

RECORDATION NO.

7640-A

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SALE AGREEMENT

INTERSTATE COMMERCE COMMISSION

AGREEMENT made as of this 29th day of August, 1974, by and between PRECISION NATIONAL LEASING CORPORATION ("Precision") and CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY ("Rock Island").

W I T N E S S E T H:

WHEREAS, Precision desires to purchase from Rock Island, and Rock Island desires to sell to Precision, 80 diesel electric locomotives (the "Locomotives") shown as Item 1 in Exhibit A, annexed hereto, all upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, Precision and Rock Island mutually agree as follows:

1. Purchase. Precision hereby agrees to purchase the Locomotives, and Rock Island hereby agrees to sell the Locomotives to Precision, at the price and upon all of the terms and conditions hereinafter set forth.

2. Condition. Rock Island warrants and represents that the Locomotives are in operating condition under Interstate Commerce Commission ("ICC") rules and regulations for movement under their own power in interchange traffic, complete in all parts, and that the same will be true as of the Closing (as hereinafter defined).

3. Title. Rock Island warrants and represents to Precision that at the Closing it will be the owner of the Locomotives free and clear

of any and all claims, liens, debts, leases, title defects, encumbrances, security interests, taxes, costs and expenses of any kind whatsoever.

4. Additional Covenants, Representations and Warranties. Rock Island covenants, represents and warrants that:

(a) It is a corporation duly organized, validly existing and in good standing under the laws of Delaware and has full corporate power and authority to own the properties and to conduct the business which it owns and conducts, and is duly qualified to do business and is in good standing in each jurisdiction where the ownership of its property or the conduct of its business requires such qualification.

(b) The execution and delivery of this Sale Agreement and the consummation of the transactions contemplated hereby will not violate any provision of Rock Island's certificate of incorporation or by-laws, any provision of applicable law, or any provision of, or result in the acceleration of any obligation under, any mortgage, lien, lease, agreement, instrument, order, arbitration, award, judgment or decree to which the Rock Island or any of its subsidiaries is a party or by which the Rock Island or any of its subsidiaries are bound, and do not require the approval of any public regulatory authority or body.

(c) The Board of Directors of the Rock Island have duly taken all action required by law, its certificate of incorporation and by-laws and otherwise, to authorize and approve the

execution and delivery of this Sale Agreement and the transactions contemplated hereby. This Sale Agreement is a valid and binding agreement in accordance with its terms.

(d) There are no legal proceedings or governmental proceedings pending and Rock Island has no knowledge of any threatened proceedings which would prevent or interfere with the consummation of the transactions contemplated by this Sale Agreement.

(e) Neither the Rock Island nor any of its subsidiaries are parties to or subject to any order, judgment or decree entered in any proceeding brought by a U.S. governmental agency enjoining them in respect of any business practice or the acquisition or disposition or sale of any property.

(f) To its knowledge Rock Island and its subsidiaries have complied with all laws, regulations or orders, and the Rock Island and its subsidiaries have received no notice of any claimed violations of any laws, regulations or orders applicable to their businesses, assets and liabilities, the violation of which would have a material adverse effect on the financial condition or operations of the Rock Island and its subsidiaries or the right of any of them to carry on a material segment of their respective businesses.

5. Price. The purchase price for each Locomotive purchased hereunder is \$75,000.

6. Closing. This transaction shall be closed at the office of O. L. Houts, 139 West Van Buren Street, 10th Floor, Chicago, Illinois, at 11:00 A.M. on the *10<sup>th</sup>* day of *September*, 1974 ("Closing"). At the Closing Rock Island shall deliver to Precision (or cause to be delivered to Precision) the following:

(a) an executed Bill of Sale in the form annexed hereto as Exhibit B;

(b) an executed lease ("Lease") covering the Locomotives in the form annexed hereto as Exhibit C; and

(c) all items required to be delivered pursuant to Paragraph 7 hereof.

At the Closing Precision shall deliver to Rock Island a certified or cashier's check payable to the Rock Island in the amount of \$6,000,000.

7. Conditions to Precision's Obligations. All obligations of Precision under this Sale Agreement are subject to the following conditions, all of which Rock Island agrees to cause to occur on or before the Closing:

(a) All representations and warranties of Rock Island contained in this Sale Agreement shall have been true when made and shall be true at and as of the Closing as if such representations and warranties were made at and as of the Closing, and the Rock Island shall have performed all agreements and covenants required by this Sale Agreement to be performed by them prior to or at the Closing.

(b) Good and marketable title to the Locomotives shall have been conveyed, transferred, assigned and delivered to Precision as of the Closing, free and clear of all liens, claims, encumbrances or other rights of any kind whatsoever, other than the Lease described in Subparagraph 7(c)(vii).

(c) Precision shall have received an opinion, dated the Closing of Messrs. Kirkland & Ellis, counsel for the Rock Island, to the effect that:

(i) Rock Island is a corporation duly organized and validly existing and in good standing under the laws of the state of its incorporation having corporate power to carry on its business as then being conducted;

(ii) the Rock Island has full power and authority to sell, convey, assign, transfer and deliver the Locomotives as provided in this Sale Agreement;

(iii) this Sale Agreement has been duly authorized, executed and delivered by the Rock Island and constitutes a valid and binding agreement in accordance with its terms;

(iv) all necessary corporate action on the part of Rock Island to authorize and approve this Sale Agreement and the transactions contemplated hereby has been duly and validly taken;

(v) neither this Sale Agreement nor any actions required hereby require the approval of any governmental authority or body (U.S. or foreign);

(vi) Precision has received all the right, title and interest in and to the Locomotives in accordance with the terms of this Sale Agreement, free and clear of all liens, claims, encumbrances or rights of any kind whatsoever, other than the Lease described in Subparagraph 7(c)(vii);

(vii) the Lease of the Locomotives made and delivered pursuant to this Sale Agreement constitutes a legal, valid and binding obligation of the Rock Island and is enforceable in accordance with its terms;

(viii) no recording, filing or depositing of the Lease is necessary to preserve or perfect the title of Precision,

except a filing with the ICC pursuant to Section 20c of the Interstate Commerce Act;

(ix) a proper filing with the ICC pursuant to Section 20c of the Interstate Commerce Act has been made, and, therefore, Precision's interest in the Locomotives leased to Rock Island is free and clear of all liens, claims, encumbrances or rights of any kind whatsoever of anyone claiming by, through or under Rock Island;

(x) the execution and delivery of this Sale Agreement, and the consummation of the transactions contemplated hereby will not violate any provision of the Certificate of Incorporation or By-Laws of Rock Island or the Articles of Incorporation or By-Laws of any of its subsidiaries, or any provision of, or result in the acceleration of any obligation under, any mortgage, lien, lease, agreement, instrument, order, arbitration award, judgment or decree to which the Rock Island or any of its subsidiaries is a party or by which any of them is bound;

(xi) they are familiar with the terms of the Agreement of Merger between the Rock Island and the Union Pacific Railroad Company, dated June 1, 1964, (which Agreement is pending before and subject to approval of the ICC); that if such merger agreement is consummated, this Sale Agreement and the Lease will, without further action by the parties, be and become fully binding obligations of the surviving corporation under such merger;

(xii) that the Rock Island is not presently a party to any Agreement for Merger, consolidation or like combination other than that specifically referred to in subparagraph (xi).

Such opinion will also contain a statement that based upon its investigations such counsel knows of no suit or proceeding pending or threatened against or affecting the Rock Island or any of its subsidiaries of such a nature to prevent the sale and lease of the Locomotives pursuant to this Sale Agreement.

(d) Rock Island shall have furnished Precision with:

(i) a certified copy of a resolution or resolutions duly adopted by the Board of Directors of the Rock Island

approving this Sale Agreement and authorizing the execution and delivery of this Sale Agreement, the Lease and such other matters as may be necessary or appropriate to carry out the transactions contemplated by this Sale Agreement; and

(ii) a certificate of the Chairman or the President of the Rock Island certifying that all representations and warranties of the Rock Island contained in this Sale Agreement were true when made and continue to be true at and as of the Closing.

(e) this Sale Agreement and the Lease shall have been filed in accordance with Section 20c of the Interstate Commerce Act.

(f) Rock Island will have caused each of the Locomotives to be kept numbered with its identifying number as set forth in Appendix 1 to Exhibit A, and will have placed (and will keep and maintain) plainly, distinctly, permanently and conspicuously marked on each side of each unit, in letters not less than one inch in height, the words: "Property of Precision National Leasing Corporation," or other appropriate words designated by Precision, and will cause appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect Precision's interest in the Locomotives and its rights under this Sale Agreement and the Lease. Rock Island will not permit any such unit to be placed in operation or exercise any control or dominion over the same until such markings shall have been made thereon and will replace or will cause to be replaced promptly any such markings which may be removed, defaced or destroyed. Rock Island will not permit the identifying number of any Loco-

motive to be changed except in accordance with a statement of new number or numbers to be substituted therefor, which statement previously shall have been filed with Precision and filed, recorded, registered and deposited by Rock Island in all public offices where the Lease shall have been filed, recorded, registered and deposited.

Except as provided in the immediately preceding paragraph, the Rock Island will not allow the name of any person, association or corporation to be placed on any of the Locomotives as a designation that might be interpreted as a claim of ownership; provided, however, that the Locomotives may be lettered with the names or initials or other insignia customarily used by Rock Island.

(g) Rock Island agrees to deliver to Precision such certificates and other items as Precision may reasonably request.

8. Termination of Sale Agreement. If any condition specified in Paragraph 6 or Paragraph 7 is not satisfied and such condition is not waived by Precision at or prior to the Closing, Precision may:

(a) terminate this Sale Agreement on the day of Closing by notice to Rock Island; or

(b) cause the Rock Island to specifically perform.

Precision shall also retain all other remedies provided by law, such as the right to pursue the Rock Island for damages.

9. Survival of Covenants, Representations, Warranties and Agreements. All representations, warranties, covenants and agreements made in or pursuant to this Sale Agreement shall survive the Closing.

10. Lease. Contemporaneously with the purchase of the Locomotives, Precision agrees to lease such Locomotives to Rock Island upon such rental, terms and conditions as specified in the Lease. The Lease shall be in the form annexed hereto as Exhibit C.

11. Repurchase Agreement. At the time reconstruction work is to be performed on a Locomotive pursuant to the terms of the Lease, Precision shall determine in its sole discretion whether or not the Locomotive is in a condition for reconstruction at least equivalent to the condition specified in Paragraph 2 hereof. If Precision determines that a Locomotive is not in such condition for reconstruction, Rock Island agrees to either correct the defects or deliver to Precision a substitute Locomotive (of the same type being rejected) satisfactory to Precision. At the time of delivery of a substitute Locomotive, Rock Island agrees to deliver to Precision all of the documents and items set forth in Paragraphs 6 and 7 as well as an amendment to the Lease in form satisfactory to Precision or its counsel, which amendment shall include said substituted Locomotive among those covered by the Lease and delete therefrom the Locomotive for which it is substituted. Precision shall thereupon reconvey to Rock Island title to the Locomotive which Precision has elected not to accept for reconstruction.

12. Option. Rock Island grants to Precision an option to purchase an additional 40 diesel electric locomotives (the "Option Locomotives") shown as Item 2 in Exhibit A, annexed hereto, upon all of the terms and conditions herein set forth ("Option"). The Option, if exercised, shall be exercised by service of written notice from Precision to Rock Island on or before November 1, 1974. Provided the Option is exercised, the closing of the sale and lease of the Option Locomotives shall occur on December 3, 1974, at which time Rock Island will satisfy all of the terms and conditions of Paragraphs 6 and 7 of this Sale Agreement with respect to the Option Locomotives.

13. Taxes. All payments to be made by Precision hereunder will be free of expense to Precision with respect to the amount of any local, state, federal or foreign taxes (other than its own federal and state income taxes), license fees, assessments, charges, fines or penalties hereafter levied or imposed upon or in connection with or measured by this Sale Agreement, or any sale, rental, use, payment, shipment, delivery or transfer of title under the terms hereof (all such expenses, taxes, license fees, assessments, charges, fines and penalties being hereinafter called collectively "Impositions"), all of which Impositions Rock Island assumes and agrees to pay on demand. If any Imposition shall have been charged or levied against Precision directly and paid by Precision, the Rock Island shall reimburse Precision upon presentation of an invoice therefor.

15. Entire Agreement. This Sale Agreement (including Exhibits and Appendixes) completely states the rights and obligations of

the parties with respect to the sale, lease and repurchase of the Locomotives and supersedes all negotiations, writings or other agreements, whether written or oral; and this Sale Agreement may not be changed or terminated except by an agreement in writing.

15. Governing Law. All rights and obligations of the parties under this Agreement shall be governed by the laws of the State of Illinois, provided, however, that the parties shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act.

16. Assignment. The Rock Island shall not have the right to assign its rights or undertakings hereunder without the written consent of Precision.

17. Notices. Any notice or communication required or permitted hereunder shall be given in writing, by certified or registered mail, postage prepaid, deposited in the U.S. Mail and addressed as follows:

If to Precision:

Precision National Leasing Corporation  
908 Shawnee  
Mt. Vernon, Illinois 62864  
Attn: Raymond E. Jenkins

with a copy to:

Devoe, Shadur & Krupp  
208 South LaSalle Street  
Chicago, Illinois 60604

If to Rock Island:

Chicago, Rock Island and  
Pacific Railroad Company  
139 West Van Buren Street  
Chicago, Illinois 60605  
Attn: O. L. Houts

and such notice shall be deemed served on the date of its postmark.

18. Benefit. This Agreement shall inure to the benefit and be binding upon the parties hereto and their respective successors and permitted assigns.

IN WITNESS WHEREOF, Precision and Rock Island have caused this Agreement to be executed as of the day and year first above written.

PRECISION NATIONAL LEASING CORPORATION

By Frank Hall  
President

CHICAGO, ROCK ISLAND AND PACIFIC  
RAILROAD COMPANY

By D. E. Alesch  
Chairman

Seal  
ATTEST:  
Dee Baize  
Secretary

ATTEST:  
E. F. Wilkinson  
Secretary

STATE OF ILLINOIS )  
COUNTY OF Cook ) SS.

On this 4<sup>th</sup> day of ~~August~~ September, 1974, before me personally appeared Frank Hall, to me personally known, who being by me duly sworn, says that he is \_\_\_\_\_ President of the Precision National Leasing Corporation, and Jois Baize, to me personally known to be the \_\_\_\_\_ Secretary of said corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Reva Schick Emow  
Notary Public

STATE OF ILLINOIS )  
COUNTY OF Cook ) SS.

On this 4<sup>th</sup> day of ~~August~~ September, 1974, before me personally appeared T. E. Desch, to me personally known, who being by me duly sworn, says that he is the Chairman of Chicago, Rock Island and Pacific Railroad Company, and E. F. Wilkinson, to me personally known to be the \_\_\_\_\_ Secretary of said corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on

behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

*Rosa Schechtman*  
Notary Public

EXHIBIT A

1. 70 GP-7 and 10 GP-9 diesel electric locomotives ("Locomotives") bearing the following numbers and markings:

See Appendix 1.

2. 40 GP-7 diesel electric locomotives ("Option Locomotives") bearing the following numbers and markings:

See Appendix 2.

EXHIBIT A

APPENDIX 1

RI 430	RI 1221	RI 1266	RI 4200
431	1223	1271	4201
432	1225	1276	4202
433	1228	1278	4203
436	1229	1280	4204
<u>441</u>	1230	1281	4205
1200	1231	1283	4206
1202	1232	1285	4207
1205	1233	1289	4208
1206	1234	1291	4209
1209	1235	1293	1312
1210	1236	1296	1313
1211	1237	1297	1314
1212	1251	<u>1299</u>	1315
1213	1253	1302	1316
1215	1254	1303	1317
1217	1257	1305	1318
1218	1258	1307	1319
1219	1261	1308	1320
1220	1263	1311	1322

EXHIBIT B

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS THAT CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY ("Rock Island"), a Delaware corporation, in consideration of the sum of \$1.00 and other good and valuable consideration, receipt of which is hereby acknowledged, does hereby bargain, sell, convey, transfer and set over unto PRECISION NATIONAL LEASING CORPORATION ("Precision"), its successors and assigns, all of those certain diesel electric locomotives which bear Rock Island numbers set forth in the attached Exhibit A.

Rock Island, for itself, its successors and assigns, does hereby covenant that it is the lawful owner of the locomotives covered by this Bill of Sale and that it has good, right and lawful authority to sell same, and warrants that the locomotives sold and transferred to Precision by this instrument are free and clear of all liens, claims, debts, encumbrances, title defects, leases, and security interests of any kind whatsoever (except that certain lease dated as of August 29, 1974, covering said locomotives by and between Precision as lessor and Rock Island as lessee) and Rock Island will defend Precision against the claims and demands of all persons and will indemnify, protect and save harmless Precision, from all claims, demands, damages (including royalties), expenses and judgments (including court costs, attorneys' fees and expenses) in any way arising out of or on account of the



EXHIBIT "C"

L E A S E

This Lease made and entered into as of this 29th day of August, 1974, between PRECISION NATIONAL LEASING CORPORATION, a Delaware corporation, (hereinafter called "Precision"), and CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY, a Delaware corporation, (hereinafter called "Lessee").

W I T N E S S E T H:

WHEREAS, Lessee desires to lease from Precision as Lessor certain railroad locomotives, hereinafter specifically designated, all upon the rentals and terms and conditions set forth in this Lease;

NOW, THEREFORE, Precision and Lessee mutually agree as follows:

1. Lease of Locomotives. Precision agrees to lease to Lessee, and Lessee agrees to and does hereby lease from Precision, the railroad locomotives of the type, construction and such other description set forth in Exhibit A, annexed hereto ("Locomotives"). Lessee acknowledges that it has possession of all Locomotives and has accepted them for all purposes of this Lease.

2. Reconstruction of Locomotives - Condition of Locomotives - Acceptance - Delivery - Warranty.

(a) Precision and Lessee agree that all Locomotives subject to this Lease are to be reconstructed at Precision's cost

and expense in accordance with the specifications ("Specifications") annexed hereto as Exhibit B. It is contemplated that reconstruction work will be performed by Morrison-Knudsen Company, Inc., Boise, Idaho, on behalf of Precision; provided, however, in its discretion Precision may perform or cause others to perform such part or all of the reconstruction work as it shall determine.

(b) It is the desire of Precision and Lessee that seven (7) Locomotives be reconstructed during the remaining months of 1974 and that commencing in January 1975 approximately five (5) Locomotives be reconstructed each month until all the Locomotives have been reconstructed; provided, however, Precision shall not be in default under the Lease if it or its subcontractor or subcontractors shall be unable to meet the desired reconstruction schedule for any reason beyond their control, including but not limited to acts of God, acts of government such as embargoes, priorities and allocations, war or war conditions, riot or civil commotion, sabotage, strikes, differences with workmen, accidents, fire, flood, explosion, damage to plant equipment or facilities, delays in receiving necessary materials or delays of carriers or subcontractors.

(c) Lessee will deliver to Precision the first six (6) Locomotives for reconstruction on or before September 15, 1974. Upon the completion of reconstruction of each Locomotive, Lessee agrees to deliver to Precision another Locomotive for

reconstruction so that at all times there will be six (6) Locomotives in the process of reconstruction.

(d) Locomotives shall be delivered to Precision for reconstruction F.O.B. Lessee's tracks at such point on Lessee's tracks as Precision shall designate. Precision shall inspect all Locomotives delivered for reconstruction at the point of delivery, and Precision may in its sole discretion reject Locomotives which at the time of delivery for reconstruction do not meet the condition set forth in Paragraph 2 of the Sale Agreement, dated August 29, 1974, between Precision and Lessee ("Sale Agreement"), pursuant to which Precision purchased the Locomotives. Precision shall advise Lessee of the number and defective condition of any Locomotive not acceptable for reconstruction, and Lessee shall at its expense correct or cause to be corrected any defects in such Locomotive, or alternatively Lessee shall substitute another Locomotive in accordance with the provisions of the Sale Agreement. Precision shall issue a "Certificate of Inspection and Acceptance" in the form attached hereto as Exhibit C with respect to all Locomotives in condition satisfactory for reconstruction.

(e) Precision shall notify Lessee when reconstruction of a Locomotive has been completed. Lessee shall send an inspector to the place of reconstruction within two working days after receiving the aforesaid notice. Such inspector shall complete inspection within two working days after his arrival. If the inspector is satisfied with the reconstruction work, he will execute and deliver a Certificate of Inspection and Acceptance

in the form annexed hereto as Exhibit D. If Lessee's inspector does not accept the reconstructed Locomotive, he shall within the two working-day inspection period state to Precision in writing his reasons for rejection. If Precision agrees that the defect or defects exist, Precision shall forthwith cure such defect or defects, at which time Precision and Lessee shall again comply with the inspection provision of this Subparagraph 2(e). Lessee's acceptance of each Locomotive shall relieve Precision from any and all costs, liabilities or expense of any kind whatsoever incurred thereafter with respect to such Locomotive and Lessee shall be limited in making any claim against Precision to the specific warranty provided in Subparagraph 2(h). Concurrently with delivery of the Certificate of Inspection and Acceptance, Precision will deliver the reconstructed Locomotive (F.O.B. Lessee's tracks nearest to the point of reconstruction), and within the next seven days, Lessee will deliver another Locomotive for reconstruction

(f) Lessee shall have the right to have one or more representatives present from time to time during reconstruction work.

(g) Precision shall bear the expense of performing the reconstruction work. Rental payments on any Locomotive delivered to Precision for reconstruction shall abate from the date the Locomotive is inspected and accepted by Precision for reconstruction until delivery of the reconstructed Locomotive. There shall be no other period of, or reasons for, abatement at any time during the term of this Lease.

(h) Precision warrants, and agrees to repair or replace, any part or parts incorporated into the reconstructed Locomotive if such part or parts shall prove to be defective under normal use and maintenance during the Warranty Period (hereinafter defined). The "Warranty Period" is one (1) year or 100,000 miles, whichever shall first occur, beginning from the date of delivery of the reconstructed Locomotive; provided, however, equipment manufactured by parties other than Precision or its subcontractor or subcontractors shall be warranted only to the extent the suppliers of such equipment provide a warranty. Any warranty work shall be performed at such place as Precision shall designate with transportation charges to be prepaid by Lessee. Lessee agrees that the rental provided in Subparagraph 6(b) shall continue during the time when warranty work is being performed. THIS WARRANTY IS EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND SHALL BE IN LIEU OF ALL OTHER OBLIGATIONS OR LIABILITIES ON THE PART OF PRECISION. Precision shall not be liable to Lessee for any indirect, special or consequential damages resulting from any defects in material or workmanship.

3. Use and Possession. Throughout the continuance of this Lease, so long as Lessee is not in default hereunder, Lessee shall be entitled to possession of each Locomotive from the date the Lease becomes effective as to each Locomotive and may use such Locomotive,

(a) on its own property lines; and

(b) upon the lines of any railroad or other person, firm or corporation in the usual interchange of traffic for such compensation as Lessee may determine.

4. Term. This Lease shall be for a term (hereinafter referred to as the "Original Term") which shall commence on the date hereof and shall terminate as to each Locomotive 15 years from the date of delivery of the reconstructed Locomotive unless sooner terminated in accordance with the provisions of this Lease.

5. Option to Extend. Unless Lessee is in default under the provisions of this Lease, Lessee shall have an option to extend the term of this Lease upon the same terms and conditions as to all or any portion of the Locomotives then subject to this Lease by notifying Precision in writing not less than ninety (90) days and not more than six (6) months prior to the end of the original term. An extension pursuant to this option with respect to any Locomotive shall be for a period (hereinafter referred to as the "extended term") of one (1) year from the end of the original term and shall automatically continue from year to year thereafter without further act by either party until termination of this Lease with respect to such Locomotive:

(a) by written notice from Lessee to Precision 30 days prior to the last day of any year of such extended term stating that the Lease is cancelled as to such Locomotive as of the last day of such year; or

(b) by Precision on account of any default by the Lessee; or

(c) by Lessee as provided in Paragraph 6 hereof.

6. Rental. Lessee shall pay to Precision as rental for each Locomotive:

(a) From and including the Closing (as defined in the Sale Agreement) until the date a Locomotive is inspected and accepted for reconstruction work, the sum of \$75.00 per locomotive per day; and

(b) From and including the date of delivery of a reconstructed Locomotive, the sum of \$110.00 per locomotive per day until the end of the Original Term.

(c) During the extended term, from and including the first day following the end of the Original Term, an amount equal to the "fair rental value" (as defined).

The "fair rental value" shall be an amount mutually agreed upon by Precision and Lessee; provided that if Precision and Lessee are unable to agree upon the fair rental value of the Equipment within 30 days after receipt by Precision of the notice of Lessee's election to exercise the extension option, the fair rental value shall be determined by an appraiser selected by mutual agreement of Precision and Lessee. If Precision and Lessee are not able to agree upon an appraiser, or if the fair rental value is not so determined within 90 days after receipt

by Precision of Lessee's election to extend, the same shall be determined by American Appraisal Company. Upon the determination of the fair rental value as aforesaid, Lessee may at its option withdraw and rescind the election to extend the term.

Lessee shall make payment of all sums due hereunder to Precision at the address provided in Paragraph 23 hereof, or such other place as Precision may direct. Rental payments shall be made monthly in arrears on or before the last day of each month for which such rental is due. If the commencement date of the Lease is other than the first day of a month, the rental for the remaining days of the first month shall be paid on the last day of such month (provided, however, if the remaining days of the first month are ten (10) or less, the rental for such days may be paid at the end of the first complete month), and if the termination date of the Lease is not the last day of a month, the rental for the days from the first of such month to the termination date of the Lease shall be paid at the end of such month. Anything to the contrary herein contained notwithstanding, any nonpayment of rentals or other sum due hereunder, whether during the ten (10) day period within which a default may be cured or for a longer period, and whether or not deemed a default or violation of this Lease, shall result in the obligation on the part of the Lessee to pay also an amount equal to 1% per annum over the prime rate in effect at the First National Bank of Chicago at the time of such non-payment (or if such rate may not lawfully be charged, then the highest rate which may lawfully be charged) on the overdue rentals for the period of time during which they are overdue.

7. Net Lease. This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent (except as specifically herein provided), reduction thereof or set-off against rent, including, but not limited to, abatements, reductions or set-offs due or alleged to be due by reason of any past, present or future claims of the Lessee against Precision under this Lease; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of Precision or the Lessee be otherwise affected, by reason of any defect in or damage to or loss of possession or loss of use or destruction of all or any of the Locomotives from whatsoever cause, any liens, encumbrances or rights or others with respect to any of the Locomotives, the prohibition of or other restriction against the Lessee's use of all or any of the Locomotives, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, any insolvency of or the bankruptcy, reorganization or similar proceeding against the Lessee, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rent and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease. To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Locomotives except in accordance with

the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final, and the Lessee shall not seek to recover all or any part of such payment from Precision for any reason whatsoever.

8. Title - Liens. Lessee shall not by reason of this Lease or any action taken hereunder acquire or have any right or title in the Locomotives except the rights herein expressly granted to it as Lessee.

The Lessee, at its own expense, will promptly pay or discharge any and all sums claimed by any person which, if unpaid, might become a lien, charge, security interest or other encumbrance (other than an encumbrance created by Precision or resulting from claims against Precision not related to the ownership of the Locomotives but which are not Impositions as defined in Paragraph 11 hereof) on or with respect to any Locomotive, including any accession thereto, or the interest of Precision therein, and will promptly discharge any such lien, charge, security interest or other encumbrance which arises; provided, however, that the Lessee shall not be required to pay or discharge any such claim so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings in any reasonable manner and the non-payment thereof does not, in the opinion of Precision, adversely affect the title of Precision in or to the Locomotives or otherwise adversely affect its rights under this Lease; and provided further, that this covenant will not be breached by reason of the existence of liens for taxes, assessments or governmental charges or levies, in each case so long as not due and delinquent, or undetermined or inchoate materialmen's, mechanics', workmen's,

repairmen's or other like liens arising in the ordinary course of business and, in each case, not delinquent. Except as provided in Subparagraph 3(b), the Lessee shall not, without prior written consent of Precision, part with the possession or control of, or suffer or allow to pass out of their possession or control, any of the Locomotives.

9. Maintenance. Prior to reconstruction Lessee shall at its own cost and expense see that the Locomotives are and remain complete in all parts and in operating condition under Interstate Commerce Commission rules and regulations for movement under their own power in interchange traffic. Lessee shall, after reconstruction and during the continuance of this Lease, promptly and with due diligence, keep and maintain the Locomotives in normal working order and repair, and shall comply in all respects with all laws (including, without limitation, laws with respect to the use, maintenance and operation of the Locomotives) of the jurisdictions in which operations involving the Locomotives may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the United States Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Locomotives, to the extent that such laws and rules affect the title, operation or use of the Locomotives (and such Locomotives will be in the aforescribed condition at the time of delivery of the Locomotives to Precision upon the termination of the Lease); and in the event that such laws or rules require any alteration, replacement or addition of or to any part of any Locomotive, the Lessee will conform therewith at its own expense; provided, however,

that the Lessee may, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of Precision, adversely affect the property or rights of Precision.

Any and all additions to any Locomotive, and any and all parts installed on and additions and replacements made to any Locomotive, shall constitute accessions to such Locomotive and ownership thereof, free from any lien, charge, security interest or encumbrance (except for those created by this Lease), shall immediately be vested in Precision.

The Lessee agrees to prepare, deliver to Precision for execution within a reasonable time prior to the required date of filing and file (or, to the extent permissible, to prepare for and file on behalf of Precision directly) any and all reports (other than income tax return) to be filed by Precision with any federal, state or other regulatory authority by reason of the ownership by Precision of the Locomotives or the leasing thereof to the Lessee.

10. Indemnification. The Lessee agrees to indemnify, protect and hold harmless Precision from and against all losses, damages, injuries, liabilities, claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including counsel fees and expenses, patent liabilities, penalties and interest, arising out of or as the result of the entering into or the performance of this Lease, the ownership of any Locomotive, the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any Locomotive or any accident in connection with the operation, use, condition, possession, storage, sale

or return of any Locomotive resulting in damage to property or injury or death to any person. The indemnities arising under this paragraph shall continue in full force and effect notwithstanding the full payment of all obligations under this Lease or the termination of this Lease.

Precision agrees to indemnify, protect and hold harmless Lessee from and against all losses, damages, injuries, liabilities, claims, demands, expense (including counsel fees), penalties and interest arising solely out of events which might occur after Precision accepts a Locomotive for reconstruction and before such reconstructed Locomotive is delivered to Lessee. Precision also agrees to indemnify Lessee from and against patent liabilities with respect to new items placed upon a Locomotive during reconstruction (but this indemnification shall not apply with respect to items specially requested by Lessee).

11. Taxes. All payments to be made by the Lessee hereunder will be free of expense to Precision for collection or other charges and will be free of expense to Precision with respect to the amount of any local, state, federal or foreign taxes, license fees, assessments, charges, fines and penalties (all such expenses, taxes, license fees, assessments, charges, fines and penalties being hereinafter called collectively "Impositions") hereafter levied or imposed upon or in connection with or measured by this Lease or any sale, rental, use, payment, shipment, delivery or transfer of title to the Locomotives or otherwise under the terms hereof, all of which Impositions the Lessee assumes and agrees to pay on demand in addition to the

other payments to be made by it provided for herein; provided, that the foregoing agreement to pay Impositions shall not apply to the following, which shall not be deemed Impositions:

(a) federal income (including the minimum tax for tax preferences or any withholding tax) or other taxes, fees or charges imposed by the United States of America on, or based on or measured directly by, the net income of Precision, and, to the extent that Precision is entitled to or receives a credit or a deduction with respect to any such tax, fee or charge, any foreign income tax, fee or charge;

(b) federal income or other taxes, fees or charges on, or based on or measured directly by, the net income of Precision imposed by the United States of America (i) in addition to, or (ii) in whole or in part in lieu of, or as a substitute or alternate for, any tax, fee or charge described in clause (a) above, but not to exceed any tax on net income that would otherwise be imposed pursuant to clause (a) above;

(c) state and local taxes imposed on Precision which are (i) taxes on engaging in business activities, employing capital or doing business or the privilege of doing business (whether or not imposed on, or based on or measured directly by, net income) or (ii) imposed in whole or in part in lieu of, or as a substitute or alternate for, a tax described in subclause (c)(i), but as to both subclauses (c)(i) and (c)(ii) not to exceed such state and local taxes as are either (a') imposed by

the jurisdiction in which the principal office of Precision is located and any other jurisdiction in which Precision is subject to taxation as the result of business, transactions or facts unrelated to this Lease or (b') if imposed by jurisdictions other than those described in subclause (a'), result in a reduction of Precision's liability for such taxes in any of the jurisdictions described in subclause (a');

(d) any taxes, fees or other charges incurred by reason of any transfer by Precision of any interest in the Locomotives or any of them other than pursuant to this Lease; or

(e) any capital levy or estate, succession or inheritance taxes.

The Lessee will also pay promptly all Impositions which may be imposed upon any Locomotive or for the use or operation thereof or upon the earnings arising therefrom (except as provided above) or upon Precision solely by reason of its ownership thereof and will keep at all times all and every part of each Locomotive free and clear of all Impositions which might in any way affect the title of Precision or result in a lien upon any such Locomotive; provided, however, that the Lessee shall be under no obligation to pay any Imposition so long as they are contesting in good faith and by appropriate legal proceedings such Imposition and the non-payment thereof does not, in the opinion of Precision, adversely affect the title, property or rights of, in or to the Locomotives or hereunder. If

any Imposition shall have been charged or levied against Precision directly and paid by Precision, the Lessee shall reimburse Precision upon presentation of an invoice therefor.

In the event any reports with respect to Impositions are required to be made, the Lessee will either make such reports in such manner as to show the interests of Precision and the Locomotives or notify Precision of such requirement and make such reports in such manner as shall be satisfactory to Precision.

In the event that during the continuance of this Lease the Lessee becomes liable for the payment or reimbursement of any Imposition pursuant to this Paragraph, such liability shall continue, notwithstanding the expiration of this Lease, until all such Impositions are paid or reimbursed by the Lessee.

12. Identification Marks. The Lessee will cause each Locomotive to be kept numbered with an identifying number as set forth in Exhibit A hereto, or in the case of any Locomotive not there listed such identifying number as shall be set forth in any amendment or supplement hereto extending this Lease to cover such Locomotive, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each Locomotive, in letters not less than one inch in height, the words "Property of Precision National Leasing Corporation" or other appropriate words designated by Precision, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect Precision's title to and property rights in the Locomotives and the rights of Precision under

this Lease. The Lessee will not place any Locomotive in operation or exercise any control or dominion over the same until such markings shall have been made thereon and will replace promptly any such markings which may be removed, defaced or destroyed. The Lessee will not change the identifying number of any Locomotive unless and until (i) a statement of new number or numbers to be substituted therefor shall have been filed with Precision and filed, recorded, registered and deposited by the Lessee in all public offices where this Lease shall have been filed, recorded, registered and deposited and (ii) the Lessee shall have furnished Precision an opinion of counsel for the Lessee with respect thereto satisfactory to Precision.

Except as provided in the immediately preceding paragraph, the Lessee will not allow the name of any person, association or corporation to be placed on any Locomotive as a designation that might be interpreted as a claim or ownership; provided, however, that the Locomotives may be lettered with the names or initials or other insignia customarily used by the Lessee.

13. Recording. The Lessee, at its own expense, will cause this Lease and the Sale Agreement, any amendments or supplements hereto or thereto and any assignments hereof or thereof to be filed and recorded in accordance with Section 20c of the Interstate Commerce Act, and the Lessee will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record (and will refile, re-register, re-deposit or re-record whenever required) any and all further instruments required by law or reasonably requested by Precision for the purpose of proper protection, to its satisfaction, of Precision's interest in

the Locomotives, or for the purpose of carrying out the intention of and its rights under this Lease; and the Lessee will promptly furnish to Precision evidences of all such filing, registering, depositing and recording, and an opinion of counsel for the Lessee with respect thereto satisfactory to Precision. This Lease shall be filed and recorded with the Interstate Commerce Commission prior to the delivery and acceptance hereunder of any Locomotive.

14. Payment for Casualty Occurrence. Prior to reconstruction, in the event any Locomotive suffers a Casualty Occurrence, Lessee shall promptly inform Precision of such occurrence and may elect to either pay Precision \$75,000 for such Locomotive or treat such Locomotive as though Precision deemed the Locomotive not in proper condition for reconstruction and substitute another Locomotive therefor, all as provided in Subparagraph 2(d) hereof.

Subsequent to reconstruction, in the event that any Locomotive shall become worn out, lost, stolen, destroyed, irreparably damaged from any cause whatsoever or taken or requisitioned (such occurrences being hereinafter called "Casualty Occurrences") during the term of this Lease, the Lessee shall promptly and fully notify Precision with respect thereto. When any Locomotive shall have suffered a Casualty Occurrence, on the rental payment date next succeeding, the Lessee shall pay to Precision an amount equal to the rental payment or payments in respect to such Locomotive due and payable on such date, plus a sum equal to the Casualty Value of such Locomotive as of the date of such payment in accordance with the schedule set out in Exhibit E. Upon (but not prior to) the making of such payment

by the Lessee in respect to any Locomotive, the rental for such Locomotive shall thereafter cease to accrue, the term of this Lease as to such Locomotive shall terminate and (except in the case of the loss, theft or complete destruction of such Locomotive) Precision shall be entitled to recover possession of such Locomotive. Precision hereby appoints the Lessee as its agent to dispose of any Locomotive suffering a Casualty Occurrence or any component thereof at the best price obtainable on an "as is, where is" basis. If the Lessee shall have previously paid the Casualty Value to Precision, the Lessee shall be entitled to the proceeds of such sale to the extent that such proceeds do not exceed the Casualty Value of such Locomotive, and shall pay any excess to Precision.

Except as hereinabove in this Paragraph provided, the Lessee shall not be released from its obligations hereunder in the event of, and shall bear the risk of, any Casualty Occurrence to any Locomotive from and after delivery and acceptance thereof by the Lessee.

15. Reports. On or before June 30 in each year, commencing with the year 1975, the Lessee will furnish to Precision an accurate statement (a) setting forth as at the preceding December 31 the amount, description and numbers of all Locomotives then leased hereunder, the amount, description and numbers of all Locomotives that have suffered a Casualty Occurrence or are then undergoing repairs (other than running repairs) or have been withdrawn from use pending repairs (other than running repairs) during the preceding calendar year and such other information regarding the condition and state of repair of the Locomotives as Precision may reasonably request and (b) stating that, in the case of all Locomotives repaired or repainted during

the period covered by such statement, the numbers and markings required by Paragraph 12 have been preserved or replaced. Precision shall have the right, by its agents, to inspect the Locomotives and the Lessee's records with respect thereto at such reasonable times as Precision may request during the term of this Lease.

Within 120 days after the close of each of its fiscal years, the Lessee will promptly furnish to Precision its Form 10-K Annual Report to the Securities and Exchange Commission for such fiscal year (or any other comparable report substituted therefor which includes certified financial information). The Lessee shall also furnish to Precision (i) as soon as available, and in any event within 45 days after the end of each of the first three quarterly periods of each fiscal year of such Lessee, copies of the income statements for the portion of Lessee's fiscal year ended with such period and the balance sheet of Lessee as of the end of such quarterly period, all of which financial statements may be unaudited, and (ii) such other financial information as Precision may reasonably request from time to time.

16. Insurance. Lessee will maintain, at its sole cost and expense, at all times during the lease term of any Locomotive, and until all Locomotives have been returned to Precision in accordance with the provisions of this Lease, with reputable insurers acceptable to Precision (Precision may not reasonably withhold its acceptance) (a) insurance (with customary exceptions and deductions [or retentions], but such deductibles [or retentions] shall not exceed \$2,000,000) in an amount not less than the full Casualty Value (as hereinafter defined)

of each Locomotive leased hereunder, insuring against loss and/or damage to each Locomotive arising out of all risks of physical loss or damage from any external cause, and against such other risks as are customarily insured against by companies owning property of a similar character and engaged in a business similar to that engaged in by Lessee, and (b) comprehensive public liability and property damage insurance (with customary exceptions and deductibles [or retentions], but such deductibles [or retentions] shall not exceed \$2,000,000), in such amounts as may be satisfactory to Precision, insuring against liability for death, bodily injury and property damage resulting from ownership, maintenance, use or operation of the Locomotives. All insurance policies shall (i) name Precision as an additional insured, with losses under the physical loss and/or damage policies to be payable to Precision and Lessee (and also to any assignee of Precision, if requested by such assignee) as their respective interests may appear, (ii) provide that the policies will not be invalidated as against Precision (or as against any assignee of Precision) because of any violation of a condition or warranty of the policy or application therefor by Lessee, and (iii) provide that the policies may only be materially altered or cancelled by the insurer after thirty (30) days prior written notice to Precision and to any assignee of Precision. Lessee shall deliver to Precision at the Closing provided in the Sale Agreement (or at such other time or times as Precision may request) a certificate or other evidence of the maintenance of all such insurance; provided, however, that Precision shall be under no duty to examine such certificate or other evidence of insurance, or to advise Lessee in the event that its insurance is not in compliance with this Lease. In the event of failure on the part of Lessee to provide and

furnish any of the aforesaid insurance, Precision may procure such insurance (after written notice to Lessee provided there is a grace period), and Lessee shall, upon demand, reimburse Precision for all expenditures made by Precision for such insurance, together with interest thereon computed at the rate of 1% per annum over the prime rate charged from time to time by the First National Bank of Chicago (or the maximum per annum rate of interest permitted by law, whichever is less), from the date of Precision's payment until reimbursed by Lessee. The comprehensive physical loss or damage insurance policy or policies shall also provide that upon receipt by the insurer from Precision of any written notice of the occurrence of an Event of Default hereunder, any proceeds payable by said insurer with respect to any loss or destruction of, or damage to, any Locomotive, shall be payable solely to Precision (and to any assignee of Precision, if requested by such assignee) from the date of said insurer's receipt of such written notice, up to the date said insurer receives written notice from Precision that said Event of Default is no longer continuing hereunder.

17. Return of Locomotives upon Expiration of Term. As soon as practicable on or after the expiration of the original or any extended term of this Lease, the Lessee will, at its own cost and expense, at the request of Precision, deliver such Locomotives to Precision upon such storage tracks as Precision may reasonably designate, or, in the absence of such designation, as the Lessee may select, and store such Locomotives on such track for a period not exceeding 90 days and cause the same to be delivered, at any time after such 90-day period, to any reasonable place upon the line of

Lessee directed by Precision. The storage of such Locomotives shall be at the risk of Precision. During any such storage period, Precision or any person designated by it, including the authorized representative or representatives of any prospective purchaser of such Locomotives, may inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence exclusively attributable to the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of Precision or any prospective purchaser, the right of inspection granted under this sentence. The assembling, delivery, storage and transporting of the Locomotives as in this Paragraph provided are of the essence of this Lease, and, upon application to any court of equity having jurisdiction in the premises, Precision shall be entitled to a decree against Lessee requiring specific performance of the same. If Precision shall elect to abandon any Locomotive which has suffered a Casualty Occurrence of which after the expiration of this Lease Precision shall deem to have suffered a Casualty Occurrence, it may deliver written notice to such effect to the Lessee and the Lessee shall thereupon assume and hold Precision harmless from all liability arising in respect of any responsibility of ownership thereof, from and after receipt of such notice. Precision shall execute and deliver to the Lessee a bill of sale and other necessary documents with respect to any Locomotive so abandoned. The Lessee shall have no liability to Precision in respect of any Locomotive abandoned by Precision after termination of this Lease; provided, however, that this sentence shall not in any way relieve the Lessee of its obligations pursuant to

Paragraph 14 to make payments equal to the Casualty Value of any Locomotive experiencing a Casualty Occurrence while this Lease is in effect.

18. Default. If during the continuance of this Lease one or more of the following events (each such event being hereinafter sometimes called an Event of Default) shall occur:

(a) Lessee shall fail to make payment of any part of the rental provided in Paragraph 6 when due, and such failure shall continue for ten (10) days;

(b) the Lessee shall make or permit any unauthorized assignment or transfer of this Lease or of possession of the Locomotives, or any thereof;

(c) the Lessee shall fail to maintain insurance in accordance with Paragraph 16;

(d) default shall be made in the observance or performance of any other of the covenants, conditions and agreements on the part of the Lessee contained herein or in the Sale Agreement, and such default shall continue for 30 days after written notice from Precision to the Lessee specifying such default and demanding that the same be remedied; or

(e) any proceedings shall be commenced by or against the Lessee for any relief under any bankruptcy or insolvency law, or any law relating to the relief of debtors, readjustment of indebtedness, reorganization, arrangement, composition or

extension, and, if such proceedings have been commenced against the Lessee, such proceedings shall not have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue) within 30 days after such proceedings shall have been commenced, or the Lessee shall make a general assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due;

then, in any such case, Precision, at its option, may:

(1) proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof, including net after-tax losses of federal and state income tax benefits to which Precision would otherwise be entitled under this Lease; or

(2) by notice in writing to the Lessee terminate this Lease, whereupon all rights of the Lessee to the possession and use of the Locomotives shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided, and thereupon Precision may, by its agents, enter upon the premises of the Lessee or any other premises where any of the Locomotives may be located and take possession of all or any of such Locomotives

and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Locomotives for any purpose whatsoever; but Precision shall, nevertheless, have a right to recover from the Lessee any and all amounts which under the terms of this Lease may be then due or which may have accrued to the date of such termination and also to recover forthwith from the Lessee (a) as damages for loss of the bargain and not as a penalty, a sum, with respect to each Locomotive, which represents the excess of (i) the present value, at the time of such termination, of the entire unpaid balance of all rental for such Locomotive which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Locomotive over (ii) the then present value of the rentals which Precision reasonably estimates to be obtainable for such Locomotive during such period, such present value to be computed in both cases on a basis of a 6% per annum discount, compounded monthly from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, and (b) any damages (including damage resulting from the imposition of tax burdens and the loss of tax benefits arising out of the termination of the Lease prior to the end of the Original Term) and expenses, including attorneys' fees, in addition thereto which Precision shall have sustained by reason of the breach of any covenant, representation or warranty of this Lease other than for the payment of rental.

It is expressly understood and agreed that upon the occurrence of any of the events or conditions described in clauses (a) through (e) of the first paragraph of this Paragraph 18, and prior to the time that such event or condition shall constitute an Event of Default hereunder, Precision may make such payment or perform such other act as will correct such event or condition, and the amount of all payments by Precision on behalf of the Lessee, plus the amount of all reasonable expenses incurred in connection therewith, together with interest thereon at the rate of 1% per annum over the prime rate in effect at First National Bank of Chicago from time to time (or the maximum per annum rate of interest permitted by law, whichever is less) from the date of expenditure to the date of reimbursement, shall constitute additional rental payable hereunder from the Lessee to Precision on demand.

The remedies in this Lease provided in favor of Precision shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder, and agree to make rental payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

The failure of Precision to exercise any of the rights granted it hereunder upon the occurrence of any of the contingencies set

forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

19. Return of Locomotives upon Default. If this Lease shall terminate pursuant to Paragraph 18, the Lessee shall forthwith deliver possession of the Locomotives to Precision and shall:

(a) forthwith place such Locomotives upon such storage tracks as Precision reasonably may designate until such Locomotives have been sold, leased or otherwise disposed of by Precision; and

(b) cause the same to be delivered to any carrier for shipment directed by Precision.

The assembling, delivery, storage and transporting of the Locomotives as in this Paragraph 19 provided shall be at the expense and risk of Lessee and are of the essence of this Lease, and, upon application to any court of equity having jurisdiction in the premises, Precision shall be entitled to a decree against the Lessee requiring specific performance of the same. During any storage period, the Lessee will permit Precision or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Locomotive, to inspect the same.

Without in any way limiting the obligations of the Lessee under the foregoing provisions of this Paragraph 19, the Lessee hereby irrevocably appoints Precision as the agent and attorney of the Lessee,

with full power and authority, at any time while the Lessee is obligated to deliver possession of any Locomotive to Precision, to demand and take possession of such Locomotive in the name and on behalf of the Lessee from whomsoever shall be in possession of such Locomotive at the time.

20. Assignment; Possession and Use. This Lease shall be assignable in whole or in part by Precision without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of Precision except upon written notice of such assignment from Precision. All the rights of Precision hereunder without exception shall inure to the benefit of Precision's assigns (including the partners or any beneficiary of any such assignee if such assignee is a partnership or a trust, respectively).

So long as the Lessee shall not be in default under this Lease the Lessee shall be entitled to the possession and use of the Locomotives in accordance with the terms of this Lease but, without the prior written consent of Precision, the Lessee shall not assign or transfer its leasehold interest (including a sublease, but Lessee may without Precision's consent sublease no more than twenty (20) Locomotives at any one time for periods not greater than thirty (30) days provided none of such subleased Locomotives will leave the continental United States) under this Lease in the Locomotives or any of them; provided, however, that Lessee shall assign all of its rights under this Lease to another railroad corporation which succeeds to all or substantially all of the assets and business of the Lessee and such successor shall assume all of Lessee's obligations hereunder. The making of an assignment or sublease by Lessee shall not relieve Lessee of any liabilities or undertakings hereunder.

21. Definitions of Fair Market Value and Fair Rental Value.

Fair Market Value shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's-length transaction between an informed and willing buyer-user (other than a lessee currently in possession or a used equipment dealer) and an informed and willing seller under no compulsion to sell and, in such determination, costs of removal from the location of current use shall not be a deduction from such value. Fair Market Rental shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's-length transaction between an informed and willing lessee (other than a lessee currently in possession) and an informed and willing lessor under no compulsion to lease and, in such determination, costs of removal from the location of current use shall not be a deduction from such value.

22. Severability; Effect and Modification of Lease. Any provision of this Lease prohibited or unenforceable by any applicable law of any jurisdiction shall as to such jurisdiction be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby waived by the Lessee to the full extent permitted by law, to the end that this Lease shall be enforced as written.

This Lease exclusively and completely states the rights of Precision and the Lessee with respect to the leasing of the Locomotives and supersedes all other agreements, oral or written, with respect thereto. No variation or modification of this Lease and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers of Precision and of the Lessee.

All Section headings are inserted for convenience only and shall not affect any construction or interpretation of this Lease.

23. Notices. Any notice or communication required or permitted hereunder shall be given in writing, by certified or registered mail, postage prepaid, deposited in the U.S. Mail and addressed as follows:

If to Precision:

Precision National Leasing Corporation  
908 Shawnee  
Mt. Vernon, Illinois 62864  
Attention: Raymond E. Jenkins

with a copy to:

Devoe, Shadur & Krupp  
208 South LaSalle Street  
Chicago, Illinois 60604

If to Lessee:

Chicago, Rock Island and  
Pacific Railroad Company  
139 West Van Buren Street  
Chicago, Illinois 60605  
Attention: O. L. Houts

and such notice shall be deemed served on the date of its postmark.

24. Law Governing. The terms of this Lease and all rights and obligations hereunder shall be governed by the laws of the State of Illinois; provided, however, that the parties shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act and such additional rights arising out of the filing, recording, registering or depositing, if any, of this Lease.

25. Execution. This Lease may be executed in any number of counterparts, all of which shall be deemed to be originals. Although this Lease is dated as of August 29, 1974 for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

26. Successors. The covenants, conditions and agreements contained in this Lease shall bind and inure to the benefit of the parties, their successors and assigns (to the extent permitted in Paragraph 20 hereof) and the term "Precision" and the term "Lessee" shall mean, respectively, all of the foregoing persons who are at any time bound by the terms hereof. Without limiting the generality of the foregoing, the indemnities of the Lessee contained in Paragraph 10 hereof shall apply to and inure to the benefit of any assignee of Precision, and if such assignee is a trustee under an indenture under which notes of Precision have been issued in connection with the financing of the Locomotives, then to any holder of such notes.

IN WITNESS WHEREOF, Precision and Lessee have duly executed  
this Lease as of the day and year first above written.

PRECISION NATIONAL LEASING CORPORATION,  
a corporation

By \_\_\_\_\_  
President

ATTEST:

\_\_\_\_\_  
Secretary

CHICAGO, ROCK ISLAND AND  
PACIFIC RAILROAD COMPANY,  
a Delaware corporation

By \_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Secretary

STATE OF ILLINOIS )  
 ) SS.  
COUNTY OF )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1974, before me personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn, says that he is \_\_\_\_\_ President of the Precision National Leasing Corporation, and \_\_\_\_\_, to me personally known to be the \_\_\_\_\_ Secretary of said corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

\_\_\_\_\_  
Notary Public

STATE OF ILLINOIS )  
 ) SS.  
COUNTY OF C O O K )

On this \_\_\_\_\_ day of \_\_\_\_\_, 1974, before me personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn, says that he is the Chairman of the Chicago Rock Island and Pacific Railroad Company, and \_\_\_\_\_, to me personally known to be the \_\_\_\_\_ Secretary of said corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed

and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

---

Notary Public

EXHIBIT "A"

TYPE OF LOCOMOTIVE: used GP-7 and GP-9 diesel electric

NUMBER OF LOCOMOTIVES: 80

NUMBERS AND MARKS:

OLD NUMBERS

NEW NUMBERS

See Appendix 1

EXHIBIT "A"

APPENDIX 1

Old Numbers

RI 430	RI 1221	RI 1266	RI 4200
431	1223	1271	4201
432	1225	1276	4202
433	1228	1278	4203
436	1229	1280	4204
441	1230	1281	4205
1200	1231	1283	4206
1202	1232	1285	4207
1205	1233	1289	4208
1206	1234	1291	4209
1209	1235	1293	1312
1210	1236	1296	1313
1211	1237	1297	1314
1212	1251	1299	1315
1213	1253	1302	1316
1215	1254	1303	1317
1217	1257	1305	1318
1218	1258	1307	1319
1219	1261	1308	1320
1220	1263	1311	1322

New Numbers

RI 4425 to 4494 and 4535 to 4544

EXHIBIT A

APPENDIX 2

RI 434

1203

1204

1207

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RI 1272

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EXHIBIT "B"  
"3rd Revision"

August 15, 1974

THE FOLLOWING IS A DETAILED LIST OF WORK SPECIFICATIONS TO BE PERFORMED ON 80 CHICAGO, ROCK ISLAND AND PACIFIC DIESEL ELECTRIC LOCOMOTIVES (70 GP-7s and 10 GP-9s) THESE SPECIFICATIONS WILL ALSO INCLUDE AN OPTION FOR 40 ADDITIONAL GP-7s EQUIPPED WITH 16-567BC ENGINES.

GENERAL SPECIFICATIONS FOR  
REMANUFACTURED LOCOMOTIVE

1. Remove long and short hood.
2. Remove trucks.
3. Strip cab and remove.
4. Remove equipment rack, air compressor, engine, main generator, electrical cabinet, load regulator and traction motor blowers.
5. Sandblast main frame and apply primer.
6. Check center casting and main frame alignment and cracks.
7. Straighten main frame if necessary.
8. Inspect and repair fuel tank if needed. (On 11 units will need new 1750 gallon tanks.)
9. Check and replace end plates as needed.
10. Inspect draft gear housing.
11. Apply reworked draft gear if needed (Refer Page 4)
12. Apply new pilot, if needed and remove foot boards, apply new FRA switching locomotive step arrangement according to Federal Register part 231.30 for railway safety appliance standards for locomotives used in switching service.
13. Apply handrails and stanchions if needed, in kind.
14. Apply reworked traction motor blowers. (Refer Page 4)
15. Apply new underframe piping as needed.
16. Apply electric emergency fuel shut down.
17. Apply reworked load regulator (Refer Page 4)
18. Apply manufactured electrical locker (Refer Page 5)
19. Apply Power parts sanitary toilet.
20. Apply reworked cab. (Refer Page 7)
21. Apply reworked trucks (Refer Page 9)
22. Apply reworked D12B-D14 Main Generator (Refer Page 12)
23. Apply new deep base WBO Air Compressor unless delivery prohibits. (Refer Page 13)

24. Apply reworked 16-567-BC-C or D engine on GP-7. (Refer Page 14)  
Apply reworked 16-567-C engine on GP-9 (Refer Page 14)
25. Apply reworked equipment rack. (Refer Page 21)
26. Apply reworked 10 K.W. Auxiliary Generator. (Refer Page 22)
27. Apply exhaust manifold with Farr spark arrestor kit.
28. Apply 2 stack exhaust manifold arrangement.
29. Make air equipment leakage test.
30. Apply reworked long hood. (Refer Page 23)
31. Install new batteries - 70 percent replacement estimated.
32. Paint rebuilt locomotive. (Refer Page 25)
33. Replace where necessary all heavy cables.
34. A maximum of seven (7) units will need new reservoirs.
35. Install electric sanding system (Combination system-Electric and Pneumatic).
36. Safety appliances to be checked to comply with current regulations.
37. Final test. (Refer Page 24)

### DRAFT GEAR ASSEMBLIES

1. Weld and machine as needed.
2. Apply new bushings and pins as required.

### TRACTION MOTOR BLOWERS

1. Apply new bearings.
2. Apply new gaskets.
3. Assemble and electrical test.

### LOAD REGULATOR

1. Degrease and cob blast.
2. Apply new gaskets and seals.
3. Apply new brushes.
4. Apply new resistors as needed.
5. Rewire as needed.
6. Assemble and test.
7. Renew LRC and transition switches where necessary.

## HIGH VOLTAGE ELECTRICAL CABINET

1. Remanufacture electrical cabinets to Rock Island specifications (Representatives of Morrison-Knudsen and Precision National will jointly inspect cabinet at Rock Island facilities).
2. Apply reclaimed buss bars if possible.
3. Apply reworked reverser. (Refer below).
4. Apply reworked power contactors. (Refer Page 6)
5. Apply reclaimed field shunting resistors where necessary on GP-9 locomotives only.
7. Apply new remote train lined ground reset button, to be located in cab.
8. Apply solid state voltage regulator where necessary.
9. Apply new fast-on terminal boards.
10. Apply new relays and switches and resistors where necessary to upgrade. Includes new remote reset ground relay.
11. Apply new wire (Imron-Dupont).
12. Apply new E.I. backward transition where necessary and retain on units where transition already exists.
13. Test electrically.
14. Battery charging diodes where necessary.

### 4 Motor Reverser

1. Apply new tube insulation as required.
2. Apply new bearings.
3. Apply new gaskets.
4. Apply new interlock assembly.
5. Apply new finger contacts.
6. Apply new segments.
7. Apply new 311F Magnet Valves.
8. Assemble and test.

## POWER CONTACTORS

1. Vacu Blast parts
2. Apply new contacts
3. Apply new interlock assemblies as required
4. Apply new 311F magnet valves
5. Apply new gaskets
6. Assemble and test

CAB

1. Sand blast cab.
2. Apply putty, sand and prime.
3. Apply new 26-L air brake equipment, including new copper pipe. Delivery on Porta-Rac extremely extended so Morrison-Knudsen are using a plate mounted air brake installation including standard air filtration.
4. Apply all new wiring and replace conduit where necessary.
5. Apply new insulation and cab ceilings.
6. Apply remanufactured air brake stand and new valves.
7. Apply reworked control stand. (Refer below)
8. Apply reworked throttle stand. (Refer Page 8)
9. Apply new electric speed indicator (Barco SIS-400).
10. Apply new cab doors if needed and apply new weatherstrip as required.
11. Apply remanufactured isolation panel. (Refer Page 8)
12. Apply new hot water heaters as needed and where not so equipped.
13. Replace all deteriorated cab siding and angle iron.
14. Apply Prime windows where needed.
15. Apply reupholstered seats where needed in kind.
16. Apply Prime absorption type water cooler and refrigerator unit (Dometic may be substituted where Prime is not available)
17. Install MU headlight set up to be mounted on control stand.
18. Install Torpedo and Fusee rack and card holders for Federal and Air cards.

### CONTROL STAND

1. Roto blast frame.
2. Modify frame for modifications (Salem Duplex air gauge kit with magnified lens).
3. Apply all new parts to make conversion.
4. Apply road service switching switch where necessary.
5. Apply new wire.

### THROTTLE STAND

1. Sandblast frame.
2. Rework throttle mechanism.
3. Apply new bearings.
4. Apply new insulation for segments.
5. Machine all segments.
6. Apply new fast-on terminal boards.
7. Apply new wire.

### ISOLATION PANEL

1. Manufacture new panel.
2. Apply reworked battery charging meter.
3. Apply all new parts.
4. Apply new wire.

## TRUCKS - 4 Wheel

1. Trucks stripped to bare frame.
2. Frames sand blasted.
3. Bolster and spring plank sand-blasted.
4. Frames are visual checked and trammed.
5. Straighten and heat treat if needed.
6. Weld up motor support lug and re-drill.
7. Weld up pedestal jaws if needed.
8. Frame wear plates changed if needed.
9. Frame bushings and pins are renewed.
10. Apply reworked brake cylinder. (Refer Page 10)
11. Apply reworked brake hangers-new bushings and pin boss modified if needed.
12. Apply laboratory tested and matched coil springs.
13. Apply new nylatron pedestal liners using Huck fasteners.
14. Apply bolster with new wear plates.
15. Apply elliptical springs, qualified or new.
16. Apply swing hangers (magnafluxed and new bushings applied).
17. Apply wheels (Refer Page 10) to traction motors (Refer Page 11) using new brass, if needed; new lubricator wicks and repaired gear cases.
18. Apply reworked journal boxes. (Refer Page 11)
19. Apply new Quick-Just slack adjusters where necessary.
20. Apply reworked straps - new bushings.
21. Change to 62-15 gear ratio if necessary.
22. Change nose supports to rubber where necessary.

### BRAKE CYLINDERS

1. Apply new cups.
2. Apply new filters.
3. Apply new gaskets.
4. Inspect and repair piston rod and spring.

### WHEELS

1. Magnaflux and reflectoscope axle and gear (apply new, if necessary).
2. Mount new 40" wheels on either reusable or new axle (it is permissible to use used mounted wheels with 2 inch or more tread thickness).
3. Apply new races and water guards as needed.
4. Gear ratio to be 62/15.

## TRACTION MOTORS

1. Cob blast armature and frame.
2. High frequency test armature - if it does not pass test, it will be replaced with a suitable armature by Rock Island.
3. Armature place in varnish vacuum impregnator 4 hours.
4. Armature baked 8 to 10 hours at 300° F.
5. Armature commutator turned in lathe.
6. Armature commutator slots are undercut.
7. Armature commutator slots are cleaned and Vee'd.
8. Armature is dynamically balanced.
9. Armature is assembled using new or factory remanufactured bearing assemblies, new gaskets and new inserts.
10. Frame is gaged at all critical points.
11. Frame is welded and machined at points required.
12. Frame coils and leads are checked and replaced if needed.
13. Frame placed in varnish vacuum impregnator 4 hours.
14. Frame is baked 8 to 10 hours at 300° F.
15. Brush holders are reworked.
16. Apply new brushes - Rock Island to supply specifications - Union Carbide grade DE-8 two wafer.
17. Apply new pinion if needed.
18. Traction motor tested and run for 1 hour.

## JOURNAL BOXES

1. Replace box liners as needed.
2. Rotate races and replace as needed.
3. Inspect and apply new roller as needed.
4. Apply new gaskets.
5. Inspect thrust blocks and replace as needed.

D12B - D14 MAIN GENERATOR

1. Cob-blast armature, frame and A.C. Stator.
2. High frequency test armature - if it does not pass test, it will be replaced with suitable armature by Rock Island.
3. Armature place in varnish vacuum impregnator 4 hours.
4. Armature baked 10 hours at 300° F.
5. Armature commutator is turned in lathe.
6. Armature commutator slots are undercut on automatic undercutter.
7. Armature is dynamically balanced.
8. Armature commutator slots are cleaned and Vee'd
9. Armature is assembled using new bearing and gaskets.
10. Main head bushing is checked and new case hardened bushing applied if needed.
11. Frame coils and leads checked and replaced as needed.
12. Frame placed in varnish vacuum impregnator 4 hours.
13. Frame is baked 8 hours at 300° F.
14. A.C. Frame is checked and rewind kit applied if needed.
15. A.C. Frame is dipped in varnish.
16. A.C. Frame is baked 8 hours at 300° F.
17. Brush holders are reworked.
18. Apply new brushes. Rock Island to furnish specifications - Union Carbide DE-8 two wafer.
19. Hi-pot main generator.

WBO AIR COMPRESSOR TO BE  
REBUILT TO EMD SPECIFICATIONS

1. Vacu blast parts.
2. Apply new main bearings as needed.
3. Inspect and mike crankshaft.
4. Apply new seals in caps.
5. Apply new shims and check lateral.
6. Apply EMD high pressure rods.
7. Check piston and use new if needed.
8. Apply new wrist pin.
9. Apply new rings.
10. Check rods and apply if needed.
11. Apply reworked valves to heads (inspect and lap valves).
12. Reseat unloader plunger.
13. Apply all new gaskets.
14. Apply reworked inner cooler.
15. Load test for 5 hours.  
Note: Convert WXO to WBO
16. New deep base WBO air compressor to be installed if available.

## 16-567 Engine

(Rebuilt to EMD Specifications)

1. Crankcase is checked and line bored.
2. Main bearing caps are spot faced for hardened flat washers and nut.
3. All holes in case are tapped (welded and retapped if needed).
4. Sealer paint applied to case and pan.
5. Check liner inserts and replace as needed.
6. Apply reworked crankshaft using new main bearings (Refer Page 16)
7. Apply reworked power assemblies using new rod bearings.  
(Refer Page 16)
8. Apply water hydro test.
9. Check lead readings.
10. Apply pee pipes and gage.
11. Apply case to pan using new gasket.
12. Apply air box and crankcase cover.
13. Apply reworked camshaft. (Refer Page 17)
14. Apply reworked layshaft. (Refer Page 17)
15. Apply reworked stubshaft with increased oil passage.
16. Apply gear train (gears cleaned and checked - new bushings and thrust washer).
17. Apply rear housing using new gasket.
18. Apply inspected fly wheel using new hardened washers and improved nuts and bolts.
19. Drill and apply rear counter weights.
20. Apply reworked auxiliary generator drive assembly. (Refer Page 17)
21. Apply blower stands.
22. Apply reworked blowers. (Refer Page 17)
23. Apply reworked injectors. (Refer Page 18)

24. Apply reworked rocker arm assemblies (Refer Page 18).
25. Apply reworked exhaust valve bridges (Refer Page 18).
26. Apply test cock relief valves.
27. Apply lube oil cross over manifold.
28. Apply reworked lube oil pressure relief valve (Refer Page 18).
29. Apply governor drive gear.
30. Apply accessory drive housing using new gasket.
31. Apply reworked engine protector (Refer Page 18).
32. Apply coil spring accessory drive gear.
33. Apply reworked oil separator (Refer Page 18).
34. Apply reworked lube oil pressure pump (Refer Page 19).
35. Apply reworked lube oil scavenging pump (Refer Page 19)
36. Apply reworked water pumps (Refer Page 19).
37. Apply reworked governor drive assembly (Refer Page 19).
38. Apply reworked cylinder head cover (Refer Page 19).
39. Apply support frame.
40. Apply front counter weights.
41. Apply overspeed trip housing.
42. Apply reworked governor (Refer Page 19).
43. Apply governor linkage.
44. Apply injector control linkage (Refer Page 20).
45. Load test engine (Refer Page 20).
46. Rock Island to provide recommended manufacturers of oils, lubricants, and water treatment.

## CRANKSHAFT

1. Inspect and mike (use PNC chromeplated if needed).
2. Polish all journals.
3. Manga-glow inspection.
4. Apply new pipe plugs - clean oil passages.
5. Apply reworked harmonic balancer (6 spring packs, new spring plate and new pins if needed).
6. Apply reworked accessory drive gear (new coil springs, if needed).
7. Apply reworked oil slinger.
8. Apply reworked main drive gear.

## POWER ASSEMBLIES (Built to EMD Specifications)

1. Heads water tested and inspected (factory reworked head used if needed).
2. Heads vacu blasted.
3. Polish injector valve seats.
4. Apply new inconnell valves.
5. Apply new valve spring keeper if needed.
6. Liner Bore is checked (new chromeplated liner used if needed).
7. Liner is vapor blasted.
8. Liner ridge is honed and buffed.
9. Liner is water tested.
10. Rods given dimensional check by gauging.
11. Rods surfaces are polished.
12. Wrist pins are checked.
13. Carriers are converted to full flow (new inserts).
14. Apply water elbows to cylinder heads using new "O" rings.

## Power Assemblies (Continued)

15. Apply new Koppers or EMD rings to qualified pistons.
16. Apply pistons and carriers to rods.
17. Apply pistons and rod assemblies to liner using new EMD seals.
18. Apply cylinder heads using new nuts if needed.

## CAMSHAFT

1. Vacu blast blocks.
2. Remove all burrs.
3. Apply factory reworked poly-ground segments as needed, weld up dowel holes, and camshaft stub ends.
4. Apply new bearings.
5. Assemble and gage run out.

## LAYSHAFT

1. Spray weld and turn to correct size.
2. Straighten and assemble.

## AUXILIARY GENERATOR DRIVE ASSEMBLY

1. Apply new oil seals and bushings.

## BLOWERS

1. Inspect rotors.
2. Apply new thrust collars.
3. Apply new bushings and gaskets.
4. Test run blowers for 1 hour.

### INJECTORS

1. Apply new fuel filter.
2. Apply new "O" ring.
3. Apply factory rebuilt barrel and plunger.
4. Apply factory rebuilt tip kit.
5. Apply new components as needed.
6. Convert spherical to needle type if needed.
7. Assemble and calibrate.

### ROCKER ARM ASSEMBLY

1. Polish shaft.
2. Apply pins - rollers - races as needed.

### EXHAUST VALVE BRIDGES

1. Apply new adjuster bodies where necessary.
2. Test all springs and replace as needed.
3. Assemble and pressure test.

### LUBE OIL PRESSURE RELIEF VALVE

1. Inspect
2. Assemble and pressure test.

### ENGINE PROTECTOR

1. Apply new rebuild kit (new gaskets, "O" rings, etc.)
2. Assemble and test 30 minutes.

### OIL SEPARATOR

1. Clean and replace filter if needed.

### LUBE OIL PRESSURE PUMP

1. Inspect all gears (replace as needed)
2. Apply new gaskets
3. Apply new bushing.

### LUBE OIL SCAVENGING PUMP

1. Inspect all gears (replace as needed).
2. Apply new gaskets.
3. Apply new bushing.

### WATER PUMPS

1. Check impellar and housing for wear.
2. Apply new seals and bushings.
3. Apply new inner and outer bearing.
4. Assemble and check clearance.

### GOVERNOR DRIVE ASSEMBLY

1. Apply remanufactured governor drive assemblies in kind.

### CYLINDER HEAD COVER

1. Straighten as needed.
2. Apply new rubber gasket.

### GOVERNOR

1. Apply remanufactured governors in kind.

## INJECTOR CONTROL LINKAGE

1. Inspect and remove all burrs.

## LOAD TEST ENGINE

1. Fuel hydro and prelube.
2. Start and check for leaks.
3. Shut down and check main and rod bearing temperatures.
4. Run in 2nd notch (loaded) 30 minutes, Shutdown and check main and rod bearing temperatures.
5. Run in 4th notch (loaded) 30 minutes. Shutdown and check main and rod bearing temperatures.
6. Run in 6th notch (loaded) 30 minutes. Shutdown and check main and rod bearing temperatures.
7. Run in 8th notch (loaded) 3 hours periodically checking bearing temperatures.
8. Record all reading of pressure and temperature.
9. Correct any leaks of malfunctions and retighten engine.

## EQUIPMENT RACK

1. Remanufacture existing equipment rack.
2. Install vapor preheaters, (fuel oil).
3. Install synchronized compressor controls.
4. Install Prime start switch on rack.
5. Install on remanufactured rack, engine temperature switches and manifold, including hot engine temperature switch.

10 K.W. AUXILIARY GENERATOR

1. Cob blast armature and frame.
2. Test armature - If armature does not pass test, it will be replaced with rewound armature.
3. Armature dipped in varnish.
4. Armature baked 8 hours at 300° F.
5. Armature commutator is turned and undercut.
6. Armature is dynamically balanced.
7. Armature commutator slots are cleaned and Vee'd.
8. Armature is assembled with new bearings and gaskets.
9. Frame coils and leads are checked and replaced if needed.
10. Frame is dipped in varnish.
11. Frame is baked 8 hours at 300° F.
12. Armature and frame are assembled with new brushes and reworked brush holders.
13. Auxiliary generator is electrically tested.
14. Brushes to be Rock Island specifications AC-98 EMD part # 3190442.

## LONG HOOD

1. Sand blast long hood.
2. Apply putty, sand off and prime.
3. Modify number lights for modulite panel type power parts - Rock Island option.
4. Apply new door latches as needed.
5. Apply new d-or hinges as needed.
6. Use fiberglass filters AAF (American Air Filter).
7. Apply new conduit as required and new wire.
8. Apply new shutter magnet valves.
9. Apply reworked shutter cylinder assemblies (new gaskets).
10. Apply reworked radiators (per Morrison-Knudsen specifications) 90% tubes to be open.
11. Modify hood for removing complete power assembly.
12. Modify hood for cooling fan hook-up.
13. Apply reworked cooling fans (new bearings and gaskets and tested).
14. Modify shutters so manual shutter is linked to automatic shutter by a rod to provide full automatic operation.
15. Apply reworked hand brake assembly.

TEST

1. Electrically test all circuits.
2. Start and check for leaks - water - fuel - air.
3. Air cure main generator.
4. Apply load box and set temperature switches.
5. Load for 1 hour at full load.
6. Record all pressure and temperature readings.
7. Shutdown and check bearings.
8. Start and set transition.
9. Test Hand brake.
10. Make running and movement checks.

PAINT

1. Paint trucks (Rock Island option).
2. Paint engine room gray.
3. Paint inside cab (Rock Island option).
4. Apply Kant Skid cab floor.
5. Prime outside.
6. Apply colors as required (Rock Island option).
7. Code inside of locomotive.
8. Code outside of locomotive as required, ACI label.
9. Apply GP-40 type arm rest.
10. Apply Prime rear view mirrors and wind deflectors (Salem on option if Prime not available).
11. Apply metal cab awnings.

EXHIBIT "C"

CERTIFICATE OF INSPECTION AND ACCEPTANCE

Chicago, Rock Island and  
Pacific Railroad Company  
139 West Van Buren Street  
Chicago, Illinois 60605

Morrison-Knudson Company, Inc.  
400 Broadway  
P.O. Box 7808  
Boise, Idaho 83729

and

and

Precision National Leasing Company  
908 Shawnee  
Mt. Vernon, Illinois 62864

Gentlemen:

The undersigned, being a duly authorized inspector for Precision,  
hereby certifies that he has made an inspection of \_\_\_\_\_  
(\_\_\_\_\_) Locomotives bearing numbers as follows:

all as provided in the Lease, and hereby accepts such Locomotives for  
Precision as being in condition for reconstruction work as provided  
in the Lease.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Inspector

EXHIBIT "D"

CERTIFICATE OF INSPECTION AND ACCEPTANCE

Chicago, Rock Island and  
Pacific Railroad Company  
139 West Van Buren Street  
Chicago, Illinois 60605

Morrison-Knudson Company, Inc.  
400 Broadway  
P.O. Box 7808  
Boise, Idaho 83729

and

and

Precision National Leasing Company  
908 Shawnee  
Mt. Vernon, Illinois 62864

Gentlemen:

The undersigned, being a duly authorized inspector for Lessee,  
hereby certifies that he has made an inspection of \_\_\_\_\_  
(\_\_\_\_\_) locomotives bearing numbers as follows:

all as provided in the Lease and he does hereby accept them as  
having all reconstruction work performed in compliance with the  
Specifications attached to the Lease and as otherwise being in  
compliance with all requirements of the Lease.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Inspector

EXHIBIT "E"

SCHEDULE OF CASUALTY VALUE

1. First year following reconstruction \$205,000.
2. Second year following reconstruction \$193,000.
3. Third year following reconstruction \$181,000.
4. Fourth year following reconstruction \$169,000.
5. Fifth year following reconstruction \$157,000.
6. Sixth year following reconstruction the greater of \$145,000 or Fair Market Value.
7. Seventh year following reconstruction the greater of \$133,000 or Fair Market Value.
8. Eighth year following reconstruction the greater of \$121,000 or Fair Market Value.
9. Ninth year following reconstruction the greater of \$109,000 or Fair Market Value.
10. Tenth year following reconstruction the greater of \$97,000 or Fair Market Value.
11. Eleventh year following reconstruction the greater of \$85,000 or Fair Market Value.
12. Twelfth year following reconstruction the greater of \$73,000 or Fair Market Value.
13. Thirteenth year following reconstruction the greater of \$61,000 or Fair Market Value.
14. Fourteenth year following reconstruction the greater of \$49,000 or Fair Market Value.
15. Fifteenth year following reconstruction the greater of \$37,000 or Fair Market Value.

"Fair Market Value" is defined in Paragraph 21 of the Lease. The Fair Market Value shall be agreed upon by Precision and Lessee; provided that if Precision and Lessee are unable to agree upon the Fair Market Value of the Locomotive within 30 days after receipt by Precision of the notice of Casualty Occurrence, the Fair Market Value shall be determined by an appraiser selected

by mutual agreement of Precision and Lessee. If Precision and Lessee are not able to agree upon an appraiser or if the Fair Market Value is not so determined within 90 days after receipt by Precision of the notice of Casualty Occurrence, the same shall be determined by American Appraisal Company.