BAKER
&
HOSTETLER LLP
COUNSELLORS AT LAW

1000 LOUISIANA, SUITE 2000 • HOUSTON, TEXAS 77002-5009 • (713) 751-1600 • FAX (713) 751-1717

June 18, 1999

RECEIVED
JUN 21 1999
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VIA FEDERAL EXPRESS

Mr. Vernon Williams
Surface Transportation Board
1915 K Street, NW
Washington, D. C. 20423

RECORDATION NO. 22220 FILED
JUN 21 '99 11-00AM

Re: North Coast Railroad and Rail-ways, Inc.

Dear Secretary:

I have enclosed an original and a copy of the General Release and Security Agreement to be recorded pursuant to Section 11303 of Title 49 of the U. S. Code. This document is a General Release and Security Agreement dated April 22, 1999. The names and addresses of parties to the document are as follows:

Case Credit Corporation — Vendor
233 Lake Avenue, Third Floor
Racine, Wisconsin 53403

Railways, Inc. — Vendee
c/o John A. Darling
Four West Second Street
Eurika, California 95501

A description of the equipment covered by the document is as follows:

Equipment: two (2) JCB 214 Sitemaster Backhoe Loaders with Hi-Rail conversion kits, serial numbers 438240 and 438160.

A fee of twenty-six dollars ($26.00) is enclosed. Please file this General Release and Security Agreement and return the original and a file-stamped copy to Baker & Hostetler LLP, c/o of Blair A. Bruce, 1000 Louisiana, Suite 2000, Houston, Texas 77057, via the enclosed self-addressed stamped envelope.

#610017653

A short summary of the document to appear in the index is as follows: a General Release and Security Agreement between Case Credit Corporation, vendor, and Railways, Inc., vendee, dated April 22, 1999 and covering two (2) JCB 214 Sitemaster Backhoe Loaders with Hi-Rail conversion kits, serial numbers 438240 and 438160

Very truly yours,

Blair A. Bruce
Attorney for Case Credit Corporation

BAB/sym

Enclosures

ORIGINAL

RECORDATION NO. 22220 FILED

JUN 21 '99 11-00AM

GENERAL RELEASE AND SECURITY AGREEMENT

This General Release and Security Agreement ("Agreement") is entered into by and between Case Credit Corporation ("Case"), Rail-Ways, Inc. ("Rail-Ways") and North Coast Railroad Authority ("North Coast"). Further, as used herein, Case, the Rail-Ways or North Coast may be referred to individually as a "Party" or collectively as the "Parties."

RECITALS

A. On or about February 22, 1996, North Coast entered into a written contract with Westco Tractor & Equipment, Inc. (the "Contract") by the terms of which North Coast agreed to lease two (2) JCB 214 Sitemaster Backhoe Loaders with Hi-Rail conversion kits, (collectively the "Collateral") for a period of 57 months for an initial payment of $10,281.24, and fifty-seven (57) monthly payments each of $3,427.08. Thereafter Westco perfected its security interest in the Collateral by filing a Financing Statement with the California Secretary of State, and then assigned its rights under the Contract to Case. Pursuant to the Contract, the Collateral had a "termination value" of $27,348.75.

B. On or about June 6, 1998, the obligation under the Contract was modified from a lease to a promissory note and security agreement ("Contract Modification"). Under the Contract Modification, the obligation due from North Coast to Case (including "time price differential") was liquidated at $172,683.81. Also under the Contract Modification, North Coast agreed to make forty-nine (49) monthly payments of $3,524.16, commencing on June 15, 1998, and on the fifteenth (15th) day of each of the next succeeding 48 months. The Contract Modification also provides for a security interest in the Collateral until all sums due thereunder have been paid in full. Except as modified by the Contract Modification, all terms of the Contract remained in full force and effect.

2460.002\pld\release.agr

C. Case claims that on or about October 1, 1998, North Coast and Rail-Ways executed a "Transfer of Contract" by the terms of which Rail-Ways agreed to purchase North Coast's interest in the Collateral, and Rail-Ways agreed to guarantee all obligations of North Coast to Case due under the Contract and Contract Modification. Case further maintains that the Transfer of Contract specifically provides that it does not constitute a release of North Coast, nor a novation of the Contract or Contract Modification. Rail-Ways denies Case's claim that it is a party to any contract with Case relating to the Collateral (including, without limitation, the Contract, the Contract Modification, and the "Transfer of Cotnract"), and Rail-Ways further denies that it acquired any interest in the Collateral prior to signing this Agreement.

D. Case claims that both North Coast and Rail-Ways have breached the Contract (as modified by the Contract Modification) by failing to make the monthly payment required in June 15, 1998, and all monthly payments falling due under the Contract (as modified by the Contact Modification) thereafter. As a result of said breach, Case has accelerated the remaining principal balance due under the Contract (as modified by the Contract Modification). Rail-Ways disputes Case's claim that it breached any contract.

E. Case instituted an action in the Humboldt County Superior Court, encaptioned *Case v. North Coast Railroad Authority, et al.*, which action was assigned Case No. DR990128 by said Court (the "Action"). In the Action, Case asserted causes of action for Breach of Contract, Common Counts, and Claim and Delivery. Case has also sought issuance of a prejudgment Writ of Possession to obtain possession of the Collateral, the hearing on which has not occurred as of the date on which this Agreement is signed.

AGREEMENT

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which is hereby acknowledged, and the recitals, covenants, representations, assignments and further agreements set forth hereinbelow, the Parties hereby agree as follows:

1. Purchase of Collateral by Rail-Ways

Rail-Ways agrees to pay to Case the principal sum of $159,433.98 to purchase the Collateral. Interest thereon shall accrue on said sum (and all other sums as may come due from Rail-Ways to Case hereunder) at the annual rate of 9.9 per cent, computed on a simple interest basis. Said sum shall be paid by Rail-Ways to Case as follows:

a. Sixteen Thousand Dollars ($16,000.00) on execution of this Agreement, and

b. The remaining balance of One Hundred Forty-Three Thousand Four Hundred Thirty-Three Dollars and Ninety-Eight Cents ($143,433.98) will be paid forty-eight (48) in monthly payments in the amount of Three Thousand Six Hundred Thirty Dollars and Ninety-Seven Cents ($3,630.97). The first such installment shall fall due on May 15, 1999, and further installments shall fall due on the fifteenth (15th) day of each of the next succeeding forty-seven (47) thereafter until the amount due hereunder is paid in full.

With the exception of the first payment due hereunder in the sum of Sixteen Thousand Dollars ($16,000.00), which shall be delivered to counsel for Case upon execution of this Agreement, all payments shall be U.S. funds, and shall be sent by Rail-Ways to Case addressed as follows:

Matt Steberl
Case Credit Corporation
233 Lake Avenue
Third Floor
Racine, WI 53403

In order to be considered timely hereunder, such payments must be received by Case at the address listed above on or before the due date therefore. In the event any payment is not received by Case in a timely fashion, Rail-Ways agrees to pay to Case a late charge at the highest rate allowed under California law.

To the extent that North Coast retains any interest in the Collateral as of the date that this Agreement is executed, it hereby any such right, title or interest in the Collateral to Case, in consideration of the Release provided in Section 8 hereinbelow. The Parties also acknowledge and agree that, after execution of this Agreement, North Coast has no rights to ownership or use of the Collateral, or under the Contract, the Contract Modification or the Transfer of Contract.

Upon timely payment of all sums due hereunder by Rail-Ways, Case shall release its lien on the Collateral, which is established as provided in Section 2 hereinbelow.

2. Grant of Security Interest by Rail-Ways.

Rail-Ways hereby grants to Case a security interest in the Collateral, and additions and accessories affixed thereto, and any insurance proceeds paid or payable as a result of claims made for damage to, or loss of, the Collateral. Within five (5) calendar days of its receipt of a written request that it do so Rail-ways further agrees to execute a Financing Statement in the form annexed hereto as Exhibit 1, any documents necessary to record the lien with the Surface Transportation Board (should Case determine it is appropriate to record the lien with that entity), and such other documents as Case may reasonably require so as to allow it to perfect said security interest. Furthermore, North Coast agrees to sign a UCC-2, or other such document as Case may reasonably require, so as to allow it to maintain the priority of the security interest in the Collateral arising out of the Financing Statement previously filed naming Westco Tractor & Equipment, Inc. as the secured party and North Coast as the debtor. In the event of Rail-Way's default under this Agreement, Case shall have the rights and remedies described in Section 5

hereinbelow.

The Parties agree that this Agreement shall constitute a purchase by Rail-Ways of the Collateral, such that Case's security agreement hereunder shall be a "Purchase Money Security Interest" as that term is defined at California Commercial Code Section 9107. Rail-Ways further represents and warrants to Case that there it has not granted, nor will grant, a security interests to any third party which would create a lien on the Collateral senior to Case's lien on the Collateral.

3. Insurance on Collateral.

Rail-Ways agrees to maintain insurance on the Collateral with coverages, limits and deductibles which Case may from time to time designate in writing, in its sole discretion. Rail-Ways further agrees to cause Case to be named as an "Additional Insured" and "Loss Payee" on such policy or policies of insurance, and to cause a Certificate or Certificates of Insurance to be delivered to Case, for each policy period, to confirm that Case is so designated.

4. Use of Collateral.

Rail-Ways agrees that it shall keep the Collateral free of all liens and taxes, save the first lien in favor of Case arising under Section 2 hereinabove. Rail-Ways further agrees that, in the event it should breach this provision, and allow the imposition of another lien against the Collateral, Case may, in its sole discretion, pay the amount secured by such lien or liens, and add such amount to the amount due from Rail-Ways to Case hereunder, which sum shall accrue interest at the rate set forth in Section 1 above. Rail-Ways further agrees that it will not allow the Collateral to be used illegally or improperly, and that it will not allow the Collateral to be seized, confiscated or other involuntarily transferred, whether or not the subject of an administrative or judicial proceeding. Rail-Ways agrees not to allow the Collateral to be take outside the boundaries of the State of California for a period exceeding thirty (30) days without the prior written consent of Case. Rail-Ways agrees to make all necessary repairs to the Collateral, and

otherwise keep it in good working condition until the entire amount due to Case hereunder is paid in full.

5. Default.

In the event Rail-Ways defaults on any of its obligations to Case hereunder, including, but not limited to, its obligation to make payments as set forth in Section 1 hereinabove, or if Rail-Ways becomes insolvent or files (or is subject to) any proceeding initiated under the United States Bankruptcy Code, or if the Collateral is damaged, destroyed, seized or impounded, then Case may, at its option, and without further notice:

a. Declare all sums due hereunder immediately due and payable,

b. Take immediate possession of the Collateral,

c. File suit against Rail-Ways for possession of the Collateral, or for judgment in the amount of the accelerated balance due hereunder (plus other amounts due from Rail-Ways hereunder), or both,

d. Exercise any other right or remedy available to Case available at either law or equity.

In the event Case repossesses the Collateral, or obtains the Collateral following the issuance of a Writ of Possession, Case shall dispose of the Collateral in accordance with the provisions of Article Nine, Chapter Five, of the California Commercial Code.

Rail-Ways agrees that, in the event of its breach of any obligation hereunder, Case shall be entitled to recover from Rail-Ways, in addition to the accelerated balance due hereunder, its reasonable collection and repossession costs, costs of litigation (whether or not otherwise recoverable under California Code of Civil Procedure Section 1033 *et seq).*, and its reasonable attorney's fees incurred by Case in collecting sums due hereunder, or recovering collateral, whether or not litigation is instituted for recovery of the same.

Rail-Ways agrees that Case shall be entitled to recover interest on all sums due hereunder after breach (including interest on the accelerated balance, and costs and fees of the types described in the preceding subparagraph) at the rate set forth in Section 1 hereinabove.

6. Novation of Earlier Agreements

The Parties acknowledge and agree that this Agreement constitute a novation of the earlier agreements between the Parties with regard to the subject matter hereof, including, but not limited to the Contract between North Coast and Westco Tractor & Equipment, Inc. dated as of February 22, 1996, the Contract Modification dated as of June 6, 1998, and the Transfer of Contract dated as of October 1, 1998.

7. Attorneys Fees and Costs

It is agreed that each Party shall bear its own attorneys fees and costs incurred with regard to prosecuting and defending the claims asserted in the Action and the negotiation of the settlement embodied in this Agreement. It is further agreed that no Party shall be allowed recovery of such attorneys' fees or costs from the other in any action, regardless of the theory of recovery asserted, except for breach of this agreement, as provided in Section 11 hereinbelow.

8. Release of Claims.

Except as to the obligations imposed by this Agreement which survive the execution hereof, the Parties do hereby relieve, release and discharge each other and their respective successors and predecessors, and the current and former attorneys, accountants, representatives, affiliates, partners, officers, directors, employees, agents, stockholders and insurers of each, from any and all claims, debts, liabilities, demands, obligations, promises, acts, agreements, costs, expenses, damages, actions, causes of action, counterclaims, set-offs or judgments of whatever kind or nature, whether now known or unknown, which arise out of, or relate to, the facts and claims asserted in the Action or the pleadings filed therein.

9. Waiver of Civil Code §1542.

With regard to the releases set forth in Section 8 hereinabove, (referred to as "Released Claims") each Party providing a release hereunder waives the benefit of provisions of Section 1542 of the Civil Code of the State of California which provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

10. Dismissal of Claims.

Case hereby instructs its attorneys to file a Request for Dismissal of the Action without Prejudice within 20 days of the date that this Agreement is signed by the final party hereto.

11. Breach of Settlement Agreement.

In the event any Party breaches the terms of this Agreement, and an action is instituted to enforce its terms, the prevailing party in such an action shall be awarded its reasonable attorneys' fees incurred therein, in addition to any other relief afforded by the court.

12. Notices.

Any notices or other communications required or permitted hereunder shall be delivered in writing to the party to which such notice is directed. Such notice or communication shall be deemed given when personally delivered (either personally or by overnight mail delivery), or when sent by First Class U.S. Mail, on the third day after such letter or communication is deposited in the U.S. Mail. Such notices shall be addressed as follows:

If to Case: Matt Steberl
Case Credit Corporation
233 Lake Avenue
Third Floor
Racine, WI 53403

If to Rail-Ways: John A. Darling
4 West Second Street
Eureka, CA 95501

If to North Coast: Christopher J. Neary, Esq.
110 South Main Street, Suite C
Willits, CA 95490

13. Representations and Warranties.

The Parties hereto, and each of them, represent, warrant to, and agree as follows:

(a) The Parties hereto have each received independent legal advice from attorneys of their choice with respect to the advisability of making the settlement set forth in this Agreement, and with respect to the advisability of executing this Agreement. Further, this Agreement shall be interpreted according to its fair meaning and not for or against any Party; the Parties hereby expressly waive the provisions of Section 1654 of the California Civil Code with regard to the interpretation of this Agreement.

(b) Except as expressly stated in this Agreement, no party hereto has made any statement or representation to any other party regarding any fact relied upon by any other party in entering into this Agreement, and each party specifically does not rely upon any statement, representation, or promise of any other party in executing this Agreement, or in making the settlement provided for herein, except as expressly stated in herein.

(c) The terms of this Agreement are contractual, not a mere recital, and are the result of negotiations among all the parties.

(d) This Agreement has been carefully read by, the contents hereof are known and understood by, and it is signed freely by the Parties. Further, each person executing this Agreement in a representative capacity is empowered to do so.

(e) Each party hereto agrees that such party will not take any action which would interfere with the performance of this Agreement by any of the Parties hereto or which would adversely affect any of the rights provided for herein.

(f) Each party hereto agrees that such party will, in a timely manner, take whatever steps are reasonably necessary by that party to carry out the provisions of this Agreement, whether or not specifically required by the express terms of this Agreement.

14. Successors and Assigns.

This Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Parties hereto, and each of them.

15. Integration.

This Agreement constitutes a single, integrated written contract expressing the entire agreement of the Parties hereto relative to the subject matter hereof. No covenants, agreements, representations, or warranties of any kind whatsoever have been made by any Party hereto. All prior discussion and negotiations have been and are merged and integrated into, and are superseded by, this Agreement.

16. Severability.

In the event that any provision of this Agreement should be held to be void, voidable or unenforceable, the remaining portions hereof shall remain in full force and effect as each provision is an independent covenant and not a condition precedent to the effectiveness of any other provision herein.

17. Governing Law.

This Agreement shall be construed in accordance with, and be governed by, the laws of the State of California, and shall be deemed entered into, executed, and the place for performance shall be the City of Walnut Creek, County of Contra Costa, State of California.

18. Counterparts.

This Agreement may be signed in counterpart by the parties hereto (and their counsel), which, when taken together, shall constitute a single fully executed Agreement.

IN WITNESS WHEREOF, the parties hereto, and their respective attorneys, have approved and executed this Agreement on the date as set forth below.

Case Credit Corporation

Dated: By: _____
Matt Steberl
Its Legal Accounts Specialist

Rail-Ways, Inc.

Dated: _____
John Darling
Its President

North Coast Railroad Authority

Dated: By: _____
Christopher J. Neary
Secretary of Board of Directors

[Remainder of page left intentionally blank.]

18. Counterparts.

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IN WITNESS WHEREOF, the parties hereto, and their respective attorneys, have approved and executed this Agreement on the date as set forth below.

Case Credit Corporation

Dated: By: _____
Matt Steberl
Its Legal Accounts Specialist

Rail-Ways, Inc.

Dated: 21 April, 1999 _____
John Darling
Its President

North Coast Railroad Authority

Dated: By: _____
Christopher J. Neary
Secretary of Board of Directors

[Remainder of page left intentionally blank.]

18. Counterparts.

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IN WITNESS WHEREOF, the parties hereto, and their respective attorneys, have approved and executed this Agreement on the date as set forth below.

Case Credit Corporation

Dated: By: _____
Matt Steberl
Its Legal Accounts Specialist

Rail-Ways, Inc.

Dated: _____
John Darling
Its President

North Coast Railroad Authority

Dated: By: _____
Christopher J. Neary
Secretary of Board of Directors

[Remainder of page left intentionally blank.]

AGREEMENT APPROVED AS TO FORM:

CHRISTOPHERSON & ASSOCIATES

Dated: 4/22/99

Dean A. Christopherson, Esq.
Attorneys for Case Credit Corporation

LAW OFFICE OF LEONARD J. LaCASSE

Dated:

Leonard J. LaCasse, Esq
Attorney for Rail-Ways, Inc.

LAW OFFICE OF CHRISTOPHER J. NEARY

Dated:

Christopher J. Neary, Esq.
Attorney for North Coast Railroad Authority

AGREEMENT APPROVED AS TO FORM:

CHRISTOPHERSON & ASSOCIATES

Dated:

Dean A. Christopherson, Esq.
Attorneys for Case Credit Corporation

LAW OFFICE OF LEONARD J. LaCASSE

Dated: April 16, 1999

Leonard J. LaCasse, Esq
Attorney for Rail-Ways, Inc.

LAW OFFICE OF CHRISTOPHER J. NEARY

Dated:

Christopher J. Neary, Esq.
Attorney for North Coast Railroad Authority

AGREEMENT APPROVED AS TO FORM:

CHRISTOPHERSON & ASSOCIATES

Dated: _____

Dean A. Christopherson, Esq.
Attorneys for Case Credit Corporation

LAW OFFICE OF LEONARD J. LaCASSE

Dated: _____

Leonard J. LaCasse, Esq
Attorney for Rail-Ways, Inc.

LAW OFFICE OF CHRISTOPHER J. NEARY

Dated: _____

Christopher J. Neary, Esq.
Attorney for North Coast Railroad Authority

This FINANCING STATEMENT is presented for filing and will remain effective with certain exceptions for a period of five years from the date of filing pursuant to section 9403 of the California Uniform Commercial Code.

1. DEBTOR (LAST NAME FIRST—IF AN INDIVIDUAL) RAIL-WAYS, INC.	1A. SOCIAL SECURITY OR FEDERAL TAX NO. 36-3618899
1B. MAILING ADDRESS 18 SOUTH PORTER STREET	1C. CITY, STATE ELGIN, IL / 1D. ZIP CODE 60120
2. ADDITIONAL DEBTOR (IF ANY) (LAST NAME FIRST—IF AN INDIVIDUAL)	2A. SOCIAL SECURITY OR FEDERAL TAX NO.
2B. MAILING ADDRESS	2C. CITY, STATE / 2D. ZIP CODE
3. DEBTOR'S TRADE NAMES OR STYLES (IF ANY)	3A. FEDERAL TAX NUMBER
4. SECURED PARTY NAME CASE CREDIT CORP/CASE CORP MAILING ADDRESS P.O. BOX 292 CITY RACINE STATE WI ZIP CODE 53401	4A. SOCIAL SECURITY NO., FEDERAL TAX NO. OR BANK TRANSIT AND A.B.A. NO.
5. ASSIGNEE OF SECURED PARTY (IF ANY) NAME Case Corporation ID# 76-0433811 P. O. Box 292 MAILING ADDRESS Case Credit Corporation ID# 76-0394710 CITY Racine, STATE WI 53401-0292 ZIP CODE	5A. SOCIAL SECURITY NO., FEDERAL TAX NO. OR BANK TRANSIT AND A.B.A. NO.

6. This FINANCING STATEMENT covers the following types or items of property (**include description of real property on which located and owner of record when required by instruction 4**).

0000438240 AL 214 JCB SITEMASTER BACKHOE LOADER

0000438160 AL 214 JCB SITEMASTER BACKHOE LOADER

and all proceeds derived from the collateral described above Ref.# DLR# _____ APP# _____

7. CHECK IF APPLICABLE [X] — 7A. [ ] PRODUCTS OF COLLATERAL ARE ALSO COVERED — 7B. DEBTOR(S) SIGNATURE NOT REQUIRED IN ACCORDANCE WITH INSTRUCTION 8(a) ITEM: [ ] (1) [ ] (2) [ ] (3) [ ] (4)

8. CHECK IF APPLICABLE [X] — [ ] DEBTOR IS A "TRANSMITTING UTILITY" IN ACCORDANCE WITH UCC § 9105 (1) (n)

9. DATE:

▶ SIGNATURE(S) OF DEBTOR(S)

RAIL-WAYS, INC.
TYPE OR PRINT NAME(S) OF DEBTOR(S)

▶ SIGNATURE(S) OF SECURED PARTY(IES)

TYPE OR PRINT NAME(S) OF SECURED PARTY(IES)

CODE 1 2 3 4 5 6 7 8 9 0

10. THIS SPACE FOR USE OF FILING OFFICER (DATE, TIME, FILE NUMBER AND FILING OFFICER)

11. *Return copy to:*

NAME
ADDRESS Case Credit Corporation
CITY P. O. Box 292
STATE Racine, WI 53401-0292
ZIP CODE ATTENTION: Filings & Reg.

FORM UCC-1—
Approved by the Secretary of State

(1) FILING OFFICER COPY

EXHIBIT 1

CORPORATE ACKNOWLEDGEMENT

On this the 7th day of June, 1999, before me personally appeared John A. Darling, to me personally known, who being by me duly sworn, says that he is the President of Rail-Ways, Inc., that the foregoing General Release and Security Agreement was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was a free act and deed of said corporation.

John A. Darling

John A. Darling

STATE OF California)
) ss.
COUNTY OF Humboldt)

Signed and sworn to before me on this 7 day of June, 1999.

PAMELA R. FISHTROM
Comm. #1124769
NOTARY PUBLIC
HUMBOLDT COUNTY, CALIFORNIA
My commission expires Jan. 26, 2001

Pamela Fishtrom

Notary Public

I:\78948.CAS\North Coast Railroad\Corp acknowledgemnt Darling.doc

CORPORATE ACKNOWLEDGEMENT

On this the 7th day of June, 1999, before me personally appeared Christopher J. Neary, to me personally known, who being by me duly sworn, says that he is the Secretary of the Board of Directors of Rail-Ways, Inc., that the foregoing General Release and Security Agreement was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was a free act and deed of said corporation.

Christopher J. Neary

STATE OF California)
) ss.
COUNTY OF Mendocino)

Signed and sworn to before me on this 7th day of June, 1999.

Jennifer M. O'Brien
Comm. #1093329
NOTARY PUBLIC - CALIFORNIA
MENDOCINO COUNTY
Comm. Exp. March 31, 2000

Notary Public

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