

August 31, 2010

Fresno County
Public Works and Planning
2220 Tulare St, 6th Floor
Fresno, CA 93721
Via Email: @co.fresno.ca.us



Proposal for Business Plan on Fresno portion of the SJVR

Dear Fresno County:

Railroad Industries Incorporated (RII) is pleased to submit this proposal to Fresno County to develop the feasibility of acquiring and operating the portion of the San Joaquin Valley Railroad (SJVR) line in Fresno County in conjunction with the study being conducted for the same line within Tulare County. Both portions connect at the county line at Ivory, CA and both constitute a complete line running from Strathmore to Fresno.

Scope of Work

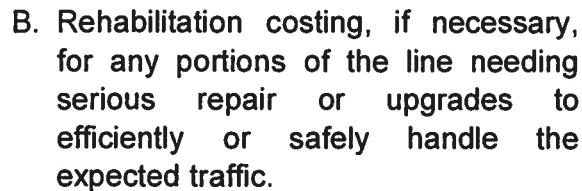
Based on the expedited nature of this project, RII recommends the following tasks to be completed as soon as possible.

1. RII will perform a physical inspection of the 26 miles of rail line from the Tulare County line to Fresno within Fresno County. This inspection will determine condition of the asset, rail components for determination of the value of the line, and any problems areas for the County will be identified. The inspection will be conducted through a physical spot inspection at random intervals since a hi-rail vehicle will not be available for this inspection. Based on the condition and traffic levels for this line, RII will also determine an annual track maintenance budget for the line. If any rehabilitation is necessary, RII will calculate these costs; however, our understanding is that this portion of the line is all 112 lb. rail, so rehabilitation is likely not necessary. Inspection results will be presented in the final report with photos, description of the line and any problem areas. An inventory of the track components and condition will be presented in the Net Liquidation Valuation section.

2. RII understands that there are 8 existing customers on this portion of the line. These customers will be interviewed to verify the amount of traffic on the line, projections for future traffic or expansions, determine what service is needed to maximize traffic and look at other traffic opportunities. RII will focus on existing customers and can perform these interviews during the same field trip as the inspection in order to save costs. Traffic results will be utilized in the feasibility economics for operations, and customer service history may be used in future negotiations or STB filings. RII will also utilize these customer interviews to seek customer support for the potential feeder line application.
3. Based on the inspection, a Net Liquidation Value (NLV) will be developed for the line to account for the condition of track components and the inventory of such assets. This NLV is the basis for an acquisition price for the line. In addition, an annual maintenance budget for operations of the line based on existing condition will be developed. This number will be used in the operational economics, as well as any future negotiations and feeder line process.
4. Based on the maintenance of way required, service needed and traffic developed through the interviews, RII will develop the necessary operating plan for this segment and run the economic feasibility for the operations. RII uses a proprietary short line model that captures all costs of operating a short line railroad, including labor, transportation and fuel, locomotives and equipment maintenance, maintenance of way, and general/administrative costs. This analysis will include full pro forma financial statements for the prospective operation for the next 10 years. This portion of the feasibility study/business plan will assist with seeking funding options for acquisition and start up of the line. See Optional Task E for additional scenarios.
5. RII will develop all findings into an illustrated comprehensive report including all research, interview and inspection results, valuations and economics, analysis, recommendations and next steps.
6. RII will develop the formal report into a presentation to be given to the Fresno County rail committee or other governing body as directed. This task will allow for 2 presentation trips in order to allow all committee members to participate.

1575 Delucchi Lane, Suite #210, Reno, NV 89502 Phone: 775-329-4855 Fax: 775-329-4844 www.railroadindustries.com

A. RII can meet with the Fresno County rail committee or other organization as part of the inspection/interview trip. This would serve as a kick-off meeting and is always helpful in developing common goals, identifying and addressing concerns, introducing parties and establishing action plans for all parties during the project.



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Fees and Schedule

RII has estimated the following hours and cost for Tasks 1-6 in this proposal:

Task	Description	Time	Cost
1	Inspection of Line	12-15 hours*	\$2,400 - \$3,000
2	Customer Interviews	12-16 hours	\$2,400 - \$3,200
3	NLV/MoW Budget	12-20 hours	\$2,400 - \$4,000
4	Operating Plan/Economics	12-16 hours	\$2,400 - \$3,200
5	Final Report	20-30 hours	\$4,000 - \$6,000
6	Presentations	30-42 hours*	\$6,000 - \$8,400
Total estimated fees are:		98-139 Hours	\$19,600 - \$27,800

Total estimated expenses would be: \$2,000 – \$2,200

Total project estimate would be: \$19,800 - \$30,000

If Optional Tasks are selected, please let us know and they can be included in a formal proposal. Rates are based on a single weighted rate of \$200/hour and most work will be performed by Project Manager, Gary V. Hunter. If individual rates are required, we can provide an estimated breakdown by task and person.

The total estimated fees for this proposal are \$19,800-\$30,000. Any directly related expenses will be billed in addition at actual cost. A deposit in the amount of \$5,000 would be required to begin work to be credited to the first invoice, or a PO/contract can be executed authorizing the funds. RII will submit an itemized invoice at the end of any month in which services are provided, to be paid by Fresno County on Net 30 terms.**

The final report for this project can be completed within 60 days of acceptance by Fresno County and notice to proceed. The presentations are planned tentatively for the first half of November 2010.

**Includes Travel Time*

***Invoices more than 60 days past due accrue interest charges of 2% of the past due balance. RII reserves the right to collect any invoiced amounts, interest, or costs associated with collection, including legal and attorney fees, for past due accounts, with jurisdiction and venue in the State of Nevada.*

If you find the terms of this proposal to be acceptable, please sign and fax to 775-329-4844 as your notice to proceed; please send the signed original to:

Railroad Industries Incorporated
1575 Delucchi Lane, Ste 210
Reno, NV 89502

If you have your own standard contract you would like to use in lieu of this document, please let us know. If you have any questions, please feel free to contact me.

Sincerely,

Gary V. Hunter
Chairman and CEO
Railroad Industries Incorporated

Signature

Title

Date

Company

Billing Address
