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INTERSTATE COMMERCE COMMISSION

THIS AGREEMENT, dated this 1st day of August, 1968 by and between ALCO LOCOMOTIVE, INC., a corporation organized under the laws of the State of Delaware with its principal office at One Nott Street, Schenectady, New York (hereinafter called the "Lessor") and LEHIGH VALLEY RAILROAD COMPANY, a corporation organized under the laws of the State of Pennsylvania (hereinafter called the "Lessee"),

W I T N E S S E T H :

1. LEASE AND RENTAL. The Lessor is the owner of two Alco 2400 H.P. Model DL 640 Diesel Electric Locomotives (hereinafter referred to as "Locomotives"), bearing Road Numbers 900 and 901. The Lessor hereby leases to the Lessee, and the Lessee hereby hires from the Lessor each of the two Locomotives for use upon the lines of the railroad owned or operated by the Lessee under lease or otherwise, or over which the Lessee has trackage rights, or with which the Lessee interchanges traffic and operates through trains, or upon the lines of any railroad company, a majority of the capital stock of which is at the time owned or controlled by the Lessee, or under common control with the Lessee, or upon the lines of any railroad which owns or controls a majority of the capital stock of the Lessee. Said lease and use are upon the terms and subject to the conditions hereinafter set forth, such lease to be effective as to each Locomotive for a period beginning on the 1st day of August, 1968 and ending on the 31st day of January, 1969, subject, however, to termination by either party

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upon thirty (30) days prior written notice to the other. Rental for each Locomotive will be on a no-charge basis for the period from the date of delivery of each Locomotive to the termination of this lease.

2. DELIVERY. The Lessor will deliver the Locomotives to the Lessee F.O.B. Schenectady, New York, during the week of July 22, 1968.

On delivery of the Locomotives by the Lessor the Lessee will assume responsibility and risk of loss with respect to the Locomotives so delivered.

The Lessor will provide at Lessee's request a service engineer to instruct Lessee's engineers in the proper operation and maintenance of the Locomotives.

3. TITLE TO THE EQUIPMENT. The Lessor shall and hereby does retain the full legal title to and property in each of the Locomotives notwithstanding the delivery of the Locomotives to and the possession and use thereof by the Lessee as herein provided, subject only to the rights of the Lessee under this lease.

The Lessee will, throughout the term of this lease, cause the Locomotives to be kept numbered with their identifying road numbers, which will be provided to Lessor, and will keep and maintain, plainly, distinctly, permanently and conspicuously placed and fastened, on both sides of each

Locomotive on a metal plate bearing the words "Alco Locomotive, Inc., Owner and Lessor," in letters of the largest size required by law in any of the States in which any of the Locomotives shall be operated but in any event in letters not less than one inch in height. The Lessee will not place the Locomotives in operation or exercise any control or dominion over any part thereof until the metal plates so marked have been attached on both sides of the Locomotives. The Lessee will not change the road number of any of the Locomotives without first notifying the Lessor in writing. In any such case, the new number shall be set forth in a supplemental lease or in an amendment to this lease which the Lessor and Lessee shall execute, and the Lessee shall file or record such supplemental lease or amendment in each jurisdiction wherein the lease is recorded or filed in accordance with Article 14 hereof.

Except as above provided, the Lessee will not allow the name of any person, association or corporation to be placed on the Locomotives or any replacements thereof as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Locomotives to be lettered with appropriate words or marks for the convenience of identification of the Lessee's interests therein.

4. USE AND LOCATION. The Locomotives are leased by the Lessor and hired by the Lessee hereunder for use by the Lessee only upon the lines of railroad identified in Article 1 hereof and the Lessee agrees that it will while the Locomotives or any of them are in its possession under this agreement use the same only upon such lines of railroad and will not remove them or any of them therefrom.

5. MAINTENANCE AND REPAIR. The Lessee shall maintain and keep said Locomotives in good order and repair at all times subject to the right of the Lessor to inspect the condition and supervise the maintenance thereof (but the Lessor shall be under no obligation to so inspect and supervise), and in accordance with Lessor's recommendations in any case affecting the repair parts, quality of fuel oil and lubricating oil, the fitness of the Locomotives for operation in any class or type of service different from that for which designed or offered and which might involve possible impairment of the Locomotive due to overloading or other abuses, and any other things material to and necessary for the proper maintenance and operation of said Locomotives. The Lessee shall not effect any change in the design, construction or specifications of the Locomotives, body or power plant equipment, or component parts thereof, without the prior authority and approval of the Lessor.

6. LOSS OR DESTRUCTION. In the event of loss or destruction of or irreparable damage to any of the Locomotives from any cause whatsoever during the term of this lease, the

Lessee shall promptly and fully inform the Lessor in regard to such loss, destruction or damage, and the Lessee shall promptly pay to the Lessor, in addition to all of Lessee's obligations herein, a sum equal to the purchase price of each Locomotive, so lost, destroyed or irreparably damaged as set forth in Article 15 hereof which represents the agreed value for each Locomotive so lost, destroyed or irreparably damaged. Any and all replacements of all parts of the Locomotives shall constitute accessions to the Locomotives and shall be deemed to be specific after acquired property and in any case all such parts shall be subject to all of the terms and conditions of this lease as though part of the original Locomotives delivered hereunder and included in the word "Locomotives" as used in this agreement.

7. INSURANCE. The Lessee will at all times during the term hereof and at its own expense keep the Locomotives insured under a policy or policies in a company or companies approved by the Lessor against loss, damage or destruction thereof due to fire, lightning, wreck, derailment, collision, flood, tornado, cyclone, sabotage, riot or civil commotion in sums equal to the purchase price of the Locomotives as hereinafter in Article 15 set forth; provided that policies for such insurance may provide insurance with loss deductible, except where loss arises from fire or lightning, in an amount not exceeding 1% of the purchase price of each Locomotive.

Evidence satisfactory to the Lessor that such insurance will be effected and maintained shall be furnished to the Lessor prior to the delivery of the Locomotives. Each policy in respect of such insurance shall provide for ten day's prior written notice to the Lessor of the cancellation of any of such insurance, and shall further provide that, as to the interest of the Lessor, such insurance shall not be altered or impaired by any act or omission of any one other than the Lessor. Any monies paid under any such insurance shall be applied to the amount payable to the Lessor under the provisions of Article 6 hereof upon the loss, destruction or irreparable damage of any of the Locomotives. Any monies receivable by or payable to the Lessee from any railroad or other person or corporation because of loss or destruction of or irreparable damage to the Locomotives shall be paid over to the Lessor to be held and applied by it as aforesaid. Upon the termination of this lease and the discharge by the Lessee of all of its obligations under this agreement, the Lessor will without cost to the Lessee transfer to the Lessee all then unexpired policies of insurance,

In the event the Lessee shall fail to keep any of the Locomotives insured as above provided, the Lessor, without impairment of any of its rights and remedies by reason of such default, may, but shall not be required to, obtain appropriate insurance and pay the premium or premiums therefor and in such event the Lessee shall and will reimburse

the Lessor for the amount of the premiums so paid with interest thereon at the rate of 6% per annum from the date of payment.

8. TAXES AND COMPLIANCE WITH LAWS, RULES AND REGULATIONS. The Lessee shall promptly pay all taxes (other than income taxes imposed upon the Lessor), licenses and assessments (including any which may be imposed upon or in respect of said Locomotives by reason of or in connection with the Lessee's possession or use of the Locomotives under this agreement) and agrees at all times to keep said Locomotives free and clear of all taxes, assessments, liens and encumbrances and covenants that the Locomotives at all times hereunder will be maintained, used and operated under and in lawful compliance with the laws, rules and regulations to which they may be subject in any local, state or federal jurisdiction. Any sums of money that may be paid by the Lessor at his option by way of release, discharge or otherwise of any of the foregoing, shall be promptly reimbursed and paid to the Lessor by the Lessee on demand as an additional part of the obligation herein with interest thereon at the rate of 6% per annum from the date of payment.

The Lessee, however, may withhold any such payment so long as it shall in good faith and by appropriate legal proceedings contest the validity thereof in any reasonable manner and such withholding does not in the judgment of the Lessor affect the Lessor's title in and to any of the Locomotives.

9. PROHIBITION AGAINST LIENS. The Lessee will pay or satisfy and discharge any and all sums claimed by any party by, through or under the Lessee and its successors or substitutes or assigns which, if unpaid, might become a lien or a charge upon the Locomotives but shall not be required to pay or discharge any such claim as long as the validity thereof shall be contested in good faith and by appropriate legal proceedings in any reasonable manner which will not affect the title of the Lessor in and to the Locomotives.

10. LESSEE'S INDEMNITIES AND GUARANTIES. The Lessee will save, indemnify and keep harmless the Lessor from and against all losses, damages, injuries, claims and demands whatsoever, regardless of the cause thereof, arising on account of the Locomotives or the use or operation thereof. This covenant of indemnity shall continue in full force and effect notwithstanding the purchase of the Locomotives by the Lessee as provided in Article 15 hereof, or the termination of this lease in any manner whatsoever.

11. PATENT INDEMNITIES. The Lessor, for itself and any successor or successors to its manufacturing property and business will save, indemnify and keep harmless the Lessee from and against any and all royalties, damages, claims, suits, judgments and costs that may result from the use of any patented article on the Locomotives at the time of delivery, except with regard to any appliances, devices or materials specified or required by the Lessee

and not included in the Lessor's standard specifications; and the Lessee will indemnify and save harmless the Lessor from and against any and all royalties, damages, claims, suits, judgments and costs that may result from the supplying and use of any patented article on the Locomotives specified or required by the Lessee and not included in the Lessor's standard specifications.

The Lessee agrees that it will give prompt notice in writing to the Lessor of the commencement of any action in respect of which the Lessor may be charged with liability hereunder, and the Lessor agrees to give prompt notice in writing to the Lessee of the commencement of any action in respect of which the Lessee may be charged with liability hereunder. Said covenants of indemnity shall continue in full force and effect notwithstanding the purchase of the Locomotives by the Lessee or the termination of this lease in any manner.

12. ASSIGNMENTS BY THE LESSOR. All or any of the rights, benefits and advantages of the Lessor under this agreement may be assigned by the Lessor and reassigned by any assignee at any time and from time to time, provided, however, that no such assignment shall subject any assignee to or relieve the Lessor or the successor or successors to its manufacturing property and business from any of the obligations of the Lessor under the indemnification clause contained in Article 11 hereof or any other obligation which, according to its terms and context, is intended to survive an assignment.

Upon any such assignment, either the assignor or the assignee shall give written notice to the Lessee, 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 of the Lessor's right, title and interest in and to the rights, benefits and advantages of the Lessor thereby assigned, subject only to such reservations as may be contained in such assignment. From and after the receipt by the Lessee of the notification of any such assignment, all payment thereafter to be made by the Lessee hereunder shall, to the extent so assigned, be made to the assignee.

In the event of any assignment by the Lessor of its rights to receive any payments under this lease, the rights of such assignee to such payments as may be assigned, together with any other rights hereunder which can be and are so assigned, shall not be subject to any defense, set-off, counterclaim, or recoupment whatsoever arising out of any breach of any obligation of the Lessor in respect of the Locomotives or the manufacture, construction, delivery, guarantee or warranty thereof, or in respect of any indemnity contained in this lease, nor subject to any defense, set-off, counterclaim, or recoupment whatsoever arising by reason of any other indebtedness or liability at any time owing to the Lessee by the Lessor. Any and all such obligations howsoever arising, shall be and remain enforceable by the Lessee, its successors

and assigns (other than assigness, as such, of rights, benefits and advantages assigned pursuant to this lease). The provisions of this paragraph may be relied upon by any such assignee as a continuing offer by the Lessee to waive any remedies which it might otherwise possess for the enforcement of any and all such obligations of the Lessor as against such assignee, which offer shall be conclusively presumed for all purposes to be accepted by the assignee by payment to the Lessor of the consideration for the assignment of any of the Lessor's rights under this lease.

13. ASSIGNMENTS BY THE LESSEE. The Lessee will not sell, assign, transfer or otherwise dispose of its rights under this agreement nor transfer possession of said Locomotives to any other firm, person or corporation without first obtaining the written consent of the Lessor to such sale, assignment or transfer.

14. RECORDING. Lessee will at its expense, upon execution and delivery of this agreement, cause same to be duly filed and recorded with the Interstate Commerce Commission in accordance with Section 20c of the Interstate Commerce Act, as amended, and wherever else required in order to publish notice of and to protect the title of Lessor to the Locomotives.

15. OPTION TO PURCHASE. The Lessee shall during the term of this lease, or any extension thereof, have an option to purchase one or more of the Locomotives leased hereunder upon the giving of two (2) weeks written notice to the Lessor.

Upon the exercise of this last option, this lease shall thereupon be and stand terminated.

The purchase price of each Locomotive shall be One Hundred Thousand (\$100,000) Dollars. Title to the Locomotives shall vest in the Lessee upon such purchase thereof and payment therefor in cash and delivery shall be deemed to be effected at such points upon the tracks of the Lessee as the Locomotives shall be at such time.

16. DEFAULT. In the event of any default by the Lessee in respect of any of its obligations under the terms of this agreement, the term of this lease shall immediately cease and terminate and the Lessor may, without any notice or demand, take or cause to be taken immediate possession of the Locomotives, and in such event, all of the Lessee's rights in the Locomotives will thereupon terminate, provided, however, that such retaking shall not be deemed a waiver of any rights that Lessor may have against Lessee, including the right to receive the full purchase price of the Locomotives (after Lessee has exercised the option).

In the event that the payment of the full purchase price, following exercise by Lessee of the option to purchase, is not made by the Lessee to the Lessor within ten (10) days after the date when payment is due, the Lessor, at its option, may within a reasonable time thereafter sell the Locomotives for a reasonable purchase price or retain them for its own use,

in which event the Lessee's rights in the Locomotives shall cease and terminate and its obligations to pay to the Lessor the full amount of the purchase price, plus a sum equivalent to the cost and expenses incurred by the Lessor in retaking the Locomotive, shall be reduced by an amount equal to the net proceeds of sale of the Locomotives in the event that they shall have been resold by the Lessor or by an amount equal to the fair value thereof in the event that the Lessor shall have retained them for its own use.

17. SURVIVAL OF INDEMNITIES. The indemnities provided for in Article 10 and 11 hereof (except as may be otherwise specified therein) shall survive the termination of the Lease hereunder for any reason and the full payment of the purchase price by the Lessee.

18. EXTENSION NOT A WAIVER. Any extension of time granted by the Lessor to the Lessee for the payment of any sum due under this agreement, or for the performance of any other obligation hereunder, shall not be deemed a waiver of any of the rights and remedies of the Lessor hereunder or otherwise existing.

19. NOTICE. Any notice hereunder to the Lessee shall be deemed to be properly served if delivered or mailed to the Lessee at 415 Brighton Street, Bethlehem, Pennsylvania, or at such other address as may have been furnished in writing to the Lessor by the Lessee. Any notice hereunder to Alco

Locomotive, Inc. shall be deemed to be properly served if delivered or mailed to Alco Locomotive, Inc. at One Nott Street, Schenectady, New York, or at such other address as may have been furnished in writing to the Lessee by Alco Locomotive, Inc. Any notice hereunder to any assignee of Alco Locomotive, Inc. or of the Lessee shall be deemed to be properly served if delivered or mailed to such assignee at such address as may have been furnished in writing to the Lessor or the Lessee, as the case may be, by such assignee.

20. EXECUTION OF COUNTERPARTS. This agreement may be simultaneously executed in several counterparts, each of which so executed shall be deemed to be an original, and such counterparts together will constitute but one and the same agreement, which will be sufficiently evidenced by any such original counterpart.

21. ARTICLE HEADINGS. All article, paragraph or division headings are inserted for convenience only and will not affect any construction or interpretation of this agreement.

22. PRIOR AGREEMENTS. This Lease and Purchase Agreement shall constitute the entire contract between the Lessor and the Lessee and all prior agreements, contracts, proposals or other documents between the Lessor and the Lessee with respect to the Locomotives which are the subject of this Lease and Agreement shall cease and terminate upon the signing of this agreement and shall no longer have any force or effect whatsoever.

23. MODIFICATION OF AGREEMENT. No variation or modification of this Lease and no waiver of any of its provisions or conditions will be valid unless in writing and signed by the duly authorized officers of the Lessor and the Lessee.

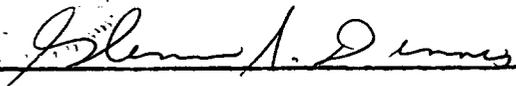
24. LAW GOVERNING. This agreement shall be construed to be a contract made under and pursuant to the laws of the State of New York; but the Lessor shall be entitled to such additional rights arising out of the filing, registration and recording hereof and of any assignment hereof as shall be conferred by the laws of the several States in which this agreement or any assignment hereof shall be filed, registered and recorded.

IN WITNESS WHEREOF, ALCO LOCOMOTIVE, INC. has caused these presents to be executed and its seal to be affixed by its duly elected and authorized officers pursuant to lawful resolutions; and LEHIGH VALLEY RAILROAD COMPANY has caused these presents to be executed and its seal to be affixed by its duly authorized representative pursuant to lawful authority, all as of the day, month and year first above written.

ALCO LOCOMOTIVE, INC.

By   
President

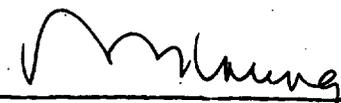
Attest:



LEHIGH VALLEY RAILROAD COMPANY

By   
Vice President, Law + Administration

Attest:

  
ASSISTANT SECRETARY