

LAW OFFICES
FRITZ R. KAHN, P.C.
EIGHTH FLOOR
1920 N STREET, N.W.
WASHINGTON, D.C. 20036-1601

(202) 263-4152
FAX (202) 331-8330
e-mail: xiccgc@worldnet.att.net

ORIGINAL

FILED

JUL 26 2006

SURFACE
TRANSPORTATION BOARD

217142
July 26, 2006



VIA HAND DELIVERY - RETURN COPY

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW (7th fl.)
Washington, DC 20423-0001

ENTERED
Office of Proceedings

JUL 26 2006

Part of
Public Record

Dear Secretary Williams:

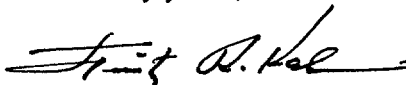
Enclosed for filing in STB Docket No. AB-914X, McCloud Railway Company—Abandonment and Discontinuance of Service Exemption—In Siskiyou, Shasta and Modoc Counties, CA, are the original and ten copies of the Request of Seaside Holdings, Inc., to Set Terms and Conditions Pursuant to 49 U.S.C. 10904(c) and 49 C.F.R. 1552(g)(1).

This firm's check for \$19,100.00 in payment of the filing fee is attached.

Additional copies of this letter and of the Request are enclosed for you to stamp to acknowledge your receipt of them and to return them to me via the messenger.

Copies of this letter and of the Request were sent yesterday to counsel for McCloud Railway Company, Thomas F. McFarland, Esq., via UPS Next Day Air so that he would have them on the day of filing.

Sincerely yours,


Fritz R. Kahn

enc.

cc: Thomas F. McFarland, Esq.

FEE RECEIVED

JUL 26 2006

SURFACE
TRANSPORTATION BOARD

217142

ORIGINAL

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.



STB Docket No. AB-914X

McCLOUD RAILWAY COMPANY
-ABANDONMENT AND DISCONTINUANCE OF SERVICE EXEMPTION-
- IN SISKIYOU, SHASTA AND MODOC COUNTIES, CA

REQUEST TO SET TERMS AND CONDITIONS
PURSUANT TO 49 U.S.C. 10904(c) AND 49 C.F.R. 1152(g)(1)

FILED
JUL 26 2006
SURFACE
TRANSPORTATION BOARD

ENTERED
Office of Proceedings
JUL 26 2006
Part of
Public Record

FEE RECEIVED
JUL 26 2006
SURFACE
TRANSPORTATION BOARD

Fritz R. Kahn
Fritz R. Kahn, P.C.
1920 N Street, NW (8th fl.)
Washington, DC 20036-1601
Tel.: (202) 263-4152

Attorney for

SEASIDE HOLDINGS, INC.

Due and dated: July 26, 2006

BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.

STB Docket No. AB-914X

McCLOUD RAILWAY COMPANY
-ABANDONMENT AND DISCONTINUANCE OF SERVICE EXEMPTION-
IN SISKIYOU, SHASTA AND MODOC COUNTIES, CA

REQUEST TO SET TERMS AND CONDITIONS
PURSUANT TO 49 U.S.C. 10904(c) AND 49 C.F.R. 1152(g)(1)

Offeror, Seaside Holdings, Inc., of Palm Beach Gardens, Florida ("Seaside"), pursuant to 49 U.S.C. 10904(c) and 49 C.F.R. 1152.27(g)(1), and this Board's Decision, served June 28, 2006, requests the Board to set the terms and conditions for Seaside's purchase of the railroad lines of the McCloud Railway Company ("MCR") authorized to be abandoned by the Decision of the Board, served October 14, 2005..

Seaside, on October 6, 2005, requested MCR to provide it with MCR's estimate of the net liquidation value of the railroad lines proposed to be abandoned and the supporting data, in accordance with 49.C.F.R. 1152.27(a). MCR responded on June 14, 2006, claiming that the minimum purchase price which MCR would accept for its railroad lines was \$4,655,202.90, composed of \$291,418.80 for the realty and \$4,363,784.10 for the salvageable track materials.

In its Offer of Financial Assistance, filed June 26, 2006, Seaside did not challenge the value which MCR had placed upon the realty but contended that the track materials had a net

liquidation value of only \$1,288.955.

In the interim, the parties sought to compromise their differences. The estimate of the net liquidation value each placed upon the properties authorized for abandonment, however, remained sufficiently far apart that Seaside and MCR were unable to agree upon the terms and conditions for Seaside's purchase of the MCR's railroad lines, and, hence, Seaside is asking the Board to determine the price which Seaside would need to pay for MCR's property.

A. Value of the realty

Although in its Offer of Financial Assistance, Seaside did not challenge the \$291,418.80, which MCR claimed to be the market value for nonrail use of the land in the railroad's rights-of-way to which MCR has marketable fee title, it does so now.

It is axiomatic that an abandoning railroad should receive no compensation for real property for which it does not hold marketable title. Chicago and North Western Transp. Co.—Abandonment, 363 I.C.C. 956, 959 (1981), aff'd, Chicago and North Western Transp. Co. v. United States, 678 F.2d 665 (7th Cir. 1982).

MCR's realty appraisal was based on a Preliminary Report of Siskiyou County Title Co., dated November 24, 2005.

The most striking thing about the report is that none of the realty valued by the appraiser is that of MCR. It all is owned by 4 Rails Inc. It well may be that 4 Rails Inc., is a subsidiary of MCR and that MCR has the corporate power to have 4 Rails Inc. convey the realty to Seaside. We do not know; we can only speculate. We do know, however, that the realty is not MCR's.

Moreover, of the many parcels of land through which the railroad lines wend their way in Siskiyou County, the appraiser claims that the rights-of-way in only eight parcels are held by

MCR in fee. According to the appraiser's description of the rights-of-way, however, presumably excerpted from the land records of Siskiyou County, the grantor reserved the ownership of all timber on the land and all the minerals beneath it and retained the right to enter upon the rights-of-way to harvest the logs and mine the minerals. That renders it perfectly clear that MCR was not granted the fee to the rights-of-way, because a fee grant is unconditional and would include everything above and everything below the rights-of-way. 28 Am Jur.2d Estates §12.

The appraiser arrives at what it claims to be the fair market value of the rights-of-way in the eight parcels by arbitrarily increasing by twenty percent (20%) the assessed value of the properties. In no instance, does the appraiser present a single across-the-fence valuation of the property. Not a single comparable sale is offered in the appraiser's report in support of its assertion of fair market value. See, STB Docket No. AB-55 (Sub-No. 643X), CSX Transportation, Inc.—Abandonment Exemption—In Laporte, Porter and Starke Counties, IN, served April 30, 2004; Chicago and Northwestern Transp. Co.—Abandonment, supra, 363 I.C.C. at 959.

Moreover, the appraiser failed to reduce the valuation to reflect the cost of selling the property as individual parcels. Id.

In short, the Preliminary Report of Siskiyou County Title Co. fails to substantiate that the realty underlying MCR's railroad lines authorized for abandonment has any value whatever.

B. Value of the track materials

Seaside proposes to pay \$1,288.955 for MCR's tracks, ties and track materials.. Attached is the appraisal of the railroad's properties performed for Seaside by Mr. Jim Okroy, Vice President, Operations of A & K Railroad Materials, Inc., of Salt Lake City, UT, the

Nation's foremost buyer and seller of salvaged tracks, ties and other track materials. Mr. Okroy, an appraiser with thirty years' experience, personally took a high-rail trip on the MCR on August 25-27, 2005, and his appraisal reflects his observation of the date, weight and condition of the track, the condition of the ties and on the quantity and condition of the other track materials.

Mr. Okroy deems highly inflated the \$4,363,784 which Railroad Materials Salvage, Inc. of Richmond, MO, in response to the request of MCR, estimated to be the net liquidation value of the tracks, ties and other track materials.

Mr. Okroy maintains that Railroad Materials Salvage Inc., highly overvalued the current selling price of the track, ties and other track materials. Mr. Okroy did not merely rely upon the prices at which A & K Railroad Materials, Inc., currently is selling comparable products. He secured firm price quotations from Raw Materials, Inc., of Chicago Heights, IL, and additionally obtained the June 2006 prices of No. 1 railroad heavy metal in Seattle, No 1 railroad heavy metal in Chicago, No. 1 industrial heavy melt in Chicago and rerolling rails in Chicago as published in American Metals Market.

Moreover, the valuations of Railroad Materials Salvage, Inc., were its retail sales prices for the tracks, ties and track materials. The valuations took into account neither the company's overhead costs nor its profit.

In sharp contrast, to the unsubstantiated skeletal estimate of the value of the track, ties and other track materials submitted by Railroad Materials Salvage, Inc., Mr. Okroy includes a detailed break down of the age, condition and weight of the rail, the number and nature of the turnouts, number and quality of the ties, and separately the number, condition and weight of the anchors, bars, plates and scrap spikes and bolts, as well as their asset values. Mr. Okroy comes

up with a total track asset value of \$3,339,836, from which he deducted \$1,143,068 for the removal costs, \$544,688 for the salvager's overhead and \$363,125 for the salvager's profit. Mr. Okroy, therefore, determines that MCR's tracks, ties and other track materials have a net liquidation value of \$1,288,955.. Mr. Okroy concludes:

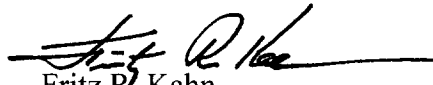
In summary, the appraisal performed by Railroad Materials Salvage, Inc., has highly overvalued the selling price of the track materials, underestimated the removal costs, ignored the scrap tie disposal cost and has not included any overhead costs or allowance for profit. The NLV provided herein is an accurate assessment of the McCloud Railway asset value.

WHEREFORE, Seaside Holdings, Inc., request the Board to determine that it can purchase the railroad lines of the McCloud Railway Company authorized for abandonment for \$1,288,955.00.

Respectfully submitted,

SEASIDE HOLDINGS, INC.

By its attorney,


Fritz R. Kahn
Fritz R. Kahn, P.C.
1920 N Street, NW (8th fl.)
Washington, DC 20036
Tel.: (202) 263-4152

Due and dated: July 26, 2006

**APPRAISAL REPORT OF
RAILROAD TRACK MATERIALS**
of Various Lines Located
in the State of California

APPRAISED FOR:
Seaside Holdings, Inc.
c/o Fritz Kahn, Esq.
1920 "N" Street, NW – 8th Floor
Washington, D.C. 20005-3934

APPRAISAL DATE:
June 23, 2006

APPRAISED BY:
A&K RAILROAD MATERIALS, INC.
1505 South Redwood Road
Salt Lake City, Utah 84104

SECTION I
GENERAL DATA

A. PURPOSE OF APPRAISAL

The purpose of this appraisal is to estimate net liquidated value of the assets in question as of the date of appraisal.

Net Liquidated Value, as used in this report is defined as: "The most probable price which the assets should bring, less salvage and reclamation costs, under all conditions, requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably and assuming the price is not affected by unique stimulus." Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and both acting in what they consider their own best interest;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

B. SCOPE OF APPRAISAL

The scope of the appraisal is to collect, confirm, and report a summary of the necessary details of the assets and applicable comparable sale and cost information necessary to complete the appraisal process in order to produce a meaningful appraisal and report for the subject property. The market area considered in this appraisal is the western United States.

C. PROPERTY RIGHTS APPRAISED

For the purposes of this appraisal, it is assumed that the owners own the assets without liens or encumbrances.

D. DATE OF APPRAISAL

The date of this appraisal is June 23, 2006. All data relied upon in this report are considered as adjusted to this point in time. This appraisal has been prepared during September 2005 and June 2006.

SECTION II

VALUATION OF McCLOUD RAILWAY ASSETS

A. INTRODUCTION

Seaside Holdings, Inc. engaged A&K Railroad Materials, Inc. (A&K) to assess the condition and evaluate approximately 81 miles of rail owned by McCloud Railway Company. A&K understands that this valuation is to be utilized in a Surface Transportation Board (STB) proceeding.

The objective of the valuation was to determine the Net Liquidation Value (NLV) of track assets as of June 23, 2006. This report presents findings as to the valuation and discusses the factors which influence the value of railroad rail, other track material (OTM), ties and ballast.

B. SCOPE OF APPRAISAL

The railroad line is located in Siskiyou, Shasta and Modoc Counties, California. The line segments are described as follows: (1) a rail line between milepost 3.3 east of McCloud and the end of the track at milepost B-61 at or near Burney; (2) a rail line between milepost B-19 at or near Bartle and milepost B-31.4 at or near Hambone; (3) a rail line between milepost B-58 at or near Berry and milepost S-7 at or near Sierra; and (4) a rail line between milepost B-31.6 at or near Bear Flat and milepost P-3.93 at or near Pondosa. Included in the appraisal of the line segments are 2.95 miles of sidings and 2.7 miles of branch track.

A summary of the rail evaluated appears in Section III. This evaluation covers rail, ties, ballast, switches, and other track material (OTM), including joint bars, anchors, tie plates and spikes/bolts.

C. NET LIQUIDATION VALUE

The NLV of the McCloud track assets is \$1,580,374 as of June 23, 2006, as shown in Section III. This value was determined by Jim Okroy, A&K's Vice President of Operations through physical inspection of the property during August 25-27, 2005 via hi-rail trip. Market prices and typical removal costs were applied.

The line is comprised of approximately 13.1 miles of rail ranging from 50-80# rail, 24.45 miles of various sections of 85# rail, 43.05 miles of various sections of 90# rail, and .25 miles of 110# rail.

In order to arrive at the proper NLV, A&K determined that the light-weight rail must be sold as reroll or scrap. Approximately 99.7% of the rail on the McCloud Railway is 90# and lighter. Industry freight car standards are moving to 286,000 lb capacity cars, requiring heavier rail sections. None of the engineering companies, which are designing industry spurs, are specifying rail sections lighter than 100# rail and in almost all cases, rail lighter than 112# is not utilized. Therefore, the demand for 90# rail and lighter rail sections is negligible in relation to availability.

There is a demand for 85 ASCE in the underground coal mines of Kentucky and West Virginia, but the 850 section of rail on the McCloud line is unacceptable due to the fact that the base of the rail is too wide to fit in the steel ties used by these mines.

The 90# rail (Sections 903 and 9020) is a poor #2 quality rail and would never find its way into the relay market with an over saturation of #1 relay rail. As confirmed in the Railroad Material Salvage appraisal for McCloud Railway, the 90GN section has no relay market.

A&K made numerous calls to reroll and scrap rail customers and found that the prices available today are far less than those represented by Railroad Material Salvage Inc.. For example, on June 23, 2006, Chicago Heights Steel / RMI quoted \$322.00 per Gross Ton (2240 lbs). Refer to Exhibit A (attached). This equates to \$287.50 per Net Ton (2000 lbs.) After deducting rail freight from Mt. Shasta, CA to Chicago Heights, IL of \$5982/carload (\$66.47/nt) the net selling price FOB Mt. Shasta, CA (nearest Union Pacific shipping point to McCloud) is \$221.03/nt. This is \$48.97 less than the value reported by Railroad Material Salvage Inc. in its appraisal for McCloud Railway Company.

None of the rolling mills are accepting 85# and lighter rail sections. The best market for these rail sections was Chicago Heights at \$245.00/GT delivered. This is equivalent to \$218.75/nt, less freight of \$66.47/nt, or \$152.28/nt FOB Mt. Shasta, CA. This price is also substantially lower than the range of \$200.00-\$270.00/nt used by Railroad Materials Salvage Inc. in their appraisal.

A&K also found that Chicago is the best market for the other track materials after deducting for freight. Refer to Exhibit B for comparable prices. The American Metal Market ("AMM") pricing for June 21, 2006 shows the highest price paid was \$270/gt (241.07/nt) at Chicago Heights. Refer to Exhibit C for AMM pricing history. After deducting freight of \$66.47/nt, the net price FOB Mt. Shasta, CA is \$174.60/nt.

Grading and valuation of the ties were determined by A&K inspectors who sampled 100 ties every few miles and graded those ties into relayable ties, #1 landscape, #2 landscape and scrap ties. A&K valued the relay softwood ties (primarily 6" x 8" x 8' with some 7" x 8" x 8') at \$13.00 per tie. The #1 landscape quality ties were valued at \$8.50 each and the #2 landscape ties were \$6.00 each. A&K estimated a cost of \$1.85 per scrap ties for disposal costs for the 137,915 scrap ties on the rail line. The disposal cost was not addressed in the Railroad Materials Salvage Inc. appraisal.

In summary, the appraisal performed by Railroad Materials Salvage Inc. has highly overvalued the selling price of the track materials, underestimated the removal costs, ignored the scrap tie disposal cost and has not included any overhead costs or allowance for profit. The NLV provided herein is an accurate assessment of the McCloud Railway asset value.

Exhibit A

Chicago Heights Steel / RMI Quote

RMI
RAW MATERIALS, INC.

211 E. MAIN
CHICAGO HEIGHTS, IL 60411
708-756-5663
FAX 708-756-5621

June 23, 2006

Jim Okroy
A&K Railroad Materials

Per your request, Chicago Heights Steel/RMI offers the following FIRM prices.

903 & 90 GN RAIL

Approximately 6000 GT of re-roll quality material \$322.00 per Gross Ton delivered our plant Chicago Heights, IL. Price good through September 30, 2006.

75 & 85# RAIL

Approximately 2500 GT – these sectors are not rerollable at Chicago Heights Steel and would have to be processed as scrap. Price for this material would be set monthly off of the 1st Effective Issue Iron Age Scrap Index #1 Heavy Melting Chicago District (June price is \$245.00/GT delivered).

Please advise.


RON OW CZARZAK
VICE PRESIDENT

Exhibit B

Comparable Prices

SCRAP RAIL

Date	Description	Net Ton Price
6/23/06	Sims Hugo \$170.00/nt ^ FOB Richmond, CA less freight \$22.40	\$147.60
6/23/06	Rail loaded into containers for export to China \$220.00/ metric ton ^ = \$199.63/nt less container freight from McCloud to Oakland of \$50.90/nt plus \$10.00/nt to load into containers or \$60.90/nt	\$138.73
6/23/06	Chicago Heights Steel \$245.00/gt = \$218.75/nt less freight of \$66.42/nt	\$152.28

Other Track Materials

Date	Description	Net Ton Price
6/21/06	Seattle #1 Heavy Melt (OTM) \$155.00/gt * = \$138.39/nt less freight \$35.29/nt	\$103.10
6/21/06	Chicago #1 Heavy Melt (OTM) \$270/gt * = \$241.07/nt less freight \$66.47/nt	\$174.60
6/23/06	Union City, CA at Sims Hugo New \$225/gt = \$200.89/nt less freight \$26.67/nt ^	\$174.22
6/23/06	Portland #1 Heavy Melt (OTM) \$127.00/gt * = 113.39/nt less freight \$32.01/nt	\$81.38

^ Pricing from Mike Cunha at Sims Hugo New on 6/23/06

- Pricing from American Metal Market

Exhibit C

American Metal Market Historical Pricing

Attached are copies of American Metal Market pricing for June 1-23, 2006. The following pricing is provided:

- No. 1 RR Heavy Melt – Seattle
- No. 1 RR Heavy Melt – Chicago
- No. 1 Industrial Heavy Melt – Chicago
- Rerolling Rails – Chicago



June 26, 2006

The AMM database was last updated on:
06/23/2006 at 03:06:39

For the requested range of date from:
06/01/2006 to 06/23/2006

Prices for this material last updated on 06/07/2006

Date	FERROUS SCRAP - CONSUMER, No. 1 R.R. heavy melt Location: Seattle Unit of Measure: US (dollar) / Gross Ton
06/01/2006	155
06/02/2006	155
06/05/2006	155
06/06/2006	155
06/07/2006	155
06/08/2006	155
06/09/2006	155
06/12/2006	155
06/13/2006	155
06/14/2006	155
06/15/2006	155
06/16/2006	155
06/19/2006	155
06/20/2006	155
06/21/2006	155
06/22/2006	155
06/23/2006	155

If you wish to download this data in CSV format an extra charge may apply.
Please Contact:
Latha Rangarajan
Tel: 646-274-6269
Email: lrangarajan@amm.com



June 26, 2006

The AMM database was last updated on:
06/23/2006 at 03:06:39

For the requested range of date from:
06/01/2006 to 06/23/2006

Prices for this material last updated on 06/07/2006

Date	FERROUS SCRAP - CONSUMER, No. 1 R.R. heavy melt Location: Chicago Unit of Measure: US (dollar) / Gross Ton
06/01/2006	270
06/02/2006	270
06/05/2006	270
06/06/2006	270
06/07/2006	270
06/08/2006	270
06/09/2006	270
06/12/2006	270
06/13/2006	270
06/14/2006	270
06/15/2006	270
06/16/2006	270
06/19/2006	270
06/20/2006	270
06/21/2006	270
06/22/2006	270
06/23/2006	270

If you wish to download this data in CSV format an extra charge may apply.

Please Contact:

Latha Rangarajan

Tel: 646-274-6269

Email: lrangarajan@amm.com



June 26, 2006

The AMM database was last updated on:
06/23/2006 at 03:06:39

For the requested range of date from:
06/01/2006 to 06/23/2006

Prices for this material last updated on 05/05/2006

Date	FERROUS SCRAP - CONSUMER, NO. 1 industrial heavy melt Location: Chicago Unit of Measure: US (dollar) / Gross Ton
06/01/2006	270
06/02/2006	270
06/05/2006	270
06/06/2006	270
06/07/2006	270
06/08/2006	270
06/09/2006	270
06/12/2006	270
06/13/2006	270
06/14/2006	270
06/15/2006	270
06/16/2006	270
06/19/2006	270
06/20/2006	270
06/21/2006	270
06/22/2006	270
06/23/2006	270

If you wish to download this data in CSV format an extra charge may apply.

Please Contact:

Latha Rangarajan

Tel: 646-274-6269

Email: lrangarajan@amm.com



June 26, 2006

The AMM database was last updated on:
06/23/2006 at 03:06:39

For the requested range of date from:
06/01/2006 to 06/23/2006

Prices for this material last updated on 04/12/2006

Date	FERROUS SCRAP - CONSUMER, rerolling rails Location: Chicago Unit of Measure: US (dollar) / Gross Ton
06/01/2006	325
06/02/2006	325
06/05/2006	325
06/06/2006	325
06/07/2006	325
06/08/2006	325
06/09/2006	325
06/12/2006	325
06/13/2006	325
06/14/2006	325
06/15/2006	325
06/16/2006	325
06/19/2006	325
06/20/2006	325
06/21/2006	325
06/22/2006	325
06/23/2006	325

If you wish to download this data in CSV format an extra charge may apply.

Please Contact:

Latha Rangarajan

Tel: 646-274-6269

Email: lrangarajan@amm.com

Prices from June 22, 2006

CONSUMER BUYING PRICES

Estimated domestic consumer buying prices in US\$/gross ton;
delivered mill price.

Seattle/
Portland

NO. 1 HEAVY MELT 125-127
No. 2 heavy melt 122-124
No. 2 bundles 103-105
Shredded auto scrap 147-149
MACHINE SHOP TURNINGS 95-97
Shovelling turnings
Cast iron borings NA
Mixed borings, turnings 80-82
CUT STRUCTURAL/PLATE, 2' MAX NA
Cut structural/plate, 5' max. 140-142
CUPOLA CAST NA
Heavy breakable cast
Drop broken machinery cast 165
NO. 1 RR HEAVY MELT 155
Random mills 150
Other track material (OTM) 145

SECTION III

RAILROAD MATERIAL INVENTORY

NET LIQUIDATED VALUE

RAILROAD MATERIAL INVENTORY - NET LIQUIDATED VALUE

McCloud Railway Company

Total Track Asset Value (USD): \$ 3,339,836 pg 1-4
 Total Real Estate Value: \$ 291,419 pg 2
 Total Asset Value: \$ 3,631,255

Less - 15% Overhead: \$ 544,688

Less - 10% Profit: \$ 363,125

Less - Removal Costs: \$ 1,143,068 pg 5

NET SALVAGE VALUE (USD): \$ 1,580,374

Rail	\$	2,201,493.78
------	----	--------------

Rail Section	Quality	Total Net Tons	Value Per Ton	Total Asset Value
110 RE Tenn 1923, 36' and 39', 2 3/4 x 5 1/2" drilling	Reroll	46	\$ 221.53	\$ 10,190
	Scrap			
90 GN Col. Sec 908 1931, 33' and 39', 2 1/2 x 6" drilling	Reroll	3145	\$ 221.53	\$ 696,712
	Scrap	30	\$ 152.28	\$ 4,568
90 RA CF&I 1910-18, Tenn 1911, 33', 2 3/4 x 5 1/2" drilling	Reroll	587	\$ 221.53	\$ 130,038
	Scrap	7	\$ 152.28	\$ 1,066
903 Colorado 1937, 39', 2 1/2 x 5" drilling	Reroll	1247	\$ 221.53	\$ 276,248
	Scrap	45	\$ 152.28	\$ 6,853
903 Colorado (1929) 9021 III (1913), 39', 2.5 x 5"	Reroll	161	\$ 221.53	\$ 35,666
	Scrap	4	\$ 152.28	\$ 609
903 Colorado (1913-17) 9021 III (1913-23), 33', 2.5 x 5"	Reroll	1204	\$ 221.53	\$ 266,722
	Scrap	45	\$ 152.28	\$ 6,853
850 Colorado 1927, 39', 3"x6" drilling	Scrap	866	\$ 152.28	\$ 131,874
850 CF&I 1905-1909, 33', 3' x 6" drilling	Scrap	1610	\$ 152.28	\$ 245,171
85 RA III 1924, 33', 2 1/4 x 4 1/2" drilling	Scrap	20	\$ 152.28	\$ 3,046
8509 (85 GN) III 1908, 33', 2 1/2 x 5" drilling	Scrap	961	\$ 152.28	\$ 146,341
80 AS Colorado 1903, 33', 2 1/4 x 4 1/2" drilling	Reroll	86	\$ 152.28	\$ 13,096
77 1/2 L&S Co. Scranton 1901, 30', 2 1/4 x 4 1/2" drilling	Scrap	752	\$ 152.28	\$ 114,515
75GN, ILL 7509, Carnegie 75B 1896, 1907, 33', 3/4 x 4 1/2" or 2 3/4 x 5 1/2" drilling	Scrap	224	\$ 152.28	\$ 34,111
75 AS Colorado 1920, 33', 3" x6" drilling	Scrap	62	\$ 152.28	\$ 9,441
70 Algoma 1909, 33', 2 1/2 x 5" drilling	Scrap	104	\$ 152.28	\$ 15,837

65 AS, CF&I 653 1898, 1887, 30 and 33', 2 1/2 x 5" drilling	Scrap	210	\$ 152.28	\$ 31,979
60 AS III 1908, 33' 2 1/2 x 5" drilling	Scrap	80	\$ 152.28	\$ 12,182
56 Joliet 1889, 30' 2 1/4 x 4 1/2" drilling	Scrap	9	\$ 152.28	\$ 1,371
50 AS Colorado Sect. 500, 1914, 30' 3 1/2 x 5" drilling	Scrap	46	\$ 152.28	\$ 7,005

Real Estate \$ 291,419.08

County	Ownership	Total Acres	Value Per Acre	Total Asset Value
Shasta County	Use Only - Reversionary	0.0	\$	\$
Siskiyou County	Fee Title	625.23	\$ 466.10	\$ 291,419.08

Turnouts - Frogs & Points & Switch Stands \$ 5,430.00

Rail Section	Size	Type	Quantity	Value	Total Asset Value
90 RA	Frogs - #8 and #11, Scrap	RB	4	\$ 50.00	\$ 200.00
	Frogs - #10, Relay	RBMI	4	\$ 200.00	\$ 800.00
	Switch Points, 16" Relay	Single Reinforced	12	\$ 100.00	\$ 1,200.00
	Switch Points, 16" Scrap	Single Reinforced	4	\$ 35.00	\$ 140.00
90 GN	Frogs - #1, Relay	RBMI	3	\$ 200.00	\$ 600.00
	Switch Points, 16" Relay	Single Reinforced	6	\$ 100.00	\$ 600.00
850	Frog, #10, Scrap	RB	6	\$ 50.00	\$ 300.00
	Switch Points, 15', Scrap	Single Reinforced	12	\$ 35.00	\$ 420.00
75 GN	Frogs - #9, Scrap	RB	2	\$ 50.00	\$ 100.00
	Switch Points, Scrap	Single Reinforced	4	\$ 35.00	\$ 140.00
65 AS	Frogs - #8, Scrap	RB	2	\$ 50.00	\$ 100.00
	Switch Points, 15', Scrap	Single Reinforced	4	\$ 35.00	\$ 140.00
60 AS	Frogs - #8, Relay	RB	2	\$ 100.00	\$ 200.00
	Switch Points, 15', Relay	Single Reinforced	4	\$ 65.00	\$ 260.00
Switch Stands, HT, Scrap			23	\$ 10.00	\$ 230.00

Ties \$ 522,854.75

Quality	Quantity	Value per Tie	Total Asset Value
Relay	5585	\$ 13.00	\$ 72,605
RL	0	\$	\$
#1	52405	\$ 8.50	\$ 445,443
#2	43325	\$ 6.00	\$ 259,950
#3	0	\$	\$
Hewed #1	0	\$	\$
Hewed #2	0	\$	\$
Scrap	137915	\$ (1.85)	\$ (255,143)
Total:	239230		

Ties per mile = 2970
Ties per 39' rail = 22
Size = 7x8x8' or 6x8x8' = 90%
Size = 7x8x8' = 5%
Size = 7x9x8' = 5%

Anchors	\$	23,396.40
----------------	----	-----------

Rail Section	Description	Type	# of Anchors	Net Tons	Value per Ton	Total Anchor Value
90 GN	5" base, 8/39" rail length- Scrap	Modified Fair, Improved Fair, Other	45576	46	\$	174.60 \$ 8,032
90 RA	5 1/8" base, 6/33" rail length	Improved Fair	7392	7	\$	174.60 \$ 1,222
850	5 1/2" base, 8/39" rail length	Improved Fair	37800	28	\$	174.60 \$ 4,889
903	5 3/16" base, 8/39" rail length	Improved Fair	38880	39	\$	174.60 \$ 6,809
85 GN	5" base, 8/33" rail length	Improved Fair	17408	13	\$	174.60 \$ 2,270
70 AS	4-5/8 base, 8/33" rail length		2304	1	\$	174.60 \$ 175
			Total:	134		

Bars	\$	149,632.20
-------------	----	------------

Rail Section	Description	Quantity (pair)	Quality	Net Tons	Value per Ton	Total Asset Value
110 RE	24" & 26" Full Toe, 72#Pair, Drilled 5/16x5/16x5/16"	68	Relay	3.0	\$ 174.60	\$ 524
90 GN	24" Full Toe, 60#Pair, Drilled 6x6x6"	5500	Relay	165.0	\$ 174.60	\$ 28,809
	24" Full Toe, 60#Pair, Drilled 6x6x6"	300	Scrap	9.0	\$ 174.60	\$ 1,571
90 RA	24" & 27" Mixed Full Toe and C.J. 70#Pair, Drilled 5/16x5/16x5/16"	100	Relay	4.0	\$ 174.60	\$ 698
	24" & 27" Mixed Full Toe and C.J. 70#Pair, Drilled 5/16x5/16x5/16"	1164	Scrap	41.0	\$ 174.60	\$ 7,159
850	26" Full Toe, 50#Pair, Drilled 6x6x6"	5640	Relay	141.0	\$ 174.60	\$ 24,619
	26" Full Toe, 50#Pair, Drilled 6x6x6"	277	Scrap	7.0	\$ 174.60	\$ 1,222
903	27" C.J. 70#Pair, 5x5x5	384	Scrap	13.0	\$ 174.60	\$ 2,270
903	24" Full Toe, 67#Pair, 5x5x5	2800	Relay	94.0	\$ 174.60	\$ 16,412
	24" Full Toe, 67#Pair, 5x5x5	282	Scrap	10.0	\$ 174.60	\$ 1,746
903	24" Toeless, 67#Pair, 5x5x5	1810	Relay	61.0	\$ 174.60	\$ 10,651
850	26" Full Toe, 54#Pair, Drilled 6x6x6	5000	Relay	135.0	\$ 174.60	\$ 23,571
	26" Full Toe, 54#Pair, Drilled 6x6x6	295	Scrap	8.0	\$ 174.60	\$ 1,397
85 GN	24" Full Toe, 50#Pair, Drilled 5x5x5	1800	Relay	60.0	\$ 174.60	\$ 10,476
	24" Full Toe, 50#Pair, Drilled 5x5x5	376	Scrap	6.0	\$ 174.60	\$ 1,048
85 RA	24" Full Toe, 49#Pair, Drilled 4/16x4/16x4/16"	48	Scrap	1.0	\$ 174.60	\$ 175
80 AS	24" Full Toe, 46#Pair, Drilled 4/16x4/16x4/16"	208	Scrap	5.0	\$ 174.60	\$ 873
77 1/2 GN	24" & 36" Full Toe, 50#Pair, Drilled 4/16x4/16x4/16" and 7x4/16x4/16x4/16"	1000	Relay	25.0	\$ 174.60	\$ 4,365
	24" & 36" Full Toe, 50#Pair, Drilled 4/16x4/16x4/16" and 7x4/16x4/16x4/16"	1060	Scrap	26.0	\$ 174.60	\$ 4,540
75 AS	24" Full Toe, 43#Pair, Drilled 6x6x6"	160	Relay	4.0	\$ 174.60	\$ 698
75 GN	27" FT and C.J. 50#Pair, Drilled 5/16x5/16x5/16" and 4-1/2x4-1/2x4-1/2"	576	Scrap	14.0	\$ 174.60	\$ 2,444
70	24" Full Toe, 40#Pair, Drilled 5x5x5	288	Relay	6.0	\$ 174.60	\$ 1,048

65AS	38 and 22" Full Toe, 40#/pair, Drilled 5x5x5x5 and 5x5x5	624	Relay	12.0	\$	174.60	\$	2,095
60AS	22" & 24" Full Toe, 30#/Pair, Drilled 5x5x5"	256	Relay	4.0	\$	174.60	\$	698
56	24" Full Toe, 25#/Pair, Drilled 4-1/2 x 4-1/2 x 4-1/2"	32	Scrap	1.0	\$	174.60	\$	175
50AS	24" Full Toe, 25#/pair, Drilled 5x7x5	194	Relay	2.0	\$	174.60	\$	349

Total: 857.0

Scrap Spikes & Bolts

Net Tons	Value per Ton	Total Asset Value
370	\$ 174.60	\$ 64,602.00

Plates

\$ 372,427

Description	SS / DS	Weight per plate (lbs)	Quality	# of Plates	Net Tons	Value per Ton	Total Asset Value
8 X 11 1/2"	DS	12	Relay	886	5.1	\$	890
	DS	12	Scrap	686	4.1	\$	719
8 1/4 X 12, 5" base	DS	13	Relay	17528	113.9	\$	19,893
8 1/2 X 12, 5-1/8" base	DS	13	Relay	500	3.3	\$	567
8 X 11, 5" & 5 1/2" base	SS	12	Relay	30000	180.0	\$	174,600
7 1/2 X 8 & 10 & 10 1/2, 5 1/2 & 5-3/16" base	SS	10	Relay	12000	60.0	\$	10,476
8 X 10-1/2, 5" base,	SS	12	Relay	124100	744.6	\$	130,007
8 X 11, 5 1/4 and 5-1/2" base	SS	12	Relay	15000	90.0	\$	15,714
8 X 11, 5" & 5 1/2" base	SS	12	Relay	7140	42.8	\$	7,480
7-1/2 x 9", 5-1/8 and 5-3/16 base	SS	6	Relay	40000	120.0	\$	20,952
7 1/2 X 8 & 10, 5 1/2" base	SS	10	Relay	23000	115.0	\$	20,079
7 1/2 X 9 and 8 X 8 1/2 and 8 x 8-3/4, 5-1/8 and 5 3/16" base	SS	6	Scrap	47884	143.7	\$	25,082
7 1/2 X 8-1/2 and 8 x 8-1/2 and 8x9, 5-1/4" base	SS	6	Scrap	65948	197.8	\$	34,544
6-1/2x8-1/2 and 8x8-1/2 and 7x10 and 7-1/2 x 10-1/2, 5" base	SS	7	Scrap	65864	230.5	\$	40,249
6-1/2x8-1/2 and 8x8-1/2 and 8 x 10-1/2, 4-13/16 base	SS	6	Scrap	2880	8.6	\$	1,509
8 X 8 1/2, 4 7/16" base	SS	6	Relay	6000	18.0	\$	3,143
8 X 8 1/2, 4-5/8" base	SS	6	Scrap	5340	16.0	\$	2,797
6x8 & 8x8-1/2 & 6 x 7-1/2, 4-1/4 base	SS	6	Scrap	6210	18.6	\$	3,253
6 X 8 1/2, 4" base	SS	5	Scrap	4608	11.5	\$	2,011
6 x 8 1/2 and 8 x 8 1/2, 3 7/8" base	SS	5	Scrap	576	1.4	\$	251
	SS	5	Scrap	3168	7.9	\$	1,363

Total: 2133.0

Removal Costs

\$ 1,143,067.50

Mainline	Track	Miles	Cost per Mile	Total cost
		80.85	\$ 13,750.00	\$ 1,111,688

	Crossings	Quantity	Total Sq. Ft	Cost per Sq. Ft	Total Cost
Asphalt		7	1740	\$ 12.00	\$ 20,880.00
Asphalt - State Crossings		2	700	\$ 15.00	\$ 10,500.00

SECTION IV

CONTINGENT AND LIMITING CONDITIONS

A. CONTINGENT AND LIMITING CONDITIONS

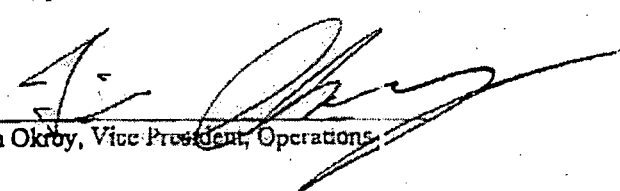
The certification of the Appraiser appearing in this appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Appraiser in this report.

1. The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to the title, which is assumed to be marketable. The property is appraised as though under responsible ownership.
2. Any sketch, photo, or map in this report may show approximate dimensions and is included to assist the reader in visualizing the property in question.
3. The Appraiser is not required to give testimony or appear in court because of having made this appraisal with reference to the property in question.
4. The Appraiser assumes that there are no hidden or inapparent conditions of the property which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions or for engineering which might be required to discover such factors.
5. Information, estimates, and opinions furnished to the Appraiser and contained in this report were obtained from sources considered reliable and believed to be true and correct.
6. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The Appraiser is not responsible for unauthorized use of this report.
7. The Appraiser has the appropriate knowledge and experience to complete this assignment competently. The Appraiser has been an inspector/appraiser for the past 30 years and has served as a senior appraiser for A&K Railroad Materials, during the past 25 years.

B. CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

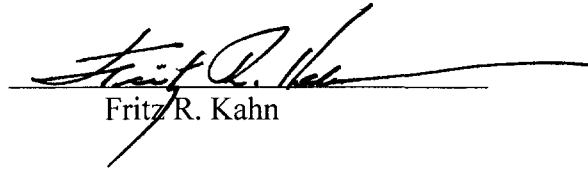

Jim Okroy, Vice President, Operations

June 23, 2006

CERTIFICATE OF SERVICE

I certify that I this day have served copies of the foregoing Request upon McCloud Railway Company by sending it via UPS Next Day Air to its representatives, Thomas F. McFarland, Esq.

Dated at Washington DC, this 25th day of July 2006.



Fritz R. Kahn