

MASTER AGREEMENT TO PROVIDE WATER, SEWER, AND STORM DRAINAGE SERVICES

THIS AGREEMENT is entered this 4th day of June, 1998, by and between Western Hills Water District, a California Water District ("Western"), and Diablo Grande Limited Partnership, a California Limited Partnership ("DG").

Recitals:

WHEREAS, Western is a water district located in western Stanislaus County in the State of California and organized and existing under the laws of the State of California having by those laws the authority to own and operate municipal sewer, water, and storm drainage facilities; and

WHEREAS, DG is a limited partnership organized and existing under the laws of the State of California which owns approximately 30,000 acres of real property in western Stanislaus County in the State of California on which DG plans to develop, in four (4) phases, a world-class destination resort and planned residential community including golf courses, vineyards, hotel, European spa, retail center, business park, and 5,000 residential units to be known as "Diablo Grande" ("Diablo Grande"); and

WHEREAS, the first phase of Diablo Grande is located within the boundaries of Western and DG desires for Western to provide water, sewer and storm drainage services to Diablo Grande; and

WHEREAS, on June 4, 1998, by Resolution No. 98.05, the Board of Directors of Western approved this Agreement and authorized the President of the Board to execute this Agreement in behalf of Western;

NOW, THEREFORE, the parties hereto agree as follows:

Terms:

1. Delivery of Water, Sewer, and Storm Drainage Services to Diablo Grande. Western agrees to provide permanent water, sewer, and storm drainage services to all agricultural, municipal and recreational uses in Diablo Grande subject to the terms and conditions set forth in this Agreement, including but not limited to, full and complete compliance with the California Environmental Quality Act ("CEQA"). As DG is ready to develop particular uses within Diablo Grande, it shall submit to Western a written request for water, sewer, and storm drainage services from Western consisting of (i) a summary of the use, (ii) an estimate of

the annual water demand; (iii) an estimated monthly regulation of the projected annual demand relating to the use; (iv) the infrastructure required for the proposed water, sewer, and storm drainage services; (v) the schedule for development of the use; and (vi) the schedule and method of financing construction of the proposed infrastructure. Within thirty (30) days of receipt of the written request, Western shall notify DG whether and under what conditions it will deliver water, sewer, and storm drainage services in response to the written request. Those conditions could include an Agreement between Western and DG relating to the acquisition of water supply and/or the construction, dedication, and maintenance of infrastructure and related rights-of-way.

2. **Permits.** The parties agree to cooperate in obtaining any and all local, state, and federal permits required in connection with the delivery of water, sewer, and/or storm drainage services to Diablo Grande.

3. **Fees and Assessments.** Western agrees to establish and collect those fees and assessments which are allowable by law and which are reasonable and necessary for the delivery of water, sewer, and storm drainage services to Diablo Grande.

4. **CEQA Compliance.** Nothing in this Agreement shall be interpreted to obligate Western to deliver any service or construct any facilities to Diablo Grande until all necessary and appropriate findings have been made under the California Environmental Quality Act ("CEQA"). To the extent that Western shall be obligated to make findings under CEQA in connection with the delivery of water, sewer, and/or storm drainage services to Diablo Grande, nothing in this Agreement shall obligate Western to make any findings other than those findings which are supported by substantial evidence in the record as required by law.

5. **Compliance with Laws.** Western agrees to comply with all applicable laws and regulations applicable to the delivery of water, sewer, and storm drain services to Diablo Grande to assure constant and uninterrupted delivery of the highest quality services.

6. **Operation.** Western agrees to employ such management and maintenance personnel, and to hire such consultants, as may be reasonably necessary to deliver high quality water, sewer, and storm drainage services to Diablo Grande.

7. **Operational Costs.** Diablo Grande agrees to advance funds to Western as necessary to pay for the costs of operation until such time as Western's revenues are sufficient to meet the costs of operation. All such funds shall be treated as a loan to Western by DG which shall bear interest at the rate of eight percent (8%) per annum until paid in full. Western agrees to retire the debt created under this paragraph when its revenues begin to exceed its operation costs. At that time, the parties shall meet and confer to determine an appropriate schedule for repayment of the loan.

8. **Miscellaneous Provisions.** This Agreement is to be construed and enforced in accordance with the laws of the State of California. The invalidity or unenforceability of any provision of this Agreement, as determined by a court of competent jurisdiction, shall in no way affect the validity or enforceability of any other provisions hereof. Except with the written

consent of the other party, the rights and obligations under this Agreement shall not be assignable by either party.

"WESTERN":

WESTERN HILLS WATER DISTRICT

By: Keith Schneider
Keith Schneider, President

By: David Rozano
David Rozano, Secretary

"DG":

DIABLO GRANDE LIMITED
PARTNERSHIP, a California limited
partnership, by its General Partner,
DIABLO GRANDE, INC., a California
corporation.

By: Russell A. Lewman
Russell A. Lewman, Secretary

EXHIBIT "B"

**ADDENDUM TO MASTER AGREEMENT TO PROVIDE WATER, SEWER
AND STORM DRAINAGE SERVICES**

This Addendum to the Master Agreement to Provide Water, Sewer and Storm Drainage Services (hereafter "Addendum") is made and entered into as of May __, 2009, ("Effective Date") by and between Western Hills Water District, a California Water District ("Western") and World International, LLC, a Delaware limited liability company ("World").

RECITALS

A. On June 4th, 1998, Western and Diablo Grande Limited Partnership, a California Partnership ("DG") entered into the Master Agreement to Provide Water, Sewer and Storm Drainage Services ("Master Agreement").

B. On October 7, 2008, the sale closed on the property known as the Diablo Grande Winery & Resort in Patterson, California with a street address of 9501 Morton Davis Drive ("Property") pursuant a purchase and sale agreement between World and DG ("Purchase Agreement").

C. Pursuant to the Purchase Agreement, World assumed the Master Agreement.

D. The parties desire to enter into this Addendum to amend the Master Agreement and confirm Western's acceptance of the assignment of the Master Agreement to World.

NOW, THEREFORE, the Parties hereto agree as follows:

AGREEMENT

1. Acceptance of Assumption. Western hereby agrees and acknowledges the assignment by DG and assumption to World of the Master Agreement.

2. The parties hereby agree to modify Section 7 of the Master Agreement to read as follows:

7. Operational and Capital Costs.

a. In providing services under this Agreement, Western will incur operation costs, costs to replace existing capital assets, and costs for new capital assets. For purposes of this Section 7, "capital assets" shall be generally understood to mean land, buildings, plant and equipment, contract rights to water, patents, and other tangible or intangible assets with a useful life greater than one year. Operational costs shall include principal and interest payments on any outstanding debt other than to World but

excluding any debt owed to Veolia North America.

b. Western shall provide World with a proposed annual budget by November 1 of each year for World's review and comment. The annual budget shall include, among other things, line item detail of proposed operational costs, proposed costs for the replacement of existing capital assets, and proposed costs for the acquisition of new capital assets. The annual budget shall also include the projected timing by month of payments for such operational and capital costs. World agrees to provide Western with its comments/objections within thirty calendar days of receipt of the proposed annual budget.

c. Upon approval of each annual operational budget by the Western Board of Directors and the approval of each annual capital budget by both Western's Board of Directors and World, World agrees to advance funds in accordance with the approved budget and in accordance with the projected monthly timing of the proposed expenditures contained within the approved budgets.

d. World is not required to advance funds needed to pay the costs for the replacement of existing capital assets or for the acquisition of new capital assets. World agrees to review the proposed capital expenses and in its discretion to advance funds to acquire said capital assets provided that any such funds advanced shall be secured by the security interest granted to World under Section 7i below.

e. Notwithstanding anything to the contrary in this Section 7, World shall not be responsible for advancing any funds to Western for any debt owed by Western to any of its vendors, providers, suppliers, lenders, employees or agents, which debt accrued prior to October 7, 2008. World agrees that the \$20,000 that the Bankruptcy Court approved in settlement of World's administrative claim concerning those pre-October 7, 2008 debts of Western shall be paid to Western for use in settling the pre-October 7, 2008 non-Veolia debts and shall not be considered in any way as an advancement of funds to Western. Western agrees that it shall be responsible for the amount of \$15,461.37 in attorney's fees and costs incurred by World in procuring the \$20,000 settlement, which amount shall be deducted by World from the \$20,000 payable to Western.

f. In the event that Western seeks additional funds above the amount set forth in the approved annual budget for either operations expenditures or capital expenditures, any additional funds requested may be advanced by World in its discretion and any and all sums advanced by World as a result of said increases shall be subject to the mutual agreement of World and Western.

g. Subject to the required periodic audit of Western's financial statements, the parties agree that as of April 30th, 2009, World has advanced to Western the total sum of \$ 1,043,384.33, excluding all accrued interest, and the parties further agree that by March 1 of each year World will submit a statement of the amount of sums advanced in the preceding 12 months, which statement will be conclusive (subject to the required periodic audit of Western's financial statements) unless within thirty days thereof, Western

disputes the amount of sums advanced and submits documentation that supports and confirms the amounts actually advanced. The summary submitted by World shall also include the cumulative total of all sums advanced on a historical basis.

h. All funds advanced shall be treated as a loan from World to Western. All funds advanced shall bear interest at the rate of eight percent (8 %) per annum simple interest until paid in full.

i. Security Interest. Subject to any limitations on the granting of security interests in a public agency's assets and subject to Western's repayment obligation set forth below, in consideration of World's advancing funds in accordance with this Section 7, Western hereby grants to World a security interest in the capital assets funded with World's advances and in such other assets owned by World. The parties agree to enter into a commercially reasonable security agreement or agreements setting forth the specific terms and conditions of the security interest therein.

j. World may elect to cease advancing funds to Western for operating costs if and when World determines that Western's revenues are sufficient to meet the following on an on-going basis: (a) annual costs of operations; (b) annual costs for capital improvements and replacements; (c) an operating reserve fund as determined by Western's Board of Directors and (d) the principal and interest payments on any outstanding debt other than to World. Sums (a) and (c) in this subsection shall not exceed ten percent (10.0 %) of the prior fiscal year's actual operating expenditures. Sum (b) shall not exceed ten percent (10.0%) of the average of the prior three (3) fiscal years' actual capital expenditures.

k. In the event World elects to cease one hundred per cent (100 %) of the funding, it shall provide not less than 18 months advanced, written notice to Western, and such notice shall be timed so that if funding ceases, it ceases at the end of Western's fiscal year. Example: With a World notice dated June 15, 2015, World shall cease advancing funds after December 31, 2016. World's notice shall also include World's proposed repayment plan. World's determination to cease advance funding and World's proposed repayment plan for funds advanced for both operational and capital costs must be reasonable and made in good faith and be based upon Western's audited financial statements and a reasonable three-year projection of Western's revenues and expenses, showing that Western would have sufficient projected revenues to meet the projected expenses set forth in Subsection 7j above.

l. Should Western disagree with World's determination under Subsection 7k, Western may invoke the disputes resolution procedure set forth below. The vote by the Western Board of Directors as to whether or not it agrees with World's determination and to invoke the disputes procedure shall be only by those Western directors who do not have a financial interest in the decision in accordance with the District's Conflicts of Interest Code and the regulations of the California Fair Political Practices Commission, including, but not limited to, because the director is employed by or is a consultant to World. World agrees that such a vote by Western's Board may be by less than a majority

of a quorum. World further agrees that should all Western directors have a financial interest in the decision, then Western may request the Stanislaus County Superior Court to appoint a qualified representative or representatives to act on behalf of Western for purposes of this Section 7.

m. Disputes Resolution Procedure.

(1) The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Section 7, promptly by negotiation between representatives who have authority to settle the controversy. Any party may give the other party written notice of a dispute, which notice shall include a statement of that party's position and a summary of arguments supporting that position. Within fifteen (15) calendar days after receipt of the notice, the receiving party shall respond with a statement of that party's position and a summary of argument supporting that position. All negotiations pursuant to this subsection are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence.

(2) If the dispute has not been resolved by negotiations within twenty (20) calendar days of the disputing party's notice, the parties shall endeavor to settle the dispute by mutual agreement.

(3) Any dispute arising out of Section 7, which has not been resolved by the above dispute resolution procedure within twenty (20) calendar days of the initiation of such procedure, shall be finally resolved by arbitration by a sole arbitrator in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. The arbitrator shall be qualified by education, training, and experience in public agency finances and shall not have a conflict of interest. As to any dispute over World's determination under Subsection 7j, the arbitrator is only authorized to make a binding determination to approve or disapprove World's determination; however, the arbitrator is also authorized to recommend a non-binding repayment plan for consideration by the parties. The place of arbitration shall be Patterson, California, unless otherwise agreed to by the parties.

(4) The time limits specified in Subsection 7m shall be suspended during the time taken to obtain any action by the Stanislaus County Superior Court.

(5) All arbitrators to be selected pursuant to this Section 7 shall avoid a conflict of interest and the appearance of a conflict of interest at the time of selection and during and after arbitration. A conflict of interest can arise from involvement by an arbitrator with the subject matter of the dispute or from any relationship between him/her and any participant, whether past or present, personal or professional, that reasonably raises a question of his/her impartiality.

(6) The costs for any arbitrator shall be borne equally between the parties. The prevailing party in any arbitration shall not be entitled to be awarded its attorneys' fees and costs.

3. No Variation. The parties hereby confirm that no other provision of the Agreement is amended or modified except as described in this Addendum.

4. Definitions. All capitalized terms not defined herein shall have the meaning ascribed to such term in the Agreement.

5. Counterparts. This Addendum may be executed in any number of counterparts, each of which shall be an original and all of such counterparts together shall constitute one and the same instrument. To facilitate the execution of this Addendum, the parties may execute and deliver counterparts of this Addendum by telephone facsimile or e-mail transmission.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date set forth in the opening paragraph of this Addendum.

WESTERN:

WESTERN HILLS WATER DISTRICT,
a California Water District

By: _____
President

By: _____
Secretary

WORLD:

WORLD INTERNATIONAL, LLC,
a Delaware limited liability company

By: _____
Rafael Marcos Dayan
Its: Manager

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a California Water District

By: 

President

By: _____

Secretary

WORLD:

WORLD INTERNATIONAL, LLC,
a Delaware limited liability company

By: _____

Rafael Marcos Dayan
Its: Manager