

AGREEMENT FOR FUNDING THE REPLACEMENT OF THE
ORANGE STREET WATER CONVEYANCE PIPELINE

This Agreement ("Agreement") is made this 7th day of August, 2007 ("Effective Date"), by and between Lockheed Martin Corporation ("LMC") and the City of Redlands (the "City"). LMC and the City are sometimes individually referred to herein as a "Party" and, together, as the "Parties."

RECITALS

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

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

WHEREAS, LMC has taken several measures since March, 1997, to implement and execute the Plan, including the financing and construction of new potable water supply wells for the City and the installation of perchlorate treatment systems on certain City water supply wells; and

WHEREAS, the City has informed LMC that the pipeline conveying water from a potable water supply well on Orange Street (the "Orange Street pipeline") to a blending system used to reduce perchlorate concentrations in drinking water produced by the City's Church Street Well needs replacement due to leakage and resulting diminished reliability of the system to produce an adequate supply of water that meets water quality objectives for perchlorate; and

WHEREAS, LMC has agreed to reimburse the City for certain costs incurred by the City in replacing the Orange Street pipeline; and

WHEREAS, LMC's financing of the Orange Street pipeline's replacement as set forth herein is intended to ensure the City continues to have access to an adequate water supply;

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 and LMC agree as follows:

AGREEMENT

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

Section 2. The City's Obligations.

A. The City shall remove and/or properly dispose of the current Orange Street pipeline, and acquire, install, activate and maintain a replacement pipeline. The City shall solicit bids for construction of the replacement pipeline and award the contract for such work to the lowest responsive and responsible bidder, in accordance with law (the "Contract Award Amount"). City shall allow LMC to review the scope of work for the project prior to the City soliciting bids, and share with LMC the bid tabulation of the successful bidder once a selection has been made.

B. The replacement pipeline shall consist of ductile iron pipe or cement mortar-lined and coated steel (whichever is the lowest cost), and it shall be similar or identical in size, materials and equipment to the current pipeline in accordance with the City-approved design and engineering plans provided by LMC to the City. The City shall verify these conditions prior to the purchase and installation of the replacement pipeline and related materials and equipment.

C. The City shall coordinate its actions described in this Section with LMC or its designated representative in order to ensure that the scope of work and amount of costs are contained. The City shall further provide periodic progress reports to LMC, and provide LMC reasonable access to relevant locations and documents so that LMC or its designated representative can periodically conduct site inspections and monitor the City's progress and expenditures.

D. In the event that the City places into service certain wells that are impacted by perchlorate, specifically, Wells No.10, No. 13, and No. 16, LMC shall have no financial obligation to the City in connection with any such treatment of perchlorate, TCE, or any other contaminant at these locations unless such contaminants at these locations are determined by the Regional Water Quality Control Board as being a result of past LMC's business or operations.

Section 3. LMC's Obligations.

A. LMC shall reimburse the City the Contract Award Amount, and any additional costs incurred by the City in connection with the construction and installation of the replacement Orange Street pipeline in an amount not to exceed twenty percent (20%) of the Contract Award Amount. The City shall invoice LMC monthly for reimbursement payments for the construction of the replacement pipeline and LMC shall pay each City invoice within thirty (30) days of the date of each invoice.

B. The Parties agree that the blending system for the City's well nos. 38 and 39 may be improved by replacing the valve for well no. 39. Within ninety (90) days of the Effective Date of this Agreement, LMC shall evaluate equipment necessary to achieve an acceptable blend to the City for its consideration. If the Parties agree upon an equipment alternative, the City shall acquire and install the equipment and LMC shall reimburse the City for all costs incurred by the

City in the installation of the equipment within thirty (30) days of the date of City's invoice to LMC.

C. Within thirty (30) days from the date of the City's invoice, LMC shall pay the City for the incremental costs incurred by the City associated with the operation, maintenance and monitoring of the Church Street Well – Orange Street Well perchlorate blending system.

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

Section 5. Release, Defense and Indemnity Obligations.

A. The City shall defend, indemnify and hold harmless LMC and its officers, employees and agents (the "LMC Indemnified Parties") from and against any and all actions, damages, losses, causes of action and liability asserted, claimed or imposed against the LMC Indemnified Parties 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. The City shall further defend, indemnify and hold harmless the LMC Indemnified Parties from and against any claims relating to the use of funds provided by LMC under the terms of this Agreement.

B. The City hereby releases LMC (including its predecessors, successors, affiliates, subsidiaries, and their respective officers, directors, shareholders, employees, agents, and representatives) from any and all claims, demands, causes of action, damages, costs, judgments, and liability of any nature on account of, with respect to, or in any way connected with or arising from the City's replacement of the Orange Street pipeline or installation of any equipment replacement alternative for the Well #39 blending system.

C. LMC shall defend, indemnify and hold harmless the City, and its elected officials, officers, employees and agents (the "City Indemnified Parties") from and against any and all actions, damages, losses, causes of action and liability asserted, claimed or imposed against the City Indemnified Parties 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.

D. The indemnities set forth in this Section 5 shall not apply to any third party toxic tort claim(s) arising out of the presence of perchlorate, TCE, or any other contaminant 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, TCE, or any other contaminant.

Section 6. 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, including fees for use of in-house counsel by a Party.

Section 7. Entire Agreement. This Agreement represents the entire agreement and understanding between the Parties as to the specific matters contained herein, and any prior negotiations, proposals or verbal 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 8. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 9. Notices and Reports. All notices, invoices, and reports 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

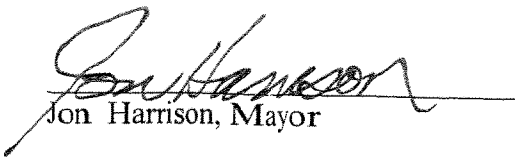
City of Redlands
Gary Phelps
Municipal Utilities Director
PO Box 3005
Redlands, CA 92373

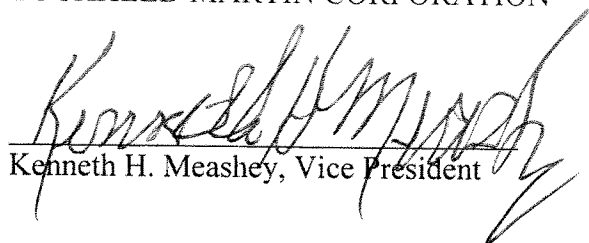
Changes may be made to the names and addresses of the person to whom notices or reports are to be given by giving notice pursuant to this section.

WHEREFORE, this Agreement has been executed by the Parties as of the date first written above in San Bernardino County, California.

CITY OF REDLANDS

LOCKHEED MARTIN CORPORATION


Jon Harrison, Mayor


Kenneth H. Meashey, Vice President

ATTEST:


City Clerk