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INTERSTATE COMMERCE COMMISSION

LEASE OF RAILROAD EQUIPMENT

DATED AS OF OCTOBER 15, 1974

between

POTOMAC ELECTRIC POWER COMPANY

and

CHASE MANHATTAN SERVICE CORPORATION

ASSIGNMENT OF LEASE AND AGREEMENT

DATED AS OF OCTOBER 15, 1974

between

CHASE MANHATTAN SERVICE CORPORATION

and

AMERICAN SECURITY & TRUST COMPANY,

As Agent

LEASE OF RAILROAD EQUIPMENT dated as of October 15, 1974, between POTOMAC ELECTRIC POWER COMPANY (hereinafter called the Lessee) and CHASE MANHATTAN SERVICE CORPORATION (hereinafter called the Lessor).

WHEREAS the Lessor and the Lessee are entering into a conditional sale agreement dated as of the date hereof with Thrall Car Manufacturing Company and Bethlehem Steel Corporation (such agreement being hereinafter called the Security Document and such parties being hereinafter called the Builders) wherein the Builders have agreed to manufacture, sell and deliver to the Lessor the units of railroad equipment described opposite the respective names in Schedule A hereto (hereinafter called the Equipment);

WHEREAS the Builders are assigning their respective interests in the Security Document to American Security & Trust Company, as Agent (hereinafter, together with its successors and assigns, called the Vendor); and

WHEREAS the Lessee desires to lease such number of the units of the Equipment as are delivered and accepted and settled for under the Security Document (hereinafter called the Units) at the rentals and for the terms and upon the conditions hereinafter provided;

NOW, THEREFORE, in consideration of the premises and of the rentals to be paid and the covenants hereinafter mentioned to be kept and performed by the Lessee, the Lessor hereby leases the Units to the Lessee upon the following terms and conditions:

§ 1. Net Lease. This Lease is a net lease and the Lessee shall not be entitled to any abatement of rent, reduction thereof or setoff against rent, including, but not limited to, abatements, reductions or setoffs due or alleged to be due by reason of any past, present or future claims of the Lessee against the Lessor under this Lease or under the Security Document, including the Lessee's rights by subrogation thereunder, or the Builders or the Vendor or otherwise; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor 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 Units from whatsoever cause, any liens, encumbrances or rights of others with respect to any of the Units, the prohibition of or other restriction of the Lessee's use of all or any of the Units, 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, insolvency 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 rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the time 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 Units 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 the Lessor for any reason whatsoever.

§ 2. Delivery and Acceptance of Units. The Lessor hereby appoints the Lessee its agent for inspection and acceptance of the Units pursuant to the Security Document. The Lessor will cause each Unit to be delivered to the Lessee at the point or points within the United States of America at which such Unit is delivered to the Lessor under the Security Document. Upon such delivery, the Lessee will cause an employee of or other person retained by the Lessee to inspect the same, and if such Unit is found to be acceptable, to accept delivery of such Unit and execute and deliver to the Lessor a certificate of acceptance (hereinafter called the Certificate of Acceptance) in accordance with the provisions of Article 3 of the Security Document, stating that such Unit has been inspected and accepted on behalf of the Lessee and the Lessor on the date of such Certificate of Acceptance and is marked in accordance with § 5 hereof, whereupon such Unit shall be deemed to have been delivered to and accepted by the Lessee and shall be subject thereafter to all the terms and conditions of this Lease.

§ 3. Rentals. The Lessee agrees to pay to the Lessor during the Original Term of this Lease, as rental

for each Unit subject to this Lease, 31 consecutive semiannual payments payable on June 1 and December 1 in each year, commencing June 1, 1975. The rental payment payable on June 1, 1975, shall be in an amount equal to 0.0324833% of the Purchase Price (as defined in the Security Document) of each Unit then subject to this Lease for each day (computed on the basis of a 360-day year of twelve 30-day months) elapsed from the Closing Date (as defined in the Security Document) for such Unit to and including the date of such payment. The next 30 rental payments shall each be in an amount equal to 5.847% of the Purchase Price of each Unit then subject to this Lease.

The rental payments hereinbefore set forth are subject to adjustment pursuant to § 17 hereof. If any of the semiannual rental payment dates referred to above is not a business day the semiannual rental payment otherwise payable on such date will be payable on the next preceding business day. The term "business day" as used herein means a calendar day, excluding Saturdays, Sundays and any other day on which banking institutions in New York, New York, or Washington, District of Columbia, are authorized or obligated to remain closed.

The Lessor irrevocably instructs the Lessee to make all the payments provided for in this Lease at the principal office of the Vendor, for the account of the Lessor, in care of the Vendor, with instructions to the Vendor first, to apply such payments to satisfy the obligations of the Lessor then due under the Security Document, subject to the limitations contained in Article 23 and in the penultimate paragraph of Article 4 of the Security Document and second, so long as no event of default or event which with the lapse of time and/or demand provided for in the Security Document could constitute an event of default under the Security Document (any such default, event of default or event being hereinafter called a Default) shall have occurred and be continuing, to pay any balance promptly to The Chase Manhattan Bank (N.A.) at One Chase Manhattan Plaza for the account of the Lessor, or to the Lessor at such other place as the Lessor shall specify in writing. The Lessee agrees to make each payment provided for herein as contemplated by this paragraph in immediately available funds in the city where such payment is to be made.

§ 4. Term of Lease. The term of this Lease as to each Unit shall begin on the date of delivery and accep-

tance of such Unit hereunder and, subject to the provisions of §§ 7, 10 and 13 hereof, shall terminate on the date on which the final payment of rent in respect thereof is due pursuant to § 3 hereof. The "Original Term" of this Lease as to such Unit shall mean such term, without giving effect to the provisions of §§ 7, 10 and 13.

Notwithstanding anything to the contrary contained herein, all rights and obligations of the Lessee under this Lease and in and to the Units, or under the Security Document are subject to the rights of the Vendor under the Security Document. If an event of default should occur under the Security Document, the Vendor may terminate this Lease (or rescind its termination), all as provided therein.

§ 5. Identification Marks. The Lessee will cause each Unit to be kept numbered with the identifying number set forth in Schedule A hereto, or in the case of any Unit not there listed such identifying number as shall be set forth in any amendment or supplement hereto extending this Lease to cover such Unit, 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 "Ownership Subject to a Security Agreement Filed under the Interstate Commerce Act, Section 20" and other appropriate words if designated by the Lessor, with appropriate changes thereof and additions thereto, as from time to time may be required by law in order to protect the Lessor's and Vendor's title to and property in such Unit and the rights of the Lessor under this Lease and of the Vendor under the Security Document. The Lessor may mark each Unit to identify the Lessor's interest in such Unit. The Lessee will not place any such Unit in operation or exercise any control or dominion over the same until such words shall have been so marked on both sides thereof and will replace promptly any such words which may be removed, defaced or destroyed. The Lessee will not change the identifying number of any Unit unless and until (i) a statement of new number or numbers to be substituted therefor shall have been filed with the Vendor and the Lessor and filed, recorded and deposited by the Lessee in all public offices where this Lease and the Security Document shall have been filed, recorded and deposited, and (ii) the Lessee shall have furnished the Vendor and the Lessor an opinion of counsel to the effect set forth in subparagraph A(3) of § 15 hereof in respect of such statement.

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 Unit as a designation that might be interpreted as a claim of ownership; provided, however, that the Units may be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates.

§ 6. Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor for collection or other charges and will be free of expense to the Lessor and its affiliates with respect to the amount of any local, state, federal or foreign taxes (other than (1) taxes on, based on, or measured by, the net income of the Lessor imposed by the United States; (2) taxes on, based on, or measured by the net income of the Lessor imposed by any jurisdiction other than the United States and other than the jurisdiction in which the principal office of the Lessor is located, in which none of the Units have been operated or stored by the Lessee or otherwise been present at any time during the term of this Lease; (3) taxes on, based on, or measured by, the net income of the Lessor imposed by any other jurisdiction to the extent imposed by (a) the jurisdiction in which the principal office of the Lessor is located or (b) any other jurisdictions in which the Lessor shall be subject to any tax based on, or measured by, net income but only to the extent that (i) any income of the Lessor attributable to this Lease or the transactions contemplated hereby is not subject to tax imposed by the jurisdiction in which its principal office is located and (ii) the amount of the tax payable by the Lessor to such other jurisdictions does not exceed the amount of the tax that would be payable to the jurisdiction in which its principal office is located if that income were subject to tax in that jurisdiction) or license fees, interest, assessments, charges, fines or penalties (all such expenses, taxes, license fees, interest, assessments, charges, fines and penalties being hereinafter called impositions) hereafter levied or imposed upon or in connection with or measured by or resulting from, or affected by this Lease or any sale, rental, use, payment, shipment, delivery or transfer of title under the terms hereof or of the Security Document, all of which impositions the Lessee assumes and agrees to pay on demand in addition to the payments to be made by it provided for herein; provided, however, the term imposition shall not include taxes arising out of, or based on, (i) any sale to the Lessee pursuant to § 13 hereof or any sale or other disposition of a Unit other than a sale pursuant to §§ 7 and 10 hereof or Article 17 of

the Security Document while any Event of Default hereunder has occurred and is continuing, or (ii) any reduction by the Lessor of its interest in the rentals from such Unit under this Lease. The Lessee will also pay promptly all impositions which may be imposed upon any Unit or for the use of operation thereof or upon the earnings arising therefrom (except as provided above) or upon the Lessor and its affiliates by reason of its ownership or leasing thereof and will keep at all times all and every part of such Unit free and clear of all impositions which might in any way affect the title of the Lessor or result in a lien upon any such Unit; provided, however, that the Lessee shall be under no obligation to pay any impositions of any kind so long as it is contesting in good faith and by appropriate legal proceedings (in its own or in the Lessor's name) such impositions and the nonpayment thereof does not, in the opinion of the Lessor, adversely affect the title, property or rights of the Lessor hereunder or the Vendor under the Security Document. If any impositions shall have been charged or levied against the Lessor directly and paid by the Lessor, the Lessee shall reimburse the Lessor on presentation of an invoice therefor; provided, however, that the Lessee shall not be obligated to reimburse the Lessor for any impositions so paid unless the Lessor shall have been legally liable with respect thereto (as evidenced by an opinion of counsel for the Lessor) or unless the Lessee shall have approved the payment thereof, which approval shall not be unreasonably withheld.

In the event that the Lessor shall become obligated to make any payment pursuant to any tax indemnity provision of the Security Document not covered by the foregoing paragraph of this § 6, the Lessee shall pay such additional amounts (which shall also be deemed impositions hereunder) to the Lessor as will enable the Lessor to fulfill completely its obligations pursuant to said provision.

In the event any reports with respect to impositions are required to be made, the Lessee will, at the Lessor's option, either make such reports in such manner as to show the interests of the Lessor and the Vendor in such Units or notify the Lessor and the Vendor of such requirement and make reports in such manner as shall be satisfactory to the Lessor and the Vendor.

The indemnity provided for in this § 6 shall be in an amount which, after deducting all impositions imposed with

respect to the receipt thereof, shall be equal to the amount of the impositions required to be paid by the Lessor.

In the event that, during the continuance of this Lease, the Lessee becomes liable for the payment or reimbursement or any imposition, pursuant to this § 6, such liability shall continue, notwithstanding the expiration or the termination of the term of this Lease, until all such impositions are paid or reimbursed by the Lessee.

§ 7. Payment for Casualty Occurrences; Insurance.

In the event that any Unit shall be or become lost, stolen, destroyed, or irreparably damaged, from any cause whatsoever, or taken or requisitioned by condemnation or otherwise, or in the reasonable opinion of the Lessee shall be worn out (such occurrences being hereinafter called Casualty Occurrences) during the term of this Lease, the Lessee shall promptly and fully notify the Lessor and the Vendor with respect thereto. On the rental payment date next succeeding such notice the Lessee shall pay to the Lessor an amount equal to the rental payment or payments in respect of such Unit due and payable on such date plus a sum equal to the Casualty Value (as herein defined) of such Unit as of the date of such payment in accordance with the schedule set out below. Upon the making of such payment by the Lessee in respect of any Unit, the rental for such Unit shall cease to accrue, the term of this Lease as to such Unit shall terminate and (except in the case of the loss, theft or complete destruction of such Unit) the Lessor shall be entitled to recover possession of such Unit and the provisions of § 14 hereof shall apply to such Unit. The Lessor hereby appoints the Lessee its agent to dispose of any Unit suffering a Casualty Occurrence or any component thereof, at the best price obtainable on an "as is, where is" basis without representation or warranty by the Lessor. Provided that the Lessee has previously paid the Casualty Value to the Lessor, the Lessee shall be entitled to the proceeds of such sale to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor.

Subject to any adjustment as provided in the third and tenth paragraphs of § 17 hereof, the Casualty Value of each Unit as of the payment date on which payment is to be made as aforesaid shall be that percentage of the Purchase Price of such Unit as is set forth in the following schedule opposite such date:

<u>Date</u>	<u>Percentage</u>
June 1, 1975	106.810
December 1, 1975	110.345
June 1, 1976	106.647
December 1, 1976	106.913
June 1, 1977	106.856
December 1, 1977	106.382
June 1, 1978	102.665
December 1, 1978	101.514
June 1, 1979	100.075
December 1, 1979	98.298
June 1, 1980	93.311
December 1, 1980	90.973
June 1, 1981	88.392
December 1, 1981	85.582
June 1, 1982	79.655
December 1, 1982	76.501
June 1, 1983	73.176
December 1, 1983	69.700
June 1, 1984	66.065
December 1, 1984	62.307
June 1, 1985	58.430
December 1, 1985	54.504
June 1, 1986	50.445
December 1, 1986	46.353
June 1, 1987	42.112
December 1, 1987	37.847
June 1, 1988	33.439
December 1, 1988	29.004
June 1, 1989	24.414
December 1, 1989	19.797
June 1, 1990	15.000
December 1, 1990 and thereafter	

Except as hereinabove in this § 7 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 Unit from and after delivery and acceptance thereof by the Lessee hereunder.

The Lessee will, at all times while this Lease is in effect, at its own expense, cause to be carried and maintained property insurance in respect of the Units at the time subject hereto, and public liability insurance, in amounts, with deductibles not to exceed \$100,000 (which amount may be increased by the Lessee with the consent of the Lessor,

which consent will not be unreasonably withheld) and against risks customarily insured against by the Lessee in respect of similar equipment owned by it and the benefits thereof shall be payable to the Vendor, the Lessor and the Lessee, as their interests may appear (provided, however, that all proceeds of public liability insurance shall be payable to the Vendor only to the extent necessary to reimburse it for losses suffered by it covered by such public liability insurance policies), so long as the indebtedness, if any, evidenced by the Security Document shall not have been paid in full, and thereafter to the Lessor and the Lessee as their interests may appear. All policies of insurance shall contain a breach of warranty clause (which shall provide that the interests of the Vendor or the Lessor thereunder shall not be rescinded, impaired or invalidated by any act or neglect of the Lessee) and shall provide for a thirty-day minimum written cancellation notice to the Vendor and the Lessor. The Lessee agrees to furnish to the Vendor and the Lessor concurrently with the commencement of the term of this Lease and at least annually thereafter certificates or other evidence of compliance by the Lessee with the provisions of this paragraph. In the event that the Lessee shall fail to maintain insurance as herein provided, the Lessor may at its option effect such insurance and, in such event, the Lessee shall upon demand reimburse the Lessor for the cost thereof. Any insurance proceeds received by the Lessor as the result of insurance carried by the Lessee or condemnation payments received by the Lessor in respect of Units suffering a Casualty Occurrence shall be deducted from the amounts payable by the Lessee to the Lessor in respect of Casualty Occurrences pursuant to this § 7. If the Lessor shall receive any such insurance proceeds or condemnation payments after the Lessee shall have made payments pursuant to this § 7 without deduction for such insurance proceeds or such condemnation payments, the Lessor shall pay such proceeds or condemnation payments to the Lessee up to an amount equal to the Casualty Value with respect to a Unit paid by the Lessee and any balance of such proceeds or condemnation payments shall remain the property of the Lessor. All insurance proceeds received by the Lessor in respect of any Unit not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired.

§ 8. Reports. On or before March 31 in each year, commencing with the calendar year 1976, the Lessee

§ 8. Reports. On or before March 31 in each year, commencing with the calendar year 1976, the Lessee will furnish to the Lessor and the Vendor an accurate statement (a) setting forth as of the preceding December 31 the amount, description and numbers of all Units then leased hereunder and covered by the Security Document, the amount, description and numbers of all Units that have suffered a Casualty Occurrence during the preceding calendar year (or since the date of this Lease in the case of the first such statement) or are then undergoing repairs (other than running repairs) or are withdrawn from use pending repairs (other than running repairs) and such other information regarding the condition and state of repair of the Units as the Lessor or the Vendor may reasonably request, (b) stating whether, in the case of all Units repainted or repaired during the period covered by such statement, the numbers and the markings required by § 5 hereof and the Security Document have been preserved or replaced and (c) stating whether all reports required to be made to the Lessor hereunder during the preceding year have been made. The Lessor shall have the right by its agents, to inspect the Units and the Lessee's records with respect thereto at such reasonable times as the Lessor may request during the continuance of this Lease.

Within 15 days after the filing thereof with the Securities and Exchange Commission under the Securities Exchange Act of 1934, the Lessee will promptly furnish to the Lessor, the Vendor and any party for whom the Vendor is acting as agent who shall so request a copy of each of Lessee's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.

As soon as available and in any event within 120 days after the end of each fiscal year, the Lessee will deliver to the Lessor and the Vendor a certificate signed by the President, any Vice President, the Treasurer or any Assistant Treasurer of the Lessee stating that a review of the activities of the Lessee during such year has been made under his supervision with a view to determining whether the Lessee has kept, observed, performed and fulfilled all of its covenants and obligations under this Lease and the Security Document and that to the best of his knowledge the Lessee during such year has kept, observed, performed and fulfilled each and every covenant and obligation contained herein and in the Security Document, or if an Event of Default under this Lease or an event of default under the Security Document shall exist or if an event has occurred

and is continuing which, with the giving of notice or the passage of time or both, would constitute such an Event of Default or an event of default, specifying such Event of Default, event of default or such event and the nature and status thereof.

The Lessee shall also furnish such other financial information as the Lessor, Vendor or any party for whom the Vendor is acting as agent may reasonably request from time to time.

§ 9. Disclaimer of Warranties; Compliance with Laws and Rules; Maintenance; Indemnification. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE UNITS DELIVERED TO THE LESSEE HEREUNDER, AND THE LESSOR MAKES NO WARRANTY OF MERCHANTABILITY OR FITNESS OF THE UNITS FOR ANY PARTICULAR PURPOSE OR AS TO TITLE TO THE UNITS OR ANY COMPONENT THEREOF, it being agreed that all such risks, as between the Lessor and the Lessee, are to be borne by the Lessee; but the Lessor hereby irrevocably appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce from time to time, in the name of and for the account of the Lessor and/or the Lessee, as their interests may appear, at the Lessee's sole cost and expense, whatever claims and rights the Lessor may have against the Builders under the provisions of Items 3 and 4 of Annex A to the Security Document. The Lessee's delivery of a Certificate of Acceptance shall be conclusive evidence as between the Lessee and the Lessor that the Units described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Lessor based on any of the foregoing matters. Notwithstanding the first sentence of this § 9, the Lessor represents and warrants that it has full right, power and authority to enter into and perform this Lease and agrees that the Units will at all times remain free of liens and encumbrances which may result from claims against the Lessor not related to the right, title and interest of the Lessor in the Units, the leasing of the Units hereunder or any transaction pursuant to or permitted by the Security Document or this Lease and excluding all claims which the Lessee is obligated to pay, or indemnify the Lessor against, hereunder.

The Lessee agrees, for the benefit of the Lessor and the Vendor, to comply in all material respects (including,

without limitation, with respect to the use, maintenance and operation of each Unit) with all laws of the jurisdictions in which its operations involving the Units may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Units, to the extent that such laws and rules are reasonably interpreted as being applicable to, or affecting, the title, operation or use of the Units, and in the event that such laws or rules require any alteration, replacement or addition of or to any part on any Unit, 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 the Lessor or the Vendor, adversely affect the property or rights of the Lessor or the Vendor under this Lease or under the Security Document.

The Lessee agrees that, at its own cost and expense, it will maintain and keep each Unit in good order and repair, ordinary wear and tear excepted.

Any and all additions to any Unit (except communications, signal and automatic control equipment or devices having a similar use which have been added to such Unit by the Lessee, the cost of which is not included in the Purchase Price of such Unit and which are not required for the operation or use of such Unit by the Interstate Commerce Commission, the Department of Transportation or any other applicable regulatory body), and any and all parts installed on and additions and replacements made to any Unit shall constitute accessions to such Unit and, at the cost and expense of the Lessee, full ownership thereof free from any lien, charge, security interest or encumbrance (except for those created by the Security Document) shall immediately be vested in the Lessor and the Vendor as their respective interests appear in the Unit itself.

The Lessee agrees to indemnify, protect and hold harmless the Lessor and the Vendor from and against all losses, damages, injuries, liabilities, claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, but not limited to, counsel fees and expenses, patent liabilities, penalties and interest, arising out of or as the result of the entering into or the performance of, or the occurrence of a default

or an Event of Default under, the Security Document, the Assignment, this Lease or the Lease Assignment, the ownership of any Unit, the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or return of any Unit or any accident in connection with the operation, use, condition, possession, storage or return of any Unit resulting in damage to property or injury or death to any person, except as otherwise provided in §§ 6, 14 and 17 of this Lease. 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 expiration or the termination of the term of this Lease.

The indemnities provided by this Section 9 shall be in an amount which, after deducting all taxes, fees or other charges imposed with respect to the receipt thereof, shall be equal to the amount of the loss, expense or liability with respect to which the indemnification payment is made.

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

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

A. default shall be made in payment of any part of the rental provided in § 3 hereof, and such default shall continue for ten days;

B. the Lessee shall make or permit any unauthorized assignment or transfer of this Lease or of possession of the Units, or any thereof;

C. 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 Security Document, and such default shall continue for 30 days after the Lessor or Vendor shall have demanded in writing the performance thereof or to make provision satisfactory to the Vendor or Lessor, as the case may be, for such compliance;

D. any proceedings shall be commenced by or against the Lessee for any relief which includes, or might result in, any modification of the obligations of the Lessee hereunder or under the Security Document under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extension (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder or under the Security Document), and, unless such proceedings shall 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), all the obligations of the Lessee under this Lease and under the Security Document shall not have been and shall not continue to have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed (whether or not subject to ratification) for the Lessee or for the property of the Lessee in connection with any such proceedings in such manner that such obligations shall have the same status as obligations incurred by such a trustee or trustees or receiver or receivers, within 30 days after such appointment or 60 days after such proceedings shall have been commenced, whichever shall be earlier;

E. an event of default shall occur under any lease, agreement, equipment trust agreement or indenture under which the Lessee is an obligor and under which the aggregate unpaid lease rentals or indebtedness is not less than \$2,000,000, the obligee or obligees thereunder or trustees on its or their behalf shall have declared the principal amount of the obligations issued or secured thereby to become immediately due or payable in accordance with the terms thereof and such declaration shall not have been annulled within ten days after receipt by the Lessee of notice thereof;

then, in any such case, the Lessor, at its option, may:

(a) 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 without limitation § 17 hereof, the indemnity provisions of § 9 hereof and the second paragraph of this § 10; or

(b) by notice in writing to the Lessee terminate the term of this Lease, whereupon all rights of the Lessee to the use of the Units shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Units may be and take possession of all or any of such Units and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Units for any purposes whatever; but the Lessor 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 (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee whichever of the following the Lessor shall elect

(A) as liquidated damages for loss of the bargain and not as a penalty, an amount, with respect to each Unit, equal to the sum of (i) the excess of (x) the present value, at the time of such termination, of the entire unpaid balance of all rental for such Unit which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Unit over (y) the then present value of the rentals which the Lessor reasonably estimates to be obtainable for such Unit during such period (or, if the Lessor so elects, over the aggregate net proceeds of any sale of the Units sold by the Lessor or the Vendor under the Security Document at one or more public or private sales plus, if any of the Units are not so sold, the then fair market value of such Units as reasonably estimated by the Lessor) such present value to be computed in each case on the basis of a 5% per annum discount, compounded semiannually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, and (ii) any damages and expenses, including reasonable attorneys' fees, in addition thereto which the Lessor shall have sustained by reason

of the breach of any covenant, representation or warranty of this Lease; or

(B) if the Lessor (or the Vendor under the Security Document) elects to sell any or all of the Units or Equipment at one or more public or private sales (the Lessor to give the Lessee at least 30 days notice of such election), as liquidated damages for loss of the bargain and not as a penalty, an amount equal to the following, reduced by the aggregate net proceeds of such sale or sales: (i) the aggregate Casualty Value of all Units of Equipment on the rental payment date next preceding the date of the sale next preceding the date of the Lessor's demand for payment to the Lessee under this paragraph (B); plus (ii) the amount provided for by clause (ii) of paragraph (A) above. Upon payment in full of the amounts provided for by this paragraph (B), all right, title and interest of the Lessor in the Units or Equipment not sold pursuant to this paragraph (B) shall pass to the Lessee (on an "as is, where is" basis, without representation or warranty by the Lessor).

In the event of any sale or other disposition of any Unit, pursuant to the exercise of remedies provided for by this § 10, the Lessee shall indemnify the Lessor in such amount as will, after taking account of all taxes imposed with respect to the receipt thereof, be equal to any additional income taxes incurred, or income tax benefits lost, by reason of such sale, exchange or other disposition of any Unit or portion thereof resulting in a loss to the Lessor which is not deductible in full as an ordinary loss for federal income tax purposes. In addition, in the event of any such sale or other disposition of a Unit, unless the Lessor has elected to proceed under subparagraph (B) of paragraph (b) above, the Lessee shall indemnify the Lessor in such amount as will, after deducting all taxes imposed with respect to the receipt thereof, be equal to all or such portion of the Investment Credit and/or the ADR Deductions (both as defined in § 17 hereof) lost, not claimed, not available for claim, disallowed or recaptured by or from the Lessor as the result of such sale or disposition; provided that the amount payable by the Lessee under this sentence, when added to the amount determined in accordance with subclause (y) of clause (i) of paragraph (A) above,

shall not exceed the aggregate Casualty Value of such Unit on the rental payment date next preceding the date of the Lessor's demand for payment under said paragraph (A).

The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative, and shall be in addition to all other remedies in its favor or 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 not, at the time in question, prohibited by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder, and agrees to make such payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

The failure of the Lessor to exercise 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.

§ 11. Return of Units Upon Default. If this Lease shall terminate pursuant to § 10 hereof, the Lessee shall forthwith deliver possession of the Units to the Lessor. For the purpose of delivering possession of any Unit or Units to the Lessor as above required, the Lessee shall at its own cost, expense and risk:

(a) forthwith and in the usual manner place such Units upon such storage tracks located within 100 miles of Washington, D.C., as the Lessor reasonably may designate; and

(b) permit the Lessor or cause the Lessor to be permitted to store such Units on such tracks at the risk of the Lessee without charge for rent or storage until such Units have been sold, leased or otherwise disposed of by the Lessor, but in no event for a period to exceed 270 days.

The assembling, delivery, storage and transporting of the Units as hereinbefore provided shall be at the expense and risk of the Lessee and are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree

against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Units. During any storage period, the Lessee will, at its own cost and expense, maintain and keep the Equipment in good order and repair and will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Unit, to inspect the same.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this § 11, the Lessee hereby irrevocably appoints the Lessor 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 Unit to the Lessor, to demand and take possession of such Unit in the name and on behalf of the Lessee from whomsoever shall be in possession of such Unit at the time.

§ 12. Assignment; Possession and Use. This Lease shall be assignable in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. All the rights of the Lessor hereunder (including, but not limited to, the rights under §§ 6, 7 and 10 and the rights to receive the rentals payable under this Lease) shall inure to the benefit of the Lessor'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 or under the Security Document the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease and the Security Document, but, without the prior written consent of the Lessor, the Lessee shall not assign or transfer its leasehold interest under this Lease, in the Units or any of them. The Lessee, at its own expense, will promptly pay or discharge any and all sums claimed by any party which, if unpaid, might become a lien, charge, security interest or other encumbrance (other than an encumbrance created by the Security Document, the Assignment or the Lease Assignment or an encumbrance securing a claim created by the Lessor not related to the right, title and interest of the Lessor in the Units, the leasing of the Units hereunder or any transaction pursuant to or permitted by the Security Document or this Lease and excluding all encumbrances securing claims which the Lessee is obligated to

pay, or indemnify the Lessor against, hereunder) upon or with respect to any Unit, including any accession thereto, or the interest of the Lessor, the Vendor or the Lessee therein, and will promptly discharge any such lien, claim, security interest or other encumbrance which arises, but 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 nonpayment thereof does not, in the opinion of the Vendor and the Lessor, adversely affect the interests of either of them in or to the Equipment or otherwise under this Agreement or the Security Document. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Units, except to the extent permitted by the provisions of the immediately succeeding paragraph.

Nothing in this Section shall: (a) prevent the Lessee from merging or consolidating with, or transferring all or substantially all of its assets to, another solvent corporation, provided that the corporation surviving such merger or consolidation (if other than the Lessee), or the corporation to which such assets are transferred, shall assume, by operation of law or otherwise, all of the Lessee's obligations hereunder; (b) prevent the Lessee from assigning its leasehold interest hereunder or in the Units to a corporation controlling, controlled by, or under common control with, the Lessee (any such corporation being herein referred to as an "affiliate" of the Lessee), provided that no such assignment shall relieve the Lessee from its obligations hereunder; or (c) prevent, or require the Lessee to take any action in respect of, the attachment of the lien of the Mortgage and Deed of Trust dated July 1, 1936, of the Lessee to The Riggs National Bank of Washington, D. C., as Trustee, as amended and supplemented (the "Mortgage"), to the Lessee's leasehold interest hereunder in and to the Units. The Lessee shall not assign or permit the assignment of any Unit to service involving the regular operation and maintenance thereof outside the United States of America.

§ 13. Renewal Options and Right of First Refusal.
Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee may by written notice delivered to the Lessor not less than three months prior to the end of the Original Term or any extended term of this Lease, as the case may be, elect to

extend the term of this Lease in respect of, all but not fewer than all, of the Units then covered by this Lease, for a consecutive extended term or terms of 1 year or any integral multiple thereof, the first of which shall commence on the scheduled expiration of the Original Term of this Lease; provided, however, that the aggregate of all such extended terms shall not exceed ten years. Rental in each case shall be at a "Fair Market Rental" payable in semiannual payments on June 1 and December 1 in each year of such extended term.

Fair Market Rental shall be determined on the basis of, and shall be equal in amount to, the rental 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 rental. If on or before 60 days prior to the expiration of the term of this Lease immediately preceding the extended term for which the rental is to be determined, the Lessor and the Lessee are unable to agree upon a determination of the Fair Market Rental of the Units, such rental shall be determined in accordance with the foregoing definition by an Appraiser. The term Appraiser shall mean such qualified independent appraiser as the Lessor may select with the approval of the Lessee, or failing such approved selection, a panel of three qualified independent appraisers, one of whom shall be selected by the Lessor, the second by the Lessee and the third designated by the first two so selected. The Appraiser shall be instructed to make such determination within a period of 30 days following appointment, and shall promptly communicate such determination in writing to the Lessor and the Lessee. The determination so made shall be conclusively binding upon both the Lessor and the Lessee. The expenses and fees of the Appraiser shall be borne by the Lessee.

In the event the Lessor elects to sell such Units to third parties at the expiration of the Original Term or extended term of this Lease, the Lessor shall in a commercially reasonable manner solicit offers to buy such Units, and upon receipt thereof shall exhibit to the Lessee a true copy of the offer which the Lessor intends to accept, and the Lessee shall have the right, exercisable by written notice, delivered within 15 days of the receipt of said copy, to purchase such Units at the sale price set forth

in such offer, provided that the Lessee shall tender payment of the purchase price prior to the later of the intended date of sale to the third party making such offer or the date five days following the expiration of such 15-day period (such payment to be made in the same manner contemplated by such offer).

Upon payment of the purchase price, the Lessor shall upon request of the Lessee execute and deliver to the Lessee, or to the Lessee's assignee or nominee, a bill of sale (without representations or warranties except that such Units are free and clear of all claims, liens, security interests and other encumbrances by or in favor of any person claiming by, through or under the Lessor other than claims, liens, security interests and other encumbrances arising from the Security Document) for such Units and such other documents as may be required to release such Units, from the terms and scope of this Lease and to transfer title thereto to the Lessee or such assignee or nominee, in such form as may reasonably be requested by the Lessee, all at the Lessee's expense.

§ 14. Return of Units upon Expiration of Term.

As soon as practicable on or after the expiration of the Original Term or any extended term of this Lease with respect to any Unit not purchased by the Lessee, the Lessee will, at its own cost and expense, at the request of the Lessor, deliver possession of such Unit to the Lessor upon such tracks located within 100 miles of Washington, D.C., as the Lessor may reasonably designate, or, in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Unit on such tracks for a period not exceeding three months all as directed by the Lessor, the movement and storage of such Unit to be at the expense and risk of the Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of such Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. The assembling, delivery, storage and transporting of the Units as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee

requiring specific performance of the covenants of the Lessee so to assemble, deliver and store the Units. Each Unit returned to the Lessor pursuant to this § 14 (other than a Unit which has suffered a Casualty Occurrence) shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted, and (ii) meet the applicable standards then in effect under the Interchange Rules of the Association of American Railroads and/or the applicable rules of any governmental agency or other organization with jurisdiction. If the Lessor shall elect to abandon any Unit as to which this Lease has terminated, it may within 90 days after such termination deliver written notice to such effect to the Lessee and the Lessee shall within 15 days of the delivery of such notice assume and hold the Lessor harmless from all liability arising in respect of any responsibility of ownership thereof, other than liability arising in respect of any occurrence between such termination and such assumption (other than any such occurrence while such Unit is being assembled, moved or stored at the risk of the Lessee as above provided). The Lessor shall execute and deliver to the Lessee a bill of sale or bills of sale transferring to the Lessee, or upon its order, the Lessor's title to and property in any Unit abandoned by it pursuant to the immediately preceding sentence. Except as provided in this §14, the Lessee shall have no liability to the Lessor in respect of any Unit abandoned by the Lessor after termination of the Lease; provided, however, that the foregoing clause shall not in any way effect the survival of the indemnities of the Lessee under this Lease which continue after the termination of this Lease or relieve the Lessee of its obligations pursuant to § 7 hereof to make payments equal to the Casualty Value of any Unit experiencing a Casualty Occurrence while this Lease is in effect.

§ 15. Opinions of Counsel. On each Closing Date the Lessee will deliver to the Lessor two counterparts of written opinions of counsel for the Lessee, addressed to the Lessor and the Vendor, in scope and substance satisfactory to the Lessor, the Vendor and their respective counsel, as follows:

A. an opinion of Messrs. Sullivan & Cromwell to the effect that:

1. the Lessee is a corporation legally incorporated, validly existing and in good standing under

the laws of its jurisdictions of incorporation (specifying the same) with adequate corporate power to own its properties and to carry on its business as now conducted, and to enter into the Finance Agreement, the Security Document and this Lease;

2. the Finance Agreement, the Security Document and this Lease have been duly authorized, executed and delivered by the Lessee and constitute legal, valid and binding agreements of the Lessee, enforceable in accordance with their respective terms except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and by applicable laws which may affect the remedies provided in the Security Document or this Lease, which laws, however, do not in the opinion of such counsel make the remedies provided in such documents inadequate for the realization of the benefits provided thereby, and by principles of equity applicable to the enforceability of the remedy of specific performance.

3. the Security Document (and any assignment thereof) and this Lease (and any assignment hereof) have been duly filed and recorded with the Interstate Commerce Commission pursuant to Section 20c of the Interstate Commerce Act and no filing, recording or deposit (or giving of notice) with any other federal, state or local government or agency thereof is necessary in order to protect the interests of the Vendor or the Lessor in and to the Units in the United States of America;

4. approvals have been obtained from the Virginia State Corporation Commission and the District of Columbia Public Service Commission, and no other approval is required from any public regulatory body with respect to the entering into or performance of the Security Document or this Lease;

5. the entering into and performance of the Security Document or this Lease will not result in any breach of, or constitute a default under, the Mortgage or the Indenture of the Lessee to

The Chase Manhattan Bank, as successor trustee, dated as of February 15, 1957, as supplemented (the "Indenture"); and

6. the Lessee is not a "holding company" or a "subsidiary" of a "holding company" registered under the Public Utility Holding Company Act of 1935;

B. an opinion of an Associate General Counsel of the Lessee to the effect that:

1. the entering into and performance of the Security Document or this Lease will not result in any breach of, or constitute a default under, any indenture, mortgage, deed of trust, bank loan or credit agreement or other agreement or instrument known to such counsel to which the Lessee is a party or by which it may be bound, except that such opinion need not cover the Mortgage or the Indenture;

2. under the agreements referred to in the preceding paragraph, no lien of any nature whatsoever attaches to the Units except the lien of the Mortgage which attaches to the leasehold interest of the Lessee hereunder in and to the Units.

§ 16. Recording. The Lessee, at its own expense, will cause this Lease, the Security Document and any assignment hereof or thereof to be filed and recorded with the Interstate Commerce Commission in accordance with Section 20c of the Interstate Commerce Act. The Lessee will undertake the filing, registering, deposit, and recording required of the Lessor under the Security Document and will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, record (and will refile, re-register, deposit and re-deposit or re-record whenever required) any and all further instruments required by law or reasonably requested by the Lessor or the Vendor for the purpose of proper protection, to their satisfaction, of the Vendor's and the Lessor's respective interests in the Units, or for the purpose of carrying out the intention of this Lease, the Security Document or the assignment thereof to the Vendor; and the Lessee will promptly furnish to the Vendor and the Lessor evidences of all such filing, registering, depositing or recording, and an opinion or opinions of counsel for the Lessee with respect thereto satisfactory to the Vendor and the Lessor. This Lease and the Security

Document shall be filed and recorded with the Interstate Commerce Commission prior to the delivery and acceptance hereunder of any Unit.

§ 17. Income Taxes. The Lessor and the Lessee agree that the rentals and Casualty Values set forth in §§ 3 and 7 of this Lease have been computed on the assumption that, as each Unit is accepted as provided in § 2 hereof, the Lessor shall thereupon be treated as the owner and the lessor of such Unit under a true lease for purposes of the Internal Revenue Code of 1954, as amended to the date hereof (the "Code") and that Lessor shall be entitled, for Federal income tax purposes, to deductions with respect to interest paid or accrued under the Security Document (the "Interest Deductions"), the investment tax credit provided by Section 38 and related sections of the Code computed at a rate of at least 4% of the full Purchase Price of the Units (the "Investment Credit") and deductions for depreciation for each Unit, which depreciation deductions may be taken under the asset depreciation range system of Treasury Regulation 1.167(a)-11 on a cost basis under Section 167(g) of the Code at least equal to the full Purchase Price of such Unit using one or more accelerated methods described in Section 167(b) of the Code, under asset guideline class 00.25, over an asset depreciation period of 12 years, to a salvage value (after application of Section 167(f) of the Code), of 5% of the Purchase Price of such Unit (the "ADR Deductions").

The Lessee agrees that neither it nor any corporation controlled by it, in control of it, or under common control with it, directly or indirectly, will take any action or file any returns or other documents inconsistent with the foregoing except as may be required by law or this Lease or the Security Document and that each of such corporations will file such returns, take such actions and execute such documents as may be reasonable and necessary to facilitate accomplishment of the intent hereof.

If for any reason the Lessor is or becomes entitled prior to the Cut-Off Date (as defined in Article 4 of the Security Document) to the investment tax credit provided by Section 38 and related sections of the Code, or any similar or substitute credit in lieu thereof, computed at a rate in excess of 4% of the full Purchase Price of any or all of the Units, all references herein to the Investment Credit when used with respect to such Units shall mean such credit computed at such rate and (i) the rentals and Casualty Values

set forth in §§ 3 and 7 of this Lease and (ii) the amount payable by the Lessor under subparagraph (a) of the third paragraph of Article 4 of the Security Document and the Conditional Sale Indebtedness (as defined therein) with respect to Units thereafter delivered under the Security Document, shall be appropriately adjusted; provided, however, that in no event shall (a) the aggregate Conditional Sale Indebtedness be increased; (b) any semiannual rental payment pursuant to § 3 of this Lease be less than the principal and interest due on the date of such payment under the Security Document; (c) any Casualty Value hereunder so adjusted of any Unit be less than the Casualty Value (as defined in the Security Document) of such Unit; or (d) the aggregate amount payable by the Lessor under subparagraph (a) of the third paragraph of Article 4 of the Security Document in respect of all Units exceed \$1,200,000 (unless the Lessor otherwise agrees). Notwithstanding the foregoing if the Lessor shall claim on its Federal income tax return the investment tax credit computed at a rate in excess of 4% of the full Purchase Price of any or all of such Units, the Lessor shall give notice to the Lessee of such action within 30 days of the filing of the tax return in which such item is claimed, all references herein to the Investment Credit when used with respect to such Units shall thereupon mean such credit computed at such rate and the rentals and Casualty values set forth in §§ 3 and 7 of this Lease shall be appropriately adjusted in respect of such Units as of the rental payment date next succeeding such notice; provided, however, in no event shall (a) any semiannual rental payment pursuant to § 3 of this Lease be less than the principal and interest due on the date of such payment under the Security Document; or (b) any Casualty Value hereunder so adjusted of any Unit be less than the Casualty Value (as defined in the Security Document) of such Unit. If, in respect of the adjustments provided for in either of the first and second sentences of this paragraph, the Lessor and the Lessee cannot agree on the amount of such adjustments required thereunder, the Lessor and the Lessee shall mutually designate a firm of independent certified public accountants of national reputation and stature which is experienced in the financial leasing business to determine, at the sole expense of Lessee, the appropriate amount of such adjustments in accordance with the applicable assumptions referred to in clause (x) of the fifth paragraph of this § 17, which determination shall be final and binding upon the Lessor and the Lessee.

Unless the provisions of the eleventh paragraph of this § 17 shall have become applicable, the Lessor agrees

that it shall claim on its Federal income tax return the Investment Credit, the ADR Deductions and the Interest Deductions, respectively, and that the Lessee shall be relieved of the obligation to indemnify the Lessor with respect to any such item pursuant to the next succeeding paragraph to the extent such item is not so claimed by the Lessor, unless the Lessor shall have received a written opinion of Messrs. Milbank, Tweed, Hadley & McCloy or other independent tax counsel selected by the Lessor and approved by the Lessee that there is no reasonable basis for the Lessor to claim such item or items. If the Lessor receives such opinion to the effect that there is no reasonable basis for claiming such an item and if the Lessor determines in its sole discretion not to claim such an item on its tax return, the Lessor shall be treated as not entitled to claim such item for the purpose of the next succeeding paragraph.

If for any reason (other than the occurrence of any of the events set forth in the next succeeding paragraph) the Lessor, in respect of the Original Term of this Lease, shall lose, or shall not have, or shall suffer a disallowance of or shall not be entitled to claim (in accordance with the immediately preceding paragraph) or shall be required to recapture all or any portion of the Investment Credit, the ADR Deductions, or the Interest Deductions (any such event being hereinafter called a Loss), then at the option of the Lessee on the rental payment date next succeeding written notice to the Lessee by the Lessor of such Loss (such option to be elected by written notice to the Lessor on or before such rental payment date), (x) the rentals for the Units provided for by § 3 hereof in respect of the remainder of the Original Term of this Lease shall be increased or decreased to such amount or amounts as will cause the Lessor's net after-tax cash flows over the Original Term of this Lease (computed on the same assumptions (but for the assumption or assumptions that failed, resulting in the Loss or Losses), including tax rates, as were utilized by the Lessor in computing the rentals and the Casualty Values set forth in §§ 3 and 7 of this Lease, which assumptions will be made available to the Lessee upon the Lessee's request, and taking account of any interest or penalties payable by the Lessor as a result of any such Loss, of any increase or decrease in the Lessor's liability for tax under the New York State Franchise Tax on Financial Companies and the New York City Financial Corporation Tax resulting from any such Loss and any taxes payable by the Lessor in respect of any payments received by the Lessor pursuant to this paragraph) to equal the net after-tax cash flows

that would have been realized by the Lessor if such Loss had not occurred, provided, however, that if the Lessor and the Lessee cannot agree on such amount or amounts, the Lessor and the Lessee shall mutually designate a firm of independent certified public accountants of national reputation and stature which is experienced in the financial leasing business to determine, at the sole expense of the Lessee, such amount or amounts in accordance with the foregoing assumptions and standards, which determination shall be final and binding upon the Lessor and the Lessee, or (y) the Lessee shall pay to the Lessor an amount equal to the present value of the difference between the rentals provided for by § 3 hereof in respect of the remainder of the Original Term of this Lease and the rentals as increased by the preceding clause (x), such present value to be computed on the basis of a 5% per annum discount, compounded semiannually as of each rental payment date.

Notwithstanding the provisions of the immediately preceding paragraph, the payments under clause (x) or clause (y) thereof need not be made in respect of any Loss to the extent such Loss is a direct result of the occurrence of any of the following events:

(i) any change in tax law (as defined below) which occurs or becomes effective on or after the date of the receipt of the Rulings (or if some but not all of the Rulings have been received, the date of the receipt of the Rulings in respect of the matters affected by the change);

(ii) any act or failure to act of the Lessor (other than as required pursuant to this Lease or the Security Document or as may be the result of an act or failure to act of Lessee) or any misrepresentation of or failure to represent a material fact within its actual exclusive knowledge on the part of Lessor in connection with the Rulings (as defined below);

(iii) a Casualty Occurrence with respect to a Unit, if the Lessee shall have paid to the Lessor the amounts stipulated under § 7 hereof;

(iv) a voluntary transfer or other voluntary disposition by the Lessor, or any transfer or disposition by the Lessor resulting from the bankruptcy or other proceedings for the relief of debtors in which the

Lessor is debtor, whether voluntary or involuntary, of any interest in a Unit or the voluntary reduction by the Lessor of its interest in the rentals from a Unit under this Lease (except pursuant to the Assignment of Lease and Agreement dated as of the date hereof);

(v) the failure of the Lessor to claim in a timely or proper manner the Investment Credit, the ADR Deductions (including making all appropriate elections under the applicable Income Tax Regulations) or the Interest Deductions; or

(vi) the failure of the Lessor to have sufficient liability for Federal income tax against which to credit such Investment Credit or sufficient income to benefit from the ADR Deductions or the Interest Deductions, as applicable.

For the purposes of the preceding paragraph, a change in tax law shall mean any amendment to the Code or the Regulations promulgated thereunder, any published rulings or procedures (such as Revenue Rulings, Revenue Procedures, and similar decisions of the Internal Revenue Service that may be used as precedent by the Internal Revenue Service) issued by the Internal Revenue Service, the enactment or amendment of any statute or the issuance of any executive order or other decree.

In the event a claim shall be made by the Internal Revenue Service in respect of a proposed adjustment to investment credits or depreciation or interest deductions claimed on a United States Federal income tax return of the Lessor which claim, if successful, could result in a Loss for which the Lessee would be required to indemnify the Lessor pursuant to the fifth paragraph of this § 17, the Lessor hereby agrees to contest such claim if the Lessee so requests, and the Lessee's obligation to indemnify the Lessor with respect to such claim shall be conditioned upon the making of such contest by the Lessor, provided that: (i) within 30 days after notice by the Lessor to the Lessee of such claim, the Lessee shall request that such claim be contested; (ii) the Lessee shall furnish the Lessor with an opinion of Messrs. Sullivan & Cromwell or other independent tax counsel selected by the Lessee and approved by the Lessor to the effect that meritorious grounds exist to contest such claim; (iii) the Lessor, at its sole option, may forego any and all administrative

appeals, proceedings, hearings and conferences with the Internal Revenue Service in respect of such claim and may, at its sole option, either pay the tax claimed and sue for a refund in the appropriate United States District Court and/or the United States Court of Claims, as the Lessor shall elect, or contest such claim in the Tax Court of the United States, considering, however, in good faith such request as the Lessee shall make concerning the most appropriate forum in which to proceed; (iv) the Lessor shall have sole control of the conduct of the contest, considering however such suggestions as to the conduct of the contest as the Lessee may make; and (v) the Lessee shall have indemnified the Lessor in a manner satisfactory to it for any liability or loss which the Lessor may incur as the result of contesting such claim and shall have agreed to pay the Lessor on demand all costs and expenses which the Lessor may incur in connection with contesting such claim, including, without limitation (A) reasonable attorneys' and accountants' fees and disbursements, (B) the amount of any interest or penalty which may ultimately be payable to the United States Government as the result of contesting such claim, and (C) in the event the Lessor shall pay the tax claimed and then seek a refund, interest on the amount of the tax paid attributable to such claim, computed from the date of payment of such tax to the date such refund is received, or, if the final determination of such claim shall be adverse to the Lessor, to the date the Lessee shall make payment to the Lessor in respect of such tax in accordance with the terms of this § 17 at a rate per annum equal at all times to 1% over the rate (herein called the "Prime Rate") which The Chase Manhattan Bank (N.A.) charges from time to time at its principal office in New York City on short-term loans to large businesses with the highest credit standing, each change in such interest rate resulting from a change in the Prime Rate to become effective upon such change in the Prime Rate, provided that the amount of such interest payable by the Lessee shall be reduced by the amount of interest received by the Lessor from the Internal Revenue Service attributable to a refund with respect to such claim successfully challenged. If any such claim referred to above shall be made by the Internal Revenue Service and the Lessee shall have requested the Lessor to contest such claim as above provided and shall have duly complied with all of the terms of this § 17, the Lessee's liability under this § 17, with respect to such claim shall become fixed upon final determination (including the expiration of the time for all appeals) of the Lessor's liability for the tax

claimed and after giving effect to any refund or abatement obtained with respect to the claim or claims contested pursuant to this paragraph, together with interest thereon; but in all other cases the liability of the Lessee under this § 17 shall become fixed at the time the Lessor makes payment of the tax attributable to the Loss. In the case of any such claim by the Internal Revenue Service referred to above, the Lessor agrees promptly to notify the Lessee in writing of such claim and agrees not to make payment of the tax claimed for at least 30 days after the giving of such notice and agrees to give to the Lessee any relevant information relating to such claim which may be particularly within the knowledge of the Lessor, and shall otherwise cooperate with the Lessee in good faith in order to contest effectively any such claim.

In the event the rentals for the Units shall be adjusted as provided in the fifth paragraph of this § 17, the Casualty Values set forth in § 7 hereof shall be adjusted accordingly; provided, however, that no Casualty Value hereunder so adjusted of any Unit shall be less than the Casualty Value (as defined in the Security Document) of such Unit.

The Lessor and the Lessee will jointly apply for and diligently seek the Rulings (as defined below); provided, however, that nothing herein shall preclude the Lessor or the Lessee, as either may deem advisable, from applying for and seeking any other rulings of the Internal Revenue Service not inconsistent with the Rulings. The Lessee will furnish such documents, records and representations, including, but not limited to, evidence of the original use, the estimated useful life and the estimated residual value of the Units, sufficient to support the matters claimed in any request for such Rulings as shall be deemed necessary and appropriate for such request by the Lessor. The Lessee agrees that during the Original Term of this Lease none of the Units will be used predominantly outside the United States within the meaning of Section 48(a) of the Code, that it will maintain sufficient records to verify such use and that it will furnish such records to the Lessor within 30 days after receipt of a written request therefor.

Anything in this § 17 to the contrary notwithstanding, if on or before September 1, 1975, the Internal Revenue Service for any reason whatsoever shall not have issued to the Lessor in respect of the Rulings requested a ruling or rulings satisfactory to the Lessor and the Lessee to the

effect that: (i) this Lease is a true lease and the Lessor will be treated as the owner of the Units; (ii) the Lessor is entitled to deductions for depreciation in respect of the Units delivered hereunder (but not necessarily the ADR Deductions); and (iii) the Lessor is entitled to the Interest Deductions, then the Lessee shall, in respect of all Units delivered hereunder and settled for under the Security Document (excluding any Units for which payment in respect of a Casualty Occurrence shall have been made), on the next succeeding rental payment date following September 1, 1975, but only if, at least 30 days prior to such rental payment date, written notice shall have been given by either the Lessor or the Lessee to the other party that the provisions of this paragraph shall become applicable) purchase the interest of the Lessor in such Units and in payment therefor assume and agree to discharge the Lessor's obligations relating to such Units under the Security Document (without regard to the limitations set forth in the last paragraph of Article 4 and Article 23 of the Security Document) and shall pay to the Lessor an amount equal to the rental payable on such rental payment date plus the aggregate Casualty Value of such Units, less the unpaid Conditional Sale Indebtedness (as defined in the Security Document) in respect thereof, determined as of such date plus all fees or expenses paid or incurred by the Lessor in respect of this transaction.

The Lessor and the Lessee agree that if either the Lessor or the Lessee, on or after September 1, 1975, and prior to September 8, 1975, gives the other party the written notice required by the immediately preceding paragraph that the provisions of such paragraph shall become applicable, the Lessor will, on or prior to September 15, 1975, in accordance with Section 48(d) of the Code and the regulations thereunder, execute without warranty of efficacy and file with the Lessee an election to treat the Lessee as having acquired the Units for purposes of the investment tax credit provided by Section 38 and related sections of the Code so that the Lessee may receive the benefit of such credit to the extent it is available; provided, however, that the Lessor shall not be in any way responsible for the Lessee's failure to obtain the benefits of such investment tax credit and the Lessee shall be solely responsible for the preparation and filing of all documents necessary to effect such election and shall furnish the Lessor with all documents required to be signed and filed by the Lessor in respect of the proper making of such election on or before September 8, 1975, and shall specify in its letter transmitting the election documents to the Lessor the date on which such election is required to be made.

For purposes of this § 17, the term Rulings shall mean rulings by the Internal Revenue Service to the effect that, for Federal income tax purposes:

(i) The Lessor will be treated as the purchaser, owner, lessor and original user of the Units.

(ii) the Lease is a true lease under which the Lessor will be treated as the lessor and the Lessee will be treated as the lessee.

(iii) For purposes of determining the investment credits and depreciation allowable with respect to the Units, the basis of each Unit in the hands of the Lessor is not less than the "Purchase Price" for such Unit as defined in the Conditional Sale Agreement (including the portion attributable to the investment made by the Original Investor as such term is defined in the Finance Agreement dated the date hereof), plus all other items includible in basis under section 1012 of the Code.

(iv) Each Unit constitutes "new section 38 property" within the meaning of section 48(b) of the Code.

(v) The Lessor will be entitled to the investment credit under section 38 of the Code attributable to the Units, and its qualified investment in such Units will be determined pursuant to section 46(c) of the Code.

(vi) The Lessor will be entitled to deductions for depreciation of the Units, and the Lessor will be entitled to elect to use any method of accelerated depreciation permitted by Section 167(b)(2) or (3) of the Code and to determine the "reasonable allowance" for depreciation of the Units pursuant to Section 167(m) of the Code and Section 1.167(a)-11 of the Income Tax Regulations, and such entitlement will not be affected by the fact that the Units may constitute public utility property within the meaning of Section 167(1)(3) of the Code in the hands of the Lessor.

(vii) The Units fall within Asset Guideline Class No. 00.25 of Revenue Procedure 72-10, 1972-1 C.B. 721, and may be assigned an asset depreciation period (useful life) of 12 years in accordance with Section 167(m) of the Code and Section 1.167(a)-11 of the Income Tax Regulations.

(viii) The useful life of the Units for purposes of section 46(c) of the Code will be the same as the asset depreciation period selected in computing the allowance for depreciation under Section 167(m) of the Code.

(ix) The Lessor will be entitled to elect pursuant to Section 167(f) of the Code to reduce the salvage value of the Units' basis for determining depreciation.

(x) The Lessor may, at any time during the asset depreciation period for the Units and without the consent of the Commissioner of Internal Revenue, change from the double-declining balance method of depreciation to the sum-of-the-years-digit method or from the sum-of-the-years-digit method to the straight-line method in accordance with Section 1.167(a)-11(c)(1)(iii) of the Income Tax Regulations.

(xi) The Lessor will be entitled to deduct the interest paid or accrued under the terms of the Conditional Sale Agreement pursuant to Section 163 of the Code.

(xii) The Lessee, as lessee under the Lease, will be entitled to deduct rentals payable under the Lease pursuant to Section 162(a)(3) of the Code in accordance with its method of accounting.

The obligations of the Lessee under this § 17 shall survive the expiration or earlier termination of this Lease and are expressly made for the benefit of and shall be enforceable by the Lessor and its successors and assigns.

§ 18. Interest on Overdue Rentals. Anything to the contrary herein contained notwithstanding, any nonpayment of rentals and other obligations due hereunder shall result in the obligation on the part of the Lessee promptly to pay, to the extent legally enforceable, an amount equal to 12-1/8% per annum of the overdue rentals and other obligations for the period of time during which they are overdue or such lesser amount as may be legally enforceable (and, for purposes of this § 18, any sums paid to and held by or for the benefit of the Vendor which would be paid to the Lessor by the Agent under the Security Document but for the occurrence and continuance of any Event of Default or other event which with notice or lapse of time or both could become an Event of Default shall be deemed overdue).

§ 19. Notices. Any notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when mailed, first-class certified, addressed as follows:

(a) if to the Lessor, at One Chase Manhattan Plaza, New York, New York 10015, attention of Administrative Assistant, with a copy to the Vendor at the address specified in Article 27 of the Security Document, and

(b) if to Lessee, at 1900 Pennsylvania Avenue, N.W., Washington, D. C. 20006, Attention of Treasurer,

or addressed to either party at such other address as such party shall hereafter furnish to the other party in writing.

§ 20. Severability; Effect and Modification of Lease. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction, shall be, as to such jurisdiction, 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.

This Lease exclusively and completely states the rights of the Lessor and the Lessee with respect to the leasing of the Units 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 signatories for the Lessor and the Lessee.

§ 21. Execution. This Lease may be executed in such counterparts together constituting but one and the same instrument, but the counterpart delivered to the Vendor shall be deemed to be the original counterpart. Although for convenience this Lease is dated as of the date first set forth above, 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.

§ 22. Law Governing. The terms of this Lease and all rights and obligations hereunder shall be governed by the laws of the State of New York; provided, however, that the

parties shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act.

IN WITNESS WHEREOF, the parties hereto have executed or caused this instrument to be executed as of the date first above written.

POTOMAC ELECTRIC POWER COMPANY,

by

H.A. Davis
Senior Vice President

[CORPORATE SEAL]

Attest:

J.P. Brisset
Assistant Secretary

CHASE MANHATTAN SERVICE CORPORATION,

by

Edward J. Bernay

[CORPORATE SEAL]

Attest:

[Signature]

DISTRICT OF COLUMBIA,) ss.:

On this 8th day of November 1974, before me personally appeared N. L. Davis, to me personally known, who, being by me duly sworn, says that he is a Senior Vice President of POTOMAC ELECTRIC POWER COMPANY, that one of the seals 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 he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Indiana C. Shepp
Notary Public

[Notarial Seal]

INDIANA C. SHEPP

Notary Public D. C.

My Commission expires My Commission Expires June 14, 1975]

STATE OF NEW YORK,)
) SS.:
COUNTY OF NEW YORK,)

On this 6th day of November 1974, before me personally appeared *Edward Brenner* to me personally known, who, being by me duly sworn, says that he is a Vice President of CHASE MANHATTAN SERVICE CORPORATION, that one of the seals affixed to the foregoing instrument is the seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Jane Weinberg
Notary Public

[Notarial Seal]

My Commission expires

JANE WEINBERG
NOTARY PUBLIC, State of New York
No. 31-4519693
Qualified in New York County
Commission Expires March 30, 1976

SCHEDULE A

to Lease

<u>Type</u>	<u>Quantity</u>	<u>Lessee's Road Numbers (Both Inclusive)</u>
100 Ton Steel High Side Gondolas	80	PEPX 1-80
100 Ton Steel 3 Gate Hopper Cars	80	PEPX 601-680

ASSIGNMENT OF LEASE AND AGREEMENT dated as of October 15, 1974 (hereinafter called this Assignment), by and between CHASE MANHATTAN SERVICE CORPORATION (hereinafter called the Lessor or the Vendee) and AMERICAN SECURITY & TRUST COMPANY, as Agent under a Finance Agreement dated the date hereof (hereinafter called the Vendor).

WHEREAS, the Vendee and POTOMAC ELECTRIC POWER COMPANY (hereinafter called the Lessee) are entering into a Conditional Sale Agreement dated as of the date hereof (hereinafter called the Security Document), with THRALL CAR MANUFACTURING COMPANY and BETHLEHEM STEEL CORPORATION (hereinafter called the Builders) providing for the sale to the Vendee of such units of railroad equipment (hereinafter called the Units) described in the Annex thereto as are delivered to and accepted by the Vendee thereunder; and

WHEREAS the Lessor and the Lessee have entered into a Lease of Railroad Equipment dated as of the date hereof (hereinafter called the Lease), providing for the leasing by the Lessor to the Lessee of the Units; and

WHEREAS, in order to provide security for the obligations of the Lessor under the Security Document and as an inducement to the Vendor to invest in the Conditional Sale Indebtedness (as that term is defined in the Security Document), the Lessor has agreed to assign for security purposes its rights in, to and under the Lease to the Vendor;

NOW, THEREFORE, in consideration of the premises and of the payments to be made and the covenants hereinafter mentioned to be kept and performed, the parties hereto agree as follows:

1. Subject to the provisions of Paragraph 11 hereof, the Lessor hereby assigns, transfers and sets over unto the Vendor, as collateral security for the payment and performance of the obligations of the Lessor as Vendee and of the Lessee under the Security Document, all the Lessor's right, title and interest, powers, privileges, and other benefits under the Lease, including, without limitation, the immediate right to receive and collect all rentals, profits and other sums payable to or receivable by the Lessor from the Lessee under or pursuant to

the provisions of the Lease whether as rent, casualty payment, indemnity, liquidated damages, or otherwise (such moneys being hereinafter called the Payments), and the right to make all waivers and agreements, to give all notices, consents and releases, to take all action upon the happening of an Event of Default specified in the Lease, and to do any and all other things whatsoever which the Lessor is or may become entitled to do under the Lease. In furtherance of the foregoing assignment, the Lessor hereby irrevocably authorizes and empowers the Vendor in its own name, or in the name of its nominee, or in the name of the Lessor or as its attorney, to ask, demand, sue for, collect and receive any and all Payments to which the Lessor is or may become entitled under the Lease (except as specifically provided in § 7 thereof with respect to public liability insurance proceeds), and to enforce compliance by the Lessee with all the terms and provisions thereof.

The Vendor agrees to accept any Payments made by the Lessee for the account of the Lessor pursuant to the Lease. To the extent received, the Vendor will apply such Payments to satisfy the due and unpaid obligations of the Lessor under the Security Document, subject to the limitations contained in the last paragraph of Article 4 of the Security Document and any balance shall be paid in immediately available funds immediately to and retained by the Lessor. If the Vendor shall not receive any rental payment under the first paragraph of § 3 of the Lease when due, the Vendor shall notify the Lessor at the address set forth in the Lease.

2. This Assignment is executed only as security and, therefore, the execution and delivery of this Assignment shall not subject the Vendor to, or transfer, or pass, or in any way affect or modify the liability of the Lessor under the Lease, it being understood and agreed that notwithstanding this Assignment or any subsequent assignment, all obligations of the Lessor to the Lessee shall be and remain enforceable by the Lessee, its successors and assigns, against, and only against, the Lessor or persons other than the Vendor.

3. To protect the security afforded by this Assignment, the Lessor agrees as follows:

(a) The Lessor will faithfully abide by, perform and discharge each and every obligation,

covenant and agreement which the Lease provides are to be performed by the Lessor; without the written consent of the Vendor, the Lessor will not anticipate the rents under the Lease, except as provided in Section 7 and Section 17 thereof, or waive, excuse, condone, forgive or in any manner release or discharge the Lessee thereunder of or from the obligations, covenants, conditions and agreements to be performed by the Lessee, including, without limitation, the obligation to pay the rents in the manner and at the time and place specified therein or enter into any agreement amending, modifying or terminating the Lease and the Lessor agrees that any amendment, modification or termination thereof without such consent shall be void; provided, however, that the Lessor may agree (i) to amend the Lease to change the semiannual rental payment on each Unit to not less than the principal and interest due on such date under the Security Document with respect to such Unit, (ii) to amend §§ 4 (to extend the term of the Lease), 6, 13, 14 or 17 of the Lease so long as any amendment thereof is limited to the subject matter set forth in such sections and does not adversely affect the interests of the Vendor and (iii) to amend the Lease in the manner and to the extent contemplated by § 17 thereof. The Lessor shall promptly notify the Vendor in writing of any such amendment.

(b) Should the Lessor fail to make any payment or to do any act which this Assignment requires the Lessor to make or do, then the Vendor, but without obligation so to do, after first making written demand upon the Lessor and affording the Lessor a reasonable period of time within which to make such payment or do such act, but without releasing the Lessor from any obligation hereunder, may make or do the same in such manner and to such extent as the Vendor may deem necessary to protect the security hereof, including specifically, without limiting its general powers, the right to appear in and defend any action or proceeding purporting to affect the security hereof and the rights or powers of the Vendor, and also the right to perform and discharge each and every obligation, covenant and agreement of

the Lessor contained in the Lease; and in exercising any such powers, the Vendor may pay necessary costs and expenses, employ counsel and incur and pay reasonable attorneys' fees, and the Lessor will reimburse the Vendor for such costs, expenses and fees. The obligations and liabilities of the Lessor hereunder shall be construed in accordance with and subject to the limitations in the last paragraph of Article 4, and Article 23, of the Security Document.

4. The Lessor does hereby constitute the Vendor the Lessor's true and lawful attorney, irrevocably, with full power (in the name of the Lessor, or otherwise), to ask, require, demand, receive, compound and give acquittance for any and all Payments due and to become due under or arising out of the Lease to which the Lessor is or may become entitled, to enforce compliance by the Lessee with all the terms and provisions of the Lease, to endorse any checks or other instruments or orders in connection therewith and to file any claims or take any action or institute any proceedings which to the Vendor may seem to be necessary or advisable in the premises.

5. Upon the full discharge and satisfaction of all the Lessee's and the Lessor's obligations under the Security Document, this Assignment and all rights herein assigned to the Vendor shall terminate, and all estate, right, title and interest of the Vendor in and to the Lease shall revert to the Lessor.

6. On the first Closing Date (as defined in the Security Document) the Lessor will furnish the Vendor with an opinion of counsel that this Assignment has been duly authorized, executed and delivered by the Lessor and is a legal and valid agreement binding on the Lessor.

7. At the request of the Vendor, the Lessor will, at the expense of the Lessee, from time to time, do and perform any other act and will execute, acknowledge, deliver and file, register, deposit and record (and will refile, reregister, rerecord or redeposit whenever required) any and

all further instruments required by law or reasonably requested by the Vendor in order to confirm or further assure, the interests of the Vendor hereunder.

8. The Vendor may assign all or any of the rights assigned to it hereby or arising under the Lease, including, without limitation, the right to receive any Payments due or to become due. In the event of any such assignment, any such subsequent or successive assignee or assignees shall, to the extent of such assignment, enjoy all the rights and privileges and be subject to all the obligations of the Vendor hereunder.

9. This Assignment shall be governed by the laws of the State of New York, but the parties shall be entitled to all rights conferred by Section 20c of the Interstate Commerce Act.

10. The Lessor shall cause all payments received by it under the Lease, except those received from the Vendor, to be promptly paid to the Vendor at its address set forth in Article 22 of the Security Document, or at such other address as the Vendor shall designate.

11. The Vendor hereby agrees with the Lessor that the Vendor will not, so long as an event of default under the Security Document or the Lease has not occurred and is not then continuing, exercise or enforce, or seek to exercise or enforce, or avail itself of, any of the rights, powers, privileges, authorizations or benefits assigned and transferred by the Lessor to the Vendor by this Assignment, except the right to apply the Payments as provided in Paragraph 1 hereof. Until such an event of default shall have occurred and except as aforesaid, the Lessor shall be entitled to exercise its rights under the Lease.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed in their respective corporate names by officers thereunto duly authorized, and their respec-

tive corporate seals to be affixed and duly attested, all as of the date first above written.

CHASE MANHATTAN SERVICE CORPORATION.

by *J. Ward Sherman*
Vice President

[CORPORATE SEAL]

Attest: *Pamperman*

AMERICAN SECURITY & TRUST COMPANY,
as Agent.

by *J. Ward Sherman*
Vice President

[CORPORATE SEAL]

Attest: *Charles A. Grouble*
Assistant Secretary

ACKNOWLEDGMENT OF NOTICE OF ASSIGNMENT

Receipt of a copy of, and due notice of the assignment made by, the foregoing Assignment of Lease and Agreement is hereby acknowledged as of October 15, 1974. The undersigned acknowledges its obligation, pursuant to § 12 of the Lease, to pay to the Vendor all rentals payable under the Lease, so long as the foregoing Assignment of Lease and Agreement shall remain in effect, and also agrees to pay the expenses as provided in paragraph 7 hereof.

POTOMAC ELECTRIC POWER COMPANY,

by


Senior Vice President