

ITEL

Rail Lease Division

Two Embarcadero Center
San Francisco, California 94111
(415) 955-0123
Telex 34234

9-173A031

June 13, 1979

Honorable H.G. Homme
Secretary
Interstate Commerce Commission
Washington, DC 20423

RECORDATION NO. **10533** Filed 1425

JUN 22 1979 - 12 55 PM

INTERSTATE COMMERCE COMMISSION

JUN 22 1979

50.00

Washington, D.C.

Dear Sir:

Enclosed for filing with and recording by the Interstate Commerce Commission is the original, three counterparts and two photocopies of a Lease Agreement dated as of April 24, 1979 between Itel Corporation, acting through its Rail Division, Two Embarcadero Center, San Francisco, California, 94111 and City of Prineville Railway, Prineville, Oregon, 97754, covering the following railroad equipment:

200, 50'6" XM boxcars with nailable steel floor and offset 16' double doors, bearing the identifying numbers COP 7601-COP 7800, both inclusive.

Identifying marks on all of the foregoing equipment: The words "OWNER-SHIP 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., payable to the Interstate Commerce Commission, being the prescribed fee for filing and recording the foregoing document.

Please return all copies of the enclosed counterparts 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
Counsel

enclosures

PW/ac

FEE OPERATION BR.
I.C.C.

JUN 22 12 49 PM '79

RECEIVED

Handwritten notes on the left margin:
D. Schwartz
David Schwartz
D. Schwartz

Interstate Commerce Commission
Washington, D.C. 20423

6/22/79

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 **6/22/79** at **12:55pm** and assigned recordation number(s). **10533**

Sincerely yours,

H. G. Homme, Jr.
Secretary

Enclosure(s)

SE-30
(3/79)

LEASE AGREEMENT

JUN 22 1979 - 12 55 PM

THIS LEASE AGREEMENT, made as of this 24 day of April, 1979, between **ITEL CORPORATION, RAIL DIVISION**, a Delaware corporation, acting through its Rail Lease Division, Two Embarcadero Center, San Francisco, California, 94111 ("Itel Rail"), as Lessor, and **CITY OF PRINEVILLE RAILWAY**, an Oregon corporation ("Lessee"), as Lessee.

INTERSTATE COMMERCE COMMISSION

1. Scope of Agreement

A. Itel Rail agrees to lease to Lessee, and Lessee agrees to lease from Itel Rail, freight cars of the type and description set forth in any equipment schedules (hereafter "Schedules") executed by the parties concurrently herewith and made a part of this Agreement. The scheduled items of equipment are hereinafter referred to as the "Car" or "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. Both parties agree that they 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 Term.

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 (one for each different type of Car on each Schedule) 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 Car 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. 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 which in any event will be 31 days after the acceptance by Itel Rail at the manufacturer (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.

B. 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. 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 to shippers on its railroad tracks.

C. 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 87.5 percent 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 delivered to Lessee.

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 including an application for relief from AAR Car Service Rules 1 and 2; (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. Itel Rail shall, on behalf of Lessee, 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. Correspondence from railroads using such Cars shall be addressed to Lessee at such address as Itel Rail shall select.

D. All record keeping performed by Itel Rail hereunder and all record of payments, charges and correspondence related to the Cars shall be separately recorded and maintained by Itel Rail in a form suitable for reasonable inspection by Lessee from time to time during regular Itel Rail 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 while such Car is in the physical possession of Lessee. Itel Rail will pay for any off-line storage charges resulting from excessive returns of the Cars to Lessee's railway. In any event, the off-line storage charges paid by Itel Rail shall be reimbursed to Itel Rail by lessee through retention by Itel Rail of any revenues earned by lessee pursuant to subsection 6A (ii). 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. Lessee hereby transfers and assigns to Itel Rail for and during the lease term of each Car all of its right, title and interest in any warranty in respect to the Cars. All claims or actions on any warranty so assigned shall be made and prosecuted by Itel Rail at its sole expense and Lessee shall have no obligation to make any claim on such warranty. Any recovery under such warranty shall be payable solely to Itel Rail.

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.

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) Itel Rail shall receive all payments paid to Lessee by other railroad companies for their use or handling of the Cars, including but not limited to mileage charges, straight car hire payments and incentive car hire payments (all of which payments made to Lessee are hereinafter collectively referred to as "Payments") if such Payments for all of the Cars delivered to Lessee on an aggregate basis for each calendar year shall be equal to or less than 86 percent of the Base Payment. For the purposes of the Agreement, Base Payment (including Mileage Revenue as defined below) shall be defined as an amount equal to 86 percent of the Payments which would have been paid to Lessee by other railroad companies if the Utilization (as defined below) had been 100 percent. For the purposes hereof, Mileage Revenue shall be an amount equal to the current applicable charge per line-haul mile specified in the Code of Car Hire Rules and Interpretations-Freight, multiplied by 65 multiplied by the number of Cars then subject to the Agreement. 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 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. In addition, Itel Rail will receive, as additional rental, all monies earned by the Cars prior to their Initial Loading.

(ii) In the event Payments exceed Base Payment in any calendar year and Utilization is 98 percent or less, Itel Rail shall receive an amount equal to the Base Payment. In the event Utilization exceeds 98 percent in any calendar year Itel Rail shall receive an amount equal to Base Payment plus an amount equal to one-half of Payments in excess of an amount equal to 98 percent of Payments if Utilization had been 100 percent.

(The above determination of Itel Rail Base Payment insures that Lessee will, if Utilization is greater than 86 percent and less than 98 percent in any calendar year, receive all the the Payments made by other railroads for use or handling of the Cars in excess of the Itel Rail Base Payment. The lessee will receive one-half of payments in excess of 98 percent Utilization.)

(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) incentive car hire payments; (2) straight car hire payments; (3) mileage charges; and (4) 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, Itel Rail shall prior to making such calculations, retain the payments received by it on behalf of Lessee. Further, since the parties desire to determine on a quarterly basis the approximate amount of the rental charges due Itel Rail, Itel Rail shall within three (3) months after the end of each calendar quarter, calculate on a quarterly basis the amount due it pursuant to this section. Any amounts payable pursuant to the preceding sentence shall be paid promptly following such calculation, provided, however, that following the yearly calculation, any amount paid to either party in excess of the amounts required by the yearly calculation shall be promptly refunded to the appropriate party.

C. If at any time during a calendar quarter, the number of days that the Cars have not earned car hire payments is such as to make it mathematically certain that the Utilization in such calendar quarter cannot be equal to or greater than 87.5 percent, Itel Rail may, at its option and upon not less than 10 days prior written notice to Lessee, terminate this Agreement as to such Cars as Itel Rail shall determine.

D. Itel Rail may, at its option, terminate this Agreement if the ICC shall, at any time (1) issue an order reducing incentive car hire for Cars on an annual basis to three months or less without a corresponding increase in straight car hire or other monies available to both Itel Rail and Lessee at least equal in amount to such reduction, (2) determine that Lessee may not apply its incentive car hire receipts in payment of the rental charges set forth in this section or (3) 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 (or are being stored on the tracks of another railroad 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. Despite any provision herein to the contrary, fifty percent (50%) of any and all demurrage received by Itel will be paid to the Lessee.

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.

(vii) Failure of the Lessee to appropriate requisite funds for the operation of its railroad line during any fiscal year provided (1) Lessee has timely and properly requested and pursued the appropriation of such funds as would permit Lessee to comply with the terms and conditions of this Agreement during the period to which such appropriation would apply, (2) such appropriation has, after all available appeals and reviews, been fully and finally denied or rejected, (3) no other funds are legally available to Lessee to enable it to comply with the terms and conditions of this Agreement and (4) Lessee has given ITEL Rail written notice of the foregoing, which notice shall certify that funds have not been appropriated and that Lessee has no present intention of making or requesting such appropriation. The foregoing, however, shall not constitute an event of default if any agency or entity affiliated with Lessee's railroad line shall, within six months after the end of such fiscal year, make such an appropriation or have commenced or assumed the performance of services using Cars similar to that leased by Lessee under this Agreement.

B. Upon the occurrence of any event of default, except as provided in subsection 8A(vii) above, ITEL Rail may, at its option, terminate this Agreement for all or for such Cars as ITEL Rail shall determine (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.

C. Upon the occurrence of an event of default described in the first sentence of subsection 8A(vii), ITEL Rail may terminate this Agreement and its sole remedy shall be to proceed in accordance with subsection 8B(ii) above.

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.

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 fact which Lessee has not disclosed to Itel Rail in writing, 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.

(v) Lessee has not during the years 1964-1968 built, leased, purchased or nonequity leased new boxcars or rebuilt any boxcars.

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. Except where it is contradictory to Section 7 and in the absence of default of Lessee, there will be mutual agreement as to the Itel Rail Assignee if any and said consent shall not be unreasonably withheld by Lessee.

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 Oregon.

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.

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

ITEL CORPORATION, RAIL DIVISION

CITY OF PRINEVILLE RAILWAY

By: *Arnold K. Kaden*

By: *(Signature)*
ARNOLD EVANS

Title: *President*

Title: City Administrator

Date: *June 12, 1979*

Date: April 24, 1979

EQUIPMENT SCHEDULE No. 1

Itel Corporation, Rail Division hereby leases the following Cars to City of Prineville Railway subject to the terms and conditions of that certain Lease Agreement dated as of April 24, 1979.

| A.A.R. Mech. Desig. | Description | Numbers | Dimensions | | | Doors Width | No. of Cars |
|---------------------------|--|-----------------|------------|-----------------|--------|------------------------|-------------------|
| | | | Length | Inside Width | Height | | |
| XM | Box, Stl., Nail-able Steel Floor, Standard Plate C, Offset Doors | COP7601-COP7800 | 50'6" | 9'6" | 11'0" | 16' Double Doors | 200 |

ITEL CORPORATION, RAIL DIVISION
 BY: *Arnold Evans*
 TITLE: President
 DATE: June 12, 1979

CITY OF PRINEVILLE RAILWAY
 BY: *Arnold Evans*
 TITLE: City Administrator
 DATE: April 24, 1979

STATE OF OREGON }
COUNTY OF Crook }

On this 24 day of April, 1979, before me personally appeared Arnold Evans, to me personally known, who being by me duly sworn says that such person is City Admr. of City of Prineville, that the foregoing Lease Agreement and 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.

James W. Powers
James W. Powers Notary Public for Oregon
My commission expires 5/6/80

STATE OF *California* }
COUNTY OF *San Francisco* }

On this *30* day of *June*, before me personally appeared *Richard C. Kinkhorst* to me personally known, who being by me duly sworn says that such person is *President* of ITEL Corporation, Rail Division, that the foregoing Lease Agreement and 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

