STEPTOE & JOHNSON
ATTORNEYS AT LAW
1330 CONNECTICUT AVENUE
WASHINGTON, D. C. 20036

ROBERT J. CORBER
(202) 429-8108

December 15, 1988

No. 8-351A101
Date DEC 16 1988
Fee $ 13.00
ICC Washington, D.C.

Ms. Noreta R. McGee
Secretary
Interstate Commerce Commission
Room 2215
Washington, D.C. 20423

INTERSTATE COMMERCE COMMISSION
DEC 16 1988 10:5 AM
RECORDATION NO. 1 6083 Filed 1425

Dear Ms. McGee:

Enclosed for filing and recordation pursuant to the provisions of 49 U.S.C. §11303 are the original and three (3) copies of the document hereinafter described. The Document relates to the railroad equipment identified below.

1. Lease Agreement dated as of July 31, 1986 between Brae Transportation, Inc., lessor, and Gloster Southern Railroad Company, lessee.

The equipment subject to this document consists of 104 railroad cars bearing the marks GLSR 1500 - 1550, 1600 - 1649, and 1650 - 1653, inclusive.

The names and addresses of the parties to the document are as follows.

Lessor: Brae Transportation, Inc.
One Hundred Sixty Spear Street
San Francisco, CA 94105

Lessee: Gloster Southern Railroad Company
P.O. Box 757
Crossett, Arkansas 71635

DEC 16 10 46 AM '88

A fee of $13.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to the person presenting this letter.

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

1. Lease Agreement dated as of July 31, 1986 between Brae Transportation, Inc., and Gloster Southern Railroad Company covering railcars marked GLSR 1500 - 1550, 1600 - 1649, and 1650 - 1653, inclusive.

Since this document also relates to the Loan and Security Agreement between BRAE Corporation and Manufacturers Hanover Leasing Corporation recorded under Recordation No. 9753, it is requested that this document be cross-indexed under that Recordation Number.

Very truly yours,

Robert J. Corber
Attorney for Brae
Transportation, Inc.

Enclosures as stated

INTERSTATE COMMERCE COMMISSION

DEC 16 1988 10-50 AM

RECORDATION NO. 16083 Filed 1425

LEASE AGREEMENT

COPY

LEASE AGREEMENT ("Agreement"), dated as of July 31, 1986, between BRAE TRANSPORTATION, INC., Four Embarcadero Center, Suite 3100, San Francisco, California 94111 ("BRAE"), as lessor, and GLOSTER SOUTHERN RAILROAD COMPANY, P.O. Box 757, Crossett, Arkansas 71635 ("Lessee"), as lessee.

1. Scope of Agreement

A. BRAE agrees to lease to Lessee, and Lessee agrees to lease from BRAE, freight cars as set forth in any lease schedules executed by the parties concurrently herewith or hereafter made a part of this Agreement. The word "Schedule" as used herein includes the Schedule or Schedules executed herewith and any additional Schedules and amendments thereto, each of which when signed by both parties shall be a part of this Agreement. The scheduled items of equipment are hereinafter individually referred to as "Car" and collectively referred to as the "Cars."

B. It is the intent of the parties to this Agreement that BRAE shall at all times be and remain the lessor of the Cars. Lessee agrees that it will at no time take any action or file any document which is inconsistent with the foregoing intent and that it will take such action and execute such documents as may be necessary to accomplish this intent.

2. Term

A. This Agreement shall remain in full force until it shall have been terminated as to all of the Cars as provided herein. The lease pursuant to this Agreement with respect to each Car shall commence upon the delivery of such Car pursuant to the terms of this Agreement and shall continue until (the "Initial Lease Term") from the date of delivery, as provided in Section 3A hereof, for the last of the Cars described on the Schedule on which such Car is described.

B. If at the end of the Initial Lease Term or any Extended Lease Term (as hereinafter defined) this Agreement has not been earlier terminated and no default has occurred and is continuing, the Agreement shall automatically be extended for 1 year (the "Extended Lease Term") with respect to all of the Cars described on each Schedule; provided however, that BRAE or Lessee may terminate this Agreement at the expiration of the Initial Lease Term or an Extended Lease Term as to all, but not fewer than all, of the Cars on any Schedule by written notice delivered to the other not less than 60 days prior to the end of the Initial Lease Term or any such Extended Lease Term, as the case may be.

3. Supply Provisions

A. Each of the Cars shall be deemed delivered to Lessee upon being marked with Lessee's railroad markings. BRAE shall cause each Car to be moved to Lessee's railroad line as soon after execution and delivery of the Schedule describing such Car as is consistent with mutual convenience and economy; however, Lessee shall not be obligated to accept any Cars under this Lease after October 1, 1986. Subject to the limitation set forth in Section 13G, BRAE and Lessee shall share equally in and be mutually responsible for the costs and expenses of moving the Cars to Lessee's railroad lines. Due to the

nature of the railroad operations in the United States, BRAE can neither control nor determine when the Cars leased hereunder will actually be available to Lessee for its use on its railroad tracks. Notwithstanding that Lessee may not have immediate physical possession of a Car, the Lease hereunder with respect to all Cars shall commence and Lessee shall pay to BRAE the rent for such Cars set forth in this Agreement, all upon delivery of such Car by BRAE as provided herein. In order to move the Cars to Lessee's railroad line and insure optimal use of the Cars after the first loading of freight for each Car on the railroad line of Lessee (the "Initial Loading"), BRAE agrees to assist Lessee in monitoring Car movements and, when deemed necessary by Lessee and BRAE, to issue movement orders with respect to such Cars to other railroad lines in accordance with Interstate Commerce commission ("ICC") and Association of American Railroads ("AAR") interchange agreements and rules. Hereinafter, "Interchange Rules" shall mean all codes rules, interpretations, laws or orders governing hire, service, use, condition, repair and all other matters pertaining to the interchange of freight traffic reasonably interpreted as being applicable to the Cars, adopted and in effect from time to time by the AAR and any other organization, association, agency or governmental authority, including the ICC and the United States Department of Transportation, which may from time to time be responsible for or have authority to impose such codes, rules, interpretations, laws or orders.

B. Lessee agrees that so long as it shall have on lease any Cars, it shall not lease freight cars from any other party until it shall have received all of the Cars on the Schedule or Schedules, provided however, Lessee shall have no obligation to accept any cars under this Lease which are not received prior to October 1, 1986. Lessee shall load, or order the loading of, all Cars on its tracks prior to loading, or ordering the loading of, (i) any substantially similar freight cars of other railroads interchanged onto Lessee's tracks; (ii) any substantially similar freight cars placed in assigned service on Lessee's tracks subsequent to the date hereof, or (iii) any substantially similar freight cars purchased or leased by Lessee subsequent to the date hereof; provided however, that this shall in no event prevent or prohibit Lessee from fulfilling its common carrier obligations to provide transportation and services upon reasonable request therefor to shippers on its railroad tracks. Lessee shall maintain sufficient records with respect to loadings and shipments to verify that it is priority loading the Cars as herein provided. Lessee shall, upon reasonable request by BRAE, furnish to BRAE its records with respect to loadings and shipments. In the event that BRAE determines, based upon its review of the records, that Lessee is not complying with the intent of this priority loading provision, BRAE may at its sole discretion terminate this Agreement as to all or any portion of the Cars covered by this Agreement upon 24 hours notice.

C. Additional Cars may be leased from BRAE by Lessee only upon the mutual agreement of the parties hereto. Such additional Cars shall be identified in Schedules to this Agreement and shall benefit from and be subject to this Agreement upon execution of the Schedules by BRAE and Lessee. Notwithstanding the execution of any Schedules, including Schedules for additional Cars, the delivery of any Car to Lessee shall be subject to availability, manufacturer's delivery schedules, and the availability of financing on terms satisfactory to BRAE. If, due to any of the factors listed in the preceding sentence, fewer than all of the Cars listed on any Schedule shall be delivered to Lessee, the Initial Lease Term with respect to the Cars listed on such Schedule shall terminate five (5) years from the delivery date for the final Car delivered as provided in Section 3A.

D. BRAE has at any time the right, upon 7 days written notice, to replace any or all of the Cars with new, used or rebuilt cars of the same general class and type. The cost of remarking any such replacement or replaced Cars will be borne by BRAE.

4. Railroad markings and Record Keeping

A. BRAE and Lessee agree that on or before delivery of any Cars to Lessee, such Cars will be lettered with the railroad markings of Lessee. Subject to the limitation found in Section 13G, BRAE and Lessee shall share equally in and be mutually responsible for the expense of such marking, including the removal of any markings and/or logos associated with the former lessee of the Cars, and transportation expense incurred in connection therewith. BRAE and Lessee further agree that any Car may also be marked, at BRAE's expense, with the name of BRAE and any other information required by an owner or secured party under a financing agreement entered into by BRAE in connection with the acquisition of such Car. BRAE shall be responsible for insuring that all such names and other information shall comply with all applicable regulations. Subject to the limitation set forth in Section 9, at the termination of expiration of the Agreement, the cost of the remarking of the Cars shall be borne by BRAE.

B. At no cost to Lessee, BRAE shall during the term of this Agreement prepare for Lessee's signature and filing all documents relating to the registration, maintenance and record keeping functions involving the Cars. Such documents shall include but shall not be limited to the following: (i) appropriate AAR documents including an application for relief from AAR Car Service Rules 1 and 2 or for rescission from such relief; (ii) registration in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; and (iii) such reports as may be required from time to time by the ICC and/or other regulatory agencies. Lessee agrees to take such action, including but not limited to, the execution and delivery of appropriate AAR documents as are required to designate some or all of the Cars as exempted from AAR Car Service Rules 1 and 2 or as may be required to rescind such designation, provided that Lessee shall have available to it sufficient Cars to meet its needs.

C. Each Car leased hereunder shall be registered at no cost to Lessee in the Official Railway Equipment Register and the Universal Machine Language Equipment Register; provided however, that BRAE shall not be responsible for any fee assessed by such publication for the listing or registration of Lessee itself, as distinguished from the registration of additional equipment to Lessee. BRAE shall, on behalf of Lessee, perform all record keeping functions in a manner consistent with this Agreement, such as those related to the use of the Cars by Lessee and other railroads in accordance with the Interchange Rules and AAR railroad interchange agreements, including car hire reconciliation. Correspondence from railroads using such Cars shall be addressed to Lessee at such address as BRAE shall select. Lessee and BRAE agree that BRAE shall continue to provide such record keeping functions until such time as BRAE gives Lessee written notice of discontinuance and Lessee approves such discontinuance.

D. All record keeping performed by BRAE hereunder and a record of all payments, charges and correspondence related to the Cars shall be separately recorded and maintained by BRAE in a form suitable for reasonable inspection by Lessee from time to time during BRAE's regular business hours. Lessee shall supply BRAE with such reports, including daily telephone reports of the status of Cars on Lessee's tracks and monthly reports of Lessee's loading activity, regarding the use of the Cars by Lessee on its railroad line and Lessee's obligations under this Agreement as BRAE may reasonably request.

5. Maintenance, Taxes and Insurance

A. Except as otherwise provided herein, BRAE will pay all repairs, maintenance and servicing unless the same was caused by the negligence of Lessee. Lessee shall, pursuant to the AAR Interchange Rules, inspect all Cars interchanged to it to insure that such Cars are in the condition prescribed by the AAR Interchange Rules for cars received in Interchange. Lessee shall also secure from interchanging lines any documentation prescribed by the AAR Interchange Rules for damaged Cars, inform BRAE's maintenance department of such damage or reports of damage, and promptly mail any documentation to BRAE. BRAE will have full control of disposition of damaged Cars. Lessee shall be liable to BRAE for any cleaning, servicing, or repairs required by the AAR Interchange Rules but not noted at the time of interchange. Lessee shall promptly report to BRAE any damage or other condition of any Car which Lessee considers will make such Car unsuitable for use. Lessee hereby transfers and assigns to BRAE all of its right, title and interest in any warranty in respect of the Cars. All claims or actions on any warranty in respect of the Cars. All claims or actions on any warranty so assigned shall be made and prosecuted by BRAE at its sole expense and Lessee shall have no obligation to make any claim on such warranty. Any recovery under such warranty shall be payable solely to BRAE.

B. Except as provided in Section 5A hereof, BRAE, at its sole expense, shall make or cause to be made such inspections of, and maintenance and repairs to, the Cars as may be required. Upon request of BRAE and at BRAE's sole expense, Lessee, at its option, shall perform any necessary maintenance and repairs to Cars on Lessee's railroad tracks, as may be reasonably requested by BRAE. BRAE shall also make, at its expense, all alterations, modifications or replacement of parts as shall be necessary to maintain the Cars in good operating condition throughout the term of the lease of such Cars. Lessee may make running repairs, in accordance with the Interchange Rules and standards at rates for labor and material not in excess of those published by the AAR, at BRAE's expense, to facilitate continued immediate use of a Car, but shall not otherwise make any repairs, alterations, improvements or additions to the Cars without BRAE's prior written consent. If Lessee makes an alteration, improvement, or addition to any Car without BRAE's prior written consent, Lessee shall be liable to BRAE for any revenues lost due to such alteration and any cost reasonably incurred by BRAE to restore any Car to its condition prior to such Lessee change. Title to any such alteration, improvement or addition shall be and remain with BRAE (or its assignee).

C. Lessee will at all times while this agreement is in effect protect against damage or destruction, (an insurable loss), to the Cars, while the Cars are on Lessee's railroad tracks and will provide financial responsibility for upto $1,000,000 per occurrence in connection with claims made against Lessee and/or BRAE on account of bodily injury or property damage with respect to the Cars while the Cars are on the Lessee's railroad tracks, provided that if such bodily injury or property damage liability claims are determined to be caused by defects in the manufacture or workmanship of the Cars or any component thereof, or any material incorporated therein, provided that such defects could not have been discovered upon reasonable inspection by Lessee, at the time the Cars were first delivered to Lessee, then BRAE shall indemnify Lessee for such claims to the extent set forth in Section 10 hereof. The protection against an insurable loss and financial responsibility may, at Lessee's option, be provided either by obtaining a policy of insurance or by Lessee participating in a program of self insurance provided by its parent company, Georgia Pacific Corporation. BRAE agrees to maintain insurance protecting

against damage to the Cars, while they are on railroad tracks other than Lessee and BRAE shall also maintain its own bodily injury and property damage liability insurance with minimum coverage per occurrence of $1,000,000, with respect to the Cars for the purpose of responding to any claims made against BRAE. Both Lessee and BRAE agree to furnish the other, proof of the financial responsibility provided for herein either in the form of a certificate indicating an appropriate insurance policy is in force or in case of Lessee a letter from its parent corporation's self insurance program indicating sufficient financial responsibility.

D. BRAE agrees to reimburse Lessee for all taxes paid by Lessee relating to each Car and on the lease, delivery or operation thereof which may remain unpaid as of the date of delivery of such Car to Lessee or which may be accrued, levied, assessed or imposed during the Lease Term, except taxes on income imposed on Lessee and sales or use taxes imposed on Per Diem payments due Lessee under 6A(i) below. BRAE and Lessee will comply with all state and local laws requiring the filing of ad valorem tax returns on the Cars. Lessee will send to BRAE, within five business days after receipt by Lessee from the taxing authorities, any notice of assessment of a tax which BRAE is obligated to pay pursuant hereto. BRAE shall review all applicable tax returns prior to filing.

6. **Lease Rental**

A.

7. Possession and Use

A. So long as Lessee shall not be in default under this Agreement, Lessee shall be entitled to the possession, use and quiet enjoyment of the Cars in accordance with the terms of the Agreement and in the manner and to the extent Cars are customarily used in the railroad freight business, provided that Lessee will not require BRAE to retain on Lessee's railroad tracks more Cars than are necessary to fulfill Lessee's reasonable requirements to provide transportation and facilities upon reasonable request therefor to shippers on its railroad tracks. However, Lessee's rights shall be subject and subordinate to the rights of any owner or secured party under any financing agreement entered into by BRAE in connection with the acquisition of some or all of the Cars, i.e., upon notice to Lessee from any such secured party or owner that an event of default has occurred and is continuing under such financing agreement, such party may require that all rent shall be paid directly to such party and/or that Cars immediately be returned to such party. Lessee agrees that to the extent it has physical possession and can control use of the Cars, the Cars will at all times be used and operated under and in compliance with the laws of the jurisdiction in which the same may be located and in compliance with all lawful acts, rules and regulations, and orders of any governmental bodies or officers having power to regulate or supervise the use of such property, except that either BRAE or Lessee may in good faith and by appropriate proceedings contest the application of any such rule, regulation or order in any reasonable manner at the expense of the contesting party.

B. Lessee will not directly or indirectly create, incur, assume, or suffer to exist (except as provided in Section 7A) any mortgage, pledge, lien, charge, encumbrance, or other security interest or claim on or with respect to the Cars or any interest therein or in this Agreement or any Schedule hereto. Lessee will promptly, at its expense, take such action as may be necessary duly to discharge any such mortgage, pledge, lien, charge, encumbrance, security interest, or claim if the same shall arise at any time.

8. Default

A. The occurrence of any of the following events shall be an Event of Default by Lessee:

(i) The nonpayment by Lessee of any sum required herein to be paid by Lessee within ten (10) days after notice of such default has been delivered to Lessee.

(ii) The breach by Lessee of any other term, covenant, or condition of this Agreement, which is not cured within thirty (30) days after notice of such default has been delivered to Lessee.

(iii) Any act of insolvency or bankruptcy by Lessee, or the filing by Lessee of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against Lessee that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of Lessee, unless such petition of appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of filing or appointment.

(v) The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency.

(vi) Any action by Lessee to discontinue rail service on all or a portion of its tracks or to abandon any of its rail properties pursuant to applicable provisions of the laws of the United States of America or any state.

(vii) Lessee shall be merged with or consolidated into another corporation which after such merger or consolidation shall have a net worth less than that of Lessee immediately prior thereto.

(viii) Any representation or warranty made by Lessee herein or any other document delivered to BRAE by Lessee related to this Lease shall prove to have been false or incorrect in any material respect on the date when made and such breach or default shall continue for a period of thirty (30) days after written notice to Lessee of such default has been delivered.

B. Upon the occurrence of any Event of Default by Lessee, BRAE may, at its option:

(i) Terminate this Agreement, proceed by any lawful means to recover damages for a breach hereof, and terminate Lessee's right of possession and use of the Cars, whereupon all rights and interest of Lessee in the Cars shall terminate and thereupon BRAE may enter upon any premises where the Cars may be located and take possession of them and henceforth hold, possess and enjoy the same free from any right of Lessee, provided that BRAE shall nevertheless have the right to recover from Lessee any and all rental amounts which under the terms of this Agreement may then be due or which may have accrued to the date on which BRAE took such possession; or

(ii) Proceed by any lawful means to enforce performance by Lessee of this Agreement. Lessee agrees to bear the costs and expenses, including without limitation reasonable attorneys' fees, incurred by BRAE in connection with the exercise of its remedies pursuant to this Section 8B.

C. The occurrence of any of the following events shall be an Event of Default by BRAE.

(i) The nonpayment by BRAE of any sum required herein to be paid by BRAE within ten (10) days after notice of such default has been delivered to BRAE.

(ii) The breach by BRAE of any other term, covenant, or condition of this Agreement, which is not cured within thirty (30) days after notice of such default has been delivered to BRAE.

(iii) Any act of insolvency or bankruptcy by BRAE, or the filing by BRAE of any petition or action under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors.

(iv) The filing of any involuntary petition under any bankruptcy, reorganization, insolvency or moratorium law against BRAE that is not dismissed within sixty (60) days thereafter, or the appointment of any receiver or trustee to take possession of the properties of BRAE, unless such petition of appointment is set aside or withdrawn or ceases to be in effect within sixty (60) days from the date of filing or appointment.

(v) The subjection of any of BRAE's property to any levy, seizure, assignment, application or sale for or by any creditor or governmental agency.

(vi) Brae shall be merged with or consolidated into another corporation which after such merger or consolidation shall have a net worth less than that of Brae immediately prior thereto.

(vii) Any representation or warranty made by Brae herein or any other document delivered to Lessee by BRAE related to this Lease shall prove to have been false or incorrect in any material respect on the date when made and such breach or default shall continue for a period of thirty (30) days after written notice to BRAE of such default has been delivered.

D. Upon the occurrence of any Event of Default by BRAE, Lessee may, at its option:

(i) Terminate this Agreement, proceed by any lawful means to recover damages for a breach hereof, or

(ii) Proceed by any lawful means to enforce performance by BRAE of this Agreement. BRAE agrees to bear the costs and expenses, including without limitation reasonable attorneys' fees, incurred by Lessee in connection with the exercise of its remedies pursuant to this Section 8C.

9. Termination

At the expiration or earlier termination of this Agreement as to any Car, Lessee will surrender possession of such Car to BRAE in the condition prescribed by the AAR Interchange Rules, by delivering the same to BRAE at any such reasonably convenient interchange point of Lessee as BRAE shall designate. For any Car not returned in the condition required hereby, Lessee shall be liable to BRAE for any and all cleaning costs required to place such Car in such proper condition. A Car shall be no longer subject to this Agreement upon the removal of Lessee's railroad markings from such Car and the placing thereon of such markings as may be designated by BRAE, either at the option of BRAE, (1) by Lessee, at Lessee's option, upon return of such Car to Lessee's railroad line or (2) by another railroad line which has physical possession of the Car at the time of or subsequent to termination of the Lease Term as to such Car; provided however, that BRAE may make reasonable selection of a private contractor for the removal of Lessee's markings and application of new markings in lieu of removal and application by Lessee of such railroad line.Subject to the limitation set forth below, BRAE shall be responsible for the costs and expenses of remarking the Cars pursuant to this

Section 9. If such Car is not on the railroad line of Lessee upon termination, any cost of assembling, delivering, storing, and transporting such Car to Lessee's railroad line or the railroad line of a subsequent lessee shall be borne by BRAE. After the removal and replacement of markings, Lessee shall use its best efforts to load such Car with freight and deliver it to a connecting carrier for shipment.

or BRAE or the subsequent lessee of any terminated Car. If any Car is terminated pursuant to Sections 3B hereof, prior to the end of its Initial or Extended Lease Term, Lessee shall be liable to BRAE for all costs and expenses, not to exceed , incurred by BRAE to move any such Car to BRAE's subsequent lessee and to remove Lessee's minimum railroad markings from any such car and place thereon the minimum railroad markings required by the AAR Interchange Rules for BRAE's subsequent lessee. If any Car is terminated pursuant to Sections 6D or 8B hereof, prior to the end of its Initial or Extended Lease Term, Lessee shall use its best efforts to load such Car with freight and deliver it to a connecting carrier for shipment and shall be liable to BRAE for all costs and expenses incurred by BRAE to remove Lessee's minimum railroad markings from any such Car and place thereon the minimum railroad markings required by the AAR Interchange Rules for BRAE's subsequent lessee. Provided, however, Lessee may with the prior consent of BRAE, which consent shall not be unreasonably withheld, perform such removal and replacement of markings on Cars that may be available to Lessee at or subsequent to the date of termination pursuant to Section 3B, 6D or 8B.

10. Indemnities

Except for the obligations assumed by the Lessee in Sections 4A, 5, 7B, 9 and 11A, BRAE will defend, indemnify and hold Lessee harmless from and against (1) any and all claims based upon loss or damage to the Cars, unless occurring while Lessee has physical possession of the Cars and (2) any other type of claim, cause of action, damage, liability, cost or expense which may be asserted against Lessee with respect to the Cars (unless occurring through the fault of Lessee), including without limitation claims with respect to the construction, purchase, delivery to Lessee's railroad line, ownership, leasing, use, maintenance, repair, replacement, operation or condition of the Cars, and claims caused by defects in the manufacture of workmanship of the Cars or any component thereof, or any material incorporated therein, provided that such defects could not have been discovered upon reasonable inspection by Lessee, at the time the Cars were first delivered to Lessee. The indemnification provided in this paragraph, if arising out of claims occurring during the lease term or extension thereof shall survive the termination or expiration of this agreement.

11. Representation, Warranties and Covenants

A. Lessee represents, warrants and covenants that:

(i) Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated, has all necessary corporate power and authority, permits and licenses to perform its obligations under this Agreement, and has permanent operating authority as common carrier by rail.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law or regulation applicable to Lessee, or result in any breach of, or constitute a default under or result in the creation of any lien, charge, security interest or other encumbrance upon any assets of Lessee or on the Cars pursuant to any instrument to which Lessee is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against Lessee before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of Lessee.

(iv) There is no fact which Lessee has not disclosed to BRAE in writing, nor is Lessee a party to any agreement or instrument nor subject to any charter or other corporate restriction which, so far as the Lessee can now reasonably foresee, will individually or in the aggregate materially adversely affect the ability of the Lessee to perform its obligations under this Agreement.

(v) There is no fact or other matter represented by the Lessee in written or other form and delivered to BRAE which is false or incorrect in any material respect as of the date made.

B. BRAE represents, warrants and covenants that:

(i) BRAE is a corporation duly organized, validly existing and in good standing under the laws of the state where it is incorporated, has all necessary corporate power and authority, permits and licenses to perform its obligations under this Agreement.

(ii) The entering into and performance of this Agreement will not violate any judgment, order, law, or regulation applicable to BRAE, or result in any breach of, or constitute a default under any instrument to which BRAE is a party or by which it or its assets may be bound.

(iii) There is no action or proceeding pending or threatened against BRAE before any court or administrative agency or other governmental body which might result in any material adverse effect on the business, properties and assets, or conditions, financial or otherwise, of BRAE.

12. Inspection

BRAE shall at any time during normal business hours have the right to enter the premises of Lessee where the Cars may be located for the purpose of inspecting and examining the Cars to insure Lessee's compliance with its obligations hereunder. Lessee agrees to use its best efforts to arrange for such inspections by BRAE of any Cars which may be located on property not owned by Lessee. Lessee shall notify BRAE within a reasonable time of any accident connected with the malfunctioning or operation of the Cars, including in such report the time, place and nature of the accident and the damage caused, the names and addresses of any persons injured and of witnesses and other information pertinent to Lessee's investigation of the accident. Lessee shall also notify BRAE in writing within five (5) days after any attachment, tax lien or other judicial process shall attach to any Car. Lessee shall furnish to BRAE promptly upon its becoming available, a copy of its annual report submitted to the ICC and, when requested, copies of any other income or balance sheet statements submitted to the ICC.

13. Miscellaneous

A. This Agreement and the Schedules contemplated hereby shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that lessee may not, without the prior written consent of BRAE, assign this Agreement or any of its rights hereunder or sublease the Cars to any party, and

any purported assignment or sublease in violation hereof shall be void. It is understood and agreed that BRAE may assign this Agreement with respect to some or all of the Cars listed on any Schedule hereto to any trust of which BRAE or one of its wholly-owned subsidiaries is a beneficiary, to any corporate joint venture of which BRAE or one of its wholly-owned subsidiaries is a stockholder, or to any other owner of such Cars (each hereinafter a "Lease Assignee"), provided that BRAE or one of its wholly-owned subsidiaries enters into a management agreement with such Lease Assignee with respect to the Cars. Upon delivery of a notice of assignment to Lessee, the term "BRAE" as used herein shall mean such Lease Assignee, and BRAE shall be relieved of all of its obligations and liabilities under this Agreement relating to such Cars. Lessee agrees to give its consent and to acknowledge, upon receipt of notice of assignment, such assignment of this Agreement by BRAE. BRAE warrants that any Lease Assignee of the Cars will subject such Cars to all the terms and conditions of this Lease.

Lessee also agrees to acknowledge, upon receipt, any security assignment of this Agreement by BRAE, or by any Lease Assignee, to an owner or secured party under any financing agreement or lease entered into by BRAE or such Lease Assignee in connection with the acquisition of all or part of the Cars leased hereunder. Lessee hereby agrees that any such assignment may be with respect to all or part of the Cars on any Schedule hereto. Any assignment of this Agreement by BRAE or any Lease Assignee to an owner or secured party shall not subject that owner or secured party to any of BRAE's or such Lease Assignee's obligations hereunder. Those obligations shall remain enforceable by Lessee solely against BRAE or such Lease Assignee, as the case may be.

B. Both parties agree to execute the documents contemplated by this transaction and such other documents as may be required in furtherance of any financing agreement entered into by BRAE in connection with the acquisition of the Cars in order to confirm the financing party's interest in and to the Cars, this Agreement and Schedules hereto and to confirm the subordination provisions contained in Section 7 hereof and in furtherance of this Agreement. BRAE is expressly authorized to insert the appropriate railcar reporting markings and Car description on the Schedule(s) at such time as notice is delivered to BRAE by Lessee as to the correct reporting marks and physical description to be utilized.

C. It is expressly understood and agreed by the parties hereto that this Agreement constitutes a lease of the Cars only and no joint venture or partnership is being created. Notwithstanding the calculation of rental payments, nothing herein shall be construed as conveying to Lessee any right, title or interest in the Cars except as a lessee only.

D. No failure or delay by BRAE shall constitute a waiver or otherwise affect or impair any right, power or remedy available to BRAE nor shall any waiver or indulgence by BRAE or any partial or single exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

E. This Agreement shall be governed by and construed according to the laws of the State of California.

F. All notices hereunder shall be in writing and shall be deemed given when delivered personally or three days after deposit in the United States mail, postage prepaid, certified or registered, addressed to the president of the other party at the address set forth in the preamble to the Agreement.

G. Notwithstanding the provisions of Sections 3A and 4A requiring BRAE and Lessee to share equally certain transportation and remarking costs, Lessee shall not be required to pay, in the aggregate, more that $275 per Car for remarking and transportation costs described in the aforementioned provisions. Such costs shall be deducted by BRAE from the amounts to be paid by BRAE to Lessee under Section 6(A)(i) hereof.

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

BRAE TRANSPORTATION, INC.

By _____

Printed Name FEROZE A. WAHEED

Title EXECUTIVE VICE PRESIDENT

Date September 29, 1986

GLOSTER SOUTHERN RAILROAD COMPANY

By _____

Printed Name S. R. Tedder

Title President

Date September 22, 1986

CC. H Nisram

EQUIPMENT SCHEDULE NO. 2

BRAE TRANSPORTATION, INC. ("BRAE") hereby leases the following railcars to GLOSTER SOUTHERN RAILROAD COMPANY ("Lessee"), pursuant to that certain Lease Agreement dated as of July 31, 1986 (the "Agreement"):

1.

Number of Cars	Description	Designation	Car Numbers
77	Single Sliding Door, 70-ton, Plate C, 52'6" Boxcars	XM (1600-1619, 1621-1649)	GLSR 1500-~~1522~~ 1550 (23 cars) 1600-1649 (49 cars) 1650-1653 (4 cars) ~~1543~~ (1 car)

2. BRAE and Lessee hereby agree that this Equipment Schedule No. 2 shall supersede Equipment Schedule 1 and Equipment Schedule 1 shall become null and void as of the date hereof.

3. BRAE and Lessee hereby incorporate by reference all of the terms, conditions and provisions of the Agreement in this Schedule.

IN WITNESS WHEREOF, the parties have executed this Schedule as of the 21st day of March 1987.

BRAE TRANSPORTATION, INC.

By: Donald B. Littlefield

Title: PRESIDENT - RAIL DIVISION

Date: March 21, 1987

GLOSTER SOUTHERN RAILROAD COMPANY

By: [illegible]

Title: President

Date: December 30, 1987

2153M-1

EQUIPMENT SCHEDULE 1

BRAE TRANSPORTATION, INC. ("BRAE") hereby leases the following railcars to GLOSTER SOUTHERN RAILROAD COMPANY ("Lessee"), pursuant to that certain Lease Agreement dated as of July 31, 1986 (the "Agreement").

Number of Cars	Description	Designation	Car Numbers
100	Boxcars, Single Sliding 70 ton, 52' 6", C Plate	XM	1600–1649 (49 cars) 1500–1550 (51 cars)

2. BRAE and Lessee hereby incorporate by reference all of the terms, conditions and provisions of the Agreement in this Schedule.

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

BRAE TRANSPORTATION, INC.

By _____

Printed Name FEROZE A. WAHEED

Title EXECUTIVE VICE PRESIDENT

Date September 29, 1987

GLOSTER SOUTHERN RAILROAD COMPANY

By _____

Printed Name S.R. Tedder

Title President

Date September 22, 1986

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN FRANCISCO)

On this 29th day of September, 1986, before me personally appeared Feroze A. Waheed, to me personally known, who being by me duly sworn says that such person is Executive Vice President of BRAE Transportation, Inc., and that the foregoing Lease Agreement, and Equipment Schedule(s) No. 1 were signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instruments were the free acts and deeds of such corporation.

OFFICIAL SEAL
LEANN LLOYD
NOTARY PUBLIC - CALIFORNIA
CITY AND COUNTY OF SAN FRANCISCO
My Commission expires July 24, 1987

Notary Public

My commission expires: JULY 24, 1987

STATE OF ARKANSAS)
) ss.
COUNTY OF Ashley)

On this 22nd day of September, 1986, before me personally appeared S. R. Tedder, to me personally known, who being by me duly sworn says that such person is President of Gloster Southern Railroad Company and that the foregoing Lease Agreement, and Equipment Schedule(s) No. _____ were signed on behalf of said corporation by authority of its board of directors, and such person acknowledged that the execution of the foregoing instruments were the free acts and deeds of such corporation.

[seal]

Notary Public

My commission expires: 1-20-93