

LICENSE TO INSTALL TEMPORARY PERCHLORATE TREATMENT SYSTEM AND DEMONSTRATION TREAT AND BLEND AGREEMENT

This License to Install Temporary Perchlorate Treatment System and Demonstration Treat and Blend Agreement ("Agreement") is made this 6th day of July, 2004 by and between Lockheed Martin Corporation ("LMC") and the City of Redlands ("City").

RECITALS

WHEREAS, LMC has been investigating a plume of trichloroethylene ("TCE") and a plume of perchlorate in the Bunker Hill Basin pursuant to Cleanup and Abatement Orders Nos. 94-37, 97-58 and 01-56 issued by the Regional Water Quality Control Board; and

WHEREAS, consistent with that effort, LMC prepared a Water Supply Contingency Plan approved by the Regional Water Quality Control Board in March, 1997; and

WHEREAS, LMC's performance of the work set forth herein is intended to provide temporary perchlorate treatment for the City's Rees well;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for such other good and valuable consideration the receipt of which is hereby acknowledged, the City of Redlands and Lockheed Martin Corporation agree as follows:

AGREEMENT

Section 1. Recitals. The foregoing recitals are true and correct and are incorporated herein by this reference.

Section 2. LMC Obligations.

A. LMC shall design, build and install a temporary ion exchange treatment system to treat perchlorate in water extracted from the City's Rees well at no cost to the City. The temporary treatment system will be designed to treat a nominal 1,000 gallons per minute. The system will allow for the splitting of the well production flow, with varying percentages being routed through the ion exchange treatment system. Subsequent to the split stream treatment, the water will be blended with the untreated flow in a static mixer. The system will be operated and monitored according to a mutually agreed upon Demonstration Treat and Blend Plan, and a Final Report will be prepared. LMC will pay the City for the incremental costs associated with the operation, maintenance and monitoring of this temporary perchlorate treatment system.

B. With respect to the design of the system, LMC will (i) submit for the City's approval a 30% conceptual design; (ii) incorporate the City's comments into a 100% design suitable for LMC's procurement of the system; (iii) reimburse the City for costs incurred to prepare the specified temporary treatment system site; (iv) assist the City in obtaining the necessary operation permit(s); and, (v) pay City costs incurred for operation and maintenance of the temporary treatment system during the period of use, including but not limited to the labor

costs, analytical costs and electrical usage that would not have been incurred in the absence of the treatment system. LMC shall reimburse the City for costs incurred from items (i) through (v) above by paying periodically issued City invoices within thirty (30) days of receipt.

C. During the trial operation of the system, LMC will work with City operations staff to develop a Demonstration Treat and Blend Plan to determine the percentage of water from the Rees well that requires treatment so that the blended water is in compliance with the California perchlorate Action Level ("AL") of 6 µg/L, or the Maximum Contaminant Level ("MCL") once established. If the MCL is set above the AL, the perchlorate treatment system shall only be required to satisfy the MCL including safety factors as required by the California Department of Health Services. If the AL or MCL is subsequently revised, the system shall operate, if still necessary, to satisfy the revised regulatory level when it becomes effective. LMC shall be the owner of the temporary perchlorate system. LMC reserves the right to remove the perchlorate treatment system once regulatory approval to do so is obtained. LMC (working cooperatively with the City) also reserves the right to implement alternative perchlorate treatment technologies at a later date.

Section 3. City Obligations. The City shall (i) provide a parcel of land of a reasonable size at the Rees well site to allow the installation of the temporary treatment system for the duration of need; (ii) by approval of this Agreement, grant LMC a license to access such parcel of land and install the temporary ion exchange treatment system for LMC to perform its obligations to the City for the duration of need; (iii) review and comment on LMC's submittals identified above in a timely manner; (iv) obtain the necessary operation permit(s), with LMC assistance as needed; and (v) operate and maintain the treatment system according to the Operation and Maintenance Manual(s), collect and analyze samples, and provide copies of all periodic operations reports required by regulatory agencies (not less than monthly well production data, daily treatment system specific flow rates, system pressure data, and all analytical data) to LMC.

Section 4. Purpose of Agreement. The purpose of this Agreement is to protect public health and to fulfill in part the requirements set forth by the Regional Water Quality Control Board. This Agreement is not an admission or acknowledgment in fact or law by LMC that it is responsible for the plume of TCE contamination, perchlorate contamination, or any other contaminants of concern in the Bunker Hill Basin, or their alleged potential adverse effects on public health or the environment.

Section 5. Defense and Indemnity Obligations.

A. LMC shall defend, indemnify and hold harmless the City and its elected officials, officers and employees from and against any and all actions, damages, losses, causes of action and liability imposed or claimed relating to the injury or death of any person, or damage to any property, including attorneys' fees and other legal expenses, arising directly or indirectly from any negligent or intentionally wrongful act or omission of LMC in performing its obligations under this Agreement

B. The City shall defend, indemnify and hold harmless LMC and its officers, employees and agents from and against any and all actions, damages, losses, causes of action and liability imposed or claimed relating to the injury or death of any person or damage to any property, including attorneys' fees and other legal expenses, arising directly or indirectly from any negligent or intentionally wrongful act or omission of the City in performing its obligations under this Agreement.

C. Subsections 5A and 5B of this section shall not apply to any third party toxic tort claim(s) arising out of the presence of perchlorate in water purveyed by the City to the City's retail customers. Nothing in this Agreement shall limit the right of either party to this Agreement to seek, by an appropriate civil action, indemnity, whether implied or equitable, from the other in the event of a claim by a third party, including but not limited to a third party toxic tort claim, against either party to this Agreement arising out of or related to perchlorate from the Bunker Hill Basin.

Section 6. Labor Code Sections 1720 et seq. The City has informed LMC that the work performed by LMC under this Agreement may be deemed a "public work" for purposes of California Labor Code sections 1720 et seq. and LMC agrees it shall be solely responsible for determining whether such sections apply to LMC's work and shall be solely responsible for complying with all such Labor Code requirements, including the requirement for the payment of prevailing wages. LMC specifically waives any rights it may have against the City pursuant to California Labor Code section 1726.

Section 7. Attorneys' Fees. In the event any action is commenced to enforce or interpret any of the terms or conditions of this Agreement the prevailing party shall, in addition to any costs and other relief, be entitled to the recovery of its reasonable attorneys' fees.

Section 8. Entire Agreement/Amendment. This Agreement represents the entire agreement and understanding between the parties as to the specific matters contained herein, and any prior negotiations, proposals or oral agreements relating to such matters are superseded by this Agreement. Any amendment to this Agreement shall be in writing, approved by the City Council of City and signed by City and LMC.

Section 9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 10. Termination. Either party may terminate this Agreement, without cause, upon sixty (60) days' prior written notice to the other party. In the event this Agreement is terminated, LMC shall be responsible for arranging for the removal of the water treatment system following termination of this Agreement, for restoring the property to its condition prior to installation of the water treatment system to the extent reasonably practicable, and for all costs relating to the same.

Section 11. Notices. All notices herein required shall be in writing and delivered in person or sent by first class mail, postage prepaid, to the addresses as follows:

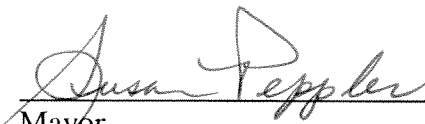
Lockheed Martin Corporation (LMC)
Kenneth H. Meashey, Vice President
6801 Rockledge Dr., MP CLE610
Bethesda, Maryland 20817

CITY OF REDLANDS
Douglas Headrick
Chief of Water Resources
PO Box 3005
Redlands, CA 92373

When so addressed, such notice shall be deemed given upon deposit in the United States mail or upon personal delivery. Changes may be made to the names and addresses of the person to whom notices are to be given by giving notice pursuant to this section.

Section 12. Assignment. This Agreement shall not be assigned without the prior written consent of the City. Any assignment or attempted assignment without such consent shall be null and void and, at the sole option of the City, may result in the immediate termination of this Agreement.

CITY OF REDLANDS



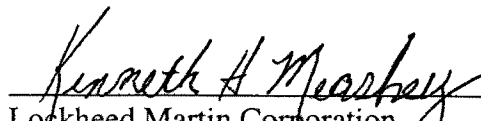
Mayor

ATTEST:



City Clerk

LOCKHEED MARTIN CORPORATION



Lockheed Martin Corporation
Kenneth H. Meashey, Vice President