

LAW OFFICES

DRINKER BIDDLE & REATH

PHILADELPHIA NATIONAL BANK BUILDING

BROAD AND CHESTNUT STREETS

PHILADELPHIA, PA. 19107

TELEX: 834684 · DEBEMAC

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NEW YORK, N. Y. 10022
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RECORDATION NO. 14877 Filed 1425

JAN 9 1986 - 11 20 AM
INTERSTATE COMMERCE COMMISSION

January 8, 1986

DIRECT DIAL: (215) 988-2802

\$ 20.00 filing fee

Mr. James H. Bayne
Secretary
INTERSTATE COMMERCE COMMISSION
Constitution Avenue and 12th Street
Room 2215
Washington, D. C. 20423

RECEIVED
JAN 9 11 11 AM '86
MOTOR OPERATOR UNIT

Dear Mr. Bayne:

I submit for filing and recording under 49 U.S.C. §11303(a) and the regulations promulgated thereunder, the enclosed executed counterparts of a Security Agreement, dated December 31, 1985, a primary document.

The parties to the enclosed Security Agreement are:

The Philadelphia Saving Fund Society
-- Secured Party
1234 Market Street
Philadelphia, Pennsylvania 19107

TXL Properties Limited 85-109 -- Debtor
Suite 3800, One Embarcadero Center
San Francisco, California 94111

The Security Agreement secures a loan from The Philadelphia Saving Fund Society to TXL Properties Limited 85-109 encumbering all of the interest of TXL Properties in the Railroad Equipment, which covers 158 100-ton open hopper cars manufactured by Bethlehem Steel Corporation, identified by numbers AEPX 851 through AEPX 987, inclusive, AEPX 989 through AEPX 1002, inclusive, and AEPX 1004 through AEPX 1010, inclusive. It also constitutes an assignment of the

New Number + Cross index under 7909
[Signature]

Mr. James H. Bayne

-2-

January 8, 1986

Lease of Railroad Equipment dated as of December 3, 1975, between Armco Leasing Corporation, lessor, and Ohio Power Company, lessee, recorded under ICC recordation no. 7909, and assigned by GLENFED Financial Corporation (successor by merger to Armco Leasing Corporation) to TXL Properties Limited 85-109 by an Assignment of Lease dated December 31, 1985, and submitted this date to the ICC for filing and recording.

Please cross-index the enclosed Security Agreement against recordation no. 7909.

A short summary of the Security Agreement to appear in the Index is as follows:

"Covers 158 hopper cars numbers AEPX 851-987, AEPX 989-1002, and AEPX 1004-1010, all inclusive, and a lease of such equipment."

Enclosed is a check in the amount of \$20.00 in payment of the recordation fee for the Security Agreement (\$10.00), and the cross-indexing fee for the Security Agreement (\$10.00).

Once the filing has been made, please return to the bearer the stamped counterpart(s) not required for filing purposes, together with the fee receipt, and the letter from the Interstate Commerce Commission acknowledging the filing.

Very truly yours,



Michael B. Jordan

MBJ:mak
Enclosures

HAND DELIVER

Interstate Commerce Commission
Washington, D.C. 20423

1/13/86

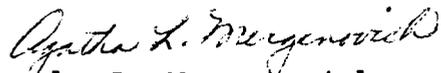
OFFICE OF THE SECRETARY

Michael B. Jordan
Drinker Biddle & Reath
Broad & Chestnut
Philadelphia PA. 19107

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 1/9/86 at 11:20am, and assigned re-
recording number(s). 14877

Sincerely yours,


Agatha L. Mergenovich
Secretary

Enclosure(s)

SE-30
(7/79)

Rec Number

14877

RECORDATION NO., Filed 1425

JAN 9 1986 -11 20 AM

INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT

dated December 31, 1985

between

TXL PROPERTIES LIMITED 85-109

Debtor

and

THE PHILADELPHIA SAVING FUND SOCIETY

Secured Party

SECURITY AGREEMENT dated December 31, 1985, between TXL PROPERTIES LIMITED 85-109, a California corporation (the "Company"), as debtor, and THE PHILADELPHIA SAVING FUND SOCIETY, as secured party ("Secured Party").

Preliminary Statement

Certain terms used in this Agreement and not elsewhere defined are defined in Article V.

GLENFED Financial Corporation (the "Seller"), successor to Armco Leasing Corporation, is the owner of the 158 open hopper cars (the "Equipment") identified in Exhibit 1. The Seller leases the Equipment to Ohio Power Company pursuant to a lease of railroad equipment dated as of December 3, 1974 (the "Lease"), between the Seller and the Lessee. The term of the Lease expires December 31, 1989. The Lease provides that the Lessee has options (each of which is hereinafter called a "Purchase Option") to purchase some or all of the Equipment from the Seller on each of December 31, 1989, December 31, 1994, December 31, 1999, and December 31, 2004, for a price equal to the fair market value thereof, as determined in accordance with the Lease. The Lease also provides that the Lessee has three successive options (each of which is hereinafter called a "Renewal Option") to renew the Lease as to some or all of the Equipment for a term of five years beginning at the end of the initial term or any renewal term of the Lease, with the third renewal term expiring December 31, 2004, for a rental equal to the fair rental value thereof at the beginning of each renewal term, as determined in accordance with the Lease.

The Seller and the Company have entered into an agreement for the purchase and sale of hopper cars and assignment of lease dated as of December 15, 1985 (the "Purchase Agreement"), in which the Seller agrees to sell the Equipment and assign the Lease to the Company and the Company agrees to purchase the Equipment and the Lease from the Seller. The closing under the Purchase Agreement is to occur simultaneously with the execution of this Agreement.

At the Company's request and expense, International Capital Equipment Limited ("ICE") has executed and delivered to the Company an equipment purchase agreement (number 1512655) dated December 23, 1985 (the "Equipment Purchase Agreement"), by which ICE has agreed, among other things, to purchase some or all of the Equipment at the end of the initial term and any renewal term of the Lease on the terms provided for in the Equipment Purchase Agreement. The Travelers Indemnity Company ("Travelers") has confirmed that

the Equipment Purchase Agreement is covered by Equipment Purchase Agreement Insurance Policy No. T-GLM-189T581-0-83 (the "Travelers Policy") issued by Travelers to ICE insuring the payment when due of all amounts required to be paid under the Equipment Purchase Agreement.

The purchase price payable by the Company under the Purchase Agreement is payable on the date of this Agreement. To provide funds with which to pay such purchase price, the Company has today issued and sold the Note to the Secured Party.

TXL Corporation, a California corporation ("TXL"), has, in connection herewith, executed and delivered a limited suretyship agreement to the Secured Party.

The Company is entering into this Agreement for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound.

Granting Clause

As security for the payment of the Note and any Renewal Note issued under Article VII and the performance of all its obligations hereunder and under the Note Agreement, the Company hereby grants to the Secured Party a security interest in the Purchase Agreement, the related assignment of lease, the related bill of sale, the Equipment Purchase Agreement, the Travelers Policy, (collectively, the "Purchase Documents"), the Equipment, the Lease, all rentals and other sums payable under the Lease by the Lessee, and all proceeds of the foregoing property.

Nothing in this Agreement shall impose upon the Secured Party, or relieve the Company of, any obligation of the Company under any of the Purchase Documents or the Lease.

ARTICLE I

Particular Covenants of The Company

SECTION 1.01. Warranty of Title. The Company hereby represents and warrants that the Purchase Documents are in full force and effect and warrants that (i) its right, title and interest in, and to, the Collateral are free and clear of all liens, charges and other encumbrances except Permitted Encumbrances, and (ii) this Agreement creates a valid lien on the Company's rights in, and to, the

Collateral, subject only to Permitted Encumbrances. Until payment in full of the Note and any Renewal Note and all of its other obligations secured hereby, the Company will warrant and defend its interest in, and to, the Collateral against the claims and demands of all persons and will maintain the security interest created under this Agreement. The Company has full power and lawful authority to grant the security interests granted by this Agreement. True and correct originals or copies of the Purchase Documents have been delivered to the Secured Party.

SECTION 1.02. Protection of Collateral. The Company will from time to time execute and deliver all such supplements and amendments hereto and all such financing statements and continuation statements, and will take such other action, as the Secured Party reasonably requests and deems necessary or advisable to maintain or preserve the validity and perfection of the security interest created by this Agreement or to carry out more effectively the purposes hereof, or preserve and defend the Company's interest in and to the Collateral and the rights of the Secured Party therein against the claims of all persons and parties.

SECTION 1.03. Performance of Obligations. The Company will punctually perform and observe all of its obligations and agreements contained in each of the Purchase Documents and the Lease and required by the terms of the Conditional Sale Indebtedness. The Company will notify the Secured Party of any default by any person under any of the Purchase Documents or under the Lease promptly after obtaining actual knowledge thereof.

SECTION 1.04. Negative Covenants. The Company will not:

(a) sell, lease, transfer, exchange or otherwise dispose of any of the Collateral;

(b) take or permit any action which would result in an Event of Default under subsection (d) or (e) of Section 4.01;

(c) claim any credit on, or make any deduction from, the principal or interest payable on the Note by reason of the payment of any taxes levied or assessed upon any of the Collateral; or

(d) engage in any business activity other than its ownership of the rights granted to it under the Purchase Agreement, its ownership of the

Equipment and its leasing thereof to the Lessee pursuant to the Lease, and other activities incidental to the transaction contemplated hereby and thereby.

SECTION 1.05. Payment of Taxes. The Company will pay or cause to be paid all taxes (including income, franchise and gross receipts taxes) which are at any time or from time to time levied upon or assessed against the Company. The foregoing sentence shall not prevent the Company from contesting any such tax by appropriate Proceedings so long as (a) such Proceedings shall suspend the collection thereof, (b) no part of the Collateral would be subject to sale, forfeiture or diminution and (c) the Company shall have furnished such security as may be required in the Proceedings or reasonably requested by the Secured Party. The Company will conduct such contests in good faith and with due diligence and will, promptly after the final determination of each such contest, pay all amounts which shall be determined to be payable in respect thereof.

SECTION 1.06. Casualty Insurance. The Company will obtain and maintain at its expense a policy of insurance (the "Casualty Policy") issued by American Home Assurance Company, or another carrier acceptable to the Secured Party, insuring the Equipment against such hazards as the Secured Party shall require, with provisions satisfactory to the Secured Party under which all loss shall be payable directly to the Secured Party, under which the Casualty Policy will not expire or be cancelled as to the Secured Party without 30 days' written notice to the Secured Party from the insurer, and under which violation of any term or condition of the Casualty Policy by any party other than the Secured Party will not affect the insurer's obligation to pay loss to the Secured Party. The Casualty Policy shall be in an amount with respect to each item of the Equipment sufficient to pay the amount by which (1) the amount of the prepayment required to be made by Section 3.01 in the event of a Casualty Occurrence with respect to such item of the Equipment exceeds (2) the amount required to be paid by the Lessee under Section 11 of the Lease in consequence of a Casualty Occurrence with respect to such item of the Equipment.

SECTION 1.07. Assignment of Rights under Purchase Documents and Lease. (a) Confirmatory of the security interest herein granted in the Purchase Documents and in the Lease, the Company hereby irrevocably assigns and transfers to the Secured Party, subject to the provisions of this Agreement, as security for the payment of all amounts payable under or in respect of the Note, any Renewal Note, and this

Agreement, and as security for compliance with the provisions hereof and thereof, all of its estate, right, title, interest, claim and demand in, to and under the Purchase Documents and the Lease, including (1) the right to claim, demand, receive, and receipt for all moneys from time to time payable to or receivable by the Company under the Purchase Documents and the Lease (said sums being herein called the "Moneys"), and (2) all powers, rights, and privileges of the Company (including the right to give or withhold consents) under, and to enforce, the Purchase Documents and the Lease. So long as no Default or Event of Default shall have occurred, the Company shall be entitled to exercise all of its rights under the Purchase Documents and the Lease, (A) except the right to receive Moneys that become payable under the Purchase Documents or the Lease, other than indemnity or reimbursement payments made by the Lessee to the Company under the Lease, (B) except to the extent such exercise would violate any provision of this Agreement, and (C) except as provided in subsection (b). Upon the occurrence of a Default or Event of Default under this Agreement, the Company shall have no further rights under the Purchase Documents or the Lease (except to receive copies of all notices given and received thereunder) until the termination of this Agreement as provided herein, whereupon all rights granted hereunder to the Secured Party shall terminate and revert to the Company. The obligations of the Company, however, owing to any party under the Purchase Documents or the Lease shall continue to be owing to such party by the Company notwithstanding this Agreement or any Event of Default or any enforcement Proceedings hereunder.

(b) Whether or not a Default or Event of Default shall have occurred, the Company will not, without the prior written consent of the Secured Party --

(1) agree to any amendment of, or waive any right or grant any indulgence under, any of the Purchase Documents or the Lease;

(2) agree with the Lessee upon a purchase price for the Equipment in connection with the Lessee's exercise of any Purchase Option unless (A) the amount payable by the Lessee is at least equal to the unpaid principal of and interest on the Note at its maturity, or (B) ICE shall have approved the purchase price in advance by a written instrument, in form and substance satisfactory to the Secured Party, delivered to and received by the Secured Party;

(3) agree with the Lessee upon the rent to be paid by the Lessee during any renewal term upon the Lessee's exercise of any of the Renewal Options;

(4) designate an appraiser for the purpose of determining the fair market value or fair market rental of the Equipment in connection with the Lessee's exercise of any Purchase Option or any Renewal Option unless ICE shall have approved the appraiser in advance by a written instrument, in form and substance satisfactory to the Secured Party, delivered to and received by the Secured Party; or

(5) exercise its option to require the Lessee to purchase the Equipment under Section 17 of the Lease.

ARTICLE II

Possession, Use and Transfer

SECTION 2.01. Collection of Moneys. The Secured Party shall have the right to receive directly from the Lessee all Moneys which the Lessee otherwise would be required to remit to the Company, as lessor under the Lease. The Secured Party shall apply such Moneys upon receipt to the payment of any amount which shall then be due under the Note or this Agreement. The Secured Party shall also have the right to demand payment or delivery of and to receive and collect all Moneys and other property otherwise payable to or receivable by the Company pursuant to any Purchase Document. The Secured Party shall hold all such Moneys and property received by it as part of the Collateral, and shall apply it as provided in this Agreement. If any default occurs in the making of any payment or performance under any Purchase Document or the Lease, the Secured Party may take such action as it shall have power to take and as may be appropriate to enforce such payment or performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Agreement and to proceed thereafter as provided in Article IV.

SECTION 2.02. Transfer of Collateral. So long as the Note is outstanding, the Company will not sell, dispose of, encumber or otherwise transfer the Collateral or any part thereof or interest therein except with the written consent of the Secured Party.

SECTION 2.03. The Equipment. The Company will maintain the Equipment in good condition and repair and in

conformity with the requirements of the Equipment Purchase Agreement. If any Renewal Option is exercised and the related Renewal Note is issued, during the renewal term of the Lease the Company will maintain insurance on the Equipment (in lieu of that required by Section 1.06) which complies with the requirements of Section 1.06, except that the amount of such insurance shall not be less than the unpaid principal balance of the Renewal Note.

ARTICLE III

Application of Moneys; Prepayment

SECTION 3.01. Casualty and Condemnation. (a) If any item of the Equipment shall suffer a Casualty Occurrence, the Company shall make a prepayment on account of the Note or then outstanding Renewal Note, as the case may be, in an amount which bears to the original principal amount of the Note or such Renewal Note, as the case may be, the same proportion as the portion of the purchase price under the Equipment Purchase Agreement allocated to that item of the Equipment (determined by reference to Part II Item 5, of the Equipment Purchase Agreement (or, after the exercise of a Renewal Option, by reference to Part II, Item 5 of the Equipment Purchase Agreement, as affected by paragraph 3, of the Amendment to the Equipment Purchase Agreement) bears to the total purchase price under the Equipment Purchase Agreement, as then in effect.

(b) All amounts received by the Secured Party in consequence of a Casualty Occurrence from the Lessee under the Lease, from the insurer under the Casualty Policy, or from any other insurer shall be applied to the prepayment required by subsection (a), and the balance, if any, shall be applied to repay any interest accrued and unpaid under the Note or any Renewal Note then outstanding, as the case may be. Any balance remaining after such application shall be held as provided in Section 3.04.

SECTION 3.02. Other Prepayments. (a) If the Lessee exercises its right to purchase the Equipment under Section 19 of the Lease, the Company shall prepay the Note or the then outstanding Renewal Note in full, together with all accrued and unpaid interest thereon.

(b) If at any time or from time to time the Lessee exercises its right under Section 25 of the Lease to terminate the Lease as to some or all of the Equipment, the Company shall make a prepayment on account of the Note or the then outstanding Renewal Note, as the case may be, in an amount equal to the greater of --

(1) the amount of the prepayment that would have been required under Section 3.01(a) if the unit or units of Equipment with respect to which the Lease is so terminated had suffered a Casualty Occurrence, or

(2) the amount payable by the Lessee in consequence of such termination.

SECTION 3.03. Prepayment in General. (a) The Note may be prepaid only to the extent expressly permitted by Section 3.01 and 3.02.

(b) Any partial prepayment under Section 3.01 or Section 3.02(b) shall be applied to each of the remaining installments of principal in the proportion which such principal installments bear to one another.

SECTION 3.04. Payments under the Purchase Documents. Except as provided in Section 3.01 or Section 3.02, all Moneys received by the Secured Party under any of the Purchase Documents shall be held by the Secured Party until the maturity of the Note, shall be part of the Collateral, and shall be applied at maturity to the payment of the Note and of all other obligations of the Company hereunder. Pending such application, all such Moneys shall be invested in time deposits of the Secured Party, or of a banking or savings institution organized under the laws of the United State or a state thereof, and acceptable to the Company and the Secured Party. Upon final discharge of this Agreement under Section 6.01, any Moneys remaining in the Secured Party's possession shall be remitted to or on the order of the Company.

ARTICLE IV

Events of Default and Remedies

SECTION 4.01. Events of Default. Any of the following occurrences or acts shall constitute an Event of Default under this Agreement:

(a) If default shall be made in the payment of any principal of or interest on the Note or any Renewal Note when and as the same shall become payable, whether at maturity or by acceleration or as part of any prepayment or otherwise.

(b) If there shall be default in the due observance of any provision of Section 1.04 or 1.07(b) hereof; or

(c) If there shall be default in the due observance or performance of any other provision of this Agreement, and such default shall have continued for a period of 20 days after written notice thereof shall have been given to the Company by the Secured Party; or

(d) If any of the Purchase Documents or the Lease shall be amended, hypothecated, subordinated, terminated or discharged or if any person shall be released from any of its covenants or obligations under any of the Purchase Documents or the Lease, in each case except to the extent that the same shall be caused by, or shall occur with the express written consent of, the Secured Party; or

(e) If any lien, charge, security interest, mortgage, pledge or other encumbrance shall be created on, or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the revenues, rents, issues or profits thereof, other than Permitted Encumbrances; or

(f) If any representation or warranty of the Company made in this Agreement, in the Note Agreement, or in any certificate or other writing delivered pursuant hereto or thereto, shall prove to be incorrect in any material respect as of the time when the same shall have been made; or

(g) If any party to any of the Purchase Documents or the Lease shall fail to perform any of its obligations thereunder; or

(h) If the Company, TXL or Travelers shall file a petition in bankruptcy or for reorganization or for an arrangement or any composition, readjustment, liquidation, dissolution or similar relief pursuant to the Bankruptcy Code or under any similar present or future federal or state law, or shall be adjudicated a bankrupt; or

(i) If a petition or answer shall be filed proposing the adjudication of the Company, TXL or Travelers as a bankrupt or its reorganization or arrangement, or any composition, readjustment, liquidation, dissolution or similar relief with respect to it pursuant to the Bankruptcy Code or any similar present or future federal or state law, and the respondent shall consent to the

filing thereof, or an order for relief or similar order shall be entered in the proceeding, or such petition or answer shall not be discharged or denied within 30 days after the filing thereof; or

(j) If a receiver, trustee or liquidator (or other similar official) of the Company, TXL or Travelers, or of all or substantially all of the assets of the Company, TXL or Travelers or of the Collateral or any portion thereof shall be appointed and shall not be discharged within 30 days thereafter, or if the Company, TXL or Travelers shall consent to or acquiesce in such appointment.

SECTION 4.02. Remedies. If an Event of Default shall have occurred and be continuing, the Secured Party may do one or more of the following:

(a) give notice to the Company declaring the entire unpaid principal amount of the Note or any Renewal Note then outstanding, as the case may be, together with all accrued interest and other sums then owing under this Agreement, to be forthwith payable, and demanding that the same be paid, and thereupon all such amounts shall be forthwith payable, together with all costs and expenses of collection, notwithstanding any contrary provision contained in this Agreement, the Note, or the Renewal Note but subject to the terms of Section 9.01;

(b) institute Proceedings for the collection of all amounts then payable on the Note or the Renewal Note or under this Agreement, whether by declaration or otherwise, enforce any judgment obtained, and collect moneys adjudged due from the Collateral;

(c) collect from any party obligated on any of the Collateral all amounts that become payable thereunder;

(d) sell the Collateral or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law;

(e) institute Proceedings from time to time for the complete or partial foreclosure of this Agreement;

(f) take any other appropriate action to protect and enforce the rights and remedies of the Secured Party hereunder, or under or in respect of any of the Purchase Documents, or otherwise; and

(g) exercise all the rights and remedies provided to a secured party by the Uniform Commercial Code with respect to all parts of the Collateral which are governed by the Uniform Commercial Code.

SECTION 4.03. Sale of Collateral. (a) The power to effect any sale of the Collateral shall not be exhausted by any one or more sales as to any portion of the Collateral remaining unsold, but shall continue unimpaired until the entire Collateral shall have been sold or all amounts payable on the Note or the Renewal Note and under this Agreement shall have been paid. The Secured Party may from time to time postpone any sale by announcement made at the time and place of such sale.

(b) The Secured Party may bid for and acquire any portion of the Collateral in connection with a sale thereof, and may pay all or part of the purchase price by crediting against amounts owing on the Note or any Renewal Note or other amounts secured by this Agreement, all or part of the net proceeds of such sale after deducting the costs, charges and expenses incurred by the Secured Party in connection with such sale. Neither the Note nor any Renewal Note need be produced in order to complete any such sale, or in order to cause there to be credited thereon such net proceeds. The Secured Party may hold, lease, operate, manage or otherwise deal with any property so acquired in any manner permitted by law.

(c) The Secured Party shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the Collateral in connection with a sale thereof. In addition, the Secured Party is hereby irrevocably appointed the agent and attorney-in-fact of the Company to transfer and convey its interest in any portion of the Collateral in connection with a sale thereof, and to take all action necessary to effect such sale. No purchaser or transferee at such a sale shall be bound to ascertain the Secured Party's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

(d) If an Event of Default occurs, if notice of intended sale or other disposition of Collateral is required under the Uniform Commercial Code, the Company agrees that notice mailed to it as provided in Section 9.02

at least five days before such sale or disposition shall constitute reasonable notice.

SECTION 4.04. Action on the Notes. The Secured Party's right to seek and recover judgment on the Note or any Renewal Note or under this Agreement shall not be affected by seeking, obtaining or application of any other relief under or with respect to this Agreement. Neither the security interest created by this Agreement nor any rights or remedies of the Secured Party shall be impaired by the recovery of any judgment by the Secured Party against the Company or by the levy of an execution under such judgment upon any portion of the Collateral.

SECTION 4.05. Distribution of Collateral. Upon enforcement of this Agreement, all moneys constituting a part of or received on account of the Collateral shall be applied from time to time by the Secured Party as follows:

First: To the payment of all costs, expenses, liabilities and compensation of the Secured Party (including reasonable fees and expenses of its agents and counsel) incurred or accrued in connection with any Proceedings brought by the Secured Party or in connection with the maintenance, sale or other disposition of the Collateral.

Second: To the payment of all amounts of unpaid interest then due and payable on the Note or the then outstanding Renewal Note, as the case may be.

Third: To the payment of all amounts of unpaid principal of the Note or the then outstanding Renewal Note, as the case may be, then due and payable.

Fourth: To the payment of all other sums secured by this Agreement.

Fifth: To the payment of any surplus to the Company or any other person legally entitled thereto.

SECTION 4.06. Appointment of Receiver. If an Event of Default shall be continuing, the Company will consent to the appointment of one or more receivers of all or part of the Collateral upon the request of the Secured Party.

SECTION 4.07. Rights Cumulative. All rights and remedies from time to time conferred upon or reserved to the Secured Party are cumulative, and none is intended to be exclusive of another. No delay or omission in insisting upon the strict observance or performance of any provision of this Agreement, or to exercise any right or remedy, shall be construed as a waiver or relinquishment of such provision, nor shall it impair such right or remedy. Every right and remedy may be exercised from time to time and as often as deemed expedient.

ARTICLE V

Defined Terms

SECTION 5.01. Definitions. When used in this Agreement, each term defined in this Article V shall be the meaning indicated:

"Agent" - as defined in the Preliminary Statement.

"Casualty Occurrence" - an event in consequence of which the Company becomes entitled to receive the Stipulated Loss Value pursuant to Section 11 of the Lease.

"Casualty Policy" - as defined in Section 1.06.

"Collateral" - all money, instruments and other property subject or intended to be subject to the security interest created by this Agreement as of any particular time, including, without limitation, all property and interests mentioned in the Granting Clause of this Agreement and elsewhere herein.

"Company" - as defined in the introductory paragraph of this Agreement.

"Default" - an event or occurrence in which with notice or lapse of time or both would, if unremedied, be an Event of Default.

"Equipment" - as defined in the Preliminary Statement.

"Equipment Purchase Agreement" - as defined in the Preliminary Statement.

"Event of Default" - as defined in Section 4.01.

"ICE" - as defined in the Preliminary Statement.

"Lease" - as defined in the Preliminary Statement.

"Lessee" - as defined in the Preliminary Statement.

"Moneys" - as defined in Section 1.07.

"Note" - individually and collectively, the Company's 11.58% Secured Note Due March 31, 1990, payable to the Secured Party, and any Note or Notes issued in exchange for or in lieu of or on transfer of any Note, as provided in the Note Agreement.

"Note Agreement" - the Note Agreement, dated December 31, 1985, between the Company and the Secured Party, which provides for the purchase and sale of the Note.

"Permitted Bank" - a banking institution organized under the laws of the United States or any state thereof, having combined capital, surplus and undivided profits as of the date of its most recent report of condition equal to or greater than that of the Secured Party or \$1,000,000,000, whichever is less, the senior long-term unsecured debt of which (or of the holding company of which) is rated at least "A" by Moody's Investors Service, Inc. or Standard & Poors Corporation and the commercial paper of which (or of the holding company of which) is rated at least "P-1" by Moody's Investors Service, Inc. or at least "A-1" by Standard & Poors Corporation.

"Permitted Encumbrances" - with respect to the Collateral: (i) any lien thereon for any governmental charge or for work or service performed or materials furnished, which secures amounts which are not due and payable or which are not delinquent; (ii) in the case of the Equipment, the interest of the Lessee under the Lease, but only until December 31, 1989, or thereafter to the extent the Lessee exercises any Purchase Option or any Renewal Option; and (iv) this Agreement.

"Proceeding" - any suit in equity, action at law or other judicial or administrative proceeding.

"Purchase Agreement" - as defined in the Preliminary Statement.

"Purchase Documents" - as defined in the Granting Clause.

"Purchase Option" - as defined in the Preliminary Statement.

"Renewal Note" - as defined in Article VII.

"Renewal Option" - as defined in the Preliminary Statement.

"Secured Party" - as defined in the introductory paragraph of this Agreement.

"Seller" - as defined in the Preliminary Statement.

"Transaction Documents" - as defined in Section 8.01.

"Travelers" and "Travelers Policy" - as defined in the Preliminary Statement.

"TXL" - as defined in the Preliminary Statement.

ARTICLE VI

Discharge of Agreement

SECTION 6.01. Final Discharge. This Agreement and all agreements contained herein shall cease and terminate when all principal, interest and other amounts payable under or in respect of or secured pursuant to the terms of this Agreement shall have been paid in full, whether at the end of the term of the Note or the Renewal Note, by acceleration, by prepayment or otherwise.

SECTION 6.02. Delivery of Discharge. Upon the termination of this Agreement, the Secured Party shall execute and deliver such instruments as the Company shall furnish to the Secured Party and which shall be reasonably required to satisfy and discharge the security interest created by this Agreement. The Secured Party shall then transfer the Collateral to the Company or any other person entitled thereto.

ARTICLE VII

The Renewal Notes

SECTION 7.01. The Renewal Notes. (a) If the Lessee exercises any Renewal Option as to some or all of the

Equipment (the portion of the Equipment as to which such Renewal Option is issued being herein called the "Remaining Equipment"), the Company will repay at the maturity of the Note or the then outstanding Renewal Note, as the case may be, the amount determined by multiplying the number of items of Equipment not constituting Remaining Equipment and as to which no Casualty Occurrence shall have happened times (1) \$7,500 at maturity of the Note on March 31, 1990, or (2) \$2,500 at maturity of the first Renewal Note on March 31, 1995, or (3) \$1,000 at maturity of the second Renewal Note on March 31, 2000;

(b) If the Lessee exercises any Renewal Option, the Secured Party will at the Company's option (exercisable by not less than 30 days' prior written notice) purchase from the Company on the January 2 immediately preceding the date of maturity of the Note or of the Renewal Note then maturing, as the case may be, the Company's Secured Note having a final maturity date on the March 31 immediately following the expiration of the renewal term for which such Renewal Option is exercised (each such note being herein called a "Renewal Note"). Each Renewal Note shall be in substantially the form of Exhibit 2, and shall be in a principal amount equal to the unpaid principal of and interest on the Note or such Renewal Note at the maturity thereof, after giving effect to the payment required to be made at the maturity thereof under subsection (a). Each Renewal Note shall bear interest, payable at a rate designated by the Secured Party, based upon market conditions then obtaining in the Secured Party's sole judgment, which shall be not less than 11.75 percent and not more than 17 percent, except that if the Secured Party determines that under then market conditions, interest on such Renewal Note should be in excess of 17 percent and if the rental payable by the Lessee during the renewal term will provide funds sufficient to pay interest on such Renewal Note at a rate greater than 17 percent and to amortize the principal amount of the Renewal Note to its maturity in accordance with subsection (c), such Renewal Note shall bear interest at such greater rate, but not more than 18 percent. The purchase price for each Renewal Note shall be equal to the principal amount thereof and shall be payable by credit against the principal of the Note or Renewal Note then outstanding.

(c) Each Renewal Note shall be payable in six annual installments of principal and interest (the first installment being of principal only) on the date of its issuance, on the first through fourth anniversaries of such date, and at maturity, each of the first five of which shall be in an amount which, when applied first to accrued and unpaid interest and then to principal, will be sufficient to

amortize the principal of the Note to such an extent that the amount of principal and accrued interest due at maturity will be equal to the number of units of Remaining Equipment times (1) \$2,500, in the case of the first Renewal Note due March 31, 1995, or (2) \$1,000, in the case of the Renewal Note due March 31, 2000, or (3) \$500, in the case of the Renewal Note due March 31, 2005.

SECTION 7.02. Conditions Precedent. The Secured Party's obligation to purchase any Renewal Note is subject to the conditions precedent that on the date of the purchase thereof (1) the Secured Party shall have received the amount specified in Section 7.01(a), (2) the amount of the installments of rent payable during the renewal term of the Lease shall be sufficient in amount to amortize the Renewal Note in accordance with Section 7.01, (3) no Default or Event of Default shall have occurred and be continuing, (4) the representations and warranties of the Company in this Agreement and the Note Agreement shall be true and correct, and (5) the Company if requested by the Secured Party shall have used its best efforts to obtain financing from another source with which to make all payments required to be made under the Note at its maturity.

SECTION 7.03. Status of Renewal Notes. The Company's obligations under each Renewal Note shall be secured by this Agreement. Each Renewal Note shall be treated as a "Note" for purposes of Section 6 of the Note Agreement.

ARTICLE VIII

Covenants of the Secured Party

SECTION 8.01. Notwithstanding anything contained in this Agreement, the Note, any Renewal Note or the Note Agreement, or in any other agreement, certificate, instrument or document executed or delivered in connection herewith or therewith (this Agreement, the Note, any Renewal Note, the Note Agreement and any such other agreement, certificate, instrument or document being collectively referred to hereinafter as the "Transaction Documents"), the Secured Party hereby covenants as follows:

(a) In no event will the Secured Party send or deliver a Notice of Delivery (as defined in the Equipment Purchase Agreement) to ICE pursuant to the Equipment Purchase Agreement earlier than 195 days prior to the earliest Delivery Date (as defined in the Equipment Purchase Agreement) without the Company's prior written consent.

(b) If, no later than 195 days prior to the earliest Delivery Date under the Equipment Purchase Agreement, the Company either (1) delivers to the Secured Party an irrevocable letter of credit in form and substance satisfactory to the Secured Party, issued by a Permitted Bank, covering all installments of interest and principal thereafter to become due under the Note or the then outstanding Renewal Note, or (2) provides other credit support satisfactory to the Secured Party covering all installments of interest and principal thereafter to become due under the Note upon the maturity thereof, then the Secured Party (i) will not send or deliver a Notice of Delivery to ICE under the Equipment Purchase Agreement and (ii) will terminate and release its security interest in the Collateral and whatever other interests in the Equipment, the Lease and the Purchase Agreement that it may have acquired hereunder.

(c) The Company shall be entitled to all amounts, if any, received by the Secured Party from ICE under the Equipment Purchase Agreement in excess of that which is necessary to repay the Note or any Renewal Note and pay all interest thereon and all other amounts payable to the Secured Party hereunder, under the Note or any Renewal Note or under the Note Agreement, and the Secured Party shall deliver such amounts received from ICE, if any, to the Company, promptly after all the Company's obligations to the Secured Party hereunder and under the Note or any Renewal Note and the Note Agreement have been paid in full.

(d) If the Secured Party gives ICE a Notice of Delivery under the Equipment Purchase Agreement, the Secured Party will not prevent the Lessee or the Company from, or otherwise interfere with any such party in, delivering the Equipment to ICE.

ARTICLE IX

Miscellaneous

SECTION 9.01. Nonrecourse Obligations. Any provision in any of the Transaction Documents to the contrary notwithstanding, no recourse shall be had against the Company, whether in its personal or corporate capacity or otherwise, or against any incorporator, shareholder, officer or director of the Company, under, or in respect of, any of the Transaction Documents, or for any obligation, liability or breach arising under, in connection with or in respect of, any of the Transaction Documents. It is expressly understood that all such obligations and liabilities are nonrecourse obligations and liabilities enforceable only

against the Collateral or, in the case of covenants and agreements, by injunction or other equitable remedies.

SECTION 9.02. Notices. All notices and demands hereunder shall be in writing and shall be deemed to have been given when actually received and receipted for, or three days after the date of mailing by registered or certified mail, return receipt requested, postage prepaid, and addressed in each case as follows: (a) if to the Secured Party at 1234 Market Street, Philadelphia, Pennsylvania 19107, Attention: Securities Investment Department, Private Placements, or (b) if to the Company, at One Embarcadero Center, Suite 3800, San Francisco, California 94111, Attention: Vice President and General Counsel. Either party may change its address for notices hereunder by giving notice of such change to the other party in accordance with the provisions of this Section 9.02.

SECTION 9.03. Powers and Agencies. Whenever in this Agreement the Secured Party is granted the power of attorney or is appointed the agent and attorney-in-fact with respect to any person, such grant or appointment is irrevocable and coupled with an interest. The Secured Party shall have full power of substitution and delegation in respect of all such grants and appointments.

SECTION 9.04. Separability. No provision hereof, or of the Note or the Renewal Note, shall require the payment or permit the collection of interest in excess of the maximum permitted by applicable law, any contrary provision herein, or in the Note or the Renewal Note notwithstanding. Any provision hereof, or of the Note, which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, or of the Note or the Renewal Note, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by law, the parties hereto hereby waive any provision of law which renders any such provision prohibited or unenforceable in any respect.

SECTION 9.05. Binding Effect. All provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns of the parties hereto.

SECTION 9.06. Amendment and Waiver. The provisions of this Agreement may not be changed orally, but only by an instrument signed by the Company and the Secured

Party. No requirement of this Agreement may be waived at any time except by an instrument signed by the Secured Party, nor shall any waiver be deemed a waiver of any subsequent breach or Default.

SECTION 9.07. Counterpart Execution; Construction; Governing Law. The section and article headings herein are for convenience of reference only, and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in several counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same Agreement. This Agreement shall be governed by and construed in accordance with the laws of Pennsylvania (without giving effect to principles relating to conflict of laws).

IN WITNESS WHEREOF, the Company and the Secured Party have caused this Agreement to be executed, all as of the day and year first above written.

TXL PROPERTIES LIMITED 85-109

By J. M. Ruse
J. M. Ruse,
Vice President

THE PHILADELPHIA SAVING FUND SOCIETY

By Philip A. McMunigal, III
Philip A. McMunigal, III,
Vice President

COMMONWEALTH OF PENNSYLVANIA :
: SS.
COUNTY OF CHESTER :

On the 6th day of January, 1986, before me personally appeared J. M. Ruse, to me personally known, who, being by me duly sworn, says that he is a Vice President of TXL Properties Limited 85-109, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

DIANE VICTORIA DIFULVIO
Notary Public, Malvern, Chester Co.
My Commission Expires Dec. 19, 1988

Diane Victoria Di Fulvio
Notary Public



COMMONWEALTH OF PENNSYLVANIA :
: SS.
COUNTY OF PHILADELPHIA :

On the 7th day of January, 1986, before me personally appeared Philip A. McMunigal, III, to me personally known, who, being by me duly sworn, says that he is a Vice President of The Philadelphia Saving Fund Society, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Paulette S. Richardson
Notary Public

PAULETTE S. RICHARDSON
Notary Public, Phila., Phila. Co.
My Commission Expires Nov. 2, 1987



EXHIBIT 1 TO SECURITY AGREEMENT

Description of Equipment

One hundred fifty-eight 100-ton, open hopper cars manufactured by Bethlehem Steel Corporation, identified by numbers AEPX 851 through AEPX 987, inclusive, AEPX 989 through AEPX 1002, inclusive, and AEPX 1004 through AEPX 1010, inclusive.