



March 1, 2010

Rocky Marcoux
Commissioner
Department of City Development
City of Milwaukee
809 North Broadway
Milwaukee, WI 53202-3617
USA

Letter of Intent for Lease of Improved Manufacturing Facilities

WHEREAS, Talgo, Inc ("Talgo") designs, manufactures and maintains high-speed passenger rail cars and trainsets;

WHEREAS, the State of Wisconsin through its Department of Transportation ("WisDOT") executed on July 15, 2009 a Purchase Agreement with Talgo for the acquisition of two high speed trainsets (the "Trainsets");

WHEREAS, Talgo is working with other states and entities to sell additional trainsets;

WHEREAS, Talgo needs a facility with rail access suitable to the assembly of Talgo trainsets within the deadline set forth in the Purchase Agreement with WisDOT;

WHEREAS, Talgo has conducted an extensive technical and economic analysis to identify the most adequate location and facility for the assembly of Talgo trainsets in Wisconsin;

WHEREAS, the Redevelopment Authority of the City of Milwaukee ("RACM") has available a building that can be suitable for Talgo's manufacturing activities after certain improvements are performed and further wishes to lease this building to Talgo;

WHEREAS, RACM, the City of Milwaukee, and Talgo want Talgo to locate to RACM's property;

WHEREAS, RACM represents that it will present and promote, using its best efforts, the terms of this Letter of Intent and any resulting lease agreement as soon as possible before the RACM Board and City of Milwaukee Common Council;

THEREFORE, Talgo and RACM hereby enter this Letter of Intent, agreeing to enter into a lease agreement including the following terms:

Property

Building 36 at 3533 N. 27th St., Milwaukee, 53216.

Leased Premises

- Approximately 131,610 sqft in Building 36, plus about 2,000 sqft in area 10 on **Exhibit 1** (the "Leased Premises") (actual sqft to be determined by measurement)
- Talgo shall also have the right to expand to any additional area of Building 36 at the same rent per sqft as the Leased Premises. In the event of such expansion, RACM shall at its expense upgrade the additional leased space with improvements similar to those required for the initial Leased Premises.
- Talgo shall also have a right of first refusal, during the term of the lease, for any other space in Building 36.
- Talgo shall have space for exterior vehicular parking at 3424 N. 27th Street for at least 40 vehicles, with the right to expand the parking to up to 80 vehicles either at 3424 N. 27th or part of 3533 N. 27th (or some combination thereof, or as otherwise agreed by RACM and Talgo, all at no additional cost to Talgo).
- A floor plan included in **Exhibit 1** indicates the initial Leased Premises.
- During the initial lease term, additional area within Building 36 (the "Flex Space") (primarily for storage and warehousing, not for work stations or maintenance services), will be made available to Talgo at no additional rent to Talgo. Any improvements to the Flex Space (and who makes them at whose cost) shall be agreed upon by RACM and Talgo. Talgo shall also have the right to store rail cars and trainsets outside on a portion of 3533 N. 27th as agreed by Talgo and RACM, where RACM shall not unreasonably withhold its agreement.
- Area within either the Leased Premises or other Building 36 space into which the Leased Premises may be expanded may be used for Talgo's provision of maintenance services of finished trains for its maintenance customers (including WisDOT). In that event, Talgo shall be allowed to improve such area for such use, including adding rail access to this area.
- Provision shall be made in the lease for ingress/egress to the facility via serviceable rail access, including a representation that RACM shall ensure that such access remains available during the lease term.

Rent

- \$2.59/year per sqft, payable monthly, where this rent per square foot includes a component for a payment in lieu of property taxes at \$0.26/year per sqft. During the lease, Talgo also to pay all costs of utilities needed or attributable to Talgo (including, but not limited to, heat, electricity, water and garbage collection) and for actual insurance expenses attributable to the prorated area of the Leased Premises and other Building 36 space used by Talgo (whether Flex Space or space for maintenance services) to the total insured property (see below).
- The rent of \$2.59/year per sqft will remain unchanged for the initial lease term and, after that, the rent will be adjusted each for any additional term year to the then-fair market rate for the building as determined by agreement among the parties. The parties may elect to have the fair market rate determined by an appraiser by any increase in CPI during the prior year (but in no event will the rent be decreased by such adjustment).
- For any part of the lease term that is less than one year, the annual rent will be prorated.

Term / Options to Extend

The initial lease term shall be for ~~24 years (which initial term shall be reduced to 2 years in the event Talgo has not, on or before September 30, 2011, executed binding Purchase Agreements with customers (other than WisDOT) for at least 18 trainsets to be assembled in Milwaukee).~~ This initial lease term shall commence on the date RACM substantially completes the improvements listed on **Exhibit 2** (the "RACM Improvements") (which substantial completion must be reasonably acceptable to Talgo and must be accomplished no later than July 1, 2010, except it is August 1, 2010 for exterior track improvements) in

accordance with (a) **Exhibit 2**, (b) the schedule in **Exhibit 3**, and (c) plans and specifications that have been approved by Talgo (Talgo's approval not to be unreasonably withheld, conditioned or delayed, Talgo understanding that RACM will be under a deadline to complete RACM Improvements) ("Talgo-Approved Plans"). Talgo shall notify RACM of the lease commencement date (but in no event shall this date be earlier than July 1, 2010 and no later than September 1, 2010, provided that RACM has completed the RACM Improvements to Talgo's reasonable satisfaction). Notwithstanding the foregoing, prior to the commencement date, Talgo shall be entitled to enter the Leased Premises to ready same for Talgo's use and occupancy, so long as Talgo does not interfere with, delay, or hinder the RACM Improvements or RACM work associated with the RACM Improvements, in which case, Talgo shall pay its own utilities and prorated insurance.

Talgo shall have 32 options of 25 years each to extend the initial lease term, where the rent for each such term year in any such extension shall be the rent as adjusted above. If the parties cannot agree upon the fair market rate for any such lease extension, then Talgo shall have the right to extend the lease on a month to month basis at the last lease rate as adjusted by CPI.

Improvements

The Leased Premises are not presently adequate for the manufacture or assembly of trains. RACM shall, at no cost to Talgo, make the RACM Improvements to Building 36 listed on and in accordance with Talgo's specifications set forth in **Exhibit 2** and the Talgo-Approved Plans. RACM shall complete the RACM Improvements in accordance with the Talgo-Approved Plans and the timing schedule included in **Exhibit 3** (subject to delays beyond RACM's control such as typical force majeure, acts of God, weather delay, strike, war, terrorist attack, etc).

RACM has available to it adequate funds to make and complete the RACM Improvements.

Lessor Information

Redevelopment Authority of the City of Milwaukee
809 N. Broadway, Milwaukee, WI 53202
Contact Persons: Rocky Marcoux / David Misky
Telephone Numbers: 414-286-5800 / 414-286-8682
e-mail addresses: rocky.marcoux@milwaukee.gov / david.misky@milwaukee.gov

Lease Agreement

Not later than one month after the execution of this letter, RACM and Talgo will execute a lease agreement (requiring approval by the Talgo Board, the RACM Board, and the City Common Council) that will incorporate and expand the points of this letter.

Termination

Talgo may terminate the lease agreement if:

- The RACM Improvements are not made according to the Talgo-Approved Plans, the time schedule in **Exhibit 3** and the specifications in **Exhibit 2** despite RACM good faith efforts, and as a result, if Talgo will not be able to fully use and occupy the premises in a manner to operate as needed to meet Talgo's duties under its agreement with WisDOT.
- At any time after the expiration of the initial lease term, Talgo may, during any extension of the initial lease term, terminate the Lease by providing RACM with at least 4 months prior written notice.
- For any other material breach of the terms of this Letter of Intent or the lease agreement by RACM, after 30 days notice to RACM where RACM has failed to cure (or diligently pursue cure if cure is not

reasonably curable in 30 days) (with RACM having reciprocal termination rights in event of Talgo material breach).

Hazardous Materials and Environmental Liability; Environmental Data

RACM has provided Talgo with copies of environmental test results and data it has regarding 3533 N. 27th Street (including Building 36 thereat) and 3424 N. 27th Street and shall continue to promptly provide any such environmental information as may become known to RACM after the date of this Letter of Intent.

RACM will hold harmless, defend and indemnify Talgo for any claims, losses or damages regarding State, City or Federal enforcement of environmental laws or regulations concerning any pre-existing hazardous material, or pre-existing environmental contamination at or affecting any part of the leased premises. RACM is responsible for environmental remediation of pre-existing conditions as the State of Wisconsin Dept of Natural Resources ("DNR") or US EPA may require. Notwithstanding anything in this Letter of Intent to the contrary, because Talgo's due diligence with regard to these environmental issues is ongoing, Talgo may condition its execution of a lease agreement upon the inclusion of additional protective provisions, acceptable to Talgo and RACM, arising from environmental issues such as continuous access, duty to mitigate, duty to remedy, indemnification and damages.

Assurance of RACM Completion of RACM Improvements.

If RACM is, despite its good faith efforts, unable to substantially complete the RACM Improvements to Talgo's reasonable satisfaction and according to the schedule in **Exhibit 3**, then notwithstanding anything to the contrary contained herein, (i) RACM shall diligently complete the RACM Improvements as soon as possible (so long as Talgo will lease from RACM and has provided notice to that effect to RACM), and (ii) RACM shall pay to Talgo all of Talgo's damages arising from the failure to deliver the Leased Premises to Talgo on time, including incidental and consequential damages, which obligation could be satisfied with a performance bond in the amount of \$2 million.

Right to Inspect and Oversight of the Improvement Project

RACM will allow Talgo to inspect and have meaningful oversight of the progress of the RACM Improvements so that the RACM Improvements shall be performed (a) per specifications in **Exhibit 2**, (b) within the time periods in **Exhibit 3**, and (c) per the Talgo-Approved Plans. RACM shall regularly inform Talgo of the progress of the RACM Improvements, including any measures taken toward the timely execution of them. To that effect, a Project Committee will be formed comprised of up to 2 Talgo representatives, 1 WisDOT representative, 1 Wisconsin Dept. of Administration representative, up to 2 RACM representatives and 1 City representative, and will meet at least weekly whereby Talgo's participation may sometimes take place by teleconference.

State of Wisconsin's Interest

RACM recognizes the State of Wisconsin contract with Talgo. RACM, Talgo and the WisDOT are aware that the site will be where the first Trainsets will be manufactured for delivery to WisDOT.

Insurance

RACM will obtain insurance covering hazards and casualty to Building 36 and the premises and liability thereat and payment of the premium (on a prorated share based upon square footage of Building 36 occupied by Talgo) shall be paid by Talgo. RACM and Talgo shall be named insureds as their interests may appear.

Talgo will also obtain, at its expense, renter's insurance, covering its own property and liability at the Building 36 space used by Talgo (naming RACM as an additional insured on liability coverage). Talgo shall also have this insurance in place for any pre-commencement-date use or occupancy in Building 36.

Option to Purchase

Talgo shall have the option to purchase Building 36 and so much of 3533 N. 27th and 3424 N. 27th as Talgo uses for its operations under the Lease at any time during the term of the Lease, or any extensions thereto, at the then-fair market value, as determined by independent appraisal. Appraiser to be selected jointly by RACM and Talgo (with each party splitting the appraisal cost 50-50).

Maintenance and Repair

The Lease shall contain customary provision for repair and maintenance, generally allocated as follows. RACM to be responsible for all structural repairs to Building 36 (including its roof, structure, windows, doors, plumbing, electrical, HVAC, grounds surrounding Building 36 and the adjacent property, and sewer and stormwater structural elements), so long as the need for the repair is not attributable to Talgo's willful or negligent acts or omissions. Talgo shall be responsible for other maintenance and repair and maintenance and repair of its own improvements, equipment, fixtures and consumable interior items such as light bulbs.

Talgo and RACM, by the signature below of their authorized representatives, acknowledge that this Letter of Intent accurately reflects the commitment of the Parties.

TALGO, INC.

Antonio Pérez, its President and CEO

Date

REDEVELOPMENT AUTHORITY OF THE
CITY OF MILWAUKEE

Rocky Marcoux, its Exec. Dr./Sec.

Date

**EXHIBIT 1
FLOOR PLAN**

**EXHIBIT 2
FACILITY IMPROVEMENTS**

**EXHIBIT 3
IMPLEMENTATION SCHEDULE**