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SURFACE TRANSPORTATION BOARD

October 30, 1996

Mr. Vernon Williams
Secretary
Surface Transportation Board
12th & Constitution Avenue, N.W.
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recording with the Surface Transportation Board is a Master Lease Agreement dated 10/23/96 between the following parties:

Lessor: U.S. Bancorp Leasing & Financial
825 N.E. Multnomah, #800
Portland, OR 97232

Lessee: Dakota, Minnesota & Eastern Railroad
Post Office Box 178
Brookings, SD 57006

The equipment involved in this transaction includes:

Equipment: 45, Gondolas
DME 80055-80099

This agreement is to be filed as a primary document.

Also enclosed for filing is Schedule to Master Lease Agreement dated 10/23/96 which is to recorded as a secondary document to STB Recordation #20342.

The filing fee of $44 is enclosed. Thank you for your assistance.

Sincerely,

Mary Ann Oster

Mary Ann Oster
Research Consultant

Enclosures

Mary Ann Oster

LEASE AMENDMENT, IF APPLICABLE (May Be DISCARDED If No Amendment Is Necessary)

This Lease Amendment pertains to Schedule Number **11324.001**, dated as of **October 23, 1996**, to Master Lease Agreement, dated as of **September 25, 1996**, between **U.S. BANCORP LEASING & FINANCIAL** as Lessor and **Dakota, Minnesota & Eastern Railroad Corporation** as Lessee (the "Lease")·

TO THE EXTENT THAT THE INFORMATION SET FORTH IN THE ABOVE SCHEDULE REQUIRES MODIFICATION, SUBJECT TO THE APPROVAL OF LESSOR, THE LEASE IS HEREBY AMENDED AS FOLLOWS:

The Property Cost is $_____.

The Basic Monthly Rental Payment is $_____.

The Purchase Option is $_____

The Model Number of the Property is _____

The First Monthly Rental Payment is due on _____

Other: The Master Lease Agreement referred to in these documents is dated as of October 23, 1996, not September 25, 1996.

All provisions of the Lease other than those which are inconsistent with the provisions of this Amendment are hereby ratified and confirmed If no information has been inserted above the terms of the Schedule shall remain in full force and effect.

IN WITNESS WHEREOF, we have executed this Lease Amendment as of the 24th day of October, 1996.

[EXECUTION OF THIS PAGE IS ONLY REQUIRED IF AMENDMENT INFORMATION HAS BEEN INSERTED ABOVE]

Dakota, Minnesota & Eastern Railroad Corporation

If execution is required, please sign, date and return this page along with Page One of this Certificate to:

U.S BANCORP LEASING & FINANCIAL
825 N E. Multnomah, Suite 800
Portland, Oregon 97232

By: _____
Kurt Feaster
Chief Financial Officer

AMENDMENTS TO THE LEASE AS SET FORTH ABOVE ARE ACKNOWLEDGED AND APPROVED BY LESSOR.

U. S. Bancorp Leasing & Financial

By:_____
An Authorized Officer Thereof

ADDRESS FOR ALL NOTICES:
825 N.E. Multnomah, Suite 800
Portland, Oregon 97232

SCHEDULE TO MASTER LEASE AGREEMENT

Schedule Number 11324.001

THIS SCHEDULE made as of **October 23, 1996**, by and between **U.S. BANCORP LEASING & FINANCIAL** ("Lessor"), having its principal place of business at 825 N.E. Multnomah, Suite 800, Portland, Oregon 97232, and **Dakota, Minnesota & Eastern Railroad** ("Lessee"), having its principal place of business located at **P.O. Box 178, Brookings, South Dakota 57006**, to the Master Lease Agreement dated as of **September 25, 1996** between the Lessee and the Lessor (the "Lease"). Capitalized terms used but not defined herein are used with the respective meanings specified in the Lease.

LESSOR AND LESSEE HEREBY COVENANT AND AGREE AS FOLLOWS:

(a) The following specified equipment (the "Property") is hereby made and constituted Property for all purposes pursuant to the Lease:

Forty-Five (45) New 52'6" High Side Gondola Railcars, Reporting Marks: DME; Running Numbers 80055 through 80099. Each of the above units are complete as equipped including, but not limited to, all attachments, accessories & replacements relating thereto.

(b) The cost of the Property is $2,179,125.00;

Please Initial Here: KJR

(c) This Schedule shall commence on November 1, 1996 and shall continue for 180 months thereafter.

(d) Lessee shall owe 180 basic monthly rental payments in advance, for the months of one (1) through sixty (60) each in the amount of $15,441.44 (plus applicable sales/use taxes), for the months of sixty-one (61) through one hundred eighty (180) each in the amount of $18,013.82 (plus applicable sales/use taxes). The first such payment shall be due on November 1, 1996 and shall continue on the same day of each month thereafter until the end of the term of this Schedule. In addition, Lessee shall pay daily pro rata rental in the amount of $564 73 per day (plus applicable sales/use taxes) from the date on which Lessee executes a Delivery and Acceptance Certificate for the Property through October 31, 1996. Such daily pro rata rental shall be due and payable upon execution by Lessee of a Delivery and Acceptance Certificate with regard to the Property.

(e) The record owner of the premises at which the Property will be installed or stored is: _____ ;

1. TITLE PASSAGE. a. As long as no event of default has occurred under the Lease, Lessee shall have the options, to purchase all, but not part, of the Property at the end of 144 months [on November 1, 2008] hereinafter called the "Mid-Term Option Date", and "Mid-Term Option". At the end of the Term or any renewal thereof (hereinafter called the "End of Term Option Date" and "End of Term Option"), Lessee shall have the option to: a) purchase all, but not part, of the Property, or b) renew the lease for a period of twelve (12) months (the "Renewal Period") at a monthly rental payment equal to the fair market rental value of the property, or c) return the Property to Lessor in accordance with the Lease

b. The above Options may only be exercised by Lessee by written notice of such exercise to Lessor, which notice must be received by Lessor not later than one hundred eighty (180) days prior to: 1) the Mid-Term Option Date to exercise the Mid-Term Option, or 2) the End of Term Option Date to exercise the End of Term Option. Payment of the purchase price must be received by Lessor on or before the Mid-Term Option Date or the End of Term Option Date as appropriate.

c The Mid-Term Option purchase price for the Property shall be equal to 54.999% of the cost of the Property. The End of Term purchase price for the Property shall be the fair market value of the Property at the time of such exercise as mutually agreed upon by Lessor and Lessee. If such parties cannot agree thereon after good faith negotiation, the purchase price of the Property shall be the value determined by an appraisal of the Property made by a reputable independent equipment appraiser certified for the type of Property being appraised. The appraiser shall be selected by Lessor and reasonably acceptable to Lessee, and the cost of the appraisal shall be paid by Lessee.

d. The Mid-Term Option purchase price shall only be applicable in the event that the Mid-Term Option is exercised in accordance with its Terms. Such purchase price shall not be deemed to be equal to the "anticipated residual value" as such phrase is used in the Lease

e. Upon receipt of payment of the purchase price together with any and all applicable sales or other taxes due in connection therewith, and any and all remaining sums or other amounts payable under this Schedule, Lessor shall transfer all its right, title and interest in and to the Property to Lessee. The Property shall be transferred "As Is" and "Where Is" without any express or implied representations or warranties.

f. Should Lessee fail to either return the Property in accordance with the Lease, renew the Lease, or exercise the End of Term Option or the Renewal Period in accordance with its terms, then Lessor, at its sole option, shall have the right to: a) declare the End of Term Option terminated and demand immediate return of the Property; or, b) extend the Term for an additional six (6) months (the "Extended Term"). Should Lessor elect to extend the Term, Lessee shall be irrevocably obligated to remit basic monthly rent for the period beginning on the day immediately succeeding the last day of the original Term (the "Holdover Date") and ending at the end of the sixth (6) month thereafter A payment of such rent being due on the Holdover Date and on the same day of each consecutive month thereafter Each payment of such rent shall be in the amount of the basic monthly rent for the last month of the Term in accordance with the provisions of this Schedule All Lessee's other obligations under the Lease shall remain in full force and effect for so long as Lessee shall continue to possess the Property. Upon the expiration of each Extended Term, if Lessee fails to return the Property in accordance with the Lease, Lessor, at its sole option, shall have the right to: a) permit Lessee to exercise the End of Term Option in accordance with its Terms; b) declare the End of Term Option terminated and demand immediate return of the Property; or, c) extend the Term for an additional six (6) month Extended Term. Any and all rental payments pursuant to this Paragraph shall be deemed for all intents and purposes to be payments for possession and use of the Property after the expiration of the Term, and shall not be credited to any other obligation of Lessee to Lessor. Lessor's invoicing and/or accepting any such payment shall not give rise to any right, title or interest of Lessee other than to possession and use of the Property during the period to which such rent applies in accordance with this Paragraph. The aforesaid right to charge Lessee rent for possession and use of the Property is not in limitation or derogation of any of Lessor's rights pursuant to the Lease.

2. MAINTENANCE, USE, AND RETURN PROVISIONS.

The Lessee, at its own expense and risk shall throughout the Lease Term maintain, and repair so as to keep the Railcars in good operating condition under Interchange Rules, as defined by the Association of American Railroads (AAR); ordinary wear and tear excepted, and in accordance with maintenance standards at least equal to the industry standards of maintenance for similar railcars operating on the lines of Class I Railroads and in the manner and in the same condition as Lessee would, in the prudent management of its own business, maintain and repair similar equipment owned by it at such time (or operated by the Lessee at such time under net leases with an original term of 15 years or less) so that such Railcars will remaining (i) in as good operating condition for the commodities carried as when originally delivered (ordinary wear and tear excepted), (ii) mechanically suitable for interchange generally by the Lessee and (iv) eligible under all manufacturer's warranties. The Lessee agrees that it will not discriminate against any Railcar (as compared to other similar Railcars owned or operated by the Lessee) with respect to its use, operation or maintenance in contemplation of the expiration or termination of this Lease. Interchange condition to include the replacement of missing materials and the correction of wrong repairs and items listed in the Interchange Rules as cause for renewal and cause for attention; free of Rule 95 damage; suitable for loading of the commodities allowed in the applicable Schedule; and free from all accumulations or deposits from commodities transported in or on it while in the service of Lessee. Any item that is damaged or worn beyond what is considered to be normal by the original component manufacturer shall be deemed to have been damaged beyond normal wear and tear and shall be replaced at the Lessee's expense.

Lessee shall return all records including the then current AAR UMLER format for hard copy records. Lessee shall continue to allow the Cars to be registered in UMLER until the Cars are remarked.

Maintenance means all repairs, maintenance, replacement of parts and mandated modifications as are needed to keep any Car in good working order and repair, suitable for loading and Interchange and in accordance with Interchange Rules, and the rules of any other applicable regulatory body.

Interchange Rules means collectively the Field Manual of the AAR Interchange Rules and the Office Manual of the AAR Interchange Rules. References herein to the Interchange Rules provide performance standards and criteria for the condition of the Cars and their maintenance and repair.

One hundred eighty (180) days prior to lease expiration, Lessee shall provide written notification of intent to return the Cars, and demonstrate that the Cars can perform at its performance specifications according to the original manufacturer. An independent certified technician chosen by Lessor shall demonstrate the performance of the Cars and the physical condition as defined herein. If it is determined that improvements under the manufacturer's performance standards are needed, Lessee shall cause such improvements to be made prior to the return of the Cars. Lessee shall provide, at Lessor's request, up to one hundred eighty (180) days free storage of the equipment at the location Lessor designates.

3. **DEPRECIATION.** Lessor will be entitled to modified accelerated cost recovery depreciation based on 100% of Property Cost using the 200% declining balance method, switching to straight line, for 7 year Property, and zero salvage value

IN WITNESS WHEREOF, the Lessor and the Lessee have each caused this Schedule to be duly executed as of the day and year first above written.

Dakota, Minnesota & Eastern Railroad Corporation
(LESSEE)

By: _____
Kurt Feaster, Chief Financial Officer

(All signatures must be notarized in the appropriate space below)
CORPORATE ACKNOWLEDGMENT

STATE OF South Dakota)
)SS.
County of Brookings)

Oct. 24, 1996

Personally appeared Kurt V. Feaster **who, being sworn, stated that** he is the Chief Financial Officer of Dakota, Minnesota & Eastern Railroad **Corporation and acknowledged that this Document was voluntarily signed in behalf of the corporation by Authority of its Board Directors.**

Before me:

Joyce E. Hock
Notary Public for the State of S.D.

Joyce E. Hock
My commission expires: 5-5-02

U.S. Bancorp Leasing & Financial
(LESSOR)

By: James L. Gilday V.P.
An Authorized Officer Thereof

CORPORATE ACKNOWLEDGEMENT

STATE OF Oregon)
)SS.
County of Multnomah)

Oct. 28, 1996

Personally appeared James L. Gilday **and who, being sworn, stated that he/~~she, the~~ said** he is the ~~is a~~ Vice President ~~is a~~ of a **corporation and acknowledged that this Document was voluntarily signed in behalf of the corporation by Authority of its Board Directors.**

Before me:

Sherri L. Schmitt
Notary Public for

May 18, 1998
My commission expires:

OFFICIAL SEAL
SHERRI L SCHMITT
NOTARY PUBLIC-OREGON
COMMISSION NO. 034813
MY COMMISSION EXPIRES MAY 18, 1998

Address for All Notices:
U. S. BANCORP LEASING & FINANCIAL
825 N.E. Multnomah, Suite 800
Portland, Oregon 97232

Machine Tool Finance Group
(800) 225-8029 (503) 797-0222

General Equipment Group
(800) 253-3468 (503) 797-0200