

RICHARD F. LORITZ
ATTORNEY AND COUNSELOR AT LAW
7800 WEST COLLEGE DRIVE
PALOS HEIGHTS, ILLINOIS 60463

312/361-0095

October 20, 1987

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RECORDATION NO. _____ Filed 1425

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INTERSTATE COMMERCE COMMISSION

Office of the Secretary
Interstate Commerce Commission
Washington D.C. 20423

Re: Lease of Locomotive Equipment
National Railway Equipment Co., Lessor
Southwestern Michigan Railroad d/b/a The Kalamazoo,
Lake Shore, and Chicago Railway Co., Lessee

Dear Mr. Secretary:

I have enclosed an original and one copy of the document described below to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a lease of locomotive equipment and is a primary document dated July 1, 1987. The names and addresses of the parties to the documents are as follows:

Lessor

National Railway Equipment Co.,
An Illinois Corporation
11400 S. Robey Street
P.O. Box 2270
Dixmoor, IL 60426

Lessee

Southwestern Michigan Railroad d/b/a The
Kalamazoo, Lake Shore, and Chicago Railway Co.,
P.O. Box 178
Paw Paw, MI 49079

A description of the equipment covered by the document follows:

One (1) GP7 qualified and painted locomotive,
identified by road number and serial number
as follows:

Former Santa Fe Road No. 2110
New Road No. 85
Serial No. 6526

A fee of \$10.00 is enclosed. Please return the original and any extra copies not needed by the commission for recordation to Richard F. Loritz, 7800 W. College Drive, Palos Heights, IL 60463.

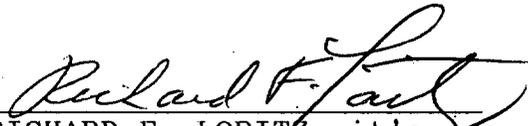
A short summary of the document to appear in the index follows:

A lease of locomotive equipment identified as one GP7 Reconditioned Locomotive, Serial No. 6526 with National Railway Equipment Co. as Lessor and Southwestern Michigan Railroad d/b/a The Kalamazoo, Lake Shore and Chicago Railway Co., as Lessee.

Also attached is a certificate executed by the attorney in fact for National Railway Equipment Co. and appropriately notarized declaring that any unexecuted copies transmitted herewith have been compared to the original and have been found to be complete and identical in all respects to the original document.

Very truly yours,

NATIONAL RAILWAY EQUIPMENT CO.
an Illinois Corporation

By: 
RICHARD F. LORITZ, it's
attorney and agent in fact

RFL/v
Enclosure

LEASE OF LOCOMOTIVE EQUIPMENT

This agreement, made this 28 day of July, 1987, by and between NATIONAL RAILWAY EQUIPMENT. CO., (hereinafter referred to as lessor) and SOUTHWESTERN MICHIGAN RAILROAD d/b/a THE KALAMAZOO, LAKE SHORE, AND CHICAGO RAILWAY CO., (hereinafter referred to as lessee), witnesseth:

Whereas lessee requires the use of the locomotive equipment set out on Exhibit A; and,

Whereas the respective amounts of the rentals hereinafter provided for to be paid by lessee are within the income and revenue of lessee; and,

Whereas the rental required to be paid by lessee under this rental agreement represents the reasonable rental value of such locomotive equipment; and,

Whereas lessor is willing to rent such locomotive equipment to lessee for his exclusive use and possession, subject to the terms and conditions hereof;

Now therefore, for and in consideration of the payment by lessee of the rental hereinafter provided and the performance of the conditions and covenants herein contained on the part of lessee to be kept and performed, the parties mutually agree as follows:

1. BASE TERMS. The lessor hereby rents to lessee and lessee hereby hires of and from lessor the described equipment for a period of 96 months commencing on the delivery of equipment and the execution of this agreement for the agreed rental of \$719.00 per month, being the aggregate rental payable for the entire term of this agreement, and which rental shall be paid in the following manner: \$6,500.00 upon execution hereof with each monthly rental payment thereafter in advance beginning August 1, 1987 and ending July 31, 1995.

2. DEFAULT. Upon default by the lessee in the payment of any amount due under the terms of this rental agreement, whether as rental or otherwise, or upon the violation by lessee of any of the terms or conditions hereof and the

failure to remedy such default within 30 days after lessee becomes obligated so to do hereunder, then at the option of the lessor this rental agreement shall forthwith cease and terminate and all rights of the lessee in and to said equipment shall be at an end, and the lessor shall become entitled to the immediate possession of the equipment. The declaration of a default and the repossession of the equipment by lessor shall not excuse lessee from liability to the lessor for any rental earned prior to the termination of said rental agreement, or for any other expense incurred by lessee prior to the termination of said rental agreement. Lessee shall further be liable for and shall pay all expenses incurred by lessor in taking such equipment into its possession upon such or any default under the terms of this rental agreement.

3. USES. The vehicle is to be used by the lessee for commercial railway hauling and/or passenger purposes; and lessee shall comply with all governmental laws, regulations and requirements, and with all rules of the Association of American Railroads, the Interstate Commerce Commission and the Federal Railroad Administration, or any successors thereto, with respect to use, maintenance and operation of the locomotive unit while in the possession of lessee.

4. REPAIR. During the term of this rental agreement, lessee shall be responsible for and shall pay all charges for upkeep and all storage of said equipment, and shall make, at its own expense, any and all repairs, and supply and pay for any and all parts and accessories necessary to maintain and operate said vehicle in proper condition and good running order except as may be otherwise set forth on the Maintenance Agreement attached hereto, if any. At the end of the aforesaid term, or any sooner termination thereof, as aforesaid, the lessee shall redeliver said equipment to lessor in as good condition as when delivered to lessee,

reasonable wear and tear excepted, but lessee shall be liable to lessor for any and all damage, destruction, or depreciation caused by accident, negligence, fire, the elements, any act of a public enemy, sabotage, war, invasion, act of God, or other casualty, or failure or neglect by lessee to keep such vehicle in repair. Said lessee agrees that the operation and use by him of said equipment during the term of this rental agreement shall be at his own cost, expense and risk, and that he will, at all times during the term of this rental agreement, keep said equipment insured against loss or destruction in a sum equal to its reasonable market value for the benefit of lessor, and lessee further agrees that if said equipment or any part of the same be lost, damaged or destroyed, lessee shall promptly replace or repair such lost, damaged or destroyed part or pay lessor the value thereof in cash. Lessee shall not be entitled to any deduction of rent for the time during which said equipment is out of repair or is unusable by lessee, except as may be stated in the Maintenance Agreement.

5. FEES AND TAXES. Lessee shall be liable for and pay and satisfy every lawful claim and liability arising against the use or operation of said vehicle during the term of this rental agreement and, as additional rental, assumes hereunder all license fees, taxes, charges and penalties imposed by the state of operation or any other state, governmental, or municipal subdivision in which said equipment may be situated, or may be operated, during the term of this rental agreement, and lessee agrees to defend, at lessee's own expense, any and all actions brought against either or both of the parties hereto for damages to persons or property caused by said locomotive equipment or by its operation, and to hold lessor free and harmless of and from any and all claims and demands which may arise or be occasioned to any person or to any property by or through the use of said locomotive equipment during the term of this rental agreement or any renewal hereof.

6. OWNERSHIP. Lessor covenants, warrants its ownership and guarantees peaceful possession of the locomotive equipment to lessee at all times during the term of this agreement.

7. INSURANCE. Lessee will provide and maintain for the said vehicle while under lease, insurance to cover both the lessor and lessee against claims of third persons as follows:

- a. Standard public liability and property damage coverage protecting the lessor, lessee and lessee's authorized drivers with respect to their liability for injuries and/or death to third persons and damage, destruction or loss of use of property of third persons, as provided in the insurance policy or policies.
- b. Said liability coverage shall have limits of \$2,000,000.00 for all persons injured or killed in any one accident, and said property damage insurance shall have limits of \$1,000,000.00 for damage arising out of any one accident.
- c. The lessor shall not be required to provide any insurance coverage in connection with said equipment.
- d. The lessee further agrees to provide and maintain collision insurance coverage on said equipment and to provide and maintain comprehensive, physical damage insurance coverage for loss and damage to said equipment due to fire, theft, windstorm, flood and other risks and hazards covered by the standard type of policy regularly issued therefor. The lessor shall be a named insured in the above policies with the right directly to adjust with and receive and retain payment of any loss or damage from the insurance company, and lessee agrees that lessor shall have possession of the policies or satisfactory certificates of coverage.
- e. In the event that the lessee fails to procure or maintain the above insurance or pay the aforementioned fees, charges, taxes and assessments, the lessor may procure or maintain the insurance or pay the fees, charges, taxes and assessments (as the case may be).

The resultant cost shall be repayable to the lessor as part of the next rental payment, and the lessee's failure to pay this cost shall have the same effect as the failure to pay rent.

f. Lessee shall indemnify lessor against any loss, liability, damage or expense which it may incur by reason of any claim made by third parties growing out of the operation of said equipment.

8. NON-ASSIGNMENT. The lessee agrees that he will not assign, transfer, sublet or lease his rights under this lease, and will not pledge, mortgage or otherwise encumber or permit to exist upon or be subjected to any lien or charge, any right or interest of the lessee hereunder. Lessee agrees to keep appropriate signs and/or placques on the locomotive equipment to clearly show that the locomotive equipment is not the property of the lessee and is owned by others.

9. CONDITION AT DELIVERY. All locomotives subject to this lease shall be reconditioned prior to delivery and shall be in compliance with the Federal Railroad Administration requirements.

10. OPTIONS TO PURCHASE. Lessee shall have the right after 5 years to terminate the lease as to all of the locomotives upon payment of the agreed value for the point in time shown on Appendix A.

11. START-UP AND DELIVERY. The locomotive equipment will be delivered to the lessee according to the following schedule: On or prior to August 1, 1987 lessee will accept from lessor delivery of one GP 7 EMD locomotive at lessee's place of operation. Any additional agreements as to delivery and set up are attached hereto as Exhibit B.

If any or all of the locomotive(s) are not delivered to lessee in sufficient time to permit start-up, then lessor shall pay lessee an amount of \$ 0.00 per day until such time as the locomotive(s) are delivered. This payment is agreed to be liquidated and in lieu of all or any other claims.

12. DAMAGE TO EQUIPMENT. Lessee shall pay for all damage caused by lack of proper lubrication or other neglect of lessee or lessee's employees or other persons using said equipment while the equipment is in lessee's possession, regardless of whether the damage is discovered while the equipment is in the possession of lessee or upon inspection when the equipment is returned to lessor. The lessee further understands that lessor assumes no liability for injuries sustained by any person or employee of the lessee from the use of the machine nor does lessor assume any liability for failure to keep the machinery in proper condition or repair or for any damages, consequential or otherwise, by whatever means caused, arising out of the use or loss of use of the machinery or damage to the machinery or the time required to repair or replace the machinery.

13. RETURN OF PROPERTY. Lessee shall return said equipment to lessor at the end of this lease in a condition as good as that in which it was when received, normal wear and tear excepted.

Failure of the lessee to return the property to the lessor at Dixmoor, Illinois, at the expiration of the rental period shall be construed as an extension of this lease under the same terms and conditions hereof, at lessor's sole option.

14. VACATION, ABANDONMENT, OR BREACH OF CONDITION. If the lessee shall vacate, desert or abandon the locomotive or equipment or shall permit the same to remain vacated, deserted or abandoned for a period of 30 days, or if the lessee shall breach any covenant, promise or condition set forth in this agreement, or if the lessee shall default in the payment of any rent or charge payable by him under this agreement, or if the lessee shall sell, assign or mortgage this agreement or any provision hereof, or if the lessee shall be in default with respect to his performance of any of the covenants, promises or conditions contained in this agreement, or if the lessee shall fail to comply with any of the statutes, ordinances, rules, orders, regulations or requirements of the federal, state and city governments, or any and all of their departments and bureaus applicable or pertinent to said locomotive equipment or in the event of the financial incapacity of the lessee, then the lessee's right to possession of the locomotive

equipment shall cease and terminate, with or without any notice or demand whatsoever if lessor so elects, but not otherwise. In such event or events as hereinabove set forth, whether this agreement shall be terminated, or not, lessee agrees to surrender to lessor possession of the locomotive(s) and equipment immediately and without notice to quit or demand for possession of the premises and facilities, and lessee hereby grants to lessor full and free license to enter into and upon the premises and facilities, or any part thereof to take possession thereof and to expel and remove the locomotive(s) or equipment.

15. PAYMENTS. All payments or notices hereunder to be sent pursuant to this agreement shall be in writing and shall be addressed, if to the lessor to NATIONAL RAILWAY EQUIPMENT, CO., at 14400 S. Robey Street, P.O. Box 2270, Dixmoor, Illinois 60426, and if to the lessee to SOUTHWESTERN MICHIGAN RAILROAD d/b/a THE KALAMAZOO, LAKE SHORE AND CHICAGO RAILWAY CO. at P.O. Box 178
Paw Paw, MI 49079

All payments in arrearage shall bear 18% per annum interest until date paid. Lessee agrees that upon default in the payment of any installment of rent, or interest thereon, it shall hold, guard, and treat any sums it received in the regular course of its business, in trust as trustee for lessor, until and at such time as the arrearages and interest thereon have been paid full, and upon demand by lessor, all such trust funds shall be deposited in a bank account to be entitled "trust account," against which no withdrawals shall be made except upon the express written approval of lessor.

IN WITNESS WHEREOF, the parties have set their signatures on the date first above written.

NATIONAL RAILWAY EQUIPMENT CO.,
an Illinois Corporation by:

(SEAL)



Patrick C. Frangella
One of its officers

SOUTHWESTERN MICHIGAN RAILROAD
d/b/a THE KALAMAZOO, LAKE SHORE
AND CHICAGO RAILWAY CO. by:

(SEAL)

K. R. McK
One of its officers

I, RICHARD F. LORITZ, notary public in and for the County of Cook, State of Illinois, certify that PATRICK FRANGELLA, known to me to be an officer of NATIONAL RAILWAY EQUIPMENT CO., an Illinois Corporation appeared before me and acknowledged that he signed the foregoing document as his free and voluntary act as an officer of the corporation upon the instruction and direction of the Board of Directors of said corporation.

Richard F. Loritz
RICHARD F. LORITZ

APPENDIX A

Schedule of Payments 1 through 96

1	172.40	547.50	36327.60
2	174.99	544.91	36152.61
3	177.61	542.29	35975.01
4	180.27	539.63	35794.74
5	182.98	536.92	35611.76
6	185.72	534.18	35426.04
7	188.51	531.39	35237.52
8	191.34	528.56	35046.18
9	194.21	525.69	34851.97
10	197.12	522.78	34654.85
11	200.08	519.82	34454.77
12	203.08	516.82	34251.70
13	206.12	513.78	34045.58
14	209.22	510.68	33836.36
15	212.35	507.55	33624.01
16	215.54	504.36	33408.47
17	218.77	501.13	33189.70
18	222.05	497.85	32967.65
19	225.39	494.51	32742.26
20	228.77	491.13	32513.49
21	232.20	487.70	32281.29
22	235.68	484.22	32045.61
23	239.22	480.68	31806.39
24	242.80	477.10	31563.59
25	246.45	473.45	31317.14
26	250.14	469.76	31067.00
27	253.90	466.00	30813.10
28	257.70	462.20	30555.40
29	261.57	458.33	30293.83
30	265.49	454.41	30028.34
31	269.47	450.43	29758.86
32	273.52	446.38	29485.35
33	277.62	442.28	29207.73
34	281.78	438.12	28925.95
35	286.01	433.89	28639.94
36	290.30	429.60	28349.64
37	294.66	425.24	28054.98
38	299.08	420.82	27755.90
39	303.56	416.34	27452.34
40	308.11	411.79	27144.23
41	312.74	407.16	26831.49
42	317.43	402.47	26514.06
43	322.19	397.71	26191.87
44	327.02	392.88	25864.85
45	331.93	387.97	25532.92
46	336.91	382.99	25196.01
47	341.96	377.94	24854.05
48	347.09	372.81	24506.96
49	352.30	367.30	24154.66
50	357.58	362.32	23797.08
51	362.94	356.96	23434.14
52	368.39	351.51	23065.75
53	373.91	345.99	22691.84
54	379.52	340.38	22312.32
55	385.22	334.68	21927.10
56	390.99	328.91	21536.10
57	396.86	323.04	21139.25
58	402.81	317.09	20736.43
59	408.85	311.05	20327.58
60	414.99	304.91	19912.59

Schedule of Payments continued

61	421.21	298.69	19491.38
62	427.53	292.37	19063.85
63	433.94	285.96	18629.91
64	440.45	279.45	18189.47
65	447.06	272.84	17742.40
66	453.76	266.14	17288.65
67	460.57	259.33	16828.07
68	467.48	252.42	16360.59
69	474.49	245.41	15886.10
70	481.61	238.29	15404.49
71	488.83	231.07	14915.66
72	496.17	223.73	14419.49
73	503.61	216.29	13915.88
74	511.16	208.74	13404.72
75	518.83	201.07	12885.89
76	526.61	193.29	12359.28
77	534.51	185.39	11824.77
78	542.53	177.37	11282.24
79	550.67	169.23	10731.57
80	558.93	160.97	10172.64
81	567.31	152.59	9605.33
82	575.82	144.08	9029.51
83	584.46	135.44	8445.05
84	593.22	126.68	7851.83
85	602.12	117.78	7249.71
86	611.15	108.75	6638.56
87	620.32	99.58	6018.24
88	629.63	90.27	5388.61
89	939.07	80.83	4749.54
90	648.66	71.24	4100.88
91	658.39	61.51	3442.49
92	668.26	51.64	2774.23
93	678.29	41.61	2095.94
94	688.46	31.44	1407.48
95	698.79	21.11	708.69
96	709.27	10.63	-0.58

* The numbers above do not include the \$5,000.00 buy out at the end of the term.

EXHIBIT A

1 (one) GP7 qualified and painted locomotive, identified by road number and serial number as follows:

Former Santa Fe Road No.	<u>2110</u>
New Road No.	<u>85</u>
Serial No.	<u>6526</u>

Initial

RCE

XRM