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5700A
RECORDATION NO. FILED 1988

JUN 29 1988-4 00 PM

INTERSTATE COMMERCE COMMISSION

JUN 29 1988-4 00 PM

8-181A0001 5700
RECORDATION NO. FILED 1988

INTERSTATE COMMERCE COMMISSION

JUN 29 1988 JUN 29 1988-4 00 PM

Date

Fee \$ 26.00 INTERSTATE COMMERCE COMMISSION

ICC Washington, D. C.

June 28, 1988

Grand Trunk Western Railroad Company
Lease Financing Dated as of June 1, 1988
10.23% Conditional Sale Indebtedness due July 2, 1999

Dear Ms. McGee:

Pursuant to 49 U.S.C. § 11303 and the Commission's rules and regulations thereunder, as amended, I enclose herewith on behalf of Grand Trunk Western Railroad Company, for filing and recordation counterparts of the following documents:

1. Reconstruction and Conditional Sale Agreement dated as of June 1, 1988, among Mercantile-Safe Deposit and Trust Company, as Agent, Grand Trunk Western Railroad Company, as Builder, and Pacificorp Credit, Inc., as Vendee.

2. (a) Lease of Railroad Equipment dated as of June 1, 1988, between Grand Trunk Western Railroad Company, as Lessee, and Pacificorp Credit, Inc., as Vendee, and

(b) Assignment of Lease and Agreement dated as of June 1, 1988, between Pacificorp Credit, Inc., as Lessee, and Mercantile-Safe Deposit and Trust Company, as Agent.

Christine Beshar
James D. Cooper
James C. Vardell, III

The names and addresses of the parties to the
aforementioned agreements are as follows:

1. Agent:

Mercantile-Safe Deposit and Trust Company
Two Hopkins Plaza
Baltimore, Maryland 21203

2. Vendee-Buyer:

Pacificorp Credit, Inc.
111 S.W. 5th Avenue
Portland, Oregon 97204

3. Lessee-Builder-Seller:

Grand Trunk Western Railroad Company
1333 Brewery Park Blvd.
Detroit, Michigan 48207

Please file and record the documents referred to
in this letter and index them under the names of the Agent,
the Vendee-Buyer and the Lessee-Builder-Seller.

The reconstructed railroad equipment covered by
the Reconstruction and Conditional Sale Agreement and the
Lease are listed in Exhibit A attached hereto. The
reconstructed railroad equipment bears the legend "OWNERSHIP
SUBJECT TO A SECURITY AGREEMENT FILED WITH THE INTERSTATE
COMMERCE COMMISSION."

Enclosed is our check for \$26 for the required
recordation fee. Please accept for recordation one counter-
part of each of the enclosed agreements, stamp the remaining

counterparts with your recordation number and return them to the delivering messenger along with your fee receipt, addressed to the undersigned.

Very truly yours,

Laurance V. Goodrich / cw
Laurance V. Goodrich
as Agent for
Grand Trunk Western
Railroad Company

Noreta R. McGee, Secretary,
Interstate Commerce Commission,
Washington, D.C. 20423

encls.

RECONSTRUCTION AND CONDITIONAL SALE AGREEMENT

Schedule A--Specifications of the Equipment*

Quantity	Equipment Mechanical Designation	Description	Old	New	Hulk Type	Hulk		Reconstruction Cost		Locomotive Cost	
			Railroad Road Nos. (Inclusive)	Railroad Road Nos. (Inclusive)		Purchase Price Per Unit	Total	Per Unit	Total	Per Unit	Total
3	SD - 40	Diesel Electric Locomotive	DWP 5907 GTW 5916 GTW 5922	DWP 5907 GTW 5916 GTW 5922	B	\$150,000	\$450,000	\$525,000	\$1,575,000	\$675,000	\$2,025,000
1	GP-40-II	Diesel Electric Locomotive	GTW 6413	GTW 6413	B	\$165,000	\$165,000	550,000	550,000	715,000	715,000
16	GP-38-II	Diesel Electric Locomotive	MP 2028,2030, 2040,2042, 2054,2056 2060,2369 plus eight from the following group MP 2009-2073	GTW 5709-5724	A	250,000	4,000,000	450,000	7,200,000	700,000	11,200,000
<u>20</u>							<u>\$4,615,000</u>		<u>\$9,325,000</u>		<u>\$13,940,000</u>

Builder's Specifications: See Attached. Place of Delivery: Battle Creek, Michigan.

* Notwithstanding anything herein to the contrary, this Schedule A and the Reconstruction and Conditional Sale Agreement to which this Schedule A is attached (this "Agreement") will cover only those units of Equipment that are reconstructed by the Builder from Hulks delivered and settled for pursuant to this Agreement. After delivery of all Equipment covered by this Agreement, if necessary, this Schedule A will be amended (and a supplement will be filed with the Inter Commerce Commission) to describe only those units of Equipment covered by this Agreement and to designate the particular Railroad Road Numbers thereof.

Interstate Commerce Commission
Washington, D.C. 20423

6/29/88

OFFICE OF THE SECRETARY

Laurence V. Goodrich
Cravath, Swaine & Moore
One Chase Manhattan Plaza
New York, New York 10005

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 6/29/88 at 4:00pm, and assigned recordation number(s). 15700, 15700-A & 15700-B

Sincerely yours,

Narta R. McGee
Secretary

Enclosure(s)

1 5700

REGISTRATION NO. _____ FILING YEAR

JUN 29 1988 4 22 PM

INTERSTATE COMMERCE COMMISSION

RECONSTRUCTION AND CONDITIONAL SALE
AGREEMENT

Dated as of June 1, 1988

Among

MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY,
not in its individual capacity
but solely as Agent,

GRAND TRUNK WESTERN RAILROAD COMPANY,

Builder,

and

PACIFICORP CREDIT, INC.,

Vendee.

RECONSTRUCTION AND CONDITIONAL
SALE AGREEMENT

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* This Table of Contents has been included in this document for convenience only and does not form a part of, or affect any construction or interpretation of this document.

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EXHIBIT A--Lease of Railroad Equipment

Schedule A--Specifications of the Equipment
Schedule B--Casualty Value Percentages Schedule

EXHIBIT B--Assignment of Lease and Agreement

Lessee's Consent and Agreement

RECONSTRUCTION AND CONDITIONAL SALE AGREEMENT dated as of June 1, 1988, among MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, a Maryland banking corporation, not in its individual capacity but solely as Agent ("Vendor") under a Participation Agreement dated as of the date hereof ("Participation Agreement"), GRAND TRUNK WESTERN RAILROAD COMPANY, a Michigan and Indiana corporation ("Builder") and PACIFICORP CREDIT, INC., an Oregon corporation ("Vendee").

The Vendee proposes to acquire from the Builder pursuant to this Agreement all right, title and interest in certain railroad equipment ("Hulks").

The Vendee hereby grants to the Vendor security title to the Hulks for the purpose of causing the same to be reconstructed as described herein and will thereupon sell such security title to the Vendee and the Vendee hereby agrees to purchase such security title in accordance with the terms of this Agreement. The Vendor's security title in any Hulk shall not, prior to completion of reconstruction of such Hulk and settlement therefor pursuant hereto, be deemed to be collateral for the Vendee's obligations hereunder or for the Lessee's obligations under the Lease.

The Vendee will deliver the Hulks to the Builder and the Vendee will have the Builder reconstruct the Hulks in accordance with the Vendee's specifications and as required hereby to enable delivery of the reconstructed Hulks (the Hulks as reconstructed as described in Schedule A hereto, upon delivery, acceptance and settlement under this Agreement, being hereinafter called the "Equipment") to be made to the Vendee in accordance herewith.

It is expressly understood and agreed that the Vendee shall only become the owner of any unit of Equipment and be obligated to pay therefor after (a) such unit of Equipment has been reconstructed by the Builder in accordance with the Lessee's Specifications, (b) after a Certificate of Acceptance has been executed by the Lessee as provided for in the Lease and (c) all other conditions set forth in this Agreement relative to Vendee's obligations to purchase the Equipment have been satisfied in full. The Vendee shall have no obligation to purchase any unit of Equipment not so reconstructed or accepted by the Lessee under the Lease.

The Vendee and the Builder, in its capacity as a railroad ("Lessee"), are entering into a Lease of Railroad Equipment ("Lease") in substantially the form of Exhibit A hereto, pursuant to which the Vendee is leasing the Equipment to the Lessee, subject to this Agreement, and the Vendee is assigning for security purposes its rights in, to and under the Lease to the Vendor pursuant to an Assignment of Lease and Agreement ("Lease Assignment") in substantially the form of Exhibit B hereto. The rights acquired by the Vendor pursuant to this Agreement shall be and are acquired for the benefit of the Investors identified in the Participation Agreement for whom the Vendor is acting as Agent pursuant to the terms of such Participation Agreement.

In consideration of the agreements hereinafter set forth, the parties hereto do hereby agree as follows:

ARTICLE 1. Reconstruction and Sale. On or after January 1, 1988, Builder will either select Hulks from its fleet or acquire such Hulks from other parties and deliver such units to its shop in Battle Creek, Michigan, for reconstruction. Pursuant to this Agreement, the Builder will reconstruct the Equipment as described in Schedule A hereto and will deliver the Equipment to the Vendee on behalf of the Vendor and the Vendee will accept delivery of and pay for the Equipment as hereinafter provided, each unit of which shall be standard gauge railroad equipment reconstructed in accordance with the Vendee's specifications referred to in Schedule A hereto and in accordance with such modifications thereof as may be authorized by the Vendee (which specifications and modifications, if any, are by reference made a part of this Agreement as fully as though expressly set forth herein and are hereinafter called the "Specifications"). The Builder warrants to the Vendor and the Vendee that the design, quality and component parts of the Equipment will conform, on the date of delivery of each thereof, to the Specifications and to all Department of Transportation and Interstate Commerce Commission requirements and specifications, and to all standards recommended by the Association of American Railroads reasonably interpreted as being applicable to railroad equipment of the character of the Equipment as of the date of such delivery.

ARTICLE 2. Inspection and Delivery. The Builder will deliver the units of the Equipment, on behalf of the Vendor, to the Vendee at such point or points within the United States of America specified in Schedule A hereto on or prior to December 31, 1988 ("Cut-Off Date"), freight charges, if any, prepaid; provided, however, that delivery

of any unit of the Equipment shall not be made until this Agreement, the Lease and the Lease Assignment have been filed pursuant to 49 U.S.C. § 11303. The Builder agrees not to deliver any unit of Equipment hereunder following receipt of written notice from the Vendor or the Vendee of its reasonable determination that there has been a material adverse change in the business or financial condition of the Guarantor from that shown in its audited consolidated balance sheet as of March 31, 1988. Any Equipment not delivered and accepted hereunder prior to the Cut-Off Date for any reason shall be excluded from this Agreement and neither the Vendee nor the Vendor shall have any obligation to purchase such Equipment (including the Hulks) and title thereto shall revert to the Builder.

During reconstruction, the Hulks, all materials used in the reconstruction of the Equipment and all work thereon shall be subject to inspection and approval by the Vendee; provided, however, that any inspection or failure to inspect by the Vendee shall not affect any of its rights hereunder. The Builder shall grant to the authorized inspectors of the Vendee access to all portions of its plant where Hulks are being reconstructed and shall furnish the Vendee with reports, upon request, concerning the progress of the reconstruction. Upon completion of each unit or of a number of units of the Equipment, the authorized inspector of the Vendee shall inspect such unit or units at the place specified for delivery of such unit or units, and if each such unit conforms to the specifications, requirements and standards applicable thereto, such authorized inspector of the Vendee (who may be an employee of the Lessee) shall execute and deliver to the Builder a certificate of acceptance ("Certificate of Acceptance") stating that such unit or units have been inspected and accepted on behalf of the Vendee and are marked in accordance with Article 8; provided, however, that the Builder shall not thereby be relieved of its warranties set forth or referred to in Article 12.

ARTICLE 3. Purchase Price and Payment. The cost of the Hulks ("Hulk Purchase Price") and the estimated base reconstruction cost per unit of the Equipment are set forth in Schedule A hereto. The term "Reconstruction Cost" as used herein shall mean the base reconstruction cost per unit set forth in Schedule A hereto, as increased or decreased by agreement among the Builder, the Vendor and the Vendee, but

the aggregate Reconstruction Cost shall in no event exceed the lesser of (i) the actual cost to the Builder of doing the reconstruction work plus a reasonable overhead and profit factor or (ii) \$9,464,400 in the aggregate. The term "Purchase Price" as used herein means the sum of the Hulk Purchase Price and the Reconstruction Cost and the "Maximum Purchase Price" shall be \$14,079,400.

For the purpose of settlement therefor, the Equipment shall be divided into groups of units of the Equipment with each group (other than the last group) having a Purchase Price of at least \$1,000,000, unless the Vendee, the Vendor and the Builder shall otherwise agree (each such group being hereinafter called a "Group"). The term "Closing Date" with respect to any Group shall mean such date, not later than the Cut-Off Date, occurring not more than ten business days following presentation by the Builder to the Vendee of the invoice (addressed to the Vendor and approved as to price by the Vendee) and the Certificate or Certificates of Acceptance for such Group, as shall be fixed by the Builder by written notice delivered to the Vendee and the Vendor at least three business days prior to the Closing Date designated therein. The parties hereto will, so far as is practicable, attempt to comply with the schedule of estimated Closing Dates set forth in Schedule B hereto. The term "business days" as used herein means calendar days, excluding Saturdays, Sundays, holidays and any other day on which banking institutions in Baltimore, Maryland, Detroit, Michigan, or Portland, Oregon are authorized to remain closed.

The Vendee hereby acknowledges itself to be indebted to the Vendor in the amount of, and hereby promises to pay (and the Builder is hereby constituted a third party beneficiary of such obligation) in immediately available funds to the Vendor at such place as the Vendor may designate, the Purchase Price of each Group of the Equipment, as follows:

(a) in 11 installments, as hereinafter provided, an amount ("CSA Indebtedness") equal to 79.43212% of the aggregate of the Purchase Prices of the units of the Equipment in the Group for which settlement is then being made as set forth in the Invoice or Invoices therefor ("Invoiced Purchase Prices"); and

(b) on the Closing Date with respect to each Group an amount ("Down Payment") equal to the aggregate Purchase Price of such Group, less the amount payable

pursuant to subparagraph (a) of this paragraph; provided, however, that the Vendee shall not be required to make such payment until there shall have been delivered to the Vendor on or prior to such date the documents required to be delivered thereto pursuant to the eighth paragraph of this Article.

The installments of the CSA Indebtedness shall be payable on the dates shown in Schedule I hereto or, if any such date is not a business day, on the next succeeding business day. The unpaid balance of the CSA Indebtedness shall bear interest from the Closing Date upon which such CSA Indebtedness was incurred at the rate of 10.23% per annum and such interest shall be payable, to the extent accrued, on January 2, 1989, and on each July 2 and January 2 thereafter to and including July 2, 1999. Such installments of principal and/or interest shall be calculated as set forth in Schedule I hereto and the aggregate of such installments of principal will completely amortize the CSA Indebtedness. Promptly following the earlier of the last Closing Date or the Cut-Off Date, the Vendee will furnish to the Vendor and the Lessee a payment schedule showing the amount of principal payable on each date for the payment of principal.

Interest under this Agreement shall be determined on the basis of a 360-day year of twelve 30-day months.

The Vendee will pay interest at the rate of 12.23% per annum, to the extent legally enforceable, upon all amounts remaining unpaid after the same shall have become due and payable pursuant to the terms hereof, anything herein to the contrary notwithstanding ("Penalty Rate").

All payments provided for in this Agreement shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and shall be made by bank wire immediately available funds at, and not later than, 12:00 noon Baltimore time. The Vendee shall not have the privilege of prepaying any portion of the CSA Indebtedness prior to the date it becomes due; provided, however, that the CSA Indebtedness may be prepaid as provided for in Article 6.

On the Closing Date with respect to each Group, an amount equal to the Invoiced Purchase Prices of such Group

shall be paid in immediately available funds by the Vendor to the Builder (in its capacity as Builder hereunder and in its capacity as seller of the Hulks) from (y) the amounts available to the Vendor under and pursuant to the terms of the Participation Agreement to make payments on such Closing Date in amounts equal to the CSA Indebtedness and (z) the Down Payment payable by the Vendee pursuant to clause (b) of the third paragraph of this Article; provided that there shall have been delivered to the Vendor and the Vendee the following documents, in form and substance satisfactory to it and its special counsel:

(a) the Certificate or Certificates of Acceptance contemplated by Article 2 and Section 1 of the Lease with respect to the Equipment in such Group;

(b) invoices of the Builder for the reconstruction of the Equipment in the Group and invoices of the Builder (in its capacity as seller of the Hulks) for the Hulks, accompanied by, or having endorsed on such invoices or copies thereof the approval of the Vendee of the price stated therein and a certification by the Builder that the Invoiced Purchase Prices have been calculated as provided in the first paragraph of this Article and do not exceed the prices that would be charged by an independent car builder for comparable equipment;

(c) a bill or bills of sale ("Bill of Sale") transferring title to a group or groups of Equipment and warranting that at the date of such Bill of Sale the Builder had legal title to the Hulks from which the Equipment was reconstructed and good and lawful right to sell the same and that title to such Equipment (including the Hulks) transferred by such Bill of Sale was free of all claims, liens, security interests, security title and other encumbrances of any nature whatsoever (other than any created by this Agreement or the Exhibits hereto); and

(d) a favorable opinion of counsel for the Builder, dated as of such Closing Date, stating that at the time of delivery of the units of the Equipment in such group on behalf of the Vendor to the Vendee hereunder, title to such Equipment was free of all claims, liens, security interests and other encumbrances of the Builder or of anyone claiming through the Builder except for those arising under this Agreement or the Exhibits hereto, together with a favorable report of

Wilmer, Cutler & Pickering addressed to the Vendor and the Vendee regarding their search of the Interstate Commerce Commission files in respect of the Hulks.

The obligation of the Vendor to make payment for the Equipment is expressly conditioned on the Vendee having made the Down Payment to the Vendor required by subparagraph (b) of the third paragraph of this Article. Notwithstanding anything to the contrary herein expressed or implied, the parties hereto agree that the Vendor shall have no obligation with respect to the reconstruction of the Hulks and delivery of the Equipment hereunder to the Vendee.

Notwithstanding any other provision of this Agreement (including, but not limited to, any provision of Articles 12, 14 and 15), but not limiting the effect of Article 21, the Vendor agrees that the liability of the Vendee or any assignee of the Vendee for all payments to be made by it under this Agreement, with the exception only of the payments to be made pursuant to subparagraph (b) of the third paragraph of this Article, the interest payment due on January 2, 1989, and the obligations set forth in the proviso in the third paragraph of Article 11 shall not exceed an amount equal to, and shall be payable only out of, the "income and proceeds from the Equipment". As used herein, the term "income and proceeds from the Equipment" shall mean (i) if one of the events of default specified in Article 14 shall have occurred and while it shall be continuing, so much of the following amounts as are indefeasibly received by the Vendee at any time after any such event and during the continuance thereof: (a) any and all amounts of rental and all amounts in respect of Casualty Occurrences (as defined in Article 6) paid for or with respect to the Equipment pursuant to the Lease and any and all other payments received under Section 9 or any other provision of the Lease and (b) any and all payments or proceeds received by the Vendee under the Lease or received by the Vendee for or with respect to the Equipment as the result of the sale, lease or other disposition thereof and after deducting all costs and expenses of such sale, lease or other disposition and (ii) at any other time only that portion of the amounts referred to in the foregoing clauses (a) and (b) as are indefeasibly received by the Vendee and as shall be required to discharge the portion of the CSA Indebtedness (including prepayments thereof required in respect of any Casualty Occurrence) and/or interest thereon due and payable on the date such amounts were required to be paid pursuant to the Lease or as shall be required to discharge any other

payments then due and payable under this Agreement; it being understood that "income and proceeds from the Equipment" shall in no event include Excluded Payments (as defined in Section 1 of the Lease Assignment). Notwithstanding anything to the contrary contained in Articles 14 and 15, the Vendor agrees that in the event it shall obtain a judgment against the Vendee for an amount in excess of the amounts payable by the Vendee pursuant to the limitations set forth in this paragraph, it will, accordingly, limit its execution of such judgment against the Vendee to amounts payable pursuant to the limitations set forth in this paragraph. It is further agreed by the parties hereto that nothing contained herein limiting the liability of the Vendee shall derogate from the right of the Vendor to proceed against the Equipment as provided for herein for the full unpaid Purchase Price of the Equipment and interest thereon and all other payments and obligations hereunder or to proceed against the Lessee under the Lease or the Consent.

ARTICLE 4. Security Title to the Hulks; Security Interest in the Equipment. The parties hereto agree that the Vendor has security title to the Hulks delivered to the Builder hereunder for reconstruction and shall continue to retain such security title during the entire period that the Hulks are being reconstructed. Upon reconstruction of the Hulks and delivery, acceptance and settlement for the related Equipment pursuant hereto, the Vendor shall and hereby does retain a security interest in the Equipment until (i) the Vendee shall have made all its payments under this Agreement in respect of the Equipment and the Vendee shall have made all its payments under the Participation Agreement and shall have kept and performed all its agreements herein and therein contained, notwithstanding any provision of this Agreement limiting the liability of the Vendee and notwithstanding the delivery of the Equipment to and the possession and use thereof by the Vendee and the Lessee as provided in this Agreement and the Lease, and (ii) the Lessee shall have satisfied all its obligations to the Vendor and any Investor under any provision of the Lease. Any and all additions, modifications and improvements to the Equipment, shall constitute accessions thereto and shall be subject to all the terms and conditions of this Agreement and included in the term "Equipment" as used in this Agreement, except for any additions, modifications and improvements which, under the provisions of Section 8 of the Lease, are owned by the Lessee.

Except as otherwise specifically provided in this Article and Article 6, when and only when the Vendor shall

have been paid the full CSA Indebtedness, together with interest and all other payments as herein provided, and all the Vendee's obligations herein contained and all the Lessee's obligations to the Vendor and the Investors contained in the Lease shall have been performed, all rights and interests of the Vendor in the Equipment shall be released and discharged to the Vendee without further transfer or action on the part of the Vendor. However, the Vendor, if so requested by the Vendee at that time, will (a) execute and deliver to the Vendee documents covering the Equipment releasing its security interest therein to the Vendee, free of all claims, rights, liens, security interests and other encumbrances created or retained hereby and (b) execute and deliver to the Vendee for filing, recording or depositing in all necessary public offices, such instrument or instruments in writing as may be necessary or appropriate in order then to make clear upon the public records the title of the Vendee to such Equipment. The Vendee hereby waives and releases any and all rights, existing or that may be acquired, in or to the payment of any penalty, forfeit or damages for failure to execute and deliver such release documents or instrument or instruments or to file any such certificate of payment in compliance with any law or statute requiring the filing of the same, except for failure to execute and deliver such release documents or instrument or instruments or to file such certificate within a reasonable time after written demand by the Vendee.

ARTICLE 5. Taxes. All payments to be made by the Vendee hereunder will be free of expense to the Vendor for collection or other charges and will be free of expense to the Vendor with respect to the amount of any local, state, Federal or foreign taxes (other than net income taxes, gross receipts taxes [except gross receipts taxes in the nature of or in lieu of sale, use or rental taxes], franchise taxes measured by net income based upon such receipts, excess profits taxes and similar taxes) or license fees, assessments, documentary stamp taxes, charges, fines or penalties (all such expenses, taxes, license fees, assessments, charges, fines and penalties being hereinafter called impositions) hereafter levied or imposed upon or in connection with or measured by this Agreement or any sale, rental, use, payment, shipment, delivery or transfer of title or return or other disposition of the Equipment under the terms hereof, all of which impositions the Vendee assumes and agrees to pay on demand in addition to the Purchase Price of the Equipment. The Vendee will also pay promptly all impositions which may be imposed upon the Equipment

delivered to it or for the use or operation thereof or upon the earnings arising therefrom or upon the Vendor solely by reason of its ownership thereof and will keep at all times all and every part of the Equipment free and clear of all impositions which might in any way affect the security interest of the Vendor or result in a lien upon any part of the Equipment; provided, however, that the Vendee shall be under no obligation to pay any impositions of any kind so long as it is contesting in good faith (after written notice to the Vendor) and by appropriate legal proceedings such impositions and the nonpayment thereof does not, in the reasonable opinion of the Vendor, adversely affect the title, property or rights of the Vendor in or to the Equipment or otherwise under this Agreement. If any impositions shall have been charged or levied against the Vendor directly and paid by the Vendor, the Vendee shall reimburse the Vendor upon presentation of an invoice therefor, and any amounts so paid by the Vendor shall be secured by and under this Agreement; provided, however, that the Vendee shall not be obligated to reimburse the Vendor for any impositions so paid unless the Vendor shall have been legally liable with respect thereto (as evidenced by an opinion of counsel for the Vendor acceptable to the Vendee) or unless the Vendee shall have approved the payment thereof.

ARTICLE 6. Maintenance and Repair; Casualty Occurrences. The Vendee agrees that, at its own cost and expense, it will maintain and keep each unit of the Equipment in accordance with the requirements of Section 6 of the Lease.

In the event that any unit of the Equipment shall suffer a Casualty Occurrence (as defined in Section 6 of the Lease), the Vendee shall, within 30 days after it shall have actual knowledge that such unit has suffered a Casualty Occurrence, cause the Vendor to be fully informed in regard thereto. Notwithstanding any such Casualty Occurrence, the Vendee shall continue making payment of all installments of principal and interest in respect of such unit until the next succeeding date for the payment of interest on the CSA Indebtedness (a "Casualty Payment Date"). On such date the Vendee shall pay to the Vendor a sum equal to the Casualty Value (as hereinafter defined) of such unit suffering a Casualty Occurrence as of the date of such payment and shall file, or cause to be filed, with the Vendor a certificate setting forth the Casualty Value of such unit. Any money paid to the Vendor pursuant to this paragraph shall be applied on the date that such Casualty Value is paid (after the regularly scheduled payment of the interest and

principal due on such date) to prepay without penalty or premium the unpaid balance of the CSA Indebtedness with respect to such unit or units and the Vendee will promptly furnish to the Vendor and the Lessee a revised schedule of payments of principal and interest thereafter to be made in respect of the remaining units in such number of counterparts as the Vendor may request.

Upon payment by the Vendee to the Vendor of the Casualty Value of any unit of the Equipment having suffered a Casualty Occurrence, all rights and interests of the Vendor in such unit shall be released and discharged, without further transfer or action on the part of the Vendor, except that the Vendor, if requested by the Vendee, will execute and deliver to the Vendee, at the expense of the Vendee, an appropriate instrument, confirming such release and discharge of all the Vendor's right and interest, and the release of the Vendor's security interest, in such unit, in recordable form, in order that the Vendee may make clear upon the public records the title of the Vendee to such unit.

The Casualty Value of each unit of Equipment suffering a Casualty Occurrence shall be deemed to be that portion of the original CSA Indebtedness with respect to such unit remaining unpaid on the date as of which such Casualty Value shall be determined (without giving effect to any prepayment or prepayments theretofore made under this Article with respect to any other unit of Equipment), plus interest accrued thereon but unpaid as of such date. For the purpose of this paragraph, each payment of CSA Indebtedness in respect of Equipment made pursuant to Article 3 shall be deemed to be a payment on each unit of the Equipment in like proportion as the original Purchase Price of such unit bears to the aggregate original Purchase Price of all the units of Equipment.

If the Vendor shall receive any insurance proceeds or condemnation payments in respect of such units suffering a Casualty Occurrence, the Vendor shall, subject to the Vendor having received payment of the Casualty Value hereunder, pay such insurance proceeds or condemnation payments to the Vendee. All insurance proceeds or condemnation payments received by the Vendor in respect of any unit or units of Equipment not suffering a Casualty Occurrence shall be paid to the Vendee upon proof satisfactory to the Vendor that any damage to such unit in respect of which such proceeds were paid has been fully repaired.

ARTICLE 7. Reports and Inspections. On or before March 31 in each year, commencing with the calendar year 1989, the Vendee shall cause to be furnished to the Vendor an accurate statement to the effect set forth in Section 7 of the Lease. The Vendor shall have the right, by its agents, to inspect the Equipment and the Lessee's books and records and discuss questions with the Lessee's auditors at such reasonable times as the Vendor may request during the continuance of this Agreement.

ARTICLE 8. Marking of Equipment. The Vendee will cause each unit of the Equipment to be kept numbered and marked as provided in Section 4 of the Lease.

Except as provided in the immediately preceding paragraph and in the proviso to the second paragraph of Section 4 of the Lease, the Vendee will not allow the name of any person, association or corporation to be placed on any unit of the Equipment as a designation that might be interpreted as a claim of ownership.

ARTICLE 9. Compliance with Laws and Rules. During the term of this Agreement, the Vendee will comply, and will cause every lessee or user of the Equipment to comply, in all respects (including, without limitation, with respect to the use, maintenance and operation of the Equipment) with all Applicable Laws (as defined in Section 8 of the Lease) and in the event that any Applicable Law requires any alteration, replacement or modification of or to any part on any unit of the Equipment, the Vendee will conform therewith at its own expense; provided, however, that the Vendee may, in good faith, contest the validity or application of any Applicable Law in any reasonable manner which does not, in the reasonable opinion of the Vendor, adversely affect the property or rights of the Vendor under this Agreement.

ARTICLE 10. Possession and Use. The Vendee, so long as an event of default shall not have occurred and be continuing under this Agreement, shall be entitled, from and after delivery of the Equipment to the Vendee, to the possession of the Equipment and the use thereof, but only upon and subject to all the terms and conditions of this Agreement and the Lease.

The parties hereto acknowledge that the Vendee simultaneously herewith is leasing the Equipment to the Lessee as provided in the Lease, and the rights of the Lessee and its permitted assigns under the Lease shall be

subordinate and junior in rank to the rights, and, subject to Section 3 of the Lease, shall be subject to the remedies of the Vendor under this Agreement. The Lease shall not be amended or terminated (except in accordance with its terms) without the prior written consent of the Vendor.

Subject to the rights of the Lessee under the Lease, the Vendee may also lease the Equipment to any other railroad company with the prior written consent of the Vendor; provided, however, that (i) such lease shall provide that the rights of such lessee are made expressly subordinate to the rights and remedies of the Vendor under this Agreement, (ii) such lessee shall expressly agree not to assign or permit the assignment of any unit of Equipment to service involving the regular operation and maintenance thereof outside the United States of America and (iii) such lease shall be assigned to the Vendor as security on terms consistent with those set forth in Annex D hereto, and in any event satisfactory to the Vendor and a copy of such lease shall be furnished by the Agent to each Investor.

ARTICLE 11. Prohibition Against Liens. The Vendee will pay or discharge any and all sums claimed by any party from, through or under the Vendee or its successors or assigns which, if unpaid, might become a lien, charge, security interest or other encumbrance upon or with respect to the Equipment, or any unit thereof, or the Vendee's interests in the Lease or the payments due and to become due thereunder, or any part thereof, and will promptly discharge any such lien, charge, 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 any appropriate legal proceedings in any reasonable manner and the non-payment thereof does not, in the reasonable opinion of the Vendor, adversely affect the property or rights of the Vendor in or to the Equipment or otherwise under this Agreement. Any amounts paid by the Vendor in discharge of any claim, liens, charges or security interests upon the Equipment shall be secured by and under this Agreement.

This covenant will not be deemed breached by reason of liens for taxes, assessments or governmental charges or levies, in each case not due and delinquent, or undetermined or inchoate materialmen's, mechanics', workmen's, repairmen's or other like liens arising in the ordinary course of business and, in each case, not delinquent.

The foregoing provisions of this Article shall be subject to the limitations set forth in the last paragraph of Article 3 and the provisions of Article 21; provided, however, that the Vendee will pay or discharge any and all claims, liens, charges or security interests claimed by any party from, through or under the Vendee or its successors and assigns, not arising out of the ownership of the Equipment or the transactions contemplated hereby (but including income taxes arising out of the receipt of rentals and other payments under the Lease and any other proceeds of the Equipment) which, if unpaid, might become a lien, charge or security interest on or with respect to the Equipment, or any unit thereof, or the Vendee's interest in the Lease and the payments to be made thereunder, but the Vendee shall not be required to pay or discharge any such claim so long as the validity or priority thereof shall be contested in good faith and by appropriate legal or administrative proceedings in any reasonable manner and the nonpayment thereof does not, in the opinion of counsel to the Vendor, adversely affect the security interest of the Vendor in or to the Equipment or otherwise under this Agreement or in and to the Lease and the payments to be made thereunder.

ARTICLE 12. Indemnities and Warranties. The Vendee agrees to indemnify, protect and hold harmless the Vendor from and against all losses, damages, injuries, liabilities, including, without limitation, strict or absolute liability in tort or by statute imposed, claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including but not limited to counsel fees and expenses, penalties and interest, arising out of or as the result of the entering into or the performance of this Agreement, the retention by the Vendor of security title to or a security interest in the Equipment, the ordering, acquisition, use, operation, condition, reconstruction, purchase, delivery, rejection, storage or return of any of the Equipment, any accident in connection with the operation, use, condition, reconstruction, possession, storage or return of any of the Equipment resulting in damage to property or injury or death to any person during the period when title thereto remains in the Vendor or the transfer of title to the Equipment by the Vendor pursuant to any of the provisions of this Agreement, except, however, any losses, damages, liabilities, claims and demand whatsoever arising out of any tort, breach of warranty or failure to perform any covenant hereunder by the Builder. This covenant of indemnity shall continue in full force and effect notwithstanding the full payment of the CSA Indebtedness and the release of the security interest in, the

Equipment, as provided in the last paragraph of Article 4 or the termination of this Agreement in any manner whatsoever.

The Vendee will bear the responsibility for and risk of, and shall not be released from its obligations hereunder in the event of, any damage to or the destruction or loss of any unit of or all the Equipment.

THE VENDOR MAKES NO WARRANTIES WHETHER WRITTEN, ORAL, STATUTORY OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE HULKS OR THE EQUIPMENT OR IN CONNECTION WITH THIS AGREEMENT OR THE DELIVERY OF THE EQUIPMENT AND SALE OF THE EQUIPMENT HEREUNDER.

The Builder warrants that the Hulks will be reconstructed in accordance with the Specifications and standards set forth or referred to in Article 1 and warrants that the Equipment will be free from defects in material or workmanship or design under normal use and service. THIS WARRANTY IS EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES, WITH RESPECT TO RECONSTRUCTION, EXPRESSED OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. The Builder agrees to and does hereby, to the extent legally possible without impairing any claim, right or cause of action hereinafter referred to, transfer, assign, set over and deliver to the Vendor and, subject to the rights of the Vendor under this Agreement, to the Vendee, every claim, right and cause of action which the Builder has or hereafter shall have against any party who shall perform any of the reconstruction of the Hulks or any party who shall furnish any parts used in such reconstruction and the Builder agrees to execute and deliver to the Vendor and the Vendee all and every such further assurance as may be reasonably requested more fully to effectuate the assignment, transfer and delivery of every such claim, right and cause of action.

The Builder agrees to indemnify, protect and hold harmless the Vendor, the Investors and the Vendee from and against any and all liability, including, without limitation, strict or absolute liability in tort or by statute imposed, claims, demands, costs, charges and expenses, including royalty payments and counsel fees, in any manner imposed upon or accruing against the Vendor, any Investor and the Vendee (i) because of the use in or about the construction or operation of the Equipment or the reconstruction of the Hulks, or any unit thereof, of any design, article or material infringing or claimed to infringe on any

patent or other right or (ii) arising out of any accident or tort in connection with the reconstruction, operation, use, condition, possession or storage by the Builder of any of the Hulks or any unit of the Equipment resulting in damage to property or injury or death to any person. The Vendor or the Vendee will give notice to the Builder of any claim as to which it has received actual notice from which liability may be charged against the Builder under this paragraph.

The indemnities made in this Article by the Builder shall not be modified, abated, postponed or in any other way or in any manner diminished or reduced as a consequence of any action or inaction of the Vendee, the Vendor or the Investors in connection with, relating to, or arising out of the rights (whether or not exercised) of any such party to inspect or approve the reconstruction to be performed by the Builder pursuant to this Agreement. Such indemnities shall in all events, and in addition to the agreements contained elsewhere in this Article 12, extend to and apply to any allegation against any indemnified party that it has been negligent, either actively or passively, or is guilty of a breach of other duty, including, without limitation, any breach of warranty or breach of contract, to any person or organization.

The warranties and indemnities of the Builder contained or referred to in this Article and in any other Articles hereof and all other covenants and obligations of the Builder contained in this Agreement shall inure to the benefit of, and be enforceable by the Vendee, the Vendor, the Investors, any lessor, lessee, assignee or transferee of this Agreement or of any units of the Equipment reconstructed by the Builder hereunder.

ARTICLE 13. Assignments. The Vendee will not (a) except as provided in Article 10, transfer the right to possession of any unit of the Equipment or (b) sell, assign, transfer or otherwise dispose of its rights under this Agreement or the Lease unless such sale, assignment, transfer or disposition (i) is made expressly subject in all respects to the rights and remedies of the Vendor hereunder and under the Lease Assignment (including without limitation, rights and remedies against the Vendee) and (ii) is made to a Permitted Transferee (as hereinafter defined) and such Permitted Transferee expressly assumes, in writing, in form reasonably satisfactory to the Vendor, all the obligations of the Vendee under this Agreement, the Participation Agreement, the Lease and the Lease Assignment. A "Permitted Transferee" shall mean a transferee which is (A) a bank,

insurance company or other financial institution or leasing company with a capital and surplus or net worth of at least \$90,000,000 or a wholly owned subsidiary of such a bank, insurance company or other financial institution or leasing company, (B) a corporation which has a net worth of at least \$90,000,000 or a subsidiary of such a corporation, (C) a member of the same consolidated group for tax purposes as the Vendee, or (D) such other entity or person as shall have been approved by the Agent; provided, however, that if the transferee is a subsidiary referred to in clause (A) or (B) above or a member referred to in clause (C) above which does not have a net worth or capital and surplus of at least \$90,000,000, the transferring Vendee shall continue to be liable for (unless the parent of such transferee shall have a net worth or capital and surplus of at least \$90,000,000 and shall enter into an agreement, in form and substance reasonably satisfactory to the Agent, whereby such parent confirms that it guarantees the performance and collection of) all the obligations of such transferring Vendee under Article 13 hereof notwithstanding such transfer.

All or any of the rights, benefits and advantages of the Vendor under this Agreement, including the right to receive the payments herein provided to be made by the Vendee, may be assigned by the Vendor and reassigned by any assignee at any time or from time to time. No such assignment shall subject any assignee to, or relieve the Builder from, any of the obligations of the Builder to reconstruct the Equipment on behalf of the Vendor and the Vendee and deliver the Equipment in accordance herewith or to respond to its warranties and indemnities contained or referred to in Article 12 or relieve the Vendee of its obligations to the Builder or diminish the rights of the Vendee contained or referred to in this Agreement.

Upon any such assignment, either the assignor or the assignee shall give written notice to the Vendee, together with a counterpart or copy of such assignment, stating the identity and post office address of the assignee, and such assignee shall, by virtue of such assignment, acquire all the assignor's right, title and interest in and to the Equipment and this Agreement, or in and to a portion thereof, as the case may be, subject only to such reservations as may be contained in such assignment. From and after the receipt by the Vendee of the notification of any such assignment, all payments thereafter to be made by the Vendee under this Agreement shall, to the extent so assigned, be made to the assignee in such manner as it may direct and shall constitute full compliance with the terms of this

Agreement. The Vendee may rely upon instruments or documents which it believes in good faith to be true and authentic.

ARTICLE 14. Defaults. In the event that any one or more of the following events of default shall occur and be continuing (irrespective of the provisions of Article 3 or 21 or any other provision of this Agreement limiting the liability of the Vendee), to wit:

(a) the Vendee shall fail to pay in full any sum payable by the Vendee when payment thereof shall be due hereunder and such default shall continue for five days; or

(b) the Vendee or the Lessee shall, for more than 30 days after the Vendor shall have demanded in writing (sent to both the Lessee and the Vendee) performance thereof, fail or refuse to comply with any other covenant, agreement, term or provision of this Agreement, the Participation Agreement, the Lease, the Lease Assignment or the Consent on its part to be kept and performed and the Vendee or the Lessee shall have failed to make provision satisfactory to the Vendor for such compliance; or

(c) a petition for reorganization under Title 11 of the United States Code, as now constituted or as hereafter amended, shall be filed by or against the Lessee and, unless such petition 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 Agreement, the Lease and the Consent 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 appointed (whether or not subject to ratification) in such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such trustee or trustees in accordance with the provisions of 11 U.S.C. § 1168, or any successor provision, as the same may hereafter be amended; provided, however, if such petition was not filed by the Lessee, the default hereinabove specified in this subdivision shall not become an event of default until 60 days after such petition has been filed;

(d) any other proceeding shall be commenced by or against the Vendee or the Lessee for any relief which includes, or might result in, any modification of their respective obligations hereunder or under the Participation Agreement, the Lease, the Lease Assignment or the Consent under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustment of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustment of such obligations), 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 such obligations of the Vendee or the Lessee, as the case may be, 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 Vendee or the Lessee, as the case may be, or for their respective property in connection with any such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such trustee or trustees or receiver or receivers; provided, however, if such proceeding was not commenced by the Vendee or the Lessee, as the case may be, the default hereinabove specified in this subdivision shall not become an event of default until 60 days after such proceedings have been commenced;

(e) the Vendee shall make or permit any unauthorized assignment or transfer of this Agreement or any interest herein or any unauthorized transfer of the right to possession of any unit of the Equipment; or

(f) any Event of Default shall have occurred under the Lease; provided, however, that an Event of Default under Section 9A of the Lease shall not be deemed an Event of Default hereunder if the Vendee cures such Event of Default within the later of 5 days after the date Vendee receives written notice thereof from Vendor, or within 5 days following the expiration of the Lessee's 5 day grace period set forth in Section 9A of the Lease, and (b) an Event of Default under the Lease (other than an Event of Default under Section 9A of the Lease) shall not be deemed an Event of Default hereunder if the Vendee cures such Event of Default by the payment of money or by performance within the later

of 5 days after the Vendee receives written notice thereof from Vendor, or within 5 days following the expiration of any applicable grace period available to the Lessee under the Lease. In no event shall Vendee have the right to cure more than 2 consecutive or 4 cumulative Events of Default under the Lease whether such Events of Default pertain to Section 9A of the Lease or otherwise. In addition, Vendee's right to cure Events of Default under the Lease (other than Events of Default under Section 9A of the Lease) by the payment of money shall be restricted to an aggregate amount of \$500,000.

then at any time after the occurrence of such an event of default the Vendor may upon written notice to the Vendee and the Lessee and upon compliance with any legal requirements then in force and applicable to such action by the Vendor, declare ("Declaration of Default") the entire unpaid CSA Indebtedness together with the interest thereon then accrued and unpaid, immediately due and payable, without further demand, and thereafter the aggregate of the unpaid balance of such indebtedness and interest shall bear interest from the date of such Declaration of Default at the Penalty Rate to the extent legally enforceable. In addition, if the Vendee does not pay the entire unpaid CSA Indebtedness, together with interest thereon accrued and unpaid to the date of payment within 20 days of such notice of Declaration of Default, the Vendor may, upon written notice to the Vendee and the Lessee, cause the term of the Lease immediately upon such notice to terminate (and the Vendee acknowledges the right of the Vendor to terminate the term of the Lease) and the Vendor may exercise the other remedies provided in Article 15. Upon a Declaration of Default, subject to Article 3, the Vendor shall be entitled to recover judgment for the entire unpaid balance of the CSA Indebtedness, with interest as aforesaid, and to collect such judgment out of any property of the Vendee, subject to the limitations of Articles 3 and 21, wherever situated.

The Vendor may, at its election, waive any such event of default and its consequences and rescind and annul any Declaration of Default or notice of termination of the Lease by notice to the Vendee in writing to that effect, and thereupon the respective rights of the parties shall be as they would have been if no such event of default had occurred and no Declaration of Default or notice of termination of the Lease had been made or given. Notwithstanding the provisions of this paragraph, it is expressly understood and agreed by the Vendee that time is of the essence of this

Agreement and that no such waiver, rescission or annulment shall extend to or affect any other or subsequent default or impair any rights or remedies consequent thereon.

If at any time on or after July 2, 1994, an event of default hereunder shall have occurred and be continuing for a continuous period of at least one year and upon the written request of the Vendee received on any date prior to the date of any Declaration of Default by the Vendor, the Vendee may at its option prepay the CSA Indebtedness by payment of the entire unpaid principal amount of the CSA Indebtedness and all accrued and unpaid interest thereon, together with a premium equal to the Yield Differential Premium.

The Yield Differential Premium shall be equal to the amount which must be added to the principal of the CSA Indebtedness to be prepaid such that the premium plus such principal amount to be prepaid shall be equal to the present value (using a discount rate per annum equal to the Equivalent Credit Reference Rate) as of the date of prepayment of all scheduled installments of principal and interest which would have been payable but for such prepayment.

Equivalent Credit Reference Rate as at any date shall be the rate per annum equal to the arithmetic average of the two most recent weekly average yields to maturity in the weekly statistical release designated H.15 (519) published by the Board of Governors of the Federal Reserve System for the two calendar weeks ending on the Saturday next preceding such date, opposite the maturity corresponding to the weighted average life, rounded to the nearest month, of the principal amount of the CSA Indebtedness to be prepaid, under the caption "U.S. Government Securities--Treasury Constant Maturities". If such average is not published for such period, such reasonably comparable index as may be designated by the Vendor for such period shall be used.

If no maturity exactly corresponding to such rounded weighted average life shall appear therein, yields for the two most closely corresponding published maturities shall be calculated pursuant to the foregoing sentence and the Formula Yield shall be interpolated from such yields on a straight-line basis (rounding in the case of relevant periods, to the nearest month).

ARTICLE 15. Remedies. At any time during the continuance of a Declaration of Default, the Vendor may, upon such further notice and action, if any, as may be

required for compliance with any mandatory legal requirements then in force and applicable to the action to be taken by the Vendor, take or cause to be taken, by its agent or agents, immediate possession of the Equipment, or one or more of the units thereof, without liability to return to the Vendee any sums theretofore paid and free from all claims whatsoever, except as hereinafter in this Article 15 expressly provided, and may remove the same from possession and use of the Vendee, the Lessee or any other person and for such purpose may enter upon the premises of the Vendee or the Lessee or any other premises where the Equipment may be located and may use and employ in connection with such removal any supplies, services and aids and any available trackage and other facilities or means of the Vendee or the Lessee, subject to all mandatory requirements of due process of law.

In case the Vendor shall demand possession of the Equipment pursuant to this Agreement and shall designate a reasonable point or points for the delivery of the Equipment to the Vendor, the Vendee shall, at its own expense and risk:

(a) forthwith and in the usual manner (including, but not by way of limitation, causing prompt telegraphic and written notice to be given to the Association of American Railroads and all railroads to which any unit or units of the Equipment have been interchanged to return the unit or units so interchanged) cause the Equipment to be placed upon such storage tracks of the Lessee as the Lessee reasonably may designate;

(b) permit the Vendor to store the Equipment on such tracks at the risk of the Vendee without charge for insurance, rent or storage until the Equipment has been sold, leased or otherwise disposed of by the Vendor; and

(c) cause the Equipment to be transported to any reasonable place on the lines of railroad operated by the Lessee or any of its affiliates or to any connecting carrier for shipment, all as directed by the Vendor.

During any storage period, the Vendee will, at its own cost and expense, insure, maintain and keep each such unit in good order and repair and will permit the inspection of the Equipment by the Vendor, the Vendor's representatives and prospective purchasers, lessees and users. This agreement to deliver the Equipment and furnish facilities as

hereinbefore provided is of the essence of the agreement between the parties, and, upon application to any court of equity having jurisdiction in the premises, the Vendor shall be entitled to a decree against the Vendee requiring specific performance hereof. The Vendee hereby expressly waives any and all claims against the Vendor and its agent or agents for damages of whatever nature in connection with any retaking of any unit of the Equipment in any reasonable manner.

At any time during the continuance of a Declaration of Default, the Vendor (after retaking possession of the Equipment as hereinbefore in this Article 15 provided) may, at its election and upon such notice as is hereinafter set forth, retain the Equipment in satisfaction of the entire CSA Indebtedness and make such disposition thereof as the Vendor shall deem fit. Written notice of the Vendor's election to retain the Equipment shall be given to the Vendee and the Lessee by telegram or registered mail, addressed as provided in Article 20, and to any other persons to whom the law may require notice. In the event that the Vendor should elect to retain the Equipment and no objection is made thereto within the 30-day period described in the second proviso below, all the Vendee's rights in the Equipment shall thereupon terminate and all payments made by the Vendee may be retained by the Vendor as compensation for the use of the Equipment; provided, however, that if the Vendee, before the expiration of the 30-day period described in the proviso below, should pay or cause to be paid to the Vendor the total unpaid balance of the CSA Indebtedness together with interest thereon accrued and unpaid and all other payments due under this Agreement, then in such event all rights and interests of the Vendor in the Equipment shall be released and discharged; provided, further, that if the Vendee or any other persons notified under the terms of this paragraph object in writing to the Vendor within 30 days from the receipt of notice of the Vendor's election to retain the Equipment, then the Vendor may not so retain the Equipment, but shall sell, lease or otherwise dispose of it or continue to hold it pending sale, lease or other disposition as hereinafter provided or as may otherwise be permitted by law. If the Vendor shall not have given notice to retain as hereinabove provided or notice of intention to dispose of the Equipment in any other manner, it shall be deemed to have elected to sell the Equipment in accordance with the provisions of this Article.

At any time during the continuance of a Declaration of Default, the Vendor, with or without retaking possession thereof, at its election and upon reasonable notice to the Vendee and any other persons to whom the law may require notice of the time and place, may sell the Equipment, or one or more of the units thereof, free from any and all claims of the Vendee or any other party claiming from, through or under the Vendee at law or in equity, at public or private sale and with or without advertisement as the Vendor may determine; provided, however, that if, prior to such sale and prior to the making of a contract for such sale, the Vendee should tender full payment of the total unpaid balance of the CSA Indebtedness, together with interest thereon accrued and unpaid and all other payments due under this Agreement as well as expenses of the Vendor in retaking possession of, removing, storing, holding and preparing the Equipment for, and otherwise arranging for, the sale and the Vendor's reasonable attorneys' fees, then in such event the rights and interests of the Vendor in the Equipment shall be immediately released and discharged. The proceeds of such sale or other disposition, less the attorneys' fees and any other expenses incurred by the Vendor in retaking possession of, removing, storing, holding, preparing for sale and selling or otherwise disposing of the Equipment, shall be credited on the amount due to the Vendor under the provisions of this Agreement and the balance shall be paid to the Vendee.

Any sale hereunder may be held or conducted at New York, New York, at such time or times as the Vendor may specify (unless the Vendor shall specify a different place or places, in which case the sale shall be held at such place or places as the Vendor may specify), in one lot and as an entirety or in separate lots and without the necessity of gathering at the place of sale the property to be sold, and in general in such manner as the Vendor may determine, so long as such sale shall be in a commercially reasonable manner. The Vendor or the Vendee may bid for and become the purchaser of the Equipment, or any unit thereof, so offered for sale. The Vendee and the Lessee shall be given written notice of such sale not less than ten days prior thereto by telegram or registered mail, addressed as provided in Article 20. If such sale shall be a private sale (which shall be deemed to mean only a sale where an advertisement for bids has not been published in a newspaper of general circulation or a sale where less than 40 offerees have been solicited in writing to submit bids), it shall be subject to the right of the Vendee or the Vendor to purchase or provide a purchaser, within 10 days after notice of the proposed

sale price, at the same price offered by the intending purchaser or a better price. In the event that the Vendor shall be the purchaser thereof, it shall not be accountable to the Vendee (except to the extent of surplus money received as hereinafter provided in this Article), and in payment of the purchase price therefor the Vendor shall be entitled to have credited on account thereof all sums due to the Vendor hereunder.

Each and every power and remedy hereby specifically given to the Vendor shall be in addition to every other power and remedy hereby specifically given or now or hereafter existing at law or in equity, and may be exercised from time to time and simultaneously and as often and in such order as may be deemed expedient by the Vendor. All such powers and remedies shall be cumulative, and the exercise of one shall not be deemed a waiver of the right to exercise any other or others. No delay or omission of the Vendor in the exercise of any such power or remedy and no renewal or extension of any payments due hereunder shall impair any such power or remedy or shall be construed to be a waiver of any default or an acquiescence therein. Any extension of time for payment hereunder or other indulgence duly granted to the Vendee shall not otherwise alter or affect the Vendor's rights or the Vendee's obligations hereunder. The Vendor's acceptance of any payment after it shall have become due hereunder shall not be deemed to alter or affect the Vendee's obligations or the Vendor's rights hereunder with respect to any subsequent payments or default therein.

If, after applying all sums of money realized by the Vendor under the remedies herein provided, there shall remain any amount due to it under the provisions of this Agreement, the Vendee shall, subject to the provisions of the last paragraph of Article 3, pay the amount of such deficiency to the Vendor upon demand, together with interest from the date of such demand to the date of payment, at the Penalty Rate, and, if the Vendee shall fail to pay such deficiency, the Vendor may bring suit therefor and shall, subject to the limitations of the last paragraph of Articles 3 and 21, be entitled to recover a judgment therefor against the Vendee. If, after applying as aforesaid all sums realized by the Vendor, there shall remain a surplus in the possession of the Vendor, such surplus shall be paid to the Vendee.

The Vendor shall provide the Vendee with an accounting of all moneys realized from the application of the remedies provided for herein.

The Vendee will pay all reasonable expenses, including attorneys' fees, incurred by the Vendor in enforcing its remedies under the terms of this Agreement. In the event that the Vendor shall bring any suit to enforce any of its rights hereunder and shall be entitled to judgment, the Vendor may recover, reasonable expenses, including reasonable attorneys' fees, and the amount thereof shall be included in such judgment.

The foregoing provisions of this Article 15 are subject in all respects to all mandatory legal requirements at the time in force and applicable thereto.

ARTICLE 16. Applicable State Laws. Any provision of this Agreement prohibited by any applicable law of any jurisdiction which is not overridden by applicable Federal law shall as to such jurisdiction be ineffective, without modifying the remaining provisions of this Agreement. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby waived by the Vendee to the full extent permitted by law, it being the intention of the parties hereto that this Agreement shall be deemed to be a conditional sale and enforced as such.

Except as otherwise provided in this Agreement, the Vendee, to the full extent permitted by law, hereby waives all statutory or other legal requirements for any notice of any kind, notice of intention to take possession of or to sell or lease the Equipment, or any one or more units thereof, and any other requirements as to the time, place and terms of the sale or lease thereof, any other requirements with respect to the enforcement of the Vendor's rights under this Agreement and any and all rights of redemption.

ARTICLE 17. Filing. The Vendee will cause this Agreement, any assignments hereof and any amendments or supplements hereto or thereto to be duly filed with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 and deposited with the Registrar General of Canada (notice of such deposit to be forthwith given in The Canada Gazette) pursuant to Section 86 of the Railway Act of Canada; and the Vendee will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record any and all further instruments required

by law or reasonably requested by the Vendor for the purpose of proper protection, to the satisfaction of special counsel for the Vendor, of its security title to the Equipment and its rights under this Agreement or for the purpose of carrying out the intention of this Agreement; and the Vendee will promptly furnish to the Vendor certificates or other evidence of such filing, registering, depositing and recording reasonably satisfactory to the Vendor.

ARTICLE 18. Article Headings. The table of contents and all article headings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement. Cross references used herein are to other provisions of this Agreement unless the cross reference specifically refers to some other document.

ARTICLE 19. Effect and Modification of Agreement. Except for the Participation Agreement, this Agreement, including any annexes or schedules or exhibits hereto, exclusively and completely states the rights of the parties hereto with respect to the Hulks and the Equipment and supersedes all other agreements oral or written, with respect to the Hulks and the Equipment. No variation or modification of this Agreement and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized representatives of the parties hereto.

ARTICLE 20. Notices. Any notice required or permitted to be given by either party hereto shall be deemed to have been received by the addressee on the date of actual receipt (if such date is a Business Day, otherwise on the next Business Day), if transmitted by mail, telex, telecopy or similar transmission, or by hand, addressed as follows:

(a) to the Vendor, at P. O. Box 2258 (Two Hopkins Plaza, if by hand), Baltimore, Maryland 21203, Attention of Corporate Trust Department,

(b) to the Vendee, at Suite 2800, 111 S.W. 5th Avenue, Portland, Oregon 97204, Attention of Senior Vice President-Asset Leasing and Financing Division, with a copy to Legal Department at the same address,

(c) to the Builder and the Lessee, at 1333 Brewery Park Boulevard, Detroit, Michigan 48207, Attention of Contract Administration,

(d) to any assignee of the Vendor, or of the Vendee, at such address as may have been furnished in writing to the Vendee, or the Vendor, as the case may be, by such assignee,

or at such other address as may have been furnished in writing by such party to the other parties to this Agreement.

ARTICLE 21. Immunities; Satisfaction of Undertakings. No recourse shall be had in respect of any obligation due under this Agreement, or referred to herein, against any incorporator, stockholder, beneficiary, director or officer, as such, past, present or future, of the parties hereto, whether by virtue of any constitutional provision, statute or rule of law or by enforcement of any assessment or penalty or otherwise, all such liability, whether at common law, in equity, by any constitutional provision, statute or otherwise, of such incorporators, beneficiaries, stockholders, directors or officers, as such, being forever released as a condition of and as consideration for the execution of this Agreement.

The obligations of the Vendee under the second, seventh and eighth paragraphs of Article 15 and under Articles 2, 5, 6 (other than the second, third and fourth sentences of the second paragraph thereof to the extent requiring delivery of certificates and payment schedules as therein provided and other than the payment obligations, which are limited under the last paragraph of Article 3), 7, 8, 9, 11 (other than the proviso to the last paragraph thereof), 12 and 17, or any other obligations hereunder not covered by the provisions of the last paragraph of Article 3, shall be deemed in all respects satisfied by the Lessee's agreements contained in the Lease. The Vendee shall not have any responsibility for the Lessee's failure to perform such obligations, but if the same shall not be performed they shall constitute the basis for an event of default hereunder pursuant to Article 14. No waiver or amendment of the Lessee's undertakings under the Lease shall be effective unless joined in by the Vendor.

It is also expressly understood and agreed by and between the parties hereto, anything herein to the contrary notwithstanding, that this Agreement is executed and delivered by the Agent, not in its individual capacity but solely as Agent under the Participation Agreement.

ARTICLE 22. Law Governing. The terms of this Agreement and all rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Michigan; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. § 11303 and such additional rights arising out of the filing, recording or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Agreement or any assignment hereof shall be filed, recorded or deposited.

ARTICLE 23. Execution. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts together shall constitute but one and the same contract, which shall be sufficiently evidenced by any such original counterpart. It is not necessary that the parties hereto all sign the same counterpart as long as each party shall sign a counterpart and such counterpart is delivered to the Vendor or its counsel, whereupon this Agreement shall become effective. Although this Agreement is dated as of the date set forth on the cover hereof, for convenience, the actual date or dates of execution hereof by the parties ~~hereto is or are, respectively, the date or dates stated in~~ the acknowledgments hereto annexed.

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

MERCANTILE-SAFE DEPOSIT AND
TRUST COMPANY,
not in its individual capacity
but solely as Agent,

by

Vice President

[Seal]

Attest:

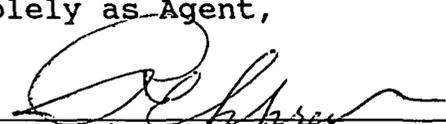
Corporate Trust
Officer

hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

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

MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY,
not in its individual capacity but solely as Agent,

by



Vice President

[Seal]

Attest:



Corporate Trust Officer

GRAND TRUNK WESTERN RAILROAD COMPANY,

by

Vice President

[Corporate Seal]

Attest:

Assistant Secretary

hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

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

MERCANTILE-SAFE DEPOSIT AND
TRUST COMPANY,
not in its individual capacity
but solely as Agent,

by

Vice President

[Seal]

Attest:

Corporate Trust
Officer

GRAND TRUNK WESTERN RAILROAD
COMPANY,

by

W.H. Evans
SR Vice President - Marketing

[Corporate Seal]

Attest:

W. J. McKay
Assistant Secretary

PACIFICORP CREDIT, INC.,

by

Walter J. Schmidt
Vice President

[Corporate Seal]

Attest:

W. J. Schmidt
Secretary

STATE OF MARYLAND,)
)
CITY OF BALTIMORE,)

On this day of June 1988, before me personally appeared R. E. Schreiber, to me personally known, who, being by me duly sworn, says that he is a Vice President of MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, 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.

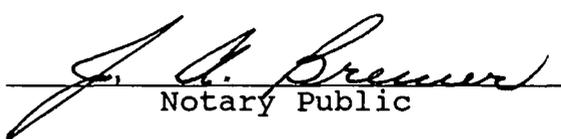
Notary Public

[Notarial Seal]

My Commission Expires

STATE OF MICHIGAN,)
) ss.:
COUNTY OF WAYNE,)

On this 27th day of June 1988, before me personally appeared W. H. Cramer, to me personally known, who, being by me duly sworn, says that he is a Senior Vice President ~~Finance~~ ^{Marketing} of GRAND TRUNK WESTERN RAILROAD 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.


Notary Public

[Notarial Seal]

My Commission Expires

J. A. BREWER
Notary Public, Wayne County, Mich.
My Commission Expires Oct. 15, 1989

STATE OF OREGON,)
)
COUNTY OF MULTNOMAH,)

On this 28th day of June 1988, before me personally appeared Thomas J. Schuldt, to me personally known, who, being by me duly sworn, says that he is a Vice President of PACIFICORP CREDIT, INC., that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, and 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.

Karen E. Puhauer
Notary Public

[Notarial Seal]

My Commission Expires 10/16/88

SCHEDULE I

Allocation Schedule of Each
\$1,000,000 of 10.23% CSA Indebtedness

<u>Date</u>	<u>Debt Service</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Unpaid Principal</u>
1/2/89	*	*	\$0.00	\$1,000,000.00
7/2/89	\$51,150.00	\$51,150.00	0.00	1,000,000.00
1/2/90	58,290.28	51,150.00	7,140.28	992,859.72
7/2/90	50,784.77	50,784.77	0.00	992,859.72
1/2/91	93,257.91	50,784.77	42,473.14	950,386.58
7/2/91	48,612.27	48,612.27	0.00	950,386.58
1/2/92	95,430.41	48,612.27	46,818.14	903,568.44
7/2/92	46,217.53	46,217.53	0.00	903,568.44
1/2/93	97,825.17	46,217.53	51,607.64	851,960.80
7/2/93	43,577.79	43,577.79	0.00	851,960.80
1/2/94	243,147.25	43,577.79	199,569.46	652,391.34
7/2/94	33,369.82	33,369.82	0.00	652,391.34
1/2/95	139,431.08	33,369.82	106,061.26	546,330.08
7/2/95	27,944.78	27,944.78	0.00	546,330.08
1/2/96	119,180.09	27,944.78	91,235.31	455,094.77
7/2/96	23,278.10	23,278.10	0.00	455,094.77
1/2/97	159,754.87	23,278.10	136,476.77	318,618.00
7/2/97	16,297.31	16,297.31	0.00	318,618.00
1/2/98	167,488.28	16,297.31	151,190.97	167,427.03
7/2/98	8,563.89	8,563.89	0.00	167,427.03
1/2/99	174,793.24	8,563.89	166,229.35	1,197.68
7/2/99	<u>1,258.94</u>	<u>61.26</u>	<u>1,197.68</u>	0.00
	<u>\$1,699,653.78</u>	<u>\$699,653.78</u>	<u>\$1,000,000.00</u>	

* Interest only shall be payable to the extent accrued on this date.

RECONSTRUCTION AND CONDITIONAL SALE AGREEMENT

Schedule A--Specifications of the Equipment*

<u>Quantity</u>	<u>Equipment Designation</u>	<u>Mechanical Description</u>	<u>Old</u>		<u>New</u>		<u>Hulk</u>		<u>Reconstruction Cost</u>		<u>Locomotive Cost</u>		
			<u>Railroad Nos. (Inclusive)</u>	<u>Road (Inclusive)</u>	<u>Railroad Nos. (Inclusive)</u>	<u>Road (Inclusive)</u>	<u>Hulk Type</u>	<u>Purchase Price Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>
3	SD - 40	Diesel Electric Locomotive	DWP 5907 GTW 5916 GTW 5922		DWP 5907 GTW 5916 GTW 5922		B	\$150,000	\$450,000	\$525,000	\$1,575,000	\$675,000	\$2,025,000
1	GP-40-II	Diesel Electric Locomotive	GTW 6413		GTW 6413		B	\$165,000	\$165,000	550,000	550,000	715,000	715,000
16	GP-38-II	Diesel Electric Locomotive	MP 2028,2030, 2040,2042, 2054,2056 2060,2369 plus eight from the following group MP <u>2009-2073</u>		GTW 5709-5724		A	250,000	4,000,000	450,000	7,200,000	700,000	11,200,000
<u>20</u>									<u>\$4,615,000</u>		<u>\$9,325,000</u>		<u>\$13,940,000</u>

Builder's Specifications: See Attached. Place of Delivery: Battle Creek, Michigan.

* Notwithstanding anything herein to the contrary, this Schedule A and the Reconstruction and Conditional Sale Agreement to which this Schedule A is attached (this "Agreement") will cover only those units of Equipment that are reconstructed by the Builder from Hulks delivered and settled for pursuant to this Agreement. After delivery of all Equipment covered by this Agreement, if necessary, this Schedule A will be amended (and a supplement will be filed with the Inter Commerce Commission) to describe only those units of Equipment covered by this Agreement and to designate the particular Railroad Road Numbers thereof.

Schedule A

STATEMENT OF RECONSTRUCTION SPECIFICATIONS--
ELECTRIC DIESEL LOCOMOTIVES

GRAND TRUNK WESTERN RAILROAD COMPANY
1988 LOCOMOTIVE RECONSTRUCTION PROGRAM

CARBODY-	Disassembled, all major components removed, sides, cab, end plates step straightened, repaired or replaced as necessary. Interior of cab, short hood compartment and hood painted and reconditioned. New fixtures applied. All external surfaces primed and painted, all modifications made to bring to the latest GTW standard.
ENGINE-	Disassembled, cleaned, inspected, all components qualified renewed or rebuilt as necessary. Remanufactured injectors and governor applied.
COMPRESSOR-	Rebuilt compressor applied.
MAIN TRACTION ALTERNATOR-	AR10 disassembled, cleaned, inspected and reassembled with new bearing.
TRUCKS-	Disassembled, cleaned, inspected, welded ground, rebushed, assembled with new or qualified springs and brake rigging. Rebuilt traction motors and new wheel sets applied.
ELECTRICAL & AIR SYSTEMS-	Major electrical components and all air system components removed, cleaned, tested and reapplied.
MISC. REPAIRS-	Rewiring as necessary, wreck repair as necessary.
ADDITIONS-	Electronic speed indicator/recorder, radio and telemetry devices applied. Electric cab heaters, 18kw auxiliary generators installed.

ADDITIONAL
SPECIFICATIONS
FOR GP38-II
AND GP40-II
UNITS

These units have electrical control cabinets with modular excitation control and solid state components along with improved switch gear (high voltage/high current) and more precise controls. Additional review and rewiring as necessary of these cabinets is a specification for these units.

SCHEDULE OF CLOSINGS

<u>Estimated Closing Dates</u>	<u>A Hulk Purchase Price</u>	<u>B Hulk Purchase Price</u>	<u>Reconstruction Cost</u>	<u>Estimated Purchase Price Equipment</u>
June 29, 1988	1,500,000	\$615,000	\$4,825,000	\$6,940,000
September 29, 1988	1,250,000	-0-	2,250,000	3,500,000
December 28, 1988	<u>1,250,000</u>	<u>-0-</u>	<u>2,250,000</u>	<u>3,500,000</u>
	4,000,000	\$615,000	\$9,325,000	\$13,940,000

EXHIBIT A
to the
RECONSTRUCTION AND
CONDITIONAL SALE
AGREEMENT

[CS&M Ref. 6442-003]

LEASE OF RAILROAD EQUIPMENT

dated as of June 1, 1988

Between

GRAND TRUNK WESTERN RAILROAD COMPANY,
as Lessee,

and

PACIFICORP CREDIT, INC.,
as Lessor.

The rights and interests of the Lessor under this Lease are subject to a security interest in favor of Mercantile-Safe Deposit and Trust Company, as Agent for certain institutional investors. The original of this Lease is held by said Agent.

LEASE OF RAILROAD EQUIPMENT

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LEASE OF RAILROAD EQUIPMENT dated as of June 1, 1988, between GRAND TRUNK WESTERN RAILROAD COMPANY, a Michigan and Indiana corporation ("Lessee") and PACIFICORP CREDIT, INC., an Oregon corporation ("Lessor").

The Lessee and the Lessor are entering into a Reconstruction and Conditional Sale Agreement dated as of the date hereof ("RCSA") with MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, not in its individual capacity but solely as Agent (said bank as so acting, being hereinafter, together with its successors and assigns, called the "Vendor"), under a Participation Agreement dated as of the date hereof ("Participation Agreement") with the Lessor, the Lessee, Grand Trunk Corporation ("Guarantor") and the party named in Schedule A thereto (such party, together with its successors and assigns, being hereinafter called the "Investors"), wherein the Vendor has agreed to transfer to the Lessor its interest in the railroad equipment described in Schedule A hereto ("Equipment") after it has been reconstructed (pursuant to the terms of the RCSA).

The Lessee desires to lease all the units of the Equipment as are delivered, accepted and settled for under the RCSA ("Units"). The Lessor will assign certain rights in this Lease for security to the Vendor pursuant to an Assignment of Lease and Agreement dated as of the date hereof ("Lease Assignment") and the Lessee will consent thereto pursuant to the Consent and Agreement attached to the Lease Assignment ("Consent").

In consideration of the agreements hereinafter set forth, the Lessor hereby leases the Units to the Lessee upon the following terms and conditions, but subject to all the rights and remedies of the Vendor under the RCSA:

SECTION 1. Delivery and Acceptance of Units. The Lessor hereby appoints the Lessee its agent for inspection and acceptance of the Units pursuant to the RCSA. The Lessor will cause each Unit to be tendered 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 RCSA. Upon such tender, the Lessee will cause an authorized representative of the Lessee to inspect the same, and if such Unit is found to be in good order, to accept delivery of such Unit and execute and deliver to the Lessor a certificate of acceptance and delivery ("Certificate of Acceptance"), 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.

SECTION 2. Rental. The Lessee agrees to pay to the Lessor, as rental for each Unit subject to this Lease, 22 semiannual payments in arrears or in advance as shown on Schedule B hereto on January 2 and July 2 of each year commencing July 2, 1989. The semiannual rental payments shall be the percentage of the Purchase Price of each Unit then subject to this Lease set forth in Schedule B hereto opposite the appropriate semiannual rental payment date. The Lessee also agrees to pay the Lessor, as additional rentals, amounts equal to (i) any Investment Deficiency payable pursuant to the first paragraph of Section 9 of the Participation Agreement and (ii) any amounts payable pursuant to clauses (a) and (b) of the fourth paragraph of said Section 9, in each case on the dates such amounts are payable by the Lessor to the Vendor. The foregoing rental rates and the Casualty Value percentages set forth in Schedule C hereto are subject to adjustment as provided in the Indemnity Agreement (as defined in the Participation Agreement) and in Section 16 of the Participation Agreement. Notwithstanding the foregoing, except for the Lessor's obligation to pay interest on the CSA Indebtedness (as defined in the RCSA) on January 2, 1989, the rentals and Casualty Values will never be less than the amounts required to enable the Lessor to satisfy its obligations to pay the CSA Indebtedness and the interest thereon regardless of any limitation of liability set forth in the RCSA.

If and to the extent that (a) the Vendor shall not, pursuant to the first paragraph of Section 14 of the Participation Agreement, receive the funds due thereunder on January 2, 1989, the Lessee agrees to pay to the Lessor as additional rental for each Unit subject to this Lease, on January 2, 1989, an amount equal to the amount payable by the Vendee pursuant to the first paragraph of said Section 14, or (b) the Lessor does not pay the costs and expenses provided for in Section 11 of the Participation Agreement when due and payable and any claim is made therefor against the Vendor or the Investors, the Lessee agrees to pay the same; and the Lessee shall be entitled to an offset against subsequent rental payments due hereunder during the original term and any extended term of this Lease (to the extent such payments are not required to discharge the principal and interest on the CSA Indebtedness) of an amount equal to any amounts so paid by the Lessee plus interest thereon from the date of payment by the Lessee to

the date of offset at the rate of 12.23% per annum (such rate being hereinafter called "Penalty Rate").

If any of the rental payment dates referred to above is not a business day the rental payment otherwise payable on such date shall be payable on the next succeeding 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 Detroit, Michigan, Baltimore, Maryland, or Portland, Oregon, are authorized or obligated to remain closed.

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 to, or by reason of, any past, present or future claims of the Lessee against the Lessor under this Lease or under the RCSA, 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 failure of title of the Lessor to any of the Units 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 against Lessee's use of all or any of the Units, the taking or requisitioning of any of the Units by condemnation or otherwise, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, any insolvency, bankruptcy, reorganization or similar proceeding against the Lessee, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease. To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the 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. All payments under the

Lease shall be made by bank wire transfer of immediately available funds at, and not later than 12:00 noon local time, in the city where such payments are due.

SECTION 3. Term of Lease. The term of this Lease as to each Unit shall begin on the date of the delivery to and acceptance by the Lessee of such Unit and, subject to the provisions of Sections 6, 9 and 12, shall terminate on January 2, 2000.

Notwithstanding anything to the contrary contained herein, all rights and obligations of the Lessee under this Lease and in and to the Units are subject to the rights of the Vendor under the RCSA. If an event of default should occur under the RCSA, the Vendor may terminate this Lease (or rescind its termination), all as provided therein; provided, however, that so long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Vendor is entitled to apply the Payments as defined in the Lease Assignment in accordance with the Lease Assignment, this Lease may not be terminated and the Lessee shall be entitled to the rights of possession, use and assignment provided under Section 11.

SECTION 4. Identification Marks. The Lessee, so long as this Lease shall remain in effect, will cause each Unit to be kept numbered with the road number set forth in Schedule A hereto and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of such Unit, in letters not less than one inch in height, the words "OWNERSHIP SUBJECT TO A SECURITY AGREEMENT FILED WITH THE INTERSTATE COMMERCE COMMISSION" or other appropriate markings designated by the Vendor, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect 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 RCSA. The Lessee will not place any such Unit in operation or exercise any control or dominion over the same until such legend shall have been so marked on both sides thereof and will replace promptly any such legend which may be removed, obliterated, defaced or destroyed. The Lessee will not change the road 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 by the Lessee in all public offices where this Lease and the RCSA shall have been filed, recorded and deposited and (ii) the Lessee shall have furnished the Vendor and the Lessor an opinion of counsel to that effect and to the

further effect that such filing, recordation and deposit will protect the Vendor's and the Lessor's interests in such Units and that no filing, recording, depositing or giving of notice with or to any other Federal, state or local government or agency thereof is necessary to protect the interests of the Vendor and the Lessor in such Units.

Except as above provided, the Lessee, so long as this Lease shall remain in effect, will not allow the name of any person, association or corporation to be placed on the Units as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Units to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by them of the same or a similar type for convenience of identification of their rights to use the Units as permitted under this Lease.

SECTION 5. Impositions. The Lessee assumes responsibility for and agrees to pay, protect, keep harmless and indemnify the Lessor on an after-tax basis (including, without limitation, its successors and permitted assigns) against all taxes, including, without limitation, all local, state, Federal or foreign taxes (other than any United States Federal income tax and, to the extent that the Lessor receives credit therefor against its United States Federal income tax liability, any foreign income tax payable by the Lessor in consequence of the receipt of payments provided herein and other than the aggregate of all state and city income taxes and franchise taxes measured by or based on net income except any such tax which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided), assessments, Canadian withholding, value-added and documentary stamp taxes, or license or other fees and any charges, fines, interest or penalties in connection therewith ("impositions") now or hereafter levied or imposed upon or in connection with or measured by this Lease, the Participation Agreement, the Assignment of Lease and the RCSA or any sale, manufacture, lease, re-lease, maintenance, repair, return, use, payment, shipment, delivery or transfer of title under the terms hereof or the RCSA, 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. The Lessee will also pay promptly all impositions which may be imposed upon any Unit or for the use or operation thereof or upon the rentals, receipts or earnings arising therefrom or upon the Lessor solely by reason of its ownership 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 so long as it is contesting in good faith and by appropriate legal proceedings such impositions in accordance with the following paragraph of this Section, appropriate reserves have been made in respect thereof and the nonpayment thereof does not, in the reasonable opinion of the Lessor, adversely affect the title, property or rights of the Lessor hereunder or of the Vendor under the RCSA. Subject to the following paragraph of this Section, 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 reasonably acceptable to the Lessee) or unless the Lessee shall have approved the payment thereof.

Upon receipt by the Lessor of any notification from any taxing authority that such authority is asserting against the Lessor any liability for any imposition or is proposing an increase in the liability of the Lessor for such impositions (such assertion or proposed increase is called a "claim"), indemnification for which would be required under this Section, the Lessor will promptly notify the Lessee in writing. If promptly requested by the Lessee in writing, the Lessor shall, at the Lessee's expense, contest such claim in such forum as the Lessee shall select and, if permissible under applicable law, Lessee may at its sole option assume responsibility for contesting such claim in the name of the Lessor or in the name of the Lessee; provided, however, that the Lessor shall not be obligated to contest and that the Lessee shall not be permitted to contest such claim: (i) unless the Lessee shall have delivered to the Lessor a written opinion of independent tax counsel selected by the Lessee and reasonably acceptable to the Lessor to the effect that a reasonable basis exists to contest such imposition; (ii) unless and until the Lessee shall have agreed to reimburse the Lessor for all third party costs and expenses that the Lessor may reasonably incur in contesting such claim; and (iii) if an Event of Default under Section 9A of this Lease is continuing.

In the event that the Lessor shall become obligated to make any payment to the Vendor pursuant to Article 5 of the RCSA not covered by the foregoing paragraph of this Section, 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 Article 5.

In the event any reports with regard to impositions are required to be made on the basis of individual Units or otherwise, the Lessee will, where permitted to do so under applicable rules or regulations, make and timely file such reports in such manner as to show the interest of the Lessor and the Vendor in the Units as shall be reasonably satisfactory to the Lessor and the Vendor or, where not so permitted, will notify the Lessor and the Vendor of such requirement and will prepare and deliver such reports to the Lessor and the Vendor within a reasonable time prior to the time such reports are to be filed in such manner as shall be reasonably satisfactory to the Lessor and the Vendor.

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

The parties hereto acknowledge that the Units become a part of the mass of property used by the Lessee in its operations as a common carrier by rail. Consequently, the parties agree that the Lessee shall include the Units in the ad valorem tax returns to be filed by the Lessee in the applicable states or localities and that neither the Vendor nor the Lessor shall include the Units in any ad valorem tax returns filed by them in such states or localities unless required to do so.

SECTION 6. Maintenance; Payment for Casualty Occurrences; Insurance. The Lessee agrees that, at its own cost and expense, it will (i) maintain, service and repair each Unit which is subject to this Lease and comply with its own preventive maintenance program and schedule for its owned and leased equipment so that each Unit, and each component thereof, will remain (a) in good operating order and (b) in compliance with all Applicable Laws and (ii) maintain all records, logs and other materials required by the Association of American Railroads or any other governmental authority having jurisdiction over the Units or the Lessee, to be maintained in respect of each Unit.

In the event that any Unit shall be or become worn out, lost, stolen, destroyed or, in the opinion of the

Lessee, irreparably damaged, from any cause whatsoever, or taken or requisitioned by condemnation or otherwise by the United States Government for a period which shall exceed the then remaining term of this Lease or by any other governmental entity resulting in loss of possession by the Lessee for the lesser of a period of 90 consecutive days or a period which shall exceed the then remaining term of this Lease (each such occurrence being hereinafter called a "Casualty Occurrence") prior to the return of such Unit in the manner set forth in Section 13, the Lessee shall, within 30 days after it shall have determined that such Unit has suffered a Casualty Occurrence, fully notify the Lessor and the Vendor in writing with respect thereto. Notwithstanding any such Casualty Occurrence, the Lessee shall continue making all payments provided for in this Lease in respect of such Unit until the Casualty Payment Date (as hereinafter defined) listed in Schedule C hereto next succeeding such notice. On January 2, 1989, or the next rental payment date, as the case may be ("Casualty Payment Date"), the Lessee shall pay to the Lessor the Casualty Value (as hereinafter defined) of such Unit as of the date of such payment in accordance with Schedule C hereto, plus the rental payment or payments in respect of such Unit then due and payable in arrears. Upon the making of all such payments by the Lessee in respect of any Unit, the rental for such Unit shall thereafter 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. 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 under the circumstances on an "as is, where is, and with all faults" basis in accordance with the Lessee's normal procedures. Provided that the Lessee has previously paid the Casualty Value to the Lessor, the Lessee shall be entitled to the net proceeds of such sale after deductions of any cost or expense incurred in disposing of such Unit to the extent they do not exceed the Casualty Value of such Unit, and shall pay any excess to the Lessor.

The Casualty Value of each Unit as of the payment date on which payment is to be made as aforesaid shall be an amount equal to that percentage of the Purchase Price of such Unit as is set forth in Schedule C hereto opposite such date with respect to such Unit. In the event of a Casualty if the maximum corporate federal income tax rate has been changed from that in effect on the date hereof, the Casualty Value will be recalculated, upward or downward as the case

may be (but never below that amount necessary to redeem a pro rata portion of the CSA Indebtedness plus accrued interest) to reflect such changes in the maximum corporate federal income tax rate and with no other changes in assumptions to maintain the Lessor's after tax return and after tax cash flow using the multiple investment yield method with a zero sinking fund. In any such recalculation an assumed state income tax rate of 7.5% shall be used. Such recalculations may be verified by Lessee at its own expense. In the event of a dispute arbitration shall be used, with the arbitrator determining how the costs of arbitration shall be allocated.

Whenever any Unit shall suffer a Casualty Occurrence at the end of the term of this Lease or after termination of this Lease and before such Unit shall have been returned in the manner provided in Section 13, the Lessee shall promptly and fully notify the Lessor with respect thereto and pay to the Lessor an amount equal to the Casualty Value of such Unit set forth in Schedule C hereto as of the rental payment date immediately preceding such Casualty Occurrence. Upon the making of any such payment by the Lessee in respect of any Unit (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. The Lessor hereby appoints the Lessee its agent, to dispose of any Unit suffering such Casualty Occurrence or any component thereof, at the best price obtainable on an "as is, where is, and with all faults" basis. 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.

Except as hereinabove in this Section provided, the Lessee shall not be released from its obligations hereunder in the event of, and shall bear the responsibility for and risk of, any Casualty Occurrence to any Unit after delivery to 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 types and amounts of insurance in respect of the Units at the time subject hereto and the use and operation thereof, including, without limitation, all risk property insurance and public liability insurance with respect to third-party personal injury, death and property damage (including, but not limited to, contractual liability insurance), in such amounts and for such risks and with such

insurance companies as are at least comparable to the more restrictive (broader coverage) of either (y) industry standards for Class I railroads, it being understood that the industry standard for Class 1 railroads at present allows for self-insurance for Casualty Occurrences, or (z) the insurance coverage carried by the Lessee in respect of similar equipment owned or leased by it. The Lessee hereby assigns and transfers to the Lessor and the Vendor, as their interests may appear, all right, title, and interest in and to any insurance proceeds paid under any policy of insurance to the extent such proceeds relate to the Units or the use and operation thereof as aforesaid. Any policies of insurance carried in accordance with this paragraph shall (i) require 30 days' prior notice of cancellation or material change in coverage to the Lessor and the Vendor and (ii) name the Lessor and the Vendor as additional insureds or loss payees, as their respective interests may appear, and, in the event such policies contain breach of warranty provisions, such policies shall provide that in respect of the interests of the Lessor and the Vendor in such policies the insurance shall not be invalidated by any action or inaction of the Lessee or any other person (other than the Lessor and the Vendor) and shall insure the Lessor and the Vendor regardless of any breach or violation of any warranty, declaration or condition contained in such policies by the Lessee or by any other person (other than the Lessor and the Vendor). On or prior to the First Delivery Date under the Participation Agreement and thereafter not less than 15 days prior to the expiration dates of the expiring policies, the Lessee shall deliver to the Lessor and the Vendor evidence satisfactory to them of the insurance required to be maintained pursuant to this Section.

In the event of failure on the part of the Lessee to provide and furnish any of the aforesaid insurance, the Lessor or the Vendor, upon notice to the Lessee, may, but shall not be obligated to, procure such insurance and the Lessee shall, upon demand, reimburse the Lessor and the Vendor for all expenditures made by the Lessor or the Vendor for such insurance, together with interest thereon computed at the Penalty Rate in respect of overdue rentals from the date of the Vendor's or the Lessor's payment until reimbursed by the Lessee.

If the Lessor shall receive any insurance proceeds from insurance maintained by the Lessee pursuant hereto or condemnation payments in respect of a Unit suffering a Casualty Occurrence, the Lessor shall, if no Event of

Default exists and no event has occurred which with the lapse of time or the giving of notice would be an Event of Default and subject to the Lessee having made payment of the Casualty Value in respect of such Unit, pay such proceeds or condemnation payments (up to the amount of the Casualty Value paid) to the Lessee. 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 and the Vendor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired.

SECTION 7. Annual Reports. On or before March 31 in each year, commencing with the calendar year 1989, the Lessee will cause to be furnished to the Lessor and the Vendor (at the addresses shown in Section 16) an accurate statement, as of the preceding December 31, showing the amount, description and numbers of the Units (a) then leased hereunder and/or covered by the RCSA, (b) that have suffered a Casualty Occurrence during the preceding 12 months (or since the date of this Lease in the case of the first such statement), (c) then undergoing repairs (other than running repairs) or then withdrawn from use pending such repairs and setting forth such other information regarding the condition and state of repair of the Units as the Lessor or the Vendor may reasonably request, and stating that, in the case of all Units repainted or repaired during the period covered by such statement, the markings required by Section 4 shall have been preserved or replaced and (d) then subleased for a term in excess of six months. The Lessor and the Vendor shall have the right, but not the obligation, at their sole cost, risk and expense, by their authorized representatives, to inspect the Units and the Lessee's records with respect thereto (including those relating to any use of the Units outside the United States) at such reasonable times as the Lessor or the Vendor may request during the continuance of this Lease.

SECTION 8. Disclaimer of Warranties; Compliance with Laws and Rules; Indemnification. THE LESSOR MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO 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, OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY UNIT, EITHER UPON DELIVERY THEREOF TO THE LESSEE, OR OTHERWISE, it being agreed that

all such risks, as between the Lessor and the Lessee, are to be borne by the Lessee. The Lessor shall have no responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Units or by any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation, or performance of any Units or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Units. The Lessee's delivery of a Certificate of Acceptance shall be conclusive evidence as between the Lessee and the Lessor that all 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.

The Lessee agrees, for the benefit of the Lessor and the Vendor, to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each Unit) with all applicable 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 affect the title, operation or use of the Units ("Applicable Laws"), and in the event that, prior to the expiration of this Lease or any renewal thereof and the return of all Units as provided in Section 10 or 13, such laws or rules require any alteration, replacement, addition or modification of or to any part of any Unit, the Lessee will conform therewith at its own expense; provided, however, that the Lessee may at its own expense, in good faith, contest the validity or application of any Applicable Law in any reasonable manner which does not, in the reasonable opinion of the Lessor or the Vendor, adversely affect the property or rights of the Lessor or the Vendor, respectively, under this Lease or the RCSA. So long as no Event of Default shall have occurred and be continuing the Lessee, at its own cost and expense, may furnish additions, modifications and improvements to any Unit during the term of this Lease provided that such additions, modifications and improvements (a) are readily removable without causing material damage to such Unit and

(b) do not diminish its utility, remaining useful life, residual value or fair market value. The additions, modifications and improvements made by the Lessee under the first sentence of this paragraph shall be owned by the Lessor free of any lien, charge, security interest or other encumbrance except those created or permitted by the RCSA, and the additions, modifications and improvements made by the Lessee under the second sentence of this paragraph shall (unless any such addition, modification or improvement is a replacement of or substitution for, any part originally incorporated or installed in or attached to a Unit or any part in replacement of or substitution for any such original part or unless such addition, modification or improvement is not removed by the Lessee at the time of delivery of possession by the Lessee pursuant to Section 10 or 13) be owned by the Lessee.

The Lessee agrees to indemnify, protect and hold harmless, on an after-tax basis, the Lessor, the Vendor and the Investors ("Indemnified Person") 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 a result of (i) the entering into or the performance of the RCSA, the Participation Agreement, or this Lease, or any of the instruments or agreements referred to therein or herein or contemplated thereby or hereby, (ii) the ownership of any Hulk or any Unit, (iii) the ordering, acquisition, use, operation, maintenance, condition, reconstruction, purchase, delivery, rejection, storage or return of any Hulk or any Unit, (iv) any accident in connection with the operation, use, condition, reconstruction, possession, storage or return of any Hulk or any Unit resulting in damage to property or injury or death to any person, except as otherwise provided in Section 13 of this Lease, including without limitation any claim based upon the doctrines of product liability or strict or absolute liability in tort or by statute imposed, or (v) the transfer of title to the Equipment by the Vendor pursuant to any provision of the RCSA. Each Indemnified Person as a condition of being indemnified hereunder, shall give the Lessee, promptly upon obtaining knowledge thereof, written notice of any claim or liability to be indemnified against hereunder in respect of such Indemnified Person; provided, however, that any failure of any Indemnified Person to furnish such notice in a prompt manner shall relieve the Lessee from its obligation to indemnify pursuant to this paragraph only to the extent that such delay in notification shall be reasonably demonstrated by the Lessee to have prejudiced its ability to settle or

defend the loss or liability so indemnified against. The indemnities arising under this section shall continue in full force and effect notwithstanding the delivery of the Equipment or the full payment and performance of all obligations under this Lease or the expiration or termination of the term of this Lease; provided, however, that the foregoing indemnification shall not apply to any failure of payment of any of the principal of or interest on the CSA Indebtedness. Nothing in this Section shall constitute a guarantee by the Lessee of the CSA Indebtedness of the Lessor under the RCSA or a guarantee of the residual value of any Unit.

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 of which the Lessee is aware (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 and Lessee agrees to provide information reasonably requested by the Lessor for the purpose of filing income tax returns other than the U.S. federal income tax return.

In case any action, suit or proceeding is brought against any Indemnified Person in connection with the indemnities arising under this Section, the Lessee may and, upon such Indemnified Person's request, will at the Lessee's expense, settle or defend such action, suit or proceeding, or cause the same to be defended by counsel selected by the Lessee and approved by such Indemnified Person, which approval shall not be unreasonably withheld, and, in the event of any failure by the Lessee to do so, the Lessee shall pay all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by each Indemnified Person in connection with such action, suit or proceeding.

SECTION 9. Default. If, during the continuance of this Lease, one or more of the following events (an "Event of Default") shall occur:

A. default shall be made in the payment of any amount provided for in Section 2, 6 or 12 and such default shall continue for five days;

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

interest therein, or of the right to 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 Participation Agreement, the RCSA or the Consent and such default shall continue for 30 days after written notice from the Lessor or the Vendor to the Lessee (and the Lessor, if such notice is given by the Vendor) specifying the default and demanding that the same be remedied;

D. a petition for reorganization under Title 11 of the United States Code, as now constituted or as hereafter amended, shall be filed by or against the Lessee or the Guarantor and, unless such petition 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 or the Guarantor under this Lease, the Participation Agreement, the RCSA and the Consent 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 appointed (whether or not subject to ratification) in such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such trustee or trustees and, in respect to the Lessee, otherwise in accordance with the provisions of 11 U.S.C. § 1168, or any successor provision, as the same may hereafter be amended; provided, however, if such petition was not filed by the Lessee or the Guarantor, as the case may be, the default hereinabove specified in this subdivision shall not become an event of default until 60 days after such petition has been filed; or

E. any other proceedings shall be commenced by or against the Lessee or the Guarantor for any relief which includes, or might result in, any modification of the obligations of the Lessee or the Guarantor hereunder or under the Participation Agreement, the RCSA or the Consent, under any bankruptcy or insolvency laws, or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of such obligations) 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 such obligations 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 the Guarantor or for the property of the Lessee or the Guarantor in connection with any such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such a trustee or trustees or receiver or receivers; provided, however, if such proceedings were not commenced by the Lessee or the Guarantor, as the case may be, the default hereinabove specified in this subdivision shall not become an event of default until 60 days after such proceedings shall have been commenced; or

F. an event of default set forth in Article 14 of the RCSA shall have occurred arising out of any default by the Lessee in performing any of its obligations hereunder or under the Participation Agreement, the RCSA or the Consent and shall not have been cured as provided for therein; or

G. any of the Lessee's representations or warranties made herein, in the Participation Agreement or the RCSA or any statement or certificate at any time given in writing pursuant hereto or in connection herewith shall be breached or found to be false or misleading in any material respect;

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

(a) proceed by appropriate court action, 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;

(b) by notice in writing to the Lessee terminate 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 herein 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, sell, operate, lease to others and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Units for any purposes whatever and without any duty to account to the Lessee for such action or inaction or for any proceeds arising therefrom; 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 as damages for loss of the bargain and not as a penalty an amount equal to the excess, if any, of the Casualty Value as of the rental payment date on or next preceding the date of termination over the amount the Lessor reasonably estimates to be the sales value of such Unit (as is, where is) at such time; provided, however, that in the event the Lessor shall have sold any Unit, in a commercially reasonable manner, the Lessor, in lieu of collecting any amounts payable to the Lessor by the Lessee pursuant to the preceding clause of this part (b) with respect to such Unit, may, if it shall so elect, demand that the Lessee pay the Lessor and the Lessee shall pay to the Lessor on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value for such Unit, as of the rental payment date on or next preceding the date of termination over the net proceeds of such sale.

In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid amounts due hereunder before, during or after the exercise of any of the foregoing remedies and for all reasonable attorneys' fees and other costs and expenses incurred by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto, including all costs and expenses incurred in connection with the return and disposition of any Unit.

Should the Lessee fail to make any payment or to do any act as provided by this Lease, then the Lessor shall have the right (but not the obligation), without notice to the Lessee of its intention to do so and without releasing

the Lessee from any obligation hereunder to make or to do the same, to make advances to preserve the Equipment or the Lessor's title thereto, and to pay, purchase, contest or compromise any insurance premium, encumbrance, charge, tax, lien or other sum which in the reasonable judgment of the Lessor appears to affect the Equipment, and in exercising any such rights, the Lessor may insure any liability and expend whatever amounts in its reasonable discretion it may deem necessary therefor. All sums so incurred or expended by the Lessor shall be due and payable by the Lessee within 10 days of notice thereof.

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 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 rental 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.

SECTION 10. Return of Units upon Default. If this Lease shall terminate pursuant to Section 9, the Lessee shall forthwith deliver possession of the Units to the Lessor. Each Unit so delivered shall be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted, and shall have removed therefrom all additions, modifications and improvements which the Lessee owns pursuant to Section 8 hereof. 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 (including, but not by way of limitation, giving prompt telegraphic and written notice to the Association of American Railroads and all railroads to which any Unit or Units of the Equipment have been interchanged to return the units so interchanged) place such Units upon such

storage tracks of the Lessee as the Lessee reasonably may designate;

(b) permit the Lessor to store such Units on such tracks at the risk of the Lessee without charge for insurance, rent or storage until such Units have been sold, leased or otherwise disposed of by the Lessor; and

(c) transport the same to any place on the lines of railroad operated by it or any of its affiliates or to any connecting carrier (or to Chicago, Illinois, in the event the Lessor no longer connects there) for shipment, all as directed by the Lessor.

Each Unit returned to the Lessor pursuant to this Section shall (i) be in the same operating order, repair and condition as when originally delivered by the Lessee, ordinary wear and tear excepted, (ii) meet the standards then in effect under the Interchange Rules of the Association of American Railroads, if applicable, and/or the applicable rules of any governmental agency or other organization with jurisdiction, and (iii) have removed therefrom by the Lessee without cost or expense to the Lessor all additions, modifications and improvements which the Lessee owns pursuant to Section 8 hereof. The assembling, delivery, storage, insuring 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, insure, 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; 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 Lessee hereby waives any and all claims against the Vendor or the Lessor and their agents for

damages of whatever nature in connection with any retaking of the Units in any reasonable manner.

All amounts earned in respect of the Units after the date of termination of this Lease shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Unit is not assembled, delivered and stored, as hereinabove provided the Lessee shall, in addition, pay to the Lessor for each day thereafter an amount equal to 0.035635% of the Purchase Price of such Unit. Nothing contemplated by this paragraph, including the payment by the Lessee of any amounts pursuant hereto shall be deemed to relieve the Lessee of its obligation to assemble, deliver and store the Units or affect the Lessor's rights and remedies with respect to such obligation.

Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 10, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney-in-fact 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.

SECTION 11. 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. The rights of the Lessor hereunder (including the rights to receive the rentals payable under this Lease) shall inure to the benefit of the Vendor as assignee under the Assignment in the manner and to the extent therein provided. So long as the Lessee shall not be in default under this Lease and no event of default exists under the RCSA, the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease but, without the prior written consent of the Lessor and the Vendor, the Lessee shall not assign or transfer its leasehold interest under this Lease in any of the Units or sublease any of the Units, except to the extent permitted by the provisions of the next succeeding paragraph hereof; and any such assignment or transfer without said consent shall be void. The Lessee, at its own expense, will promptly discharge or cause to be duly discharged 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 which the Lessor is obligated to discharge pursuant to Paragraph 14 of the Participation Agreement), upon or with respect to any Unit or the interest of the Lessor, the Vendor or the Lessee therein, and will promptly discharge any such lien, charge, security interest or other encumbrance which arises. The Lessee shall not, without the prior written consent of the Lessor and the Vendor, 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 next succeeding paragraph hereof.

So long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Vendor is entitled to apply the Payments as defined in the Lease Assignment in accordance with the Lease Assignment, the Lessee shall be entitled to the possession of the Units and to the use of the Units by it or any affiliate upon lines of railroad owned or operated by it or any such affiliate or upon lines of railroad over which the Lessee or any such affiliate has trackage or other operating rights or over which railroad equipment of the Lessee or any such affiliate is regularly operated pursuant to contract and shall be entitled to permit the use of the Units upon connecting and other carriers in the usual interchange of traffic or pursuant to run-through agreements and to sublease the Units to any of its affiliates or to any railroad company incorporated in the United States of America or any state thereof or the District of Columbia, but only upon and subject to all the terms and conditions of this Lease and the RCSA; provided, however, that any sublease or subleases of any Unit to the same non-affiliated railroad company shall not exceed in the aggregate a period of three years. The Lessee may receive and retain compensation for the use of any of the Units from other railroads so using such Units. Any sublease permitted by this paragraph shall be subject and subordinate to the rights and remedies of the Vendor under the RCSA and the Lessor under this Lease in respect of the Units covered by such sublease upon the occurrence of an event of default thereunder or an Event of Default hereunder and in no event shall the term of any such sublease extend beyond the term of this Lease.

Nothing in this Section shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Units or possession of the Units to any corporation incorporated under the laws of any state of the United States of America or the

District of Columbia (which shall have duly assumed the obligations of the Lessee hereunder) into or with which the Lessee shall have become merged or consolidated or which shall have acquired the railroad properties of the Lessee as an entirety or substantially as an entirety; provided that such assignee or transferee will not, upon the effectiveness of such merger, consolidation or acquisition, be in default under any provision of this Lease.

SECTION 12. Renewal Option; Purchase Option.

Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, the Lessee may elect, by written notice delivered to the Lessor not less than 180 days prior to the end of the original term of this Lease (or, in the event the Lessee extends the term of this Lease for an additional one-year term, not less than 180 days prior to the end of that extended term) to extend the term of this Lease in respect of all, but not fewer than all, the Units then covered by this Lease for one or two additional one-year periods commencing on the scheduled expiration of the original term or the first extended term of this Lease, as the case may be, at a semiannual rental payable in arrears in semiannual payments, in an amount equal to the Fair Market Rental (as hereinafter defined). Such rental payments will be made on January 2 and July 2 in each year of the applicable extended term.

"Fair Market Rental" shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's-length transaction between an informed and willing lessee (other than a lessee currently in possession) and an informed and willing lessor under no compulsion to lease and, in such determination, (i) it shall be assumed that the Units are in the condition and repair in which they are required to be maintained pursuant to this Lease and that they are free and clear of all liens, claims and encumbrances, (ii) the value of the additions, modifications and improvements as to which Lessee retains title pursuant to Section 8 shall not be included and (iii) costs of removal from the location of current use shall not be a deduction from such value. If, within two months following receipt of the notice required by the preceding paragraph, the Lessor and the Lessee are unable to agree upon a determination of the Fair Market Rental of the relevant Units, such rental shall be determined in accordance with the foregoing definition by a qualified independent Appraiser as hereinafter defined. The term "Appraiser" shall mean such independent Appraiser as Lessor may select with the approval of Lessee, or, failing such approved selection, a panel of

three independent Appraisers, one of whom shall be selected by Lessor, the second by Lessee and the third designated by the first two so selected; and if no such third Appraiser is so appointed within 15 days, either party may apply to have the appointment made by the American Arbitration Association and both parties shall be bound by such appointment. 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 Lessor and Lessee and the Lessee shall then either exercise or not exercise the option. The Lessor shall pay for its Appraiser, the Lessee shall pay for its Appraiser and the costs of the third Appraiser or arbitration shall be shared equally by the Lessor and the Lessee.

Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, at the end of the original term of this Lease, the Lessee may elect to purchase all but not less than all the Units then subject to this Lease at the lesser of the then "Fair Market Value" of such Units or an amount equal to 45% of the Purchase Price of such Units, by giving written notice to the Lessor not less than 180 days prior to the expiration of such term.

Provided that this Lease has not been earlier terminated and the Lessee is not in default hereunder, at the end of any extended term of this Lease, the Lessee may elect to purchase all but not less than all the Units then subject to this Lease at the then "Fair Market Value" of such Units, by giving written notice to the Lessor not less than 180 days prior to the expiration of such term.

"Fair Market Value" shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's length transaction between an informed and willing purchaser (other than a lessee currently in possession) and an informed and willing seller under no compulsion to sell and, in such determination, the same assumptions applicable to the determination of Fair Market Rental, as set forth in the second paragraph of this Section, shall be applied except that the value of additions, modifications and improvements as to which Lessee retains title pursuant to Section 8 and which Lessee does not intend to remove if the Lessee returns the Units to the Lessor shall be included in the determination of Fair Market Value. If, within 30 days following receipt of the notice

required by the preceding paragraph, the Lessor and the Lessee are unable to agree upon a determination of the Fair Market Value of the Units, such Fair Market Value shall be determined in accordance with the foregoing definition by the appraisal procedure set forth in the second paragraph of this Section. The Appraiser(s) shall be instructed to make the determination of Fair Market Value within a period of 30 days following appointment and shall promptly communicate such determination in writing to the Lessor and the Lessee. The Lessee shall then either exercise or not exercise its option.

SECTION 13. Return of Units upon Expiration of Term. After the expiration of the original or any extended term of this Lease, the Lessee will have 15 days to marshal the Units (without being required to make any payment to Lessor in respect of the Units) and the Lessee will, at its own cost and expense, at the request of the Lessor, deliver possession of such Units to the Lessor upon such storage tracks of the Lessee as the Lessee may designate and permit the Lessor to store such Units on such tracks for a period not exceeding 120 days, and transport such Units at any time within such 120-day period, to one or more connecting carriers (or to Chicago, Illinois, in the event the Lessee no longer connects there) for shipment, all as directed by the Lessor, the movement and storage of such Units to be at the expense and risk of the Lessee such Units at any time during such 120 days. Lessee agrees to maintain insurance pursuant to Section 6 of the Lease on such Units during such storage period. 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 any 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. Each Unit returned to the Lessor pursuant to this Section shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted, (ii) meet the standards then in effect under the Interchange Rules of the Association of American Railroads, if applicable, and/or the applicable rules of any governmental agency or other organization with jurisdiction, and (iii) have removed therefrom by the Lessee without cost or expense to the Lessor all additions, modifications and improvements which the Lessee owns pursuant to Section 8 hereof. 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 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.

In the event any Unit is not assembled, delivered and stored, as hereinabove provided, within 15 days after the end of the term of this Lease, or any extended term, then the Lessee shall pay the Lessor for each day thereafter an amount equal to 0.035635% of the Purchase Price of such Unit.

Lessee agrees upon request of Lessor, subject to the availability of shop space, to provide at Lessor's expense (based upon Lessee's then prevailing terms and conditions therefor), such other maintenance services, repairs or alterations to the Units as Lessor shall request as are not required to be performed by Lessee pursuant to this Lease.

SECTION 14. Recording; Expenses. The Lessee, at its own expense, will cause this Lease, the RCSA and any assignment hereof or thereof to be filed with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 and deposited with Registrar General of Canada (notice of such deposit to be forthwith given in The Canada Gazette) pursuant to Section 86 of the Railway Act of Canada. The Lessee will undertake the filing, recording and depositing and refile, reregister, rerecord or redeposit 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 reasonable 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 or the assignment hereof to the Vendor, or the RCSA; and the Lessee will promptly furnish to the Vendor and the Lessor evidences of all such filing, registering, recording or depositing, and an opinion or opinions of counsel for the Lessee with respect thereto satisfactory to the Vendor and the Lessor. This Lease, the Assignment and the RCSA shall be filed with the Interstate Commerce Commission and deposited with the Registrar General of

Canada pursuant to Section 86 of the Railway Act of Canada and the provision will have been made for publication of notice of such deposit in The Canada Gazette prior to the delivery and acceptance hereunder of any Unit.

SECTION 15. Interest on Overdue Obligations and Rentals. Anything to the contrary herein contained notwithstanding, any nonpayment of rentals and other obligations when due hereunder shall result in the obligation on the part of the Lessee promptly to pay an amount equal to the Penalty Rate in respect 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.

SECTION 16. Notices. Any notice required or permitted to be given pursuant hereto shall be deemed to have been received by the addressee on the date of actual receipt (if such date is a Business Day, otherwise on the next Business Day), if transmitted by mail, telex, telecopy or similar transmission, or by hand, addressed as follows:

(a) if to the Lessor, at, Suite 2800, 111 S.W. 5th Avenue, Portland, Oregon 97204, Attention of: Senior Vice President - Asset Leasing and Financing Division, with a copy to Legal Department at the same address;

(b) if to the Lessee, at 1333 Brewery Park Boulevard, Detroit, Michigan 48207, Attention of: Contract Administration;

(c) if to the Vendor, at P.O. Box 2258 (Two Hopkins Plaza, if by hand), Baltimore, Maryland 21203, Attention of: Corporate Trust Department;

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

SECTION 17. Effect and Modification of Lease. Except for the Participation Agreement, 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 officers of the Lessor and the Lessee.

SECTION 18. Definitions. If and so long as this Lease is assigned to the Vendor (or any successor thereto)

for collateral purposes, wherever the term "Lessor" is used in this Lease it shall also apply and refer to the Vendor and any successors thereto unless the context shall otherwise require and except that the Vendor shall not be subject to any liabilities or obligations under this Lease; and the fact that the Vendor is specifically named in certain provisions shall not be construed to mean that the Vendor (and any successors thereto) is not entitled to the benefits of other provisions where only the Lessor is named or where only the Vendor, as the case may be, is named.

SECTION 19. Execution. This Lease may be executed in several counterparts, such counterparts together constituting but one and the same instrument, but the counterpart delivered to the Vendor pursuant to the Lease Assignment shall be deemed to be the original counterpart and all other counterparts shall be deemed duplicates thereof. It is not necessary that the parties hereto all sign the same counterpart as long as each party shall sign a counterpart and such counterpart is delivered to the Vendor or its counsel, whereupon this Lease shall become effective. Although this Lease is dated as of the date first set forth above for convenience, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

SECTION 20. Law Governing; Severability. The terms of this Lease and all rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Michigan; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. § 11303 and such additional rights arising out of the filing, recording or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Lease or any assignment hereof shall be filed, recorded or deposited.

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.

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused this instrument to be executed in their respective corporate names by duly authorized officers, and their respective corporate seals to be hereunto affixed and duly attested, all as of the date first above written.

PACIFICORP CREDIT, INC.,

by

[Corporate Seal]

Vice President

Attest:

GRAND TRUNK WESTERN RAILROAD
COMPANY,

by

[Corporate Seal]

Senior Vice President Finance

Attest:

STATE OF OREGON,)
) ss.:
COUNTY OF MULTNOMAH,)

On this day of June 1988, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is a Vice President of PACIFICORP CREDIT, INC., that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation and 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.

Notary Public

[Notarial Seal]

My Commission Expires

STATE OF MICHIGAN,)
) ss.:
COUNTY OF WAYNE,)

On this day of June 1988, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is a Senior Vice President-Finance of GRAND TRUNK WESTERN RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that such instrument was this day 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.

Notary Public

[Notarial Seal]

My Commission Expires

SCHEDULE A TO LEASE

<u>Quantity</u>	<u>AAR Mechanical Designation</u>	<u>Description</u>	<u>Lessee's Road Numbers (Inclusive)</u>
3	SD-40	Diesel Electric Locomotives	DWP 5907 GTW 5916 GTW 5922
1	GP-40-II	Diesel Electric Locomotive	GTW 6413
16	GP-38-II	Diesel Electric Locomotives	GTW 5709 - 5724

* Units subject to this Lease will include only those delivered, accepted and settled for under the RCSA on or before December 31, 1988, and will bear the Road Numbers listed above. Upon completion of all deliveries, if necessary, this Schedule A will be appropriately amended to delete the Equipment listed above which has not become subject to this Lease.

SCHEDULE B TO LEASE

Basic Lease Rental Rates

<u>DATE</u>	<u>PERCENTAGE OF PURCHASE PRICE</u>	<u>ADVANCE/ ARREARS</u>
7/2/89	6.81151	ARREARS
1/2/90	4.63013	ARREARS
7/2/90	4.03395	ARREARS
1/2/91	7.40769	ARREARS
7/2/91	3.86139	ARREARS
1/2/92	7.58026	ARREARS
7/2/92	3.67116	ARREARS
1/2/93	7.77048	ARREARS
7/2/93	3.46148	ARREARS
1/2/94	7.98016	ARREARS
1/2/94	11.33359	ADVANCE
7/2/94	2.65064	ADVANCE
1/2/95	11.07533	ADVANCE
7/2/95	2.90890	ADVANCE
1/2/96	10.29446	ADVANCE
7/2/96	3.68977	ADVANCE
1/2/97	12.68970	ADVANCE
7/2/97	1.29453	ADVANCE
1/2/98	13.30398	ADVANCE
7/2/98	0.68025	ADVANCE
1/2/99	13.88423	ADVANCE
7/2/99	0.10000	ADVANCE
	<u>141.11359</u>	

* As defined in Article 3 of the RCSA.

SCHEDULE C TO LEASE

Casualty Value Percentages Schedule

<u>Casualty Payment Date</u>	<u>Percentage*</u>
7/2/89	105.60167
1/2/90	107.70058
7/2/90	108.33489
1/2/91	105.45069
7/2/91	105.75251
1/2/92	102.25643
7/2/92	102.34085
1/2/93	98.30653
7/2/93	98.30653
1/2/94	93.67342
7/2/94	84.99047
1/2/95	84.99047
7/2/95	76.13486
1/2/96	75.44568
7/2/96	67.00025
1/2/97	65.15951
7/2/97	53.81677
1/2/98	54.02078
7/2/98	41.75649
1/2/99	42.30137
7/2/99	29.15221
1/2/00	30.00000

*Expressed as a percentage of Purchase Price.

[P81053]

EXHIBIT B
to the
RECONSTRUCTION
AND CONDITIONAL
SALE AGREEMENT

[CS&M Ref. 6442-003]

ASSIGNMENT OF LEASE AND AGREEMENT

Dated as of June 1, 1988

between

PACIFICORP CREDIT, INC.
as Vendee,

and

MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY,
not in its individual capacity but solely
as Agent

ASSIGNMENT OF LEASE AND AGREEMENT

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* This Table of Contents has been included in this document for convenience only and does not form a part of, or affect any construction or interpretation of this document.

ASSIGNMENT OF LEASE AND AGREEMENT dated as of June 1, 1988, by and between PACIFICORP CREDIT, INC. an Oregon corporation ("Vendee"), and MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, not in its individual capacity but solely as Agent ("Vendor") under a Participation Agreement dated as of the date hereof.

The Vendee and the Vendor have entered into a Reconstruction and Conditional Sale Agreement dated as of the date hereof ("RCSA") with Grand Trunk Western Railroad Company ("Lessee") in its capacity as builder providing for the sale to the Vendee of the interest of the Vendor in such units of railroad equipment ("Units") described in Schedule A thereto as are delivered to and accepted by the Vendee thereunder.

The Vendee and the Lessee have entered into a Lease of Railroad Equipment dated as of the date hereof ("Lease") providing for the leasing by the Vendee to the Lessee of the Units.

In order to provide security for the obligations of the Vendee under the RCSA and as an inducement to the Vendor to invest in the CSA Indebtedness (as that term is defined in the RCSA), the Vendee has agreed to assign for security purposes its rights in, to and under the Lease to the Vendor.

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. The Vendee hereby assigns, transfers and sets over unto the Vendor, as collateral security for the payment and performance of the obligations of the Vendee under the RCSA, all the Vendee'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 Vendee from the Lessee under or pursuant to the provisions of the Lease whether as rent, casualty payment, payments in respect of purchase options, indemnity, liquidated damages, or otherwise (such moneys being hereinafter called "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 Vendee is or may become entitled to do under the Lease. Notwithstanding the foregoing, the Payments shall not be deemed to include (i) any proceeds of public liability insurance, maintained pursuant to Section 6 of the Lease, payable to the Vendee, (ii) payments by the Lessee to the Vendee pursuant to Sections 5 and 8 of the Lease (except to the extent that the Vendee is obligated to reimburse the Vendor pursuant to Articles 5 and 12 of the RCSA and except to the extent that the Vendee is obligated to pay and discharge claims, liens, charges or security interests under Section 9 of this Assignment), (iii) such amounts of indemnity receivable by the Vendee pursuant to the Tax Indemnity Agreement dated as of the date hereof between the Vendee and the Lessee and (iv) any reimbursements payable by the Lessee to the Vendee in respect of any amounts paid by the Vendee to cure defaults by the Lessee under the Lease (such amounts and payments referred to in (i) through (iv) being hereinafter collectively called the "Excluded Payments"). In furtherance of the foregoing assignment, the Vendee hereby irrevocably authorizes and empowers the Vendor in its own name, or in the name of its nominee, or in the name of the Vendee or as its attorney, to ask, demand, sue for, collect and receive any and all Payments, 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 Vendee pursuant to Section 2 of the Lease. To the extent received, the Vendor will apply such Payments to satisfy the obligations of the Vendee under the RCSA due and payable at the time such Payments are due and payable under the Lease, and to provide for the payments required to be made by the Vendee to the Vendor pursuant to Section 9 of the Participation Agreement under which the Vendor is acting as Agent, and so long as no event of default (or event which, with notice or lapse of time, or both, could constitute an event of default) under the RCSA shall have occurred and be continuing, any balance shall be paid to the Vendee, or to such other party as the Vendee may direct in writing, in Federal funds not later than the first business day following receipt of such balance; provided, however, that such balance shall be payable as aforesaid if an event of default (other than an event of default under Article 14(a) of the RCSA) or event which, with notice or lapse of time, or both, could constitute an event of default (other than an event of default under Article 14(a) of the RCSA) under the RCSA shall have occurred and be continuing for a period of one year unless the Vendor has declared a Declaration of Default under Article 14 thereof. If the Vendor shall not receive any rental payment under Section 2 of the Lease when due, the Vendor shall, on the date due,

notify the Vendee and the Lessee, by telephone, confirmed in writing, at the respective addresses set forth in the Lease; provided, however, that the failure of the Vendor so to notify the Vendee and the Lessee shall not affect the obligations of the Vendee hereunder, under the RCSA or the Participation Agreement or the Lessee under the Lease or the Consent and Agreement attached hereto, except as otherwise provided therein.

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 Vendee under the Lease, it being understood and agreed that notwithstanding this Assignment or any subsequent assignment, all obligations of the Vendee to the Lessee shall be and remain enforceable by the Lessee, its successors and assigns, against, and only against, the Vendee or persons other than the Vendor.

3. To protect the security afforded by this Assignment the Vendee agrees that, without the written consent of the Vendor, the Vendee will not anticipate the rents under the Lease 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 Vendee agrees that any amendment, modification or termination thereof without such consent shall be void; provided, however, that the Vendee may amend or supplement the Lease to provide for an increase or decrease of amounts due as rentals under Section 2 thereof and/or Casualty Values under Section 6 thereof provided that no such decrease shall reduce said amounts below that which are necessary to satisfy the obligations of the Vendee under the RCSA and the Participation Agreement, notwithstanding any limitation of liability of the Vendee contained therein.

4. Subject to Section 12, the Vendee does hereby constitute the Vendor the Vendee's true and lawful attorney, irrevocably, with full power (in the name of the Vendee, or otherwise), to ask, require, demand, and receive, any and all Payments due and to become due under or arising out of the Lease to which the Vendee 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 the Vendor may deem to be necessary or advisable in the premises.

5. Upon the full discharge and satisfaction of all the Vendee's obligations under the RCSA and the Participation Agreement (without giving effect to any limitations on liability contained therein), 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 Vendee.

6. If an event of default under the RCSA shall occur and be continuing, the Vendor may declare all sums secured hereby immediately due and payable and may apply all such sums against the amounts due and payable under the RCSA.

7. The Vendee will, from time to time, do and perform any other act and will execute, acknowledge, deliver and file (and will refile) any and all further instruments required by law and 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; provided, however, the Vendee and the Lessee shall not be bound to honor such assignment until they have received written notice thereof. Payment to the assignee of all Payments shall constitute full compliance with the terms of this Agreement and the Lease. The Vendee and the Lessee may rely on instruments and documents of assignment which they believe in good faith to be true and authentic.

9. The Vendee will pay and discharge any and all claims, liens, charges or security interests (other than those created by the RCSA) on the Lease or the rentals or other payments due or to become due thereunder claimed by any party from, through or under the Vendee or its successors and assigns (other than the Vendor), not arising out of the transactions contemplated by the RCSA or the

Lease (but including income taxes arising out of the receipt of rentals and other payments under the Lease and any other "income and proceeds from the Equipment", as defined in the RCSA) which, if unpaid, might become a claim, lien, charge or security interest on or with respect to the Lease or such rentals or other payments, unless the Vendee shall be contesting the same in good faith by appropriate proceedings in any reasonable manner and the nonpayment thereof does not, in the opinion of the Vendor, adversely affect such interests of the Vendor.

10. The terms of this Assignment and all rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Michigan, but the parties shall be entitled to all rights conferred by 49 U.S.C. § 11303 and such additional rights arising out of the filing, recording or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Assignment or any assignment hereof shall be filed, recorded or deposited.

11. The Vendee shall cause copies of all notices received by it in connection with the Lease and all payments hereunder to be promptly delivered or made to the Vendor at its address set forth in Article 20 of the RCSA, or at such other address as the Vendor shall designate.

12. So long as no event of default under the RCSA has occurred and is continuing, the Vendor will not exercise or enforce, or seek to exercise or enforce, or avail itself of, any of the rights, powers, privileges, authorizations or benefits which are assigned and transferred by the Vendee to the Vendor by this Assignment, except the right to demand, sue for, collect, receive and apply the Payments as provided in Section 1 .

13. Notwithstanding any other provision of this Assignment (including, but not limited to, any provision of the first paragraph of Section 1 and Section 3), and so long as there is no event of default under the RCSA or event which with notice or lapse of time could become such an event of default, and to the extent that the Vendor does not seek to receive and collect any Payments under the Lease in excess of the amounts required to discharge the obligations of the Vendee under the RCSA and the Participation Agreement, the terms of this Assignment shall not limit or in any way affect the Vendee's right to receive and collect any Payments under the Lease in excess of the obligations of the Vendee under the RCSA and the Participation Agreement, or

empower the Vendor in any way to waive or release the Lessee's obligation to pay such excess amounts, and the Vendee shall continue to be empowered to ask, demand, sue for, collect and receive any and all of such excess amounts, but shall not take any action under subparagraph (b) of Section 9 of the Lease without the written consent of the Vendor.

14. This Assignment may be executed in any number of counterparts, all of which together shall constitute a single instrument, but the counterpart delivered to the Vendor shall be deemed to be the original counterpart. It is not necessary that the parties hereto all sign the same counterpart as long as each party shall sign a counterpart and such counterpart is delivered to the Vendor or its counsel, whereupon this Agreement shall become effective.

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

MERCANTILE-SAFE DEPOSIT AND
TRUST COMPANY, not in its
individual capacity but solely
as Agent,

[Seal]

by

Attest:

Vice President

Corporate Trust Officer

PACIFICORP CREDIT, INC.

by

[Corporate Seal]

Attest:

Vice President

Assistant Secretary

STATE OF MARYLAND,)
) ss.:
CITY OF BALTIMORE,)

On this day of June 1988, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is a of MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, 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.

Notary Public

[Notarial Seal]

My commission expires:

STATE OF OREGON,)
) ss.:
COUNTY OF MULTNOMAH,)

On this day of June 1988, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is a Vice President of PACIFICORP CREDIT, INC. 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.

Notary Public

[Notarial Seal]

My commission expires:

LESSEE'S CONSENT AND AGREEMENT

The undersigned, GRAND TRUNK WESTERN RAILROAD COMPANY, a corporation duly incorporated under the laws of the States of Michigan and Indiana, the Lessee ("Lessee") named in the Lease ("Lease") referred to in the foregoing Assignment of Lease and Agreement ("Assignment"), hereby (a) acknowledges receipt of a copy of the Assignment and (b) consents to all the terms and conditions of the Assignment and agrees that:

(1) it will pay all Payments as defined in the Assignment, due and to become due under the Lease or otherwise in respect of the Units leased thereunder, directly to Mercantile-Safe Deposit and Trust Company, not in its individual capacity but solely as Agent ("Vendor"), the assignee named in the Assignment, to be applied as provided in the RCSA (as defined in the Assignment), in immediately available funds by 11 a.m., Baltimore, Maryland, time on the date of payment, by wire transfer to Mercantile-Safe Deposit and Trust Company, Baltimore, Maryland, for credit to its Corporate Trust Department's Account No. 620081-8, with advice that the deposit is "RE: GTW 6/1/88" (or at such other address as may be furnished in writing to the undersigned by the Vendor);

(2) the Vendor shall be entitled to the benefits of, and to receive and enforce performance of, all the covenants to be performed by the undersigned under the Lease as though the Vendor were named therein as the Lessor and the Lessee will not assert against the Vendor any claim or defense the Lessee may have against the Lessor under the Lease;

(3) the Vendor shall not, by virtue of the Assignment or this Consent and Agreement, be or become subject to any liability or obligation under the Lease or otherwise; and

(4) the Lease shall not, without the prior written consent of the Vendor, be amended, terminated or modified (other than as set forth in the proviso in Section 3 of the Assignment), nor shall any action be taken or omitted by the undersigned, the taking or omission of which might result in an alteration or impairment of the Lease or this Consent and Agreement or of any of the rights created by any thereof.

This Consent and Agreement when accepted by the Vendor by signing the acceptance at the foot hereof, shall be deemed a contract under, and shall be construed in accordance with, the laws of the State of Michigan. It is not necessary that the parties hereto all sign the same counterpart of this Agreement and Consent as long as each party shall sign a counterpart and such counterpart is delivered to the Vendor or its counsel, whereupon this Agreement and Consent shall become effective.

Dated as of June 1, 1988

GRAND TRUNK WESTERN RAILROAD
COMPANY,

by

Vice President

[Corporate Seal]

Attest:

The foregoing Consent and Agreement is hereby accepted, as of the 1st day of June 1988.

MERCANTILE-SAFE DEPOSIT AND
TRUST COMPANY, not in its
individual capacity but solely
as Agent,

by

Vice President