

**ITEL**  
**CORPORATION**  
RAIL-INTERMODAL DIVISION

May 29, 1979

10464

RECORDATION NO. .... Filed 1425

9-162A 21

Date JUN 11 1979

Fee \$ 50.00

The Honorable H. G. Homme, Secretary  
Interstate Commerce Commission  
Washington, D.C. 20423

JUN 11 1979 - 11 22 AM

ICC Washington, D.C.

INTERSTATE COMMERCE COMMISSION

Dear Mr. Secretary:

Enclosed for filing with and recording by the Interstate Commerce Commission are one original, two counterparts and two photocopies of a Lease Agreement dated as of December 19, 1978 between ITEL Corporation, acting through its Rail Division, Two Embarcadero Center, San Francisco, California, 94111 and the Hillsdale County Railway Company, Inc., 50 Monroe Street, Hillsdale, Michigan, 49242 covering the following railroad equipment:

Three hundred (300) 89 foot, 70 ton flatcars bearing the identifying marks HCRC 100000-100299, both inclusive.

Identifying marks on all of the foregoing equipment: The words "OWNERSHIP SUBJECT TO A SECURITY AGREEMENT FILED UNDER THE INTERSTATE COMMERCE COMMISSION", printed on each side of each unit.

Also enclosed is our check in the amount of \$50.00, payable to the Interstate Commerce Commission, being the prescribed fee for filing and recording the foregoing document.

Please return all copies of the enclosed that are not required by the Interstate Commerce Commission to David Schwartz, Esq. of Sullivan and Worcester who will be delivering this letter on our behalf.

Sincerely,

*Paul Willard*  
Paul Willard  
Counsel

PW/rcs

Enclosures  
TWO EMBARCADERO CENTER  
SAN FRANCISCO  
CALIFORNIA 94111  
(415) 955-9090  
TELEX 34-234

FEE OPERATION BR

I.C.C.

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*Countersignature Michael P. Pipichal*

JUN 11 1979 - 11 22 AM

INTERSTATE COMMERCE COMMISSION

**LEASE AGREEMENT**

**THIS LEASE AGREEMENT**, made as of this 19th day of December, 1978, between **ITEL CORPORATION, RAIL INTERMODAL DIVISION**, a Delaware corporation, Two Embarcadero Center, San Francisco, California, 94111 ("Itel Rail"), as Lessor, and **HILLSDALE COUNTY RAILWAY CO., INC.**, a Michigan corporation, ("Lessee"), as Lessee.

**1. Scope of Agreement**

**A.** Itel Rail agrees to lease to Lessee, and Lessee agrees to lease from Itel Rail, freight cars as set forth in any lease schedules executed by the parties concurrently herewith or hereafter and made a part of this Agreement. The word "Schedule" as used herein includes the Schedule or Schedules executed herewith and any additional Schedules and amendments thereto, each of which when signed by both parties shall be a part of this Agreement. The scheduled items of equipment are hereinafter called collectively the "Cars."

**B.** It is the intent of the parties to this Agreement that Itel Rail shall at all times be and remain the lessor of all Cars. Lessee agrees that it will at no time take any action or file any document which is inconsistent with the foregoing intent and that it will take such action and execute such documents as may be necessary to accomplish this intent.

**2. Term**

**A.** This Agreement shall remain in full force until it shall have been terminated as to all of the Cars as provided herein. The term of lease with respect to all of the Cars described on each Schedule shall be for fifteen (15) years (the "Initial Lease Term") commencing upon the date when all Cars on such Schedule have been delivered as set forth in Section 3A hereof.

**B.** If this Agreement has not been earlier terminated and no default has occurred and is continuing, it shall automatically be extended for not more than five consecutive periods of twelve months each (the "Extended Lease Term") with respect to all of the Cars described on each Schedule, provided, however, that Itel Rail or Lessee may terminate this Agreement on or after the Initial Lease Term as to all, but not fewer than all, of the Cars on any such Schedule by written notice delivered to the other not less than twelve months prior to the end of the Initial Lease Term or any Extended Lease.

**3. Supply Provisions**

**A.** Itel Rail will inspect each of the Cars tendered by the manufacturer for delivery to Lessee. Prior to such inspection, however, Lessee shall confirm in writing to Itel Rail that the sample Car which will be made available for Lessee's inspection prior to the commencement of deliveries conforms to the specifications of the equipment

agreed to by Lessee. Upon such approval by Lessee and Itel Rail's determination that the Car conforms to the specifications ordered by Itel Rail and to all applicable governmental regulatory specifications, and provided this Agreement has not been terminated, Itel Rail will accept delivery thereof at the manufacturer's facility and shall notify Lessee in writing of such acceptance. Each of the Cars shall be deemed delivered to Lessee upon acceptance by Itel Rail. The Cars shall be moved to Lessee's railroad line at no cost to Lessee as soon after acceptance of delivery by Itel Rail as is consistent with mutual convenience and economy. Due to the nature of railroad operations in the United States, Itel Rail can neither control nor determine when the Cars leased hereunder will actually be available to Lessee for its use on its railroad tracks. Notwithstanding that Lessee may not have immediate physical possession of the Cars leased hereunder, Lessee agrees to pay Itel Rail the rent set forth in this Agreement. Lessee may, at its own option, request Itel Rail to ship the Cars directly to Lessee and unloaded, whereby Lessee agrees to reimburse Lessor for all costs incurred in movement to Lessee. To move the Cars to Lessee's railroad line and insure optimal use of the Cars after the first loading of freight for each Car on the railroad line of Lessee (the "Initial Loading"), Itel Rail agrees to assist Lessee in monitoring Car movements and, when deemed necessary by Lessee and Itel Rail, to issue movement orders with respect to such Cars to other railroad lines in accordance with ICC and AAR interchange agreements and rules. For purposes of this Agreement, "Initial Loading" shall mean the first loading of freight on the railroad line of Lessee, provided, however, if the Initial Loading has not occurred within thirty (30) days of the date such Cars have been delivered to Itel Rail at the manufacturer's facility, Initial Loading shall be deemed to have occurred effective on the thirty-first (31st) day following such delivery to Itel Rail. Whenever Cars are used or loaded prior to the Initial Loading, or whenever Lessee notifies Itel Rail that it requires the use of a designated quantity of Cars, Itel Rail shall not route such cars away from Lessee.

B. Lessee shall give preference to Itel Rail and shall load the Cars leased from Itel Rail prior to loading substantially similar cars leased from other parties or purchased by Lessee subsequent to the date of this Agreement or interchanged with railroads; provided, however, that this shall in no event prevent or prohibit Lessee from fulfilling its obligations to provide transportation and facilities upon reasonable request therefor.

C. <sup>F.L.A.T.</sup> Lessee agrees that so long as it shall have on lease any Cars, it shall not lease ~~freight~~ cars from any other party until it shall have received all of the Cars on ~~the Schedule or Schedules~~. <sup>Additional Cars</sup> Additional Cars shall be leased from Itel Rail by Lessee only upon the mutual agreement of the parties hereto. Upon such agreement, such additional Cars shall be identified in Schedules to this Agreement and shall benefit from and be subject to this Agreement upon execution of the Schedules by Itel Rail and Lessee. Notwithstanding the execution of any Schedules, including Schedules for additional Cars, the delivery of any Car to Lessee shall be subject to manufacturers' delivery schedules, financing satisfactory to Itel Rail and the mutual acknowledgment of the parties that the addition of such Cars is not likely to reduce Utilization (as defined in Section 6) of all Cars on lease to Lessee to less than 92 percent and mileage at 250 miles per day in any calendar quarter. If, due to the factors listed in the preceding sentence, fewer than all of the Cars listed on a Schedule shall be delivered to Lessee, the lease term shall be deemed to have commenced on the date the final Car of the most recent group of Cars was accepted by Itel Rail as is set forth in Section 3A.

*JHM*  
*JHM*  
*AP*  
*AP*

#### **4. Railroad Markings and Record Keeping**

**A.** Itel Rail and Lessee agree that on or before delivery of any Cars to Lessee, said Cars will be lettered with the railroad markings of Lessee and may also be marked with the name and/or other insignia used by Lessee. Such name and/or insignia shall comply with all applicable regulations.

**B.** At no cost to Lessee, Itel Rail shall during the term of this Agreement prepare for Lessee's signature and filing all documents relating to the registration, maintenance and record keeping functions involving the Cars. Such documents shall include but are not limited to the following: (i) appropriate AAR documents; (ii) registration in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; and (iii) such reports as may be required from time to time by the ICC and/or other regulatory agencies.

**C.** Each Car leased hereunder shall be registered at no cost to Lessee in the Official Railway Equipment Register and the Universal Machine Language Equipment Register. Lessee shall, perform all record keeping functions related to the use of the Cars by Lessee and other railroads in accordance with AAR railroad interchange agreements and rules, such as car hire reconciliation.

**D.** All record keeping performed by Lessee hereunder and all record of payments, charges and correspondence related to the Cars shall be separately recorded and maintained by Lessee in a form suitable for reasonable inspection by Itel Rail from time to time during regular Lessee business hours. Lessee shall supply Itel Rail with such reports, including daily telephone reports of the number of Cars on Lessee's tracks, regarding the use of the Cars by Lessee on its railroad line as Itel Rail may reasonably request.

#### **5. Maintenance, Taxes and Insurance**

**A.** Except as otherwise provided herein, Itel Rail will pay all costs, expenses, fees and charges incurred in connection with the use and operation of each of the Cars during its lease term and any extension thereof, including but not limited to repairs, maintenance and servicing, unless the same was occasioned by the fault of Lessee. Lessee shall inspect all Cars interchanged to it to insure that such Cars are in good working order and condition and shall be liable to Itel Rail for any repairs required for damage not noted at the time of interchange.

**B.** Except as provided above, Itel Rail shall make or cause to be made such inspections of, and maintenance and repairs to, the Cars as may be required. Upon request of Itel Rail, Lessee shall perform any necessary maintenance and repairs to Cars on Lessee's railroad tracks as may be reasonably requested by Itel Rail. Itel Rail shall also make, at its expense, all alterations, modifications or replacement of parts as shall be necessary to maintain the Cars in good operating condition throughout the lease term of such Cars. Lessee may make running repairs to facilitate continued immediate use of a Car, but shall not otherwise make any repairs, alterations, improvements or additions to the Cars without Itel Rail's prior written consent. If Lessee makes an alteration, improvement or addition to any Car without Itel Rail's prior written consent, Lessee shall be liable to Itel Rail for any revenues lost due to such alteration. Title to any such alteration, improvement or addition shall be and remain with Itel Rail.

C. Lessee will at all times while this Agreement is in effect be responsible for the Cars while on Lessee's railroad tracks in the same manner that Lessee is responsible under Rule 7 of the AAR Code of Car Service Rules-Freight for freight cars not owned by Lessee on Lessee's railroad tracks. Lessee shall protect against the consequences of an event of loss involving the Cars while on Lessee's railroad tracks by obtaining physical loss and damage, all risks insurance in the full value of the Cars. Lessee shall also maintain bodily injury and property damage liability insurance in such sum as may be specified by Itel Rail. Lessee shall furnish Itel Rail concurrently with the execution hereof and thereafter at intervals of not more than 12 calendar months with certificates of insurance with respect to the insurance required as aforesaid signed by an independent insurance broker. All insurance shall be taken out in the name of Lessee and Itel Rail (or its assignee if requested by Itel Rail) as their interests may appear. If Lessee defaults in paying any insurance premium Itel Rail may pay such premium for Lessee's account.

D. Itel Rail agrees to reimburse Lessee for all taxes, assessments and other governmental charges of whatsoever kind or character paid by Lessee relating to each Car and on the lease, delivery or operation thereof which may remain unpaid as of the date of delivery of such Car to Lessee or which may be accrued, levied, assessed or imposed during the lease term, except taxes on income imposed on Lessee and sales or use taxes imposed on the mileage charges and/or car hire revenues. Itel Rail shall forward to Lessee all sales and use tax payments received by it on behalf of Lessee. Itel Rail and Lessee will comply with all state and local laws requiring the filing of ad valorem tax returns on the Cars. Itel Rail shall review all applicable tax returns prior to filing.

## 6. Lease Rental

A. Lessee agrees to pay the following rent to Itel Rail for the use of the Cars:

(i) Utilization of the Cars shall be determined by a fraction, the numerator of which is the aggregate number of days in each calendar year that car hire payments (as defined below) are earned by Lessee on the Cars, commencing from the Initial Loading, and the denominator of which is the aggregate number of days in each calendar year that the Cars are on lease to Lessee, commencing from the Initial Loading minus the number of days such equipment is undergoing servicing, repair or alteration as provided for in Section 5 unless the same was occasioned by the fault of Lessee. For the purpose of this Agreement, Payments shall equal all payments made to Lessee by other railroad companies for the use or handling of the Cars, including but not limited to mileage charges and car hire payments. In addition, Itel Rail will receive, as additional rental, all monies earned by the Cars prior to their Initial Loading.

(ii) In the event Utilization exceeds 92 percent and 250 miles per day in any calendar year, Itel Rail shall receive an amount equal to the Itel Rail

Base Rental plus an amount equal to one-half of the Payments earned in excess of the Itel Rail Base Rental. For the purpose thereof, Itel Rail Base Rental shall be an amount equal to the total Payments for the calendar year which is the equivalent of the sum derived from Utilization at 92 percent and mileage at 250 miles per day. (The above determination of Itel Rail Base Rental insures that Lessee will, if the combination of Utilization and mileage is greater than 92 percent and 250 miles per day in any calendar year, receive one-half of all the Payments made by other railroads for use or handling of the Cars in excess of the Itel Rail Base Rental.)

(iii) If Itel Rail pays other railroads to move Cars in accordance with Section 3A, except for any expenses incurred to deliver such Cars to Lessee's railroad line, Lessee shall reimburse Itel Rail for such expenses only from and out of monies received by Lessee pursuant to subsection 6A(ii).

(iv) The rental charges payable to Itel Rail by Lessee shall be paid from the Payments received by Lessee in the following order until Itel Rail receives the amounts due it pursuant to this Section: (1) car hire payments; (2) mileage charges and (3) other.

(v) In the event damage beyond repair or destruction of a Car has been reported in accordance with Rule 7 of the AAR Code of Car Hire Rules and Interpretations-Freight and the appropriate amount due as a result thereof is received by Itel Rail, said damaged or destroyed Car will be removed from the coverage of this Agreement as of the date that payment of car hire payments ceased.

B. The calculations required above shall be made within five (5) months after the end of each calendar year. However, to enable Itel Rail to meet its financial commitments, Lessee agrees to pay Itel Rail the amounts received for car hire settlements in the manner set forth in Section 6F. Further, since the parties desire to determine on a quarterly basis the approximate amount of the rental charges due to Itel Rail, Itel Rail shall within three months of the end of the sixth and twelfth months from the commencement of the Initial Lease Term and thereafter within three months of the end of each calendar quarter calculate the approximate amount due by way of rental charges under Section 6A for the period in respect of which the calculation is made and shall remit the <sup>excess</sup> balance received by Itel Rail pursuant to Section 6F (if any) to Lessee. In the event that the amounts remitted to Itel Rail pursuant to Section 6F are less than the <sup>Base</sup> Rental owed, Lessee will pay the balance on demand. Following the yearly calculation referred to in the first sentence above, any amount paid to either party during the said quarter in excess of the amounts due under Section 6A shall be promptly refunded to the appropriate party. HJM  
HJM

C. If at any time during a calendar quarter the number of days that the Cars have not earned Payments is such as to make it mathematically certain that Utilization and mileage in such calendar quarter cannot be equal to or greater than 90 percent and 200 miles per day respectively, Itel Rail may, at its option and upon not less than 20 days prior written notice to Lessee, terminate this Agreement as to such Cars as Itel Rail shall determine without any cost to Lessee except as set forth in Section 9 regarding remarking costs. Lessee, <sup>may</sup> at its HJM sole option, (i) within 5 days of Itel Rail's written notice notify Itel Rail of its intent to pay Itel Rail an amount equal to the difference between rent Itel Rail received for each calendar quarter and the rent Itel Rail would have received had the Utilization for each calendar quarter been 90 percent and the average mileage for each of the Cars had been 200 miles per day, and (ii) make such payment within 15 days of receipt of such notice, in which case such notice of Termination will be of no effect. AJ

**D.** Itel Rail may, at its option, terminate this Agreement if the ICC shall, at any time, require that Lessee spend funds not earned by the Cars in order for Lessee to continue to meet its obligations set forth in this section.

**E.** Subsequent to the Initial Loading, if any Car remains on Lessee's railroad tracks for more than seven (7) consecutive days, excluding those days such Cars are undergoing servicing, repair or alteration as provided for in Section 5 unless the same was occasioned by the fault of Lessee; Itel Rail may, at its option and upon not less than twenty-four (24) hours prior written notice, terminate this Agreement as to such Car and withdraw such Car from Lessee's railroad tracks. If any such Car remains on Lessee's railroad tracks more than seven (7) consecutive days because Lessee has not given preference to the Cars as specified in Section 3B, Lessee shall be liable for and remit to Itel Rail an amount equal to the Payments Lessee would have earned if such Cars were in the physical possession and use of another railroad for the entire period.

**F.** Since Payments are not received until approximately 40 days after the end of the calendar month in which the Cars are off Lessee's railroad tracks and used by other railroad companies ("the earning month"), Lessee shall remit to Itel Rail the Payments received by Lessee as follows:

(i)(a) Not later than the fifty-fifth (55th) day following an earning month, Lessee shall notify Itel Rail of the total number of days that car hire revenues were earned on the Cars during such earning month and the mileage charges reported as earned by the Cars during such earning month or any prior month not previously reported and shall remit to Itel Rail 90 percent of all Payments and all penalty amounts received.

or, (b) Lessee shall at Lessee's option deliver to Itel Rail on the next to the last working day of each month, a complete activity summary of Payments collected during the previous month, in such form as shall be requested by Itel Rail, together with a remittance for 90 percent of the sum so reported.

(ii) Itel Rail may, without prejudice to any other remedy it may have, charge, as additional rental, a service charge at the rate of ten (10) percent per annum on any amount not remitted to Itel Rail when due.

(iii) Lessee will use its best efforts to collect all Payments and remit to Itel Rail all such Payments as are due hereunder.

## **7. Possession and Use**

**A.** So long as Lessee shall not be in default under this Agreement, Lessee shall be entitled to the possession, use and quiet enjoyment of the Cars in accordance with the terms of this Agreement and in the manner and to the extent Cars are customarily used in the railroad freight business, provided that Lessee retains on its railroad tracks no more Cars than are necessary to fulfill its immediate requirements to provide transportation and facilities upon reasonable request therefore to shippers on its railroad tracks. However, Lessee's rights shall be subject and subordinate to the rights of any owner or secured party under any financing agreement entered into by Itel Rail in connection with the acquisition of Cars, i.e., upon notice to Lessee

from any such secured party or owner that an event of default has occurred and is continuing under such financing agreement, such party may require that all rent shall be made directly to such party and/or that the cars be returned to such party. Lessee agrees that to the extent it has physical possession and can control use of the Cars, the Cars will at all times be used and operated under and in compliance with the laws of the jurisdiction in which the same may be located and in compliance with all lawful acts, rules and regulations and orders of any governmental bodies or officers having power to regulate or supervise the use of such property, except that either Itel Rail or Lessee may in good faith and by appropriate proceedings contest the application of any such rule, regulation or order in any reasonable manner at the expense of the contesting party.

B. Lessee will not directly or indirectly create, incur, assume, or suffer to exist any mortgage, pledge, lien, charge, encumbrance, or other security interest or claim on or with respect to the Cars or any interest therein or in this Agreement or Schedule thereto. Lessee will promptly, at its expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance, security interest, or claim if the same shall arise at any time.

## **8. Default**

A. The occurrence of any of the following events shall be an event of default:

(i) The nonpayment by Lessee of any sum required herein to be paid by Lessee within ten days after the date any such payment is due.

(ii) The breach by Lessee of any other term, covenant, or condition of this Agreement, which is not cured within ten days thereafter.

(iii) Any act of insolvency by Lessee, or the filing by Lessee of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against Lessee that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of Lessee, unless such petition or appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of said filing or appointment.

(v) The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency.

(vi) Any action by Lessee to discontinue rail service on all or a portion of its tracks or abandon any of its rail properties pursuant to applicable provisions of the Interstate Commerce Act or the laws of any state.

B. Upon the occurrence of any event of default, Itel Rail may, at its option, terminate this Agreement (which termination shall not release Lessee from any obligation to pay to Itel Rail any and all rent or other sums that may then be due or accrued to such date or from the obligation to perform any duty or discharge any other liability occurring prior thereto) and may

(i) Proceed by any lawful means to enforce performance by Lessee of such obligations or to recover damages for a breach thereof (and Lessee agrees to bear Itel Rail's costs and expenses, including reasonable attorneys' fees, in securing such enforcement), or

(ii) By notice in writing to Lessee, terminate Lessee's right of possession and use of the Cars, whereupon all right and interest of Lessee in the Cars shall terminate; and thereupon Itel Rail may enter upon any premises where the Cars may be located and take possession of them and henceforth hold, possess and enjoy the same free from any right of Lessee.

## **9. Termination**

Upon the termination of this Agreement as to any Cars, Lessee will surrender possession of such Cars to Itel Rail by delivering the same to Itel Rail. A Car shall be no longer subject to this Agreement upon the removal of Lessee's railroad markings from the Car and the placing thereon of such markings as may be designated by Itel Rail, either, at the option of Itel Rail, (1) by Lessee upon return of such Cars to Lessee's railroad line or (2) by another railroad line which has physical possession of the Car at the time of or subsequent to termination of the lease term as to such Car. If such Cars are not on the railroad line of Lessee upon termination, any cost of assembling, delivering, storing, and transporting such Cars to Lessee's railroad line or the railroad line of a subsequent lessee shall be borne by Itel Rail. If such Cars are on the railroad line of Lessee upon such expiration or termination or are subsequently returned to Lessee's railroad line, Lessee shall at its own expense within five working days remove Lessee's railroad markings from the Cars and place thereon such markings as may be designated by Itel Rail. After the removal and replacement of markings, Lessee shall use its best efforts to load such Cars with freight and deliver such Cars to a connecting carrier for shipment. Lessee shall provide up to sixty (60) days free storage on its railroad tracks for Itel Rail or the subsequent lessee of any terminated Car. If any Car is terminated pursuant to subsection 6C or 6E or section 8 prior to the end of its lease term, Lessee shall be liable to Itel Rail for all costs and expenses incurred by Itel Rail to repaint the Cars and place thereon the markings and name or other insignia of Itel Rail's subsequent lessee provided, however, that Lessee's liability hereunder shall be limited to the total of the Payments retained by Lessee or paid to Lessee by Itel Rail pursuant to Section 6 in respect of all of the Cars up to the date of termination.

## **10. Indemnities**

Itel Rail will defend, indemnify and hold Lessee harmless from and against (1) any and all loss or damage of or to the Cars, usual wear and tear excepted, unless occurring while Lessee has physical possession of Cars and (2) any claim, cause of action, damage, liability, cost or expense which may be asserted against Lessee with respect to the Cars (other than loss or physical damage to the Cars as provided in (1) above) unless occurring through the fault of Lessee, including without limitation the construction, purchase and delivery of the Cars to Lessee's railroad line, ownership, leasing or return of the Cars, or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects, if any, are latent or are discoverable by Itel Rail or Lessee).

## 11. Representations, Warranties and Covenants

Lessee represents, warrants and covenants that:

(i) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated and has the corporate power, authority and is duly qualified and authorized to do business wherever necessary, to carry out its present business and operations and to own or hold under lease its properties and to perform its obligations under this Agreement.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law or regulation applicable to Lessee, or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Lessee or on the Cars pursuant to any instrument to which Lessee is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against Lessee before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of Lessee.

(iv) There is no material fact of which Lessee is aware which Lessee has not disclosed to ITEL Rail nor is Lessee a party to any agreement or instrument or subject to any charter or other corporate restriction which, so far as the Lessee can now reasonably foresee, will individually or in the aggregate materially adversely affect the business, condition or any material portion of the properties of the Lessee or the ability of the Lessee to perform its obligations under this Agreement.

## 12. Inspection

ITEL Rail shall at any time during normal business hours have the right to enter the premises where the Cars may be located for the purpose of inspecting and examining the Cars to insure Lessee's compliance with its obligations hereunder. Lessee shall immediately notify ITEL Rail of any accident connected with the malfunctioning or operation of the Cars, including in such report the time, place and nature of the accident and the damage caused, the names and addresses of any persons injured and of witnesses, and other information pertinent to Lessee's investigation of the accident. Lessee shall also notify ITEL Rail in writing within five (5) days after any attachment, tax lien or other judicial process shall attach to any Car. Lessee shall furnish to ITEL Rail promptly upon its becoming available, a copy of its annual report submitted to the ICC and, when requested, copies of any other income or balance sheet statements required to be submitted to the ICC.

## 13. Miscellaneous

A. This Agreement and the Schedules contemplated hereby shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that Lessee may not without the prior written consent of ITEL Rail

assign this Agreement or any of its rights hereunder or sublease the Cars to any party, and any purported assignment or sublease in violation hereof shall be void.

**B.** Both parties agree to execute the documents contemplated by this transaction and such other documents as may be required in furtherance of this Agreement and in furtherance of any financing agreement entered into by Itel Rail in connection with the acquisition of the Cars in order to confirm the financing party's interest in and to the Cars, this Agreement and Schedules hereto and to confirm the subordination provisions contained in Section 7.

**C.** It is expressly understood and agreed by the parties hereto that this Agreement constitutes a lease of the Cars only and no joint venture or partnership is being created. Notwithstanding the calculation of rental payments, nothing herein shall be construed as conveying to Lessee any right, title or interest in the Cars except as a Lessee only.

**D.** No failure or delay by either party herein shall constitute a waiver or otherwise affect or impair any right, power or remedy available, except as otherwise provided herein; nor shall any waiver or indulgence by either party or any partial or single exercise of a right, power or further exercise of any other right, power or remedy, except as otherwise provided for herein.

**E.** This Agreement shall be governed by and construed according to the laws of the State of California.

**F.** All notices hereunder shall be in writing and shall be deemed given when delivered personally or when deposited in the United States mail, postage prepaid, certified or registered, addressed to the president of the other party at the address set forth above.

**G. (i)** Lessee may, at its sole option, at any time during the Initial Lease Term or any extension thereof, assume liability for the costs, expenses, fees and charges described in Section 5A and for the inspections, maintenance and repairs as described in Section 5B, as to all of the Cars, but not fewer than all, described in any Schedule or Schedules attached hereto. Lessee shall exercise such option by not less than 60 days written notice to Itel Rail, specifying the Cars in respect of which the option is exercised.

**(ii)** Itel Rail shall determine on receipt of such notice an appropriate reduction in the Itel Rail Base Rental. The amount of such reduction shall be at Itel Rail's sole discretion but the Itel Rail Base Rental after such reduction shall not be more than an amount equal to the sum derived from Utilization at 90 percent and mileage at 175 miles per day. Itel Rail may also, at its sole discretion, adjust the Utilization provisions of Section 6C. Itel Rail shall give written notice to Lessee of such reduction and such adjustment (if any) and the said option shall only be effective on receipt by Itel Rail by written acceptance of such notice by Lessee.

**(iii)** In the event Lessee exercises such option, Lessee shall keep inspection, maintenance and repair records in accordance with good practice in the railroad industry generally, and shall make such records available for inspection by Itel Rail at any reasonable time.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ITEL CORPORATION, RAIL INTERMODAL  
DIVISION

HILLSDALE COUNTY RAILWAY CO., INC.

By: Allen S. Peters

By: John T. Harwood

Title: President

Title: PRESIDENT

Date: 4/5/79

Date: 12/26/78

**EQUIPMENT SCHEDULE NO. ...1..**

Iitel Corporation, Rail Intermodal Division hereby leases the following Cars to  
 Hillsdale County Railway Co., Inc. subject to the terms and conditions of that certain Lease Agreement dated as of Dec. 19, 1978.

A.A.R. Mech. Desig.	Description	Numbers	Length	Dimensions		Doors Width	No. of Cars
				Inside Width	Height		
FC	70-ton flush deck flatcars for trailer and container service	HCRC 100000- 100049	Approx. 89'	N/A	N/A	N/A	50
		Delivery contingent upon approval from the Board of Directors, Hillsdale County Railway Company, Inc.					

**ITEL CORPORATION, RAIL INTERMODAL DIVISION**

**HILLSDALE COUNTY RAILWAY CO., INC.**

BY: Allen S. Peterson  
 TITLE: President  
 DATE: 4/5/79

BY: John H. Mariani  
 TITLE: PRESIDENT  
 DATE: 12-26-78

STATE OF District  
COUNTY OF Columbia

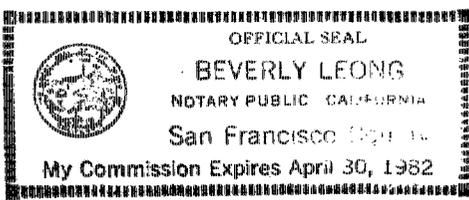
On this 26<sup>th</sup> day of December, before me personally appeared John H. Marino to me personally known, who being by me duly sworn says that such person is PRESIDENT of Hillsdale County Railway Co. Inc., that the foregoing Equipment Schedule No. 1 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Ann C. May  
Notary Public  
My Commission Expires Nov. 30, 1981

STATE OF California  
COUNTY OF San Francisco

On this 9<sup>th</sup> day of April, before me personally appeared Allen J. Peterson to me personally known, who being by me duly sworn says that such person is PRESIDENT of Itel Corporation, Rail Division, that the foregoing Equipment Schedule No. 1 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of such corporation.

Beverly Leong  
Notary Public



**EQUIPMENT SCHEDULE NO. 2.**

Istel Corporation, Rail Intermodal Division hereby leases the following Cars to Hillsdale County Railway Co., Inc. subject to the terms and conditions of that certain Lease Agreement dated as of Dec. 19, 1978.

A.A.R. Mech. Desig.	Description	Numbers	Dimensions			Doors Width	No. of Cars
			Length	Inside Width	Height		
FC	70-ton flush deck flatcars for trailer and container service	HCRC 100050-100099	Approx. 89'	N/A	N/A	N/A	50
Delivery contingent upon approval from the Board of Directors, Hillsdale County Railway Co., Inc.							

**ITEL CORPORATION, RAIL INTERMODAL DIVISION**

**HILLSDALE COUNTY RAILWAY CO., INC.**

BY: Allen S. Peters  
 TITLE: President  
 DATE: 4/5/79

BY: John H. Marino  
 TITLE: PRESIDENT  
 DATE: 12/26/78

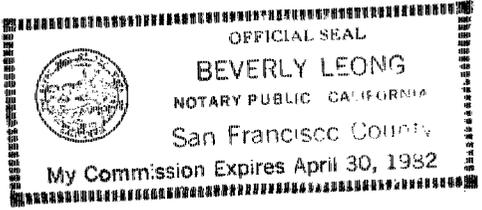
STATE OF District  
COUNTY OF Columbia

On this 26 day of December, before me personally appeared John H. Marino to me personally known, who being by me duly sworn says that such person is PRESIDENT of Hillsdale County Railway Co., Inc., that the foregoing Equipment Schedule No. 2 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Ann C. May  
Notary Public  
My Commission Expires Nov. 30, 1981

STATE OF California  
COUNTY OF San Francisco

On this 4th day of April, before me personally appeared Allen S. Peterson to me personally known, who being by me duly sworn says that such person is PRESIDENT of Intel Corporation, Rail Division, that the foregoing Equipment Schedule No. 2 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of such corporation.



Beverly Leong  
Notary Public

**EQUIPMENT SCHEDULE NO. ....<sup>3</sup>**

Ite! Corporation, Rail Intermodal Division hereby leases the following Cars to Hillsdale County Railway Co., Inc. subject to the terms and conditions of that certain Lease Agreement dated as of Dec. 19<sup>8</sup>....., 197<sup>8</sup>....

A.A.R. Mech. Desig.	Description	Numbers	Dimensions			Doors Width	No. of Cars
			Length	Inside Width	Height		
FC	70-ton flush deck flatcars for trailer and container service	HCRC 100100- 100299	Approx. 89'	N/A	N/A	N/A	200
<p><b>Scheduling this equipment for delivery is subject to written confirmation of mutual agreement between Hillsdale County Railway Co., Inc. and Ite! Rail.</b></p>							

**ITEL CORPORATION, RAIL INTERMODAL HILLSDALE COUNTY RAILWAY CO., INC. DIVISION**

BY: *William S. Peterson*  
 TITLE: President  
 DATE: 4/5/79

BY: *John H. Marin*  
 TITLE: PRESIDENT  
 DATE: 12/26/78

STATE OF *District*  
COUNTY OF *Columbia*

On this *26<sup>th</sup>* day of *December*, before me personally appeared *John H. Marino* to me personally known, who being by me duly sworn says that such person is *PRESIDENT* of *Hillsdale County Railway Co., Inc.*, that the foregoing Equipment Schedule No. *3* was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

*Ann C. May*  
\_\_\_\_\_  
Notary Public  
My Commission Expires Nov. 30, 1981

STATE OF *California*  
COUNTY OF *San Francisco*

On this *9<sup>th</sup>* day of *April*, before me personally appeared *Allen J. Peterson* to me personally known, who being by me duly sworn says that such person is *PRESIDENT* of *Istel Corporation, Rail Division*, that the foregoing Equipment Schedule No. *3* was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of such corporation.

*Beverly Leong*  
\_\_\_\_\_  
Notary Public



RIDER NO. 1 to the flatcar Lease Agreement made as of December 19, 1978, between ITEL CORPORATION, RAIL INTERMODAL DIVISION and HILLSDALE COUNTY RAILWAY CO., INC.

Section 13, Miscellaneous, is hereby amended by adding the following (Section 13H and 13I):

"H. Lessee and Lessor agree that this Lease Agreement will result in no liability for Payments on the part of the State of Michigan or the State of Indiana."

"I. Appendix A is hereby incorporated in this lease with the same effect as if written herein."

ITEL CORPORATION  
RAIL INTERMODAL DIVISION

HILLSDALE COUNTY RAILWAY  
CO., INC.

By: \_\_\_\_\_

*Bill J. Peters*

By: \_\_\_\_\_

*John H. Merino*

Title: \_\_\_\_\_

~~4/9/78~~ President

Title: \_\_\_\_\_

PRESIDENT

Date: \_\_\_\_\_

4/9/79

Date: \_\_\_\_\_

5/9/79

APPENDIX A to flatcar Lease Agreement dated December 19, 1978, between ITEL CORPORATION, RAIL INTERMODAL DIVISION and HILLSDALE COUNTY RAILWAY CO., INC.

April, 1977

PROHIBITION OF DISCRIMINATION IN STATE CONTRACTS

In connection with the performance of work under this contract; the contractor agrees as follows:

1. In accordance with Act No. 453, Public Acts of 1976, the contractor hereby agrees not to discriminate against an employee or applicant for employment with respect to hire, tenure, terms, conditions, or privileges of employment, or a matter directly or indirectly related to employment, because of race, color, religion, national origin, age, sex, height, weight, or marital status. Breach of this covenant may be regarded as a material breach of this contract.
2. The contractor hereby agrees that any and all subcontracts to this contract, whereby a portion of the work set forth in this contract is to be performed, shall contain a covenant the same as hereinbefore set forth in Section 1 of this Appendix.
3. The contractor will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin, age, sex, height, weight or marital status. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer, recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.
4. The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, age, sex, height, weight or marital status.
5. The contractor or his collective bargaining representative will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice advising the said labor union or workers' representative of the contractor's commitments under this appendix.
6. The contractor will comply with all relevant published rules, regulations, directives, and orders of the Michigan Civil Rights Commission which may be in effect prior to the taking of bids for any individual state project.
7. The contractor will furnish and file compliance reports within such time and upon such forms as provided by the Michigan Civil Rights Commission, said forms may also elicit information as to the practices, policies, program, and employment statistics of each subcontractor as well as the contractor himself, and said contractor will permit access to his books, records, and accounts by the Michigan Civil Rights Commission, and/or its agent, for purposes of investigation to ascertain compliance with this contract and relevant with rules, regulations, and orders of the Michigan Civil Rights Commission.

8. In the event that the Civil Rights Commission\* finds, after a hearing held pursuant to its rules, that a contractor has not complied with the contractual obligations under this agreement, the Civil Rights Commission may, as part of its order based upon such findings, certify said findings to the Administrative Board of the State of Michigan, which Administrative Board may order the cancellation of the contract found to have been violated, and/or declare the contractor ineligible for future contracts with the state and its political and civil subdivisions, departments, and officers, and including the governing boards of institutions of higher education, until the contractor complies with said order of the Civil Rights Commission. Notice of said declaration of future ineligibility may be given to any or all of the persons with whom the contractor is declared ineligible to contract as a contracting party in future contracts. In any case before the Civil Rights Commission in which cancellation of an existing contract is a possibility, the contracting agency shall be notified of such possible remedy and shall be given the option by the Civil Rights Commission to participate in such proceedings.
9. The contractor will include, or incorporate by reference, the provisions of the foregoing paragraphs (1) through (8) in every subcontract or purchase order unless exempted by the rules, regulations or orders of the Michigan Civil Rights Commission, and will provide in every subcontract or purchase order that said provisions will be binding upon each subcontractor or seller.

STATE OF MICHIGAN  
COUNTY OF HILLSDALE

On this 9<sup>th</sup> day of MAY, 1979, before me personally appeared JOHN MARINO to me personally known, who being by me duly sworn says that such person is PRESIDENT of HILLSDALE COUNTY RAILWAY CO. INC., that the foregoing ~~Equipment Schedule~~ No. 1 ... was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Judith L. Mosley  
Notary Public

STATE OF California  
COUNTY OF San Francisco

On this 9<sup>th</sup> day of April, before me personally appeared Allen P. Peterson to me personally known, who being by me duly sworn says that such person is PRESIDENT of ITEL Corporation, Rail Division, that the foregoing ~~Equipment Schedule~~ No. 1 ... was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of such corporation.

Beverly Leong  
Notary Public



Rider No. 2 to the Flatcar Lease Agreement made as of December 19, 1978 between Itel Corporation, Rail Intermodal Division and Hillsdale County Railway Co., Inc.

Section 6E is deleted in its entirety and is replaced with the following:

"E. Subsequent to the Initial Loading, if any Car remains on Lessee's railroad tracks for more than seven (7) consecutive days, excluding those days such Cars are undergoing servicing, repair or alteration as provided for in Section 5 unless the same was occasioned by the fault of Lessee; Itel Rail may, at its option and upon not less than twenty-four (24) hours prior written notice, terminate this Agreement as to such Car and withdraw such Car from Lessee's railroad tracks. If any such Car remains on Lessee's railroad tracks more than seven (7) consecutive days because Lessee has not given preference to the Cars as specified in Section 3B, Lessee shall be liable for and remit to Itel Rail an amount equal to the Payments Lessee would have earned if such Cars were in the physical possession and use of another railroad for the entire period. If any such Car remains on Lessee's railroad tracks more than seven (7) consecutive days due to insufficient outbound loadings by Lessee, Itel Rail may, at its option, move such Car to the nearest offline location for loading. Any expense incurred to move such Car to the nearest offline location for loading shall be deducted from monies received by Lessee pursuant to Section 6A(ii). Itel Rail shall be liable for such expense after deducting monies that Lessee otherwise would have received pursuant to Section 6A(ii). If Itel Rail moves a Car or Cars from one railroad line to another for reasons other than those described above or in Section 3A or at the request of Lessee, Itel Rail shall be liable for any expense incurred, provided, however, that such move is a move during which no per diem or mileage is earned on the Car or Cars."

ITEL CORPORATION  
RAIL INTERMODAL DIVISION

By: Bill S. Petersen  
Title: 5/23/79  
Date: President

HILLSDALE COUNTY RAILWAY  
CO., INC.

By: John A. Marino  
Title: PRESIDENT  
Date: 5/9/79

STATE OF MICHIGAN  
COUNTY OF HILLSDALE

On this 9<sup>th</sup> day of MAY, 1979, before me personally appeared JOHN H. MARINO, to me personally known, who being by me duly sworn says that such person is PRESIDENT of HILLSDALE COUNTY RAILWAY CO., INC., that the foregoing EQUIPMENT SCHEDULE No. 2 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Judith L. Mosley  
Notary Public

STATE OF California  
COUNTY OF San Francisco

On this 2nd day of May, before me personally appeared Keley A. Peterson, to me personally known, who being by me duly sworn says that such person is PRESIDENT of Itel Corporation, Rail Division, that the foregoing EQUIPMENT SCHEDULE No. 2 was signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instrument was the free act and deed of such corporation.

Beverly Leong  
Notary Public



**Interstate Commerce Commission**  
Washington, D.C. 20423

10/19/79

OFFICE OF THE SECRETARY

Paul Willard  
Itel Corp.  
Two Embarcadero Center  
San Francisco, Calif. 94111

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 10/19/79 at 3:55pm, and assigned re-  
recording number(s). 10464-B

Sincerely yours,

*Agatha L. Mergenovich*  
Agatha L. Mergenovich  
Secretary

Enclosure(s)

**Interstate Commerce Commission**  
**Washington, D.C. 20423**

6/11/79

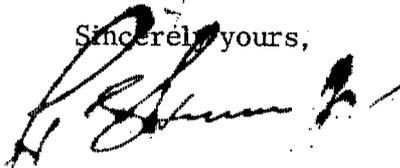
**OFFICE OF THE SECRETARY**

**Paul Willard**  
**Itel Corporation**  
**Two Embarcadero Center**  
**San Francisco, Calif. 94111**

Dear  
**Sir:**

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on **6/11/79** at **11:20am**, and assigned recordation number(s). **10464**

Sincerely yours,



**H. G. Homme, Jr.**  
**Secretary**

Enclosure(s)

SE-30  
(3/79)