First Bank

Minneapolis Office
First Bank Place
Minneapolis, Minnesota 55480
612 370-4141

8-350A012
No.
Date DEC 14 1988
Fee $ 130
ICC Washington, D.C.

November 30, 1988

Interstate Commerce Commission
Office of Recordation
12th and Constitution Avenue
Room 2303
Washington, D.C. 20423

INTERSTATE COMMERCE COMMISSION
DEC 15 1988 11-20 AM
RECORDATION NO. 16070 Filed 1425

Attention: Mildred Lee

Dear Ms. Lee:

Enclosed is an original and one copy of a Security Agreement to be recorded pursurant to Section 1103 of title 49 of the U.S. Code. The Security Agreement is a "primary document" as defined under 49 C.F.R 1177.1(a) and is dated October 20, 1988.

The names and addresses of the parties to the document are as follows:

1. Debtor - Independent Locomotive Service, Inc., P.O. Box 79, 21 Main Street, N.E., Bethel, MN 55005.

2. Secured Party - First Bank National Association, First Bank Place, 120 South Sixth Street, Minneapolis, Minnesota 55480.

A description of the equipment covered by the Security Agreement is as follows:

1- Electro-Motive Division of General Motors Railroad Locomotive. An EMD SW-1200, 1200 hp 125 ton unit. Former owners - Norfolk and Portsmouth Belt Line Railroad Co.

Locomotive Unit identification No. 110.

Included in the property covered by the Security Agreement are locomotives and other railroad equipment intended for use related to interstate commerce, or interest therein, owned by the Debtor at the date of said Security Agreement or thereafter acquired by it or its successors as owners ot the railway related equipment covered by the Security Agreement.

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

Security Agreement between Independent Locomotive Service, Inc. of P.O. Box 79, 21 Main Street, N.E., Bethel, MN 55005, as Debtor, and First Bank National Association of First Bank Place, 120 South Sixth Street, Minneapolis, Minnesota 55480, as Secured Party, dated October 20, 1988 and covering SW-9 locomotives and all after-acquired equipment.

A fee of $13.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to the undersigned.

Very truly yours,

Brian J. Kusunoki

Brian J. Kusunoki
Assistant Vice President

Enclosure

Interstate Commerce Commission

Washington, D.C. 20423

12/15/88

OFFICE OF THE SECRETARY

Brain J. Kusunoki
Asst. Vice Pres.
First Bank
Minneapolis Office

First Bank Place
Minneapolis, MN 55480

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 12/15/88 at 11:20AM, and assigned recordation number(s). 16070 & 16071

Sincerely yours,

Noreta R. McGee

Secretary

Enclosure(s)

SE-30
(7/79)

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

DEC 15 1988 11-20 AM

RECORDATION NO. 16070 Filed 1425

DEBTOR: INDEPENDENT LOCOMOTIVE SERVICE, INC.

BUSINESS ADDRESS: P. O. BOX 79
21 MAIN STREET, N.E.

CITY, STATE & ZIP: BETHEL, MINNESOTA 55005

SECURED PARTY: FIRST BANK NATIONAL ASSOCIATION

ADDRESS: FIRST BANK PLACE
P. O. BOX A512

CITY, STATE & ZIP: MINNEAPOLIS, MINNESOTA 55480

1. Grant of Security Interest. To secure the payment and performance of all promissory notes and other obligations now and hereafter owed by Debtor to the Secured Party (the "Indebtedness"), Debtor hereby grants Secured Party a security interest (the "Security Interest") in all Debtor's right, title and interest in and to all Debtor's now owned and hereafter acquired personal property and the proceeds thereof including the specific following property (the "Collateral"):

(a) Inventory. All inventory (as the term is defined in the applicable Uniform Commercial Code) now owned or hereafter at any time acquired by Debtor or in which Debtor obtains rights and wherever located.

(b) Equipment. All equipment (as the term is defined in the applicable Uniform Commercial Code) now owned or hereafter at any time acquired by Borrower or in which Borrower obtains rights.

(c) Accounts, Instruments, Chattel Paper, Other Rights to Payment and General Intangibles. Each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, together with all other rights and interests (including all liens and security interests) which Debtor may at any time have by law or agreement against any account debtor (as defined in the applicable Uniform Commercial Code) or other obligor obligated to make any such

payment or against any of the property of such account debtor or other obligor, including, without limitation, all Debtor's present and future accounts, contract rights, chattel paper, instruments, other rights to payment and general intangibles.

(d) Pledged Property. All personal property of Debtor now or hereafter in the possession of Secured Party. To the extent that any such property consists of capital stock or other securities, Debtor hereby agrees to deliver to Secured Party all additional securities recovered by Debtor or to which Debtor is entitled, by reason of stock splits, stock dividends or other distributions thereon to be held as collateral pursuant hereto.

2. Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor's chief executive offices are located at P. O. Box 79, 21 Main Street, N.E., Bethel, Minnesota 55005 and Debtor is a corporation in good standing under the laws of Minnesota.

(b) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to the Collateral free and clear of all security interests, liens and encumbrances, subject to the security interest created hereby. Debtor will pay all fees, assessments, charges or taxes arising with respect to the Collateral. All costs of keeping the Collateral free of encumbrances and security interests prohibited by this Agreement and of removing same if they should arise shall be borne and paid by Debtor. Debtor will not sell or otherwise dispose of the Collateral or any interest therein except in the ordinary course of business at prices constituting the then fair market value thereof.

(c) This Agreement has on behalf of Debtor been duly and validly authorized by all necessary corporate action.

(d) Each right of payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) a valid, genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the account debtor or obligor named therein or in Debtor's records pertaining thereto as being obligated to pay such obligation. Debtor will not agree to any material modification, amendment or cancellation without Secured Party's prior written

consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

(e) Debtor will, at the request of Secured Party, use its best efforts to (i) keep the Collateral in good repair, working order and conditoin, normal depreciation excepted, and to replace any worn, broken or defective parts thereof, (ii) promptly pay all taxes and governmental charges levied or assessed upon or against the Collateral; (iii) at all reasonable times, permit Secured Party or its representatives to examine or inspect the Collateral for appraisal or other purposes wherever located; (iv) on an annual basis, have the Colalteral appraised at Debtor' expense by an independent third party approved by Secured Party; (v) nor use or keep any equipment portion of the Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; and (vi) not permit any Collateral to become part of or to be affixed to any real property without first assuring to Secured Party's reasonable satisfaction that the Security Interest will be prior and senior to any interest or lien when held by any mortgagee of such real property or the owner or purchaser of any interest therein.

(f) The Secured Party and its representatives shall have the right to examine, inspect and copy Debtor's books and records pertaining to the Collateral and Debtor shall deliver to Secured Party (i) Debtor's audited annual and unaudited quarterly financial statements and balance sheets within 90 days and 30 days after the end of each such date, respectively, (ii) Debtor's unaudited monthly financial statements and balance sheets within 10 days after the end of each month, and (iii) monthly activity reports within 10 days after the end of each month.

(g) Debtor will hereafter execute such financing statements and other documents and instruments and perform such acts as Secured Party may request to establish and maintain a perfected and first priority security interest in the Collateral and will pay all costs of filing and recording.

(h) Debtor shall cause Secured Party to be named as additional insured or loss payee (as appropriate) under all applicable insurance policies obtained insuring the Collateral against liability and property damage and loss, and to be named an additional insured or loss payee (as appropriate) under all other policies of insurance obtained insuring the Collateral, and

in furtherance thereof, in any instance in which Secured party is not so named, Debtor hereby appoints Secured Party the attorney-in-fact for Debtor, to prove and adjust any losses and to endorse any loss drafts, and Debtor hereby assigns to Secured Party all sums which may become payable under all such insurance, including returned premiums and dividends, as additional security hereunder; provided, however, that so long as Debtor is not in default under this Agreement, the Letter Loan Agreement of even date herewith between the Debtor and the Secured Party (the "Letter Loan Agreement"), or under the terms of any promissory note representing the Indebtedness, the Secured Party shall apply the proceeds of such insurance, at Debtor's option, to either (i) the repair or replacement of the damaged or lost item of Collateral or (ii) the pro rata reduction of the indebtedness evidenced by the Note.

(i) Debtor will promptly notify Secured Party of any loss or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper or account constituting Collateral.

3. Events of Default. An "Event of Default" hereunder shall mean the occurrence of an Event of Default under the terms of the Letter Loan Agreement.

4. Remedies Upon Occurrence of Event of Default. Upon the occurrence of an Event of Default and at anytime thereafter, Secured Party may exercise any one or more of the following rights and remedies; (i) exercise and enforce any and all rights and remedies under the Note; (ii) exercise and enforce any and all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process, and the right to sell, lease or otherwise dispose of any or all of the Collateral. If notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given at least tne (10) calendar days prior to the date of intended disposition or other action.

5. Miscellaneous.

5.1 This Security Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party.

5.2 A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given.

5.3 Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights and remedies.

5.4 Debtor, by entering into this Security Agreement and negotiating the terms hereof, voluntarily, intelligently and knowingly waives any rights it may have to demand any notices other than those provided for herein and any right to a hearing as a condition precedent to Secured Party exercise of its rights hereunder.

5.5 All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently at Secured Party's option, and the exercise of enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

5.6 All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed to Debtor at its address set forth above or at the most recent address shown on Secured Party's records.

5.7 Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safe-keeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect or care for any Collateral, Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, realize on the Collateral at all or in any particular manner or order; or to apply any cash proceeds of Collateral in any particular order of application.

5.8 This Security Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waives notice of Secured Party's acceptance hereof. Secured Party may execute this Security Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Security Agreement shall not affect or impair the validity or effectiveness of this Security Agreement.

5.9 A carbon, photographic or other reproduction of this Security Agreement or of any financing statement signed by the Debtor shall have the same force and effects as the original for all purposes of a financing statement.

5.10 This Security Agreement shall be governed by the laws of the State of Minnesota.

5.11 If any provision or application of this Security Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Security Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby.

5.12 Debtor hereby consents to the jurisdiction of the Ramsey County and Hennepin County, Minnesota District Court, and the Federal District Court for the District of Minnesota for all purposes regarding this Security Agreement and further hereby agrees to bring all such lawsuits in one of said courts and hereby waives any and all rights to a jury trial that it may have in any such lawsuits.

FIRST BANK NATIONAL ASSOCIATION
("Secured Party")

By Brian J. Kisenoh
Its Assistant Vice President

INDEPENDENT LOCOMOTIVE SERVICE, INC.
a Minnesota Corporation
("Debtor")

By Frank W. Nesbit
Frank W. Nesbit
Its President

Dated this 20th day of October, 1988.

EXHIBIT C

[Form of Supplement to Security Agreement]

To secure payment and performance of all promissory notes and as additional collateral under the Security Agreement dated October 20, 1988 between Independent Locomotive Service, Inc. as Debtor and First Bank National Association as Secured Party, Debtor hereby grants Security Party a security interest in all Debtor and right, title and interest in and to the following property:

Description	Serial Number
1 - Electro-Motive Division of General Motors Railroad Locomotive. EMD SW-1200, 1200 hp, 125 ton unit. Former owners - Norfolk and Portsmouth Belt Line Railroad Co.	
	Unit No. 110

Purchase invoice enclosed.

Dated this 20 day of October, 1988.

INDEPENDENT LOCOMOTIVE
SERVICE, INC.

By _____
Its _____