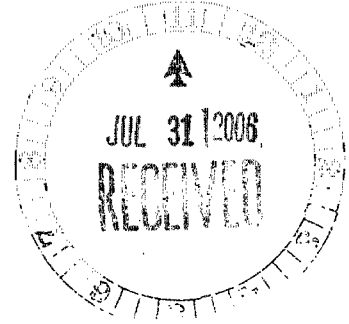


LAW OFFICE
THOMAS F. MCFARLAND, PC.
208 SOUTH LASALLE STREET - SUITE 1890
CHICAGO, ILLINOIS 60604-1112
TELEPHONE (312) 236-0204
FAX (312) 201-9695
mcfarland@aol.com



THOMAS F. MCFARLAND

July 28, 2006

By UPS overnight mail
(Monday delivery)

Vernon A. Williams, Secretary
Surface Transportation Board
Case Control Unit, Suite 713
1925 K Street, N.W.
Washington, DC 20423-0001

217170

Re: STB Docket No. AB-914X, *McCloud Railway Company -- Abandonment and Discontinuance of Service Exemption -- in Siskiyou, Shasta and Modoc Counties, CA*

Dear Mr. Williams:

Enclosed please find an original and 10 copies of Reply To Request To Set Terms And Conditions For Financial Assistance, for filing with the Board in the above referenced matter.

Very truly yours,

Tom McFarland

Thomas F. McFarland
Attorney for McCloud
Railway Company

TMcf:kl:wp8.0\1005-A\trstb1

ENTERED
Office of Proceedings

JUL 31 2006

Part of
Public Record

BEFORE THE
SURFACE TRANSPORTATION BOARD



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

**REPLY TO REQUEST TO SET TERMS AND
CONDITIONS FOR FINANCIAL ASSISTANCE**

McCLOUD RAILWAY COMPANY
801 Industrial Way
P.O. Box 1500
McCloud, CA 96057

Replicant

THOMAS F. McFARLAND
THOMAS F. McFARLAND, P.C.
208 South LaSalle Street, Suite 1890
Chicago, IL 60604-1112
(312) 236-0204

Attorney for Replicant

DATE FILED: July 31, 2006

BEFORE THE
SURFACE TRANSPORTATION BOARD

McCLOUD RAILWAY COMPANY --	)	
ABANDONMENT AND	)	
DISCONTINUANCE OF SERVICE	)	DOCKET NO.
EXEMPTION -- IN SISKIYOU, SHASTA	)	AB-914X
AND MODOC COUNTIES, CA	)	
	)	

**REPLY TO REQUEST TO SET TERMS AND
CONDITIONS FOR FINANCIAL ASSISTANCE**

Pursuant to 49 C.F.R. § 1152.27(h)(4), McCLOUD RAILWAY COMPANY (MCR) hereby submits this reply to a "Request To Set Terms And Conditions Pursuant To 49 U.S.C. 10904(c) And 49 C.F.R. 1152.(g)(1)," filed in behalf of SEASIDE HOLDINGS, INC. (SHI) on July 26, 2006.

STATEMENT OF POSITION

The Offer of Financial Assistance (OFA) should be rejected or dismissed because it is not a good faith offer for continuation of rail service.

If the OFA is not rejected or dismissed, the Board should fix the purchase price for the rail line at \$3,514,883.

SUPPORTING VERIFIED STATEMENTS

Attached to this Reply are the verified statements and exhibits of Mr. Jeff Forbis, President of MCR (Appendix 1), and Mr. Mike Williams, President of Railroad Materials Salvage, Inc. (Appendix 2).

ARGUMENT

I. THE OFA SHOULD BE REJECTED OR DISMISSED BECAUSE IT IS NOT A GOOD FAITH OFFER FOR CONTINUATION OF RAIL SERVICE

An OFA must contemplate continued rail service. *Burlington N./Santa Fe - Aban. - in King County, WA*, 3 S.T.B. 634, 639 (1998), and cases there cited. It is not appropriate for the Board to force a sale of a line based on an OFA when the statutory objective of continued rail service would not be likely to result. *Roaring Fork - Exem. - in Garfield, Eagle & Pitkin Counties, CO*, 4 S.T.B. 116, 120 (1999).

This is such a case. The only major shipper on the rail line under consideration is Sierra Pacific Industries (SPI). The Corporate Traffic Director of SPI has stated that he has never been contacted by the principals of SHI or any other representative of SHI about continuation of rail service. If SHI intended to operate the rail line after acquiring it, SHI surely would have contacted the major shipper on the line about continued rail service. Its failure to have done so is a very strong indication that SHI does not intend to continue to provide rail service on the line.

Neither of the two principals of SHI has ever been involved in owning or operating a rail line. It does not make sense for SHI to enter the railroad business by acquiring and operating the rail line under consideration, which was authorized for abandonment in view of dwindling traffic, substantial operating losses, and extensive costs for bridge repair.

It is likely that the principals of SHI are acting as straw men for A&K Railroad Materials, Inc. (A&K). A&K expressed interest in purchasing the track materials in the line. Now A&K has submitted an estimate of the value of track materials in the line that is included in SHI's Request to Set Terms and Conditions. That estimate is at an extremely low level. It is likely that

A&K, through SHI, seeks to purchase the track materials at an artificially low price, after which A&K-SHI would abandon the line and market the track materials at their substantially higher fair market value.

Regardless of whether SHI is fronting for A&K, it would be an abuse of the Board's processes for SHI to acquire the rail line under consideration without intending to continue to provide rail service over the line. The OFA should be rejected or dismissed on that basis.

II. THE BOARD SHOULD FIX THE PURCHASE PRICE FOR THE RAIL LINE AT \$3,514,883

A. Valuation Standard

The appropriate valuation standard in OFA proceedings is the net liquidation value of the rail line, i.e., the fair market value for nonrail use of land in the right-of-way for which the rail carrier has marketable fee title, plus the net value of track materials in the line. *Chicago and North Western Transp. Co. - Abandonment*, 363 I.C.C. 956, 957-958 (1981).

B. The Burden of Proof

The burden of persuasion in OFA cases is on the offeror. *Chicago and North Western Transp. Co. - Abandonment*, 363 I.C.C. 979, 982 (1981). In *Chicago and North Western Transp. Co. - Abandonment, supra*, the ICC explained the effect of that burden as follows (363 ICC at 961):

... Thus, where both offeror and offeree have submitted acceptable appraisals and where it is impossible to determine which valuation is more accurate, we shall accept the figure submitted by the offeree-railroad.

C. Land Value

The burden of proof principle requires that the Board accept MCR's valuation for land in the amount of \$291,419. MCR provided evidence supporting that valuation in the form of a report by a title company attesting to title to identified parcels of land in MCR's parent company, 4 Rails, Inc., and a projection of fair market value based on an update of 2001 assessed value of those parcels.

SHI's criticism of MCR's title is not effective. As sole owner of MCR's parent company, Mr. Forbis could easily cause that company to convey title to MCR. The title company has specifically insured "a fee" in that company. SHI also criticized MCR's valuation methodology, but SHI did not submit valuation evidence of its own. Thus, under the burden of proof principle, the Board is required to accept MCR's valuation.

D. Track Materials

The Board should adopt MCR's valuation of track materials in the amount of \$3,223,464 because it is better documented than SHI's valuation. The primary differences in valuation are:

- (1) MCR's valuation of 90-pound and 85-pound rail as relay;
- (2) MCR's valuation of 75-pound to 85-pound rail as reroll; and
- (3) MCR's overhead and profit at five percent of gross track materials value vis-a-vis SHI's overhead and profit at twenty-five percent of the combined gross value of track materials and land.

In disputing MCR's valuations in (1) and (2) above, SHI argued that there is no relay market for 90-pound rail or less, and no reroll market for less than 90-pound rail. The specific offers in Appendices MW-2 and MW-3 of Mr. Williams' statement refute that argument.

As to other valuations, MCR's valuations are fully documented in every instance. MCR's valuations are better documented than SHI's in most instances, and never less than equally documented. Consequently, the Board should adopt all of MCR's valuations in accordance with the principle of burden of persuasion identified in the foregoing.

As to overhead and profit, SHI's reduction is excessive. MCR's reduction for overhead and profit is more reliable because Mr. Williams himself would assess those amounts.

CONCLUSION AND REQUESTED RELIEF

WHEREFORE, the Board should reject or dismiss the OFA on the ground that it is not a good faith offer for continuation of rail service. If the OFA is not rejected or dismissed on that basis, the Board should fix the purchase price for the rail line at \$3,514,883, and impose other customary conditions regarding closing.

Respectfully submitted,

McCLOUD RAILWAY COMPANY
801 Industrial Way
P.O. Box 1500
McCloud, CA 96057

Replicant

Thomas F. McFarland

THOMAS F. McFARLAND
THOMAS F. McFARLAND, P.C.
208 South LaSalle Street, Suite 1890
Chicago, IL 60604-1112
(312) 236-0204

Attorney for Replicant

DATE FILED: July 31, 2006

VERIFIED STATEMENT OF JEFF FORBIS

My name is Jeff Forbis. I am President and sole owner of McCloud Railway Company ("MCR"). My business address is 801 Industrial Way, P.O. Box 1500, McCloud, CA 96057.

The Surface Transportation Board (STB) has authorized MCR to abandon approximately 80 miles of rail line generally east and south of McCloud, CA. The shipper that furnished approximately 95 percent of the traffic on that rail line is Sierra Pacific Industries ("SPI").

An offer of financial assistance to purchase that rail line has been filed in behalf of Seaside Holdings, Inc. ("SHI"). The principals of SHI have been identified as Mr. Dan Corcoran and Mr. John F. Higley.

SHI OFFER NOT FOR CONTINUED RAIL SERVICE

I have reason to believe that SHI does not propose to acquire the MCR rail line for continued rail operation. Instead, it appears to me that SHI and Messrs. Corcoran and Higley are acting as straw men for A&K Railroad Materials, Inc. ("A&K"), so that A&K can use the OFA process to attempt to purchase the line at a price fixed by the STB that is hoped to be less than the price that A&K would have to pay in arm's-length bargaining. Having acquired the line at a favorable price, A&K would then abandon and salvage the track materials at a profit, rather than operate the line for continued rail service.

As evidence of the foregoing, I have attached to this Statement as Appendix JF-1 a letter to the STB from Mr. Eric Shelby, Corporate Traffic Director of SPI, dated July 14, 2006, to the effect that neither Messrs. Corcoran and Higley, nor any other representative of SHI, has ever contacted Mr. Shelby about continued rail service for SPI after purchase of the rail line. If SHI

intended to operate the rail line after acquiring it, it surely would have contacted the only major shipper on that line. As evidence that A&K is the real prospective purchaser of the rail line for abandonment and salvage, rather than for continued rail service, I point to the fact that in SHI's OFA, A&K provided the estimate of net value of track materials at an artificially low value for 80 miles of rail line.

In my 37 years of railroading I have been involved in four shortline railroad startups. The most recent was 14 years ago when I purchased MCR. The key elements of a startup are knowledge, planning, and communication.

For knowledge, you must know about your customers, employees, the area you operate in, and many other aspects of the business. The planning takes in your knowledge and formulates how you intend to conduct your business. The communication assures that all customers, employees, and other stakeholders and partners in the business understand and are updated as often as possible.

There is no evidence of any of this taking place. In fact SHI avoided contact with MCR when MCR wanted to have a negotiating session. My obvious conclusion is that SHI has no interest in operating a railroad.

Both of the other "intent to file" parties gathered information from me by visitation, e-mails, phone calls, and mailed correspondence. SHI attempted absolutely no contact.

In my opinion, the filing of this OFA by SHI as a front for A&K, with the intent of the latter to abandon and salvage the line rather than to operate it, is an abuse of the STB's OFA process. The STB should reject SHI's OFA on that basis.

SHI (as a front for A&K), by using the OFA process with no intention of operating the railroad to be abandoned, will cause MCR to be harmed in the following ways:

1. By filing the OFA and signing the statement that they have the financial assets and are prepared to commit them to the two year operation of the properties, SHI is attempting to elicit STB sympathy for a low price for the continuation of the railroad. There is absolutely no intention for continued operation. This is an attempt by A&K to purchase, hold for a short time, and then scrap the railroad.
2. MCR, for the continuation of its remaining 20 miles, will need some of the rail, ties, and fastenings on the abandonment segment. MCR should be able to redeploy these assets that A&K intends to pay basically scrap minus inflated profits, removal costs, and overhead, and then offer to sell them back again at inflated profits. MCR will be replacing steel at the rate of ½ mile per year and ties at 1500 per year over the next 10 years. MCR would have to pay to a rail supplier for these 5 miles of rail, ties, and OTM nearly as much as A&K proposes to pay for scrapping the entire 81 miles. (See Appendix JF-2 attached).
3. MCR must also do some trading of lands with the U.S. Forest Service (USFS) to allow both entities to clean up some tracts that make good business sense. MCR operates over the rights of way of USFS on its remaining line into Mt. Shasta and has proposals with USFS for exchange of lands for both interests. A forced sale would ruin the chances of making these exchanges.

4. Grade crossing warning protection signals at two points, Bartle and Lorenz are not included in valuations, though they are only 10 years old and more modern than two signals on the remaining part of the McCloud Railway. Rather than be scrapped out, these should be recovered and more safely cover the remaining crossings.

MCR will be harmed by the STB allowing this abuse of the OFA process. A&K should not be allowed to have the STB set low valuations for the scrapping of the railroad line. They should have to compete on the open market with any other potential purchaser of used rail parts. With no intentions of operations, SHI's offer should be disallowed as it will financially harm and impair the financial viability for the remaining MCR.

VALUE OF LAND OWNED IN FEE

MCR retained title companies in Siskiyou and Shasta County to determine the quality of MCR's title to the land in the right-of-way of the subject rail line. It was determined that MCR does not own any right-of-way land in Shasta County in fee. However, Siskiyou County Title Company has determined that nine parcels of right-of-way land in Siskiyou County are held in fee by 4 Rails, Inc. A copy of the Title Company's title report to that effect is attached to this Statement as Appendix JF-3. (*see*, especially, page 2). MCR is wholly-owned by 4 Rails, Inc. I wholly-own 4 Rails, Inc. Consequently, I can easily cause 4 Rails, Inc. to convey the title to those parcels to MCR, and I would do so if and when the rail line were to be liquidated.

Attached to this Statement as Appendix JF-4 is MCR's appraisal of the value of land in the right-of-way that is held in fee. The appraisal was based on the assessed value of that land in 2001, increased by 20 percent to account for increased value to the present.

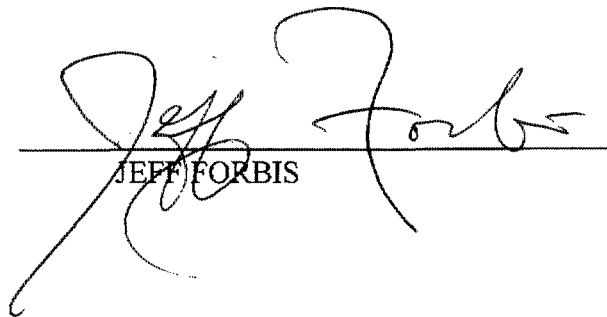
VALUE OF TRACK MATERIALS

Reference is made to the verified statement of Mike Williams for valuation of the track materials in the rail line. I would add only that when I called A&K's sales personnel to ask for availability and price for 90-pound relay rail, I was told that such rail is available at \$570 per net ton.

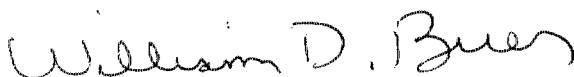
VERIFICATION

STATE OF CALIFORNIA)
 W.D.B. SAN DIEGO) SS:
COUNTY OF SISKIYOU)

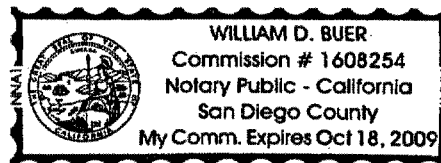
JEFF FORBIS, being duly sworn on oath, deposes and states that he has read the foregoing statement, that he knows the contents thereof, and that the facts therein stated are true and correct.


JEFF FORBIS

SUBSCRIBED AND SWORN to
before me this 25th day
of July, 2006.


Notary Public

My Commission Expires: 10-18-09





Sierra Pacific Industries

P.O. Box 496028 • Redding, California 96049-6028 • (530) 378-8000

July 14, 2006

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street N.W.
Washington, DC 20423-0001

Re: STB Docket AB914X McCloud Railway Company

Dear Mr. Williams;

I am Eric Shelby, Manager of Transportation for Sierra Pacific Industries. In this capacity it is my responsibility to oversee all of the shipments of inbound and outbound traffic at the Sierra Pacific mill located in Burney, California. As the largest shipper on their line I have worked with McCloud Railway in good times and bad with lumber shipments on railcars for the past years.

Jeff Forbis, President of McCloud Railway has worked to keep the railroad as a viable option for our transportation needs. With the subsidy surcharge McCloud Railway would need for operation it is not financially feasible to continue rail shipments. Sierra Pacific suspended shipments on July 1, 2006.

All inquiries from interested parties to attempt operations on this line whether through the abandonment process or not would be routed to me. At no time did I receive any inquiry from Seaside Holdings, Inc. or its principals, Dan Corcoran, or John E. Higley in regards to our business on this rail line. In my position, I oversee the shipments out of 15 lumber mills and actually operate one railroad. This entity and the individuals are not known in the industry.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Eric Shelby", with a stylized flourish at the end.

Eric Shelby
Manager of Transportation
Sierra Pacific Industries

APPENDIX JF-2**Purchasing Replacement Rail, Ties, OTM including tax and ship**

	1 mile of 90RA	5 miles
Rail (\$570/ton+ \$70 tax and ship)	\$101,376.00	\$506,880.00
Bars (\$25/pr +\$3.20 tax and ship)	\$9,024.00	\$45,120.00
Ties (\$27 + \$4 tax and ship)	\$92,070.00	\$460,350.00
Plates (\$3)	\$17,820.00	\$89,100.00
Anchors (1800 inc tax and ship)	\$905.00	\$4,525.00
Reusable spikes and bolts	\$3,200.00	\$16,000.00
Totals	\$224,395.00	\$1,121,975.00

APPENDIX JF-3

Siskiyou County Title Co.

Preliminary Report

COPY

In response to the application for a policy of title insurance referenced herein, Siskiyou County Title Co. hereby reports that it is prepared to issue, or cause to be issued, as of the date hereof, a Policy or Policies of Title Insurance describing the land and the estate or interest therein hereinafter set forth, insuring against loss which may be sustained by reason of any defect, lien or encumbrance not shown or referred to as an Exception below or not excluded from coverage pursuant to the printed Schedules, Conditions and Stipulations of said Policy forms.

The printed Exceptions and Exclusions from the coverage of said Policy or Policies are set forth in Exhibit A attached. Copies of the Policy forms should be read. They are available from the office which issued this report.

This report (and any supplements or amendments hereto) is issued solely for the purpose of facilitating the issuance of a policy of title insurance and no liability is assumed hereby. If it is desired that liability be assumed prior to the issuance of a policy of title insurance, a Binder or Commitment should be requested.

The Policy(s) of title insurance to be issued hereunder will be policy(s) of Fidelity National Title Insurance Company, a California corporation OR Stewart Title Guaranty Company, a Texas corporation.

Please read the exceptions shown or referred to below and the exceptions and exclusions set forth in Exhibit A of this report carefully. The exceptions and exclusions are meant to provide you with notice of matters which are not covered under the terms of the title insurance policy and should be carefully considered.

It is important to note that this preliminary report is not a written representation as to the condition of title and may not list all liens, defects and encumbrances affecting title to the land.



Siskiyou County Title Co.

By

A handwritten signature in cursive script, appearing to read "David Collier", is written over a horizontal line.

David Collier, President

COPY

Siskiyou County Title Co.

206 Fourth Street, P.O. Box 189 Yreka, CA 96097
(530) 841-3062 • Fax (530) 841-3063

Preliminary Report

To: 4 Rails Inc
PO Box 1500
Mc Cloud, Ca 96057

Order Number: 00205027-300

Escrow Officer: Title Department

Attn: Jeff Forbis

Title Officer: Karen Cleland

Customer Reference:

Short Term Rate: No

Property Address: McCloud River Rail Road

Effective Date: November 24, 2005 at 7:30 A.M.

The form of **Policy or Policies** of title insurance contemplated by this report is:

CLTA Standard Coverage Policy - 1990

1. The **estate or interest** in the land hereinafter described or referred to covered by this report is:
A FEE as to Parcel(s) 1-9
2. Title to said estate or interest at the date hereof is **vested in**:
4 Rails, Inc., a California Corporation
3. The land referred to in this report is situated in the County of Siskiyou, State of California, and is described as follows:
See exhibit "One" attached hereto and made a part hereof.

KNCKnc December 12, 2005

Exhibit "One"

PARCEL 1:

All that portion of the following described land lying within Sections 34, 35 and 36, Township 40 North, Range 2 West, M.D.M.

A strip of land 200 feet in width lying 100 feet equally on each side of the located center line of the McCloud River Railroad, beginning at the Easterly end of Parcel "H" as described in Parcel 5 of the deed recorded July 14, 1992 as instrument number 92009857, Official Records of Siskiyou County; thence Easterly along the present located center line of the McCloud River Rail Road across the Southeast 1/4 of Section 32 and the South 1/2 of Section 33; the South 1/2 of the North 1/2 and the North 1/2 of the Southwest 1/4 of Section 34; the North 1/2 of Section 35 and the North 1/2 of Section 36, all in Township 40 North, Range 2 West, M.D.M.

EXCEPTING therefrom all of the timber standing, or lying, or which may be in or upon the said lands or any part thereof; also all ore, minerals, fossils of every name which may be in or upon said above described, and also the right of the party of the first part, its successors and assigns for the purpose of removing said timber thereon and developing and working any mines which may be therein, and also such rights or powers is said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified as reserved in the deed recorded September 20, 1907 in Book 75 of Deeds at Page 73, records of Siskiyou County.

NOTE: A portion of the re-aligned right of way in Section 34, 35 and 36, Township 40 North, Range 2 West, M.D.M. appears to be used under an un-recorded special use permit from the United States of America dated January 1, 1959 and are excluded from coverage herein.

PARCEL 2:

Township 39 North, Range 1 West and Township 40 North, Range 1 West, M.D.M.

A strip of land varying in width from 150 feet to 200 feet in width lying equally on each side of the located center line of the McCloud River Railroad beginning at the West line of Section 31 and extending Easterly across the North 1/2 and the Northeast 1/4 of the Southeast 1/4 of said Section 31; Southeasterly across the Southwest 1/4 and the Southwest 1/4 of the Southeast 1/4 of Section 32; Township 40 North, Range 1 West, Easterly across Lots 1 and 2 of the Northeast 1/4 of Section 5 and Easterly across Lots 1, 2, 3 and 4 of Section 4, both in Township 39 North, Range 1 West; North, easterly across the Southeast 1/4 of the Southeast 1/4 of Section 33, and the South 1/2 of Section 34; Northeasterly across the Northwest 1/4 of the Southwest 1/4 and the North 1/2 of Section 35 and the North 1/2 of Section 36 in Township 40 North, Range 1 West, M.D.M. to the East line of said section. ion.

SAVING, EXCEPTING AND RESERVING from said lands, however, all of the timber standing, or lying, or which may be in or upon the said lands which or any may part be thereof in or upon ; also said all above ore, minerals described , fossils and also of every name the right of the party of the first part, its successors and assigns forever, to enter by itself or its agents or servant upon said lands, or any part thereof, for the purpose of removing said timber thereon and developing and working any mines which may be therein, and also such rights or powers in said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified, as reserved in the deed recorded September 20, 1907 in Book 75 of Deeds at Page 73, records of Siskiyou County.

Excepting the right to take from said tracts of land any and all merchantable timber now standing upon said tracts of land as reserved in the deed recorded January 25, 1907 in Book 71 of Deeds at Page 370, records of Siskiyou County

A portion of the original and re-aligned right of way in Township 40 North, Range 1 West, M.D.M. appears to be used under un-recorded Special Use Permits from the United States of America dated July 14, 1930 and January 1, 1959 and said areas are excluded and excepted from coverage herein

PARCEL 3:

Township 39 North, Range 1 East and Township 40 North, Range 1 East, M.D.M.

A strip of land 150 feet in width lying 75 feet equally on each side of the located center line of the McCloud River Railroad beginning at a point on the Westerly line of Section 31; thence Easterly and Southeasterly across to South 1/2 of Section 31 and Easterly across the Southwest 1/4 of the Northwest 1/4 and the North 1/2 of the South 1/2 of Section 32 to the East line thereof; thence said strip being 200 feet wide, 100 feet equally on each side of said railroad, beginning at the West line of Section 33; thence Easterly, Northeasterly and Easterly across the North 1/2 of the Southwest 1/4, the Southeast 1/4 of the Northwest 1/4 and the Northeast 1/4 of Section 33 to the East line thereof; thence Southeasterly across Section 34 and the Southwest 1/4 of the Southwest 1/4 of Section 35 to the South line thereof, all in Township 40 North, Range 1 East, M.D.M.; thence Southeasterly across Lots 4, 5, 6, 7, 9, 10, 11 and 16 of Section 2 and Lots 13, 14, 17, 18, 19, 20 and the Southeast 1/4 of Section 1, both in Township 39 North, Range 1 East, M.D.M.

ALSO a parcel of land situated, lying and being in the County of Siskiyou, State of California and bounded and more particularly described as follows, to-wit:

BEGINNING at a point on the McCloud River Railroad Company's right of way One Hundred (100) feet from Station 887.85, thence at right angles from line of said right of way two hundred eighty feet (280), thence at right angles to the left two hundred and seventy (270) feet, thence at right angles to the left two hundred and eighty (280) feet to a point on the right of way of the McCloud River Railroad Company, two hundred and seventy (270) feet Easterly of point of beginning, said piece of land lying in Lot Ten (10), Section Two (2), Township Thirty-nine North (39N) Range One East (1E), M.D.M.

EXCEPTING from said lands, however, all of the timber standing, or lying, or which may be in or upon the said lands or any part thereof; also all ore, minerals, fossils of every name which may be in or upon said above described lands, and also the right of the party of the first part, its successors and assigns forever, to enter by itself or its agents or servants upon said lands, or any part thereof, for the purpose of removing said timber thereon and developing and working any mines which may be therein, and also such rights or powers in said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified, as reserved in the deed recorded September 20, 1907 in Book 75 of Deeds at Page 73, records of Siskiyou County.

Excepting therefrom, the right to take from said tracts of land any and all merchantable timber now standing upon said tracts of land as reserved in the deed recorded January 25, 1907 in Book 71 of Deeds at Page 370, records of Siskiyou County

EXCEPTING therefrom said lands, however, all of the timber standing or lying, or which may be in or upon the said lands or any part thereof; also all ore, minerals, fossils of every name which may be in or upon said above described lands, and also the right of the party of the first part, its successors and assigns forever, to enter by itself or its agents or servants upon said lands, or any part thereof, for the purpose of removing said timber thereon and developing and working any mines which may be therein, and also such rights or powers in said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified as reserved in the deed recorded December 27, 1938 in Book 98 of Deeds at Page 166, records of Siskiyou County.

Relocated right of way in Sections 31 and 32, Township 40 North, Range 1 East, appears to be used under un-recorded Special Use Permits from the United States of America and said areas are excluded and excepted from coverage herein.

EXCEPTING from said lands, however, all of the timber which now is or may hereafter be standing, lying or being upon said lands or any part thereof, together with the right to the party of the first part, its successors and assigns forever, to enter by itself or its agents or servants upon said lands or any part thereof for the purpose of removing said timber therefrom as reserved in the deed recorded April 27, 1962 in Book 474 at Page 769, Official Records of Siskiyou County.

PARCEL 4:

Township 39 North, Range 2 East, Township 40 North, Range 2 East and Township 41 North, Range 2 East, M.D.M.

A strip of land 200 feet in width lying 100 feet equally on each side of the located center line of the McCloud River Railroad, beginning on the West line of Section 6, Township 39 North, Range 2 East, M.D.M.; thence Easterly and Northerly across the Northwest 1/4 of the Southwest 1/4, and the West 1/2 of the Northwest 1/4 to the North line of Section 6; thence Northerly across the West 1/2 of Section 31, Township 40 North, Range 2 East, M.D.M.; the Southwest 1/4, the West 1/2 of the Northeast 1/4 and the East 1/2 of the Northwest 1/4 of Section 30 to the North line thereof; thence Northerly across the East 1/2 of the Southwest 1/4, to West 1/2 of the Northeast 1/4 of the Southeast 1/4 of the Northwest 1/4 of Section 19 to the North line thereof; thence Northeasterly across the Southeast 1/4 of the Southeast 1/4 of Section 18 to the East line thereof; thence Northeasterly, Easterly and Southeasterly across the South 1/2 of Section 17 to the South line thereof; thence Southeasterly across the North 1/2 of the Northeast 1/4 of Section 20 to the East line thereof; thence Southeasterly and Northeasterly across the Northwest 1/4 and the West 1/2 of the Northeast 1/4 of Section 21 to the North line thereof; thence Northeasterly across the West 1/2 of the East 1/2 and the Northeast 1/4 of the Northeast 1/4 of Section 16 to the North line thereof; thence Northeasterly across the Southeast 1/4 and the Southeast 1/4 of the Northeast 1/4 of Section 9 to the East line thereof; thence Northeasterly across the North 1/2 of Section 10 to the North line thereof; thence Northeasterly across the East 1/2 of Section 3 to the East line thereof; thence Northeasterly across the North 1/2 of Section 2 to the North line thereof, all in Township 40 North, Range 2 East, M.D.M.; thence Northeasterly across the South 1/2 of the Southeast 1/4 of Section 35 and the Southwest 1/4 of Section 36, both in Township 41 North, Range 2 East, M.D.M. to the Hambone Siding and the intersection with the Burlington Northern Railroad and the termination of this line.

EXCEPTING therefrom said lands, however, all of the timber standing or lying, or which may be in or upon the said lands or any part thereof; also all ores, minerals and fossils, of every name which may be in or upon said above described lands and also the right of the party of the first part, its successors and assigns forever, to enter by itself or its agents or servants upon said lands, or any part thereof, for the purposes of removing said timber thereon and developing and working any mines which may be therein, and also such rights or powers in said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified, as reserved in deed recorded August 22, 1924 in Book 111 of Deeds at Page 550, records of Siskiyou County

EXCEPTING therefrom all said lands, however, all of the timber standing or lying, or which may be in or upon the said lands or any part thereof; also all ores, minerals, fossils of every name which may be in or upon said above described lands, and also the right of the party of the first part, its successors and assigns, forever, to enter by itself or its agents or servants upon said lands, or any part thereof, for the purpose of removing said timber thereon and developing and working any mines which may be therein, as reserved in the deed recorded August 22, 1924 in Book 111 of Deeds at Page 552, records of Siskiyou County.

EXCEPTING therefrom said lands, however, all of the timber standing or lying, or which may be in or upon the said lands or any part thereof; also all ore, minerals, fossils of every name which may be in or upon said above described lands, and also the right of the party of the first part, its successors and assigns forever, to enter by itself or its agents or servants upon said lands, or any part thereof, for the purpose of removing said timber thereon and developing and working any mines which may be therein, and also

such rights or powers in said party of the first part, its successors and assigns, to and over said lands as may be reasonably necessary or convenient to render effective the rights last above specified as reserved in the deed recorded September 20, 1907 in Book 75 of Deeds at Page 73, records of Siskiyou County.

Excepting therefrom, all oil, coal and other minerals within or underlying said land, as reserved in the deed recorded April 4, 1915 in Book 88 of Deeds at Page 431, records of Siskiyou county

A portion of the original and re-aligned right of way in Sections 34, 35, 36, Township 40 North, Range 2 West; Sections 31, 35 and 36, Township 40 North, Range 1 West; Section 31, Township 40 North, Range 1 East; Sections 1 and 2, Township 40 North, Range 2 East and Sections 35 and 36, Township 41 North, Range 2 East appears to be used under un-recorded Special Use Permits from the United States of America dated January 1, 1959, July 1930 and November 1935 and said areas are excluded and excepted from coverage herein.

PARCEL 5:

All in Township 39 North, Range 1 East and Township 39 North, Range 2 East, M.D.M.

Section 1, T39N., R1E., M.D.M.

Parcel of land situate, lying and being in the County of Siskiyou, State of California, and more particularly described as follows, to-wit:

A strip of land Two Hundred Feet (200') in width, being One Hundred Feet (100') equally on each side of the center line of the railroad of the party of the second part, as the same is now surveyed and staked out, in a general Southerly direction from its connection with the main line railroad of said second party in Lot Nineteen (19) of Section One (1), Township Thirty-nine (39) North, Range One (1) East, over and across said Lot Nineteen (19) and over and across the East half of the Southwest quarter (E 1/2 SW 1/4) of said Section One (1), Township Thirty-nine (39) North, Range One (1) East, to the South boundary line of said East half of the Southwest quarter (E 1/2 SW 1/4).

Excepting therefrom, all timber standing, lying, or being upon said lands, together with the right to enter upon said lands and cut and remove said timber at any time or times as described in Deed to McCloud River Railroad Company recorded September 25, 1950 in Book 265 Official Records, page 542.

PARCEL 6:

A strip of land 200 feet in width lying 100 feet equally on each side of the located centerline of the McCloud River Railroad, beginning at the intersection of the centerline of said railroad and the North line of Section 12, Township 39 North, Range 1 East, M.D.M.; thence Southerly through the East 1/2 of the West 1/2 of Section 12; the Northeast 1/4 of the Northwest 1/4, the South 1/2 of the Northwest 1/4, the West 1/2 of the Southwest 1/4, and the Southeast 1/4 of the Southwest 1/4 of section 13; the East 1/2 of the Northwest 1/4, the Southwest 1/4 of the Northeast 1/4, the East 1/2 of the Southeast 1/4 and the Northwest 1/4 of the Southeast 1/4 of Section 24 and the Northeast 1/4 of the Northeast 1/4 of Section 25, all in Township 39 North, Range 1 East, M.D.M.; thence Easterly across the South 1/2 of the Southwest 1/4 and the Southeast 1/4 of the Southeast 1/4 of Section 19, Township 39 North, Range 2 East and the Northwest 1/4 of the Northeast 1/4 and the Northeast 1/4 of the Northwest 1/4 of Section 30, Township 39 North, Range 2 East, M.D.M.

Parcel 6 is used under an un-recorded Special Use Permit from the United States of America dated July 25, 1950 and is excluded and excepted from coverage herein.

PARCEL 7:

A strip of land 100 feet in width lying 50 feet equally on each side of the located centerline of the

McCloud River Railroad, beginning at the intersection of the centerline of said railroad and the West line of the Northeast 1/4 of the Northeast 1/4 of Section 30, Township 39 North, Range 2 East, M.D.M.; thence Easterly and Northerly to a point on the East line of said Section 30 as described in Deed to McCloud River Railroad Company recorded December 8, 1954 in Book 341 Official Records, page 452. Out by later Deed Recorded in Book 349 Official Records, page 426.

Excepting therefrom all timber now or hereafter standing, lying or being upon any of the lands hereinabove conveyed; together with the right to enter upon said lands or any part thereof at any time to cut and remove said timber, as reserved in the deed recorded December 8, 1954 in Book 341 at Page 452, and as modified in the deed recorded in Book 349 at Page 426, Official Records of Siskiyou County.

PARCEL 8:

A strip of land 100 feet in width lying 50 feet equally on each side of the located centerline of the McCloud River Railroad, beginning at the intersection of said centerline and the West line of Section 29, Township 39 North, Range 2 East, M.D.M.; thence Northerly and Easterly through the Northwest 1/4 of the Northwest 1/4 of Section 29 and the West 1/2 of the Southwest 1/4 of Section 20 to Station 308+00 on said railroad; thence said strip being 150 feet in width, 50 feet to the South and 100 feet to the North of said located centerline and extending Easterly to Station 328+00; thence said strip being 100 feet in width lying 50 feet equally on each side of the located centerline, easterly and Southerly through the North 1/2 of the Southeast 1/4 of Section 20, the West 1/2 of the Southwest 1/4 of Section 21, the Northwest 1/4 of Section 28; thence Easterly, Southerly and Easterly through the North 1/2 of the South 1/2, the Southwest 1/4 of the Northeast 1/4 and the Southeast 1/4 of Section 28 and Easterly and Southerly through the Southwest 1/4 of the Northwest 1/4 and the Southwest 1/4 of Section 27 to the Shasta County line, all in Township 39 North, Range 2 East, M.D.M. as described in three Deeds to the McCloud River Railroad Company recorded August 13, 1954 in Book 336 Official Records, pages 59, 77 and 96.

EXCEPTING all timber standing, growing or being and all timber to be grown on the property as hereinabove described, except that portion thereof necessary to be cut in the actual construction, maintenance and use of the railroad to be constructed by Grantee herein as reserved in the above deeds recorded in Book 336 at Pages 59, 77 and 96, Official Records

Assessor's Parcel Numbers

018-330-080, 110, 130, 140, 150, 160
027-050-050, 110
027-060-130, 210, 220, 230, 240, 250, 260,
027-070-260, 270
027-100-220
027-120-120, 130
027-150-020, 090, 200, 210, 220, 240
027-160-080
027-170-130, 140, 150, 160, 170
027-200-110, 120, 130, 140, 150
027-220-140
027-230-370, 380, 390
027-250-270
027-260-290, 300, 310, 320
027-480-080, 090, 100
028-230-190, 200
028-360-150, 160, 170, 180, 190, 200, 210, 220, 230
028-370-100, 110, 120
028-390-200

At the date hereof, items to be considered and exceptions to coverage in addition to the printed exceptions and exclusions in said policy form would be as follows:

1. Property taxes, which are a lien not yet due and payable, including any assessments collected with taxes to be levied for the fiscal year 2006-2007.
2. Property taxes, the first installment which are a lien due and payable, and the second installment is a lien not yet due and payable including any assessments collected with taxes levied for the fiscal year 2005-2006.

Note: No report or examination of the property taxes or assessments is offered herein.

3. The lien of supplemental taxes, if any, assessed pursuant to the provisions of Chapter 3.5 (Commencing with Section 75) of the Revenue and Taxation code of the State of California.

4. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Bridgeford-Cunningham Company, a corporation, Westover Lumber Company, a corporation, William W. Westover and William Westover
Purpose: railroad, road crossings and rights of entry
Recorded: January 25, 1907 in Book 71, Page 370, of Deeds
Affects: Portions of Parcels 2 and 3

5. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The McCloud River Lumber Company
Purpose: Rights of Entry for the access to reserved timber and minerals
Recorded: September 20, 1907 in Book 75, Page 73, of Deeds, records of said county
Affects: Portions of Parcels 1,2,3,4, and 5 described herein

6. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Central Pacific Railway Company
Purpose: Rights of entry for access to reserved oil, coal and other minerals
Recorded: April 04, 1915 in Book 88 of Deeds at , Page 431, records of Siskiyou county
Affects: A portion of Parcel 4 described herein

7. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The McCloud River Lumber Company
Purpose: Rights of entry for access to reserved timber and minerals
Recorded: August 22, 1924 in Book 111 of Deeds at Page 550 and 552 Official Records
Affects: Portions of Parcel 4 described herein

8. Any adverse claim, interest or title of Red River Lumber Company, a Minnesota Corporation to that portion of Parcel 4 described herein lying within the interest conveyed in the deed recorded May 29, 1931 in Book 24 at Page 195, Official Records of Siskiyou County, was a fee interest or an easement or right of way interest.

9. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: The County of Siskiyou
Purpose: Right of Way for Road Purposes
Recorded: 11/09/1933 in Book 50, Page 350, Official Records
Affects: A portion of Parcel 6

10. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The McCloud River Lumber Company
Purpose: Rights of Entry for access to reserved timber and minerals
Recorded: December 27, 1938 in Book 98, Page 166, Official Records
Affects: Portions of Parcel 3 described herein

11. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The McCloud River Lumber Company, a corporation
Purpose: rights of entry for access to reserved timber
Recorded: September 25, 1950 in Book 265, Page 542, Official Records
Affects: Parcel 5 described herein

12. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Archie D. Walker and Bertha H. Walker, his wife, et al
Purpose: Rights of entry for access to reserved timber and easement and crossing rights
Recorded: August 25, 1954 in Book 336, Page 59, and counter-part deeds recorded on pages 77 and 96, Official Records
Affects: Portions of Parcel 8

Covenants, conditions and restrictions including reversionary rights (deleting therefrom any restrictions indicating any preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin) as set forth in the document referred to in the numbered item last above shown.

13. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: The McCloud River Lumber Company
Purpose: Rights of entry for access to reserved timber and crossing easements
Recorded: December 08, 1954 in Book 341, Page 452, Official Records
Affects: A portion of Parcel 7 described herein

14. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;
- Granted to: United States of America
Purpose: Road Easement
Recorded: February 25, 1950 in Book 418, Page 365, Official Records
Affects: A portion of Parcel 4 described herein
15. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;
- Granted to: United States of America
Purpose: Roadway
Recorded: February 25, 1950 in Book 418, Page 365, Official Records
Affects: A portion of Parcel 4 described herein
16. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in license agreement
- By and between: McCloud River Railroad Company, a California corporation and Western California Telephone Company, a Corporation
Purpose: "...poles, crosspieces and approximately 35 miles of telephone lines running generally along railroads right of way..."
Recorded: July 21, 1961 in Book 463, Page 505, Official Records
17. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;
- Reserved by: McCloud River Lumber Company, a corporation
Purpose: Rights of entry for access to reserved timber
Recorded: April 27, 1962 in Book 474, Page 769, Official Records
Affects: portions of Parcel 3 described herein
18. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in the agreement
- By and Between: McCloud River Railroad Company, a Corporation and the United States of America
Purpose: Road Crossing
Recorded: August 20, 1974 in Book 716, Page 550,
Re-recorded: May 1, 1975 in Book 731 at Page 414
Affects: A portion of Parcel 2 described herein
19. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in the agreement
- By and Between: McCloud River Railroad Company, a Corporation and the United States of America
Purpose: Road Crossing
Recorded: February 26, 1975 in Book 727, Page 787

- Re-recorded: May 1, 1975 in Book 731 at Page 407
Affects: A portion of Parcel 2 described herein
20. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in the agreement
- By and Between: McCloud River Railroad Company, a Corporation and the United States of America
Purpose: Road Crossing
Recorded: June 19, 1978 in Book 822, Page 383,
Affects: A portion of Parcel 3 described herein
21. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in the agreement
- By and Between: McCloud River Railroad Company, a Corporation and the United States of America
Purpose: Road Crossing
Recorded: May 14, 1979 in Book 857, Page 100,
Affects: A portion of Parcel 8 described herein
22. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in the agreement
- By and Between: McCloud River Railroad Company, a Corporation and the United States of America
Purpose: Road Crossing
Recorded: November 6, 1981 in Book 930, Page 751,
Affects: A portion of Parcel 4 described herein
23. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;
- Granted to: United States of America
Grantor: McCloud River Railroad, a corporation
Purpose: Firebreak
Recorded: April 22, 1982 in Book 943, Page 483, Official Records
Affects: portions of Parcels 1 and 2 described herein
- An agreement which states that the rights reserved in the deed recorded September 20, 1907 in Book 75 of Deeds at Page 73 were subordinated to the document or interest above shown,
- By document
Recorded: October 12, 1982 in Book 966, Page 89, Official Records
24. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;
- Granted to: United States of America
Grantor: McCloud River Railroad, a corporation
Purpose: Roadway
Recorded: October 28, 1982 in Book 968 at Page 316, Official Records
Affects: portions of Parcel 4 described herein

An agreement which states that the rights reserved in the deed recorded in Book 111 of Deeds at Page 552 were subordinated to the document or interest above shown,

By document

Recorded: December 16, 1982 in Book 975 at Page 248 Official Records

An agreement which states that the rights reserved in the deed recorded in Book 88 of Deeds at Page 431 were subordinated to the document or interest above shown,

By document

Recorded: February 10, 1983 in Book 982 at Page 331 Official Records

25. A document entitled "Acknowledgement of Federal Assistance", for the Improvement of the McCloud River Railroad, executed by the McCloud River Railroad and the California Department of Transportation, recorded January 6, 1983 in Book 978 at Page 90, Official Records

The terms and provisions of District Agreement No. 02-303 disclosed by the above document, between the California Department of Transportation and the McCloud River Railroad

26. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in an Easement Agreement

By and Between: The McCloud River Railroad Company, a California Corporation and
The Transmission Agency of Northern California, a California Joint
Powers Agency

Recorded: June 4, 1991 instrument number 91006531, Official Records

Affects: Parcel 3

27. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in an Easement Agreement

By and Between: The McCloud River Railroad Company, a California Corporation and
The Transmission Agency of Northern California, a California Joint
Powers Agency

Recorded: June 4, 1991 instrument number 91006532, Official Records

Affects: Parcel 4

28. Easement(s) for the purpose(s) shown below and rights incidental thereto as described in an Easement Agreement

By and Between: The McCloud River Railroad Company, a California Corporation and
The Transmission Agency of Northern California, a California Joint
Powers Agency

Recorded: June 4, 1991 instrument number 91006533, Official Records

Affects: Parcel 4

29. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document;

Granted to: Citizens Utilities Company of California, a corporation

Purpose: underground communication transmission system
Recorded: October 31, 1991 instrument number 91014847, Official Records
Affects: a portion of Parcel 8 described herein

30. A deed of trust to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$975,900.00
Dated: May 01, 1997
Trustor: 4 Rails, Inc, a California Corporation
Trustee: GT Service Corp., a California Corporation
Beneficiary: U.S. Small Business Administration
Loan No.: DLB 117656640-08
Recorded: May 15, 1997 instrument number 97005517, Official Records
Affects: This and other property

A request that a copy of any Notice of Default and of any Notice of Sale under the above deed of trust be mailed to:

Party: Sprint Communications Company L.P.
Address: 6100 Sprint Parkway
Attn: Manager, Network Real Estate-Facilities
Mailstop: KSOPHK021-2A718
Ref: PRN#155080
Overland Park Kansas 66251
Recorded: October 23, 2000 instrument number 20000102313286, Official Records

A Substitution of Trustee under said deed of trust which names as the substituted trustee, the following

Substituted Trustee: Mt. Shasta Title & Escrow Company, a California Corporation
Recorded: December 01, 2000 as Instrument No. 20000120115907, Official Records

An agreement to modify the terms and provisions of said deed of trust as therein provided

Recorded: December 01, 2000 instrument number 20000120115909, Official Records

An assignment of the beneficial interest under said deed of trust which names:

Assignee: WAMCO XXVIII, Ltd.
Loan No.: Undisclosed
Recorded: July 05, 2001 instrument number 2001070509262, Official Records

31. A deed of trust to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$259,000.00
Dated: May 02, 1997
Trustor: 4 Rails, Inc
Trustee: GT Service Corp., a California Corporation
Beneficiary: U.S. Small Business Administration, an agency of the U.S. Government

Recorded: May 15, 1997 instrument number 97005518, Official Records

A request that a copy of any Notice of Default and of any Notice of Sale under the above deed of trust be mailed to:

Party: Sprint Communications Company L.P.
Address: 6100 Sprint Parkway
Attn: Manager, Network Real Estate-Facilities
Mailstop: KSOPHK021-2A718
Ref: PRN#155080
Overland Park Kansas 66251

Recorded: October 23, 2000 instrument number 2000102313287 Official Records

A Substitution of Trustee under said deed of trust which names as the substituted trustee, the following

Substituted Trustee: Mt. Shasta Title & Escrow Company, a California Corporation
Recorded: December 01, 2000 as Instrument No. 2000120115907, Official Records

An agreement to modify the terms and provisions of said deed of trust as therein provided

Recorded: 12012000 instrument number 200012010115908, Official Records

32. A financing statement filed in the Office of the County Recorder, showing

Debtor: 4 Rails, Inc.
Secured Party: Interbay Funding, L.L.C
Recorded: November 27, 2002 instrument number 02-0018748, Official Records

33. The fact that the land described herein differs from the Right of Way shown on various assessor's maps as follows:

The right of way as described herein in Sections 18 and 19, Township 40 North, Range 2 East, differs from the right of way shown on assessors parcel map 027-170

The right of way as described herein in Section 10, Township 40 North, Range 2 East differs from the right of way shown on assessors parcel map 027-150

End Of Items

Notes

1. There are NO deeds affecting said land, recorded within twenty-four (24) months of the date of this report.
2. Section 12413.1, California Insurance Code became effective January 1, 1990. This legislation deals with the disbursement of funds deposited with any title entity acting in an escrow or subescrow capacity. The law requires that all funds be deposited and collected by the title entity's escrow and/or subescrow account prior to disbursement of any funds. Some methods of funding may subject funds to a holding period which must expire before any funds may be disbursed. In order to avoid any such delays, all fundings should be done through wire transfer, certified check or checks drawn on California financial institutions.
3. California Revenue and Taxation Code Section 18662, effective January 1, 1994 and by amendment effective January 1, 2003, provides that the buyer in all sales of California Real Estate may be required to withhold 3 and 1/3% of the total sales price as California State Income Tax, subject to the various provisions of the law as therein contained.
4. The charge where an order is cancelled after the issuance of the report of title, will be that amount which in the opinion of the Company is proper compensation for the services rendered or the purpose for which the report is used, but in no event shall said charge be less than the minimum amount required under Section 12404.1 of the Insurance Code of the State of California. If the report cannot be cancelled "no fee" pursuant to the provisions of said Insurance Code, then the minimum cancellation fee shall be that permitted by law.

End Of Notes

Exhibit A (Rev. 10/17/98)

AMERICAN LAND TITLE ASSOCIATION RESIDENTIAL TITLE INSURANCE POLICY (6-1-87) EXCLUSIONS

In addition to the Exceptions in Schedule B, you are not insured against loss, costs, attorneys' fees, and expenses resulting from:

1. Governmental police power, and the existence or violation of any law or government regulation. This includes building and zoning ordinances and also laws and regulations concerning:

- * land use
- * improvements on the land
- * land division
- * environmental protection

This exclusion does not apply to violations or the enforcement of these matters which appear in the public records at Policy Date. This exclusion does not limit the zoning coverage described in Items 12 and 13 of Covered Title Risks.

2. The right to take the land by condemning it, unless:

- * a notice of exercising the right appears in the public records on the Policy Date
- * the taking happened prior to the Policy Date and is binding on you if you

bought the land without knowing of the taking.

3. Title Risks:

- * that are created, allowed, or agreed to by you
- * that are known to you, but not to us, on the Policy Date -- unless they appeared in the public records
- * that result in no loss to you
- * that first affect your title after the Policy Date -- this does not limit the labor and material lien coverage in Item 8 of Covered Title Risks

4. Failure to pay value for your title.

5. Lack of a right:

- * to any land outside the area specifically described and referred to in Item 3 of Schedule A

OR

- * in streets, alleys, or waterways that touch your land

This exclusion does not limit the access coverage in Item 5 of Covered Title Risks.

SCHEDULE B EXCEPTIONS

In addition to the Exclusions, you are not insured against loss, costs, attorney's fees, and expenses resulting from:

1. Any rights, interests, or claims or parties in possession of the land not shown by the public records.
2. Any easements or liens not shown by the public records. This does not limit the lien coverage in Item 8 of Covered Title Risks.

3. Any facts about the land which a correct survey would disclose and which are not shown by the public records. This does not limit the forced removal coverage in Item 12 of Covered Title Risks.
4. Any water rights or claims or title to water in or under the land, whether or not shown by the public records.

CALIFORNIA LAND TITLE ASSOCIATION STANDARD COVERAGE POLICY - 1990 EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building or zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien, or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

(b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.

3. Defects, liens, encumbrances, adverse claims or other matters:

(a) whether or not recorded in the public records at Date of Policy, but created, suffered, assumed or agreed to by the insured claimant;

(b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;

(c) resulting in no loss or damage to the insured claimant;

(d) attaching or created subsequent to Date of Policy; or

(e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the insured mortgage or for the estate or interest insured by this policy.

4. Unenforceability of the lien of the insured mortgage because of the inability or failure of the insured at Date of Policy, or the inability or failure of any subsequent owner of the indebtedness, to comply with the applicable doing business laws of the state in which the land is situated.

5. Invalidity or unenforceability of the lien of the insured mortgage, or claim thereof, which arises out of the transaction evidenced by the insured mortgage and is based upon usury or any consumer credit protection or truth in lending law.

6. Any claim, which arises out of the transaction vesting in the insured the estate of interest insured by this policy or the transaction creating the interest of the insured lender, by reason of the operation of federal bankruptcy, state insolvency or similar creditors' rights laws.

EXCEPTIONS FROM COVERAGE - SCHEDULE B, PART I

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.

Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.

2. Any facts, rights, interests, or claims which are not shown by the public records but which could be ascertained by an inspection of the land which may be asserted by persons in possession thereof.

3. Easements, liens or encumbrances, or claims thereof, which are not shown by the public records.

4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.

5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.

AMERICAN LAND TITLE ASSOCIATION LOAN POLICY (10-17-92) WITH ALTA ENDORSEMENT-FORM 1 COVERAGE and AMERICAN LAND TITLE ASSOCIATION LEASEHOLD LOAN POLICY (10-17-92) WITH ALTA ENDORSEMENT-FORM 1 COVERAGE EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building and zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating to (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any

violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

(b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

2. Rights of eminent domain unless notice of the exercise thereof has been recorded in

the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.

3. Defects, liens, encumbrances, adverse claims or other matters:

(a) created, suffered, assumed or agreed to by the insured claimant;
(b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;

(c) resulting in no loss or damage to the insured claimant;

(d) attaching or created subsequent to Date of Policy (except to the extent that this policy insures the priority of the lien of the insured mortgage over any statutory lien for services, labor or material or to the extent insurance is afforded herein as to assessments for street improvements under construction or completed at Date of Policy); or

(e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the insured mortgage.

4. Unenforceability of the lien of the insured mortgage because of the inability or failure of the insured at Date of Policy, or the inability or failure of any subsequent owner of the indebtedness, to comply with applicable doing business laws of the state in which the land is situated.

5. Invalidity or unenforceability of the lien of the insured mortgage, or claim thereof.

AMERICAN LAND TITLE ASSOCIATION OWNER'S POLICY (10-17-92) and
AMERICAN LAND TITLE ASSOCIATION LEASEHOLD OWNER'S POLICY (10-17-92)
EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building and zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating to (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

(b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.

2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.

The above policy forms may be issued to afford either Standard Coverage or Extended Coverage. In addition to the above Exclusions from Coverage, the Exceptions from Coverage in a Standard Coverage Policy will also include the following General Instructions:

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.

Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.

2. Any facts, rights, interests or claims which are not shown by the public records but which could be ascertained by an inspection of the land or by making inquiry of persons

which arises out of the transaction evidenced by the insured mortgage and is based upon usury or any consumer credit protection or truth in lending law.

6. Any statutory lien for services, labor or materials (or the claim of priority of any statutory lien for services, labor or materials over the lien of the insured mortgage) arising from an improvement or work related to the land which is contracted for and commenced subsequent to Date of Policy and is not financed in whole or in part by proceeds of the indebtedness secured by the insured mortgage which at Date of Policy the insured has advanced or is obligated to advance.

7. Any claim, which arises out of the transaction creating the interest of the mortgagee insured by this policy, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that is based on:

(i) the transaction creating the interest of the insured mortgagee being deemed a fraudulent conveyance or fraudulent transfer; or

(ii) the subordination of the interest of the insured mortgagee as a result of the application of the doctrine of equitable subordination; or

(iii) the transaction creating the interest of the insured mortgagee being deemed a preferential transfer except where the preferential transfer results from the failure:

(a) to timely record the instrument of transfer; or

(b) of such recordation to impart notice to a purchaser for value or a judgement or lien creditor.

3. Defects, liens, encumbrances, adverse claims or other matters:

(a) created, suffered, assumed or agreed to by the insured claimant;

(b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;

(c) resulting in no loss or damage to the insured claimant;

(d) attaching or created subsequent to Date of Policy; or

(e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the estate or interest insured by this policy.

4. Any claim, which arises out of the transaction vesting in the insured the estate or interest insured by this policy, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that is based on:

(i) the transaction creating the estate or interest insured by this policy being deemed a fraudulent conveyance or fraudulent transfer; or

(ii) the transaction creating the estate or interest insured by this policy being deemed a preferential transfer except where the preferential transfer results from the failure:

(a) to timely record the instrument of transfer; or

(b) of such recordation to impart notice to a purchaser for value or a judgement or lien creditor.

in possession thereof.

3. Easements, liens or encumbrances, or claims thereof, which are not shown by the public records.

4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.

5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.

CLTA HOMEOWNER'S POLICY OF TITLE INSURANCE (6/2/98)
ALTA HOMEOWNER'S POLICY OF TITLE INSURANCE (10/17/98)
EXCLUSIONS

In addition to the Exceptions in Schedule B, You are not insured against loss, costs, attorneys' fees, and expenses resulting from:

1. Governmental police power, and the existence or violation of any law or government regulation. This includes ordinances, laws and regulations concerning:

- a. building
- b. zoning
- c. Land use
- d. improvements on Land
- e. Land division
- f. environmental protection

This Exclusion does not apply to violations or the enforcement of these matters if notice of the violation or enforcement appears in the Public Records at the Policy Date. This Exclusion does not limit the coverage described in Covered Risk 14, 15, 16, 17, or 24.

2. The failure of Your existing structures, or any part of them, to be constructed in accordance with applicable building codes. This Exclusion does not apply to violations of building codes if notice of the violation appears in the Public Records at the Policy Date.

3. The right to take the Land by condemning it, unless:

a. notice of exercising the right appears in the Public Records at the Policy Date; or
b. the taking happened before the Policy Date and is binding on You if You bought the Land without Knowing of the taking.

4. Risks:

a. that are created, allowed, or agreed to by You, whether or not they appear in the Public Records;

b. that are Known to You at the Policy Date, but not to Us, unless they appear in the Public Records at the Policy Date;

c. that result in no loss to You; or

d. that first occur after the Policy Date - this does not limit the coverage described in Covered Risk 7, 8, d, 22, 23, 24 or 25.

5. Failure to pay value for Your Title.

6. Lack of a right:

a. to any Land outside the area specifically described and referred to in paragraph 3 of Schedule A; and

b. in streets, alleys, or waterways that touch the Land.

This Exclusion does not limit the coverage described in Covered Risk 11 or 18.

Stewart Title Guaranty Company, Stewart Title Insurance Company, Stewart Title Insurance Company of Oregon, National Land Title Insurance Company, Arkansas Title Insurance Company, Charter Land Title Insurance Company
Privacy Policy Notice

PURPOSE OF THIS NOTICE

Title V of the Gramm-Leach-Bliley Act (GLBA) generally prohibits any financial institution, directly or through its affiliates, from sharing nonpublic personal information about you with a nonaffiliated third party unless the institution provides you with a notice of its privacy policies and practices, such as the type of information that it collects about you and the categories of persons or entities to whom it may be disclosed. In compliance with the GLBA, we are providing you with this document, which notifies you of the privacy policies and practices of **Stewart Title Guaranty Company, Stewart Title Insurance Company, Stewart Title Insurance Company of Oregon, National Land Title Insurance Company, Arkansas Title Insurance Company, Charter Land Title Insurance Company**.

We may collect nonpublic personal information about you from the following sources:

- Information we receive from you, such as on applications or other forms.
- Information about your transactions we secure from our files, or from our affiliates or others.
- Information we receive from a consumer reporting agency.
- Information that we receive from others involved in your transaction, such as the real estate agent or lender.

Unless it is specifically stated otherwise in an amended Privacy Policy Notice, no additional nonpublic personal information will be collected about you.

We may disclose any of the above information that we collect about our customers or former customers to our affiliates or to nonaffiliated third parties as permitted by law.

We also may disclose this information about our customers or former customers to the following types of nonaffiliated companies that perform marketing services on our behalf or with whom we have joint marketing agreements:

- Financial service providers such as companies engaged in banking, consumer finance, securities and insurance.
- Non-financial companies such as envelope stuffers and other fulfillment service providers.

WE DO NOT DISCLOSE ANY NONPUBLIC PERSONAL INFORMATION ABOUT YOU WITH ANYONE FOR ANY PURPOSE THAT IS NOT SPECIFICALLY PERMITTED BY LAW.

We restrict access to nonpublic personal information about you to those employees who need to know that information in order to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal regulations to guard your nonpublic personal information.

Fidelity National Financial Group of Companies' Privacy Statement

July 1, 2001

We recognize and respect the privacy expectations of today's consumers and the requirements of applicable federal and state privacy laws. We believe that making you aware of how we use your non-public personal information ("Personal Information"), and to whom it is disclosed, will form the basis for a relationship of trust between us and the public that we serve. This Privacy Statement provides that explanation. We reserve the right to change this Privacy Statement from time to time consistent with applicable privacy laws.

In the course of our business, we may collect Personal Information about you from the following sources:

- From applications or other forms we receive from you or your authorized representative;
- From your transactions with, or from the services being performed by, us, our affiliates, or others;
- From our internet web sites;
- From the public records maintained by governmental entities that we either obtain directly from those entities, or from our affiliates or others; and
- From consumer or other reporting agencies.

Our Policies Regarding the Protection of the Confidentiality and Security of Your Personal Information

We maintain physical, electronic and procedural safeguards to protect your Personal Information from unauthorized access or intrusion. We limit access to the Personal Information only to those employees who need such access in connection with providing products or services to you or for other legitimate business purposes.

Our Policies and Practices Regarding the Sharing of Your Personal Information

We may share your Personal Information with our affiliates, such as insurance companies, agents, and other real estate settlement service providers. We also may disclose your Personal Information:

- to agents, brokers or representatives to provide you with services you have requested;
- to third-party contractors or service providers who provide services or perform marketing or other functions on our behalf; and
- to others with whom we enter into joint marketing agreements for products or services that we believe you may find of interest.

In addition, we will disclose your Personal Information when you direct or give us permission, when we are required by law to do so, or when we suspect fraudulent or criminal activities. We also may disclose your Personal Information when otherwise permitted by applicable privacy laws such as, for example, when disclosure is needed to enforce our rights arising out of any agreement, transaction or relationship with you.

One of the important responsibilities of some of our affiliated companies is to record documents in the public domain. Such documents may contain your Personal Information.

Right to Access Your Personal Information and Ability To Correct Errors Or Request Changes Or Deletion

Certain states afford you the right to access your Personal Information and, under certain circumstances, to find out to whom your Personal Information has been disclosed. Also, certain states afford you the right to request correction, amendment or deletion of your Personal Information. We reserve the right, where permitted by law, to charge a reasonable fee to cover the costs incurred in responding to such requests.

All requests must be made in writing to the following address: Privacy Compliance Officer
Fidelity National Financial, Inc.
4050 Calle Real, Suite 220
Santa Barbara, CA 93110

Multiple Products or Services

If we provide you with more than one financial product or service, you may receive more than one privacy notice from us. We apologize for any inconvenience this may cause you.

McCloud Railway Company Abandonment Land Appraisal

Owned in fee (reversionary and non fee excluded) lands in abandonment proceedings

Siskiyou County

Map	Parcel	Acreage	Assessed Value	FMV
47014	1	9.83	\$12,625.00	\$15,150.00
47015	1	6.26	\$8,045.00	\$9,654.00
47016	1	6.50	\$3,250.00	\$3,900.00
47016	2	7.44	\$3,720.00	\$4,464.00
47017	1	24.68	\$12,340.00	\$14,808.00
47017	3	1.99	\$995.00	\$1,194.00
47017	5	56.26	\$3,130.00	\$3,756.00
47018	1	25.24	\$12,620.00	\$15,144.00
47019	1	37.02	\$18,510.00	\$22,212.00
47020	1	60.12	\$30,060.00	\$36,072.00
47021	1	59.84	\$29,070.00	\$34,884.00
47022	1	51.13	\$15,339.00	\$18,406.80
47023	1	6.47	\$1,941.00	\$2,329.20
47023	3	5.17	\$1,551.00	\$1,861.20
47023	5	27.17	\$8,151.00	\$9,781.20
47023	6	4.63	\$1,389.00	\$1,666.80
47023	7	7.04	\$2,112.00	\$2,534.40
47024	1	80.08	\$24,024.00	\$28,828.80
47025	1	57.58	\$17,274.00	\$20,728.80
47026	1	5.75	\$1,725.00	\$2,070.00
47026	4	4.93	\$1,479.00	\$1,774.80
47026	5	1.49	\$447.00	\$536.40
47026	6	0.61	\$183.00	\$219.60
47027	1,3	16.69	\$8,345.00	\$10,014.00
47029	2	3.14	\$1,256.00	\$1,507.20
47029	4	30.34	\$12,136.00	\$14,563.20
47030	1	12.48	\$4,992.00	\$5,990.40
47030	2	15.35	\$6,140.00	\$7,368.00
Totals		625.23	\$242,849.00	\$291,418.80

Shasta County

All Properties Reversionary or Use Only

VERIFIED STATEMENT OF MIKE WILLIAMS

My name is Mike Williams. I am President and owner of Railroad Materials Salvage, Inc. (RMS). By business address is 2013 Woodoak Road, #8, P.O. Box 612, Richmond, MO.

I established RMS in 1980. Over the past 26 years, I have dismantled numerous lines of railroad, and have marketed extensive track materials from those rail lines. RMS is one of the nation's foremost purchasers and sellers of rail, crossties and other track materials.

RMS is one of four companies who removes rail for BNSF Railway Company by means of mechanized rail and tie gangs. RMS has also worked with Rails to Trails Conservancy on over 1,000 miles of recreational trails. RMS is involved in dismantling abandoned rail lines throughout the United States.

During a four-day period last fall, I made a hi-rail trip over the entire 80-mile rail line that is the subject of this proceeding. During that trip, I determined the quantity of track materials in the line. I also made judgments regarding the quality of those materials based on my personal observation.

Subsequent to that trip, I provided Mr. Jeff Forbis, President of McCloud Railway Company (MCR) with a preliminary estimate of the net value of track materials in the rail line. I understand that my estimate was furnished to parties who expressed an intent to file an offer of financial assistance for purchase of the rail line. However, I have modified that preliminary estimate based on further study and documentation of unit values for track materials.

Appendix MW-1 attached to this Statement contains my final estimate of the net value of track materials in the rail line in the amount of \$3,223,464. That Appendix also identifies the

classification and valuation of the components of track materials in the line. I explain and document those valuations in the following paragraphs.

1. 90-Pound Relay Rail

Attached to my Statement as Appendix MW-2 is a copy of a letter to me dated July 27, 2006 from Mr. Gary L. Kerley of CMC Rail, Magnolia, AR. In that letter, CMC offers to purchase 1,500 net tons of 90-pound rail with 3/16" maximum top wear for \$446 per net tone, FOB shipping point. There is in excess of 1,500 net tons of 90-pound rail in the line that meets that specification. That offer supports my valuation of 90-pound relay rail.

2. 90-Pound Reroll Rail

Attached to my statement as Appendix MW-3 is a message to me dated July 24, 2006 from Mr. Michael Tosh, General Manager of CMC Rail, offering to purchase 90-pound reroll rail at \$335 per gross ton delivered to Magnolia, AR. The freight charge for transportation of rail from McCloud, CA to Magnolia, AR would be \$60 per gross ton. The net unit value for 90-pound reroll rail would thus be \$275 per gross ton. That supports my valuation of 90-pound reroll rail.

3. 85-Pound Relay Rail

Reference is made to Appendix MW-2, which contains CMC Rail's offer to purchase 500 net tons of 85-pound relay rail with 3/16" maximum top wear for \$395 per net ton, FOB shipping point. There is in excess of 500 net tons of 85-pound rail in the line that meets those specifications. That offer supports my valuation of 85-pound relay rail.

4. 85-Pound Reroll Rail

Reference is made to Appendix MW-3, which contains CMC Rail's offer to purchase 85-pound reroll rail at \$305 per gross ton, delivered to Magnolia, AR. As noted above, the freight charge for that transportation would be \$60 per gross ton. The net unit value for 85-pound relay rail would thus be \$245 per gross ton. That supports my valuation of 85-pound reroll rail.

5. 75 to 80-Pound Reroll Rail

Appendix MW-3 also supports my valuation of 75 to 80-pound reroll rail, which is included in the CMC Rail offer at the same delivered price as 85-pound reroll rail.

6. 75 to 80-Pound and Less Than 75-Pound Scrap Rail

Attached to my statement as Appendix MW-4 is a copy of a Purchase Order dated June 6, 2006 by which Azcon Corporation of Alton, IL purchased 300 gross tons of scrap rail for \$270 per gross ton, to be delivered at Alton. The freight charge for transportation of rail from McCloud, CA to Alton, IL is \$76 per gross ton. Thus, the net unit value of scrap rail is \$194 per gross ton. That supports my valuation of 75-pound to 80-pound and less than 75-pound scrap rail.

7. Relay Joint Bars and Tie Plates

Reference is made to Appendix MW-2 wherein CMC Rail offers to purchase (1) 3,100 pair of 90-pound joint bars at \$10 per pair; (2) 56,000 90-pound tie plates at \$1.75 each; and (3) 1,280 pair of 85-pound joint bars at \$10 each, all FOB origin shipping point. That offer provides support for my valuation of relay joint bars and tie plates.

8. Scrap OTM

Reference is made to Appendix MW-2 wherein CMC Rail offers to purchase all scrap OTM in the rail line for \$206 per net ton, FOB origin shipping point. That offer supports my valuation of scrap OTM.

9. Crossties

Attached to my Statement as Appendix MW-5 is a copy of an e-mail message to me dated July 26, 2006, from Mr. Bruce McGrew, President of United Railroad Materials Company, Inc., Colorado Springs, CO, offering to pay \$15 each for relay grade crossties; \$9 each for #1 softwood crossties; \$7 each for #2 softwood crossties; and \$5 each for #3 softwood crossties, all FOB origin jobsite. That provides support for my valuation of relay and landscape crossties.

Attached to my Statement as Appendix MW-6 is a copy of a letter to Mr. Jeff Forbis of MCR, dated July 21, 2006, from Mr. Stephen M. Jolley of Wheelabrator Shasta Energy Company, Inc., Anderson, CA, offering to pay MCR \$17 per ton for scrap ties, delivered to Anderson. There are approximately 15 scrap crossties to a ton. Thus, Wheelabrator's payment for scrap crossties would amount to \$1.14 each. That would fully offset the cost to transport the ties by truck from the rail line to Anderson. That supports my treatment of scrap crossties as a wash.

10. Cost of Removal, Overhead, and Profit

I adopted as my own the cost of removal used in the valuation made by A&K Railroad Materials, Inc. (A&K).

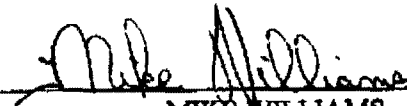
I would charge no more than five percent for overhead and profit, applied solely to the gross value of track materials. The overhead and profit in A&K's valuation, totaling 25 percent, is excessive, and it is inappropriately based on land value, as well as track materials value.

STB Docket No. AB-914X

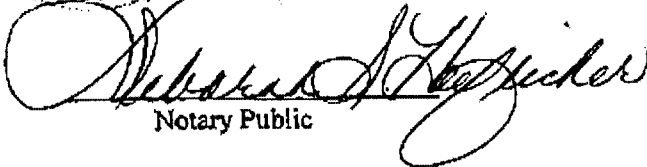
VERIFICATION

STATE OF MISSOURI)
) SS:
COUNTY OF RAY)

MIKE WILLIAMS, being duly sworn on oath, deposes and states that he has read the foregoing statement, that he knows the contents thereof, and that the facts therein stated are true and correct.


MIKE WILLIAMS

SUBSCRIBED AND SWORN to
before me this 26th day
of July, 2006.


Notary Public

My Commission Expires: 3-25-08

DEBORAH S. HOEFLICKER
Notary Public - Notary Seal
STATE OF MISSOURI
Ray County
My Commission Expires: March 25, 2008

APPENDIX MW-1**NET VALUE OF TRACK MATERIALS**

TRACK COMPONENT	QUALITY	QUANTITY	UNIT VALUE	TOTAL VALUE
RAIL				
90-pound	Relay	1,500 NT	\$446 NT	\$669,000
90-pound	Reroll	4,501.6 GT	\$275 GT	1,237,940
85-pound	Relay	500 NT	\$395 NT	197,500
85-pound	Reroll	2,636.76 GT	\$245 GT	646,006
75-80-pound	Reroll	863 GT	\$245 GT	211,435
75-80-pound	Scrap	115.88 GT	\$194 GT	22,481
Less than 75 pound	Scrap	476.08 GT	\$194 GT	92,360
SUB TOTAL RAIL				\$3,076,722
OTM				
90-pound bars	Relay	3,100 PR	\$10 PR	\$31,000
90-pound plates	Relay	56,000 EA	\$1.75 EA	98,000
85-pound bars	Relay	1,280 PR	\$10 PR	12,800
All Other	Scrap	2239.08 GT	\$206 GT	461,250
SUB TOTAL OTM				\$603,050
TIES				
Reusable	Relay	11,961 EA	\$15 EA	\$179,415
Landscape	#1	32,846 EA	\$9 EA	295,614
Landscape	#2	38,644 EA	\$7 EA	270,508
Landscape	#3	34,208 EA	\$5 EA	171,040
Not Usable	Scrap	122,341 EA	0	0
SUBTOTAL TIES				\$916,577

GROSS VALUE OF RAIL, OTM, AND TIES	\$4,596,349
MINUS:	
COST OF REMOVAL	1,143,068
OVERHEAD AND PROFIT	229,817
NET VALUE OF TRACK MATERIALS	\$3,223,464

NOTE: Transportation cost, where applicable, has been considered
in the unit values herein.



7/27/06

Mr. Mike Williams
Railroad Materials Salvage, Inc.
P. O. Box 612
Richmond Missouri 64085

Mr. Williams:

This will confirm our firm offer to purchase the following relay material located in California on the McCloud Rwy:

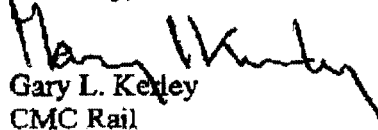
Approx: 1500nt	90# Rail, 3/16" max. top wear @ \$446.00nt
3100pr.	90# Bars @ \$10.00pr
56,000ea.	90# SS Plates @ \$1.75ea
500nt	85# Rail, 3/16" max. top wear @ \$395.00nt
1280pr	85# Bars @ \$10.00pr

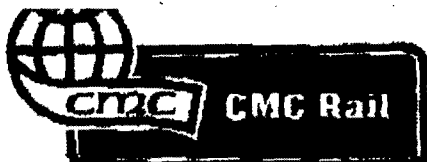
All prices are FOB shipping point loaded cars or trucks. We are also interested in purchasing any additional 85# bars that may be available from this project.

We will also purchase all scrap OTM for \$206nt shipping point, loaded cars.

We look forward to your favorable reply.

Cordially,


Gary L. Kexley
CMC Rail



P.O. Box 1147
Magnolia, Arkansas 71754
870/235-9222 FAX 870/235-9229

TO: Mike Williams DATE: July 24, 2006
COMPANY: Railroad Materials Salvage Co. FAX: 816-470-7069
FROM: Michael Tosh TIME:
RE: McCloud Railroad - Reroll Rail
PAGE: 1 of 1

As we discussed during our recent telephone conversation regarding the above material, CMC Rail offers the following for inspected reroll quality rail:

- | | |
|--------------------------------|---------------------------------|
| 1) Reroll rail 90# and heavier | \$335/GT delivered Magnolia, AR |
| 2) Reroll rail 75-85# | \$305/GT delivered Magnolia, AR |

These prices are pending CMC Rail inspection of the material. CMC Rail specifications and grading will govern the transaction. These prices are valid through the end of calendar 2006.

Please advise when we can move forward. If you should have any questions, then please do not hesitate to contact me at your convenience.

Regards,

Michael Tosh
General Manager

AZCON CORPORATION
A Division of Blue Tee Corp.CHESSEN LANE & EAST BROADWAY
P.O. BOX 616
ALTON, ILLINOIS 62002
618/463-3770 • FAX: 618/463-4143OFFICES AND PLANTS
CHICAGO, IL • ALTON, IL • DULUTH, MN
NEW YORK, NY • SHARPSBURG, PA18364
A

APPENDIX MW-4

AZCON CORPORATION AGREES TO BUY6702635001
RAILROAD MATERIAL SALVAGE
2103 WOODOAK ROAD #B
P.O. BOX 812
RICHMOND

MO 84085

DATE: 06/06/2008

AGREES TO SELL

ITEM	DESCRIPTION
QUANTITY	THREE HUNDRED (300) GROSS TONS
MATERIAL	SCRAP RAIL
PRICE	270.00 1GT
FOB	DELIVERED Vendor Order #: N/A
TERMS	NET 30 DAYS
TIME OF DELIVERY	JUNE 2006
SHIPPING INSTRUCTIONS	AZCON CORPORATION ALTON, IL ROUTING: VIA YOUR TRUCKS
REMARKS	

This order is subject to terms and conditions set forth below and on reverse side. Unless otherwise instructed, load in clean GONDOLA CARS and way billed as scrap iron and steel remelting/recycling purposes only.

All cars shipped on this order must be loaded to railroad minimum and routed to insure lowest freight rate on commodity to destination shown. Any expense incurred because cars are loaded in excess of carriers' loading rules are for the account of the seller.

In the event that the seller for his or their convenience consign shipments contrary to the purchaser's shipping instructions, it is understood that the seller agrees to assume reconsigning, demurrage or other railroad penalty charges which may result from failure to comply with the purchaser's instructions.

AZCON CORPORATION

By _____

Subject: McCloud Railway purchase Agreement
From: "Bruce McGrew" <bruce@unitedrailroad.net>
Date: Wed, 26 Jul 2006 16:06:56 -0600
To: <rnsi@mchsi.com>

APPENDIX MW-5

Mike,

Per our recent telephone conversation, if Railroad Materials Salvage, Inc. is successful in acquiring the railroad ties from the proposed McCloud Railway abandonment, United Railroad Materials Company will enter into an Agreement with your company to purchase all the salvageable ties according the following unit prices:

Relay grade	\$15.00/tie
#1 softwood	9.00/tie
#2	7.00/tie
#3	5.00/tie

These prices are based on generally accepted industry grading standards. Prices are FOB jobsite. Payment terms to be determined.

Please call if you have any questions. We look forward to hearing from you.

Sincerely

Bruce McGrew
President
United Railroad Materials Company, Inc
665 Southpointe Court, Suite 100
Colorado Springs, CO 80906
719-578-7400



Wheelabrator Shasta Energy Company Inc.

A Waste Management Company

20811 Industry Road
PO Box 7000
Anderson, CA 96007-7000
(530) 365-9177
(530) 365-2035 Fax

APPENDIX MW-6

July 21, 2006

Jeff Forbis
McCloud River Railroad
PO Box 1500
McCloud, CA 96057

RE: Purchase of scrap ties for use as boiler fuel

Dear Jeff:

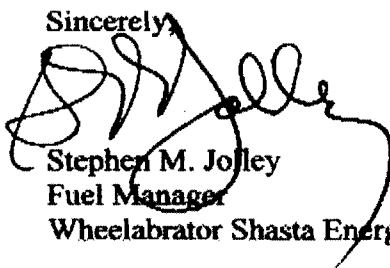
Per our conversation of July 20, 2006, Wheelabrator is very interested in buying the scrap ties from McCloud River Railroad at any point in the future as they may come available. I understand that you anticipate a quantity that might add up to approximately 4,000 tons. Wheelabrator Shasta Energy Co., with this letter, is offering \$17/ton for your ties provided that:

- You will certify them to be treated with nothing other than creosote
- 100% free of plates and substantially free of all other tramp metal

Should the number of available ties exceed 4,000 tons, we will be willing to consider volume in excess of the volumes stated in this offer.

We look forward to hearing from you soon and hope this offer will result in a mutually beneficial arrangement.

Sincerely,



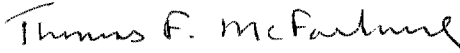
Stephen M. Jolley
Fuel Manager
Wheelabrator Shasta Energy Co.



Waste Management, Inc.

CERTIFICATE OF SERVICE

I hereby certify that on July 28, 2006, I served a copy of the foregoing document, Reply To Request To Set Terms And Conditions For Financial Assistance, by UPS overnight mail, on Fritz R. Kahn, Esq., Fritz R. Kahn, P.C., 1920 N Street, N.W., Eighth Floor, Washington, D.C. 20036-1601.



Thomas F. McFarland