollars (\$2,000,000.00); (c) note principal or interest payments, if such note principal or interest payments are not made in the ordinary course of business on substantially the same terms as between third parties; or (d) for any other purpose not in the ordinary course of business. G-R-C agrees that, within six (6) months after execution of this Lease Agreement, it will have arranged its financial affairs to achieve a ratio of current assets to current liabilities (as defined under generally accepted accounting procedures) of no less than one (1) to one (1) and thereafter, at all times during the term of this Lease Agreement, or any extension or renewal thereof, G-R-C shall maintain at least such

ratio. The failure of G-R-C to maintain a ratio of current assets to current liabilities of at least one (1) to one (1) shall not be an event of default if, within ninety (90) days of the date that such ratio shall have dropped below one (1) to one (1), G-R-C shall have caused such ratio to return to at least one (1) to one (1).

42. SEVERABILITY.

If any clause or provision of this Lease Agreement is illegal, invalid or unenforceable under present or future laws effective during the term of this Lease Agreement, then, and in that event, it is the intention of the parties hereto that the remainder of this Lease Agreement shall not be affected thereby, and it is also the intention of the parties hereto that in lieu of each clause or provision that is illegal, invalid or unenforceable, there shall be added as a part of this Lease Agreement a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

43. ENTIRE AGREEMENT, MODIFICATION.

Except as otherwise expressly provided for herein, this Lease Agreement contains the entire agreement between the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, entered into prior to the execution of this Lease Agreement, will alter the covenants, agreements and undertakings herein set forth. This Lease Agreement shall not be modified in any manner, except by an instrument in writing executed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have duly executed this instrument, as of the date first written above. This instrument may be executed in any number of counterpart copies, each of which counterpart shall be deemed an original for all purposes.

LESSOR:

Attest:
Arthur H. Dilly
Arthur H. Dilly
Executive Secretary

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By: Jon P. Newton
JON P. NEWTON, Chairman

LESSEE:

Gill-Richter-Cordier Corporation, a Texas corporation

Attest:
Richardson B. Gill

By: Richardson B. Gill
Richardson B. Gill, President

Approved as to Content:
E.D. Walker
E.D. Walker
Chancellor

Approved as to Form:
W.O. Shultz II
W.O. Shultz II
General Attorney and
Associate General Counsel

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 30th day of June, 1983, by Jon P. Newton, Chairman of THE UNIVERSITY OF TEXAS SYSTEM, on behalf of said board.

Nancy Perryman
Notary Public, State of Texas

My commission expires: 9/24/84

Notary's printed name:
NANCY PERRYMAN

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of July, 1983, by Richardson B. Gill, President of the GILL-RICHTER-CORDIER CORPORATION, on behalf of said corporation.

Linnard Shivers
Notary Public, State of Texas

My commission expires: 11/22/84

Notary's printed name:
LINNARD SHIVERS

TRACT A

BEGINNING at a point on the south line of this survey, said point bears S4°01'38" E 1190 feet from the section corner, the southeast corner of Section 13, the southwest corner of Section 8 the northwest corner of Section 7, and the northeast corner of Section 14, Block 19, University lands;

THENCE N80°19'27" East 1315.64 along the south line to the southeast corner of this survey;

THENCE N4°01'38" West 2334.97 feet along the east line to a point on the east line;

THENCE N4°26'29" West 623.07 feet along the east line to the northeast corner of this survey;

THENCE S85°20'21" West 1037.88 feet along the north line to a point on the north line which bears N4°01'38" West 1905.12 feet from the common section corner 13, 8, 7, and 14, Block 19, University lands;

THENCE S85°21'20" West 1679.80 feet along the north line to the northwest corner of this survey;

THENCE S25°58'37" West 2077.17 feet along the centerline of the natural gas pipeline to the southwest corner of this survey;

THENCE S86°27'39" East 721.20 feet along the south line to a point on the south line of this survey;

THENCE S56°29'32" East 1943.10 feet along the south line to a point on the south line of this survey;

THENCE N80°19'23" East 196.68 feet along the south line to the POINT OF BEGINNING, containing 201.4 acres, more or less.

EXHIBIT "A"

TRACT B

BEGINNING at a point on the south line of this survey, said point bears N40°01'38" West 1905.12 feet from the common section corner, the southeast corner of Section 13, the southwest corner of Section 8, the northwest corner of Section 7, and the northeast corner of Section 14, Block 19, University lands;

THENCE N85°21'20" East 1037.88 feet along the south line to a point on the south line;

THENCE S4°26'29" East 623.07 feet along the south line to a point on the south line;

THENCE N88°30'59" East 787.58 feet along the south line to the southeast corner of this survey;

THENCE N14°09'08" East 3182.73 feet along the east line to the northeast corner of this survey;

THENCE N76°17'08" West 2756.74 feet along the north line to the northwest corner of this survey.

THENCE S26°05'01" West 3739.85 feet along the west line of the centerline of the natural gas pipeline to the southwest corner of this survey;

THENCE N85°21'20" East 1679.80 feet along the south line to the POINT OF BEGINNING, containing 229.38 acres, more or less.

EXHIBIT "B"

TRACT C

BEGINNING at a point on the south line of this survey, the centerline of the natural gas line which bears N87°35'42" West 2452.47 feet from the common section corner, the southeast corner of Section 13, the southwest corner of Section 8, the northwest corner of Section 7, and the northeast corner of Section 14, Block 19, University lands;

THENCE N86°34'13" West 106.31 feet along the south line to the southwest corner of this survey;

THENCE N36°42'10" West 2009.06 feet along the west line to a point on the west line of this survey;

THENCE N12°35'13" West 4049.31 feet along the west line to the northwest corner of this survey;

THENCE N87°46'10" East 5010.56 feet along the north line to the northeast corner;

THENCE S26°05'01" West 4338.70 feet along the east line, the centerline of the natural gas pipeline to a point on the east line;

THENCE S25°52'37" West 2077.17 feet along the east line to the POINT OF BEGINNING, containing 369.54 acres, more or less.

EXHIBIT "C"

TRACT D

BEGINNING at a point on the centerline of the North-South gasline, said point bears N 32°12'22" East 870 feet from the common section corner, the southwest corner of Section 9, the southeast corner of Section 12, the northeast corner of Section 13, the northwest corner of Section 8, Block 19, University lands;

THENCE S87°46'10" West 5010.56 feet along the south line of this tract to the southwest corner of this survey;

THENCE N6°50'50" West 1425.63 feet along the west line of this survey to a corner;

THENCE S88°07'50" East 986.57 feet along the north line of this survey to a corner;

THENCE N0°07'05" West 667.85 feet along the west line of this survey to the northwest corner;

THENCE N76°34'14" East 3428.98 feet along the north line of this survey to a point;

THENCE N85°12'12" East 4394.15 feet along the north line of this survey to the northeast corner;

THENCE S14°43'43" West 4354.44 feet along the east line of this survey to the southeast corner;

THENCE N76°17'08" West 2756.74 feet along the south line of this survey to a point on the centerline of a gas line;

THENCE N26°05'01" East 598.85 ft. along the centerline of a gas line to the POINT OF BEGINNING, containing 522.41 acres, more or less.

EXHIBIT "D"

TRACT E

150 acres, more or less, to be mutually selected
out of Sections 10 and 11, Block 19, University
lands, Pecos County, Texas.

EXHIBIT "E"

PLAN OF DEVELOPMENT

As more fully described in Paragraph 1.9 on Page 2 of the Lease Agreement is a large map which is contained in the Official Copy on file in the Office of the Board of Regents.

EXHIBIT "F"

3766