

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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FILER

**MURRAY INCOME PROPERTIES II LTD**

CIK: **786163** | IRS No.: **752085586** | State of Incorporation: **TX** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-17183** | Film No.: **99573612**  
SIC: **6500** Real estate

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DALLAS TX 75240

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DALLAS TX 75240  
2149919090

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-K

(Mark One)

X Annual Report pursuant to Section 13 or 15(d) of the Securities  
----- Exchange Act of 1934

For the Fiscal Year Ended DECEMBER 31, 1998

OR

----- Transition report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NO.  
0-17183

-----  
MURRAY INCOME PROPERTIES II, LTD.  
(Exact Name of Registrant as Specified in its Charter)

TEXAS  
(State or Other Jurisdiction of  
Incorporation or Organization)

75-1946214  
(I.R.S. Employer  
Identification No.)

5550 LBJ FREEWAY, SUITE 675, DALLAS, TEXAS  
(Address of principal executive offices)

75240  
(Zip Code)

(972) 991-9090  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

PART I

|         |                                                     | Page |
|---------|-----------------------------------------------------|------|
| <S>     | <C>                                                 | <C>  |
| Item 1. | Business                                            | 1    |
| Item 2. | Properties                                          | 3    |
| Item 3. | Legal Proceedings                                   | 3    |
| Item 4. | Submission of Matters to a Vote of Security Holders | 3    |

PART II

|                   |                                                                                                |    |
|-------------------|------------------------------------------------------------------------------------------------|----|
| Item 5.           | Market for the Partnership's Limited Partnership Interests and Related Security Holder Matters | 4  |
| Item 6.           | Selected Financial Data                                                                        | 4  |
| Item 7.           | Management's Discussion and Analysis of Financial Condition and Results of Operations          | 5  |
| Item 7A.          | Quantitative and Qualitative Disclosures About Market Risk                                     | 9  |
| Item 8.           | Financial Statements and Supplementary Data                                                    | 10 |
| Item 9.           | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure           | 21 |
| PART III          |                                                                                                |    |
| Item 10.          | Directors and Executive Officers of the Partnership                                            | 22 |
| Item 11.          | Executive Compensation                                                                         | 23 |
| Item 12.          | Security Ownership of Certain Beneficial Owners and Management                                 | 24 |
| Item 13.          | Certain Relationships and Related Transactions                                                 | 25 |
| PART IV           |                                                                                                |    |
| Item 14.          | Exhibits, Financial Statement Schedules, and Reports on Form 8-K                               | 26 |
| Signatures        |                                                                                                | 33 |
| Index to Exhibits |                                                                                                | 34 |

</TABLE>

PART I

ITEM 1. BUSINESS.

General. Murray Income Properties II, Ltd. (the "Partnership") was formed December 23, 1985 under the Texas Uniform Limited Partnership Act to acquire recently constructed income-producing shopping centers located in growth markets. As of November, 1989, the Partnership became governed by the Texas Revised Limited Partnership Act. The General Partners of the Partnership are Murray Realty Investors IX, Inc., a Texas corporation, and Crozier Partners IX, Ltd., a Texas limited partnership.

In September 1986, the Partnership acquired a 15% interest in Tower Place Joint Venture, which owns Tower Place Festival Shopping Center ("Tower Place"). The remaining 85% interest in the joint venture is owned by Murray Income Properties I, Ltd., a publicly-registered real estate limited partnership, the general partners of which are affiliates of the General Partners. The Partnership also acquired Paddock Place Shopping Center ("Paddock Place") on December 17, 1986, Germantown Collection Shopping Center ("Germantown") on February 9, 1988, and 1202 Industrial Place (an office/warehouse facility) on February 26, 1988. All acquisitions were paid for in cash. For a more detailed description of the joint venture interest and the properties acquired by the Partnership, see "Item 2. Properties".

The Partnership is in competition for tenants for its properties with other real estate limited partnerships as well as with individuals, corporations, real estate investment trusts, pension funds and other entities engaged in the ownership and operation of retail real estate. When evaluating a particular location to lease, a tenant may consider many factors, including, but not limited to, space availability, rental rates, lease terms, access, parking, quality of construction and quality of management. While the General Partners believe that the Partnership's properties are generally competitive with other properties with regard to these factors, there can be no assurance that, in the view of a prospective tenant, other retail properties will not be more attractive.

Tower Place Festival Shopping Center. At December 31, 1998, Tower Place was 98% leased. One tenant, General Cinema, leases 27.8% of the total rentable space of the property and another, J&K Cafeterias, leases 10.6% of the total rentable space. The General Cinema lease expires on September 30, 2006, with the tenant having the option to extend the term of the lease for two successive terms of five years each. The J&K Cafeterias lease expires on April 30, 2004,

and the tenant has the option to renew for two periods of five years each. At December 31, 1997, Tower Place was 100% leased.

Tower Place is subject to competition from similar types of properties in the vicinity in which it is located. The following information on competitive properties in the vicinity of Mountain View has been obtained from sources believed reliable by the Partnership. The accuracy of this information was not independently verified by the Partnership.

<TABLE>  
<CAPTION>

| Property<br>----- | Rentable<br>Square Feet<br>----- | Percent Leased at<br>December 31, 1998<br>----- |
|-------------------|----------------------------------|-------------------------------------------------|
| <S>               | <C>                              | <C>                                             |
| 1                 | 65,000                           | 100%                                            |
| 2                 | 132,648                          | 95%                                             |
| 3                 | 248,700                          | 99%                                             |

</TABLE>

1

4

Paddock Place Shopping Center. At December 31, 1998, Paddock Place was 90% leased. One tenant, Rafferty's, leases 11.6% of the total rentable space of the property. J. Alexander's, a full service restaurant, is occupying the space under a sub-lease. The Rafferty's lease expires on December 31, 2001 and the tenant has an option to extend the term of the lease for two successive periods of five years each. At December 31, 1997, Paddock Place was 100% leased.

Paddock Place is subject to competition from similar types of properties in the vicinity in which it is located. The following information on such competitors has been obtained from sources believed reliable by the Partnership. The accuracy of this information was not independently verified by the Partnership.

<TABLE>  
<CAPTION>

| Property<br>----- | Rentable<br>Square Feet<br>----- | Percent Leased at<br>December 31, 1998<br>----- |
|-------------------|----------------------------------|-------------------------------------------------|
| <S>               | <C>                              | <C>                                             |
| 1                 | 108,000                          | 95%                                             |
| 2                 | 15,753                           | 100%                                            |
| 3                 | 178,491                          | 98%                                             |

</TABLE>

Germantown Collection Shopping Center. At December 31, 1998, Germantown was 100% leased. One tenant, Chili's, leases 10% of the total rentable space. The Chili's lease expires on December 31, 2004, and the tenant has the option to extend the term of the lease for three consecutive terms of five years each. At December 31, 1997, Germantown was 100% leased.

Germantown is subject to competition from similar types of properties in the vicinity in which it is located. The following information on such competitors has been obtained from sources believed reliable by the Partnership. The accuracy of this information was not independently verified by the Partnership.

<TABLE>  
<CAPTION>

| Property<br>----- | Rentable<br>Square Feet<br>----- | Percent Leased at<br>December 31, 1998<br>----- |
|-------------------|----------------------------------|-------------------------------------------------|
| <S>               | <C>                              | <C>                                             |
| 1                 | 88,500                           | 100%                                            |
| 2                 | 84,000                           | 96%                                             |
| 3                 | 38,000                           | 100%                                            |

</TABLE>

1202 Industrial Place. At December 31, 1998 and 1997, 1202 was 100% leased. Pierce Family Partnership leases 69% of the total rentable space of the property and Care Management Enterprises, Inc. leases 31% of the total rentable space. The Pierce lease expires on October 31, 2014 and the tenant has an option to renew the lease for one additional term of five years. The Care Management Enterprises, Inc. lease expires on November 30, 2000.

1202 Industrial Place is subject to competition from similar types of properties in the vicinity in which it is located. The following information on such competitors has been obtained from sources believed reliable by the Partnership. The accuracy of this information was not independently verified by

the Partnership.

<TABLE>  
<CAPTION>

| Property<br>-----<br><S> | Rentable<br>Square Feet<br>-----<br><C> | Percent Leased at<br>December 31, 1998<br>-----<br><C> |
|--------------------------|-----------------------------------------|--------------------------------------------------------|
| 1                        | 100,000                                 | 100%                                                   |
| 2                        | 80,000                                  | 100%                                                   |
| 3                        | 100,000                                 | 100%                                                   |

</TABLE>

The Partnership is reimbursed for 47% of the costs of four employees by Murray Income Properties I, Ltd., an affiliate of the Partnership.

For a definition of the terms used herein and elsewhere in this Form 10-K, see "Glossary" incorporated by reference herein as contained in the Prospectus dated February 20, 1986 filed as a

2

5

part of Amendment No. 1 to Registrant's Form S-11 Registration Statement (File No. 33-2394) attached hereto as Exhibit 99a.

#### ITEM 2. PROPERTIES.

The Partnership owns a 15% interest in Tower Place Joint Venture which owns the property described below:

<TABLE>  
<CAPTION>

| Location<br>-----<br><S>                 | Description of Property<br>-----<br><C>                                                                                                                                                                                                                               |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pineville (Charlotte),<br>North Carolina | Tower Place Festival Shopping Center<br>A 114,562 square foot shopping center situated on 10.777 acres. At December 31, 1998, Tower Place was 98% leased at an average annual lease rate of \$13.89. Lease rental rates range from \$8.00 to \$16.50 per square foot. |

</TABLE>

The Partnership also owns the properties described below:

<TABLE>

| <S>                                | <C>                                                                                                                                                                                                                                                                         |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nashville, Tennessee               | Paddock Place Shopping Center<br>A 68,629 square foot shopping center situated on 4.66 acres. At December 31, 1998, Paddock Place was 90% leased at an average annual lease rate of \$14.45. Lease rates range from \$9.50 to \$18.75 per square foot.                      |
| Germantown (Memphis),<br>Tennessee | Germantown Collection Shopping Center<br>A 55,730 square foot shopping center situated on 11.4 acres. At December 31, 1998, Germantown was 100% leased at an average annual lease rate of \$16.10. Lease rates range from \$13.50 to \$19.79 per square foot.               |
| Grand Prairie, Texas,              | 1202 Industrial Place<br>An office/warehouse facility containing 172,800 square feet situated on 8.6 acres. At December 31, 1998, 1202 Industrial Place was 100% leased at an average annual lease rate of \$2.58. Lease rates range from \$2.25 to \$3.30 per square foot. |

</TABLE>

#### ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings to which the General Partners or the Partnership is a party or to which any of the Partnership's properties are subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the year covered by this report through the solicitation of proxies or otherwise.

3

6

PART II

ITEM 5. MARKET FOR THE PARTNERSHIP'S LIMITED PARTNERSHIP INTERESTS AND RELATED SECURITY HOLDER MATTERS.

A public market for Interests does not exist and is not likely to develop. Consequently, a Limited Partner may not be able to liquidate its investment in the event of emergency or for any other reason, and Interests may not be readily accepted as collateral for a loan. Further, the transfer of Interests is subject to certain limitations. For a description of such limitations, see Article XIII of the Agreement of Limited Partnership as contained in the Prospectus dated February 20, 1986 filed as a part of Amendment No. 1 to Registrant's Form S-11 Registration Statement (File No. 33-2394) attached hereto as Exhibit 99b.

At December 31, 1998, there were 2,166 record holders, owning an aggregate of 314,687 interests.

The Partnership made its initial Cash Distribution from Operations following the quarter ended November 30, 1986, the first complete quarter subsequent to the acceptance of subscriptions for the minimum number of Interests offered, and has continued to make distributions after each subsequent quarter. See "Item 6. Selected Financial Data" for the cash distributions per Limited Partnership Interest during the years ended December 31, 1994 through December 31, 1998. The Partnership intends to continue making Cash Distributions from Operations on a quarterly basis.

The Partnership Agreement provides that under certain circumstances, the General Partners may, in their sole discretion and upon the request of a Limited Partner, repurchase the Interests held by such Limited Partner. Murray Realty Investors IX, Inc. is obligated to set aside 25% of its share of Cash Distributions from Operations and Crozier Partners IX, Ltd. is obligated to set aside 25% of its 5% share of Cash Distributions from Operations that is subordinated to the prior receipt by the Limited Partners of a non-cumulative 7% annual return from Cash Distributions from Operations for this purpose. Any such repurchase shall be subject to the availability of funds set aside and the other terms and conditions set forth in the Partnership Agreement. For information on such terms and conditions, see Section 10.17 of the Agreement of Limited Partnership as contained in Amendment No. 9 to the Agreement of Limited Partnership contained in the Proxy Statement dated October 11, 1989 attached hereto as Exhibit 99c. As of December 31, 1998, no funds were available for this purpose.

ITEM 6. SELECTED FINANCIAL DATA.

<TABLE>  
<CAPTION>

|                     | YEAR ENDED DECEMBER 31, |              |              |              |              |
|---------------------|-------------------------|--------------|--------------|--------------|--------------|
|                     | 1998                    | 1997         | 1996         | 1995         | 1994         |
| <S>                 | <C>                     | <C>          | <C>          | <C>          | <C>          |
| Income              | \$ 3,124,604            | \$ 2,927,389 | \$ 2,947,806 | \$ 2,794,261 | \$ 2,743,911 |
| Net Earnings        | 1,290,459               | 1,108,782    | 1,160,228    | 1,121,097    | 1,064,413    |
| Basic earnings per  |                         |              |              |              |              |
| Limited Partnership |                         |              |              |              |              |
| Interest*           | 3.97                    | 3.40         | 3.56         | 3.44         | 3.26         |
| Distributions per   |                         |              |              |              |              |
| Limited Partnership |                         |              |              |              |              |
| Interest*           | 6.00                    | 5.94         | 6.00         | 6.00         | 5.63         |
| Total Assets at     |                         |              |              |              |              |
| Year End            | \$18,748,341            | \$19,396,894 | \$20,161,224 | \$20,934,041 | \$21,767,471 |

\* Based on Limited Partnership Interests outstanding at year-end and net earnings or distributions allocated to the Limited Partners.

4

7

The above selected financial data should be read in conjunction with the

financial statements and related notes appearing in Item 8 of this report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

As of December 31, 1998, the Partnership had cash, cash equivalents and certificates of deposit of \$1,342,995, which included \$1,312,805 invested in certificates of deposit and other money market instruments. Such amounts represent cash generated from operations and working capital reserves. The decrease in cash and cash equivalents from December 31, 1997 to December 31, 1998 is primarily due to the purchase of a new roof at Paddock Place and increases in tenant finish and leasing costs at each of the Partnership's properties.

Rental income from leases is accrued using the straight line method over the related lease terms. At December 31, 1998 and December 31, 1997, there were \$232,338 and \$185,338, respectively, of accounts receivable related to such accruals. Accounts receivable also consist of tenant receivables, receivables for rents collected (but not yet remitted to the Partnership by the property management companies managing the properties), and interest receivable on short-term investments. The increase in accounts receivable of \$74,713 (exclusive of bad debts and recoveries) from December 31, 1997 to December 31, 1998 is primarily due to increases in tenant receivables at Germantown and Paddock Place and increases in receivables related to the accruals described above at each of the Partnership's properties.

Other assets consist primarily of deferred leasing costs. The increase in other assets of \$289,013 is primarily due to an increase (exclusive of amortization) in leasing commissions paid at each of the Partnership's properties.

During the year ended December 31, 1998, the Partnership made Cash Distributions from Operations totaling \$1,926,654. Subsequent to December 31, 1998 the Partnership made a Cash Distribution from Operations of \$481,664, which related to the three months ended December 31, 1998. The funds distributed were derived from the net cash flow generated from operations of the Partnership's properties and from interest earned, net of administrative expenses, on funds invested in short-term money market instruments and certificates of deposit.

Future liquidity is currently expected to result from cash generated from the operations of the Partnership's properties (which could be affected negatively in the event of weakened occupancies and/or rental rates), interest earned on funds invested in short-term money market instruments and certificates of deposit, and ultimately through the sale of the Partnership's properties.

Overall market conditions remained stable in the cities in which the Partnership owns property. This is evidenced by the fact that two of the properties maintained the same average occupancy in 1998 as 1997, and two of the properties experienced slight decreases in occupancy as compared to the previous year. Real estate activity typically parallels employment, job growth, and housing starts, and a strong national economy has spurred the construction of new retail development in these markets. However, in Memphis and Nashville, most of this new development has been in areas that are not in close proximity to Germantown and Paddock Place. This is due to restrictive zoning and the lack of available land in these sub-markets. The sub-market in which Tower Place is located has seen significant retail development; however, most of this development has been power centers and a regional mall, and therefore, does not typically compete for the same type retailer as Tower Place. Unfortunately, Tower Place did lose a major tenant when General Cinema closed its eight-screen movie theater in August, 1998. This tenant has continued to pay rent according to the terms of its lease. To date, Tower Place has not seen its occupancy or overall performance severely impacted by the loss of the theater. However, an unoccupied anchor space could result in less foot traffic in the

shopping center, thereby impacting the sales of smaller tenants and, consequently, their ability to pay rent. It could also impact the ability to attract new retailers when space does become available for lease. Management is working diligently to lease this space so that the property's long-term performance is not adversely affected. The Dallas-Fort Worth industrial market remains healthy, although there are some signs of overbuilding. According to published reports, approximately 7 million square feet of industrial space was absorbed through the first half of 1998. This is less than the 8.4 million square feet of new space that came on the market during the first six months of the year. Around 11.5 million square feet of additional industrial space was

under construction at the end of June 1998.

Results of Operations

Rental income increased \$202,308 (8%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997. Rental income decreased \$25,682 (1%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996. The following information details the rental income generated, bad debt expense incurred, and average occupancy for the years ended December 31, 1998, December 31, 1997 and December 31, 1996.

<TABLE>

<CAPTION>

|                                       | FOR THE YEARS ENDED<br>DECEMBER 31, |              |              |
|---------------------------------------|-------------------------------------|--------------|--------------|
|                                       | 1998                                | 1997         | 1996         |
| <S>                                   | <C>                                 | <C>          | <C>          |
| Paddock Place Shopping Center         |                                     |              |              |
| Rental income                         | \$ 1,194,824                        | \$ 1,166,486 | \$ 1,180,740 |
| Bad debt expense (recovery)           | 28,844                              | (7,200)      | (4,549)      |
| Average occupancy                     | 95%                                 | 94%          | 97%          |
| Germantown Collection Shopping Center |                                     |              |              |
| Rental income                         | \$ 1,084,570                        | \$ 1,008,103 | \$ 1,052,117 |
| Bad debt expense                      | -0-                                 | 686          | -0-          |
| Average occupancy                     | 94%                                 | 94%          | 99%          |
| 1202 Industrial Place                 |                                     |              |              |
| Rental income                         | \$ 613,424                          | \$ 515,921   | \$ 483,335   |
| Bad debt expense                      | -0-                                 | -0-          | -0-          |
| Average occupancy                     | 100%                                | 100%         | 100%         |

</TABLE>

Rental income at Paddock Place Shopping Center in Nashville, Tennessee increased \$28,338 (2%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997 with increases in base rent being offset by a decrease in percentage rent received from J. Alexander's Restaurant. Paddock Place had an increase in base rents due to higher rental rates and also had increases in percentage rent received from J. Alexander's Restaurant and tenant reimbursements for common area maintenance costs for the year ended December 31, 1997. However, the 1996 same period income included a one time \$40,000 fee as consideration for the termination of the Waldenbooks lease. The increase in rent income components described above in the amount of \$25,746 less the one time fee of \$40,000 received in 1996 resulted in a net decrease of \$14,254 (1%) for the period ended December 31, 1997 as compared to the same period in 1996.

Paddock Place averaged 95% occupancy for the year ended December 31, 1998, a one percent increase over the previous year. A tenant who occupied 3,706 square feet reduced the size of its space to 1,870 square feet. The remaining 1,836 square feet was leased by an adjacent tenant who now leases a total of 7,060 square feet. A restaurant which occupied 2,160 square feet vacated its space prior to expiration of its lease. This tenant continued to pay rent and subsequently assigned its lease to another restaurant. During this transition, there was no loss of income to the Partnership. A tenant who occupied 1,354 square feet vacated its space prior to the expiration of its lease. This space was then leased to an existing tenant who now leases a total of 4,154 square feet.

6

9

One tenant who leases 2,332 square feet renewed its lease for five years and two tenants who lease a total of 4,486 square feet renewed their leases for three years. A tenant who leased 6,669 square feet vacated its space upon expiration of its lease. During the year, a new roof was installed on the entire shopping center. As of December 31, 1998, Paddock Place was 90% occupied.

Rental income at Germantown Collection in Germantown (Memphis), Tennessee increased \$76,467 (8%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997 due to higher rental rates and an increase in tenant reimbursements for real estate taxes, offset by decreases in tenant reimbursements for common area maintenance costs. Rental income at Germantown Collection decreased \$44,014 (4%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996 due to a decrease in occupancy and a decrease in percentage rent received from Chili's Restaurant, offset by an increase in tenant reimbursements for common area maintenance costs.

Occupancy at Germantown averaged 94% for the year ended December 31, 1998,



unchanged from the previous year. Three new leases totaling 8,191 square feet were executed and all of these tenants took occupancy during the year. A tenant who leased 1,052 square feet moved to a larger space containing 2,668 square feet. The 1,052 square foot space was subsequently leased to an existing tenant who now leases a total of 2,552 square feet. Two tenants totaling 6,775 square feet renewed their leases for five years. Two tenants totaling 2,777 square feet assigned their leases to new tenants with no loss of income to the Partnership. As of December 31, 1998, Germantown was 100% occupied.

Rental income at 1202 Industrial Place in Grand Prairie (Dallas), Texas increased \$97,503 (19%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997 primarily due to higher rental rates on a lease extension with Pierce Leahy, the warehouse's primary tenant, and an increase in tenant reimbursements for common area maintenance costs and real estate taxes. Rental income at 1202 Industrial Place increased \$32,586 (7%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily due to higher rental rates and an increase in tenant reimbursements for common area maintenance costs and real estate taxes.

1202 Industrial Place averaged 100% occupancy for the year ended December 31, 1998, unchanged from the previous year. In August, Care Management Inc., a tenant who leases 54,000 square feet, ceased operations at the building. Their lease expires November 30, 2000. Care Management has continued to pay rent according to the terms of its lease, and subsequent to moving out, has subleased the space on a short-term basis until July 31, 1999. Pierce Leahy Corporation, who leases 118,800 square feet, signed a lease to take the 54,000 square foot space effective December 1, 2000. This lease will give Pierce Leahy 100% occupancy of the building. The new lease, as well as their existing lease which was extended, will expire on October 31, 2014. As of December 31, 1998, 1202 Industrial Place was 100% occupied.

"Equity in earnings of joint venture" represents the Partnership's 15% interest in the earnings of Tower Place Joint Venture. Rental income at Tower Place Festival Shopping Center in Pineville (Charlotte), N.C. increased \$14,414 (1%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997, with increases in rental rates offset by decreases in tenant reimbursements for common area maintenance costs, reimbursements for common advertising costs and a decrease in percentage rent received. Rental income at Tower Place increased \$36,633 (2%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily due to an increase in occupancy, an increase in rental rates and an increase in tenant reimbursements for common area maintenance costs, offset by a decrease in percentage rent received. Tower Place's total operating expenses decreased with higher repair and maintenance costs offset by lower leasing and promotion costs. During 1998, the tenants at Tower Place stopped paying into a marketing fund for common advertising costs. This resulted in lower income from reimbursements for advertising costs and a corresponding decrease in advertising expenses. The following information details the

rental income generated, bad debt expense incurred, and average occupancy for the years ended December 31, 1998, 1997, and 1996:

<TABLE>  
<CAPTION>

|                             | For the years ended |              |              |
|-----------------------------|---------------------|--------------|--------------|
|                             | December 31,        |              |              |
|                             | 1998                | 1997         | 1996         |
| Tower Place Shopping Center |                     |              |              |
| Rental income               | \$ 1,787,124        | \$ 1,772,710 | \$ 1,736,077 |
| Bad debt expense (recovery) | 448                 | 2,997        | (4,305)      |
| Average occupancy           | 96%                 | 98%          | 97%          |

The Partnership's share of income from the joint venture increased \$4,904 (4%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997 for the reasons stated above. The Partnership's share of income from the joint venture increased \$3,334 (3%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996 for the reasons stated above.

Tower Place averaged 96% occupancy for the year ended December 31, 1998, a two percent decrease from the previous year. A new lease for 1,604 square feet was executed in January and the tenant took occupancy in February. One tenant who occupied 1,050 square feet vacated its space prior to the expiration of its

lease. This space was subsequently leased to an existing tenant who now leases a total of 3,750 square feet. Two other tenants who occupied a total of 3,570 square feet vacated their spaces prior to lease expiration. Both of these spaces have been leased to new tenants who will take occupancy during the first quarter of 1999. Two tenants who occupied a total of 2,650 square feet vacated their spaces upon the expiration of their leases. One of these spaces, containing 1,050 square feet, was leased to a new tenant who took occupancy in September. One tenant who occupies 3,500 square feet renewed its lease for five years and two tenants who occupy a total of 5,322 square feet renewed their leases for three years. A tenant who occupies 1,400 square feet renewed its lease for two years and a tenant who occupies 1,120 square feet renewed its lease for one year. General Cinema, whose eight-screen theater occupies 31,837 square feet, ceased operations in August. They have continued to pay rent according to the terms of their lease, which expires September 30, 2006. Management is aggressively seeking a replacement tenant for this space. As of December 31, 1998, Tower Place was 98% leased.

Depreciation is provided over the estimated useful lives of the respective assets using the straight line method. The estimated useful lives of the buildings and improvements range from three to twenty-five years.

Property operating expenses consist primarily of utility costs, repair and maintenance costs, leasing and promotion costs, real estate taxes, insurance and property management fees. Total property operating expenses increased \$25,788 (3%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997. The increase is due to higher repair and maintenance costs, property management fees, real estate taxes and amortization of leasing costs, offset by lower utility costs and leasing and promotion expenses. Property operating expenses at Germantown increased \$5,933 (2%), with increases in repair and maintenance costs and property management fees offset by decreases in leasing and promotion costs and real estate taxes. Property operating expenses at Paddock Place decreased slightly (\$1,098), with increases in real estate taxes and amortization of leasing costs being more than offset by decreases in repair and maintenance costs and utility costs. Property operating expenses at 1202 Industrial Place increased \$20,953 (11%) due to increases in real estate taxes, property management fees and amortization of leasing costs.

Property operating expenses increased \$16,362 (2%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996. The increase is due to higher real estate taxes and leasing and promotion costs. Property operating expenses at Germantown decreased \$5,949 (2%), with decreases in parking lot repairs and maintenance and landscaping costs being offset by

increases in leasing and promotion costs and utility costs. Property operating expenses at Paddock Place increased \$4,322 (2%), with increases in real estate taxes and parking lot repair and maintenance costs being offset by decreases in utilities and snow removal costs. Property operating expenses at 1202 Industrial Place increased \$17,989 (11%) primarily due to increases in parking lot repair and maintenance costs and real estate taxes offset by decreases in insurance costs and general building repair and maintenance costs.

General and administrative expenses incurred are related to legal and accounting expenses, rent, investor services costs, salaries and benefits and various other costs required for the administration of the Partnership. General and administrative expenses decreased \$36,100 (10%) for the year ended December 31, 1998 as compared to the year ended December 31, 1997 primarily due to decreases in accounting and legal costs, investor services costs and telephone expenses, offset by increases in salaries and benefits.

General and administrative expenses increased \$26,364 (8%) for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily due to increases in telephone, salaries and benefits, seminars and education costs, travel costs and legal and accounting fees.

Bad debt expense was \$28,844 for the year ended December 31, 1998. This expense occurred primarily because one tenant at Paddock Place declared bankruptcy and vacated the premises during the year.

The effect of inflation on results of operations for the years ended December 31, 1998, 1997, and 1996 was not significant.

The Partnership recognizes that the arrival of the Year 2000 poses a unique challenge to the ability of an entity's information technology system and non-information technology systems to recognize the date change from December 31, 1999 to January 1, 2000. The Partnership is continuing to assess and has made certain changes to provide for continued functionality of its systems. An assessment of the readiness of the Partnership's external entities,

such as vendors, customers, payment systems and others is still ongoing. Due to the nature and extent of the Partnership's operations that are affected by Year 2000 issues, the Partnership does not believe that Year 2000 issues will have a material adverse effect on the business operation or the financial performance of the Partnership. There can be no assurance, however, that Year 2000 issues will not adversely affect the Partnership or its business. The Partnership believes that the cost to make appropriate changes of its internal and external systems will not be significant and that such costs will be funded completely through operations.

Words or phrases when used in the Form 10-K or other filings with the Securities and Exchange Commission, such as "does not believe" and "believes" or similar expressions, are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

The Partnership's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued property taxes payable, and security deposits. The carrying amount of these instruments approximate fair value due to the short-term nature of these instruments. Therefore, the Partnership believes it is relatively unaffected by interest rate changes or other market risks.

9

12

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following financial statements are filed as part of this report:

| <TABLE><br><CAPTION>                                                                          | Page<br>Number<br>----- |
|-----------------------------------------------------------------------------------------------|-------------------------|
| <S><br>Independent Auditors' Report                                                           | <C><br>11               |
| Balance Sheets -- December 31, 1998 and 1997                                                  | 12                      |
| Statements of Earnings -- Years ended December 31, 1998, 1997, and 1996                       | 13                      |
| Statements of Changes in Partners' Equity -- Years ended<br>December 31, 1998, 1997, and 1996 | 14                      |
| Statements of Cash Flows -- Years ended December 31, 1998, 1997, and 1996                     | 15                      |
| Notes to Financial Statements                                                                 | 16-20                   |
| </TABLE>                                                                                      |                         |

10

13

INDEPENDENT AUDITORS' REPORT

The Partners  
Murray Income Properties II, Ltd.:

We have audited the accompanying balance sheets of Murray Income Properties II, Ltd. (a limited partnership) as of December 31, 1998 and 1997, and the related statements of earnings, changes in partners' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Murray Income Properties II, Ltd. as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Dallas, Texas  
February 26, 1999

11

14

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

<TABLE>  
<CAPTION>

|                                                                                                                        | 1998          | 1997          |
|------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                        | -----         | -----         |
| <S>                                                                                                                    | <C>           | <C>           |
| <b>ASSETS</b>                                                                                                          |               |               |
| Investment properties, at cost (note 3):                                                                               |               |               |
| Land                                                                                                                   | \$ 5,789,291  | \$ 5,789,291  |
| Buildings and improvements                                                                                             | 17,813,151    | 17,495,190    |
|                                                                                                                        | -----         | -----         |
|                                                                                                                        | 23,602,442    | 23,284,481    |
| Less accumulated depreciation                                                                                          | 8,431,219     | 7,716,316     |
|                                                                                                                        | -----         | -----         |
| Net investment properties                                                                                              | 15,171,223    | 15,568,165    |
| Investment in joint venture,<br>at equity (note 4)                                                                     | 1,321,510     | 1,391,212     |
| Cash and cash equivalents                                                                                              | 745,995       | 890,256       |
| Certificates of deposit                                                                                                | 597,000       | 896,000       |
| Accounts receivable, net of allowances of<br>\$-0- and \$1,447 in 1998 and 1997,<br>respectively (note 1)              | 453,670       | 407,801       |
| Other assets, at cost, net of accumulated<br>amortization of \$554,007 and \$480,477 in<br>1998 and 1997, respectively | 458,943       | 243,460       |
|                                                                                                                        | -----         | -----         |
|                                                                                                                        | \$ 18,748,341 | \$ 19,396,894 |
|                                                                                                                        | =====         | =====         |
| <b>LIABILITIES AND PARTNERS' EQUITY</b>                                                                                |               |               |
| Accounts payable                                                                                                       | \$ 19,293     | \$ 6,401      |
| Accrued property taxes                                                                                                 | 297,194       | 291,570       |
| Security deposits and other liabilities                                                                                | 72,906        | 108,423       |
| Deferred income (note 3)                                                                                               | 35,470        | 30,827        |
|                                                                                                                        | -----         | -----         |
| Total liabilities                                                                                                      | 424,863       | 437,221       |
|                                                                                                                        | -----         | -----         |
| Partners' equity:                                                                                                      |               |               |
| General Partners:                                                                                                      |               |               |
| Capital contributions                                                                                                  | 1,000         | 1,000         |
| Cumulative net earnings                                                                                                | 645,335       | 603,815       |
| Cumulative cash distributions                                                                                          | (645,713)     | (607,180)     |
|                                                                                                                        | -----         | -----         |
|                                                                                                                        | 622           | (2,365)       |
|                                                                                                                        | -----         | -----         |
| Limited Partners (314,687 Interests):                                                                                  |               |               |
| Capital contributions, net of offering costs                                                                           | 27,029,395    | 27,029,395    |
| Cumulative net earnings                                                                                                | 13,143,140    | 11,894,201    |
| Cumulative cash distributions                                                                                          | (21,849,679)  | (19,961,558)  |
|                                                                                                                        | -----         | -----         |
|                                                                                                                        | 18,322,856    | 18,962,038    |
|                                                                                                                        | -----         | -----         |

|                        |               |               |
|------------------------|---------------|---------------|
| Total partners' equity | 18,323,478    | 18,959,673    |
|                        | -----         | -----         |
|                        | \$ 18,748,341 | \$ 19,396,894 |
|                        | =====         | =====         |

</TABLE>

See accompanying notes to consolidated financial statements.

12

15

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

STATEMENTS OF EARNINGS

<TABLE>  
<CAPTION>

|                                                    | Years Ended<br>December 31, |              |              |
|----------------------------------------------------|-----------------------------|--------------|--------------|
|                                                    | 1998                        | 1997         | 1996         |
|                                                    | -----                       | -----        | -----        |
| <S>                                                | <C>                         | <C>          | <C>          |
| INCOME:                                            |                             |              |              |
| Rental (note 3)                                    | \$ 2,892,818                | \$ 2,690,510 | \$ 2,716,192 |
| Interest                                           | 91,488                      | 101,485      | 99,554       |
| Equity in earnings of joint<br>venture (note 4)    | 140,298                     | 135,394      | 132,060      |
|                                                    | -----                       | -----        | -----        |
|                                                    | 3,124,604                   | 2,927,389    | 2,947,806    |
|                                                    | -----                       | -----        | -----        |
| EXPENSES:                                          |                             |              |              |
| Depreciation                                       | 714,903                     | 724,411      | 734,143      |
| Property operating (note 5)                        | 778,727                     | 752,939      | 736,577      |
| General and administrative                         | 311,671                     | 347,771      | 321,407      |
| Bad debts (recoveries), net                        | 28,844                      | (6,514)      | (4,549)      |
|                                                    | -----                       | -----        | -----        |
|                                                    | 1,834,145                   | 1,818,607    | 1,787,578    |
|                                                    | -----                       | -----        | -----        |
| Net earnings                                       | \$ 1,290,459                | \$ 1,108,782 | \$ 1,160,228 |
|                                                    | =====                       | =====        | =====        |
| Basic earnings per limited partnership<br>interest | \$ 3.97                     | \$ 3.40      | \$ 3.56      |
|                                                    | =====                       | =====        | =====        |

</TABLE>

See accompanying notes to consolidated financial statements.

13

16

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

STATEMENTS OF CHANGES IN PARTNERS' EQUITY  
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

<TABLE>  
<CAPTION>

|                                                                 | General    | Limited       | Total         |
|-----------------------------------------------------------------|------------|---------------|---------------|
|                                                                 | Partners   | Partners      |               |
|                                                                 | -----      | -----         | -----         |
| <S>                                                             | <C>        | <C>           | <C>           |
| YEAR ENDED DECEMBER 31, 1996:                                   |            |               |               |
| Balance at December 31, 1995                                    | \$ (3,134) | \$ 20,527,015 | \$ 20,523,881 |
| Net earnings                                                    | 39,334     | 1,120,894     | 1,160,228     |
| Cash distributions (\$6.00 per limited<br>partnership interest) | (38,533)   | (1,888,103)   | (1,926,636)   |
|                                                                 | -----      | -----         | -----         |
| Balance at December 31, 1996                                    | \$ (2,333) | \$ 19,759,806 | \$ 19,757,473 |
|                                                                 | -----      | -----         | -----         |
| YEAR ENDED DECEMBER 31, 1997:                                   |            |               |               |
| Net earnings                                                    | 38,100     | 1,070,682     | 1,108,782     |
| Cash distributions (\$5.94 per limited<br>partnership interest) | (38,132)   | (1,868,450)   | (1,906,582)   |

|                              |            |               |               |
|------------------------------|------------|---------------|---------------|
| Balance at December 31, 1997 | \$ (2,365) | \$ 18,962,038 | \$ 18,959,673 |
|------------------------------|------------|---------------|---------------|

YEAR ENDED DECEMBER 31, 1998:

|                                                              |          |               |               |
|--------------------------------------------------------------|----------|---------------|---------------|
| Net earnings                                                 | 41,520   | 1,248,939     | 1,290,459     |
| Cash distributions (\$6.00 per limited partnership interest) | (38,533) | (1,888,121)   | (1,926,654)   |
| Balance at December 31, 1998                                 | \$ 622   | \$ 18,322,856 | \$ 18,323,478 |

</TABLE>

See accompanying notes to consolidated financial statements.

14

17

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

|                                                                                     | Years ended<br>December 31, |              |              |
|-------------------------------------------------------------------------------------|-----------------------------|--------------|--------------|
|                                                                                     | 1998                        | 1997         | 1996         |
| <S>                                                                                 | <C>                         | <C>          | <C>          |
| Cash flows from operating activities:                                               |                             |              |              |
| Net earnings                                                                        | \$ 1,290,459                | \$ 1,108,782 | \$ 1,160,228 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                             |              |              |
| Bad debts (recoveries), net                                                         | 28,844                      | (6,514)      | (4,549)      |
| Depreciation                                                                        | 714,903                     | 724,411      | 734,143      |
| Equity in earnings of joint venture                                                 | (140,298)                   | (135,394)    | (132,060)    |
| Amortization of other assets                                                        | 73,530                      | 66,877       | 66,893       |
| Amortization of deferred income                                                     | (6,498)                     | (6,498)      | (6,498)      |
| Change in assets and liabilities:                                                   |                             |              |              |
| Accounts and notes receivable                                                       | (74,713)                    | (22,371)     | 64,790       |
| Other assets                                                                        | (289,013)                   | (74,868)     | (83,571)     |
| Accounts payable                                                                    | 12,892                      | 865          | (3,272)      |
| Accrued property taxes, security deposits and other liabilities and deferred income | (18,752)                    | 39,103       | 3,361        |
| Net cash provided by operating activities                                           | 1,591,354                   | 1,694,393    | 1,799,465    |
| Cash flows from investing activities:                                               |                             |              |              |
| Additions to investment properties                                                  | (317,961)                   | (31,585)     | (70,895)     |
| Purchases of certificates of deposit                                                | (498,000)                   | (996,000)    | (895,000)    |
| Proceeds from redemptions of certificates of deposit                                | 797,000                     | 995,000      | 895,000      |
| Distributions from joint venture                                                    | 210,000                     | 212,700      | 198,750      |
| Net cash provided by investing activities                                           | 191,039                     | 180,115      | 127,855      |
| Cash flows from financing activities - cash distributions                           | (1,926,654)                 | (1,906,582)  | (1,926,636)  |
| Net increase (decrease) in cash and cash equivalents                                | (144,261)                   | (32,074)     | 684          |
| Cash and cash equivalents at beginning of year                                      | 890,256                     | 922,330      | 921,646      |
| Cash and cash equivalents at end of year                                            | \$ 745,995                  | \$ 890,256   | \$ 922,330   |

</TABLE>

See accompanying notes to consolidated financial statements.

15

18

MURRAY INCOME PROPERTIES II, LTD.

NOTES TO FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 1998

1. ORGANIZATION AND BASIS OF ACCOUNTING

The Partnership was formed December 23, 1985 by filing a Certificate and Agreement of Limited Partnership with the Secretary of State of the State of Texas. The Partnership Agreement authorized the issuance of up to 500,000 limited partnership interests at a price of \$100 each, of which 314,687 limited partnership interests were issued. Proceeds from the sale of limited partnership interests, net of related selling commissions, dealer-manager fees and other offering costs, are recorded as contributed capital.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Rental income is recognized as earned under the leases. Accordingly, the Partnership accrues rental income for the full period of occupancy using the straight line method over the related terms. At December 31, 1998 and 1997, there were \$232,338 and \$185,338, respectively, of accounts receivable related to such accruals.

Other assets consist primarily of deferred leasing costs which are amortized using the straight line method over the lives of the related leases.

Depreciation is provided over the estimated useful lives of the respective assets using the straight line method. The estimated useful lives of the buildings and improvements range from three to twenty-five years.

The Partnership periodically reevaluates the propriety of the carrying amounts of investment properties to determine whether current events and circumstances warrant an adjustment to such carrying amounts. Such evaluations are performed utilizing annual appraisals performed by independent appraisers as well as internally developed estimates of expected undiscounted future cash flows. In the event the carrying value of an individual property exceeds expected future undiscounted cash flows, the property is written down to the most recently appraised value. Since inception of the Partnership, none of the Partnership's properties have required write downs.

No provision for income taxes has been made as the liabilities for such taxes are those of the individual Partners rather than the Partnership. The Partnership files its tax return on the accrual basis used for Federal income tax purposes.

Basic earnings and cash distributions per limited partnership interest are based upon the limited partnership interests outstanding at year-end and the net earnings and cash distributions allocated to the Limited Partners in accordance with the Partnership Agreement, as amended.

Continued

Certificates of deposit are held at commercial banks and are stated at cost, which approximates market. For purposes of reporting cash flows, the Partnership considers all certificates of deposit and highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

The following information relates to estimated fair values of the Partnership's financial instruments as of December 31, 1998 and 1997. For cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, accrued property taxes payable, and security deposits, the carrying amounts approximate fair value because of the short maturity of these instruments.

2. PARTNERSHIP AGREEMENT

Pursuant to the terms of the Partnership Agreement, net profits or losses of the Partnership and cash distributions are generally allocated 98% to the Limited Partners and 2% to the General Partners, except that all depreciation shall be allocated to those Limited Partners subject to Federal income taxes. Cash Distributions from the sale or refinancing of a property are allocated as follows:

- (a) First, all Cash Distributions from Sales or Refinancings shall be allocated 99% to the Limited Partners and 1% to the Non-corporate General Partner until the Limited Partners have been returned their Original Invested Capital from Cash Distributions from Sales or Refinancings, plus their Preferred Return from Cash Distributions from Operations or Cash Distributions from Sales or Refinancings.
- (b) Next, all Cash Distributions from Sales or Refinancings shall be allocated 99% to the General Partners and 1% to the Non-corporate General Partner in an amount equal to any unpaid Cash Distributions from Operations subordinated to the Limited Partners' 7% non-cumulative annual return. Such 99% shall be allocated 62 1/2% to the Non-corporate General Partner and 37 1/2% to the Corporate General Partner
- (c) Next, all Cash Distributions from Sales or Refinancings shall be allocated 1% to the Non-corporate General Partner and 99% to the Limited Partners and the General Partners. Such 99% will be allocated 85% to the Limited Partners and 15% to the General Partners. Such 15% shall be allocated 62 1/2% to the Non-corporate General Partner and 37 1/2% to the Corporate General Partner.

Continued

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENT PROPERTIES

The Partnership owns and operates Paddock Place Shopping Center in Nashville, Tennessee, Germantown Collection Shopping Center located in Germantown (Memphis), Tennessee and 1202 Industrial Place (an office/warehouse facility) located in Grand Prairie, Texas.

During 1998, the Partnership adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and related information", which established standards for the way that public business enterprises report information about operating segments in audited financial statements, as well as related disclosures about products and services, geographic areas, and major customers. The Partnership defines each of its shopping centers and its warehouse as operating segments; however, management has determined that all of its properties have similar economic characteristics and also meet the other criteria which permit the properties to be aggregated into one reportable segment. Management of the Partnership makes decisions about resource allocation and performance assessment based on the same financial information presented throughout these financial statements.

The Partnership had no outstanding receivable balances at December 31, 1998 or 1997, which, individually, exceeded 5% of the Partnership's total assets.

Rental income from a major customer was approximately \$282,000 during year ended December 31, 1998 and approximately \$257,000 for each of the years 1997 and 1996, respectively.

Operating leases with tenants range in terms from thirty-three months to fifteen years. Fixed minimum future rentals under existing leases at December 31, 1998 are as follows:

<TABLE>  
<CAPTION>  
Year ending December 31:

| <S>  | <C>          |
|------|--------------|
| 1999 | \$ 2,195,595 |
| 2000 | 2,042,875    |
| 2001 | 1,715,074    |
| 2002 | 1,353,635    |



|            |               |
|------------|---------------|
| 2003       | 839,705       |
| Thereafter | 6,285,554     |
|            | -----         |
|            | \$ 14,432,438 |
|            | =====         |

</TABLE>

Rental income includes \$563,986, \$543,118, and \$507,503 in 1998, 1997, and 1996, respectively, related to reimbursements from tenants for common area maintenance costs, real estate taxes and insurance costs.

During 1990, the Partnership reached a settlement with a tenant which provided for the receipt of \$245,000 in settlement of all past due rent and a modification of future rental obligations. In connection with this settlement, \$19,495 and \$25,993 at December 31, 1998 and 1997, respectively, is classified as deferred income and recognized on a straight line basis over the remaining term of this lease.

Continued

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENT IN JOINT VENTURE

The Partnership owns a 15% interest in Tower Place Joint Venture, a joint venture that owns and operates Tower Place Festival Shopping Center located in Pineville (Charlotte), North Carolina. The Partnership accounts for the joint venture using the equity method. The remaining 85% interest in the joint venture is owned by Murray Income Properties I, Ltd. ("MIP I"), an affiliated real estate limited partnership. The Tower Place Joint Venture Agreement provides that the Partnership will share profits, losses, and cash distributions according to the Partnership's 15% ownership interest in the joint venture.

Summarized financial information for the joint venture is as follows:

|                                               |              |              |
|-----------------------------------------------|--------------|--------------|
| <TABLE>                                       | December 31, |              |
| <CAPTION>                                     | 1998         | 1997         |
|                                               | -----        | -----        |
| <S>                                           | <C>          | <C>          |
| Total assets, principally investment property | \$ 8,995,551 | \$ 9,473,766 |
|                                               | =====        | =====        |
| Total liabilities                             | 185,484      | 199,023      |
| Venturers' capital                            | 8,810,067    | 9,274,743    |
|                                               | -----        | -----        |
|                                               | \$ 8,995,551 | \$ 9,473,766 |
|                                               | =====        | =====        |

</TABLE>

<TABLE>  
<CAPTION>

|              |                             |              |              |
|--------------|-----------------------------|--------------|--------------|
|              | Years ended<br>December 31, |              |              |
|              | 1998                        | 1997         | 1996         |
|              | -----                       | -----        | -----        |
| <S>          | <C>                         | <C>          | <C>          |
| Income       | \$ 1,810,269                | \$ 1,797,162 | \$ 1,761,565 |
| Expenses     | 874,946                     | 894,538      | 881,164      |
|              | -----                       | -----        | -----        |
| Net earnings | \$ 935,323                  | \$ 902,624   | \$ 880,401   |
|              | =====                       | =====        | =====        |

</TABLE>

5. TRANSACTIONS WITH AFFILIATES

Murray Realty Investors IX, Inc. ("MRI IX"), the Corporate General Partner, entered into a property management agreement with the Partnership for the management of 1202 Industrial Place, effective January 1, 1996. Pursuant to this agreement, MRI IX earned property management fees in the amount of \$17,832

and \$15,495 during the years ended December 31, 1998 and 1997. MRI IX entered into a property marketing agreement with the Partnership for the leasing of 1202 Industrial Place, effective August 4, 1998. Pursuant to this agreement, MRI IX earned leasing commissions in the amount of \$197,865 during the year ended December 31, 1998.

Continued

19

22

MURRAY INCOME PROPERTIES II, LTD.  
(A LIMITED PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

6. RECONCILIATION OF FINANCIAL STATEMENT NET EARNINGS AND PARTNERS' EQUITY TO FEDERAL INCOME TAX BASIS NET EARNINGS AND PARTNERS' EQUITY

Reconciliation of financial statement net earnings to Federal income tax basis net earnings is as follows:

<TABLE>  
<CAPTION>

|                                                                                              | Years Ended<br>December 31, |              |              |
|----------------------------------------------------------------------------------------------|-----------------------------|--------------|--------------|
|                                                                                              | 1998                        | 1997         | 1996         |
| <S>                                                                                          | <C>                         | <C>          | <C>          |
| Net earnings - financial statement basis                                                     | \$ 1,290,459                | \$ 1,108,782 | \$ 1,160,228 |
| Financial statement basis depreciation/amortization over tax basis depreciation/amortization | 94,799                      | 111,112      | 123,618      |
| Financial statement basis joint venture earnings under tax basis joint venture earnings      | 4,798                       | 6,560        | 2,906        |
| Tax basis rental income over (under) financial statement basis rental income                 | (41,302)                    | 23,404       | 23,274       |
| Sub-total                                                                                    | 58,295                      | 141,076      | 149,798      |
| Net earnings - Federal income tax basis                                                      | \$ 1,348,754                | \$ 1,249,858 | \$ 1,310,026 |

</TABLE>

Reconciliation of financial statement partners' equity to Federal income tax basis partners' equity is as follows:

<TABLE>  
<CAPTION>

|                                                                                           | Years Ended<br>December 31, |               |               |
|-------------------------------------------------------------------------------------------|-----------------------------|---------------|---------------|
|                                                                                           | 1998                        | 1997          | 1996          |
| <S>                                                                                       | <C>                         | <C>           | <C>           |
| Total partners' equity - financial statement basis                                        | \$ 18,323,478               | \$ 18,959,673 | \$ 19,757,473 |
| Current year tax basis net earnings over financial statement basis net earnings           | 58,295                      | 141,076       | 149,798       |
| Cumulative prior years tax basis net earnings over financial statement basis net earnings | 1,316,977                   | 1,175,901     | 1,026,103     |
| Total partners' equity - Federal income tax basis                                         | \$ 19,698,750               | \$ 20,276,650 | \$ 20,933,374 |

</TABLE>

Because many types of transactions are susceptible to varying interpretations under Federal and state income tax laws and regulations, the amounts reported above may be subject to change at a later date upon final determination by the taxing authorities.

20

23

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE PARTNERSHIP.

Murray Realty Investors IX, Inc., a Texas corporation, and Crozier Partners IX, Ltd., a Texas limited partnership, are the General Partners of the Partnership. The Limited Partners voting a majority of the interests may, without the consent of the General Partners, remove a General Partner and elect a successor General Partner.

The Partnership Agreement provides that the Partnership will have an Investment Committee consisting initially of three members, appointed by Murray Realty Investors IX, Inc. (the "Corporate General Partner"). A person appointed to the Investment Committee may be removed by the Corporate General Partner, but the Corporate General Partner must name a replacement. The acquisition, sale, financing or refinancing of a Partnership property must be approved by a majority of the members of the Investment Committee. The members of the Investment Committee currently are Messrs. Jack E. Crozier, Mitchell L. Armstrong and W. Brent Buck. Murray Realty Investors IX, Inc. is owned 60% by Mr. Armstrong and 40% by Mr. Buck. The following is a brief description of Jack E. Crozier, a general partner of Crozier Partners IX, Ltd. a General Partner, and the directors and executive officers of the Corporate General Partner:

Crozier Partners IX, Ltd., General Partner

Jack E. Crozier, 70, General Partner. From 1954 through July 1990, Mr. Crozier was affiliated with Murray Financial Corporation and various of its affiliates. From 1977 through 1988, he was President of Murray Financial Corporation, and from 1982 until June 1989, he also served as President of Murray Savings Association, a principal affiliate of Murray Financial Corporation. He served as President or Director of various other subsidiaries of Murray Financial Corporation which were engaged in real estate finance, development and management. He also served as the general partner in a number of publicly registered limited partnerships, and a number of non-registered limited partnerships, all of which had real estate as their principal assets. He is a consultant to several companies.

Murray Realty Investors IX, Inc., Corporate General Partner

The directors and executive officers of Murray Realty Investors IX, Inc. are:

Mitchell L. Armstrong, 48, President and Director. Mr. Armstrong became President of Murray Realty Investors IX, Inc. on November 15, 1989. From September 1984 to that date, he was Senior Vice President Product Development of Murray Realty Investors, Inc. and Murray Property Investors, and Vice President - Tax for Murray Properties Company. From November 1988 to November 15, 1989, he also served as Secretary to these companies. From August 1983 to September 1984, he was Executive Vice President of Dover Realty Investors. From September 1980 to August 1983, he was with Murray Properties Company, in charge of tax planning and reporting. From July 1972 to August 1980, he was with the international accounting firm of Deloitte Haskins and Sells (now Deloitte & Touche). Mr. Armstrong is a Certified Public Accountant and a Certified Financial Planner and holds a Bachelor of Business Administration degree with high honors in Accounting from Texas Tech University. He is a member of the American Institute of Certified Public Accountants and a member of the Institute of Certified Financial Planners.

W. Brent Buck, 43, Executive Vice President and Director. Mr. Buck became Executive Vice President of Murray Realty Investors VIII, Inc., on November 15, 1989. From September 1981 to November 15, 1989, Mr. Buck served in various capacities for Murray Properties Company and certain subsidiaries. His primary responsibilities included property acquisitions and asset management. He was responsible for initially identifying and negotiating the purchase of all

properties in the Partnership, except for Mountain View Plaza Shopping Center. Since their acquisition to the present time, he has continued to oversee the management of all properties of the Partnership. Mr. Buck holds a Master of Business Administration degree in Finance and a Bachelor of Public Administration degree in Urban Administration from the University of Mississippi. He also holds a Texas real estate salesman license and a

## ITEM 11. EXECUTIVE COMPENSATION.

Pursuant to an amendment to the Partnership Agreement effective November 15, 1989, Murray Income Properties II, Ltd. is reimbursed by Murray Income Properties I, Ltd. for forty-seven percent (47%) of executive compensation incurred in the management of the two partnerships. Murray Income Properties I, Ltd. is a real estate limited partnership, the general partners of which are affiliates of the General Partners. The following table presents Murray Income Properties II, Ltd.'s share of executive compensation.

## SUMMARY COMPENSATION TABLE

&lt;TABLE&gt;

&lt;CAPTION&gt;

| Name and Principal Position                 | ANNUAL COMPENSATION |           |                            |
|---------------------------------------------|---------------------|-----------|----------------------------|
|                                             | Year                | Salary    | All Other Compensation (1) |
| <S>                                         | <C>                 | <C>       | <C>                        |
| Mitchell L. Armstrong,<br>President*        | 1998                | \$ 66,621 | \$ 2,848                   |
|                                             | 1997                | 65,507    | 2,815                      |
|                                             | 1996                | 63,414    | 499                        |
| W. Brent Buck,<br>Executive Vice President* | 1998                | 49,611    | 1,733                      |
|                                             | 1997                | 48,782    | 1,695                      |
|                                             | 1996                | 47,224    | 221                        |

&lt;/TABLE&gt;

\* Offices held in Murray Realty Investors IX, Inc., the Corporate General Partner.

(1) The Partnership provides the named executive officers with certain group life, health, medical and other non-cash benefits generally available to all salaried employees. The amounts shown in this column include the following:

(a) Matching contributions by the Partnership under its SIMPLE-IRA plan which equaled 3% of each employee's covered compensation (salary and term insurance value). During 1998 the Partnership's matching contributions were \$2,024 for Mr. Armstrong and \$1,499 for Mr. Buck.

(b) Full premium cost of term insurance that will benefit the executive.

The Partnership and Murray Income Properties I, Ltd. entered into severance agreements with Mr. Armstrong and Mr. Buck effective September 16, 1996. Pursuant to these agreements, upon the occurrence of specified events, the Partnership will be obligated for fifty-three (53%) of any benefits paid pursuant to the agreements to either Mr. Armstrong or Mr. Buck. The agreement with Mr. Armstrong provides for a benefit amount equal to the value of the aggregate of one month of his highest monthly salary paid at any time during the twelve months prior to his termination multiplied by fifteen (15), plus the current monthly cost of such health, disability and life benefits (including spousal or similar coverage and coverage for children) which he was receiving or entitled to receive immediately prior to termination multiplied by eighteen (18). The agreement with Mr. Buck provides for a benefit amount equal to the value of the aggregate of one month of his highest monthly salary paid at any time during the twelve months prior to his termination multiplied by twelve (12), plus the current monthly cost of such health, disability and life benefits (including

spousal or similar coverage and coverage for children) which he was receiving or entitled to receive immediately prior to termination multiplied by fourteen (14).

The Partnership has not paid and does not propose to pay any bonuses or deferred compensation, compensation pursuant to retirement or other plans, or other compensation to the officers, directors or partners of the General Partners other than described in the above table or the above paragraph. In addition, there are no restricted stock awards, options or stock appreciation rights, or any other long term incentive payouts.

During the operational and liquidation stages of this Partnership, the General Partners and their affiliates receive various fees and distributions. For information on these types of remuneration, reference is made to the

section entitled "Management Compensation" as contained in the Prospectus dated February 20, 1986 filed as a part of Amendment No. 1 to Registrant's Form S-11 Registration Statement (File No. 33-2394) attached hereto as Exhibit 99d. See "Item 13. Certain Relationships and Related Transactions" for information on the fees and other compensation or reimbursements paid to the General Partners or their Affiliates during the year ended December 31, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

No person (including any "group" as that term is used in Section 13 (d) (3) of the Securities Exchange Act of 1934) is known to the Partnership to be the beneficial owner of more than five percent of the outstanding voting Interests as of December 31, 1998.

The following table presents certain information regarding the number of Interests owned, directly or indirectly, by (i) a general partner of a General Partner and executive officers and directors of a General Partner and (ii) a general partner of a General Partner and executive officers and directors of a General Partner as a group as of December 31, 1998:

<TABLE>  
<CAPTION>

| Title of Class                                       | Beneficial Owner                   | Amount and Nature<br>Of Beneficial<br>Beneficial Ownership | Percent<br>of Class |
|------------------------------------------------------|------------------------------------|------------------------------------------------------------|---------------------|
| -----                                                | -----                              | -----                                                      | -----               |
| <S>                                                  | <C>                                | <C>                                                        | <C>                 |
| Limited Partnership Interests,<br>\$100 per Interest | Mitchell L. Armstrong              | 377 (1)                                                    | .12%                |
|                                                      | W. Brent Buck                      | 251 (2)                                                    | .08%                |
|                                                      | Jack E. Crozier                    | 736 (3)                                                    | .23%                |
| Limited Partnership Interest,<br>\$100 per Interest  | All General Partners<br>as a group | 1,057                                                      | .34%                |

</TABLE>

- (1) The total of 377 Interests listed above includes 126 Interests owned beneficially and of record by First Trust Corporation, Trustee for the benefit of Mitchell L. Armstrong IRA; 195 Interests owned by Murray Realty Investors IX, Inc., a corporation in which Mr. Armstrong is an officer, director, and substantial owner; and 56 Interests owned by Crozier Partners IX, Ltd., a partnership in which Mr. Armstrong is a limited partner.
- (2) The total of 251 Interests listed above includes 195 Interests owned by Murray Realty Investors IX, Inc., a corporation in which Mr. Buck is an officer, director and substantial owner; and 56 Interests owned by Crozier Partners IX, Ltd., a partnership in which Mr. Buck is a limited partner.
- (3) The total of 736 Interests listed above included 272 Interests owned by Crozier Partners IX, Ltd., a partnership in which Mr. Crozier is a general partner and 464 Interests owned by Mrs. Irma Crozier as her separate property.

No arrangements are known to the Partnership which may result in a change of control of the Partnership.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

During the year ended December 31, 1998 the Partnership was reimbursed by Murray Income Properties I, Ltd. ("MIP I") for forty-seven percent (47%) of the costs associated with the management of the Partnership and MIP I. MIP I is a publicly-registered real estate limited partnership, the general partners of which are affiliates of the General Partners. The reimbursement has been accounted for as a reduction of general and administrative expenses. Murray Realty Investors IX, Inc. ("MRI IX"), the Corporate General Partner, entered into a property management agreement with the Partnership for the management of 1202 Industrial Place, effective January 1, 1996. Pursuant to this agreement, MRI IX earned property management fees in the amount of \$17,832 and \$15,495 during the years ended December 31, 1998 and 1997. MRI IX entered into a property marketing agreement with the Partnership for the leasing of 1202 Industrial Place, effective August 4, 1998. Pursuant to this agreement, MRI IX earned leasing commissions in the amount of \$197,865 during the year ended December 31, 1998.

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- (a) 1. Financial Statements - See Index to Financial Statements in Item 8 of this Form 10-K
2. Financial Statement Schedules with Independent Auditors' Report Thereon:
- (i) Valuation and Qualifying Accounts (Schedule II) - Years ended December 31, 1998, 1997, and 1996.
- (ii) Real Estate and Accumulated Depreciation (Schedule III) - December 31, 1998

All other schedules have been omitted because they are not required or the required information is shown in the financial statements or notes thereto.

- (b) Reports on Form 8-K filed during the last quarter of the year:

None

- (c) Exhibits:

- 3a Agreement of Limited Partnership of Murray Income Properties II, Ltd.. Reference is made to Exhibit A of the Prospectus dated February 20, 1986 contained in Amendment No. 1 to Partnership's Form S-11 Registration Statements filed with the Securities and Exchange Commission on February 13, 1986. (File No. 33-2294).
- 3b Amended and Restated Certificate and Agreement of Limited Partnership dated as of November 15, 1989. Reference is made to Exhibit 3b to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)
- 3c Amended and Restated Certificate and Agreement of Limited Partnership dated as of January 10, 1990. Reference is made to Exhibit 3c to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)
- 10a Form of Joint Venture Agreement between the Partnership and Murray Income Properties II, Ltd. Reference is made to Exhibit 10h to Post-Effective Amendment No. 1 to Partnership's Form S-11 Registration Statements, filed with the Securities and Exchange Commission on July 29, 1989. (File No. 33-2394)
- 10b Lease Agreement with General Cinema to lease certain premises as described within the Lease Agreement dated July 23, 1985 at Tower Place Festival Shopping Center. Reference is made to Exhibit 10q to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)
- 10c Lease Agreement with Rafferty's Inc. to lease certain premises as described within the Lease Agreement dated August 12, 1985 at Paddock Place Shopping Center. Reference is made to Exhibit 10r to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)
- 10d Lease Agreement with Chili's Inc. to lease certain premises as described within the Lease Agreement dated May 19, 1988 at Germantown Collection Shopping Center.

Reference is made to Exhibit 10t to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)

- 10e Settlement and Release Agreement with Rafferty's Inc. and Mid-South Management Group, Inc., dated December 1, 1990. Reference is made to Exhibit 10u to the 1990 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1991. (File No. 0-17183)

- 10f Management Agreement with Murray Realty Investors IX, Inc. for management and operation services described in the Management Agreement dated January 1, 1996 at 1202 Industrial Place. Reference is made to Exhibit 10a to the Form 10-Q for the Quarter ended March 31, 1996 filed with the Securities and Exchange Commission on May 13, 1996. (File No. 0-17183)
- 10g Marketing Agreement with Murray Realty Investors IX, Inc. for leasing services described in the Marketing Agreement dated August 4, 1998 at 1202 Industrial Place. Reference is made to Exhibit 10a to the Form 10-Q for the Quarter ended September 30, 1998 filed with the Securities and Exchange Commission on November 6, 1998. (File No. 0-17183)
- 10h Data Processing System Use Agreement between Murray Income Properties II, Ltd. and The Mavricc Management Systems, Inc., dated September 1, 1998. Filed herewith.
- 10i Management Agreement with CK Charlotte Overhead Limited Partnership for management and operation services described in the Management Agreement dated November 9, 1998 at Tower Place Festival Shopping Center. Filed herewith.
- 10j Management Agreement with Trammell Crow SE, Inc. for management and operation services described in the Management Agreement dated August 8, 1990 (as extended pursuant to the Modification to Management Agreement dated February 28, 1998) at Germantown Collection Shopping Center. Filed herewith.
- 10k Management Agreement with Brookside Commercial Services for management and operation services described in the Management Agreement dated March 1, 1991 (as extended pursuant to the Extension of Property Management Agreement dated February 18, 1997 at Paddock Place Shopping Center. Filed herewith.
- 10l Lease Agreement with Calidad Foods, Inc. to lease certain premises as described within the Lease Agreement dated October 19, 1992, at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10v to the Form 10-Q for the Quarter ended September 30, 1992 filed with the Securities and Exchange Commission on November 13, 1992. (File No. 0-17183)
- 10m Lease Agreement with Pierce Family Partnership to lease certain premises as described within the Lease Agreement dated October 23, 1992, at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10x to the Form 10-Q for the Quarter ended September 30, 1992 filed with the Securities and Exchange Commission on November 13, 1992. (File No. 0-17183)
- 10n Amendment to Lease Agreement with Calidad Foods, Inc. dated December 28, 1992 at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10n to the 1992 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 1993. (File No. 0-17183)

30

- 10o Amendment to Lease Agreement with Pierce Leahy Corp., a Pennsylvania corporation, as successor in interest to Pierce Family Partnership Ltd., a Pennsylvania limited partnership, dated October 8, 1998, at 1202 Industrial Place (an office/warehouse facility). Filed herewith.
- 10p Lease Agreement with Pierce Leahy Corp., a Pennsylvania corporation, to lease certain premises as described within the Lease Agreement dated October 8, 1998, at 1202 Industrial Place (an office/warehouse facility). Filed herewith.
- 10q Lease Agreement with Brown Group Retail, Inc. to lease certain premises as described within the Lease Agreement dated November 9, 1993 at Tower Place Festival Shopping Center. Reference is made to Exhibit 10p to the 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 1994. (File No. 0-17183)
- 10r Lease Agreement with Care Management Enterprises, Inc. to lease certain premises as described within the Lease Agreement dated November 16, 1995 at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10p to the 1995 Annual Report on Form 10-K filed with the Securities and Exchange

Commission on March 22, 1996. (File No. 0-14105)

- 10s Severance Agreements by and among Murray Income Properties I, Ltd. and Murray Income Properties II, Ltd. and Mitchell L. Armstrong dated September 16, 1996. Reference is made to Exhibit 10a to the 1996 3rd Quarter Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 1996. (File No. 0-14105)
  - 10t Severance Agreements by and among Murray Income Properties I, Ltd. and Murray Income Properties II, Ltd. and W. Brent Buck dated September 16, 1996. Reference is made to Exhibit 10b to the 1996 3rd Quarter Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 1996. (File No. 0-14105)
  - 27 Financial Data Schedule. Filed herewith.
  - 99a Glossary, as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.
  - 99b Article XIII of the Agreement of Limited Partnership as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.
  - 99c Amendment No. 9 to the Agreement of Limited Partnership contained in the Proxy Statement dated October 11, 1989. Filed herewith.
  - 99d Management Compensation as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.
- (d) Financial Statement Schedules with Independent Auditors' Report Thereon:
- (i) Valuation and Qualifying Accounts (Schedule II) - Years ended December 31, 1998, 1997, and 1996.
  - (ii) Real Estate and Accumulated Depreciation (Schedule III) - December 31, 1998.

28

31

All other schedules have been omitted because they are not required or the required information is shown in the consolidated financial statements or notes thereto.

29

32

#### INDEPENDENT AUDITORS' REPORT

The Partners  
Murray Income Properties II, Ltd.:

Under date of February 26, 1999, we reported on the balance sheets of Murray Income Properties II, Ltd. (a limited partnership) as of December 31, 1998 and 1997, and the related statements of earnings, changes in partners' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, as contained in Item 8 of this annual report on Form 10-K. In connection with our audits of the aforementioned financial statements, we also audited the related financial statement schedules as listed in Item 14(a)2 of this annual report on Form 10-K. These financial statement schedules are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

Dallas, Texas



## Schedule II

MURRAY INCOME PROPERTIES II LTD.  
(A LIMITED PARTNERSHIP)

## VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

&lt;TABLE&gt;

&lt;CAPTION&gt;

| Description<br>-----             | Balance at<br>beginning<br>of period<br>----- | Charged to<br>costs and<br>expenses<br>----- | Deductions<br>----- | Balance at<br>end of<br>period<br>----- |
|----------------------------------|-----------------------------------------------|----------------------------------------------|---------------------|-----------------------------------------|
| <S>                              | <C>                                           | <C>                                          | <C>                 | <C>                                     |
| Allowance for doubtful accounts: |                                               |                                              |                     |                                         |
| Year ended December 31, 1996     | \$ 14,034                                     | (4,549)                                      | -0-                 | 9,485                                   |
|                                  | =====                                         | =====                                        | =====               | =====                                   |
| Year ended December 31, 1997     | \$ 9,485                                      | (6,514)                                      | 1,524               | 1,447                                   |
|                                  | =====                                         | =====                                        | =====               | =====                                   |
| Year ended December 31, 1998     | \$ 1,447                                      | 28,844                                       | 30,291              | -0-                                     |
|                                  | =====                                         | =====                                        | =====               | =====                                   |

&lt;/TABLE&gt;

Deductions are primarily for writeoffs of accounts and notes receivables deemed uncollectible by management.

## Schedule III

MURRAY INCOME PROPERTIES II, LTD.  
(a limited partnership)

## Real Estate and Accumulated Depreciation

December 31, 1998

&lt;TABLE&gt;

&lt;CAPTION&gt;

| Description<br>-----                                 | Encumbrances<br>----- | Initial Cost<br>to Partnership (A)<br>----- |                                        | Costs Capitalized<br>Subsequent<br>to Acquisition<br>----- |
|------------------------------------------------------|-----------------------|---------------------------------------------|----------------------------------------|------------------------------------------------------------|
|                                                      |                       | Land<br>-----                               | Buildings and<br>Improvements<br>----- | Improvements<br>-----                                      |
| <S>                                                  | <C>                   | <C>                                         | <C>                                    | <C>                                                        |
| Shopping Center<br>Nashville, Tennessee              | \$ 0                  | \$ 3,153,285                                | \$ 6,615,549                           | \$ 646,184                                                 |
| Shopping Center<br>Germantown (Memphis)<br>Tennessee | \$ 0                  | \$ 1,751,518                                | \$ 6,395,078                           | \$ 1,147,982                                               |
| Office Warehouse<br>Grand Prairie<br>Texas           | \$ 0                  | \$ 884,488                                  | \$ 2,895,376                           | \$ 112,982                                                 |
|                                                      | -----                 | -----                                       | -----                                  | -----                                                      |
|                                                      | \$ 0                  | \$ 5,789,291                                | \$15,906,603                           | \$ 1,907,148                                               |
|                                                      | =====                 | =====                                       | =====                                  | =====                                                      |

&lt;CAPTION&gt;

Gross Amount  
at which carried at  
Close of Period (D)

Life on which  
Depreciation in

| Description                                          | Land         | Buildings and Improvements | Total        | Accumulated Depreciation | Year of Construction | Fiscal Year Acquired | Latest Statement of Earnings is Computed |
|------------------------------------------------------|--------------|----------------------------|--------------|--------------------------|----------------------|----------------------|------------------------------------------|
| Shopping Center<br>Nashville, Tennessee              | \$ 3,153,285 | \$ 7,261,733               | \$10,415,018 | \$ 3,579,653             | 1985/86              | 1986                 | 3-25 YEARS                               |
| Shopping Center<br>Germantown (Memphis)<br>Tennessee | \$ 1,751,518 | \$ 7,543,060               | \$ 9,294,578 | \$ 3,485,370             | 1987                 | 1988                 | 3-25 YEARS                               |
| Office Warehouse<br>Grand Prairie<br>Texas           | \$ 884,488   | \$ 3,008,358               | \$ 3,892,846 | \$ 1,366,196             | 1980                 | 1988                 | 3-25 YEARS                               |
|                                                      | \$ 5,789,291 | \$17,813,151               | \$23,602,442 | \$ 8,431,219             |                      |                      |                                          |

</TABLE>

Notes:

(A) The initial cost to the Partnership represents the original purchase price of the properties.

(B) Reconciliation of real estate owned for 1998, 1997 and 1996:

<TABLE>

<CAPTION>

|                                | 1998          | 1997          | 1996          |
|--------------------------------|---------------|---------------|---------------|
| <S>                            | <C>           | <C>           | <C>           |
| Balance at beginning of period | \$ 23,284,481 | \$ 23,252,896 | \$ 23,182,001 |
| Additions during period        | \$ 317,961    | \$ 31,585     | \$ 70,895     |
| Retirements during period      | \$ 0          | \$ 0          | \$ 0          |
| Balance at close of period     | \$ 23,602,442 | \$ 23,284,481 | \$ 23,252,896 |

</TABLE>

(C) Reconciliation of accumulated depreciation for 1998, 1997 and 1996:

<TABLE>

<CAPTION>

|                                | 1998         | 1997         | 1996         |
|--------------------------------|--------------|--------------|--------------|
| <S>                            | <C>          | <C>          | <C>          |
| Balance at beginning of period | \$ 7,716,316 | \$ 6,991,905 | \$ 6,257,762 |
| Depreciation expense           | \$ 714,903   | \$ 724,411   | \$ 734,143   |
| Retirements during period      | \$ 0         | \$ 0         | \$ 0         |
| Balance at close of period     | \$ 8,431,219 | \$ 7,716,316 | \$ 6,991,905 |

</TABLE>

(D) The aggregate cost of real estate at December 31, 1998 for Federal income tax purposes is \$24,423,818

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MURRAY INCOME PROPERTIES II, LTD.

By: Crozier Partners IX, Ltd.  
a General Partner

Dated: March 26, 1999

By: /s/ Jack E. Crozier

-----  
Jack E. Crozier  
a General Partner

By: Murray Realty Investors IX, Inc.  
a General Partner

Dated: March 26, 1999

By: /s/ Mitchell Armstrong

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Murray Realty Investors IX, Inc.  
a General Partner

Dated: March 26, 1999 By: /s/ Brent Buck  
-----  
Brent Buck  
Executive Vice President  
Director

Dated: March 26, 1999 By: /s/ Mitchell Armstrong  
-----  
Mitchell Armstrong  
Chief Executive Officer  
Chief Financial Officer  
Director

33

36

INDEX TO EXHIBITS

<TABLE>  
<CAPTION>  
Document

Exhibit  
Number  
-----  
<S>                      <C>

- |     |                                                                                                                                                                                                                                                                                                                                    |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3a  | Agreement of Limited Partnership of Murray Income Properties II, Ltd.. Reference is made to Exhibit A of the Prospectus dated February 20, 1986 contained in Amendment No. 1 to Partnership's Form S-11 Registration Statements filed with the Securities and Exchange Commission on February 13, 1986. (File No. 33-2294).        |
| 3b  | Amended and Restated Certificate and Agreement of Limited Partnership dated as of November 15, 1989. Reference is made to Exhibit 3b to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)                                                                |
| 3c  | Amended and Restated Certificate and Agreement of Limited Partnership dated as of January 10, 1990. Reference is made to Exhibit 3c to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)                                                                 |
| 10a | Form of Joint Venture Agreement between the Partnership and Murray Income Properties II, Ltd. Reference is made to Exhibit 10h to Post-Effective Amendment No. 1 to Partnership's Form S-11 Registration Statements, filed with the Securities and Exchange Commission on July 29, 1989. (File No. 33-2394)                        |
| 10b | Lease Agreement with General Cinema to lease certain premises as described within the Lease Agreement dated July 23, 1985 at Tower Place Festival Shopping Center. Reference is made to Exhibit 10q to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183) |
| 10c | Lease Agreement with Rafferty's Inc. to lease certain premises as described within the Lease Agreement dated August 12, 1985 at Paddock Place Shopping Center. Reference is made to Exhibit 10r to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1989. (File No. 0-17183)     |
| 10d | Lease Agreement with Chili's Inc. to lease certain premises as described within the Lease Agreement dated May 19, 1988 at Germantown Collection Shopping Center. Reference is made to Exhibit 10t to the 1989 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31 1989. (File No. 0-17183)    |

- 10e Settlement and Release Agreement with Rafferty's Inc. and Mid-South Management Group, Inc., dated December 1, 1990. Reference is made to Exhibit 10u to the 1990 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1991. (File No. 0-17183)
- 10f Management Agreement with Murray Realty Investors IX, Inc. for management and operation services described in the Management Agreement dated January 1, 1996 at 1202 Industrial Place. Reference is made to Exhibit 10a to the Form 10-Q for the Quarter ended March 31, 1996 filed with the Securities and Exchange Commission on May 13, 1996. (File No. 0-17183)
- 10g Marketing Agreement with Murray Realty Investors IX, Inc. for leasing services described in the Marketing Agreement dated August 4, 1998 at 1202 Industrial Place. Reference is made to Exhibit 10a to the Form 10-Q for the Quarter ended September 30, 1998 filed with the Securities and Exchange Commission on November 6, 1998. (File No. 0-17183)

</TABLE>

37

<TABLE>

<S>

<C>

- 10h Data Processing System Use Agreement between Murray Income Properties II, Ltd. and The Mavricc Management Systems, Inc., dated September 1, 1998. Filed herewith.
- 10i Management Agreement with CK Charlotte Overhead Limited Partnership for management and operation services described in the Management Agreement dated November 9, 1998 at Tower Place Festival Shopping Center. Filed herewith.
- 10j Management Agreement with Trammell Crow SE, Inc. for management and operation services described in the Management Agreement dated August 8, 1990 (as extended pursuant to the Extension of Modification to Management Agreement dated February 28, 1998) at Germantown Collection Shopping Center. Filed herewith.
- 10k Management Agreement with Brookside Commercial Services for management and operation services described in the Management Agreement dated March 1, 1991 (as extended pursuant to the Extension of Property Management Agreement dated February 18, 1997 at Paddock Place Shopping Center. Filed herewith.
- 10l Lease Agreement with Calidad Foods, Inc. to lease certain premises as described within the Lease Agreement dated October 19, 1992, at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10v to the Form 10-Q for the Quarter ended September 30, 1992 filed with the Securities and Exchange Commission on November 13, 1992. (File No. 0-17183)
- 10m Lease Agreement with Pierce Family Partnership to lease certain premises as described within the Lease Agreement dated October 23, 1992, at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10x to the Form 10-Q for the Quarter ended September 30, 1992 filed with the Securities and Exchange Commission on November 13, 1992. (File No. 0-17183)
- 10n Amendment to Lease Agreement with Calidad Foods, Inc. dated December 28, 1992 at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10n to the 1992 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 1993. (File No. 0-17183)
- 10o Amendment to Lease Agreement with Pierce Leahy Corp., a Pennsylvania corporation, as successor in interest to Pierce Family Partnership Ltd., a Pennsylvania limited partnership, dated October 8, 1998, at 1202 Industrial Place (an office/warehouse facility). Filed herewith.
- 10p Lease Agreement with Pierce Leahy Corp., a Pennsylvania corporation, to lease certain premises as described within the Lease Agreement dated October 8, 1998, at 1202 Industrial Place (an office/warehouse facility). Filed herewith.
- 10q Lease Agreement with Brown Group Retail, Inc. to lease certain premises as described within the Lease Agreement dated November 9,

1993 at Tower Place Festival Shopping Center. Reference is made to Exhibit 10p to the 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 1994. (File No. 0-17183)

- 10r Lease Agreement with Care Management Enterprises, Inc. to lease certain premises as described within the Lease Agreement dated November 16, 1995 at 1202 Industrial Place (an office/warehouse facility). Reference is made to Exhibit 10p to the 1995 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 1996. (File No. 0-14105)

</TABLE>

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38

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- 10s Severance Agreements by and among Murray Income Properties I, Ltd. and Murray Income Properties II, Ltd. and Mitchell L. Armstrong dated September 16, 1996. Reference is made to Exhibit 10a to the 1996 3rd Quarter Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 1996. (File No. 0-14105)
- 10t Severance Agreements by and among Murray Income Properties I, Ltd. and Murray Income Properties II, Ltd. and W. Brent Buck dated September 16, 1996. Reference is made to Exhibit 10b to the 1996 3rd Quarter Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 1996. (File No. 0-14105)
- 27 Financial Data Schedule. Filed herewith.
- 99a Glossary, as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.
- 99b Article XIII of the Agreement of Limited Partnership as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.
- 99c Amendment No. 9 to the Agreement of Limited Partnership contained in the Proxy Statement dated October 11, 1989. Filed herewith.
- 99d Management Compensation as contained in the Prospectus dated February 20, 1986 filed as part of Amendment No. 2 to Registrant's Form S-11 Registration Statement (File No. 33-2394). Filed herewith.

</TABLE>

36

SECOND AMENDMENT TO MURRAY INCOME PROPERTY LP SERVICES, INC./  
 MAVRICC MANAGEMENT SYSTEMS, INC.  
 DATA PROCESSING SYSTEM USE AGREEMENT

This Second Amendment is made and entered into this 1st day of September, 1998, by MURRAY INCOME PROPERTIES I, LTD. AND MURRAY INCOME PROPERTIES II, LTD. ("MURRAY") and MAVRICC MANAGEMENT SYSTEMS, INC. ("MMS").

The parties hereto desire to amend the Data Processing System Use Agreement (the "Agreement") entered into by them with an effective date of September 1, 1993.

In consideration of the mutual covenants and consideration furnished to each other hereunder, the sufficiency of which is acknowledged, the parties agree as follows:

1. TERM. The Agreement shall remain in effect through August 31, 2001.
2. PRICING. Exhibit A to the Agreement is amended as follows:

Commencing on September 1, 1998, the monthly charge for services rendered to active Funds shall be equal to \$.96 per account. Postage up to \$.33 per piece for four quarterly distribution mailings and postage up to \$.55 per piece for the K-1 mailing are included in the monthly charge.

The annual charge for Funds that cease to operate as going concerns shall be equal to \$1.00 per account so long as MURRAY desires to have the accounts available on-line; such Funds charges shall be invoiced semi-annually rather than monthly as for active Funds.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

WITNESSED: MAVRICC MANAGEMENT SYSTEMS, INC.

/s/ LAURA ALLAN

By: /s/ Kyle C. Kerbawy

-----  
 Kyle C. Kerbawy, Chief Executive Officer

MURRAY INCOME PROPERTIES I, LTD.

By Murray Realty Investors VIII, Inc, General Partner

/s/ LINDA S. FLYNN

By: /s/ Mitchell Armstrong

-----  
Mitchell Armstrong, President

MURRAY INCOME PROPERTIES II, LTD.  
By Murray Realty Investors IX, Inc., General Partner

/s/ LINDA S. FLYNN

By: /s/ Mitchell Armstrong

-----  
Mitchell Armstrong, President

November 19, 1998

Mr. Brent Buck  
Murray Income Properties  
299 South 9th Street  
Suite 203  
Oxford, MS 38655

RE: Tower Place Festival  
Management Contract Renewal

Dear Brent:

Our current management agreement, dated December 12, 1994 and renewed each year in letter agreements between Murray Income Properties and CK Retail Charlotte Overhead Limited Partnership is in the process of expiring. It is our desire to renew this management contract upon the same terms and conditions as the previous management, dated December 12, 1994, with the exception that the term shall now expire on December 31, 1999. I have attached as Exhibit "A", a copy of the December 12, 1994 management agreement and would like you to indicate your approval of the renewal and the new expiration date by signing this renewal agreement in the appropriate space below.

It has been a pleasure to be the property manager/leasing agent at Tower Place Festival and we look forward to continuing our relationship as your management agent in the future.

RENEWAL AGREEMENT ACCEPTED:

CK Charlotte Overhead Limited Partnership  
a North Carolina Limited Partnership  
By: Childress Klein Retail-Charlotte  
#2, Inc., Its General Partner

Tower Place Joint Venture  
By: Murray Income Properties I, LTD.  
A Texas Ltd. Partnership, Joint  
Venturer  
By: Murray Realty Investors VIII,  
Inc.  
A Texas Corp., General Partner

BY: /s/ David Haggart  
-----  
David Haggart, Vice President

By: /s/ Brent Buck  
-----  
Brent Buck, Executive Vice  
President



Attest/Witness:

Witness:

/s/ Wendy Roy

/s/ Jan Pugh

-----  
Title: Secretary

-----  
Name: Jan Pugh

(Corporate Seal)

STATE OF TENNESSEE  
COUNTY OF SHELBY

MODIFICATION TO MANAGEMENT AGREEMENT

This Modification to management Agreement is made and entered into this 15th day of February, 1999, by and between Murray Income Properties, II, LTD, a Texas Limited Partnership ("Owner") and TC Tennessee, Inc., a Delaware Corporation ("Operator").

WITNESSETH:

Whereas, Owner and Operator entered into that certain Management Agreement for the managing and operating of certain improved real property, ("Project") commonly known as Germantown Collection, dated August 8, 1990 and extended December 30, 1993.

Whereas, the Owner and Operator desire to modify and amend the Management Agreement;

Now, therefore, for and in consideration of the Modification to Management Agreement, the sum of One and 00/100 Dollars (\$1.00) in hand paid by Owner to Operator, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do agree as follows:

1. Owner and Operator acknowledge and agree the management Agreement shall be extended to expire on December 31, 1999.
2. All other terms and conditions of the Management Agreement not specifically amended by this Modification to Management Agreement, are hereby deemed to remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed the foregoing Modification as of the day and year written above.

Owner:

Operator:

Murray Income Properties, II, LTD

TC Tennessee, Inc., a Delaware

corporation

BY: Murray Realty Investors, IX, Inc.

BY:                   /s/ Brent Buck  
-----  
Brent Buck

Title:   Executive Vice President

BY:                   /s/ Curt Grantham  
-----  
Curt Grantham

Title: President

## EXTENSION OF PROPERTY MANAGEMENT AGREEMENT

The Extension of Property Management entered into this 15th day of February, 1999 by and between Murray Income Properties II, Ltd., a Texas limited partnership (hereinafter called the "Owner") and Brookside Properties, Inc., (hereinafter called the "Agent").

## RECITALS:

1. Owner and Agent are parties to that certain Property Management Agreement dated March 1, 1991 covering the Paddock Place Shopping Center, located at the Southwest corner of White Bridge Road and Brookwood Terrace, Nashville, Tennessee.
2. The term of the aforesaid Property Management Agreement expired on February 28, 1994, was extended with an expiration date of February 28, 1995, was extended with an expiration date of February 29, 1996, was extended with an expiration date of February 28, 1997, was extended with an expiration date of February 28, 1998, and was extended with an expiration date of December 31, 1998. The parties thereto are mutually desirous of extending the term of the Property Management Agreement.

NOW, THEREFORE, it is hereby agreed as follows:

1. The expiration date of the Property Management Agreement shall be midnight, December 31, 1999.
2. All other terms and conditions of the Property Management Agreement shall remain unchanged and in full force and effect.

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

WITNESS

BROOKSIDE PROPERTIES, INC.

/s/ Lori Green

/s/ W. Miles Warfield

-----  
Lori Green

-----  
W. Miles Warfield

MURRAY INCOME PROPERTIES II, LTD  
A Texas Limited Partnership by  
Murray Realty Investors IX, Inc. a  
Texas Corporation, its General Partners  
(Owners)

/s/ Mitchell Armstrong

-----  
Mitchell Armstrong

/s/ Brent Buck

-----  
By: Brent Buck, Executive Vice President

## FIRST AMENDMENT TO LEASE AGREEMENT

THIS FIRST AMENDMENT TO LEASE AGREEMENT (this "Amendment") is made and entered effective as of the 8th day of October, 1998, by and between MURRAY INCOME PROPERTIES II, LTD., a Texas limited partnership ("Landlord") and PIERCE LEAHY CORP., a Pennsylvania corporation, as successor-in-interest to Pierce Family Partnership Ltd., a Pennsylvania limited partnership, ("Tenant").

## RECITALS:

Landlord and Pierce Family Partnership Ltd. entered into that certain Lease Agreement dated effective as of October 23, 1992 (the "Lease") providing for the lease of approximately 118,800 square feet of Floor Area in the Building situated in Grand Prairie, Tarrant County, Texas. Tenant is the successor-in-interest to all of the right, title and interest, and the obligations, of Pierce Family Partnership Ltd. under the Lease.

Landlord and Tenant have agreed to extend the Term of the Lease and to amend the Lease in certain other respects. Landlord and Tenant enter into this Amendment for the purpose of providing for such amendments.

## AGREEMENTS:

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Basic Lease Provisions. (a) The definition of "Term" set forth in Article I of the Lease is hereby amended in its entirety to read as follows:

"Term shall mean two hundred sixty-four (264) months, commencing on the Commencement Date and ending on October 31, 2014, as the same may be extended pursuant to Section 2.04."

(b) The definition of "Base Rental" set forth in Article I of the Lease is hereby amended to add the following calculation of Base Rental for the period from and after November 1, 2002 through the end of the Term:

<TABLE>

<CAPTION>

| "Period<br>-----                         | Base<br>Rental/Square<br>Foot<br>---- | Monthly Base<br>Rental<br>----- |
|------------------------------------------|---------------------------------------|---------------------------------|
| <S><br>November 1, 2002–October 31, 2004 | <C><br>\$3.00                         | <C><br>\$29,700.00              |

|                                   |        |              |
|-----------------------------------|--------|--------------|
| November 1, 2004-October 31, 2007 | \$3.10 | \$30,690.00  |
| November 1, 2007-October 31, 2009 | \$3.25 | \$32,175.00  |
| November 1, 2009-October 31, 2014 | \$3.50 | \$34,650.00" |

</TABLE>

2

(c) The following term shall be added to the Basic Lease Provisions set forth in Article I of the Lease:

"Other Lease shall mean that certain Lease Agreement dated as of October 8 1998, between Landlord and Pierce Leahy Corp. (an affiliate of Tenant) as Tenant providing for the lease of 54,000 square feet of Floor Area in the Building."

2. Broker. With respect to extension of the Term from November 1, 2002 to October 31, 2014, Murray Realty Investors IX, Inc. shall be the "Broker" in place of Rosemark Commercial Real Estate Services.

3. Renewal Options. Section 2.04 of the Lease is hereby amended to provide that the renewal options provided for therein shall be exercisable in accordance with Section 2.04 at the expiration of the Term of the Lease, as extended hereby, as opposed to being exercisable at the expiration of the "initial ten-year Term," as presently provided in Section 2.04. Section 2.04 is further amended to delete the following language: "provided, however, at no time during the Renewal Term shall Base Rental be less than \$2.65 per square foot of Floor Area in the Leased Premises."

4. Security Deposit. Thirty (30) days after the execution and delivery of this Amendment, Landlord shall release to Tenant the Security Deposit in the amount of \$25,740. Section 7.03(d) is hereby deleted in its entirety from the Lease.

5. Expansion Space. Section 2.06 of the Lease is hereby deleted in its entirety.

6. Default by Tenant. Section 7.02 of the Lease is hereby amended to add the following language:

"(k) The occurrence of a default by the tenant under the Other Lease, following any period for notice and opportunity to cure provided therein."

7. Defined Terms. Terms defined in the Lease shall have the same meaning when used in this Amendment.

8. Ratification. Except as expressly provided in this Amendment, the

Lease shall continue in full force and effect in accordance with its terms.

9. Counterparts. This Amendment may be executed in identical counterparts, which when taken together shall constitute one and the same instrument.

2

3

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the date first written above.

LANDLORD:

MURRAY INCOME PROPERTIES II, LTD., a  
Texas limited partnership

By: Murray Realty Investors IX, Inc., a  
Texas corporation  
General Partner

By: /s/ Brent Buck  
-----

Name: Brent Buck  
Title: Executive Vice President

TENANT:

PIERCE LEAHY CORP., a  
Pennsylvania corporation

By: /s/ Joseph P. Linaugh  
-----

Name: Joseph P. Linaugh  
Title: Vice President

3



## LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of the 8th day of October, 1998, by and between MURRAY INCOME PROPERTIES II, LTD., a Texas limited partnership, ("Landlord"), whose address is 5550 LBJ Freeway, Suite 675, LB #6, Dallas, Texas 75240, and PIERCE LEAHY CORP., a Pennsylvania corporation ("Tenant"), whose address is 631 Park Avenue, King of Prussia, Pennsylvania 19406. Subject to all of the terms, provisions, covenants and conditions of this Lease, and in consideration of the mutual covenants, obligations and agreements contained in this Lease, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant agree as follows:

## ARTICLE I. BASIC LEASE PROVISIONS.

Base Rental shall mean for each month during the Term (hereinafter defined) the amount per square foot of Floor Area in the Leased Premises set forth below:

&lt;TABLE&gt;

&lt;CAPTION&gt;

|     | Period<br>-----                     | Base Rental/Square Foot<br>----- | Monthly Base Rental<br>----- |
|-----|-------------------------------------|----------------------------------|------------------------------|
| <S> |                                     | <C>                              | <C>                          |
|     | December 1, 2000 - October 31, 2004 | \$3.00                           | \$13,500.00                  |
|     | November 1, 2004 - October 31, 2007 | \$3.10                           | \$13,950.00                  |
|     | November 1, 2007 - October 31, 2009 | \$3.25                           | \$14,625.00                  |
|     | November 1, 2009 - October 31, 2014 | \$3.50                           | \$15,750.00                  |

&lt;/TABLE&gt;

Broker shall mean Murray Realty Investors IX, Inc.

Building shall mean the approximately 172,800 square foot structure situated upon the Site (hereinafter defined), located in the City of Grand Prairie, County of Tarrant, State of Texas, as the same currently exists or as it may from time to time hereafter be expanded or modified. For the purposes of determining Tenant's Share, the floor area of the Building shall be the amount set forth in the preceding sentence.

Commencement Date shall mean December 1, 2000.

Common Area shall mean all areas of the Site designated by Landlord from time to time for the common use of all tenants, including, among other facilities, parking areas, sidewalks, landscaping, curbs, loading areas, private streets and alleys, lighting facilities, hallways, restrooms and other areas and improvements provided by Landlord for the common use of all tenants, all of which shall be subject to the provisions of Section 4.02 of this Lease.

Floor Area shall mean the total number of square feet of floor space in the Leased Premises (hereinafter defined) available for the exclusive use of an occupant, whether or not actually occupied, including basement, subterranean, balcony and mezzanine, measured from exterior facade of exterior walls and center line of demising walls. The Floor Area of the Leased Premises has been calculated on the basis of the foregoing definition, and is stipulated for all

purposes to be the number of square feet set forth in Section 2.01 of the Lease, whether the same should be more or less as a result of minor variations resulting from completion of the Leased Premises for occupancy so long as such work is in accordance with this Lease.

Other Lease shall mean that certain Lease Agreement dated as of October 23, 1992 between Landlord and Tenant, as the successor-in-interest to Pierce Family Partnership Ltd. providing for the lease by Landlord to Tenant of 118,800 square feet of Floor Area in the Building.

Project shall mean the Building, together with the Site, the Common Area and all other improvements situated therein or directly benefitting the Building, and all future additional facilities or improvements directly benefitting the Building that may be constructed.

Site shall mean that certain tract of land situated in Tarrant County, Texas and more particularly described on Exhibit A attached hereto and hereby made a part hereof.

Term shall mean one hundred sixty-seven (167) months, commencing on the Commencement Date and ending on October 31, 2014, as the same may be extended pursuant to Section 2.04.

2

ARTICLE II. Section II.1. Leased Premises. Landlord does hereby lease, demise and let to Tenant and Tenant does hereby lease and take from Landlord those certain premises containing approximately 54,000 square feet of Floor Area in the Building together with the non-exclusive use of all rights, privileges, easements, appurtenances and immunities belonging to or in any way pertaining to said premises (collectively, the "Leased Premises"). The Leased Premises are outlined on Exhibit B attached hereto and hereby made a part hereof. Tenant accepts the Leased Premises and the Project in their "AS IS" "WHERE IS" condition, and Landlord shall have no obligation to furnish, equip or improve the Leased Premises or the Project. By occupying the Leased Premises, Tenant shall be deemed to have accepted the Leased Premises and the Project and to have acknowledged that the Leased Premises and the Project comply fully with Landlord's covenants and obligations.

Section II.2. Term. The Term of this Lease shall begin on the Commencement Date and shall continue in full force and effect for the Term of this Lease unless extended or sooner terminated in accordance with the provisions of this Lease.

Section II.3. Use. Tenant shall use and be permitted to use the Leased Premises solely for the following purposes: general office and warehouse for the storage and management of business records and for no other purpose. Any other use may be done only with Landlord's prior written consent, not to be unreasonably withheld, conditioned or delayed. Tenant, at its sole expense, will comply, and will cause Tenant's Agents (hereinafter defined) to comply, with any and all applicable laws, rules and regulations in any way applicable to Tenant, Tenant's Property (hereinafter defined), the Leased Premises or the Project (collectively, "Legal Requirements" and individually, "Legal Requirement"). Tenant will not (a) use, occupy or permit the use or occupancy of the Leased Premises or the Project for any purpose or in any manner which is not permitted hereunder or which is or may be, directly or indirectly, violative of any Legal Requirement, or dangerous to life or property, or a public or private nuisance, or disruptive or obstructive of any tenant or neighbor of the Leased Premises or the Project; provided, however, Tenant shall be entitled to contest in good faith the alleged violation by Tenant of any Legal Requirement so long as

Tenant's contest does not adversely affect the Building or Landlord and any enforcement proceedings against the Building or Landlord have been stayed, (b) keep, or permit to be kept, any substance in or conduct, or permit to be conducted, any operation from the Leased Premises or the Project which might emit offensive or hazardous odors or conditions onto or into the Leased Premises, the Project or the property located outside the Project, (c) cause, commit or permit to remain any waste or damage to the Leased Premises or the Project, or any conditions which adversely impair in Landlord's sole reasonable judgment the value or marketability of the Leased Premises or the Project, (d) install or permit to remain any improvements to the Leased Premises or the Project (other than improvements which have first been approved by Landlord) which are visible from the outside of the Leased Premises or the Project, or adversely affect the mechanical, plumbing or electrical systems of the Building or affect the structural integrity thereof in any way, (e) place any dumpsters or other garbage or trash disposal equipment in the Leased Premises or the Project except those approved by Landlord, or (f) commit, or permit to be committed, any action or circumstance in, upon or about the Leased Premises or the Project which, directly or indirectly, would or might justify any insurance carrier in canceling or increasing the premium on any insurance policy covering the Leased Premises, the Project or the contents thereof, and if any increase so results, Tenant shall pay such increase upon Landlord's demand. Tenant shall comply with, and Tenant shall cause Tenant's Agents to comply with, the current Rules and Regulations of the Building (a copy of which are attached hereto as Exhibit C) as the same may be amended by Landlord from time to time. Landlord will endeavor in good faith to apply the Rules and Regulations uniformly and consistently among all tenants of the Building.

Section II.4. Renewal Option. Provided no default shall remain uncured beyond any applicable grace or cure period at the time the option is exercised, and provided Tenant shall not have assigned this Lease or sublet the Leased Premises, Tenant shall have the right, at the expiration of the initial Term to extend the Term as to the entire Leased Premises for a period of five (5) years ("Renewal Term"). If the option is exercised during a grace or cure period, the exercise shall be of no force or effect if the default is not cured by the expiration of the applicable grace or cure period. Such right to renew shall be exercised by written notice to Landlord at least 180 days prior to the end of the initial Term. During the Renewal Term, the Lease shall continue upon the same terms and conditions as provided herein except for an adjustment in Base Rental as hereinafter provided. During the Renewal Term, Base Rental shall be ninety-five percent (95%) of Market Rent (hereinafter defined). "Market Rent" shall mean the prevailing fair market rental rate for comparable lease space in the area of the Project at the time in question. The Market Rent shall be determined by agreement of the parties; provided, however, if the parties are unable to agree on Market Rent by ninety (90) days prior to commencement of the Renewal Term, within the next fifteen (15) days, each of Landlord and Tenant shall select an independent qualified appraiser and such appraisers shall select a third. The three

appraisers so selected shall determine the Market Rent for the Leased Premises and shall submit a written report of their determination to both Landlord and Tenant within thirty (30) days after selection. Prior to the commencement of the Renewal Term, Landlord and Tenant shall execute and deliver an agreement evidencing the renewal and establishing the adjusted Base Rental. Tenant's failure to timely exercise its option to extend for the Renewal Term in the manner provided in this Section shall constitute Tenant's waiver of all rights

to extend the Term.

Section II.5. Left Blank Intentionally.

Section II.6. Left Blank Intentionally.

ARTICLE III. Section III.1. Rent. (a) Tenant agrees to pay the Base Rental to Landlord for each month during the Term of the Lease as herein provided. Base Rental for the first (1st) month of the Term of the Lease shall be due and payable on the Commencement Date, and Base Rental for each and every month thereafter during the Term of the Lease shall be due and payable in advance on the first (1st) day of each month. If the Commencement Date is a day other than the first (1st) day of a calendar month or in the event this Lease terminates on other than the last day of a calendar month, then Base Rental for such month or months shall be prorated and the rental installment or installments so prorated shall be paid in advance. Tenant shall pay any and all sums, other than Base Rental, which Tenant is or becomes obligated to pay to Landlord under this Lease (herein called "Additional Rental") within thirty (30) days after receipt of Landlord's invoice or statement for same which statement shall be accompanied by receipted bills and other detail sufficient to allow verification of amounts reflected on the statement, or, if this Lease provides another time for payment of certain items of Additional Rental, then at such other time.

(b) Tenant shall pay to Landlord Tenant's Share (hereinafter defined) of Expenses (hereinafter defined) as follows as an item of Additional Rental.

(i) "Tenant's Share" shall mean that portion of an Expense determined by multiplying the cost of the item by a fraction, the numerator of which is the total Floor Area of the Leased Premises and the denominator of which is the total floor area of the Building. Landlord and Tenant acknowledge that the size of the Project, and the floor area therein, may change from time to time, and Tenant's Share may vary accordingly.

(ii) "Expenses" shall mean the total in any given calendar year of all expenses, costs and disbursements (but not specific costs billed to specific tenants) of every kind and nature which Landlord shall pay or become obligated to pay because of, or in connection with, ownership, maintenance (other than maintenance of the roof, exterior walls and foundation to the extent Landlord is obligated to maintain such items pursuant to Section 4.01(a)) and operation of the Project, including without limitation, the following: (A) costs of all insurance relating to the Project maintained by Landlord; (B) all real estate taxes, assessments (whether they be general, specific or special), sewer rents, rates and charges, transit taxes, taxes based upon the receipt of rent and any other federal, state or local governmental charge, general, special, ordinary or extraordinary (but not including income or franchise taxes or estate; inheritance, succession or transfer taxes, or any other taxes imposed upon or measured by Landlord's income or profits, unless a rent tax or receipts tax regarding the Leased Premises or the Project is imposed, in which case Tenant shall pay such tax determined as if only the Leased Premises were being taxed exclusive of Landlord's other property), which may now or hereafter be levied or assessed against or relating to the Project; (C) costs of repairs and general maintenance of all Common Areas; and (D) cost of all supplies and materials used in such repair and maintenance. All accounting for Expenses shall be on the accrual basis except for taxes which, notwithstanding any other provision herein to the contrary, shall be computed on the basis of taxes actually paid during the calendar year in question and in accordance with generally accepted accounting principles.

(iii) Calculation of Tenant's Share of Expenses. Tenant's Share of

Expenses shall be determined and paid in the following manner:

(A) (1) For the calendar year of Landlord in which the Commencement Date occurs (the "First Year"), whether the portion of the Term following the Commencement Date includes the full calendar year or a portion thereof, Tenant's Share of Expenses shall be determined by applying Tenant's Share to an amount equal to the Expenses of the Project, as projected by Landlord for the full calendar year.

(2) For each calendar year during the Term (whether full calendar year or portion thereof falls within the Term) following the First Year (a "New Year"), Landlord shall provide Tenant a comparison

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4

between the Expenses for the year preceding the New Year and the projected Expenses for each New Year. Landlord shall make reasonable efforts to provide such projection prior to, and Tenant shall commence to pay on or effective, the first day of each New Year Tenant's Share of Expenses -- which shall be determined by applying Tenant's Share to an amount equal to Expenses of the Project, as projected by Landlord for the full calendar year.

(3) Tenant shall pay one-twelfth (1/12th) of Tenant's Share of Expenses, as determined by the provisions in (iii)(A)(1) and (2) above, as applicable, for each month of the Term following the Commencement Date. However, if this Lease commences or terminates at any time other than on the first day of a calendar month, Tenant's Share of Expenses for said commencement or termination month shall be prorated accordingly.

(B) Landlord shall, within the period of one hundred fifty (150) days (or as soon thereafter as possible) after the close of the First Year and each New Year, provide Tenant a statement for such year showing the projected Expenses, actual Expenses, and the difference between them (the "Difference"). If actual Expenses are greater than those projected for such year, Tenant shall pay as Additional Rental Tenant's Share of the Difference upon Landlord's demand. If such year's projected Expenses are greater than the actual Expenses for such year, Landlord shall credit Tenant's Share of the Difference against the Base Rental next falling due. If this Lease commences or terminates at any time other than the first day of the year, then Tenant's Share of the Difference for such commencement or termination year shall be prorated accordingly.

Section III.2. Payment; Past Due Rate. Base Rental and Additional Rental shall constitute and are sometimes hereinafter collectively referred to as "Rent". Tenant shall pay all Rent and other sums of money as shall become due from and payable by Tenant to Landlord hereunder in lawful money of the United States of America at the times and in the manner provided in this Lease, without demand, deduction, abatement, setoff, counterclaim or prior notice. In the event that Tenant fails to pay any installment of Rent or any other sums due under this Lease by the due date thereof or within any grace period provided for herein, the total amount then due shall bear interest at the lesser of twelve percent (12%) or the maximum nonusurious rate of interest then permitted by the applicable laws of the State of Texas or the United States of America, whichever shall permit the higher nonusurious rate, such interest being in addition to and cumulative of any other rights and remedies which Landlord may have with regard to the failure of Tenant to make any such payments under this Lease.

Section III.3. Left Blank Intentionally.

ARTICLE IV. Section IV.1. Maintenance. (a) Landlord's Maintenance. Landlord shall maintain at its sole cost and expense the roof, structural soundness of the exterior walls and foundation of the Leased Premises in operable repair and condition, reasonable wear and tear and damage by any casualty pursuant to Section 6.03 of this Lease excepted. Tenant shall immediately give Landlord written notice of defects or repairs of items required to be maintained by Landlord under this Article IV, after which Landlord shall, with reasonable promptness, commence and complete the necessary repairs. If Landlord has not completed the repairs within thirty (30) days after notice from Tenant, or if the nature of the repair is such that it cannot reasonably be completed in thirty (30) days, unless Landlord has within such thirty-day period commenced the repair and is diligently pursuing the same to completion, Tenant may, at its option, undertake the repairs itself. In that event, Landlord shall reimburse Tenant for the reasonable cost of such repairs within thirty (30) days after receipt of a statement therefor accompanied by receipted bills and other detail sufficient to allow verification of amounts reflected on the statement. If Landlord fails to make such payment within the thirty-day period, the amount due Tenant shall bear interest at twelve percent (12%) per annum. Notwithstanding the foregoing, if in Tenant's reasonable judgment, a bona fide emergency exists, if Landlord has not made the necessary repairs within 72 hours after written notice from Tenant, Tenant may, at its option, undertake such repairs and recover the reasonable cost thereof as hereinabove provided. Landlord shall not be liable to Tenant for any damage to Tenant's Property in the Leased Premises or Project; provided, however, if by reason of Landlord's failure to repair and maintain the Leased Premises as provided in this Section 4.01(a), there is a material interference with the ordinary conduct of Tenant's business, Tenant shall be entitled to a fair and equitable diminution of the Base Rental payable hereunder, based on the extent and nature of the interference and the portion of the Leased Premises so affected. The period of the diminution shall continue until the interference has been substantially removed. Unless otherwise expressly provided in this Lease, Landlord shall not be required to maintain, or make any repairs to, the Leased Premises. Subject to the provisions of Section 3.01(b) hereof, Landlord shall also maintain all landscaping, exterior lighting, concrete and paving including driveway and parking area surfaces (subject, however, to the limitations of Section 4.01(b) of this Lease), pedestrian walks and other Common Area.

(b) Tenant's Maintenance. Tenant shall, at its sole expense, keep all other parts of the Leased Premises in good condition, order and repair, clean, sanitary and safe, including, without limitation, the following items: all glass, including windows of glass or plate glass, window mullions and gaskets, doors and attached hardware, office entries, special store fronts, interior walls, interior ceilings, cabinets, millwork, paneling and other finish work, floors and floor coverings, plumbing fixtures and sanitary sewers between Tenant's plumbing fixtures and the main Project sanitary sewers, electrical facilities and electrical fixtures, and all other equipment, fixtures and Trade Fixtures (hereinafter defined), and shall paint the interior of the Leased Premises when necessary in order to maintain at all times a clean and slightly appearance. Tenant shall also maintain on a regular basis the heating, ventilating and cooling equipment serving the Leased Premises, and repair the same as necessary. Tenant shall repair and replace, subject to Landlord's direction and supervision, any damage to the Leased Premises or the Project



caused by Tenant or any of Tenant's Agents. If Tenant refuses or neglects to make repairs and/or maintain the Leased Premises, or any part thereof, in a manner reasonably satisfactory to Landlord, Landlord shall have the right (but not the obligation), upon giving Tenant ten days' prior written notice of its election to do so, to make such repairs or replacements or perform such maintenance on behalf of and for the account of Tenant. Such cost shall be payable to Landlord by Tenant on demand as Additional Rental. The obligation to repair shall include the obligation to replace when necessary. All contractors, workmen, artisans and other persons which or who Tenant proposes to retain to perform work in the Leased Premises pursuant to this Section 4.01 shall be approved by Landlord prior to the commencement of any such work. Tenant is also obligated to perform, at Tenant's own cost and expense and risk, all other maintenance and repairs necessary or appropriate to cause the Leased Premises to be suitable for Tenant's intended commercial purpose.

(c) Occupancy of Leased Premises. Tenant shall throughout the Term of this Lease, at its own expense, maintain the Leased Premises and all improvements thereon and shall deliver up the Leased Premises in a clean and sanitary condition at the expiration or termination of this Lease or the termination of Tenant's right to occupy the Leased Premises, in good repair and condition, reasonable wear and tear excepted, subject to the provisions of Article VI. Upon the expiration or termination of this Lease or the termination of Tenant's right to occupy the Leased Premises, Tenant shall surrender all keys for the Leased Premises to Landlord at the place then fixed for the payment of Rent and Landlord shall have the right to reenter and resume possession of the Leased Premises. No act done by Landlord or any of Landlord's Agents (hereinafter defined) during the Term of the Lease shall be deemed an acceptance of a surrender of the Leased Premises, and no agreement to accept a surrender of the Leased Premises shall be valid unless the same be made in writing and executed by Landlord. Tenant shall notify Landlord at least fifteen (15) days prior to vacating the Leased Premises and shall arrange to meet with Landlord for a joint inspection of the Leased Premises. If Tenant fails to give such notice or to arrange for such inspection, then Landlord's inspection of the Leased Premises shall be deemed correct for the purpose of determining Tenant's responsibility for repair of the Leased Premises.

Section IV.2. Common Area. The Common Area shall be subject to Landlord's sole management and control and shall be operated and maintained in such manner as Landlord, in its discretion, shall determine. Landlord reserves the right to change from time to time the dimensions and location of the Common Area as well as the location, dimensions, identity and type of any building and to construct additional buildings or additional stories on existing buildings or other improvements in the Project, and to eliminate buildings. Tenant and Tenant's Agents shall have the nonexclusive right and license to use the Common Area as constituted from time to time, such use to be in common with Landlord, other tenants of the Project and other persons permitted by Landlord to use the Common Area. Landlord may from time to time designate specific areas within the Project or in reasonable proximity thereto in which automobiles owned by Tenant and Tenant's Agents shall be parked. Tenant and Tenant's Agents shall not, without the prior written consent of Landlord, solicit business or display merchandise within the Common Area, or distribute handbills therein, or take any action which would interfere with the rights of other persons to use the Common Area. Landlord may temporarily close any part of the Common Area as may be necessary to prevent the public from obtaining prescriptive rights or to make repairs or alterations.

Section IV.3. Light, Air and View. Neither the diminution nor the shutting off of any light, air or view nor any other effect on the Leased Premises by any structure or condition now or hereafter existing on property adjacent to the Leased Premises or the Project shall affect this Lease, abate Rent or otherwise

impose any liability on Landlord.

Section IV.4. Entry. Tenant shall permit Landlord and Landlord's Agents (hereinafter defined) to enter into and upon the Leased Premises at all reasonable times for the purposes of inspecting the same or showing the

5

6

same to prospective purchasers, or for the purpose of maintaining or making repairs and the Rent shall in no way abate while such inspections, repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of Tenant; provided, however, that Landlord shall make reasonable efforts not to interfere with the normal business operations of Tenant. During the period that is six (6) months prior to the end of the Term hereof (unless Tenant has exercised its option to renew) and at any time Tenant is in default, Landlord or Landlord's Agents may enter the Leased Premises during reasonable times for the purpose of showing the Leased Premises.

Landlord acknowledges that the business conducted by Tenant and to be conducted by Tenant on the Leased Premises consists of retention, maintenance and storage of records of third parties, which requires that their access be restricted so as to maintain the confidentiality thereof. In exercising its right to enter into and upon the Leased Premises, Landlord shall observe such procedures and safeguards as Tenant may reasonably impose to protect the confidentiality of the business records stored in the Leased Premises, provided, in the case of an emergency, Landlord may take such action as may be reasonably necessary to protect the Leased Premises. In the event of a default by Tenant under and pursuant to this Lease, Tenant, or the third parties whose records are stored and maintained by Tenant on the Premises, shall have thirty (30) days from the retaking of possession by Landlord in which to remove such records from the Premises without interference from Landlord. In no event shall any Landlord type lien, security interest or encumbrance attach in any manner to any of such third party records.

Section IV.5. Waste and Environmental Compliance. Tenant covenants and agrees to comply strictly and in all respects and to cause Tenant's Agents to comply strictly and in all respects with the requirements of any applicable law, statute, ordinance, permit, decree, guideline, rule, regulation or order pertaining to health or the environment (hereinafter sometimes collectively called "Applicable Environmental Laws"), including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act, the Texas Water Code, the Texas Solid Waste Disposal Act and regulations promulgated under any of the preceding statutes, as each of the foregoing may be amended from time to time. Tenant shall not cause or permit any Hazardous Materials (hereinafter defined) to be brought to or generated, treated, stored, used, installed or disposed in, on, under or about the Leased Premises or the Project. Tenant represents, warrants, covenants and agrees that Tenant and Tenant's Agents are not and will not become involved in operations at the Leased Premises, the Project which could lead to the imposition on Landlord or any of Landlord's Related Parties (hereinafter defined) of liability under any of the Applicable Environmental Laws. As additional consideration for Landlord's entering into this Lease, Tenant does hereby for itself and its heirs, legal representatives, successors and assigns, agree to and hereby does expressly (a) assume and accept any and all liability and risks involved or related to the presence on the Project of any and all Hazardous Materials introduced by Tenant, (b) indemnify, defend and hold harmless Landlord and Landlord's Related Parties against and from any and all actions,



causes of action, claims, demands, liabilities, losses, damages and expenses of whatsoever kind, including, but not limited to, attorneys' fees, that any or all of Landlord or any of Landlord's Related Parties may at any time sustain or incur by reason of any and all claims asserted against any of them to the extent that such claims arise out of or are based upon the breach of any of the agreements of Tenant under this Section 4.05 or based upon any Hazardous Materials being brought or allowed to be brought to or from the Project by Tenant or any of Tenant's Agents. The covenants and agreements of Tenant under this Section 4.05 shall survive the expiration or termination of this Lease. As used in this Lease, the term "Hazardous Materials" means any flammables, explosives, radioactive materials, asbestos-containing materials, solid wastes that pose imminent and substantial endangerment to health or the environment, formaldehyde, radon gas, lead, petroleum products or wastes, polychlorinated biphenyls and other hazardous waste, toxic substances or other potentially health affecting substances, including without limitation substances defined as "hazardous substances," "hazardous materials," "toxic substances," "hazardous waste," "extremely hazardous substance," "regulated substance," "contaminant" or "Class I" or "Class II" waste in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Hazardous Materials Transportation Act, the Resources Conservation and Recovery Act, the Texas Water Code, the Texas Solid Waste Disposal Act, and regulations promulgated under any of the preceding statutes, as each of the foregoing may be amended from time to time.

ARTICLE V. Section V.1. Utilities. (a) Services. Landlord agrees to cause to be provided the necessary mains, conduits and other facilities necessary to supply water, electricity, gas, telephone, and sewer service (sometimes collectively referred to in this Section 5.01 as the "services") to the Leased Premises to the extent and in such manner as is deemed by Landlord to be adequate for the use and occupancy of the Building.

(b) Payment of Impositions. Tenant shall pay all charges for gas, electricity and water used in its operations in the Leased Premises, and all connection charges and sewer charges attributable thereto. Tenant shall pay suppliers directly for those utilities which are separately metered by the supplier thereof. Tenant

6

7

shall pay Landlord for utilities which are not paid directly to the supplier thereof and charges for such utilities shall be calculated by Landlord in accordance with Section 3.01(b) hereof.

(c) Personal Property Taxes. Tenant shall pay all ad valorem and other taxes, assessments or charges levied upon or applicable to any of Tenant's Property and all fees or charges imposed on the business conducted by Tenant on the Leased Premises before such items become delinquent. If Landlord shall be required to pay a higher tax with respect to the Leased Premises as a result of Tenant's leasehold improvements, then Tenant shall pay to Landlord, upon demand, the amount of the increase in such tax.

(d) No Liability. No interruption, cessation or malfunction of any services from any cause of any kind which is beyond the reasonable control of Landlord, shall constitute an eviction or disturbance of Tenant's use and possession of the Leased Premises or a breach by Landlord of any of its obligations under this Lease or render Landlord liable for any damages to either person or property (including, without limitation, consequential or special damages) or entitle Tenant to be relieved from any of its obligations

under this Lease (including the obligation to pay Rent) or grant Tenant any right of setoff, counterclaim, abatement or recoupment. In the event of any such interruption of any such services, Landlord shall use reasonable diligence to restore such service.

Section V.2. Liens. Tenant shall not permit any mechanic's lien or any other liens, claims or charges to be placed on the Leased Premises, on the Project, on the improvements thereon, on Landlord's interest therein, or upon Tenant's leasehold interest therein, during the Term of this Lease, and in the event of the filing of any such lien, encumbrance, claim or charge, Tenant shall promptly have same removed. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of labor performed or materials furnished in connection with any work performed on the Leased Premises and that it will save and hold Landlord harmless from and defend Landlord against any and all loss, cost or expense based on or arising out of any such asserted claims, liens or charges. Tenant agrees to give Landlord immediate written notice of the placing of any lien, charge, claim or encumbrance against the Leased Premises.

Section V.3. Indemnification. As additional consideration for Landlord entering into this Lease, Tenant does hereby for itself and its heirs, legal representatives, successors and assigns, agree to and hereby does expressly indemnify, defend and hold harmless Landlord, and Landlord's manager of the Project and Landlord's and such manager's agents, principals, employees, heirs, legal representatives, successors, assigns, affiliates, officers, directors, shareholders, partners, venturers, trustees and representatives (collectively, "Landlord's Related Parties"), against and from any and all claims, actions, causes of action, demands, losses, assessments, suits, damages, liability, costs and expenses of whatever kind (including without limitation attorneys' fees), that Landlord or any of Landlord's Related Parties may at any time sustain or incur by reason of any and all claims asserted against any of them to the extent that such claims arise out of or are based upon (a) any breach of any of the agreements of Tenant under this Lease, (b) any occurrence in, upon or about the Leased Premises or the Project caused by the sole, contributory, partial, joint, comparative or concurrent negligence of Tenant or Tenant's respective employees, agents, officers, directors, shareholders, partners, trustees, representatives, customers, guests, invitees, licensees, subtenants, concessionaires, contractors, servants, vendors, materialmen, suppliers, heirs, legal representatives, successors, assigns or any other person entering the Project under express or implied invitation of Tenant, claiming by, through or under Tenant or who may occupy or use the Leased Premises (collectively, "Tenant's Agents"), (c) the conduct of management of any work done by Tenant or any of Tenant's Agents in, upon or about the Leased Premises or the Project, (d) any occurrence in, upon or about the Leased Premises or the Project occasioned wholly or in part by any act, omission or neglect claimed to have been caused by Tenant or any of Tenant's Agents, or (e) any occurrence occasioned by the violation of any law, statute, permit, order, decree, guideline, rule, regulation or ordinance (including without limitation any Legal Requirements) by Tenant or any of Tenant's Agents. In any case in which Tenant has agreed to indemnify Landlord, Landlord's Related Parties or any other person, such indemnity shall be deemed to include an obligation on the part of Tenant to appear on behalf of the indemnified party in any and all proceedings involving a claim or cause of action covered by such indemnity and to defend the indemnified party against such claim or cause of action, all at Tenant's cost; provided, however, at the option of any party indemnified hereunder, such party shall have the right to appear on its own behalf, employ its own legal counsel and defend any claim or cause of action indemnified in this Section 5.03, all at Tenant's cost. The provisions of this Section 5.03 shall survive the termination or expiration of this Lease.

Section V.4. Alterations. Tenant shall not make any alterations, improvements, modifications or additions to the Leased Premises or the Project without prior written consent of Landlord. Any and all furnishing, equipping and improving of or other alteration and addition to the Leased Premises shall be: (a) made at Tenant's sole cost, risk and expense; (b) performed in a prompt, good and workmanlike manner with labor

7

8

and materials of such quality as Landlord may reasonably require; (c) constructed in accordance with all plans and specifications approved in writing by Landlord prior to the commencement of any such work; (d) prosecuted diligently and continuously to completion so as to minimize interference with the normal business operations of other tenants in the Building; and (e) performed by contractors approved in writing by Landlord. Any and all alterations, improvements and additions (other than Trade Fixtures) to the Leased Premises shall at once become the property of Landlord. Tenant shall have no (and hereby waives all) rights to payment or compensation for any such item.

Section V.5. Trade Fixtures. "Trade Fixtures" shall mean any and all items of property placed by Tenant in the Leased Premises and used by Tenant in, upon or about the Leased Premises for the carrying on of its business and which may or may not be annexed to the realty by the Tenant, but in any event can be removed without material injury to the Leased Premises, including but not limited to signs, furniture, equipment, shelves, steel storage racking, telecommunication equipment, computer systems, bins and machinery; provided, however, that the term Trade Fixtures shall not include any permanent leasehold improvements, including but not limited to any floor, wall or ceiling coverings, any interior walls or partitions, any lighting fixtures, track lights or any property which is a part of or associated with any electrical, plumbing or mechanical system, notwithstanding that the same may have been installed in, upon or about the Leased Premises. Notwithstanding anything in this Article V to the contrary, Tenant, at its own cost and expense, may erect such Trade Fixtures on the Leased Premises as it desires provided that (a) such Trade Fixtures do not alter the basic character of the Leased Premises, (b) such Trade Fixtures do not overload or damage the Leased Premises, (c) such items may be removed without injury to the Leased Premises, and (d) the construction, erection or installation thereof complies with all Legal Requirements and with Landlord's specifications and requirements. Tenant shall have the right to remove at the termination or expiration of this Lease such Trade Fixtures owned by Tenant and so installed (other than replacements for any such items originally installed by Landlord), provided Tenant is not in default under this Lease and such removal is made within five (5) days after the termination or expiration of this Lease; provided, however, Tenant shall repair any damage caused by such removal and restore the Leased Premises to its original condition, reasonable wear and tear excepted, subject to the provisions of Article VI.

Section V.6. Removal. Any alterations, improvements, modifications, additions or fixtures made, installed or attached by either Landlord or Tenant to, in or on the Leased Premises (other than as provided in Section 5.05 hereof) shall become the property of Landlord and shall, at Landlord's election, be (a) surrendered with the Leased Premises at the termination or expiration of this Lease without any payment or reimbursement therefor, or (b) promptly removed by Tenant at Tenant's expense, and Tenant shall repair any damage caused by such removal and restore the Leased Premises to its original condition, reasonable wear and tear excepted.

ARTICLE VI. Section VI.1. Condemnation. (a) Total Taking. In the event of a taking or damage related to the exercise of the power of eminent domain, by any authority, corporation or entity empowered to condemn property (including without limitation a voluntary conveyance by Landlord in lieu of such taking or condemnation) (individually, a "Taking") of (i) the entire Leased Premises, (ii) so much of the Leased Premises as to prevent or substantially impair its use by Tenant during the Term of this Lease or (iii) portions of the Building or Project required for reasonable access to, or reasonable use of, the Leased Premises (individually, a "Total Taking"), the rights of Tenant under this Lease shall cease and terminate as of the date upon which title to the property taken passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor ("Date of Taking").

(b) Partial Taking. In the event of a Taking of only a part of this Leased Premises or of a part of the Project which does not constitute a Total Taking during the Term of the Lease (individually, a "Partial Taking"), the rights of Tenant under this Lease and the leasehold estate of Tenant in and to the portion of the property taken shall cease and terminate as of the Date of Taking, and an adjustment to the Rent shall be made based upon the reduced value of the Leased Premises.

(c) Termination by Landlord. In the event of a Taking of a portion of the Building or Project (other than the Leased Premises), and in Landlord's reasonable opinion, the Building or Project should be restored in a manner that materially alters the Leased Premises, Landlord may terminate this Lease by giving notice to Tenant within sixty (60) days following the date title vests in the condemnor. This Lease shall terminate on the date specified in the termination notice, which date shall be at least thirty (30) days but not more than ninety (90) days after the date such notice is given.

(d) Rent Adjustment. If this Lease is terminated pursuant to this Section 6.01, Landlord shall refund to Tenant any prepaid unaccrued Rent and any other sums due and owing to Tenant (less any sums then due

8

9

and owing Landlord by Tenant), and Tenant shall pay to Landlord any remaining sums due and owing Landlord under this Lease, each prorated as of the Date of Taking where applicable.

(e) Repair. If this Lease is not terminated as provided for in this Section 6.01, then Landlord at its expense shall promptly repair and restore the Project, Building and/or the Leased Premises to approximately the same condition that existed at the time Tenant entered into possession of the Leased Premises, wear and tear excepted (and Landlord shall have no obligation to repair or restore Tenant's improvements to the Leased Premises or Tenant's Property), except for the part taken, to render the Building or Project a complete architectural unit, but only to the extent of the condemnation award received by Landlord for the damage.

(f) Awards and Damages. Landlord reserves all rights to damages paid because of any Partial or Total Taking of the Leased Premises or the Project. Tenant assigns to Landlord any right Tenant may have to the damages or award. Further, Tenant shall not make claims against Landlord or the condemning authority for damages. Notwithstanding, Tenant may claim and recover from the

condemning authority a separate award for Tenant's moving expenses, business dislocation damages, Tenant's Property and any other award that would not reduce the award payable to Landlord.

Section VI.2. Force Majeure. Neither Landlord nor Tenant shall be required to perform any term of this Lease (other than the obligations of Tenant to pay Rent as provided herein) so long as such performance is delayed or prevented by "Force Majeure", which shall mean acts of God, strikes, injunctions, lockouts, material or labor restrictions by any governmental authority, civil riots, floods, fire, theft, public enemy, insurrection, war, court order, requisition or order of governmental body or authority, and any other cause not reasonably within the control of Landlord or Tenant and which by the exercise of due diligence Landlord or Tenant is unable, wholly or in part, to prevent or overcome. Neither Landlord nor any mortgagee shall be liable or responsible to Tenant for any loss or damage to any property or person occasioned by any Force Majeure, or for any damage or inconvenience which may arise through repair or alteration of any part of the Project as a result of any Force Majeure.

Section VI.3. Fire or Other Casualty. (a) Damage. If any portion of the Leased Premises shall be destroyed or damaged by fire or any other casualty, Tenant shall immediately give notice thereof to Landlord. If any portion of the Leased Premises or Project shall be destroyed or damaged by fire or any other casualty then, at the option of Landlord, (i) Landlord may restore and repair the portion of the Leased Premises or Project damaged and, if the Leased Premises are rendered untenable in whole or in part by reason of such casualty as determined by Landlord, Tenant shall be entitled to a fair diminution of the Rent (subject to the limitations in Section 6.03(c) below) hereunder until such time as the Leased Premises (exclusive of any of Tenant's Property or Tenant's improvements) are made tenantable by repair or restoration as determined by an architect's certificate or issuance of a certificate of occupancy or (ii) Landlord may terminate this Lease whereupon all Rent accrued up to the time of such termination and any other sums due and owing shall be paid by Tenant to Landlord (less any sums then due and owing Tenant by Landlord) and any remaining sums due and owing by Landlord to Tenant shall be paid to Tenant. In no event shall Landlord have any obligation to repair or restore any such destruction or damage.

(b) Repair. Landlord shall give Tenant written notice of its decisions, estimates or elections under this Section 6.03 within forty-five (45) days after any such damage or destruction; should Landlord fail to timely give such written notice, Tenant may, by written notice to Landlord terminate this Lease. If Landlord has elected to repair and restore the Leased Premises or other portion of the Project, this Lease shall continue in full force and effect, and the repairs will be made within a reasonable time thereafter (not to exceed one hundred eighty (180) days following the casualty) subject to the provisions of Section 6.02 of this Lease; provided, however, if at the time repair and restoration has commenced, Landlord has delivered to Tenant an independent architect's certificate to the effect that repair and restoration will require longer than 180 days, then the period for repair and restoration shall be the period so certified by the architect up to but not exceeding 270 days following the casualty. Should the repairs not be completed within that period, both Landlord and Tenant shall each have the option of terminating this Lease by written letter of termination. If this Lease is terminated pursuant to Section 6.03 (a) or (b), Tenant shall be entitled to a fair and equitable diminution of Base Rental from the date of casualty to the date of termination based on the extent and nature of the damage, and Landlord shall refund to Tenant any prepaid Rent (unaccrued as of the date of damage or destruction) and any other sums due and owing by Landlord to Tenant (less any sums then due and owing Landlord by Tenant) and any remaining sums due and owing by Tenant to Landlord shall be paid to Landlord. If Landlord has elected to repair and reconstruct

the Leased Premises or other portion of the Project to the extent stated above, the Term will be extended for a time equal to the period of such repair and reconstruction. If Landlord elects to rebuild the Leased Premises or other portion of the Project, Landlord shall (i) only

9

10

be obligated to restore or rebuild the Leased Premises or other portion of the Project to approximately the same condition as existed at the time Tenant entered into possession of the Leased Premises, wear and tear excepted and (ii) not be required to rebuild, repair or replace any part of Tenant's Property or Tenant's improvements. Notwithstanding anything contained in this Lease to the contrary, if Landlord shall elect to repair and restore the Leased Premises or other portion of the Project pursuant to this Section 6.03, in no event shall Landlord be required to expend under this Article VI any amount in excess of the proceeds actually received from the insurance carried by Landlord pursuant to Section 6.04 of this Lease. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage or destruction or the disregard of the repair thereof.

(c) Negligence of Tenant. Notwithstanding the provisions of Sections 6.03(a) and 6.03(b) of this Lease, if the Leased Premises, the Project or any portion thereof, are damaged by fire or other casualty resulting from the fault or negligence of Tenant or any of Tenant's Agents, the Rent under this Lease will not be diminished during the repair of that damage (except to the extent covered by insurance proceeds of any rent interruption insurance maintained by the Landlord) and Tenant will be liable to Landlord for the cost and expense of the repair and restoration of the Leased Premises, the Project or any part thereof, caused thereby to the extent that cost and expense is not covered by insurance proceeds (including without limitation the amount of any insurance deductible).

Section VI.4. Insurance. (a) Landlord shall maintain, or cause to be maintained, at all times during Term of this Lease standard fire and extended coverage insurance on the Project (excluding leasehold improvements by Tenant and Tenant's Property) in amounts representing at least eighty percent (80%) of the replacement value of the Building and improvements (excluding leasehold improvements by Tenant). Said insurance shall be maintained with an insurance company authorized to do business in Texas, in amounts desired by Landlord with the same to be included in the expenses of the Project.

(b) Tenant shall, at its sole cost and expense, procure and maintain during the Term of this Lease comprehensive general liability insurance (including personal injury liability, premises/operation, property damage, independent contractors and broad form contractual in support of the indemnifications of Landlord by Tenant under this Lease) in amounts of not less than a combined single limit of \$1,000,000, business interruption insurance, contractual liability insurance, property insurance with respect to Tenant's Property, leasehold improvements, alterations and additions written on an "all risk" basis for full replacement cost, worker's compensation and employer's liability insurance and comprehensive catastrophe liability insurance, all maintained with companies, on forms and in such amounts as Landlord may, from time to time, reasonably require and endorsed to include Landlord as an additional insured, with the premiums being fully paid on or before the due dates. In the event that Tenant fails to take out or maintain any policy required by this Section 6.04 to be maintained by Tenant, such failure shall be



a defense to any claim asserted by Tenant against Landlord by reason of any loss sustained by Tenant that would have been covered by such policy, notwithstanding that such loss may have been proximately caused solely or partially by the negligence or willful misconduct of Landlord or any of Landlord's Related Parties. If Tenant does not procure insurance as required, Landlord may, upon advance written notice to Tenant, cause this insurance to be issued and Tenant shall pay to Landlord the premium for such insurance within ten (10) days of Landlord's demand, plus interest at the past due rate provided for in Section 3.02 of this Lease until repaid by Tenant. All policies of insurance required to be maintained by Tenant shall specifically provide that Landlord shall be given at least ten (10) days' prior written notice of any cancellation or nonrenewal of any such policy. A duplicate original or a certificate evidencing the existence of each such policy shall be deposited with Landlord by Tenant on or before the Commencement Date, and a duplicate original or certificate of each subsequent policy shall be deposited with Landlord at least ten (10) days prior to the expiration of the preceding such policy. All insurance policies obtained by Tenant shall be written as primary policies (primary over any insurance carried by Landlord), not contributing with and not in excess of coverage which Landlord may carry, if any.

Section VI.5. Waiver of Subrogation Rights. Each party hereto waives all rights of recovery, claims, actions or causes of actions arising in any manner in its (the "Injured Party's") favor and against the other party for loss or damage to the Injured Party's property located within or constituting a part or all of the Project, to the extent the loss or damage is covered by: (i) the Injured Party's insurance; or (ii) the insurance the Injured Party is required to carry under this Lease, whichever is greater, regardless of the cause or origin, including the sole, contributory, partial, joint, comparative or concurrent negligence of the other party. This waiver also applies to each party's directors, officers, employees, shareholders, partners, representatives and agents. All insurance carried by either Landlord or Tenant covering the losses and damages described in this Section 6.05 shall provide for a waiver of rights of subrogation by the Injured Party's insurance carrier against the other party, to the maximum extent that the same is permitted under the laws and regulations governing the

writing of insurance within the State of Texas. Both parties hereto are obligated to obtain such a waiver and provide evidence to the other party of such waiver. The waiver set forth in this Section 6.05 shall be in addition to, and not in substitution for, any other waivers, indemnities or exclusions of liability set forth in this Lease.

ARTICLE VII. Section VII.1. Waiver of Landlord's Lien. Landlord hereby waives any and all right which Landlord may have by virtue of this Lease, Tenant's occupancy of the Leased Premises, or under and pursuant to or by virtue of the application of any law, to assert a lien or security interest as against any goods, wares, equipment, fixtures, furniture, files, improvements or other personal property of Tenant presently or which may hereinafter be situated and located in the Leased Premises, and Landlord further agrees to execute and deliver an instrument providing for the waiver of such rights to the extent requested by a financial institution involved in making a credit accommodation(s) to Tenant.

Section VII.2. Default by Tenant. The occurrence of any one or more of the following events shall constitute a default by Tenant under this Lease:

(a) Tenant shall fail to perform, observe or comply with any of the terms, provisions, agreements, covenants or conditions of this Lease or any guaranty now or hereafter executed relating to this Lease (other than the failure specified in Section 7.02(b) hereof), such failure continuing for twenty (20) days after written notice from Landlord to Tenant of such failure or if the nature of the default is such that it cannot reasonably be cured or remedied within twenty (20) days, then so long as Tenant has commenced the cure or remedy, the cure period shall be extended for such reasonable period, up to but not exceeding an additional twenty-five (25) days, as may be necessary to complete the cure or remedy; provided, however, that Landlord shall not be required to provide such notice (x) with respect to any default which is by its nature incurable, or (y) with respect to any nonmonetary default (or substantially similar nonmonetary default), be obligated to provide such written notice more than two (2) times during the Term, the third such default not requiring such notice by Landlord;

(b) Tenant shall fail to pay to Landlord any Rent or any other monetary charge due from Tenant hereunder as and when due and payable and such failure shall continue for a period of ten (10) days after the due date;

(c) A Transfer (hereinafter defined) shall occur of all or a part of (i) this Lease or (ii) the Leased Premises, without the prior written approval of Landlord;

(d) The interest of Tenant under this Lease shall be levied on under execution or other legal process and the same has not been stayed or removed within thirty (30) days;

(e) Any petition in bankruptcy or other insolvency proceedings shall be filed by or against Tenant, or any petition shall be filed or other action taken to declare Tenant a bankrupt or to delay, reduce or modify Tenant's debts or obligations or to reorganize or modify Tenant's capital structure or indebtedness or to appoint a trustee, receiver or liquidator of Tenant or of any property of Tenant, or any proceeding or other action shall be commenced or taken by any governmental authority for the dissolution or liquidation of Tenant and in the case of any involuntary proceeding commenced against Tenant, the same has not been dismissed within sixty (60) days;

(f) Tenant shall become insolvent, or Tenant shall make an assignment for the benefit of creditors, or Tenant shall make a transfer in fraud of creditors, or a receiver or trustee shall be appointed for Tenant or any of its properties;

(g) Tenant shall desert, abandon or vacate the Leased Premises or any substantial portion thereof unless Tenant shall continue to timely pay all Rent due hereunder and provide Landlord with adequate security for the payment of future Rent through the remainder of the Term; provided, however, notwithstanding continued payment and providing for security, upon any such desertion, abandonment or vacation of the Leased Premises, Tenant's rights under Sections 2.04, 2.05 and 2.06 shall forthwith terminate and be of no further force or effect;

(h) Tenant shall fail to operate its business in the Leased Premises for more than fifteen (15) days for any reason other than destruction or condemnation of the Leased Premises;



(i) Tenant shall do or permit to be done anything which creates a lien upon the Leased Premises or the Project unless the same shall be removed or bonded around with thirty (30) days; or

(j) The death or legal incapacity of Tenant, if Tenant is an individual person, or the termination, dissolution or liquidation of Tenant, if Tenant is a corporation, partnership or other entity.

(k) The occurrence of a default by the tenant under the Other Lease, following any period for notice and opportunity to cure provided therein.

The term "Tenant" as used in this Section 7.02 shall be deemed to include any guarantor of, or any other person or entity primarily or secondarily liable for, any of the Tenant's obligations under this Lease.

Section VII.3. Landlord's Remedies. Upon the occurrence of any default by Tenant under this Lease, Landlord may, at its sole option, have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, other than any notice expressly provided in this Lease (and without limiting the generality of the foregoing, except as otherwise provided herein, Tenant hereby specifically waives notice and demand for payment of Rent or other obligations due hereunder and waives any and all other notice or demand requirements imposed by applicable law):

(a) Terminate this Lease, and Landlord may forthwith repossess the Leased Premises and be entitled to recover as damages a sum of money equal to the total of (i) the cost of recovering the Leased Premises, (ii) the cost of removing and storing Tenant's or any other occupant's property, (iii) the unpaid Rent and any other sums accrued hereunder at the date of termination (including interest at the past due rate provided in Section 3.02 of this Lease if in arrears), (iv) a sum equal to the amount, if any, by which the present value of the total Rent and other benefits which would have accrued to Landlord under this Lease for the remainder of the Term, if the terms of this Lease had been fully complied with by Tenant, exceeds the total fair market value of the Leased Premises for the balance of the Term (it being the agreement of the parties hereto that Landlord shall receive the benefit of its bargain), (v) the cost of restoring the Leased Premises to the condition necessary to rent the Leased Premises at the prevailing market rental rate, normal wear and tear excepted, (vi) any increase in insurance premiums caused by the vacancy of the Leased Premises, (vii) the amount of any unamortized improvements to the Leased Premises paid for by Landlord, (viii) the amount of any unamortized brokerage commission paid by Landlord in connection with the leasing of the Leased Premises (ix) the cost of any brokerage fees or commissions payable by Landlord in connection with any reletting or attempted reletting; and (x) any other sum of money or damages owed by Tenant to Landlord. The fair market value of the Leased Premises shall be the prevailing market rental rate for similar space of similar size in a similar building in the city where the Leased Premises is located for a lease term equal to the remaining Term.

(b) Terminate Tenant's right of occupancy of the Leased Premises and reenter and repossess the Leased Premises by entry, forcible entry or detainer suit or otherwise, without demand or notice of any kind to Tenant and without terminating this Lease, without acceptance of surrender of possession of the Leased Premises, and without becoming liable for damages or guilty of trespass, in which event Landlord may, but shall be under no obligation to relet the Leased Premises or any part thereof for the account of Tenant (nor shall Landlord be under any obligation to relet the Leased Premises before Landlord relets or leases any other portion of the Project or any other property under

the ownership or control of Landlord) for a period equal to or lesser or greater than the remainder of the Term of the Lease on whatever terms and conditions Landlord, at Landlord's sole discretion, deems advisable. Tenant shall be liable for and shall pay to Landlord all Rent payable by Tenant under this Lease (plus interest at the past due rate provided in Section 3.02 of this Lease if in arrears) plus an amount equal to (i) the cost of recovering possession of the Leased Premises, (ii) the cost of removing and storing any of Tenant's or any other occupant's property left on the Leased Premises or the Project after reentry, (iii) the cost of decorations, repairs, changes, alterations and additions to the Leased Premises and the Project, (iv) the cost of any attempted reletting or reletting and the collection of the rent accruing from such reletting, (v) the cost of any brokerage fees or commissions payable by Landlord in connection with any reletting or attempted reletting, (vi) any other costs incurred by Landlord in connection with any such reletting or attempted reletting, (vii) the cost of any increase in insurance premiums caused by the termination of possession of the Leased Premises, (viii) the amount of any unamortized improvements to the Leased Premises paid for by Landlord, (ix) the amount of any unamortized brokerage commission paid by Landlord in connection with the leasing of the Leased Premises and (x) any other sum of money or damages owed by Tenant to Landlord, all reduced by any sums received by Landlord through any reletting of the Leased Premises; provided, however, that in no event shall Tenant be entitled to any excess of any sums obtained by reletting over and above Rent provided in this Lease to be paid by Tenant to Landlord.

12

13

For the purpose of such reletting Landlord is authorized to decorate or to make any repairs, changes, alterations or additions in or to the Leased Premises that may be necessary. Landlord may file suit to recover any sums falling due under the terms of this Section 7.03(b) from time to time, and no delivery to or recovery by Landlord of any portion due Landlord hereunder shall be any defense in any action to recover any amount not theretofore reduced to judgment in favor of Landlord. No reletting shall be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention is given to Tenant by Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous default and/or exercise its rights under Section 7.03(a) of this Lease.

(c) Enter upon the Leased Premises and do whatever Tenant is obligated to do under the terms on this Lease; and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease plus fifteen percent (15%) of such cost to cover overhead plus interest at the past due rate provided in this Lease, and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action. No action taken by Landlord under this Section 7.03(c) shall relieve Tenant from any of its obligations under this Lease or from any consequences or liabilities arising from the failure to perform such obligations.

(d) Disconnect, discontinue, interrupt or cause the interruption of any utility or service currently being furnished to Tenant including without limitation gas, water, electricity, air conditioning and heating.

(e) Change all door locks and other security devices of Tenant at the Leased Premises and/or the Project, and Tenant hereby expressly agrees that

Landlord shall not be required to affix any notice of any kind to the Leased Premises or provide the new key to the Tenant at any hour, including Tenant's regular business hours, until such time as Tenant has cured any and all defaults hereunder and reimbursed Landlord for all sums due Landlord hereunder. Landlord, on terms and conditions satisfactory to Landlord in its sole discretion, may upon request from Tenant's employees, enter the Leased Premises for the purpose of retrieving therefrom personal property of such employees, provided, Landlord shall have no obligation to do so.

(f) Exercise any of the following remedies: suit on the contract, suit for anticipatory breach and injunctive relief of all varieties.

(g) Exercise any or all other remedies available to Landlord in this Lease, at law or in equity.

Section VII.4. No Duty to Relet or Mitigate. Notwithstanding anything contained herein to the contrary, to the full extent permitted under applicable law, Tenant hereby releases Landlord from any and all duty to relet the Leased Premises or otherwise mitigate damages. Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished, because of Landlord's failure to relet the Leased Premises or collect rent due with respect to such reletting. In no event shall Tenant be entitled to any excess rents received by Landlord. In the event, and only in the event, that (despite such waiver) Texas law requires Landlord to attempt to mitigate damages, Landlord shall use reasonable efforts to relet the Leased Premises on such terms and conditions as Landlord in its good faith judgment may determine; provided, however, that Landlord shall not be obligated to relet the Leased Premises before leasing any other unoccupied portions of the Project and any other property under the ownership or control of Landlord.

Section VII.5. Reentry. If Tenant fails to allow Landlord to reenter and repossess the Leased Premises, Landlord shall have full and free license to enter into and upon the Leased Premises with or without process of law for the purpose of repossessing the Leased Premises, expelling or removing Tenant and any others who may be occupying or within the Leased Premises, removing any and all property therefrom and changing all door locks of the Leased Premises. Landlord may take these actions without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, without accepting surrender of possession of the Leased Premises by Tenant, and without incurring any liability for any damage resulting therefrom including without limitation any liability arising under Sections 93.002 and 93.003 of the Texas Property Code, as amended or superseded from time to time, and without relinquishing Landlord's right to Rent or any other right given to Landlord hereunder or by operation of law or in equity.

Section VII.6. Waiver of Certain Rights. Tenant hereby expressly waives any and all rights Tenant may have under Sections 93.002 and 93.003 of the Texas Property Code (as amended or superseded from time to time) including without limitation its right to (a) either recover possession of the Leased Premises or terminate this Lease, and (b) recover from Landlord an amount equal to the sum of its actual damages, one month's rent, and reasonable attorneys' fees, less any delinquent rents or other sums for which Tenant is liable. Tenant

hereby waives any and all liens (whether statutory, contractual or constitutional) it may have or acquire as a result of a breach by Landlord

under this Lease. Tenant also waives and releases any statutory lien and offset rights it may have against Landlord, including without limitation the rights conferred upon Tenant pursuant to Section 91.004 of the Texas Property Code, as amended or superseded from time to time, or other applicable law.

Section VII.7. NonWaiver. Failure on the part of Landlord to complain of any action or nonaction on the part of Tenant, no matter how long the same may continue, shall not be deemed to be a waiver by Landlord of any of its rights under this Lease. Further, it is covenanted and agreed that no waiver at any time of any of the provisions hereof by Landlord shall be construed as a waiver of any of the other provisions hereof and that a waiver at any time of any of the provisions hereof shall not be construed as a waiver at any subsequent time of the same provisions. The consent or approval by Landlord to or of any action by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or of any subsequent similar act.

Section VII.8. Holding Over. In the event Tenant remains in possession of the Leased Premises after the expiration or termination of this Lease without the execution of a new lease, then Tenant, at Landlord's option, shall be deemed to be occupying the Leased Premises as a tenant at will at a base rental equal to 150% of the greater of (a) the prevailing market base rental rate of the Leased Premises or (b) the Base Rental, and shall otherwise remain subject to all the conditions and provisions of this Lease insofar as the same are applicable to a tenancy at will, including without limitation the payment of all other Rent. No holding over by Tenant after the expiration or termination of this Lease shall be construed to extend the Term or in any other manner be construed as permission by Landlord to hold over. Tenant shall indemnify Landlord (y) against all claims for damages by any other tenant to whom Landlord may have leased any part of the Leased Premises effective upon the termination or expiration of this Lease, and (z) for all other losses, costs and expenses, including reasonable attorneys' fees, incurred by reason of such holding over.

Section VII.9. Attorneys' Fees and Other Expenses. In the event either party hereto defaults in the faithful performance or observance of any of the terms of this Lease, the party in default shall be liable for and shall pay to the nondefaulting party all expenses incurred by such nondefaulting party in enforcing any of its remedies for any such default, and if the non-defaulting party places the enforcement of all or any part of this Lease in the hands of an attorney, the party in default agrees to pay the nondefaulting party's reasonable attorneys' fees in such connection.

Section 7.10 Abandonment of Personal Property. Any personal property left in the Leased Premises or any personal property of Tenant left about the Project at the expiration or termination of this Lease, the termination of Tenant's right to occupy the Leased Premises or the abandonment, desertion or vacating of the Leased Premises by Tenant, shall be deemed abandoned by Tenant and may, at the option of Landlord, be immediately removed from the Leased Premises or such other space by Landlord and stored by Landlord at the full risk, cost and expense of Tenant. Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. In the event Tenant does not reclaim any such personal property and pay all costs for any storage and moving thereof within thirty (30) days after the expiration or termination of this Lease, the termination of Tenant's right to occupy the Leased Premises or the abandonment, desertion or vacating of the Leased Premises by Tenant, Landlord may dispose of such personal property in any way that it deems proper. If Landlord shall sell any such personal property, it shall be entitled to retain from the proceeds the amount of any Rent or other expenses due Landlord, together with the cost of storage and moving and the expense of the sale. Notwithstanding anything contained herein to the contrary, in addition to the rights provided herein

with respect to any such property, Landlord shall have the option of exercising any of its other rights or remedies provided in the Lease or exercising any rights or remedies available to Landlord in the Texas Property Code, as amended from time to time, or otherwise at law or in equity.

ARTICLE VIII. Section VIII.1. Transfers. Tenant shall not, by operation of law or otherwise, (a) assign, transfer, mortgage or otherwise encumber all or any part of this Lease or the Leased Premises, (b) grant any concession or license within the Leased Premises, (c) grant or transfer any management privileges or rights with respect to the Leased Premises, (d) sublet all or any part of the Leased Premises or any right or privilege appurtenant to the Leased Premises except to Pierce Leahy Corp., (e) permit any other party to occupy or use all or any part of the Leased Premises or (f) advertise for any of the foregoing (collectively, a "Transfer"), without the prior written consent of Landlord. If Tenant is other than an individual person, any conveyance, assignment or transfer of more than a twenty-five percent (25%) interest in Tenant or any lesser percentage which, in the opinion of Landlord, results in a change in the effective control of Tenant, in a single transaction or a series of transactions, shall be deemed to constitute a Transfer; provided, however, so long as no default

14

15

remains uncured beyond any applicable grace or cure period, transfer of an interest in Tenant to one or more partners of Tenant or shareholders of Pierce Leahy Corp. or members of the immediate family of any of them or a trust created for the benefit of any such person or any entity controlled by any such person may be effected without Landlord's consent. If Tenant requests Landlord's consent to any Transfer, then Tenant shall provide Landlord with documentation reasonably requested by Landlord regarding the proposed Transfer. Tenant shall reimburse Landlord for its reasonable attorneys' fees and other expenses incurred in connection with considering any request for its consent to a Transfer. Landlord's consent to a Transfer shall not release Tenant from performing its obligations under this Lease but rather Tenant's transferee shall assume all of Tenant's obligations under this Lease in a writing satisfactory to Landlord and Tenant, and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfer. While the Leased Premises or any part thereof are subject to a Transfer, Landlord may collect directly from such transferee all rents or other sums relating to the Leased Premises becoming due to Tenant or Landlord and apply such rents and other sums against the Rent and any other sums payable hereunder (in the event any such sums received from such transferee exceed the Rent, Landlord shall have the right to retain such excess); provided, so long as Tenant is not in default hereunder, Landlord shall not be entitled to collect any Rent directly from Pierce Leahy Corp. as Subtenant. Tenant authorizes its transferees to make payments of rent and any other sums due and payable, directly to Landlord upon receipt of notice from Landlord to do so. Any attempted Transfer by Tenant in violation of the terms and covenants of this Article VIII shall be void and shall constitute a default by Tenant under this Lease. The rights of Tenant under Sections 2.04, 2.05 and 2.06 shall in no event inure to the benefit of a sublessee (other than Pierce Leahy Corp.) or assignee of Tenant unless specifically agreed and consented to in writing by Landlord in connection with any such sublease or assignment. Any proposed Transfer by Pierce Leahy Corp. shall be subject to the provisions of this Section 8.01.

Section VIII.2. Assignment by Landlord. Landlord shall have the right at any

time to sell, transfer or assign, in whole or in part, by operation of law or otherwise, its interests in any part of this Lease or the Project, without the prior consent of Tenant, and such sale, transfer or assignment shall be binding upon Tenant. Tenant shall attorn to such purchaser, transferee or assignee, upon such party's request, and Landlord shall be released from all liability and obligations under this Lease.

Section VIII.3. Limitation of Landlord's Liability. Any provisions of this Lease to the contrary notwithstanding, Tenant hereby agrees that no personal, partnership or corporate liability of any kind or character whatsoever now attaches or at any time hereafter under any condition shall attach to Landlord or any of Landlord's Related Parties or any mortgagee for payment of any amounts payable under this Lease or for the performance of any obligation under this Lease. The exclusive remedies of Tenant for the failure of Landlord to perform any of its obligations under this Lease shall be to proceed against the interest of Landlord in and to the Project. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successors in interest or any suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Landlord.

ARTICLE IX. MISCELLANEOUS. Section IX.1. Subordination. This Lease shall be subject and subordinated at all times to all ground leases and all liens of all mortgages and deeds of trust in any amount or amounts whatsoever now or hereafter placed on the Project or Landlord's interest or estate therein or on or against such ground or underlying leases and to all modifications thereof. Tenant shall execute and deliver upon demand any instruments, releases or other documents reasonably requested by any lessor or mortgagee for the purpose of subjecting and subordinating this Lease to such ground leases, mortgages or deeds of trust. As of the date, hereof, neither the Project nor any part of the Leased Premises is encumbered by the lien of any mortgage or deed of trust. Should the Project subsequently become so encumbered, Landlord will exercise reasonable efforts to obtain from the holder of the mortgage or deed of trust, a nondisturbance agreement in form and substance reasonably satisfactory to Tenant. Tenant shall attorn to any party succeeding to Landlord's interest in the Leased Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease or otherwise, only upon such party's request and at such party's sole discretion but not otherwise, and shall execute such agreements confirming such attornment as such party may reasonably request. Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any mortgagee or lessor under a lien instrument or lease covering the Leased Premises whose address has been given to Tenant, and affording such mortgagee or lessor a reasonable opportunity to perform Landlord's obligations hereunder. Notwithstanding the generality of the foregoing, any mortgagee or ground lessor may at any time subordinate any such deeds of trust,

mortgages, other security instruments or ground leases to this Lease on such terms and conditions as such mortgagee or ground lessor may deem appropriate.

Section IX.2. Estoppel Certificate or Three-Party Agreement. Tenant and Landlord agree within ten (10) days following request by the other to execute, acknowledge and deliver to the requesting party and any other persons specified



by such party, a certificate certifying to matters relating to the Leased Premises and the Lease as such party may reasonably request; provided that neither Landlord nor Tenant shall have any obligation to provide such a certificate unless the same has been requested by the other to fulfill an obligation to or satisfy a condition imposed by a third party.

Section IX.3. Notices. Any notice or other communication required or contemplated by this Lease must be in writing, and may, unless otherwise in this Lease expressly provided, be given by depositing the same in the United States Postal Service, post-paid and certified and addressed to the party to be notified, with return receipt requested, or by prepaid telegram or express overnight mail service, when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be effective from and after three (3) days (exclusive of Saturdays, Sundays and postal holidays) after such deposit. Notice given in any other manner shall be effective only if and when delivered to the party to be notified or at such party's address for purposes of notice as set forth herein. For purposes of notice the addresses of the parties shall, until changed as herein provided, be as provided on the first page of this Lease. However, the parties hereto shall have the right from time to time to change their respective addresses by giving at least fifteen (15) days' written notice to the other party in the manner set forth in this Section 9.03.

Section IX.4. Successors; Gender; Time. Subject to the provisions of this Lease, and except as otherwise provided in this Lease, all covenants and obligations as contained within this Lease shall bind and extend and inure to the benefit of the parties hereto and their heirs, legal representatives, successors and assigns. The pronouns of any gender shall include the other genders, and either the singular or the plural shall include the other. Time is of the essence with respect to this Lease.

Section IX.5. Rights and Remedies Cumulative. The rights and remedies of Landlord under this Lease shall be nonexclusive and each right or remedy shall be in addition to and cumulative of all other rights and remedies available to Landlord under this Lease or at law or in equity. Pursuit of any right or remedy shall not preclude pursuit of any other rights or remedies provided in this Lease or at law or in equity, nor shall pursuit of any right or remedy constitute a forfeiture or waiver of any Rent due to Landlord or of any damages accruing to Landlord by reason of the violation of any of the terms of this Lease.

Section IX.6. Landlord's Representations and Warranties. Landlord hereby represents and warrants as follows:

(a) Landlord has good and indefeasible title to the Project. Landlord has full partnership right, power and authority to enter into and execute and deliver and perform its duties and obligations under this Lease, which when so executed and delivered, shall be binding upon Landlord and enforceable by Tenant in accordance with its terms, except as may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

(b) No written notice from any governmental body or person has been served upon Landlord claiming any violation of any restrictive covenant, law, ordinance, code or regulation or requiring construction, alterations or installation on or in connection with the Leased Premises which has not been complied with or asserting or establishing any liability or claim against Landlord or any predecessor in interest.

(c) There are no pending, or to Landlord's actual knowledge, contemplated

or proposed eminent domain proceedings with respect to the Building or any rights of Landlord therein.

(d) Landlord has and at the Commencement Date will have good and valid rights of ingress and egress to and from the Building from dedicated public street systems, and the Building is and at the Commencement Date will be connected to, is adequately served by, and has legal use of the public sewer lines, electric, water and other public utilities and there are no septic tanks located on any thereof.

(e) There are no pending assessments for public improvements against the Premises.

16

17

(f) To the best of Landlord's actual knowledge, during the period of Landlord' ownership of the Project, (i) the Leased Premises have not been used to generate, manufacture, refine, transport, treat, sort, handle, dispose, transfer, produce, process or in any manner deal with hazardous materials (as defined by any federal, state or local environmental law, ordinance, rule or regulation) and (ii) no hazardous materials have been installed or stored on the Leased Premises, in either case in violation of any applicable environmental law. Neither the Landlord, nor, to the best of Landlord's actual knowledge, any tenant, subtenant or occupant of the Leased Premises during the period of Landlord's ownership of the Project has received any written notice or advise from any governmental agency or any tenant, subtenant or occupant with regard to hazardous materials on, from or affecting the Leased Premises. For the purposes of the foregoing representation, hazardous materials shall not include substances in quantities and concentrations which are customarily used in the ordinary course of Landlord's or any other tenant's business so long as such substances are and have been used and disposed of in accordance with all applicable environmental laws.

Section IX.7. Legal Interpretation. This Lease and the rights and obligations of the parties hereto shall be interpreted, construed and enforced in accordance with the laws of the State of Texas and the United States. The determination that one or more provisions of this Lease is invalid, void, illegal or unenforceable shall not affect or invalidate any other provision of this Lease, and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Lease, and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. All obligations of either party hereunder not fully performed after the expiration or termination of the Term of this Lease shall survive the expiration or termination of the Term of this Lease and shall be fully enforceable in accordance with those provisions pertaining thereto. Article and section titles and captions appearing in this Lease are for convenient reference only and shall not be used to interpret or limit the meaning of any provision of this Lease. No custom or practice which may evolve between the parties in the administration of the terms of this Lease shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms of this Lease. Tenant agrees that this Lease supersedes and cancels any and all previous statements, negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant with respect to the subject matter of this Lease or the Leased Premises and that this Lease, including written extrinsic documents referred to herein, is the entire agreement of the parties, and that there are no representations, understandings, stipulations, agreements, warranties or



promises (express or implied, oral or written) between Landlord and Tenant with respect to the subject matter of the Lease or the Leased Premises. It is likewise agreed that this Lease may not be altered, amended or extended except by an instrument in writing signed by both Landlord and Tenant. The terms and provisions of this Lease shall not be construed against or in favor of a party hereto merely because such party is "Landlord" or "Tenant" hereunder or because such party or its counsel is the draftsman of this Lease. All references to days in this Lease and any Exhibits or Addendums hereto mean calendar days, not working or business days, unless otherwise stated.

Section IX.8. Tenant's Authority. Tenant warrants and represents unto Landlord that Tenant has full right, power and authority to execute, deliver and perform this Lease and that the person executing this Lease on behalf of Tenant was authorized to do so.

Section IX.9. Leases and Tenants. Landlord reserves the absolute right to effect such other tenancies in the Building as Landlord, in the exercise of its sole business judgment, shall determine to best promote the interest of the Building. Notwithstanding anything in this Lease to the contrary, Tenant does not rely on the fact, and Landlord does not represent, that any specific tenant or number of tenants shall during the Term occupy any space or any particular space in the Building, and Landlord does not represent or warrant that any particular space will be used for any particular purpose during the Term.

Section 9.10. Joint and Several Liability. If there is more than one Tenant, then the obligations hereunder imposed upon Tenant shall be joint and several. If there is a guarantor of Tenant's obligations hereunder, then the obligations hereunder imposed upon Tenant shall be the joint and several obligations of Tenant and such guarantor, and Landlord need not first proceed against Tenant before proceeding against such guarantor nor shall any such guarantor be released from its guaranty for any reason whatsoever.

Section 9.11. Independent Covenants. The obligation of Tenant to pay Rent and other monetary obligations provided to be paid by Tenant under this Lease and the obligation of Tenant to perform Tenant's other covenants and duties under this Lease constitute independent, unconditional obligations of Tenant to be performed at all times provided for under this Lease, save and except only when an abatement thereof or reduction therein is expressly provided for in this Lease and not otherwise. Notwithstanding any of the other terms or provisions of this Lease and notwithstanding any other circumstances whatsoever, it is the intent

and agreement of Landlord and Tenant that so long as Tenant has not been wrongfully evicted from the Leased Premises, the doctrine of independent covenants shall apply in all matters relating to this Lease including, without limitation, the obligation of Landlord to perform Landlord's covenants under this Lease, as well as the obligation of Tenant to pay Rent and all other monetary obligations of Tenant and perform Tenant's other covenants, duties and obligations under this Lease.

Section 9.12. Recording. This Lease (and any Exhibits or Addendums hereto) or memoranda hereof shall not be recorded without the prior written consent of Landlord.

Section 9.13. Broker's Fee. Landlord and Tenant represent and warrant to each

other than no real estate commissions, finders' fees, or brokers' fees have been or will be incurred in connection with this Lease other than a commission payable by Landlord to Broker in an amount provided by separate agreement between Landlord and Broker. Landlord and Tenant shall indemnify, defend and hold each other harmless from any claim, liability, obligation, cost or expense (including attorneys' fees and expenses) for fees or commissions relating to this Lease asserted against either party by any broker or other person (other than the Broker) claiming by, through or under the indemnifying party or whose claim is based on the indemnifying party's acts.

Section 9.14. Attorney's Fees. Wheresoever Tenant is required to pay counsel fees of Landlord, such fees shall be reasonable in amount.

Section 9.15. Non-Competition. Landlord will not, at any time that the Lease is in force, and for five (5) years following termination thereof for whatever reason, directly or indirectly, in any capacity or for the benefit of any person, including Landlord, communicate with or solicit any person who is or during the Term of the Lease becomes a customer, supplier, employee, salesperson, agent or representative of either the Tenant or Pierce Leahy Corp. in an effort to obtain such person as a customer, supplier, employee, salesperson, agent or representative of any business in competition with either the Tenant or Pierce Leahy Corp.; provided, however, notwithstanding the foregoing, in no event shall Landlord be precluded from leasing space to any person at any time in any place or soliciting any such person to become a tenant so long as the relationship between Landlord and such person is solely that of landlord and tenant. Landlord acknowledges and agrees that the scope and duration of the restrictions contained in this Section 9.15 are reasonable and necessary to protect the rights of Tenant and Pierce Leahy Corp. sought to be protected. Landlord further acknowledges and agrees that any breach by it of the restrictions contained in this Section 9.15 will result in irreparable injury to the Tenant and Pierce Leahy Corp., which is not compensable by monetary damages and that, in such event, either the Tenant or Pierce Leahy Corp. will be entitled (in addition to any other remedies available at law or in equity and without resorting to arbitration) to the issuance of injunctive relief, whether preliminary or permanent by a court of competent jurisdiction enjoining Landlord, or any other person involved therein from continuing such breach, without posting bond or other security in addition to any other remedies they may have. Notwithstanding the foregoing, in the event that the restrictions contained in this Section 9.15 are determined by any court of competent jurisdiction to be unenforceable by reason of its extending over too great a period of time or being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, and to the maximum extent in all other respects as to which it may be enforceable, all as is determined by such court in such action.

EXCEPT AS OTHERWISE PROVIDED IN THIS LEASE, LANDLORD AND TENANT EXPRESSLY ACKNOWLEDGE AND AGREE, AS A MOVING AND MATERIAL PART OF THE CONSIDERATION FOR LANDLORD'S ENTERING INTO THIS LEASE WITH TENANT, THAT LANDLORD HAS MADE NO WARRANTIES TO TENANT AS TO THE USE OR CONDITION OF THE LEASED PREMISES OR THE PROJECT, EITHER EXPRESS OR IMPLIED, AND LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE LEASED PREMISES OR THE PROJECT ARE SUITABLE FOR TENANT'S INTENDED COMMERCIAL PURPOSE OR ANY OTHER WARRANTY (EXPRESS OR IMPLIED) REGARDING THE LEASED PREMISES OR THE PROJECT AND ALSO EXPRESSLY ACKNOWLEDGE AND AGREE THAT TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE CONDITION OF THE LEASED PREMISES OR THE PROJECT OR THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER, AND THAT TENANT WILL CONTINUE TO PAY THE RENT PROVIDED FOR HEREIN WITHOUT ABATEMENT, SETOFF OR DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIES OR OBLIGATIONS HEREUNDER, EXPRESS OR IMPLIED. TENANT EXPRESSLY WAIVES (TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW) ANY CLAIMS UNDER FEDERAL, STATE OR OTHER LAW THAT TENANT MIGHT

OTHERWISE HAVE AGAINST LANDLORD RELATING TO THE USE, CHARACTERISTICS OR CONDITION OF THE LEASED PREMISES OR THE PROJECT. LANDLORD AND TENANT EXPRESSLY AGREE THAT THERE ARE NO, AND SHALL NOT BE ANY, IMPLIED WARRANTIES OF MERCHANTABILITY, HABITABILITY, FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER KIND ARISING OUT OF THIS LEASE AND THAT ALL EXPRESS OR IMPLIED WARRANTIES IN CONNECTION HEREWITH ARE EXPRESSLY DISCLAIMED AND WAIVED.

IN TESTIMONY WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

MURRAY INCOME PROPERTIES II, LTD., a Texas limited partnership

By: Murray Realty Investors IX, Inc., a Texas corporation  
General Partner

By: /s/ Brent Buck

-----  
Name: Brent Buck  
Title: Executive Vice President

TENANT:

PIERCE LEAHY CORP., a Pennsylvania corporation

By: /s/ Joseph P. Linaugh

-----  
Name: Joseph P. Linaugh  
Title: Vice President

EXHIBITS:

- Exhibit A - Legal Description of Site
- Exhibit B - Floor Plans of Leased Premises
- Exhibit C - Building Rules and Regulations

BUILDING RULES AND REGULATIONS

1. No additional locks shall be placed on the doors of the Leased Premises by Tenant, nor shall any existing locks be changed unless Landlord is immediately furnished with two keys to such locks. Landlord will without charge furnish Tenant with two keys for each lock existing upon the entrance doors when Tenant assumes possession with the understanding that at the termination

of the Lease these keys shall be returned.

2. Any alterations, additions or improvements to the Leased Premises or other work performed therein shall be done only by contractors approved by Landlord, such approval not to be unreasonably withheld. Tenant may from time to time submit to Landlord for its approval a list of contractors, and thereafter, Tenant, without any further approval from Landlord, may use any of the contractors on the approved list. As a condition to approval, Landlord may require any contractor to provide evidence that it has in full force and effect insurance providing coverages, including without limitation, workmen's compensation, general liability and motor vehicle liability insurance, and in amounts determined by Landlord, in the exercise of its reasonable discretion, to be adequate given the nature of work to be performed. Tenant will be responsible for determining that any such contractor's insurance is in full force and effect at the commencement of and during any work performed in the Leased Premises. This provision shall apply to all work performed in the Building including installations of telephones, telegraph equipment, electrical devices and attachments, and installations of any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment or any other physical portion of building. AT&T, Southwestern Bell and GTE are approved contractors and will not be required to provide evidence of insurance.

3. Third parties providing services in connection with movement in or out of the Building of furniture, equipment and other bulky items or materials shall be subject to approval by Landlord as provided in Section 2 above, such approval not to be unreasonably withheld. Landlord shall have the right to impose reasonable rules regarding the time, method and routing of movement and limitations imposed by safety or other concerns which may prohibit any article, equipment or any other item from being brought into the Building. Tenant is to assume all risk as to damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property, and personnel of Landlord if damaged or injured as a result of acts in connection with carrying out this service for Tenant from time of entering property to completion of work; and Landlord shall not be liable for acts of any person engaged in, or any damage or loss to any of said property or persons resulting from any act in connection with such service performed for Tenant.

4. No signs will be allowed in any form on windows inside or out, and no signs except in uniform location and uniform style approved by Landlord will be permitted in or about the Building.

5. No portion of Tenant's area or any other part of Building shall at anytime be used or occupied as sleeping or lodging quarters.

6. No birds or animals shall be brought into or kept in or about the Building.

7. Agents or employees of Landlord shall not receive or carry messages for or to any Tenant or other person, nor contract with or render free or paid services to any Tenant or Tenant's agents, employees, or invitees.

8. Landlord will not permit entrance to the Leased Premises by use of pass keys controlled by Landlord, to any person at any time without written permission by Tenant except agents, employees, contractors or service personnel engaged by Landlord to perform services pursuant to the Lease.

9. None of the sidewalks, driveways, entries, passages, doors, elevators, elevator doors, hallways or stairways shall be blocked or obstructed, or any rubbish, litter, trash, or material of any nature placed, emptied or thrown into these areas, or such areas be used at any time except for access or egress

by Tenant, Tenant's agents, employees or invitees.

EXHIBIT C  
to  
Lease Agreement  
Page 1 of 2

21

10. Landlord will not be responsible for lost or stolen personal property, money or jewelry from Tenant's Leased Premises or public or common areas regardless of whether such loss occurs when the area is locked against entry or not.

11. These Rules and Regulations are in addition to, and shall not be construed to in anyway modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Building.

12. Landlord reserves the right to make such other and reasonable Rules and Regulations as in its judgment may from time to time be needed for the safety, care and cleanliness of the Building, and for the preservation of good order therein.

EXHIBIT C  
to  
Lease Agreement  
Page 2 of 2

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above are not met, the General Partners may repurchase a portion of such Interests or defer the repurchase of all such Interests. If the General Partners determine to defer all or a portion of the repurchase of certain Interests, the affected Limited Partners will be deemed to have priority over subsequent requests for repurchases. Investors should be aware that the General Partners have no obligation to repurchase Interests. If Interests are repurchased, the General Partner then owning such Interests shall in all respects be treated as a Limited Partner with respect to those Interests repurchased.

#### Special Power of Attorney

Under the Partnership Agreement and Subscription Agreement each Limited Partner irrevocably appoints the General Partners his attorneys-in-fact to make, execute, sign, acknowledge, swear to, deliver, record and file any document or instrument which may be considered necessary or desirable by the General Partners executing the same to carry out fully the provisions of the Partnership Agreement.

#### Dissolution and Liquidation

Article XV of the Partnership Agreement provides that the Partnership shall be dissolved and its business wound up upon the earliest to occur of (a) 180 days from the date of this Prospectus, unless subscriptions for 30,000 Interests are accepted by such date, (b) the date of disposition of all assets of the Partnership, (c) the date of the removal, resignation, adjudication of bankruptcy, insolvency or dissolution of a General Partner, unless the Limited Partners elect to continue the business of the Partnership, (d) that date on which Limited Partners holding a majority of Interests vote in favor of dissolution and termination, or (e) January 31, 2025.

Upon the election by the Limited Partners to continue the business of the Partnership after an event specified in (c) above, the Partnership shall be required to purchase the General Partners' general partnership interest pursuant to Section 12.2 and Section 12.3 of the Partnership Agreement.

Upon the completion of the liquidation of the Partnership, the General Partners have the authority to execute and record a certificate of cancellation of the Partnership, as well as any and all other documents required to effectuate the dissolution and termination of the Partnership.

#### GLOSSARY

As used in this Prospectus, the following definitions of terms are applicable:

"Affiliate": (i) any person directly or indirectly controlling, controlled by, or under common control with, another person, (ii) a person owning or controlling 10% or more of the outstanding voting securities or beneficial interests of such other person, (iii) any officer, director, partner, general trustee, or any other person acting in a substantially similar capacity of such person, and (iv) if such other person is an officer, director, partner, trustee or holder of 10% or more of the voting securities or beneficial interests of such person, any other entity for which such person acts in any capacity.

"Average Annual Unreturned Invested Capital": The total of all the Limited Partners' Original Invested Capital reduced by the total of all Cash Distributions from Sales or Refinancings (excluding Cash Distributions from Sales or Refinancings applied to the Limited Partners' Preferred Return) to Limited Partners (but not below zero), as reflected on the partnership's books and records, weighted on a daily average basis for the period.

"Cash Distributions from Operations": Distributions of cash receipts from Gross Revenues after (i) operating expenses (without deduction for depreciation), (ii) amounts set aside for reasonable reserves, and (iii) payments on the Partnership's other current obligations.

"Cash Distributions from Sales or Refinancings": Distributions of cash receipts from Net Proceeds from Sales or Refinancings realized by the Partnership from sales or refinancings of the

68

2

Partnership's properties after (i) amounts set aside for reasonable reserves, and (ii) payments on the Partnership's other current obligations.

"Closing Date": Such date as designated by the General Partners as the date when the last Interest has been sold by the Partnership, but in no event later than 18 months after the Registration Statement first became effective.

"Crozier Partners": Crozier Partners IX, Ltd.

"Escrow Agent": MBank Dallas, N.A., Dallas, Texas, or its successor.

"General Partners": Murray Realty Investors IX, Inc. and Crozier Partners IX, Ltd.

"Gross Revenues": All Partnership revenues from whatever source derived, exclusive of revenues from the sale or refinancing of Partnership properties.

"Initial Closing Date": The date on which subscriptions for the minimum of 30,000 Interests have been accepted by the General Partners.



"Initial Limited Partner": Richard H. Shaw.

"Interest": The limited partnership interest in the Partnership acquired by the payment of \$100 to the Partnership.

"Limited Partners": All subscribers for Interests who are admitted to the Partnership as limited partners and listed on Schedule A to the Partnership Agreement.

"Minimum Deadline": The date that is 180 days after the date of this Prospectus.

"MRI": Murray Realty Investors IX, Inc.

"NASAA Guidelines": The guidelines for real estate programs as adopted by the North American Securities Administrators Association as they exist on the date the Partnership's Registration Statement is declared effective by the Securities and Exchange Commission.

"Net Proceeds from Sales or Refinancings": The net cash realized by the Partnership from sales, refinancings or other dispositions of Partnership properties after the payment of all debts and expenses related to the transactions.

"Organizational and Offering Expenses": Expenses incurred in connection with the organization of the Partnership and the offering of the Interests (excluding selling commissions and the dealer manager fee), including legal fees, accounting fees, printing costs, filing and qualification fees, reimbursement of expenses (excluding salaries and related salary expenses incurred during the organization of the Partnership) incurred by the General Partners or their Affiliates and other disbursements in connection with the sale and distribution of Interests.

"Original Invested Capital": An amount equal to \$100 per Interest.

"Partner": Any General Partner, Limited Partner or, until the Initial Closing Date, the Initial Limited Partner.

"Partnership": The partnership created under the Amended and Restated Certificate and Agreement of Limited Partnership attached as Exhibit A.

"Partnership Agreement": The Amended and Restated Certificate and Agreement of Limited Partnership attached as Exhibit A.

"Preferred Return": The cumulative preferred return to each Limited Partner equal to 10% per annum on his Average Annual Unreturned Invested Capital from either Cash Distributions from Operations or Cash Distributions from Sales or Refinancings. Such cumulative preferred return shall be calculated from the beginning of the first full fiscal quarter after such Limited Partner purchased such Interest. A Limited Partner shall be deemed to have purchased an Interest as of

3

the date on which the purchase of such Interest is reflected on the certificate of limited partnership filed with the Secretary of State of Texas.

"Property Management Fee": The fee payable for property management services.

"Prospectus": The prospectus contained in the Registration Statement, as amended or supplemented.

"Registration Statement": The Partnership's Registration Statement on Form S-11 filed with the Securities and Exchange Commission and as amended from time to time.

"Repurchase Fund": 25% of MRI's share of Cash Distributions from Operations to be used to repurchase Limited Partner Interests under certain circumstances.

"Subordinated Amount": MRI's unpaid Cash Distributions from Operations subordinated to the Limited Partners' 7% noncumulative annual return.

#### THE OFFERING

Subject to the conditions set forth in this Prospectus and in accordance with the terms and conditions of the Partnership Agreement, the Partnership offers through the Dealer Manager 300,000 Interests at \$100 per Interest, subject to the right of the Dealer Manager to increase the offering by up to an additional 200,000 Interests. Except for investors in certain states that have imposed higher purchase requirements as set forth in the Subscription Agreement, a form of which is included as Exhibit B, the minimum subscription for an Individual Retirement Account or a Keogh Plan is 20 Interests. The minimum subscription for other investors is 50 Interests.

The Interests are being offered on a "best efforts" basis through Murray Securities Corporation (the "Dealer Manager"), an Affiliate of the General Partners. As compensation for their services in soliciting and obtaining subscribers for the purchase of the Interests, the Partnership has agreed to pay the Dealer Manager a commission of up to a maximum of 8% of the gross proceeds on all sales made directly by it or by other dealers in accordance with the following schedule:

<TABLE>

<CAPTION>

Amount of Investment

-----

Commission

| From      | To        | Rate  |
|-----------|-----------|-------|
| -----     | -----     | ----- |
| <S>       | <C>       | <C>   |
| \$ 2,000  | \$ 99,999 | 8%    |
| 100,000   | 249,999   | 7%    |
| 250,000   | 499,999   | 6%    |
| 500,000   | 749,999   | 5%    |
| 750,000   | 999,999   | 4%    |
| 1,000,000 | and over  | 2%    |

</TABLE>

Subscriptions may be combined for the purpose of determining the total commissions payable in the case of subscriptions made by any investor who, subsequent to his initial purchase of Interests, subscribes for the purchase of additional Interests. To be eligible for combination, subscriptions must be identical for all of the following: registration, type of ownership and tax identification or social security number. Any request to combine subscriptions will be subject to verification by the General Partners that all of such subscriptions were made by a single investor. In such an event, the commission payable with respect to the initial purchase of Interests will be computed using the commission schedule set forth above. The commission payable with respect to any subsequent purchase of Interests will equal the commission that would have been payable in accordance with the commission schedule set forth above if all purchases had been made simultaneously, less the commissions that previously have been paid with respect to all prior purchases of Interests by such an investor. The difference between 8% of the gross proceeds from the sale of Interests and the amount payable to the Dealer Manager with respect to such sale will be reimbursed to the Limited Partner as soon as possible after his admission to the Partnership or, at the option of such Limited Partner, as evidenced on his executed subscription agreement in the form of Exhibit B hereto, will be applied to

"Terminated General Partner") shall be purchased by the Partnership for a purchase price determined according to the provisions of Section 12.3 hereof. The last to remain of MRI and Crozier Partners, and the successors thereof, shall not resign or withdraw from the Partnership without the concurrence of a majority in interest of the Limited Partners. If such retirement or resignation is voluntary, the purchase price shall be paid in the form of a non-interest bearing unsecured promissory note with principal payable, if at all, from distributions which the Terminated General Partner otherwise would have received had the Terminated General Partner not resigned or retired. If such termination is involuntary, the Partnership shall have the option to pay the purchase price of such interest to the Terminated General Partner either in cash or by a promissory note of the Partnership, payable to such Terminated General Partner in a face amount equal to said purchase price and containing provisions as would be usual and customary in a commercial promissory note, including provisions for interest, at a rate equal to the prime rate of interest from time to time charged by MBank Dallas, N.A. to its best commercial customers (but in no event to exceed the maximum rate permitted by law to be paid to the Terminated General Partners by the Partnership), such interest to be payable at the time of each installment of principal, which shall be payable as the Terminated General Partner and the Partnership may agree, or if they cannot so agree, then annually over a period of five years from the date of the Terminated General Partner's removal, adjudication of bankruptcy, insolvency or dissolution. No prepayment penalty shall be charged to the Partnership for the early payment of its note.

12.3 The fair market value of the Terminated General Partner's interest to be purchased by the Partnership according to the provisions of Section 12.2 above shall be determined by agreement between the Terminated General Partner and the Partnership. If the Terminated General Partner and the Partnership cannot agree upon the fair market value of such Partnership interest within 90 days after the date of the Terminated General Partner's resignation, removal, adjudication of bankruptcy, insolvency or dissolution, then the Terminated General Partner and the Partnership shall each select an independent appraiser within the next thirty days. If such appraisers fail to agree on the fair market value of the Terminated General Partner's interest within the next 90 days, then the two appraisers shall jointly appoint a third appraiser whose determination shall be final and binding. The Terminated General Partner and the Partnership shall each compensate their respective appraisers, and the compensation of the third appraiser, if necessary, shall be borne equally by each party. If the Partnership or the Terminated General Partner fails to appoint an independent appraiser within the thirty day period provided for in this paragraph, then the fair market value of the Terminated General Partner's interest will be determined in accordance with the then current rules of the American Arbitration Association, and the expense of such arbitration shall be borne equally by the Terminated General Partner and the

Partnership.

12.4 Within 90 days after the resignation, removal, adjudication of bankruptcy, insolvency or dissolution of a General Partner (except that a General Partner shall not voluntarily withdraw from the Partnership without complying with the terms of Section 12.2 and without at least 90 days' prior written notice to the other General Partner and the Limited Partners of intention to withdraw, and in such event, within the period from the date of the notice of intention to withdraw to the date of withdrawal specified in the notice of intention), Limited Partners holding a majority of the Interests may elect to continue the business of the Partnership and, if they desire to do so, may elect a successor General Partner or continue the business of the Partnership with the remaining General Partner.

## ARTICLE XIII

### TRANSFER OF A PARTNERSHIP INTEREST

13.1 The General Partners may, pursuant to this Article XIII, admit as a substituted Limited Partner any successor in interest to a Limited Partner who is either deceased or under legal disability or who is an assignee of a Limited Partner.

2

13.2 Subject to the provisions of this Article XIII, compliance with the suitability standards imposed by the Partnership, applicable "blue sky" laws and the applicable rules of any other governmental authority, a Limited Partner shall have the right to assign the whole or any portion of his Interests (but not less than 50 Interests unless to an Individual Retirement Account or Keogh Plan and then not less than 20 Interests) by a written assignment, the terms of which are not in contravention of any of the provisions of this Agreement. Any assignment in contravention of any of the provisions of this Article XIII shall be of no force and effect and shall not be binding upon or recognized by the Partnership.

(a) Except as provided in (b) below, an assignee of a Limited Partner's Interest who is not admitted as a substituted Limited Partner shall have no right to require any information or account of the Partnership's transactions or to inspect the Partnership's books; he shall only be entitled to receive distributions from the Partnership and the share of income, gain, loss, deduction and credit attributable to the Interests acquired by reason of such assignment from the first day of the month following the month in which the written instrument of assignment, executed by the assignor and in form and substance reasonably satisfactory to the General Partners, and other documents reasonably deemed necessary or appropriate by the General Partners (as, for example, evidence that the assignee meets investor suitability standards) shall have been received by the Partnership.

(b) Anything herein to the contrary notwithstanding, both the

Partnership and the General Partners shall be entitled to (i) treat the assignor of such Interests as the absolute owner thereof in all respects, and shall incur no liability for allocations of income, gain, loss, deduction or credit or for distributions or for transmittal of reports and notices required to be given to holders of Interests, until the last day of the month in which the Partnership shall have received the written assignment executed by the assignor in form and substance reasonably satisfactory to the General Partners and other documents reasonably deemed necessary or appropriate by the General Partners (including evidence of the assignee's compliance with standards imposed by applicable "blue sky" laws) or (ii) treat the assignee as a substituted Limited Partner in the place of his assignor, should the General Partners deem, in their absolute discretion, that such treatment is in the best interests of the Partnership for any of its purposes or for any of the purposes of this Agreement.

13.3 No assignee shall have the right to become a substituted Limited Partner in place of his assignor unless all of the following conditions are satisfied:

(a) The written consent of the General Partners to such substitution shall be obtained, the granting of which shall not be unreasonably withheld;

(b) A duly executed written instrument of assignment setting forth the intention of the assignor that the assignee shall become a substituted Limited Partner in his place shall have been filed with the Partnership;

(c) The Interests being acquired by the assignee shall consist of at least 20 Interests if such assignee is an Individual Retirement Account or Keogh Plan and at least 50 Interests if such assignee is not an Individual Retirement Account or Keogh Plan and, if the assignor shall retain any Interests, such retention shall consist of at least 20 Interests if such assignor is an Individual Retirement Account or Keogh Plan and at least 50 Interests if such assignor is not an Individual Retirement Account or Keogh Plan;

(d) The assignor and assignee shall execute and acknowledge such other instruments as the General Partners reasonably deem necessary or desirable to effect such assignment and admission, including, but not limited to, evidence of the assignee's compliance with standards imposed by any applicable "blue sky" laws, the written acceptance and adoption by the assignee of the provisions of this Agreement and his execution, acknowledgement and delivery to the General

A-21

3

Partners of a special power of attorney, the form and content of which

are more fully described in Article XXI hereof; and

(e) The Partnership shall have received from the assignor or assignee a transfer fee to cover all reasonable expenses of the transfer, not to exceed \$500 per transaction, but such transfer fee may be waived by the General Partners, in their discretion.

13.4 Any person admitted to the Partnership as a substituted Limited Partner shall be subject to all of the provisions of this Agreement as if an original party to it.

13.5 The General Partners shall amend the certificate of limited partnership at least once each quarter to add assignees as substituted Limited Partners.

13.6 Upon the death or legal disability of an individual who is a Limited Partner, his personal representative shall have all of the rights of a Limited Partner for the purpose of settling or managing his estate, and such power as the decedent or incompetent possessed to constitute a successor as an assignee of his Interests and to join with such assignee in making application to substitute such assignee as a Limited Partner. However, such personal representative shall not have the right to become a substituted Limited Partner in the place of his predecessor in interest unless the conditions of this Article XIII (other than the requirement that the assignor execute and acknowledge instruments) are first satisfied.

13.7 Upon the adjudication of bankruptcy or insolvency, dissolution or other cessation of existence as a legal entity of a Limited Partner which is not an individual, the authorized representative of such entity shall have all of the rights of a Limited Partner for the purpose of effecting the orderly winding up and disposition of the business of such entity and such power as such entity possessed to constitute a successor as an assignee of its Interests and to join with such assignee in making application to substitute such assignee as a Limited Partner. However, such representative shall not have the right to become a substituted Limited Partner in the place of his predecessor in interest unless the conditions of this Article XIII (other than the requirement that the assignor execute and acknowledge instruments) are first satisfied.

13.8 A General Partner may not assign his or its interest as a General Partner to anyone other than the Partnership as provided in Article XII of this Agreement.

13.9 No assignment of any Interests may be made if the Interests sought to be assigned, when added to the total of all other Interests assigned within the period of 12 consecutive months prior to the proposed date of assignment, would, in the opinion of counsel for the Partnership, result in the termination of the Partnership under Section 708 of the Internal Revenue Code of 1954, as amended.

13.10 Any assignment, sale, exchange or other transfer in contravention

of any of the provisions of this Article XIII shall be void and ineffectual, and shall not bind or be recognized by the Partnership.

#### ARTICLE XIV

#### INDEMNIFICATION

14.1 No General Partner and no officer, director, partner or Affiliate of a General Partner shall be liable to the Partnership or any Limited Partner for any loss or damage suffered by the Partnership or any Limited Partner which arises out of any error in judgment or other action or inaction not constituting negligence (gross or ordinary), fraud or breach of fiduciary duty which was taken in good faith, in accordance with the exercise of reasonable business judgment and pursuant to a determination that such course of conduct was in the best interest of the Partnership. The Partnership or its receiver or trustee shall indemnify, save harmless and pay all judgments and claims against the General Partners (and each of them) or their officers, directors, partners and Affiliates from any liability, loss or damage incurred by them or by the Partnership by reason of any act performed or omitted to be



for this purpose include only the price of goods and materials paid to independent third parties and direct costs incurred by the General Partners or their Affiliates in the transaction, including overhead directly attributable to the transaction but excluding general and administrative overhead. Further, all such transactions between the Partnership and a General Partner or an Affiliate of a General Partner must be pursuant to the terms of a written contract between the Partnership and such General Partner or Affiliate which precisely described the services to be rendered or the goods or materials to be provided and the compensation therefor.

These provisions are inconsistent with the direct management by the Partnership of its business, operations and affairs and the proposed restructuring wherein the Partnership and Murray Income Properties, Ltd.-84 will employ their own executive and managerial personnel, secretaries, accountants and other staff, rent office space, pay their own utility bills, and in general run their own business, operations and affairs and share expenses. Murray Income Properties, Ltd.-84 is an Affiliate of the Partnership. Consequently, this amendment proposes to create an exception to the scope of Section 10.9 that would allow the Partnership, in conjunction with Murray Income Properties, Ltd.-84, to manage its own business and affairs and conduct its own operations through its own staff out of its own office and to share personnel, office and other general and administrative overhead expenses with Murray Income Properties, Ltd.-84. Further, the amendment allows the salaried personnel to be persons who are Affiliates of the General Partners so long as their compensation and benefits are comparable to the amounts that would be paid for their services if they were not Affiliates of a General Partner.

The Amendment. A new paragraph is hereby added to the end of Section 10.9 that reads as follows:

"Notwithstanding anything contained in this Section 10.9 or elsewhere in this Agreement, the Partnership may directly conduct, operate and manage its business and affairs. The Partnership may employ, either alone or in association with Murray Income Properties, Ltd.-84, managerial and executive personnel, secretaries, accountants and other support staff in the conduct of the business, operations and affairs of the Partnership. If any person employed by the Partnership is an Affiliate of a General Partner (or if an Affiliate of a General Partner is employed by Murray Income Properties, Ltd.-84 and the Partnership is to reimburse Murray Income Properties, Ltd.-84 for a portion of the compensation and benefits paid to such person), the compensation and benefits paid by the Partnership (or by Murray Income Properties, Ltd.-84 as appropriate) for the services of such person shall be comparable to the amount that would be paid to such

person if such person was not an Affiliate of a General Partner. The Partnership may reimburse Murray Income Properties, Ltd.-84 for that proportion of any expenditure made by Murray Income Properties, Ltd.-84 which the General Partners deem to be the fair, just and equitable share that should be borne by the Partnership and, conversely, the Partnership may pay, and seek reimbursement from, Murray Income Properties, Ltd.-84 for that proportion of any expenditure made by the Partnership which the General Partners deem to be the fair, just and equitable share that should be borne by Murray Income Properties, Ltd.-84."

Amendment No. 9

Explanation of Amendment. Section 10.17 requires MRI to allocate 25% of its share of Cash Distributions from Operations to a "Repurchase Fund" for the purchase of Interests upon the request of a Limited Partner. MRI is permitted to commingle the amount allocated to the "Repurchase Fund" with other assets of MRI. To the present time, however, MRI has not been paid any Cash Distributions from Operations since the allocation and payment of Cash Distributions to MRI is subordinated to the prior receipt by the Limited Partners of a noncumulative 7% annual return from either Cash Distributions from Operations or Cash Distributions from Sales or Refinancings, or both, on their Average Annual Unreturned Invested Capital.

(vi)

2

Since the amendments herein will reduce the allocation of Cash Distributions from Operations to MRI from 8% to 3% and will reallocate 5% of such 8% to Crozier Partners (subordinate, of course, in each instance to the prior receipt by the Limited Partners of a noncumulative 7% annual return from either Cash Distributions from Operations or Cash Distributions from Sales or Refinancings, or both), this amendment will require both MRI and Crozier Partners, in the proportions of 3/8ths for MRI and 5/8ths for Crozier Partners, respectively, to allocate 25% of their respective shares of any such subordinated Cash Distributions from Operations to a "Repurchase Fund" to be established by each of them, respectively.

The Amendment. The third and fourth sentences in Section 10.17 are hereby deleted and there is hereby substituted in lieu thereof the following three sentences:

"MRI will allocate 25% of its share of Cash Distributions from Operations to a "Repurchase Fund" and Crozier Partners will allocate to a "Repurchase Fund" 25% of its 5% share of Cash Distributions from Operations that is subordinated to the prior receipt by the Limited Partners of a noncumulative 7% annual return from either Cash Distributions from Operations or Cash Distributions from Sales or Refinancings, or both, on their Average Annual Unreturned Invested Capital. MRI's share of Cash Distributions from Operations allocated to the Repurchase Fund will be commingled with other assets of MRI and

Crozier Partners' share of Cash Distributions from Operations allocated to the Repurchase Fund will be commingled with other assets of Crozier Partners. Any repurchase of Interests pursuant to this Section 10.15 shall be in the proportions of 3/8ths by MRI and 5/8ths by Crozier Partners, respectively."

Amendment No.10

Explanation of Amendment. Section 11.3 provides in respect of voting on any matter on which the Limited Partners are entitled to vote that each Limited Partner will be deemed to be "...the holder of only those Interests shown on Exhibit A, as amended by the last-filed certificate of limited partnership." The Texas Uniform Limited Partnership Act requires the filing of a certificate of limited partnership that lists the name and address of each limited partner of a limited partnership and the amount of the contribution of each limited partner to the partnership. The certificate of limited partnership filed in the office of the Secretary of State is authoritative as to the identity of limited partners. The Texas Uniform Limited Partnership also does not permit an owner of a limited partnership interest to be considered a "limited partner," with the voting and other rights appurtenant to that status, unless the owner is named in the certificate of limited partnership. The Texas Revised Limited Partnership Act that will be adopted by these amendments no longer requires that the identity of the limited partners be disclosed in the certificate of limited partnership filed in the office of the Secretary of State, which filing was often burdensome on limited partnerships and considered by some people to be an invasion of their financial privacy. Instead, the Texas Revised Limited Partnership Act requires the limited partnership to maintain records showing the name and mailing address of each partner and a written statement of the date on which each partner in a limited partnership became a partner. This amendment makes the records of the Partnership authoritative as to the identity of the holders of Interests entitled to vote on any particular matter that is submitted to a vote of the Limited Partners.

The Amendment. The Last sentence of Section 11.3 is hereby amended to read as follows:

"For purposes of determining the number of votes which he is entitled to cast, a Limited Partner shall be deemed to be the holder of only those Interests which are reflected as owned by him by the records of the Partnership."

(vii)

## MANAGEMENT COMPENSATION

The following table sets forth the types and estimates of the amounts of all fees, compensation, income, distributions and other payments that the General Partners and their Affiliates will or may receive in connection with the operations of the Partnership. SUCH FEES, COMPENSATION, INCOME, DISTRIBUTIONS AND OTHER PAYMENTS WERE NOT DETERMINED BY ARM'S-LENGTH BARGAINING. See "Conflicts of Interest."

&lt;TABLE&gt;

&lt;CAPTION&gt;

| Form of Compensation<br>-----      | Entity Receiving<br>Compensation<br>----- | Method of Determination<br>and Estimated Dollar Amount<br>-----                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                    | Offering Stage                            |                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <S>                                | <C>                                       | <C>                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Selling Commissions                | Murray Securities<br>Corporation(1)       | Up to \$8 per Interest sold,<br>reduced for purchases by one<br>investor of more than 1,000<br>Interests and for purchases<br>by officers, directors,<br>partners, employees or<br>Affiliates of the General<br>Partners or their Affiliates.<br>Actual amount depends upon<br>number of Interests sold but<br>could be \$2,400,000 if 300,000<br>Interests are sold or<br>\$4,000,000 if 500,000 Interests<br>are sold.(2) |
| Dealer Manager Fee                 | Murray Securities<br>Corporation(1)       | Up to \$2 per Interest sold,<br>reduced for purchases by<br>officers, directors, partners,<br>employees or Affiliates of the<br>General Partners or their<br>Affiliates. Actual amount<br>depends upon number of<br>Interests sold but could be<br>\$600,000 if 300,000 Interests<br>are sold or \$1,000,000 if<br>500,000 Interests are sold.(2)                                                                           |
| Reimbursement of<br>Organizational | MRI or its Affiliates                     | Actual out-of-pocket<br>Organizational and Offering                                                                                                                                                                                                                                                                                                                                                                         |

Offering Expenses (3)

Expenses, including accounting, legal, printing, registration fees, etc.

<CAPTION>

Acquisition Stage

| <S>                                                | <C>                                             | <C>                                                                                                                                                                               |
|----------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reimbursement of Acquisition and Holding Costs (4) | Murray Properties Company or its Affiliates     | Actual costs incurred in acquiring and holding properties prior to their acquisition by the Partnership. Dollar amount is not determinable at this time. (5)                      |
| Title Insurance Commissions (6)                    | Dallas Title Company or Texas Title Company (7) | A portion of the premium paid for title insurance upon acquisition of a property. The premium in Texas is fixed by the State. Dollar amount is not determinable at this time. (5) |

</TABLE>

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<TABLE>

<CAPTION>

| Form of Compensation     | Entity Receiving Compensation     | Method of Determination and Estimated Dollar Amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----                    | -----                             | -----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Operational Stage        |                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <S>                      | <C>                               | <C>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Property Management Fees | Murray Management Corporation (8) | For its management services, an amount not to exceed the lesser of (i) in the case of apartment complexes, 5% of gross revenues, in the case of shopping centers, office buildings and office/showroom centers, 6% of gross revenues (or 3% if leasing performed by third parties) and in the case of shopping centers, office buildings and office/showroom centers which are leased on a long-term (ten or more years) net (or similar) basis, 1% of gross revenues or (ii) the amount customarily charged in arm's-length transactions by others rendering comparable services |

in the locality where the property is located, considering the size and type of each such property. In addition, Murray Management Corporation will be reimbursed for the actual costs of on-site personnel engaged in the management, leasing and maintenance of the property of the Partnership. Dollar amount is not determinable at this time.(5)

|                                                                    |                                 |                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reimbursement of Partnership Operational Expenses (9)              | MRI or its Affiliates           | Actual cost of goods and materials used for and by the Partnership and obtained from an entity not affiliated with a General Partner or an Affiliate of the General Partners and certain administrative services. Dollar amount is not determinable at this time.(5) |
| Casualty Insurance Commissions                                     | Murray General Agency, Inc.(10) | A portion of the premiums paid for casualty insurance. The cost of the insurance cannot exceed the lower quote for comparable terms and coverage from two independent brokers. Dollar amount is not determinable at this time.(5)                                    |
| Partnership Administrative Account and Property Operating Accounts | Murray Savings Association(11)  | The excess of Murray Savings Association's rate of return on the Partnership funds in such accounts over the interest rate paid to the Partnership on such accounts. Dollar amount is not determinable at this time.(5)                                              |

</TABLE>

<TABLE>  
<CAPTION>

|                               |                                        |                                                              |
|-------------------------------|----------------------------------------|--------------------------------------------------------------|
| Form of Compensation<br>----- | Entity Receiving Compensation<br>----- | Method of Determination and Estimated Dollar Amount<br>----- |
|-------------------------------|----------------------------------------|--------------------------------------------------------------|

|                                                           |                                                                            |                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <S><br>Interest and Other<br>Financing Charges<br>or Fees | <C><br>A General Partner or<br>an Affiliate of the<br>General Partners(12) | <C><br>An amount not in excess of the<br>amounts that would be charged<br>by unrelated lending<br>institutions on comparable<br>loans for the same purpose and<br>in the same locality but never<br>in excess of 2% over the prime<br>rate of MBank Dallas, N.A.,<br>Dallas, Texas. Dollar amount is<br>not determinable at this<br>time.(5) |
|-----------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                                                    |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Distributive Share of<br>Cash Distributions<br>from Operations(13) | Crozier Partners and<br>MRI(14) | Crozier Partners will receive<br>2% of all Cash Distributions<br>from Operations. MRI will<br>receive 8% of all Cash<br>Distributions from Operations,<br>subject to the Limited Partners<br>having received a noncumulative<br>annual cash return equal to<br>7% of their Average Annual<br>Unreturned Invested Capital,<br>calculated from the Initial<br>Closing Date. Dollar amount<br>is not determinable at this<br>time.(5) |
|--------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

<CAPTION>

Liquidation Stage

|                                   |                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <S><br>Real Estate<br>Commissions | <C><br>Crozier Partners or<br>its Affiliates;<br>MRI or its<br>Affiliates(14) (15) | <C><br>An amount not to exceed the<br>lesser of (i) 50% of the<br>competitive real estate<br>commission or (ii) 3% of the<br>sales price of the property,<br>provided that all real estate<br>commissions or similar fees<br>paid to all persons shall not<br>exceed the lesser of the<br>competitive real estate<br>commission or 6% of the sales<br>price of the property. Such<br>commissions will be payable<br>only after Limited Partners<br>have been returned their<br>Original Invested Capital from<br>Cash Distributions from Sales<br>or Refinancings, plus their<br>Preferred Return from either<br>Cash Distributions from<br>Operations or Cash Distributions |
|-----------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

from Sales or Refinancings.  
Dollar amount is not  
determinable at this time.(5)

|                                |                                                      |                                                                                                                                                                                                                                                                                                                    |
|--------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Title Insurance<br>Commissions | Dallas Title Company<br>or Texas Title<br>Company(7) | A portion of the premiums paid<br>for title insurance upon sale,<br>financing or refinancing of a<br>property if such title<br>insurance is provided by Dallas<br>Title Company or Texas Title<br>Company. The premium in Texas<br>is fixed by the State. Dollar<br>amount is not determinable<br>at this time.(5) |
|--------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

</TABLE>

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<TABLE>

<CAPTION>

| Form of Compensation<br>-----                                                                   | Entity Receiving<br>Compensation<br>----- | Method of Determination<br>and Estimated Dollar Amount<br>-----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <S><br>Distributive Share<br>of Cash<br>Distributions from<br>Sales or<br>Refinancings(13) (16) | <C><br>Crozier Partners<br>and MRI(14)    | <C><br>Crozier Partners will receive<br>1% of all Cash Distributions<br>from Sales or Refinancings.<br>The remaining 99% shall be<br>allocated (a) first, to the<br>Limited Partners until they<br>have been returned their<br>Original Invested Capital<br>from Cash Distributions from<br>Sales or Refinancings, plus<br>their Preferred Return from<br>either Cash Distributions<br>from Operations or Cash<br>Distributions from Sales or<br>Refinancings, (b) then, to<br>MRI in an amount equal to any<br>unpaid Cash Distributions<br>from Operations subordinated<br>to the Limited Partners' 7%<br>noncumulative annual return<br>and (c) thereafter, the<br>remainder shall be allocated<br>85% to the Limited Partners<br>and 15% to the General Partners.<br>See "Income and Losses and |



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- (1) The Dealer Manager may authorize certain other broker-dealers who are members of the National Association of Securities Dealers, Inc., to sell Interests on a "best efforts" basis. In the event of sales by such other broker-dealers, the Dealer Manager has advised the Partnership that the Dealer Manager will reallow to such other broker-dealers all or a portion of the selling commissions with respect to such sales. Such other broker-dealers, together with the Dealer Manager, may also be reimbursed up to an additional 1/2% of gross offering proceeds in connection with their due diligence activities.
- (2) See "The Offering" for a discussion of the rebate of selling commissions payable with respect to sales to one purchaser of more than 1,000 Interests and the rebate of selling commissions and the dealer manager fee with respect to sales to officers, directors, partners, employees or Affiliates of the General Partners or their Affiliates.
- (3) For nonleveraged programs such as the Partnership, the NASAA Guidelines require that, at a minimum, 82% of the Limited Partners' capital contributions be committed to investment in properties. Investment in properties, as defined under the NASAA Guidelines, is the amount of capital contributions actually paid or allocated to the purchase, development, construction or improvement of properties acquired by the Partnership (including the purchase of properties, working capital reserves not in excess of 5% of gross offering proceeds and other cash payments such as interest and taxes but excluding front-end fees, defined as fees and expenses paid by any party for any services rendered during the Partnership's organizational or acquisition phase including organization and offering expenses, acquisition fees, acquisition expenses and any other similar fees, however designated). The remaining capital contributions not invested in properties are available for the payment of Organizational and Offering Expenses, selling commissions, acquisition fees and acquisition expenses. Acquisition fees for this purpose shall be the total of all fees and commissions paid by any party in connection with the purchase or development of property by the Partnership, including real estate commissions, acquisition fees, selection fees, development fees, nonrecurring management fees, or any fees of a similar nature,

however designated, but excluding a development fee paid to a person not affiliated with the General Partners or their Affiliates in connection with actual development of property after acquisition by the

Partnership. Acquisition expenses for this purpose include, but are not limited to, legal fees and expenses, travel and communication expenses, costs of appraisals, loan commitment and loan fees ("points"), nonrefundable option payments on properties not acquired, accounting fees and expenses, title insurance, and miscellaneous expenses related to selection and acquisition of properties, whether or not acquired. The Partnership will acquire its properties on an unleveraged basis. In addition, the Partnership will not pay any acquisition fees to the General Partners or their Affiliates and the total of acquisition fees to unaffiliated parties and acquisition expenses will not exceed 1% of the Limited Partners' capital contributions. Based on those assumptions and assuming the sale of 300,000 Interests with Organizational and Offering Expenses, selling commissions and the dealer manager fee equal to 13.0% of the Limited Partners' capital contributions, the amount that would be invested in properties would be equal to 86.0% of such contributions. The amount invested in Partnership properties will comply with the NASAA Guidelines limitations set forth above.

- (4) An Affiliate of the General Partners may purchase property in its own name and temporarily hold title thereto for the purpose of facilitating the acquisition of such property or any other purpose related to the business of the Partnership. In such event, such Affiliate may be reimbursed for its costs incurred in acquiring and holding such real property prior to the acquisition of such property by the Partnership. Such costs will consist of the price paid by such Affiliate for such property, plus the amount of any net cash flow deficit or minus the amount of any net cash flow surplus incurred by such Affiliate during its ownership and operation of such property.
- (5) Any prediction of such dollar amount would necessarily involve assumptions of future events that cannot be determined at this time.
- (6) To the extent a seller of property to the Partnership sets the sales price at a level sufficient to cover the premium for title insurance, the Partnership, if effect, will pay the premium in the purchase price of the property.
- (7) The Partnership has entered into nonexclusive contracts with Dallas Title Company and Texas Title Company, Affiliates of the General Partners, pursuant to which each has agreed that, upon the request of the Partnership, it will handle the closing of purchases, sales, financings or refinancings by the Partnership of properties situated in Texas and will cause to be issued title insurance policies on such properties. Either of such title insurance agencies may receive a portion of the commission on premiums paid for title insurance by the Partnership or by a seller of real property to the Partnership. In Texas, title insurance premiums and the policy forms are prescribed by the State. Each contract provides that if such title insurance agency does not derive, in any calendar year, at least 75% of its gross income from persons or entities not affiliated with a General Partner, that agency's contract will terminate upon the earlier of 60 days after the end of the calendar year or as soon as the Partnership can arrange for

another person or entity to perform such services. Each contract also provides that it may be terminated by either party, without penalty, on 60 days' prior written notice and that such title insurance agency shall not render services or receive title insurance commissions in connection with the reinvestment of any proceeds from a sale or refinancing of Partnership properties.

- (8) The Partnership has entered into an agreement with Murray Management Corporation, an Affiliate of the General Partners, pursuant to which Murray Management Corporation will be responsible for the management of each property and the collection of its rental income, for which services it will receive a monthly Property Management Fee. This Property Management Fee is payable for professional supervisory management services undertaken in connection with the operation of the Partnership's properties. In the case of apartment complexes, such fee shall include all leasing and releasing fees and bonuses, and leasing-related services. In the case of shopping centers, office buildings and office/showroom centers, where Murray Management Corporation is not responsible for leasing, re-leasing and leasing-related services with respect to

6

the property, its fee shall not exceed 3% of gross revenues. Notwithstanding the foregoing, a separate competitive fee may be paid for the one-time initial lease-up of a newly constructed property if such service is not included in the purchase price of the property, provided that such fee shall not exceed the lesser of cost or 90% of the competitive price that would be charged by unaffiliated persons rendering similar services in the same or comparable geographic location. In the case of shopping centers, office buildings and office/showroom centers which are leased on a long-term net (or similar) basis, a one-time initial leasing fee of 3% of gross revenues may be taken on each lease payable over the first five full years of the original term of the lease. Murray Management Corporation shall pay from the Property Management Fee, and not as an expense of the Partnership, the expenses of rendering supervisory property management services; provided, however, that the wages and expenses of on-site personnel engaged in the management, leasing and maintenance of the Partnership's properties and personnel, supplies, repairs, furniture and equipment costs and other costs directly attributable to the Partnership's property operations shall be deemed to be property operating expenses and as such shall be borne by the Partnership by reimbursement to Murray Management Corporation. Wages and other actual expenses of personnel may be allocated between properties of the Partnership and other properties managed by Murray Management Corporation if such properties are owned by (i) a public or private program sponsored by the General Partners or their Affiliates or any

joint venture in which a General Partner or an Affiliate is a party or (ii) an unaffiliated third party. Murray Management Corporation has the right to subcontract to third parties a portion or all of the management services to be rendered by it with respect to any particular property, provided that (a) Murray Management Corporation shall at all times remain responsible for the management of such property, (b) the Partnership shall not be required to pay for duplicative services and (c) the aggregate cost to the Partnership will not exceed the amount which would be customarily charged in arm's-length transactions by others rendering similar services in the locality where the property is located, considering the size and type of each such property, if only one entity had provided all such services. The agreement between the Partnership and Murray Management Corporation may be terminated by either party, without penalty, on 60 days' prior written notice.

- (9) Except as set forth below, reimbursements to a General Partner or an Affiliate of a General Partner shall not be allowed. A General Partner or an Affiliate of a General Partner may be reimbursed for: (a) the actual cost of goods and materials used for or by the Partnership and obtained from an entity not affiliated with a General Partner or an Affiliate of a General Partner; and (b) the lesser of the cost or 90% of the competitive price charged by unaffiliated parties for (i) salaries and related salary expenses for services that could be performed directly for the Partnership by independent parties, including legal, accounting, transfer agent, data processing, duplicating and administration of investor accounts and (ii) Partnership reports and communications to investors. All such transactions shall be pursuant to the terms of a written contract between the Partnership and such General Partner or Affiliate which precisely describes the services to be rendered or the goods or materials to be provided and the compensation therefor. No reimbursement shall be permitted for services for which the General Partners or Affiliates receive a separate fee or for (i) salaries, related salary expenses, traveling expenses, and other administrative items which are incurred by any Controlling Person or which are not directly attributable to the rendering of reimbursable services to the Partnership and (ii) any indirect expenses incurred in performing services for the Partnership, such as rent or depreciation, utilities, capital equipment, and other administrative items. "Controlling Person" for this purpose shall mean any person, regardless of title, who performs executive or senior management functions for the General Partners or Affiliates similar to those of directors, executive management and senior management, or any person who either holds 5% or more equity interest in the General Partners or Affiliates or has the power to direct or cause the direction of the General Partners or Affiliates, whether through the ownership of voting securities, by contract, or otherwise, or, in the absence of a specific role or title, any person having the power to direct or cause the direction of the management level employees and policies of the General Partners or

Affiliates. It is not intended that every person who carries a title such as vice president, senior vice president, secretary or treasurer be included in the definition of Controlling Person. In no event shall any amount charged to the Partnership as a reimbursable expense by the General Partners exceed the lesser of the actual cost of such services or 90% of the amount which the Partnership would be required to pay to independent parties for comparable services. "Costs" for purposes of this paragraph shall include the price of goods and materials paid to independent third parties, and direct costs incurred by the General Partners or their Affiliates in the transactions including overhead directly attributable to the transaction but excluding general or administrative overhead. Notwithstanding the foregoing, reimbursements are also allowable for certain organizational and offering expenses and for the actual costs of on-site personnel engaged in the management, leasing and maintenance of the property of the Partnership as provided in note (8) above.

- (10) The Partnership has entered into a nonexclusive contract with Murray Insurance Agency, Inc., an Affiliate of the General Partners, pursuant to which, upon the request of the Partnership, such agency will endeavor to obtain fire, casualty, or similar insurance on the properties of the Partnership. Any commission on any casualty insurance brokered by it will not exceed the amount customarily received by it from the brokerage of comparable policies for unaffiliated persons. Before such agency brokers any fire, casualty or similar insurance on any property of the Partnership, quotes must have been received from two unaffiliated insurance brokers for coverage and terms comparable to that proposed to be provided by such agency. No insurance will be brokered by the Partnership through such agency unless the cost of such insurance will be no greater than the lower quote of the two unaffiliated insurance agencies. The contract with Murray Insurance Agency, Inc., provides that if such agency does not derive at least 75% of its gross income from business done with persons or entities not affiliated with a General Partner, that agency's contract will terminate upon the earlier of 60 days after the end of the calendar year or as soon as the Partnership can arrange for another person or entity to perform such services. The contract also provides that it may be terminated by either party, without penalty, on 60 days' prior written notice. Murray General Agency, Inc., an Affiliate of the General Partners, will receive commissions on insurance premiums paid through Murray Insurance Agency, Inc., by virtue of contractual arrangements between it and Murray Insurance Agency, Inc.
- (11) The General Partners may open and maintain an interest-bearing Partnership administrative account and property operating accounts at Murray Savings Association, a stock association organized under the Texas Savings and Loan Act. Murray Savings Association is a wholly-

owned subsidiary of Murray Financial Corporation, an Affiliate of the General Partners. Such accounts are insured up to a maximum of \$100,000 in the aggregate by the Federal Savings and Loan Insurance Corporation ("FSLIC"). The General Partners will not permit the balance of such accounts to exceed the maximum amount insured by the FSLIC. Murray Savings Association may receive indirect compensation to the extent that Murray Savings Association's rate of return on the Partnership funds in such accounts exceeds the interest rate paid to the Partnership on such accounts. The Partnership will receive an interest rate competitive with similar accounts at unrelated institutions and will not be charged any servicing fees on the accounts.

- (12) It is not contemplated that a General Partner or any Affiliate of a General Partner will make a loan to the Partnership, but the Partnership Agreement permits a General Partner or any Affiliate of a General Partner to make a loan to the Partnership if the interest and other financing charges or fees on any such loan are not in excess of the amounts which would be charged by unaffiliated lending institutions on comparable loans for the same purpose in the same locality but not in excess of 2% over the prime rate of MBank Dallas, N.A. Any financing charges or fees on any loan to the Partnership by a General Partner or an Affiliate of a General Partner will be only those incurred by such General Partner or Affiliate in connection with the making of such loan. Neither a General Partner nor an Affiliate of a General Partner will make a profit from the Partnership's payment of financing charges or fees. No property of the Partnership shall secure

16

8

any loan made to the Partnership by a General Partner or an Affiliate of a General Partner if, at the inception of the loan, any payment of principal or interest is to be made more than two years after the date of the loan. No loans, secured or unsecured, may be made to the Partnership by a General Partner or an Affiliate of a General Partner if at the inception of the loan any payment of principal or interest is to be made more than three years after the date of the loan.

- (13) For a discussion of Cash Distributions from Operations and Cash Distributions from Sales or Refinancings, see "Income and Losses and Cash Distributions."
- (14) Crozier Partners was formed as of December 19, 1985, under The Texas Uniform Limited Partnership Act with Jack E. Crozier as the general partner and Fulton Murray, individually, Fulton Murray in his capacity as Trustee of the Beverly Murray Wilson Trust and Fulton Murray and RepublicBank Dallas, N.A., in their capacities as Trustees of a trust created under the Will of Owen M. Murray, Deceased, as the limited partners.



- (15) Real estate commissions are payable to the General Partners or their Affiliates only if such General Partner or Affiliate provides a substantial amount of the services in the sales effort. All real estate commissions payable to the General Partners or their Affiliates for services in connection with sales of properties of the Partnership shall be cumulative but shall be paid only after the Limited Partners have been returned their Original Invested Capital from Cash Distributions from Sales or Refinancings, plus their Preferred Return. If an unaffiliated broker participates in the sale of a Partnership property, the subordination requirement will apply only to the commission, if any, earned by the General Partners or their Affiliates. The total of all real estate commissions payable to all parties in connection with the sale of a Partnership property shall not exceed the lesser of a competitive real estate commission which is reasonable, customary and competitive in light of the size, type and location of the property or 6% of the sales price of the property. Real estate commissions payable to the General Partners or their Affiliates will be allocated one-third to Crozier Partners or its Affiliates and two-thirds to MRI or its Affiliates.
- (16) Cash Distributions from Sales or Refinancings payable to the General Partners (other than the 1% of Cash Distributions from Sales or Refinancings payable to Crozier Partners) will be allocated one-third to Crozier Partners and two-thirds to MRI.

#### CONFLICTS OF INTEREST

The General Partners are subject to various conflicts of interest because of other activities and entities in which they have a direct or indirect financial interest. This Prospectus attempts to highlight those conflicts of interest but a potential investor should be aware that because of future activities or circumstances not now foreseen, the listing herein may not be complete. The General Partners, having the exclusive authority to manage the operations and affairs of the Partnership and to make all decisions regarding the business of the Partnership, will seek to resolve any matter involving a conflict of interest in a manner which, in their best judgment, is fair and reasonable to the Partnership.

Murray Realty Investors IX, Inc., a General Partner, is a wholly-owned subsidiary of Murray Realty Investors, Inc., which is a wholly-owned subsidiary of Murray Properties Company. Murray Properties Company is a wholly-owned subsidiary of Murray Financial Corporation. The general partner of Crozier Partners IX, Ltd., a General Partner, is Jack E. Crozier, and the limited partners are Fulton Murray, individually, Fulton Murray in his capacity as Trustee of the Beverly Murray Wilson Trust and Fulton Murray and RepublicBank Dallas, N.A. in their capacities as Trustees of a trust created under the Will of Owen M. Murray, Deceased. Jack E. Crozier owns approximately 11% of the outstanding stock and is the President of Murray Financial Corporation and is an officer and director of substantially all Affiliates of Murray Financial Corporation. Fulton Murray, members of his family and trusts for their benefit own the remaining outstanding stock of Murray Financial Corporation. Mr. Murray is the Chairman of the Board and Chief Executive Officer and a

director of Murray Financial Corporation and is an officer and director of substantially all Affiliates of Murray Financial Corporation. Murray Financial Corporation is engaged, directly or through subsidiaries, in various real estate