

GOODBYE IRS

Friends of Train Mountain is pleased to announce :

Today, May 8, 2013,

THE IRS LIENS ON TRAIN MOUNTAIN
ARE ALL COMPLETELY DISCHARGED.

Train Mountain now belongs to Railroad Institute (RRI).
(an Oregon Public Benefit Non-Profit)

WHO TO THANK

Many people helped, but mainly three people worked together to get the IRS Liens Discharged : Carl Vanderspek, Marg Hope, and John Black. It was a team effort and they deserve a big Thank You. They all monitor the Friends of Train Mountain Email Forum.

The Oregon State Attorney General also deserves a big THANK YOU for getting Friends of Train Mountain appointed as Custodian of TM with the right to negotiate with the IRS. Susan Bower - Susan.A.Bower@doj.state.or.us - led the effort for the AG.

THE DETAILS

On August 27, 2009 the IRS filed \$17.3 million in liens against Train Mountain to collect IRS debts of TM founder Quentin Breen and his businesses :

\$ 3,500,097 on Train Mountain Foundation properties
\$ 3,500,097 on Train Mountain Railroad Museum properties
\$10,326,552 on Train Mountain Inc properties

\$17,326,746 Total

Three years later.... August 1, 2012, the Klamath County Courts appointed Friends of Train Mountain as Custodian of Train Mountain with authority to negotiate with the IRS. On August 2nd, Friends gave the IRS 5" of paper... prepared in consultation with appraisers... documenting what we thought was the value of TM. After a 9 month negotiation, the IRS accepted a \$664,823 offer as payment in full to discharge those liens and transfer ownership of Train Mountain to Railroad Institute (RRI). In addition, there were some title insurance, recording, and closing costs that brought the total to \$670,956.

The funds were raised as follows :

\$ 5,000 Paid to RRI by Carl Vanderspek & Marg Hope.

\$ 31,000 Paid to RRI by Friends of Train Mountain for modifications to existing
Track Rights Agreement, Scenic Easement, and Lease.

\$170,956 Cash on hand in Train Mountain Custodial accounts

\$464,000 Proceeds from a Mortgage that can turn into a donation.

\$670,956 Total

For \$670,956 RRI gets title to everything at Train Mountain.... both real and personal property.... including the Steiger Butte cell tower leases which produce over \$60,000 a year in income.

The Court's Stipulated Orders gave Friends of Train Mountain as Custodian the authority to transfer the ownership of Train Mountain to Railroad Institute. Railroad institute is a 501c3 Public Benefit Non-Profit.... so essentially the public now owns Train Mountain. If RRI ever goes out of business, its assets are to be distributed to other non-profits.

What saved Train Mountain was that the Friends of Train Mountain Lease, Track Rights Agreement, and Scenic Easement gave Friends so many rights that the property had little value on the open market. Friends felt this "Moat" was worth strengthening and so Friends has paid RRI \$31,000 to acquire additional rights that deepen the moat to further protect Train Mountain and the hobby. These changes are discussed in detail later in this publication.

On April 20th, when the IRS issued the Provisional Certificates of Discharge, the Friends Custodial accounts held about \$197,000. \$25,202.46 was money raised by the 2012 Triennial which Friends felt should be used in a way that the TMRR board and membership approved. The Friends board decided that \$170,956 would be used to pay off the liens.

Friends had raised donations for Train Mountain sufficient to discharge the liens and to do some other stuff. Friends had the donations lined up until March 2 when Timberlake erected gates on the South Portal Tunnel in breach of 1) a Licensed Track Agreement with TM and 2) Easements that Timberlake had previously agreed to with Timberlake's neighbors. The gates blocked access between the Central Station loading/unloading area and 92% of the TM land... including a lot of track.

The Donors were all horrified by Timberlake's unilateral and illegal action. The legal agreements that Timberlake signed are not elastic. Friends and TM have spent over \$2,000,000 relying on Timberlake's agreements. The gates killed the Train Mountain Railroad (TMRR) business. On March 2 TMRR new memberships and Meet registrations ceased. People have many choices on how to spend their time and money. Many were scared away by the gates and chose not to schedule their vacations at Train Mountain.

Timberlake's gates also killed the committed Donations. All the Donors withdrew their commitments. By mid March, Friends did not have the money to discharge the liens. In some cases Donors used the funds they had pledged for other purposes.

No one close to TM operations believes that a viable Train Mountain business can be developed with the gates up and with Timberlake's restricted and unpredictable opening schedule.

By mid March, Friends was worried. Friends believed it had almost negotiated a workable settlement price with the IRS. Friends began looking for a way to fund discharging the liens. Carl Vanderspek and Marg Hope were willing to donate enough to discharge the liens if there was a 365 day a year, 24 hour a day commitment for TMRR and RRI to use the tracks across Timberlake. They believed track across Timberlake was essential to a successful Train Mountain.

In 2007 Timberlake had signed agreements that provided the 365 day a year, 24 hour a day commitment, but they were in breach of the agreements. It was going to take time to resolve those issues. The IRS liens were probably going to have to be discharged before the Timberlake issues could be settled or litigated.

After a lot of discussion, Carl & Marg agreed to loan the money to RRI to discharge the liens on the following terms :

- \$464,000 loan from Carl's son Doug Vanderspek. Doug has a US social security number so he can easily report the interest. The Vanderspeks are Canadian citizens.

- 0.2% Annual interest -- Set at the Applicable Federal Rate for May 2013. (that is less than one quarter of a percent annual interest... \$928)

- No principal payments required for 3 years.

- No pre payment penalty

- Loan becomes a donation to RRI if RRI gets a 365 day a year, 24 hour a day right for TM to use Licensed Track across Timberlake and the Timberlake gates are taken down.

- Loan payable in full April 30, 2016, if no agreement on Timberlake Licensed Track or the gates are still up.

- Secured by all TM property. The property Bill Dobbs has bought is not pledged as security.

- If the loan is not paid back by April 30, 2016 and there is no agreement on Timberlake Licensed Track or the gates are still up, then RRI will participate in selecting the property to be foreclosed on.... so the parcels least critical to TM can be selected. Friends agrees that on the selected parcels, Friends will release its Lease, Scenic Easement, and Track Rights Easement rights if requested by Doug or RRI.

So RRI has 3 years to raise \$464,000 or to reach a workable arrangement with Timberlake, but there will be an annual interest expense of \$928.

This is the only way RRI could raise the money on short notice. On April 19th... when the IRS issued the Provisional Certificates of Discharge which gave Friends

30 days to pay \$670k.... RRI had no other immediate source of funds to discharge the IRS liens. The loan was the only way to get rid of the IRS liens.

The loan is not a method to take Train Mountain private. In the loan document, it is agreed that if the Vanderspeks have to foreclose, they may only realize the principal, any back interest, and any collection costs. All the other assets remain the property of RRI. RRI is a Public Benefit Non-Profit so basically Train Mountain now belongs to the people of Oregon.

FRIENDS OF TRAIN MOUNTAIN BUYS MORE RIGHTS

Friends of Train Mountain has bought from RRI amendments to the Track Rights Easement, the Scenic Easement and the Lease.

Friends of Train Mountain leases 1689 acres of the 2205 acres that make up Train Mountain. The lease lasts 40 years from 2007. The IRS values property that is leased more than 35 years as having no value... so having the lease was helpful in discharging the liens. Friends of Train Mountain and RRI agreed that the lease should be modified as follows :

The area leased should be increased 180 acres (9.6%) so that wherever possible, all of each Deeded Lot is leased. If just a portion of a lot is leased, then issues arise. The total area leased is shown in a map later in this document.

The lease should be able to be extended by Friends beyond 40 years.

Recognize that Friends has invested so much in Train Mountain that it has satisfied its rent payments under the terms of the lease. Friends has invested more than \$2 million.

Friends owns a Scenic Easement that prevents development so that the track always goes through a park-like setting. The area covered by the Scenic Easement is modified so that the Scenic Easement boundaries are the same as the lease boundaries and is shown in a map later in this document.

Friends owns a Track Rights Easement to give Friends the right to give the hobby permanent access to TM.

"EASEMENT" shall mean:

A) A permanent access for ingress, transit, and egress upon the grantor's land to operate TRAINS on TRACKAGE across the grantors land and to walk along the track or an area 5' either side of the centerline of the TRACKAGE for a total of ten (10) feet of width for a single line track and fourteen (14) feet of width for double track and five (5) feet from the center line of the outside track in the case of more than two tracks, AND,

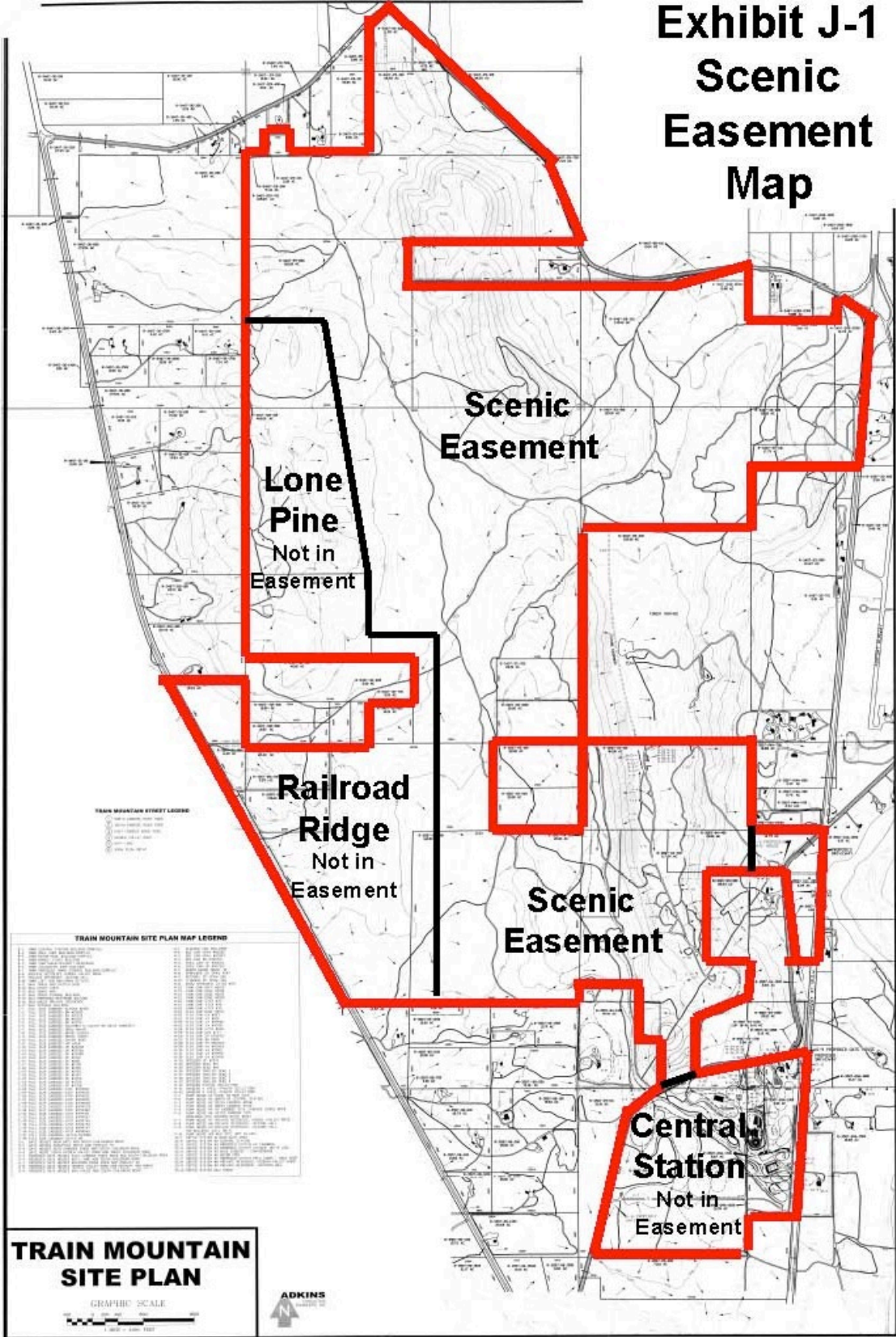
B) A permanent access for ingress, transit, and egress upon the grantor's land by any means for the purpose of:

- 1) Supporting use of the TRACKAGE, including providing emergency or medical assistance, photography, surveying present or future TRACKAGE,*
- 2) Inspecting, Surveying, or Maintaining the TRACKAGE, structures supporting or protecting the TRACKAGE, and other miniature railway improvements,*
- 3) Loading or unloading TRAINS*
- 4) Parking vehicles or equipment that support the TRAINS in locations determined by FTM to be convenient to the support of the TRAINS.*
- 5) Servicing the TRAINS. –provided that no road vehicles except a GATOR shall drive across any TRACKAGE except at a road crossing unless responding to a bona fide emergency.*
- 6) Installing, Servicing or Maintaining structures that contribute to the model railroad environment including, but not limited to model buildings, signal structures, and signal related structures.*
- 7) Maintaining, creating, or servicing existing and future railroad grades.*

The Track Rights Easement is Amended to add Items 3 to 7 to paragraph B.

The following map shows the area covered by the Scenic Easement. It is the same as the Leased area.

Exhibit J-1 Scenic Easement Map



RAILROAD INSTITUTE NAME CHANGE

Railroad Institute is in the process of changing its name to Train Mountain Institute (TMInst). The new website will soon be up at www.TMInst.org

TRAIN MOUNTAIN HOLDING COMPANIES

Railroad Institute has created 3 wholly owned holding companies to hold the title to the 28 Train Mountain Deeded Lots. The ownerships are checker boarded to prevent merger and to preserve land use privileges. The 3 holding companies are named Train Mountain Holdings A LLC, Train Mountain Holdings B LLC, and Train Mountain Holdings C LLC. The LLCs are treated as "disregarded entities" by the IRS so their income and expenses are reported on the RRI tax return.

THE BIG PICTURE

We all owe Quentin Breen a lot. He dreamed up Train Mountain and invested millions of dollars to assemble the 2200 acres and build out most of what we see today. But Quentin left some problems :

- 1) No strong management team.
- 2) The \$17.3 million IRS debt.
- 3) Timberlake
- 4) A weak TM business

With today's announcements we are half way through these issues. We have a strong management team governing TM and the IRS debt is discharged.

Now we need to work something out with Timberlake and develop the business. Thank you for supporting Tom Vertel at Timberlake and for your continuing support of Train Mountain.

WELCOME BILL & ROSE MARIE DOBBS

Prior to Friends of Train Mountain becoming Custodian of Train Mountain, Bill and Rose Marie Dobbs paid Train Mountain for about 18.9 acres on Highway 62 on the west side of Train Mountain. Sharon did the deal. The property is just north of the Prairie Gate and directly west of Lee & Toni Brooks property. RRI will transfer that property to the Dobbs as soon as possible. RRI also plans to execute a Connecting Track agreement with the Dobbs that allows them to build track from their property to TM track. There will be no charge for the Dobbs connecting to TM track.