

RECORDATION NO. 14872-F FILED

SEP 17 '97

11-50AM

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September 17, 1997

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

RECEIVED
SURFACE TRANSPORTATION
BOARD

SEP 17 11 48 AM '97

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a), are three (3) copies of a Security Agreement, dated as of August 1, 1997, secondary documents as defined in the Board's Rules for the Recordation of Documents.

The enclosed document relates to the Lease of Railroad Equipment previously filed with the Commission under Recordation Number 14872-B.

The names and addresses of the parties to the enclosed document are:

Debtor: USWFS Direct Trust Grand Trunk
1201 Market Street
Wilmington, Delaware 19801

Secured Party: LaSalle National Bank
135 South LaSalle Street
Chicago, Illinois 60674

A description of the railroad equipment covered by the enclosed document is:

three hundred and twenty (320) autoracks bearing GTW reporting marks and road numbers as set forth on Exhibit B to the Security Agreement.

Mr. Vernon A. Williams
September 17, 1997
Page 2

Also enclosed is a check in the amount of \$24.00 payable to the order of the
Surface Transportation Board covering the required recordation fee.

Kindly return two stamped copy of the enclosed document to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Robert W. Alvord', written in a cursive style.

Robert W. Alvord

RWA/bg
Enclosures

SEP 17 '97

11-50AM

SECURITY AGREEMENT

between

USWFS DIRECT TRUST GRAND TRUNK,

as DEBTOR

and

LASALLE NATIONAL BANK,
in its capacity as Note Trustee under the Indenture,
dated as of August 1, 1997, by and between
USWFS Borrower Trust and LaSalle National Bank,

as SECURED PARTY

Dated as of August 1, 1997

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- Exhibit A - Underlying Lease No 31, as amended
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SECURITY AGREEMENT

THIS SECURITY AGREEMENT, dated as of August 1, 1997 is between USWFS DIRECT TRUST GRAND TRUNK, a Delaware business trust having its principal place of business at 1201 Market Street, Wilmington, Delaware, 19801 (the "Debtor"), and LASALLE NATIONAL BANK, a national banking association, not in its individual capacity but solely as note trustee under the Indenture, dated as of August 1, 1997, by and between USWFS Borrower Trust and LaSalle National Bank (the "Secured Party").

R E C I T A L S:

WHEREAS, pursuant to that certain Assignment and Assumption Agreement, dated as of August 1, 1997, between U S WEST Financial Services, Inc. ("USWFS") and Debtor (as amended, supplemented or modified from time to time in accordance with its terms, the "Assignment and Assumption Agreement"), Debtor acquired all of USWFS's right, title and interest in, to and under (i) that certain Lease of Railroad Equipment, dated as of December 1, 1985, between USWFS, as owner, and Grand Trunk Western Railroad Company, as lessee, as amended by that certain First Amending Agreement, dated as of February 1, 1996 (the Lease of Railroad Equipment, as amended by the First Amending Agreement, and as the same may be amended or modified from time to time in accordance with its terms, the "Underlying Lease No. 31"), between USWFS and Grand Trunk Western Railroad Incorporated, and (ii) the items of equipment leased thereunder;

WHEREAS, pursuant to that certain Agreement of Representations, Warranties and Covenants, dated as of August 1, 1997, by and between USWFS and Debtor (as amended, supplemented or modified from time to time in accordance with its terms, the "Warranty Agreement"), USWFS made certain representations and warranties to Debtor, and USWFS and the Debtor made certain covenants, in each case with respect to Underlying Lease No. 31 and the items of equipment leased thereunder;

WHEREAS, pursuant to that certain Transfer Agreement, dated as of August 1, 1997, between USWFS Borrower Trust (the "Issuer") and the Debtor (as amended, supplemented or modified from time to time in accordance with its terms the "Transfer Agreement"), the Debtor transferred to the Issuer all of the Debtor's right, title and interest in, (but none of its obligations or liabilities) to and under (i) all Available Cash Flow and Residual Payments payable after September 1, 1997 related to Underlying Lease No. 31 and the Underlying Equipment and (ii) the Warranty Agreement and the Assignment and Assumption Agreement;

WHEREAS, the Issuer and Secured Party have entered into an Indenture, dated as of August 1, 1997 (as amended, supplemented or modified from time to time in accordance with its terms the "Indenture") pursuant to which the Issuer will Grant to the Secured Party a first priority perfected security interest in, *inter alia*, all of the Issuer's right, title and interest in and to (but none of its obligations or liabilities under) (i) all Available Cash Flow and Residual Payments payable after September 1, 1997 related to Underlying Lease No. 31 and the Underlying Equipment and (ii) the Warranty Agreement, the Assignment and Assumption Agreement and the Transfer Agreement;

NOW, THEREFORE, in consideration of the promises and covenants set forth herein, the Debtor and Secured Party hereby agree as follows:

SECTION 1. DEFINITIONS.

Capitalized term used herein shall have the following meanings:

"Assignment and Assumption Agreement" has the meaning set forth in the Recitals hereto.

"Debtor" means USWFS Direct Trust Grand Trunk, a business trust organized under the laws of the State of Delaware, and its successors and permitted assigns.

"Event of Default" means any of the events or conditions defined as "Event(s) of Default" in Underlying Lease No. 31, after giving effect to any applicable grace or cure periods set forth therein.

"Excepted Rights" shall have the meaning set forth in Section 2.5 hereto.

"Indenture" has the meaning set forth in the Recitals hereto.

"Issuer" has the meaning set forth in the Recitals hereto.

"Item" has the meaning set forth in the Recitals hereto.

"Lease Documents" shall have the meaning set forth in Section 3.1 hereto.

"Lessee" shall mean Grand Trunk Western Railroad Incorporated (as successor in interest to Grand Trunk Western Railroad Company), a Delaware corporation, and its successors and permitted assigns.

"Obligations" shall have the meaning set forth in Section 22 hereof.

"Permitted Liens" shall mean, with respect to the Underlying Equipment, all of the following: (a) the rights of the Lessee under Underlying Lease No. 31, (b) the Liens created by the Relevant Documents, and (c) liens and charges permitted pursuant to the terms of Section 15.2 of Underlying Lease No. 31.

"Potential Event of Default" means any event of condition which, with the giving of notice or passage of time or both, would constitute an Event of Default.

"Secured Party" means LaSalle National Bank, a national banking association, not in its individual capacity but solely as note trustee under the Indenture, and any successor note trustee appointed in accordance with the terms of the Indenture.

"Security Agreement" means this Security Agreement, dated as of August 1, 1997, between the Debtor and Secured Party, as amended, modified or supplemented from time to time in accordance with the terms hereof.

"Security Agreement Event of Default" means any of the events or conditions set forth in Section 6.1 hereof, after giving effect to any applicable grace or cure periods set forth therein.

"Transfer Agreement" has the meaning set forth in the Recitals hereto.

"Underlying Equipment" means the rail cars that are subject to Underlying Lease No. 31, set forth in Exhibit B hereto and as more particularly described in Schedule 1 to the Assignment and Assumption Agreement, by and between the Debtor and USWFS, together with (A) all accessories, equipment, parts and appurtenances appertaining or attached to any Item of Underlying Equipment hereinabove described, whether now owned or hereafter acquired, and (B) all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations, in either case, to any or all of the Underlying Equipment, except such accessories, equipment, parts, appurtenances, substitutions, renewals, replacements, additions, improvements, accessions or accumulations that remain the property of the Lessee after the related expiration of the term of Underlying Lease No. 31.

"Underlying Lease No. 31" has the meaning set forth in the Recitals hereto.

"Underlying Lease No. 31 Collateral" has the meaning set forth in the granting clause of Section 2 hereto.

"Underlying Lease No. 31 Payments" means all rent, Casualty Payments, Purchase Option Payments, Default Payments, Early Termination Payments, insurance proceeds, condemnation awards and other payments, tenders and security now or hereafter payable or receivable by the Debtor pursuant to Underlying Lease No. 31.

"USWFS" means U S West Financial Securities, Inc., a Colorado corporation, and its successors and permitted assigns.

"Warranty Agreement" has the meaning set forth in the Recitals hereto.

Capitalized terms used by not otherwise defined herein shall have the meaning assigned to them in Appendix A to the Indenture.

SECTION 2. GRANT OF SECURITY INTEREST: POSSESSION, USE AND RELEASE OF COLLATERAL.

2.1 Grant of Security Interest. In consideration of the promises received by the Debtor from the Secured Party and other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, the Debtor does hereby Grant, subject always to

those limitations set forth in Sections 2.3 and 2.5 hereof, to the Secured Party, for the benefit and security of the Noteholders, all of the Debtor's right, title and interest in and to:

(i) Underlying Lease No. 31, a true, complete and correct copy of which is attached hereto as Exhibit A, including, without limitation, all rights, powers, privileges, options and other benefits of the Debtor as successor in interest to USWFS under Underlying Lease No. 31, including, without limitation:

(a) the immediate and continuing right to receive and collect the Underlying Lease No. 31 Payments, except those sums reserved as Excepted Rights;

(b) the right to make all waivers, modifications and agreements and to enter into any amendments or supplements relating to Underlying Lease No. 31 or any provision thereof; and

(c) the right to take such actions upon the occurrence of an Event of Default, including the commencement, conduct and consummation of such legal, administrative or other proceedings, as shall be permitted by Underlying Lease No. 31 or by law, and to do any and all other things whatsoever which the Debtor or any lessor is or may be entitled to do under the Underlying Lease;

it being the intent and purpose hereof that the assignment and transfer to the Secured Party of said rights, powers, privileges, options and other benefits shall be effective and operative immediately and shall continue in full force and effect, and the Secured Party shall have the right to collect and receive all Underlying Lease No. 31 Payments and other sums for application, if any, in accordance with the provisions of this Security Agreement at all times during the period from and after the date of this Security Agreement until one year and one day after the Notes have been paid in full;

(ii) all collateral or other security provided by, or on behalf of, the Lessee as collateral security for its obligations under Underlying Lease No. 31;

(iii) the Underlying Equipment;

(iv) all income, payments and proceeds of the foregoing (the items set forth in clauses (i) through (v) collectively, the "Underlying Lease No. 31 Collateral").

2.2 Obligations Secured. The Grant set forth in Section 2.1 above is made in trust to secure (i) the obligations of the Debtor under the Transfer Agreement, including the obligation to remit to the Issuer all Available Cash Flow and Residual Payments payable after the Cut-off Date relating to Underlying Lease No. 31 and the Underlying Equipment, (ii) the payment of all amounts due on Notes in accordance with their terms, (iii) the payment of all other sums payable by the Issuer under the Indenture and (iv) compliance by the Debtor with the provisions of the Transfer Agreement and any other Relevant Document to which it is a party or by which

it is bound (the items set forth in clauses (i), (ii), (iii) and (iv) are collectively referred to as the "Obligations").

2.3. Limitations to Security Interest. So long as no Event of Default shall have occurred and then be continuing and the Secured Party continues to receive when due all Underlying Lease Payments, the security interest of the Secured Party created hereby and its rights hereunder are subject to the rights of the Lessee under Underlying Lease No. 31.

2.4. Duration of Security Interest. The Secured Party shall have and hold the Underlying Lease No. 31 Collateral until such time as the Obligations have been paid or otherwise discharge in full; provided, however, that if the Debtor shall satisfy (or shall cause the satisfaction of) the terms and conditions of Section 404 of the Indenture with respect to Underlying Lease No. 31 Collateral, then the Grant hereby conveyed shall cease and this Security Agreement shall terminate.

2.5. Excepted Rights in Underlying Lease No. 31 Collateral. There are expressly excepted and reserved from the Underlying Lease No. 31 Collateral and operation of this Security Agreement the following described properties, rights, interests and privileges (collectively, the "Excepted Rights") and nothing herein or in any other agreement contained shall constitute an assignment of said Excepted Rights to the Secured Party:

(a) all payments of any indemnity under Sections 6 and 12 of Underlying Lease No. 31 which by the terms thereof are payable to the Debtor for its own account;

(b) all rights of the Debtor under the Underlying Lease to demand, collect, sue for or otherwise obtain all amounts from the Lessee due the Debtor on account of any such indemnities or payments pursuant to Sections 6 and 12 of Underlying Lease No. 31 which by the terms thereof are enforceable by the Debtor for its own account; and

(c) any insurance proceeds payable under the property damage and general public liability policies required to be maintained by the Lessee pursuant to Section 7 of Underlying Lease No. 31 which by the terms of such policies or the terms of such Underlying Lease are payable directly to the Debtor for its own account.

2.6. Possession of Underlying Equipment. So long as no Security Agreement Event of Default has occurred and is continuing, the Debtor shall be permitted to remain in full possession, enjoyment and control of the Underlying Equipment and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto, provided, that the possession, enjoyment, control and use of the Underlying Equipment shall at all times be subject to the observance and performance of the terms of this Security Agreement. It is expressly understood that the use, possession or acquisition of the Underlying Equipment by the Lessee in accordance with the terms and conditions of Underlying Lease No. 31 under and subject to Underlying Lease No. 31 shall not constitute a violation of this Section 2.6.

2.7. Protection of Purchaser. No purchaser in good faith of property purporting to be released hereunder shall be bound to ascertain the authority of the Secured Party to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser, in good faith, of any item or unit of the Underlying Lease No. 31 Collateral be under obligation to ascertain or inquire into the conditions upon which any such sale is hereby authorized.

2.8. Power of Attorney. The Debtor does hereby irrevocably constitute and appoint the Secured Party its true and lawful attorney with full power of substitution, for it and in its name, place and stead, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all Underlying Lease No. 31 Payments and any other sums which are assigned to the Secured Party pursuant to Section 2 hereof with full power to settle, adjust or compromise any claim thereunder as fully as the Debtor could itself do, and to endorse the name of the Debtor on all instruments given in payment or in part payment thereof, and in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Debtor or otherwise, which the Secured Party may deem necessary or appropriate to protect and preserve the right, title and interest of the Secured Party in and to such Underlying Lease No. 31 Payments and other sums and the security intended to be afforded hereby; provided, however, that so long as no Security Agreement Event of Default shall have occurred and be continuing, no settlements, adjustments or compromise of any claim and no amendment or modification of any provision of Underlying Lease No. 31 shall be made by the Secured Party without the consent of the Debtor.

SECTION 3. REPRESENTATIONS AND WARRANTIES.

Representations and Warranties of the Debtor. The Debtor hereby represents and warrants as of the Closing Date that:

3.1. Organization and Good Standing. The Debtor is a business trust that has been duly organized and is validly existing and in good standing under the laws of the State of Delaware, with power and authority to own its assets and to enter into all transactions contemplated by the Relevant Documents to which it is a party.

3.2. Due Qualification. The Debtor is duly qualified to do business as a foreign entity in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require such qualification, license or approval (except where the failure to be so qualified, licensed and approved would not (i) individually or in the aggregate have a material adverse effect on the Debtor or the Underlying Lease No. 31 Collateral or (ii) impair the enforceability of any provision of any Relevant Document to which it is a party.

3.3. Power and Authority. The Debtor has the power and authority to execute and deliver this Security Agreement and the other Relevant Documents to which it is a party and to carry out their terms; and the execution, delivery and performance of this Security Agreement

and the other Relevant Documents to which the Debtor is a party have been duly authorized by the Debtor by all necessary action.

3.4. Binding Obligation. This Security Agreement and the other Relevant Documents to which the Debtor is a party constitute legal, valid and binding obligations of the Debtor, enforceable against the Debtor in accordance with their respective terms except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights and by general principles of equity.

3.5. No Violation. The consummation of the transactions contemplated by this Security Agreement or the other Relevant Documents to which it is a party and the fulfillment of the terms hereof shall not conflict with, result in any material breach of any of the terms and provisions of, nor constitute (with or without notice or lapse of time) a default under, the organizational documents of the Debtor or any indenture, agreement or other instrument to which the Debtor is a party or by which it is bound; nor result in the creation or imposition of any Lien upon its assets pursuant to the terms of any such indenture, agreement or other instrument (other than this Security Agreement); nor violate any law, order, rule or regulation applicable to the Debtor of any Governmental Authority having jurisdiction over the Debtor or its assets.

3.6. Consents. No approval, authorization or consent of any Person under any agreement, contract, lease or license or similar document or instrument to which Debtor is a party or by which Debtor is bound, is required to be obtained by Debtor in order to make or consummate the transactions contemplated under this Security Agreement or any other Relevant Documents to which it is a party except for such approvals, authorizations and consents that have been obtained prior to the Closing Date. All consents and approvals of, filings and registrations with, and other actions in respect of, all Governmental Authorities required to be obtained by Debtor in order to make or consummate the transactions contemplated under this Security Agreement and the other Relevant Documents to which it is a party have been, or prior to the time when required will have been, obtained, given, filed or taken and are or will be in full force and effect.

3.7. No Proceedings. There are no Proceedings or investigations pending or threatened before any Governmental Authority having jurisdiction over the Debtor or its properties: (A) asserting the invalidity of this Security Agreement or the other Relevant Documents to which it is a party; (B) seeking to prevent the consummation of any of the transactions contemplated by this Security Agreement or the other Relevant Documents to which it is a party; or (C) seeking any determination or ruling that might materially and adversely affect the performance by the Debtor of its obligations under, or the validity or enforceability of, this Security Agreement or the other Relevant Documents to which it is party.

3.8. Solvency of Debtor. The Debtor is Solvent both before and after giving effect to the transactions contemplated by this Security Agreement and the other Relevant Documents to which it is a party.

3.9. Security Interest in Underlying Lease No. 31 Collateral. The Debtor has granted to the Note Trustee a perfected valid security interest in the Underlying Lease No. 31 Collateral, which security interest is prior to all other Liens.

3.10. No Other Liens. The Debtor has not granted any Lien in the Underlying Lease No. 31 Collateral except for the Lien created by this Security Agreement.

3.11. Special Purpose Entity. The Debtor is a Special Purpose Entity.

3.12. Underlying Lease No. 31 Collateral. The Debtor is the sole owner of the Underlying Lease No. 31 Collateral free and clear of all security interests, liens and encumbrances whatsoever except Permitted Liens. The counterpart of the Underlying Lease Number 31 delivered to the Secured Party on the Closing Date shall be stamped "Secured Party's Original", and shall be the only original executed counterpart thereof so stamped or marked.

3.13. Ownership. USWFS is the sole legal and beneficial owner of the Debtor. The legal name of the Debtor is "USWFS Direct Trust Grand Trunk," and the Debtor has not operated under any trade names, fictitious names, assumed names or "doing business as" names. The chief executive office of the Debtor is located at 1201 Market Street, Wilmington, Delaware 19801, and has not been located at any other location for the past five years.

3.14. Investment Company Act. The Debtor is neither an "investment company" nor a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4. COVENANTS OF THE DEBTOR.

4.1. Affirmative Covenants of Debtor. Debtor covenants and agrees that, until full, complete and indefeasible payment and performance of the Obligations, unless the Majority of Holder(s) shall otherwise consent in writing, Debtor shall do or cause to have done all of the following:

(a) **Special Purpose Entity.** The Debtor at all times shall remain a Special Purpose Entity.

(b) **Notice Upon Certain Events.** Promptly upon any officer of any USW Affiliated Entity obtaining Knowledge thereof, the Debtor shall provide, or cause a USW Affiliated Person to provide, the Secured Party with prompt written notice of the following: (i) any condition or event which constitutes an Event of Default or Potential Event of Default, (ii) any condition or event that constitutes, or with the giving of notice or the passage of time or both would constitute, a Security Agreement Event of Default, (iii) any Casualty Event or the election of a Lessee to terminate Underlying Lease No. 31 prior to the expiration of its primary term or to exercise a Purchase Option, (iv) the institution of any litigation or of the receipt of written notice from any Governmental Authority as to the commencement of any formal investigation

involving an alleged or asserted liability of the Debtor of any amount or any adverse judgment in any litigation involving a potential liability of Debtor that would have a material adverse effect on the Debtor or the Underlying Lease No. 31 Collateral, or (v) a change in the business, operations, properties, assets or condition (financial or otherwise) of Lessee that would have a material adverse effect on the Lessee or its ability to perform under the Underlying Lease No. 31 Collateral.

(c) Existence; Compliance with Law. Debtor shall preserve, keep in full effect and maintain its existence and all of its licenses, permits, governmental approvals, rights, privileges and franchises necessary or desirable in the normal conduct of its business as now conducted or presently proposed to be conducted (including, without limitation, its rights as a business trust under Delaware law and qualification to do business in each jurisdiction in which such qualification is necessary or desirable in view of its business or as necessary to protect the validity and enforceability of this Security Agreement or the other Relevant Documents to which it is a party); to conduct its business and maintain its properties in an orderly and regular manner; and comply with (i) the provisions of its organizational documents, (ii) the requirements of all applicable laws, rules, regulations or orders of any Governmental Authority and requirements for the maintenance of Debtor's insurance, licenses, permits, governmental approvals, rights, privileges and franchises and (iii) the requirement of all Environmental Laws, except, in either case, to the extent that the failure to comply therewith would not, in the aggregate, have a material adverse effect on the Debtor or the Underlying Lease No. 31 Collateral.

(d) Taxes and Other Liabilities; Tax Returns. The Debtor shall pay or cause to be paid all taxes when due and payable or levied against its assets, properties or income, including any property that is part of the Underlying Lease No. 31 Collateral, except to the extent Debtor is contesting the same in good faith and has set aside adequate reserves in accordance with GAAP for the payment thereof; *provided, however*, that in no event shall such contest by the Debtor result in any actual loss with respect to the Underlying Lease No. 31 Collateral and the Debtor will deliver or cause to be delivered to the Secured Party annual federal income tax returns of the Debtor, if any.

(e) Inspection Rights. The Debtor shall permit any representative of the Secured Party or any Noteholder representing Notes having a then unpaid principal balance of note less than \$20 million and their duly authorized representatives, attorneys or accountants, (i) upon reasonable request, (ii) during the Debtor's normal business hours and (iii) at offices designated by the Debtor, to examine all of the books of account, records, reports and other papers of the Debtor, to make copies and extracts therefrom, and to discuss the Debtor's affairs, finances and accounts with the Debtor's officers, employees and independent accountants (and by this provision the Debtor hereby authorizes its independent accountants to discuss with such representative such affairs, finances and accounts), all at such reasonable times and as often as may be reasonably requested. The Debtor also hereby agrees and covenants to make or to cause to make available, as promptly as practicable after receipt of request to do so, on a reasonable basis to the Secured Party or any Noteholder(s) or Prospective Owner representing Notes having a then unpaid principal balance of note less than \$20 million a knowledgeable financial or accounting officer of

the Debtor or other appropriate USW Affiliated Entity for the purpose of answering reasonable questions respecting recent developments affecting the Debtor.

(f) Notice of Liens. Debtor shall notify Note Trustee of the existence of any Lien (except Permitted Liens) on any of the Underlying Lease No. 31 Collateral immediately upon discovery thereof. The Debtor shall defend the security interests of the Secured Party in the Underlying Lease No. 31 Collateral, whether now existing or hereafter arising, against all claims of third parties (other than any such claims arising by, through or under the Secured Party or any Noteholder).

(g) Performance of Obligations. The Debtor shall duly and punctually fulfill all obligations on its part to be fulfilled under or in connection with Underlying Lease No. 31 and each other Relevant Document to which it is a party and will do nothing to impair the rights of the Secured Party in the Underlying Lease No. 31 Collateral. So long as no Event of Default has occurred and is continuing, the Debtor will not disturb the Lessee's quiet and peaceful possession of the related Underlying Equipment and the Lessee's unrestricted use thereof for its intended purpose.

(h) Documentation: Further Assurances. The Debtor shall from time to time, at the expense of the Debtor, promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable that the Secured Party (acting at the direction of the Majority of Holders) may request in order to maintain and protect the lien of the Secured Party in the Underlying Lease No. 31 Collateral or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to the Underlying Lease No. 31 Collateral. Without limiting the generality of the foregoing, the Debtor shall execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, and make such recordings, as may be necessary or desirable, or as the Secured Party may request, in order to perfect and preserve the Lien and security interest granted or purported to be granted in this Security Agreement. In addition, the Issuer shall furnish to the Secured Party from time to time statements and schedules further identifying and describing the Underlying Lease No. 31 Collateral.

(i) Protection of Underlying Lease No. 31 Collateral. The Debtor shall promptly after receipt of request, whether oral or written, from time to time execute and deliver all amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments, and will, upon the reasonable request of the Note Secured Party, take such other action necessary or advisable to:

(1) grant more effectively the security interest in all or any portion of the Underlying Lease No. 31 Collateral;

(2) maintain or preserve the Lien of this Security Agreement (and the priority thereof) or carry out more effectively the purposes hereof;

(3) perfect, publish notice of, or protect the validity of the security interest in the Underlying Lease No. 31 Collateral created pursuant to this Security Agreement;

(4) enforce any of the items of the Underlying Lease No. 31 Collateral;
or

(5) preserve and defend its right, title and interest to the Underlying Lease No. 31 Collateral and the rights of the Secured Party in such Underlying Lease No. 31 Collateral against the claims of all Persons (other than the claims arising by, through or under the Secured Party or any Noteholder); or

(j) Compliance with Laws. The Debtor shall comply in all material respects, with all laws, acts, rules, regulations, orders, decrees and directions of any Governmental Authority applicable to the Underlying Lease No. 31 Collateral or any part thereof or applicable to the Debtor;

(k) Maintenance of Records. The Debtor will maintain, or cause to be maintained, accounts and records as to each respective Underlying Lease No. 31 that are accurate and sufficiently detailed as to permit (i) the reader thereof to know as of any date of determination the status of Underlying Lease No. 31 Collateral, including payments received, recoveries made and payments owing (and the nature of each) and (ii) reconciliation between such collections and recoveries on (or with respect to) Underlying Lease No. 31 and the amounts from time to time deposited in the Collection Account in respect of Underlying Lease No. 31.

4.2. Negative Covenants. The Debtor covenants and agrees that, until full, complete and indefeasible payment and performance of the Obligations, it shall not do any of the following, unless the Secured Party (acting at the direction of the Majority of Holders) shall otherwise consent in writing:

(a) Disposition of Underlying Lease No. 31 Collateral. Sell, transfer, exchange or otherwise dispose of any of the Underlying Lease No. 31 Collateral, except as permitted pursuant to Sections 402 or 404 of the Indenture.

(b) Impairment of Rights of Secured Party. Permit (i) the validity or effectiveness of this Security Agreement with respect to the Underlying Lease No. 31 Collateral to be impaired, (ii) the Lien of this Security Agreement with respect to the Underlying Lease No. 31 Collateral to be subordinated, terminated or discharged, except as permitted in accordance with Section 404 of the Indenture, (iii) permit any Person to be released from any covenants or obligations under any of the agreements included in the Underlying Lease No. 31 Collateral except pursuant to operation of law or (iv) any Person to be released from any covenants or obligations with respect to such Collateral except pursuant to operation of law.

(c) Liens, Negative Pledges, and Encumbrances. Create, incur, assume or suffer to exist any Lien of any nature upon or with respect to the Underlying Lease No. 31 Collateral except for Permitted Liens.

(d) Indebtedness and Contingent Obligations. Create, incur, assume or suffer to exist (i) any Indebtedness or (ii) contingent obligations.

(e) Capital Expenditures. Incur any capital expenditure.

(f) Subsidiaries. Create any Subsidiaries.

(g) Amendments of Organizational Documents. Amend its organizational documents.

(h) Security Agreement Events of Default. Take or omit to take any action, which act or omission would, with the lapse of time, or otherwise constitute (a) a Security Agreement Event of Default or (b) a default under any other material agreement, contract, lease, license, mortgage, deed of trust or instrument to which it is a party or by which it or any of its properties or assets is bound, which default or event of default may reasonably be expected to have a material adverse effect on the Debtor or the Underlying Lease No. 31 Collateral.

(i) Bankruptcy of Debtor. Take any of the following actions, or take any action to authorize or in furtherance of any of the following: (1) commence any case, proceeding or other action under any existing or future bankruptcy, insolvency or similar law seeking to have an order for relief entered with respect to it, or seeking reorganization, arrangement, adjustment, wind-up, liquidation, dissolution, composition or other relief with respect to it or its debts, (2) seek appointment of a receiver, trustee, custodian or other similar official for it or any part of its assets, (3) make a general assignment for the benefit of creditors, or (4) take any action in furtherance of, or consenting or acquiescing in, any of the foregoing.

(j) Guarantees. Guarantee (directly or indirectly), endorse or otherwise become contingently liable (directly or indirectly) for the obligations of, or own or purchase any stock, obligations or securities of or any other interest in, or make any capital contribution to, any other Person, engage in any other action that bears on whether the separate legal identity of Debtor shall be respected, including, without limitation (i) holding itself out as being liable for the debts of any other party or (ii) acting other than in its corporate name and through its duly authorized officers or agents.

(k) Advances. Make any advances, loans, extensions of credit, acquisitions or investments.

(l) Existence. Dissolve or terminate its existence as a Delaware business trust.

(m) Other Transactions. Engage in any business or activity other than in connection with, or relating to, this Security Agreement, the other Relevant Documents to which it is a party and the specific transactions contemplated thereby.

(n) Extensions. To the extent it can lawfully do so, at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or other law that may affect the covenants or the performance of this Security Agreement; not hinder, delay or impede the execution of any power herein granted to the Secured Party under this Security Agreement.

(o) Transactions with Affiliates. Be a party to any transaction with any of its Affiliates, except the transactions permitted or contemplated by the Relevant Documents to which it is a party on the Closing Date.

(p) Amendment of Relevant Documents. Amend, modify or waive any provision of the agreements included in the Underlying Lease No. 31 Collateral (including Underlying Lease No. 31) or give any approval, consent, waiver or permission provided for therein.

(q) Performance of Obligations. Take, or fail to take, any action, or fail to use its best efforts not to permit any action to be taken by others, which would release any Person from any of such Person's covenants or obligations under any agreement or instrument included in the Underlying Lease No. 31 Collateral, or which would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such agreement or instrument.

(r) Principal Place of Business. Establish a new location for its chief executive office unless (i) it shall have given to the Secured Party not less than sixty (60) days' prior written notice of its intention so to do, clearly describing such new location and providing such other information in connection therewith as the Secured Party may reasonably request, and (ii) with respect to such new location, it shall have taken at its own cost all action necessary so that such change of location does not impair the existence or perfection of the security interest of the Secured Party in the Underlying Lease No. 31 Collateral, and it shall have delivered to the Secured Party copies of all filings required in connection therewith.

(s) Enticement of Lessee. Offer the Lessee any economic incentive not presently set forth in the Underlying Lease to exercise any Purchase Option or early termination option contained in Underlying Lease No. 31 on the Closing Date.

(t) Sale-Leaseback Agreement. Enter into any sale and leaseback transaction with respect to any of the Underlying Lease No. 31 Collateral.

SECTION 5. APPLICATION OF ASSIGNED RENTALS AND CERTAIN OTHER MONEYS RECEIVED BY THE SECURED PARTY.

5.1. Application of Underlying Lease No. 31 Payments. Amounts from time to time received by the Secured Party which constitute Underlying Lease No. 31 Payments shall be applied in accordance with the applicable provisions of Article III or Article IV of the Indenture

5.2. Default. If a Security Agreement Event of Default has occurred and is continuing, all Underlying Lease No. 31 Payments and other amounts received by the Secured Party with respect to the Underlying Lease No. 31 Collateral shall be applied in the manner provided for in Section 6 of this Security Agreement.

SECTION 6. DEFAULTS AND OTHER PROVISIONS.

6.1. Security Agreement Event of Default. The term "Security Agreement Event of Default" for all purposes of this Security Agreement shall mean one or more of the following events or conditions:

(a) default in the payment of any amount payable by the Debtor to the Issuer under this Security Agreement which default continues unremedied for a period of five (5) Business Days;

(b) any representation or warranty by the Debtor contained in this Security Agreement or an other Relevant Document to which it is a party shall prove to be incorrect in any material respect as of the time that the same was made; *provided, however*, that if such misrepresentation relates to Underlying Lease No. 31 or the Underlying Equipment, the Debtor may cure such misrepresentation in the manner set forth herein upon the earlier to occur of (i) 45 days after the date on which any officer of a USW Affiliated Entity obtains Knowledge of such misrepresentation and (ii) the next succeeding Payment Date; *provided, however*, that clause (ii) shall not be determinative as to the expiration of such cure period if, in each instance, the Debtor shall have deposited in the Collection Account on or prior to such Payment Date an amount equal to, or sufficient to increase the amount actually deposited in the Collection Account with respect to Underlying Lease No. 31 to, the Available Cash Flow that would otherwise have been payable with respect to Underlying Lease No. 31 or the Underlying Equipment during the Collection Period. The cure of such misrepresentation shall consist of either (1) a Gross Defeasance with respect to all unpaid and prospective payments of Available Cash Flow (or, if applicable, the affected portion of such unpaid and prospective payments of Available Cash Flow) with respect to Underlying Lease No. 31 or the Underlying Equipment; or (2) a USW Assumption with respect to all unpaid and prospective payments of Available Cash Flow (or, if applicable, the affected portion of such unpaid and prospective payments of Available Cash Flow) with respect to such non-conforming Underlying Lease or Underlying Equipment; *provided, however*, that, as a condition precedent to the delivery of a USW Assumption pursuant to clause (2) above, the Debtor shall deliver to the Secured Party a letter from each Rating Agency to the effect that no downgrade of any Class of Note shall result from the delivery of such USW Assumption;

(c) breach by the Debtor of any covenant (excluding those covenants specifically addressed in this Section 6.1) contained in this Security Agreement or any other Relevant Document to which it is a party and continuance of such breach for a period of [thirty (30)] days after the earlier of (i) Knowledge of such breach by any officer of a USW Affiliated Entity or (ii) the date on which there has been given to the Debtor a written notice specifying such breach;

(d) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Debtor in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or (B) a decree or order adjudging the Debtor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Debtor under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Debtor or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days;

(e) the commencement by the Debtor of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Debtor in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization, or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or similar official of the Debtor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the failure of the Debtor to pay its debts generally as they become due, or the taking of corporate action by any such Person in furtherance of any such action;

(f) Any Indenture Event of Default shall have occurred (to the extent not covered by any other provision of this Section 6.1); or

(g) An Event of Default shall have occurred and be continuing.

6.2. Secured Party's Rights. The Debtor agrees that when any Security Agreement Event of Default has occurred and is continuing, the Secured Party shall have the rights, options, duties and remedies of a secured party, and the Debtor shall have the rights and duties of a debtor, under the UCC of the State of New York (regardless of whether such UCC or a law similar thereto has been enacted in a jurisdiction wherein the rights or remedies are asserted) and without limiting the foregoing, the Secured Party may exercise any one or more or all, and in any order, of the remedies hereinafter set forth or set forth in the Indenture, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or

remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute:

(a) Subject to the rights, if any, of the Lessee under Underlying Lease No. 31, the Secured Party shall have the right, subject to compliance with any applicable mandatory legal requirements to take immediate possession of the Underlying Lease No. 31 Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Debtor, with or without notice, demand, process of law or legal procedure, if this can be done without breach of the peace, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold;

(b) Subject to the rights, if any, of the Lessee under Underlying Lease No. 31, the Secured Party may, if at the time such action may be lawful and subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given written notice of such sale to the Debtor and the Lessee once at least 20 days prior to the date of such sale, and any other notice which may be required by law, sell and dispose of any or all of the Underlying Lease No. 31 Collateral at public auction to the highest bidder or, unless prohibited under applicable law, at private sale, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Secured Party may determine, and at any place (whether or not it be at the location of the Underlying Lease No. 31 Collateral or any part thereof) designated in the notice above referred to. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and the Secured Party or the Debtor may bid and become the purchaser at any such sale;

(c) Subject to the rights, if any, of the Lessee under Underlying Lease No. 31, the Secured Party may proceed to protect and enforce its rights under this Security Agreement or any other Relevant Document by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the Underlying Lease No. 31 Collateral or any part thereof, or for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper, legal or equitable remedy available under applicable law; and

(d) If an Event of Default shall have occurred and then be continuing, the Secured Party may proceed to exercise all rights, privileges and remedies of the Debtor under Underlying Lease No. 31 (including the right to accelerate rental payments thereunder), and may exercise all such rights and remedies available to the Debtor (as lessor under Underlying Lease No. 31) either in the name of the Secured Party or the Debtor.

If a Security Agreement Event of Default shall have occurred and be continuing, the Secured Party shall give the Debtor not less than five (5) business days' prior written notice of the date on which the Secured Party will exercise any remedy or remedies pursuant to this Section.

6.3. Availability of Remedies under Indenture. In addition to the remedies set forth in Section 6.2 of this Security Agreement, the Secured Party shall be entitled to exercise the remedies set forth in Article VIII of the Indenture, at the times and subject to the conditions set forth therein.

6.4. Waiver by Debtor. To the extent permitted by law, the Debtor covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, or insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Underlying Lease No. 31 Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein contained, or to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Debtor acquiring any interest in or title to the Underlying Lease No. 31 Collateral or any part thereof subsequent to the date of this Security Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Secured Party, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

6.5. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Debtor in and to the property sold, shall be a perpetual bar, both at law and in equity, against the Debtor, its successors and assigns, and against any and all persons claiming the property sold or any part thereof under, by or through the Debtor, its successors or assigns (subject, however, to the then existing rights, if any, of the Lessee under the Underlying Lease).

6.6. Application of Sale Proceeds. The proceeds and/or avails of any sale of the Underlying Lease No. 31 Collateral, or any part thereof, and the proceeds and the avails of any remedy hereunder shall be paid to and applied as follows:

- (a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including reasonable legal expenses and attorneys' fees, incurred or made hereunder by the Secured Party;
- (b) Second, in accordance with Section 407 or Section 806 of the Indenture, as applicable;

6.7. Discontinuance of Remedies. In case the Secured Party shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then and in every such case, subject to any such determination or settlement

agreement, the Debtor and the Secured Party shall be restored to their former position and rights hereunder with respect to the Underlying Lease No. 31 Collateral.

6.8. Cumulative Remedies; No Waiver or Delay. No delay or omission of the Secured Party to exercise any right or power arising from any default or Security Agreement Event of Default on the part of the Debtor hereunder or under any other Relevant Document shall exhaust or impair any such right or power or prevent the Secured Party's exercise during the continuance of such default. No waiver by the Secured Party of any such Security Agreement Event of Default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent Security Agreement Event of Default, or to impair the rights resulting therefrom except as may be otherwise provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guarantee for the payment of the Obligations operate to prejudice, waive or affect the security of this Security Agreement or any other Relevant Document or any rights, powers or remedies hereunder or under any other Relevant Document, nor shall the Secured Party be required to first look to, enforce or exhaust such other or additional security, collateral or guarantee.

SECTION 7. MISCELLANEOUS.

7.1. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party.

7.2. Partial Invalidity. The unenforceability or invalidity of any provision or provisions of this Security Agreement shall not render any other provision herein contained unenforceable or invalid.

7.3. Notices. Except as otherwise provided in this Security Agreement, all demands, notices and communications hereunder shall be in writing, personally delivered, or mailed by certified mail-return receipt requested, or sent by facsimile (with telephone confirmation of the receipt thereof) and shall be deemed to have been duly given upon receipt (a) in the case of the Secured Party, at the following address: LaSalle National Bank, 135 South LaSalle Street, Suite 1740, Chicago, Illinois 60674-4107, Telephone: 312/904-7893, Facsimile: 312/904-2084, Attention: Asset-Backed Securities Trust Services (Nomura Credit Lease) (b) in the case of the Debtor, at the following address: USWFS Direct Trust Grand Trunk, c/o Chase Manhattan Bank Delaware, as Trustee, 1201 Market Street, Wilmington, Delaware, 19801, Attention: John J. Cashin, Telephone (302) 428-3375; Facsimile: (302) 984-4889, with a copy to: Brownstein Hyatt Farber & Strickland, P.C., 410 17th Street, 22nd Floor, Denver, Colorado, 80202, attention: Edward N. Barad, Esq., Telephone: (303) 534-6335; Facsimile: (303) 623-1956 and (ii) U S West, Inc., 7800 E. Orchard Road, Suite 300, Englewood, Colorado 80111, Attention: President, Telephone: (303) 796-6041; Facsimile: (303) 793-6683, or to any such party to this Security Agreement at such other address as such party may designate by notice duly given in accordance with this Section to the other parties. Any notice required or permitted to be given to the Debtor, Secured Party or any other person shall be given by certified first class mail, postage prepaid

(return receipt requested), or by courier, in each case at, with respect to the Secured Party or the Debtor, at the address shown above or as otherwise specified, or, in the case of the Noteholder, at the address of such Holder or any other party hereto as shown in the Note Register. Every notice, demand, request, consent, approval, declaration or other communication hereunder shall be deemed to have been duly given or served on the date on which the same shall have been personally delivered, or sent by telex, facsimile, telecopy or computer transmission, in any of the foregoing cases with receipt acknowledged, three (3) Business Days after the same shall have been deposited in the United States mail or on the next succeeding Business Day if the same has been sent by Federal Express or other nationally recognized overnight courier service. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to the persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

7.4. Amendments. This Security Agreement may, from time to time and at any time, be amended or supplemented by an instrument or instruments in writing executed by both of the parties hereto.

7.5. Release. The Secured Party shall release this Security Agreement and the security interest granted hereby by proper instrument or instruments upon presentation of evidence satisfactory to the Secured Party that all Indebtedness owed hereunder has been fully paid and that a Security Release Event has occurred.

7.6. Counterparts. This Security Agreement may be executed, acknowledged and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Security Agreement.

7.7. Headings. Any headings or captions preceding the text of the several sections hereof are intended solely for convenience of reference and shall not constitute a part of this Security Agreement nor shall they affect its meaning, construction or effect.

7.8. Effective Date. Although this Security Agreement is dated as of August 1, 1997 for convenience, this Security Agreement shall be effective on the Closing Date.

7.9 Equitable Relief. Debtor recognizes that, in the event Debtor fails to perform, observe or discharge any of its obligations or liabilities under this Security Agreement, any remedy at law may prove to be inadequate relief to the Secured Party; therefore, Debtor agrees that the Secured Party shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

7.10 Waiver of Punitive Damages. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS SECURITY AGREEMENT, DEBTOR HEREBY AGREES THAT IT SHALL NOT SEEK ANY PUNITIVE DAMAGES FROM THE SECURED PARTY OR ANY NOTEHOLDER UNDER ANY THEORY OF LIABILITY, INCLUDING, WITHOUT LIMITATION, ANY THEORY IN TORT.

7.11 Governing Law. THIS SECURITY AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES THEREOF REGARDING CONFLICT OF LAWS, AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

7.12 Consent to Jurisdiction. DEBTOR AND SECURED PARTY HEREBY IRREVOCABLY CONSENTS TO THE PERSONAL JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN NEW YORK, NEW YORK, IN ANY ACTION, CLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OTHER RELEVANT DOCUMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER, OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. DEBTOR AND SECURED PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE BY MANUAL DELIVERY AND CONSENTS TO THE SERVICE OF A SUMMONS AND COMPLAINT AND OTHER PROCESS IN ANY ACTION, CLAIM OR PROCEEDING BROUGHT BY THE OTHER PARTY IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OTHER RELEVANT DOCUMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER, OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS, ON BEHALF OF ITSELF OR ITS PROPERTY, BY THE MAILING OF A POST-PAID RETURN RECEIPT CERTIFIED LETTER TO THE PERSON AND ADDRESS PROVIDED IN SECTION 7.3. NOTHING IN THIS SECTION SHALL AFFECT THE RIGHT OF THE SECURED PARTY TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW OR AFFECT THE RIGHT OF THE SECURED PARTY TO BRING ANY ACTION OR PROCEEDING AGAINST DEBTOR OR ITS PROPERTIES IN THE COURTS OF ANY OTHER JURISDICTIONS.

7.13 Waiver of Jury Trial. THE SECURED PARTY AND THE DEBTOR HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION, CLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OTHER RELEVANT DOCUMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OF THEREUNDER, OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS.

7.14 No Prior Agreements. This Security Agreement and the Indenture (to the extent referenced herein) hereto constitute and contain the entire agreement between the Debtor and the Secured Party with respect to the Underlying Lease No. 31 Collateral and supersede any and all prior agreements, negotiations, correspondence, understandings and communications between the parties hereto. This Security Agreement is the result of negotiations between and has been reviewed by the Secured Party and the Debtor and their respective counsel, accordingly, this Security Agreement shall be deemed to be a product of the parties hereto, and no ambiguity shall be construed in favor of or against either the Secured Party or the Debtor.

7.15 Marshalling: Payments Set Aside. The Secured Party shall not be under any obligation to marshal any assets in favor of the Debtor or any other person or against or in

payment of any or all of any obligations hereunder. To the extent that the Debtor makes a payment or payments to the Secured Party, the Secured Party enforces its Liens provided hereunder and such payment or payments or the proceeds of such enforcement or set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under Bankruptcy Code or under any other similar federal or state law, common law or equitable cause, then to the extent of such recovery the Obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or set-off had not occurred.

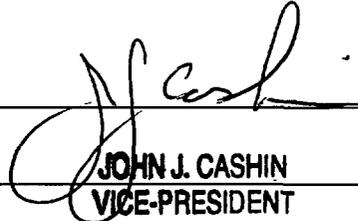
7.16 Third Party Beneficiaries. This Security Agreement shall inure to the benefit of each of the Noteholders, now or hereinafter acquiring one or more Notes, and their respective successors or permitted assigns. Without limiting the generality of the foregoing, the representations, warranties and covenants herein which expressly confer rights upon the Secured Party shall be for the benefit of and run directly to each of the Noteholders, now or hereinafter acquiring one or more Notes, and each such Noteholder shall be entitled to rely upon and enforce such representations, warranties, covenants and agreements to the same extent as if such Noteholder(s) were a party to this Security Agreement.

7.17 Obligations of the Debtor. The obligations of the Debtor hereunder or under any other Relevant Document shall not be affected by reason of any invalidity, illegality or irregularity of the Underlying Lease No. 31 Collateral, or any part thereof.

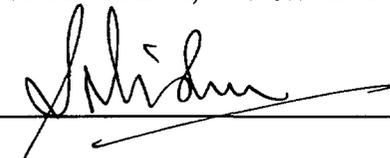
IN WITNESS WHEREOF, the Debtor and the Secured Party have caused this Security Agreement to be executed, as of the day and year first above written.

USWFS DIRECT TRUST GRAND TRUNK

By: Chase Manhattan Bank Delaware, as business trust trustee

By: 
Name: **JOHN J. CASHIN**
VICE-PRESIDENT
Title: _____
Date: September 4, 1997

LASALLE NATIONAL BANK, as Note Trustee

By: 
Name: **SHASHANK MISHRA**
First Vice President
Title: _____
Date: Sept 11, 1997

STATE OF DELAWARE)
) ss.
COUNTY OF New Castle)

On this 4th day of September, 1997, before me personally came JOHN J. CASHIN to me known, who being by me duly sworn, did depose and say that he resides at Chaddsford, PA; that ~~he~~she is the Vice President of Chase Manhattan Bank Delaware, the corporation described in, and which executed, the above instrument; and that he signed the same as the act of said corporation by order of the Board of Directors of said corporation.

Diane L. Prengle
Notary Public
My Commission Expires: 10-13-98

DIANE L. PRENGLE
NOTARY PUBLIC
COMMISSION EXPIRES
10/13/98

STATE OF Illinois

}
} ss.
}

COUNTY OF Cook

On this 14th day of September, 1997, before me personally came Shashank Mishra to me known, who being by me duly sworn, did depose and say that he resides at Chicago, Illinois; that he she is the First Vice President of LaSalle National Bank, the corporation described in, and which executed, the above instrument; and that he signed the same as the act of said corporation by order of the Board of Directors of said corporation.

Carissa Jean Pogue
Notary Public

My Commission Expires: 10-9-2000



EXHIBIT A

Copy of Underlying Lease No. 31

14872-B
REGISTRATION NO. _____ FILED 1985

DEC 30 1985 - 12 22 PM

INTERSTATE COMMERCE COMMISSION

[CS&M Ref. 1698-117]

LEASE OF RAILROAD EQUIPMENT

Dated as of December 1, 1985

between

GRAND TRUNK WESTERN RAILROAD COMPANY

Lessee,

and

U S WEST FINANCIAL SERVICES, INC.,

Owner,

[Covering 320 Fully Enclosed Auto Racks]

The rights and interests of the Owner under this Lease are subject to a security interest in favor of LaSalle National Bank, as agent for a certain investor. The original of this Lease is held by said agent.

LEASE OF RAILROAD EQUIPMENT

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LEASE OF RAILROAD EQUIPMENT dated as of December 1, 1985, between GRAND TRUNK WESTERN RAILROAD COMPANY, a Michigan and Indiana corporation ("Lessee"), and U S WEST FINANCIAL SERVICES, INC., a Colorado corporation ("Owner").

The Owner is entering into a Conditional Sale Agreement dated as of the date hereof ("CSA") with THRALL CAR MANUFACTURING COMPANY ("Builder"), pursuant to which the Builder agreed to construct, deliver and sell to the Owner the units of railroad equipment described in Appendix A hereto ("Equipment").

The Builder is assigning certain of its interests in the CSA pursuant to an Agreement and Assignment dated as of the date hereof ("CSA Assignment") to LA SALLE NATIONAL BANK, acting as agent ("Agent") for an institutional investor (together with its successors and assigns, "Investors") under a Participation Agreement dated as of the date hereof ("Participation Agreement") among the Lessee, the Agent, the Owner, GRAND TRUNK CORPORATION ("Guarantor") and the Investors.

The Lessee desires to lease from the Owner such units of Equipment as are delivered and accepted and settled for under the CSA ("Units") upon the terms and conditions hereinafter provided. The Owner will assign this Lease for security to the Agent pursuant to an Assignment of Lease and Agreement dated as of the date hereof ("Lease Assignment"), and the Lessee will acknowledge and consent thereto pursuant to the Consent and Agreement substantially in the form attached to the Lease Assignment ("Consent").

In consideration of the agreements hereinafter set forth, the Owner hereby leases the Units to the Lessee upon the following terms and conditions:

SECTION 1. NET LEASE

This Lease is a net lease and all rentals and other amounts hereunder shall be net to the Owner and all costs, expenses and obligations of every kind and nature relating to the Units shall be paid by the Lessee, except as otherwise provided herein. Each of the Lessee's obligations to pay all rentals and other amounts hereunder shall be absolute and unconditional and, except as herein

specifically provided, the Lessee shall not be entitled to any abatement of rent or such other amounts, reduction thereof or setoff against rent or such other amounts, including but not limited to abatements, reductions or setoffs due or alleged to be due by reason of any past, present or future claims of the Lessee against the Owner under this Lease or the CSA, including the Lessee's rights by subrogation thereunder to the Builder, the Agent or otherwise; nor, except as otherwise expressly provided herein, shall this Lease terminate or the respective obligations of the Owner or the Lessee be otherwise affected by reason of any defect in or damage to or loss of possession or loss of use or destruction of all or any of the Units from whatsoever cause, any liens, encumbrances or rights of others with respect to any of the Units, the prohibition of or other restriction against the Lessee's use of all or any of the Units, the interference with such use by any person or entity, the invalidity or unenforceability or lack of due authorization of this Lease, any insolvency of or any bankruptcy, reorganization or similar proceeding against the Lessee or the Owner or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events in the manner and at the times herein provided unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Lease. To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Units except in accordance with the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final, and the Lessee shall not seek to recover all or any part of such payment from the Owner or the Agent for any reason whatsoever.

SECTION 2. DELIVERY AND ACCEPTANCE OF UNITS

The Owner hereby appoints the Lessee its agent for inspection and acceptance of the Units pursuant to the CSA and to endorse the correctness of the Purchase Price on invoices therefor from time to time submitted by the Builder. Each delivery of a Unit to the Owner under the CSA shall be deemed to be a delivery hereunder to the Lessee at the point or points within the United States at which such Unit is so delivered to the Owner. Upon such delivery, the

Lessee will cause an employee or agent of the Lessee to inspect the same, and if such Unit is found to be in accordance with the Specifications (as defined in the CSA) and otherwise acceptable, to accept delivery of such Unit on behalf of the Owner under the CSA and on behalf of itself hereunder and execute and deliver to the Owner a certificate of acceptance ("Certificate of Acceptance") in accordance with the provisions of Article 3 of the CSA, stating that such Unit has been inspected and accepted on behalf of the Lessee and the Owner on the date of such Certificate of Acceptance and is marked in accordance with § 5 hereof, whereupon such Unit shall be deemed to have been delivered to and accepted by the Lessee hereunder, shall be conclusively presumed as between the Owner and the Lessee to comply in all respects with the specifications, requirements and standards applicable thereto pursuant to the CSA and to be in good working order and repair without inherent vice or defect in condition, design or fitness for use and shall be subject thereafter to all the terms and conditions of this Lease; provided, however, that the Lessee agrees that no authority is hereby vested in the Lessee to take delivery of or accept for the Owner under the CSA any unit of Equipment which the Builder has agreed not to deliver under Section 3.1, 3.3 or 4.1 of the CSA and the Lessee agrees not to take delivery of or accept any such unit of Equipment for the Owner under the CSA or for itself hereunder, and that the delivery, inspection and acceptance hereunder of any unit of Equipment excluded from the CSA pursuant to Section 3.1, 3.3 or 4.1 thereof or Section 4 of the CSA Assignment shall be ineffective to subject such unit to this Lease.

SECTION 3. RENTALS

3.1. Amount and Date of Payment. The Lessee agrees to pay to the Owner, as rental for each Unit subject to this Lease 20 consecutive payments, in arrears, on January 2 and July 2 in each year, commencing on January 2, 1987, and ending on July 2, 1996. Each such payment shall be equal to the percentage of Purchase Price (as defined in Section 4.1 of the CSA) of each Unit subject to this Lease which is set forth in the table below opposite the respective payment date.

<u>Payment Date</u>	<u>Percentage of Purchase Price</u>	<u>Payment Date</u>	<u>Percentage of Purchase Price</u>
1/2/87	3.253807	1/2/92	11.972273
7/2/87	7.596215	7/2/92	1.288865
1/2/88	3.023316	1/2/93	12.571672
7/2/88	7.826905	7/2/93	0.689465
1/2/89	2.767915	1/2/94	13.238330
7/2/89	8.082107	7/2/94	0.022807
1/2/90	2.485599	1/2/95	13.261137
7/2/90	8.364423	7/2/95	0.000000
1/2/91	2.173286	1/2/96	13.261137
7/2/91	8.676736	7/2/96	0.000000

The foregoing rental payments have been calculated on the assumptions that:

(a) The aggregate Purchase Price of all Units will be \$10,972,000 and 94.094% of such Purchase Price will relate to Units which are accepted hereunder by the Lessee on or prior to December 31, 1985; and the remaining Units will be accepted during January 1986;

(b) The first Closing Date will be on December 20, 1985, and will cover Units whose aggregate Purchase Price is \$6,342,000; and the second Closing Date will be on January 24, 1986, and will cover Units whose aggregate Purchase Price is \$4,630,000;

(c) The CSA Indebtedness (as defined in Section 4.3 of the CSA) will bear interest at 10-5/8% per annum and an amount equal thereto will be paid to the Builder by the Agent on the Closing Dates; and

(d) Included Costs (which shall mean the aggregate of (i) all of the usual and reasonable costs, fees, expenses incurred by the Agent in connection with the preparation, execution and delivery of the Documents, including the reasonable fees and disbursements of Cravath, Swaine & Moore as special counsel for the Agent and the Investor and of Wilmer, Cutler & Pickering and McCarthy & McCarthy in connection therewith; (ii) the reasonable fees and disbursements of Prudential-Bache Securities, Inc. in connection with its services; and (iii) and the rating fees payable to Standard & Poor's Corporation in connection with the rating issued by them with respect to the CSA Indebtedness) shall be paid when due by the Owner and shall be equal to 2-1/8% of the aggregate Purchase Price of all Units accepted hereunder by the Lessee.

If any of the foregoing assumptions proves to be incorrect, the foregoing rental payments and the related Casualty Values set forth in Appendix B hereto will be adjusted, if necessary, in order to preserve the Owner's net after-tax yield and aggregate after-tax cash flow at the same level that the Owner would have expected had there been no inaccuracies in the foregoing assumptions. Any adjustment shall be determined by the Owner, which determination shall be made in accordance with the assumptions used by the Owner in originally evaluating the transactions contemplated hereby; provided, however, at the Lessee's cost and expense, any such adjustment shall be subject to verification by an independent accounting firm, which is reasonably acceptable to the Owner and chosen by the Lessee. The Owner and the Lessee agree to execute an addendum to this Lease to reflect any such adjustment.

In addition to the foregoing rentals, the Lessee hereby agrees to pay on an after-tax basis to the Owner as rent amounts equal to the amounts required by the Owner to make the payments provided for in the next to the last sentence of Section 2.5, the last sentence of Section 9.1 and in clauses (a) and (b) of the first sentence of Section 9.2 of the Participation Agreement on the dates required for such payments and the Owner agrees to apply such rentals for such purposes.

Except for the Owner's obligation to pay interest due on the CSA Indebtedness on July 2, 1986, the rentals payable will never be less than those amounts required to enable the Owner to satisfy its obligations to pay the CSA Indebtedness and the interest thereon when due regardless of any limitation of liability set forth in the CSA.

3.2. Payment on Nonbusiness Day. If any of the rental payment dates referred to in § 3.1 is not a business day, the rental payment otherwise payable on such date shall be payable on the next succeeding business day. The term "business day" as used herein means any calendar day, excluding Saturdays, Sundays and any other day on which banking institutions in Chicago, Illinois, Detroit, Michigan, Denver, Colorado, or New York, New York, are authorized or obligated to remain closed.

3.3. Instructions To Pay Agent and Owner. Upon execution and delivery of the Lease Assignment and until the Agent shall have advised the Lessee in writing that all sums due from the Owner under the CSA have been fully satisfied and discharged, the Owner irrevocably instructs the Lessee to make all the payments, other than Excepted Payments (as defined in the Lease Assignment), provided for in this Lease by wire transfer to the Agent at 135 South LaSalle Street,

Chicago, Illinois, attention of Corporate Trust Department (or at such other address as may be furnished in writing to the Lessee by the Agent), with a notation that payment is for credit to its Corporate Trust Department's Account No. 61-6118-20-4 with the advice that the payment is "Re: GTW 12/1/85". If the Lease Assignment is not executed and delivered, or if the Lessee shall have been advised by the Agent in writing that all sums due from the Owner under the CSA have been fully discharged and satisfied, payments thereafter due shall be made to the Owner in immediately available funds at such bank account as the Owner shall specify in writing to the Lessee in the manner provided in § 3.4 hereof.

3.4. Payment in Immediately Available Funds. The Lessee agrees to make each payment provided for herein as contemplated by § 3.1 hereof by wire transfer of immediately available Federal funds at or prior to 11:00 a.m. at the place where such payment is to be made.

SECTION 4. TERM OF LEASE

4.1. Beginning and Termination; Survival. The term of this Lease as to each Unit shall begin on the date of delivery and acceptance thereof pursuant to § 2 hereof and, subject to the provisions of §§ 7, 13 and 16 hereof, shall terminate on July 2, 1996. The obligations of the Lessee hereunder shall survive the expiration of the term of this Lease.

4.2. Rights and Obligations of Lessee Subject to CSA. All rights and obligations of the Lessee under this Lease and in and to the Units are subject to the rights and obligations of the Vendor (as defined in the CSA) under the CSA. If an event of default should occur under the CSA, the Vendor may terminate this Lease (or rescind its termination) without affecting the indemnities which by the provisions of this Lease survive the termination of its term; provided, however, that so long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Agent is entitled to apply the Payments (as defined in the Lease Assignment) in accordance with the Lease Assignment, this Lease may not be terminated and the Lessee shall be entitled to the rights of possession, use and assignment provided under § 15 hereof.

SECTION. 5. IDENTIFICATION MARKS

The Lessee will cause each Unit to be kept numbered with the identification number set forth in Appendix A hereto and will keep and maintain, plainly and conspicuously marked on each side of each Unit, in letters not less than one inch in height, the words "OWNERSHIP SUBJECT TO A SECURITY AGREEMENT FILED WITH THE INTERSTATE COMMERCE COMMISSION", with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the Owner's and the Agent's title to and property in such Unit. The Lessee will not place any such Unit in operation or exercise any control or dominion over the same until such words shall have been so marked on each side thereof and will replace promptly any such words which may be removed, defaced, obliterated or destroyed. The Lessee will not change the identification number of any Unit unless and until (i) a statement of new number or numbers to be substituted therefor shall have been filed with the Agent and the Owner and filed by the Lessee in all public offices where this Lease and the CSA shall have been filed and (ii) the Lessee shall have furnished the Agent and the Owner an opinion of counsel in form and substance satisfactory to the Agent and the Owner to the effect that such statement has been so filed, such filing will protect the Agent's and the Owner's interests in such Units and no filing with or giving of notice to any other Federal, state or local government or agency thereof is necessary to protect the interests of the Agent and the Owner in such Units.

The Units may be lettered with the names or initials or other insignia customarily used by the Lessee or its permitted sublessees, but the Lessee will not allow the name of any other person, association or corporation to be placed on any Unit as a designation that might be interpreted as a claim of ownership.

SECTION 6. GENERAL TAX INDEMNIFICATION

The Lessee assumes responsibility for and agrees to pay, protect, save, keep harmless and indemnify the Owner, the Agent, the Investors and their successors and assigns ("Indemnified Persons") against all taxes, assessments, fees, withholdings and other governmental charges of any nature whatsoever, including without limitation penalties and interest (all such taxes, assessments, fees, withholdings, governmental charges, penalties and interest called "Taxes"), imposed on, incurred by or asserted against

any Indemnified Person or any Unit in whole or in part on account of or with respect to this Lease or the CSA or in any way relating to or arising or alleged to arise out of this Lease, the CSA, the Participation Agreement, the Lease Assignment, the CSA Assignment or the Units or the manufacture, purchase, acceptance or rejection of the Units or any portion thereof or the ownership, delivery, nondelivery, leasing, re-leasing, subleasing, possession, use, the transfer of title, operation, maintenance, repair, condition, sale, return or other disposition of the Units or any portion thereof or any indebtedness with respect thereto or the rentals, receipts, earnings or gains arising therefrom; provided, however, that there shall be no indemnification hereunder (i) for any Taxes imposed on or measured by any fees or compensation received by the Agent or for any Taxes payable solely as a result of any actions taken or omissions to take any actions by such Indemnified Person in breach of any covenant set forth in this Lease or in any other document contemplated by the Participation Agreement, (ii) for any Taxes (or other levies in lieu of Taxes) on, or measured by, the net income of any Indemnified Person (and any franchise taxes or value added taxes imposed in lieu of any such Taxes or other levies on or measured by the net income of such Indemnified Person) and (iii) for any penalties, fines or interest where such levy or Tax is not paid, if the Indemnified Person was aware, and the Lessee was not aware, of the Tax and its due date and the Indemnified Person failed to notify Lessee thereof in a timely manner. The Lessee shall pay all Taxes for which it assumes liability hereunder when such Taxes are due and will indemnify each Indemnified Person to the extent required by this § 6 within 10 days after receipt of a written request by such Indemnified Person for indemnification specifying the amount to be paid, the basis on which such amount was determined and the nature of the Taxes in question; provided, however, that if any Taxes are being contested in accordance with the sixth paragraph of this § 6, any payment shall be made at the time therein provided.

In the event that the Owner shall become obligated to make any payment to the Builder or the Agent or otherwise pursuant to any corresponding provision of the CSA not covered by the foregoing paragraph of this § 6, the Lessee shall pay such additional amounts (which shall also be deemed Taxes hereunder) to the Owner as will enable the Owner to fulfill completely its obligations pursuant to said provision.

In the event any returns, statements or reports with respect to Taxes are required to be made, the Lessee will make such returns, statements and reports in such manner as to show the interest of the Owner and the Agent in such Units, as shall be satisfactory to the Owner and the Agent; provided, however, that the Owner shall, with respect to any state of the United States or political subdivision thereof, file such returns, statements and reports relating to sales or use taxes and taxes, fees and charges on or measured by the Owner's gross receipts arising from the Units as the Lessee shall determine (or, in the case of any such gross receipts tax as the Owner shall advise) are required to be filed and as shall be prepared by the Lessee, and the Owner shall remit the amount thereof upon payment by the Lessee to the Owner (such payment to be made promptly upon demand by the Owner therefor) of such taxes, fees and charges except as provided above; and provided further, that the Lessee shall have no obligation to prepare or file the Owner's income tax return or the Agent's income tax return. To the extent that the Owner has information necessary to the preparation of any returns, statements and reports which the Lessee must prepare or file, it will furnish such information to the Lessee.

To the extent that the Lessee may be prohibited by law from performing in its own name the duties required by this § 6, the Owner hereby authorizes the Lessee to act in the name of the Owner and on its behalf; provided, however, that the Lessee shall indemnify and hold the Owner harmless from and against any and all claims, costs, expenses, damages, losses and liabilities incurred in connection therewith as a result of or incident to any action by the Lessee pursuant to this authorization.

The Lessee shall, whenever reasonably requested by the Owner, submit to the Owner copies of returns, statements, reports, billings and remittances, or furnish other evidence satisfactory to the Owner of the Lessee's performance of its duties under this § 6. The Lessee shall also furnish promptly upon request such data as the Owner reasonably may require to permit its compliance with the requirements of taxing jurisdictions.

If any taxing authority shall assert liability for any Taxes or propose an increase in the liability of any Indemnified Person for any such Taxes (such assertion or proposed increase called a "Claim"), indemnification for which would be required under this § 6, the Indemnified Person will notify the Lessee in writing within five

business days of having become aware of such Claim. If the Lessee delivers to such Indemnified Person written notice of its desire to contest such Claim within 30 days after receipt of notice from such Indemnified Person, such Claim will be contested in accordance with this paragraph. If reasonably requested by the Lessee in writing and upon receipt of an indemnification reasonably satisfactory to the Indemnified Person, such Indemnified Person will contest, or permit the Lessee to contest, such Claims; provided, however, that such contest shall not materially and adversely affect the right, title and interest of the Owner in the Units and the Lease; and provided, further, however, that no Event of Default hereunder shall have occurred and be continuing. Such Indemnified Person will cooperate with any reasonable request made by the Lessee or its counsel in connection therewith; provided, however, that such Indemnified Person may, after consultation with the Lessee and, after consideration of Lessee's desires as to choice of forum, in its sole discretion determine in what court or other forum such contest will be conducted and whether such contest will proceed by payment of the Taxes in contemplation of a suit for refund, and such Indemnified Person shall not be required to take any action pursuant to this paragraph unless and until the Lessee shall have agreed to indemnify such Indemnified Person in a manner reasonably satisfactory to such Indemnified Person for any liability or loss which such Indemnified Person may reasonably incur as a result of contesting the validity of any Claim and shall have agreed to pay such Indemnified Person on demand all costs and expenses which such Indemnified Person may reasonably incur in connection with contesting such Claim (including fees and disbursements of counsel). If in any such contest the decision is made to pay the Taxes and sue for a refund, the Lessee will advance to such Indemnified Person on an interest-free basis sufficient funds to pay the Taxes which are to be contested. Upon receipt by any Indemnified Person of a refund of any Taxes paid by the Lessee pursuant to this paragraph, the amount of such refund and any interest paid to such Indemnified Person with respect thereto shall be paid to the Lessee forthwith upon receipt by such Indemnified Person; provided, however, that no Event of Default shall have occurred or be continuing hereunder.

The Lessee covenants and agrees to pay all amounts due under this § 6 free of any Taxes and to indemnify each Indemnified Person against any Taxes imposed by reason of any payment made by the Lessee so that the Indemnified

Person to whom or for whose benefit the payment is made shall receive an amount which, net of any Taxes or other charges required to be paid by such Indemnified Person in respect thereof and, to the extent possible, after taking into account any deductions permitted by reason of such indemnification, shall be equal to the amount of payment otherwise required hereunder.

In the event that the Lessee becomes liable for the payment or reimbursement of any Taxes pursuant to this § 6, such liability shall continue, notwithstanding the expiration of this Lease, until all such Taxes are paid or reimbursed by the Lessee.

SECTION 7. PAYMENT FOR CASUALTY OCCURRENCES; INSURANCE

7.1. Definition of Casualty Occurrence; Payments.

In the event that any Unit shall be or become worn out, lost, stolen, destroyed, irreparably damaged from any cause whatsoever or in the reasonable opinion of the Lessee damaged to such extent that it is uneconomical to maintain such Unit in accordance with the standards required by this Lease during the term of this Lease or any renewal thereof or until such Unit is returned pursuant to § 14 or 17 hereof, or any Unit shall be taken or requisitioned by condemnation or otherwise by the United States Government or any other governmental entity (including a foreign governmental entity) for a stated period which shall exceed the then remaining term of this Lease or any renewal thereof resulting in loss of possession by the Lessee for a period of 90 consecutive days during the term of this Lease or any renewal thereof (each such occurrence being called a "Casualty Occurrence"), the Lessee shall promptly and fully notify the Owner and the Agent with respect thereto and shall deliver to the Owner, and the Agent a certificate of an authorized officer of the Lessee identifying the unit or units suffering such Casualty Occurrence and the nature thereof. On the next succeeding rental payment date (each such date called a "Casualty Payment Date"), the Lessee shall pay to the Owner an amount equal to the Casualty Value (as defined in Section 7.4 hereof) in respect of such Unit as of such rental payment date plus the rental due on such Unit on such date. Upon the occurrence of a Casualty Occurrence in respect of any Unit, and upon the making of such payments by the Lessee, the rental for such Unit shall cease to accrue, the term of this Lease or any renewal thereof as to such Unit shall terminate and the Owner shall

be entitled to recover possession of such Unit whether or not such Unit is in the possession of the Lessee; provided, however, that the Lessee shall have no liability to return a Unit which has been lost, stolen or completely destroyed if the Lessee is unable to recover such a Unit.

In addition to the occurrences constituting a Casualty Occurrence under the preceding paragraph, if any Unit shall have been taken or requisitioned by the United States Government or any other governmental entity and such taking or requisition shall not theretofore constitute a Casualty Occurrence as aforesaid, such taking or requisition shall be deemed a Casualty Occurrence if the same shall be continuing at the end of the term of this Lease or any renewal thereof, in which event the Lessee shall promptly and fully notify the Owner with respect thereto and pay the Owner at the end of the term of this Lease or any renewal thereof an amount equal to the Casualty Value as of the end of the term of this Lease or any renewal thereof. Following such payment and provided that no Event of Default shall have occurred and be continuing, the Lessee shall be entitled to receive condemnation payments in respect of such Unit up to an amount equal to such Casualty Value previously paid by the Lessee plus the Lessee's reasonable and documented costs in such proceeding and any balance of such payments shall be the property of the Owner and shall be paid to the Owner forthwith. In the event such Unit shall be returned by the governmental entity prior to the time the Lessee shall have been reimbursed by such application of condemnation payments in an amount equal to such Casualty Value, then the Lessee shall dispose of such Unit pursuant to § 7.3 hereof, and shall retain the proceeds of such disposition to the extent that the aggregate of the amounts so retained and the condemnation payments theretofore received by the Lessee shall equal such Casualty Value previously paid by the Lessee plus the Lessee's reasonable and documented costs in such proceeding and the balance of such proceeds shall be paid to the Owner forthwith. In the event such Unit shall be returned by the governmental entity following the time the Lessee shall have been reimbursed by such application of condemnation payments for such use in an amount equal to such Casualty Value, such Unit shall be returned by the Lessee to the Owner in the manner provided in § 17 hereof, except for the requirements set forth in the second sentence of the second paragraph of § 17.1 hereof.

Whenever any Unit shall suffer a Casualty Occurrence after the term of this Lease or any renewal thereof

and before such Unit shall have been returned in the manner provided in § 17 hereof, the Lessee shall promptly and fully notify the Owner with respect thereto and pay to the Owner (in addition to any amounts due pursuant to § 17 hereof) an amount equal to the Casualty Value as of the end of the term of this Lease or any renewal thereof. Upon the making of any such payment by the Lessee in respect of any Unit the Owner shall be entitled to recover possession of such Unit whether or not such Unit is in the possession of the Lessee; provided, however, that the Lessee shall have no liability to return a Unit which has been lost, stolen or completely destroyed if the Lessee is unable to recover such a Unit.

7.2. Requisition by United States Government. In the event of the requisition for use by the United States Government of any Unit (except where deemed a Casualty Occurrence pursuant to the penultimate paragraph of § 7.1 hereof), all of the Lessee's obligations under this Lease with respect to such Unit shall continue to the same extent as if such requisition had not occurred. All payments received by the Owner or the Lessee from the United States Government for the use of such Unit during the term of this Lease shall be paid over to or retained by the Lessee, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing.

7.3. Lessee Agent for Disposal. The Owner hereby appoints the Lessee its agent to dispose of any Unit suffering a Casualty Occurrence or any component thereof before and after expiration of the Lease at the best price obtainable on an "as is, where is" basis. If the Lessee has previously paid the Casualty Value to the Owner, the Lessee shall be entitled to the proceeds of such sale or condemnation to the extent they do not exceed the Casualty Value of such Unit and shall pay forthwith any excess to the Owner.

7.4. Amount of Casualty Value. The Casualty Value of each Unit as of the Casualty Payment Date on which payment is to be made as aforesaid shall be an amount equal to that percentage of the Purchase Price of such Unit as is set forth in Appendix B hereto opposite the Casualty Payment Date next succeeding the actual date of such Casualty Occurrence; but in no event shall such amount be less than the "Casualty Value" (as defined in Section 7.3 of the CSA) as of such Casualty Payment Date.

7.5. No Release. Except as provided in this § 7, the Lessee shall not be released from its obligations hereunder in the event of any Casualty Occurrence, and shall bear the risk of any Casualty Occurrence to any Unit from and after delivery and acceptance thereof by the Lessee hereunder.

7.6. Insurance To Be Maintained. The Lessee will, at all times while this Lease is in effect, at its own expense, cause to be carried and maintained types and amounts of insurance in respect of the Units at the time subject hereto and the use and operation thereof, including, without limitation, property insurance and public liability insurance with such insurance companies, in such amounts and for such risks as is customary in the industry for comparable railroad companies and as are at least comparable to insurance coverage carried by the Lessee in respect of similar equipment owned or leased by it; provided, however, that, in respect of property insurance, the Lessee may self-insure any Unit to the extent that it self-insures similar equipment owned by it. The Lessee hereby assigns and transfers to the Owner and the Agent, as their interests may appear, all right, title, and interest in and to any insurance proceeds paid under any policy of insurance to the extent such proceeds relate to the Units or the use and operation thereof as aforesaid. Any policies of insurance carried in accordance with this paragraph shall (i) require 30 days' prior notice of cancelation or material change in coverage to the Owner and the Agent, (ii) provide that the Owner and the Agent shall have no liability for premiums or other payments in connection with such insurance and (iii) name the Owner and the Agent as additional insureds or loss payees, as their respective interests may appear, and, in the event such policies contain breach of warranty provisions, such policies shall provide that in respect of the interests of the Owner and the Agent in such policies the insurance shall not be invalidated by any action or inaction of the Lessee or any other person (other than the Owner and the Agent) and shall insure the Owner and the Agent regardless of any breach or violation of any warranty, declaration or condition contained in such policies by the Lessee or by any other person (other than the Owner and the Agent). On or prior to the Documents Closing Date under the Participation Agreement and thereafter not less than 15 days prior to the expiration dates of the expiring policies, the Lessee shall deliver to the Owner and the Agent evidence satisfactory to them of the insurance required to be maintained pursuant to this Section 7.6.

In the event of failure on the part of the Lessee to provide and furnish any of the aforesaid insurance, the Owner or the Agent, upon notice to the Lessee, may, but shall not be obligated to, procure such insurance and the Lessee shall, upon demand, reimburse the Owner and the Agent for all expenditures made by the Owner or the Agent for such insurance, together with interest thereon computed at the rate set forth in Section 19 in respect of overdue rentals from the date of the Agent's or the Owner's payment until reimbursed by the Lessee. In the event that the Lessee's coverage for public liability insurance as set forth in the previous paragraph falls to an amount which is less than \$50,000,000, then in such event the Lessee shall promptly notify the Agent and the Owner of such fact and also provide to such parties evidence that such coverage so carried is customary in the industry for comparable railroad companies.

If the Owner shall receive any insurance proceeds from insurance maintained by the Lessee pursuant hereto or condemnation payments in respect of a Unit suffering a Casualty Occurrence, the Owner shall, if no Event of Default exists and no event has occurred which with the lapse of time or the giving of notice or both would be an Event of Default and subject to the Lessee having made payment of the Casualty Value in respect of such Unit, pay such proceeds or condemnation payments (up to the amount of the Casualty Value paid) to the Lessee. All insurance proceeds received by the Owner in respect of any Unit not suffering a Casualty Occurrence shall be paid, provided that no Event of Default hereunder has occurred and is continuing, to the Lessee upon proof satisfactory to the Owner and the Agent that any damage to such Unit in respect of which such proceeds were paid has been fully repaired.

SECTION 8. REPORTS

On or before March 31 in each year, commencing with the calendar year 1987, the Lessee will furnish to the Owner and the Agent an accurate statement stating (a) as at the preceding December 31 the total number, description and identification numbers of all Units then leased hereunder and covered by the CSA and of all Units that have suffered a Casualty Occurrence during the preceding calendar year (or since the date hereof in the case of the first such statement) or are then undergoing repairs (other than running repairs) or then withdrawn from use pending repairs (other than running repairs) and such other information regarding the condition and state of repair of the Units as the Owner or the Agent may reasonably request, (b) in the case of all Units repainted or repaired during the period covered by such statement, that the numbers and markings required by § 5 hereof have been preserved or replaced and

(c) that the Lessee is in compliance under this Lease and has performed or has caused to be performed the required maintenance of the Units and that no event has occurred which with notice or the lapse of time or both would constitute an Event of Default. The Owner and the Agent shall each have the right by its agents to inspect the Units and the Lessee's records with respect thereto at such reasonable times as they may request during the continuance of this Lease.

SECTION 9. DISCLAIMER OF WARRANTIES

THE OWNER DOES NOT MAKE, HAS NOT MADE NOR SHALL BE DEEMED TO MAKE OR HAVE MADE ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE UNITS DELIVERED TO THE LESSEE HEREUNDER, AND THE OWNER DOES NOT MAKE ANY WARRANTY OF MERCHANTABILITY OR FITNESS OF THE UNITS FOR ANY PARTICULAR PURPOSE NOR AS TO TITLE TO THE UNITS OR ANY COMPONENT THEREOF, NOR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO ANY UNIT, EITHER UPON DELIVERY THEREOF TO THE LESSEE OR OTHERWISE, it being agreed that all such risks, as between the Owner and the Lessee, are to be borne by the Lessee; but the Owner hereby appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce from time to time, in the name of and for the account of the Owner or the Lessee, as their interests may appear, at the Lessee's sole cost and expense, whatever claims and rights the Owner may have against the Builder under the provisions of the CSA; provided, however, that if at any time an Event of Default shall have occurred and be continuing, the Owner may revoke the foregoing appointment provided that it shall assert and enforce such claims and rights at the Lessee's sole cost and expense. The Owner shall not have any responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Units or by any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation or performance of any Units or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Units, except to the extent any of the foregoing result from any misrepresentation by the Owner or from the gross negligence or wilful misconduct of the Owner. The Lessee acknowledges and agrees that each Unit is of a size, design, capacity and

manufacture selected by the Lessee and that the Lessee is satisfied that the same is suitable for its purpose. The Lessee's delivery of a Certificate of Acceptance shall be conclusive evidence as between the Lessee and the Owner that the Units described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Owner or the Agent based on any of the foregoing matters.

SECTION 10. LAWS AND RULES

10.1. Compliance. The Lessee agrees, for the benefit of the Owner and the Agent, to comply in all respects (including without limitation the use, maintenance and operation of each Unit) with all laws of the jurisdictions in which operations involving the Units may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the United States Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Units, to the extent that such laws and rules affect the title, operation or use of the Units by the Lessee or any sublessee (all such laws and rules to such extent called "Applicable Laws"), and in the event that the Applicable Laws require any alteration, replacement or addition of or to any part on any Unit, the Lessee will conform therewith at its own expense; provided, however, that the Lessee may at its own expense, in good faith, contest the validity or application of any Applicable Law in any reasonable manner which does not, in the opinion of the Owner or the Agent, materially and adversely affect the property or rights of the Owner or the Agent under this Lease or under the CSA or create, in the reasonable opinion of the Owner or the Agent, a situation whereby the Owner or the Agent could incur criminal or other liability for which there is no indemnification hereunder.

10.2. Reports for Owner and Agent. The Lessee agrees to prepare and deliver to the Owner and the Agent within a reasonable time prior to the required date of filing (or, to the extent permissible, file on their behalf) any and all reports (other than income tax returns) to be filed by the Owner with any Federal, state or other regulatory authority by reason of the ownership by the Owner of the Units or the leasing thereof to the Lessee.

SECTION 11. MAINTENANCE

11.1. Units in Good Operating Order. The Lessee, at its own cost and expense, will maintain and keep each Unit (including any parts installed on or replacements made to any Unit and considered an accession thereto as hereinbelow provided) which is subject to this Lease in good operating order, repair and condition, ordinary wear and tear excepted, and eligible for railroad interchange in accordance with the Applicable Laws, in a manner consistent with the Lessee's insurance policies and the Builder's warranties and in the same condition as other similar Equipment owned or leased by the Lessee.

11.2. Additions and Accessions. (1) In addition to any repairs, alterations, replacements or additions required to be made by the Lessee pursuant to §§ 10.1 and 11.1 hereof, the Lessee, at its own cost and expense, may from time to time make such other additions, modifications and improvements to the Units as are readily removable without causing material damage to the Units (and do not adversely affect the value of the Units) which shall be owned by the Lessee, except to the extent such additions, modifications or improvements are made in order to comply with § 11.2(2) hereof.

(2) Any and all parts installed on and additions and replacements made to any Unit (i) which are not readily removable without causing material damage to such Unit, whether or not installed or added to such Unit in contravention of § 11.2(1) hereof, (ii) the cost of which is included in the Purchase Price of such Unit, (iii) in the course of ordinary maintenance of the Units or (iv) which are required for the operation or use of such Unit in railroad interchange by the Applicable Laws, shall constitute accessions to such Unit and full ownership thereof free from any lien, charge, security interest or encumbrance (except for those created by the CSA and Permitted Liens as defined in § 15.2 hereof) shall immediately be vested in the Owner and the Agent as their respective interests may appear in the Unit. Except for additions, modifications or replacements made in order to comply with Applicable Laws, no installation, addition or modification may be made to any Unit which impairs its function or materially diminishes its commercial value.

SECTION 12. INDEMNIFICATION

12.1. Indemnified Persons. The Lessee shall pay and shall protect, indemnify and hold harmless the Owner, the Investors, the Agent and their respective successors, assigns, agents and servants ("Indemnified Persons") from and against any and all causes of action, suits, penalties, claims, demands or judgments of any nature whatsoever which may be imposed on, incurred by or asserted against any Indemnified Person (including any or all documented liabilities, obligations, damages, costs, disbursements or expenses relating thereto, including without limitation, the reasonable attorneys' fees and expenses of any Indemnified Person) in any way relating to or arising or alleged to arise out of this Lease, the CSA or the Units, including without limitation those in any way relating to or arising or alleged to arise out of (i) the manufacture, purchase, acceptance, rejection, ownership, delivery, nondelivery, lease, possession, use, operation, condition, sale, return, storage or other disposition of any Unit or portion thereof; (ii) any latent and other defects whether or not discoverable by the Indemnified Person or the Lessee; (iii) any act or omission of the Lessee when acting as agent or attorney-in-fact for the Owner; (iv) any claim for patent or trademark infringement; (v) any claims based on strict liability in tort; (vi) any injury to or the death of any person or any damage to or loss of property on or near the Units or in any manner arising or alleged to arise out of the ownership, use, replacement, adaptation or maintenance of the Units or of any other equipment in connection with the Units (whether owned or under the control of the Indemnified Person, the Lessee or any other person) or resulting or alleged to result from the condition of any thereof; (vii) any violation or alleged violation of any provision of this Lease or of any agreement, law, rule, regulation, ordinance or restriction, affecting or applicable to the Units or the leasing, ownership, use, replacement, adaptation or maintenance thereof; or (viii) any claim arising out of any of the Owner's obligations under this Lease, the CSA or the Lease Assignment or the Agent's retention of a security interest under the CSA or the Lease Assignment or the Participation Agreement (all such matters called "Indemnified Matters"); provided, however, that Indemnified Matters shall not include Taxes which are covered by Section 6 hereof and that the Lessee shall not be required to indemnify with respect to any Indemnified Matter to the extent the same arises from any misrepresentation of such Indemnified Person or from the gross negligence or wilful misconduct of such Indemnified Person. The Lessee shall be

obligated under this § 12.1, whether or not any Indemnified Person shall also be indemnified with respect to any Indemnified Matter under any other agreement by any other person, and the Indemnified Person may proceed directly against the Lessee under this § 12.1 without first resorting to any such other rights of indemnification. In case any action, suit or proceeding is brought against any Indemnified Person in connection with any Indemnified Matter, the Lessee may and, upon such Indemnified Person's request, will at the Lessee's expense defend such action, suit or proceeding, or cause the same to be defended by counsel selected by the Lessee and approved by such Indemnified Person, which approval shall not be unreasonably withheld, and, in the event of any failure by the Lessee to do so, the Lessee shall pay all costs and expenses (including without limitation reasonable attorneys' fees and expenses) incurred by such Indemnified Person in connection with such action, suit or proceeding. In the event the Lessee is required to make any indemnification under this § 12, the Lessee shall pay such Indemnified Person an amount which, after deduction of all Taxes required to be paid by such Indemnified Person in respect of the receipt thereof under the laws of the United States or of any political subdivision thereof (after giving credit for any savings in respect of any such Taxes by reason of deductions, credits or allowances in respect of the payment of the expense indemnified against and of any other such Taxes as determined in the sole discretion of the Indemnified Person, such discretion to be reasonably applied), shall be equal to the amount of such payment. The Lessee and the Owner each agrees to give the other promptly upon obtaining knowledge thereof written notice of any claim hereby indemnified against; and, in the case of each other Indemnified Person, such other Indemnified Person shall be required to give written notice to the Lessee of any claim hereby indemnified against in respect of such Indemnified Person promptly upon obtaining knowledge thereof; provided that any failure of any Indemnified Person to furnish such notice in a prompt manner shall relieve the Lessee from its obligation to indemnify pursuant to this Section 12.2 only to the extent that such delay in notification shall be reasonably demonstrated by the Lessee to have prevented the Lessee from effectively asserting a meritorious defense to the loss or liability so indemnified against. Upon the payment in full by the Lessee of any indemnities as contained in this § 12, (i) the Lessee shall receive any right of such Indemnified Person to proceed against others (except where the Lessee is also indemnifying a person against whom the Indemnified Person has rights) in respect of such Indemnified Matter and

(ii) any payments received by such Indemnified Person from any person (except the Lessee) as a result of any Indemnified Matter shall be paid over to the Lessee to the extent necessary to reimburse the Lessee for its indemnification payments previously made. Nothing in this § 12.1 shall constitute a guarantee by the Lessee of the CSA Indebtedness (as defined in the CSA) or a guarantee of the residual value of any Unit.

12.2. Indemnification of The Builder. The Lessee further agrees to indemnify, protect and hold harmless the Builder as a third-party beneficiary hereof from and against any and all liability, claims, costs, charges and expenses, including royalty payments and counsel fees, in any manner imposed upon or accruing against such Builder because of the use in or about the construction or operation of any of the Units of any article or material specified by the Lessee and not manufactured by the Builder or of any design, process or combination specified by the Lessee and not developed by the Builder which infringes or is claimed to infringe on any patent or other right. The Lessee will give notice to the Builder of any claim known to the Lessee from which liability may be charged against the Builder hereunder.

12.3. Survival. The indemnities contained in this § 12 shall survive the expiration or termination of this Lease with respect to all events, facts, conditions or other circumstances occurring or existing prior to such expiration or termination and are expressly made for the benefit of and shall be enforceable and collectible directly from the Lessee by any Indemnified Person notwithstanding the provisions of the Lease Assignment or the Consent. None of the indemnities in this § 12 shall be deemed to create any rights of subrogation in any insurer or third party against the Lessee therefor, from or under any Indemnified Person, whether because of any claim paid or defense provided for the benefit thereof or otherwise.

SECTION 13. DEFAULT

13.1. Events of Default; Remedies. If, during the continuance of this Lease or any extension or renewal thereof, one or more of the following events (each such event an "Event of Default") shall occur and be continuing:

(A) default shall be made in payment of any amount of rentals (under § 3.1 hereof), Casualty Values or

option purchase prices (under § 16.2 hereof) provided for hereunder, and such default shall continue for five days;

(B) the Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or any interest herein, or of the right to possession of any Units;

(C) default shall be made in the observance or performance of any other covenant, condition or agreement on the part of the Lessee contained herein, in the Participation Agreement or the Consent (as defined in the Participation Agreement) and such default shall continue for 30 days after the written notice from the Owner or the Agent to the Lessee specifying the default and demanding that the same be remedied;

(D) any representation or warranty made by the Lessee herein, the Lessee or the Guarantor in the Participation Agreement or in any certificate or written statement furnished by the Lessee or the Guarantor to the Owner or the Agent pursuant to or in connection with any such agreement proves untrue, misleading or incorrect in any materially adverse respect as of the date of making thereof;

(E) a petition for reorganization under Title 11 of the United States Code, as now constituted or as hereafter amended, shall be filed by or against the Lessee or the Guarantor and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease, the Consent and the Indemnity Agreement, or the Guarantor under the Participation Agreement, as the case may be, shall not have been and shall not continue to be duly assumed in writing within 60 days after such petition shall have been filed, pursuant to a court order or decree, by a trustee or trustees appointed (whether or not subject to ratification) in such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such trustee or trustees; or

(F) any other proceeding shall be commenced by or against the Lessee or the Guarantor for any relief

which includes or might result in any modification of the obligations of the Lessee hereunder or under the Consent, the Indemnity Agreement, or the Guarantor under the Participation Agreement, under any bankruptcy or insolvency laws or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of such obligations), and, unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all such obligations shall not have been and shall not continue to be duly assumed in writing within 60 days after such proceedings shall have been commenced, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed (whether or not subject to ratification) for the Lessee or the Guarantor or for the property of the Lessee or the Guarantor in connection with any such proceedings in such manner that such obligations shall have the same status as expenses of administration and obligations incurred by such trustee or trustees or receiver or receivers;

then, in any such case, the Owner, at its option, may:

(a) proceed by appropriate court action or actions either at law or in equity to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof; or

(b) by notice in writing to the Lessee terminate this Lease, whereupon all rights of the Lessee to the use of the Units shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as herein provided; and thereupon the Owner may by its agents enter upon the premises of the Lessee or other premises, insofar as the Lessee may be lawfully authorized so to permit, where any of such Units may be located, without judicial process if this can be done without breach of the peace and in accordance with due process of law, and take possession of all or any of such Units and possess the same free from any right of the Lessee or its successors or assigns to use the Units for any purposes whatever; but the Owner shall, nevertheless, have a right to recover from the Lessee any and all amounts which under the terms of this Lease may be then due or

which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee as liquidated damages for loss of a bargain and not as a penalty whichever of the following amounts that the Owner in its sole discretion shall specify, (i) the sum, with respect to each Unit, which represents (x) the excess of the present value, at the time of such termination, of the entire unpaid balance of all rentals for such Unit which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease as to such Unit over the then present value of the rental which the Owner reasonably estimates to be obtainable for each Unit during such period (such present value to be computed in each case on the basis of a 3.25% per annum discount, compounded semiannually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated) or, if such Unit is sold, the net proceeds of the sale plus (y) any damages and expenses, including reasonable attorneys' fees, which the Owner shall have sustained by reason of the breach of any covenant, representation or warranty of this Lease other than for the payment of rental or (ii) an amount equal to the excess, if any, of the Casualty Value as of the Casualty Payment Date on or next preceding the date of termination over the amount the Owner reasonably estimates to be the sales value of such Unit at such time. In the event the Owner shall have sold any Unit, the Lessee shall, if the Owner shall so elect, pay to the Owner on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value for such Unit as of the Casualty Payment Date on or next preceding the date of termination over the net proceeds of such sale in lieu of collecting any amounts payable by the Lessee pursuant to clause (ii) of the preceding sentence with respect to such Unit. In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid amounts due hereunder before, during or after the exercise of any of the foregoing remedies and for all reasonable attorneys' fees and other costs and expenses incurred by reason of the occurrence of any Event of Default or the exercise of the Owner's remedies with

respect thereto, including all costs and expenses incurred in connection with the return or sale of any Unit.

13.2. Remedies Not Exclusive; Waiver. The remedies in this Lease provided in favor of the Owner shall not be deemed exclusive, but shall be cumulative and may be exercised concurrently or consecutively, and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law now or hereafter in effect which might limit or modify the remedies herein provided, to the extent that such waiver is not, at the time in question, prohibited by law. The Lessee hereby waives any and all existing or future claims to any offset against the rental payments due hereunder and agrees to make such payments regardless of any offset or claim which may be asserted by the Lessee or on its behalf.

Except as otherwise provided in this Lease and the CSA, the Lessee, to the full extent permitted by law, hereby waives all statutory or other legal requirements for any notice of any kind, any other requirements with respect to the enforcement of the Owner's rights under this Lease and the CSA and any and all rights of redemption.

13.3. Failure To Exercise Rights Is Not Waiver. The failure of the Owner to exercise the rights granted it hereunder upon the occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

13.4. Notice of Event of Default. The Lessee agrees to furnish prompt telephonic notice, confirmed in writing, to the Owner and the Agent within five business days of the date on which any responsible officer becomes aware of any condition which constituted or constitutes an Event of Default under this Lease or which after notice or lapse of time or both would constitute such an Event of Default, specifying such condition and the nature and status thereof. A "responsible officer" shall mean, with respect to the subject matter of any covenant, agreement or obligation of the Lessee in this Lease contained, any corporate officer of the Lessee who, in the normal performance of his operational responsibilities, would have knowledge of such matter and the requirements of this Lease with respect thereto.

13.5. Mandatory Requirement of Law. The foregoing provisions of this Section 13 are subject in all respects to all mandatory requirements of law at the time in force and applicable thereto.

SECTION 14. RETURN OF UNITS UPON DEFAULT

14.1. Return of Units. If this Lease shall terminate pursuant to § 4.2 or § 13 hereof, the Lessee shall forthwith deliver possession of the Units to the Owner. Each Unit so delivered shall be in the same operating order, repair and condition as when originally delivered to the Lessee, ordinary wear and tear excepted, shall meet all standards of all Applicable Laws then in effect, and shall have attached or affixed thereto any special device considered an accession thereto as provided in § 11 hereof and shall have removed therefrom at the Lessee's expense any addition, modification or improvement which, as provided in § 11 hereof, is owned by the Lessee or if the Lessee elects not to remove the same and the Owner consents in writing thereto, the same will remain affixed to such Unit and title thereto will immediately vest in the Owner. For the purpose of delivering possession of any Unit or Units as above required, the Lessee shall at its own cost, expense and risk:

(a) forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to the Association of American Railroads and all railroads to which any flatcars to which any Units are attached have been interchanged or which may have possession thereof to return such flatcar so interchanged) place such Units upon such storage tracks or other premises of the Lessee or any of its affiliates as the Owner reasonably may designate;

(b) if so requested by the Owner, detach each Unit from the flatcar to which it has been attached;

(c) cause such Units to be stored on such tracks or other premises at the risk of the Lessee without charge for insurance, rent or storage until all such Units have been sold, leased or otherwise disposed of by the Owner; and

(d) cause the same to be transported to any reasonable place as directed by the Owner.

The assembling, delivery, storage, insurance and transporting of the Units as hereinbefore provided shall be at the expense and risk of the Lessee and are of the essence of this Lease, and upon application to any court of equity having competent jurisdiction the Owner shall be entitled to a decree against the Lessee requiring specific performance thereof. During any storage period, the Lessee will, at its own cost and expense, insure, maintain and keep the Units in good order and repair and will permit the Owner or any person designated by it, including the authorized representative or representatives of any prospective purchaser, lessee or user of any such Unit, to inspect the same. All net earnings earned in respect of the Units after the date of termination of this Lease shall belong to the Owner and, if received by the Lessee, shall be promptly turned over to the Owner. In the event any Unit is not assembled, delivered and stored as hereinabove provided within 30 days after such termination, the Lessee shall in addition pay to the Owner for each day thereafter an amount equal to 0.0335% of the Purchase Price of each such Unit for each such day that such Unit is not so returned. Such payment shall not offset the obligation of the Lessee to redeliver the Equipment pursuant to the first sentence of this section. For purposes of this § 14, net earnings for each Unit shall be determined by aggregating all income including rentals and mileage per diem charges which the Lessee may have received or be entitled to receive in respect of such Unit and subtracting therefrom the Lessee's reasonable expenses for operating such Unit including rent, freight, interchange, running repairs and other similar charges in respect of such Unit.

14.2. Owner Appointed Agent of Lessee. The Lessee hereby irrevocably appoints the Owner as the agent and attorney of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Unit to the Owner, to demand and take possession of such Unit in the name and on behalf of the Lessee from whosoever shall be in possession of such Unit.

SECTION 15. ASSIGNMENT, POSSESSION AND USE

15.1. Assignment. This Lease shall be assignable in whole by the Owner to any successor Owner subject to the satisfaction of all the provisions of Section 15.1 of the CSA. The Lessee hereby acknowledges the assignment of this Lease pursuant to the Lease Assignment.

15.2. Lessee's Rights To Use the Units. (1) So long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Agent is entitled to apply the Payments (as defined in the Lease Assignment) in accordance with the Lease Assignment, the Lessee shall be entitled to the possession and use of the Units in accordance with the terms of this Lease and the CSA, subject to the provisions of § 4.2 of this Lease. None of the Units may be used outside of the continental United States of America or Canada, except that up to 5% of the Units then subject to this Lease may at any time be used in Mexico. The Lessee shall not assign or transfer its leasehold interest under this Lease in the Units or any of them without the prior written consent of the Owner and the Agent, except as provided in paragraph (2) of this § 15.2; and the Lessee shall not part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Units without the prior written consent of the Owner and the Agent, except as provided in said paragraph (2). The Lessee, at its own expense, will promptly pay or discharge any and all sums claimed by any party which if unpaid might become a lien, charge, security interest or other encumbrance (other than an encumbrance created by the Owner or the Agent or resulting from claims against the Owner or the Agent not related to the ownership of the Units or any encumbrance on the leasehold estate of the Lessee which is subordinate to the interests of the Owner and the Agent arising from a sublease permitted hereunder) upon or with respect to any Unit, including any accession thereto or the interest of the Owner, the Agent or the Lessee therein, and will promptly discharge any such lien, claim, security interest or other encumbrance which arises; provided that the Lessee may contest any such lien, claim, security interest or other encumbrance if the Lessee provides indemnity which shall protect the interests of the Agent and the Owner to the reasonable satisfaction of each; and provided, further, that this covenant will not be deemed breached by reason of liens for taxes, assessments or governmental charges or levies, in each case not due and delinquent, or undetermined or inchoate materialmen's, mechanics', workmen's, repairmen's or other like liens arising in the ordinary course of business and, in each case, not delinquent ("Permitted Liens").

(2) So long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Agent is entitled to apply the Payments (as defined in the Lease Assignment) in accordance

with the Lease Assignment, the Lessee shall be entitled to the possession and use of the Units by it or any sublessee upon lines of any railroad or other trackage over which railroad equipment is regularly operated and shall be entitled to permit the use of the Units upon connecting and other carriers in the usual interchange of traffic or pursuant to run-through or triplease agreements or pursuant to necessary maintenance arrangements and to sublease the Units, but only upon and subject to all the terms and conditions of this Lease and the CSA, provided, however, that no such sublease shall extend beyond the term of this Lease. The Lessee shall not assign, sublease or permit the assignment, sublease or use of any Unit predominantly outside the United States of America within the meaning of Section 48(a) of the Internal Revenue Code of 1954, as amended to the date hereof, nor shall the Lessee assign or sublease to or permit the sublease or use of the Units by any person in whose hands such Units would not qualify as "section 38 property" within the meaning of said Code or, in connection with any such assignment, sublease or use, otherwise permit the Units to be used in any manner which would cause such Units to fail to qualify as "section 38 property" as so defined, or permit any assignee, sublessee or user to use the Units such that more than 5% of the Units then subject to this Lease are used in Mexico at any one time. The Lessee may receive and retain compensation for the use of any of the Units from railroads or other entities so using such Units. Any sublease permitted by this paragraph shall be expressly subordinate to the rights and remedies of the Agent under the CSA and the Owner under this Lease in respect of the Units covered by such sublease and no such sublease shall relieve the Lessee of any of its obligations hereunder or under the Indemnity Agreement (as defined in the Participation Agreement) which, notwithstanding any such sublease, shall remain in full force and effect.

(3) So long as (i) no Event of Default exists hereunder, (ii) the Lessee is complying with the provisions of the Consent and (iii) the Agent is entitled to apply the Payments (as defined in the Lease Assignment) in accordance with the Lease Assignment, the Lessee may quietly have, hold and enjoy the Units free and clear from repossession or disturbance by the Owner or its officers, agents, employees or servants or by anyone (including the Agent and the Investors) claiming by, through or under the Owner.

15.3. Merger, Acquisition or Consolidation.
Nothing in this Section 15 shall be deemed to restrict the

right of the Lessee to assign or transfer its leasehold interest under this Lease in the Units or possession of the Units to any corporation incorporated under the laws of any state of the United States of America or the District of Columbia (which shall have duly assumed the obligations of the Lessee hereunder) into or with which the Lessee shall have become merged or consolidated or which shall have acquired the railroad properties of the Lessee as an entirety or substantially as an entirety; provided that such assignee or transferee will not, upon the effectiveness of such merger, consolidation or acquisition, be in default under any provision of this Lease and, provided further, however, that Guarantor shall deliver an acknowledgment to all the other parties to the Participation Agreement that its obligations under Article XIV of the Participation Agreement shall be primary and shall remain in full force and effect as to such assignee or transferee.

SECTION 16. OPTIONS

16.1. Renewal for Successive Period. Provided that this Lease has not been earlier terminated and no Event of Default has occurred and is continuing hereunder, the Lessee may by written notice delivered to the Owner not later than 150 days prior to the expiration of the current term of this Lease elect to extend the original term or the first extended term of this Lease in respect of not less than all the Units then covered by this Lease for a renewal term commencing on the scheduled expiration of such original term or the first extended term of this Lease for one year with rentals payable in arrears semiannually on January 2 and July 2 at a rate equal to 50% of the average of the semiannual rental payments paid over the original term.

16.2. Purchase Options. Provided this Lease has not been earlier terminated, and no Event of Default has occurred and is continuing hereunder, upon not less than 180 days notice prior to the end of the original or any renewal term of this Lease, the Lessee may give written notice to the Owner that the Lessee elects to have the Fair Market Value of all the Units under the Lease determined. If the Lessee shall give such notice, the Owner and the Lessee shall promptly cause the Fair Market Value of such Units to be determined in the manner provided in § 16.3, which determination shall be made not less than 100 days prior to the end of the current term of this Lease. After determination of the Fair Market Value, the Lessee may, not less than 90 days prior to the end of the current term of this Lease,

give written notice to the Owner of its acceptance of the determination of the Fair Market Value and that the Lessee elects to purchase all Units under the Lease. If the Lessee shall fail to give such notice, the Lessee shall have no further right to purchase such Units under this paragraph. If the Lessee shall give such notice, the Lessee shall purchase such Units for cash on the last business day of the term hereof at their Fair Market Value. The cost of any appraisal shall be borne as follows: (i) if the Lessee does not elect to purchase, the entire cost shall be paid by the Lessee; (ii) if the Lessee elects to purchase and the Lessee and the Owner did agree on a single appraiser, the cost shall be shared equally by the Lessee and the Owner; and (iii) if the Lessee elects to purchase and the Lessee and the Owner failed to agree on a single appraiser, the Lessee will pay the cost of its appraiser and one-half the cost of the third appraiser and the Owner will pay all other costs.

Upon payment of the Fair Market Value for all the Units pursuant to an exercise by the Lessee of its option to purchase with respect to all the Units, and any and all sums due hereunder, or due under the Participation Agreement or the Indemnity Agreement the Owner shall execute and deliver to the Lessee, or upon request of the Lessee to the Lessee's assignee or nominee, a bill of sale (without warranties, except as hereinafter provided in this paragraph) for all the Units which will transfer title to all the Units and all claims against third parties including warranties in respect thereof to the Lessee, or to such assignee or nominee, as the case may be, free and clear of all claims, liens, security interest and other encumbrances created by or arising through the Owner, other than claims, liens, security interests and encumbrances which the Lessee is obligated to pay or discharge under or pursuant to this Lease.

16.3. Determination of Fair Market Value. (1) The Fair Market Value for each Unit shall, assuming that such Unit is in the condition required by this Lease, be equal to the value which would obtain in an arm's-length transaction between an informed and willing buyer (other than a lessee currently in possession or a used equipment dealer) and an informed and willing seller under no compulsion to sell, and costs of removal from the location of current use shall not be a deduction from such value.

(2) If, after 20 days from the giving of notice by the Lessee of the Lessee's election to have the Fair

Market Value determined, the Owner and the Lessee are unable to agree upon a determination of the Fair Market Value of the Units, either party to such determination may give written notice to the other requesting determination of such Fair Market Value by an appraisal procedure. The parties shall consult for the purpose of appointing a qualified independent appraiser by mutual agreement. If no such appraiser is so appointed within 10 days after such notice is given, each party shall appoint an appraiser within 10 days after such notice is given, and the two appraisers so appointed shall within 15 days after such notice is given appoint a third independent appraiser. If no such third appraiser is appointed within 15 days after such notice is given, either party may apply to make such appointment to the American Arbitration Association and both parties shall be bound by any appointment so made. Any appraiser or appraisers appointed pursuant to the foregoing procedure shall be instructed to determine the Fair Market Value of the Units within 20 days after his or their appointment. If the parties shall have appointed a single appraiser or if either party shall have failed to appoint an appraiser, the determination of Fair Market Value of the single appraiser appointed shall be final. If three appraisers shall be appointed, the determination of the appraiser which differs most from the other two appraisers shall be excluded, the remaining two determinations shall be averaged and such latter average shall be final and binding upon the parties hereto as the Fair Market Value. The appraisal proceedings shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association as in effect on the date hereof, except as modified hereby. The provision for this appraisal procedure shall be the exclusive means of determining Fair Market Value and shall be in lieu of any judicial or other procedure for the determination thereof, and each party hereto hereby consents and agrees not to assert any judicial or other procedures.

SECTION 17. RETURN OF UNITS UPON EXPIRATION OF LEASE TERM

Upon the expiration of the original or any extended term of this Lease and provided the Lessee has not elected to extend the term of this Lease or to purchase the Units as provided in Section 16 hereof, the Lessee will, at its own cost, expense and risk return the Units to the Owner in accordance with any one (and only one) of the following provisions which shall be selected by the Owner not less than 90 days prior to the actual expiration date of this

Lease. The assembling, delivery, storage and transporting of the Units as hereinafter provided are of the essence of this Lease, and upon application to any court of equity having competent jurisdiction, the Owner shall be entitled to a decree against the Lessee requiring specific performance of such covenants of the Lessee. Any obligations of the Lessee to pay rental as hereinafter provided after the expiration of the lease term shall not offset the obligation of the Lessee to redeliver the Equipment pursuant to this Section 17.

SECTION 17.1 RETURN OF THE UNITS ATTACHED TO THE UNDERLYING FLATCAR

If and only to the extent that the Owner has arranged for the use of the Units by any person who is qualified to utilize the underlying flatcar (and who has made arrangements to so utilize such flatcar) then the Lessee shall deliver the Units to the Owner at any point selected by the Owner which is along the Lessee's lines or any of the Lessee's interchange points. Delivery shall take place within 30 days of the date on which this Lease terminates but if any Unit is not returned on the date this Lease terminates the Lessee shall pay rental for each Unit not so returned in an amount equal to 0.0335% of the Purchase Price of each such Unit for each day thereafter to the date the Unit is so returned. Until the Units have been returned to the Owner as set forth above, the Lessee shall pay all costs associated with such Units including but not limited to storage costs, if any, and costs of maintaining insurance in accordance with the standards set forth in Section 7.6 hereof.

During any storage period the Lessee will permit the Owner or any person designated by it, including the authorized representative or representatives of any prospective purchaser, lessee or user of such Unit, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising the rights of inspection granted under this sentence. Each Unit returned to the Owner pursuant to this Section 17.1 shall (i) be in the same operating order, repair and condition as when originally delivered to the Lessee, reasonable wear and tear excepted, (ii) meet all standards of the Applicable Laws then in effect with respect to the usage of the Units by the Lessee and (iii) have attached or affixed thereto any special device considered an accession thereto as provided in Section 11 hereof and have

removed therefrom any such device not so considered an accession; provided, however, that if the Lessee elects not to remove the same and the Owner consents in writing thereto, the same will remain affixed to such Unit and title thereto will immediately vest in the Owner.

SECTION 17.2 RETURN OF THE UNITS DETACHED FROM THE UNDERLYING FLATCAR

(a) If the Owner directs the Lessee to have the Units removed from the underlying flatcar, then the Lessee shall within 30 days of the date on which this Lease terminates deliver the Units to any shop (or shops) chosen by the Owner which is capable of performing the work in a reasonable period of time. If any Unit is not delivered on the date this Lease terminates the Lessee shall pay rental for each such Unit that is not delivered in accordance with the provisions of § 17.1 hereof. At the time of delivery the Units shall be in the condition specified in Section 17.1 hereof. The Owner shall direct the shop to remove the Units from the underlying flatcar at the Lessee's expense. If such shop is along the Lessee's lines the cost of transporting the Unit to the shop shall be for the Lessee's account and if the shop is not along the Lessee's lines, the Lessee shall be responsible for any transportation costs on its lines and the Owner shall pay all other transportation costs. Upon removal of a Unit from the underlying flatcar the Owner shall direct the shop to redeliver the flatcar to the Lessee at such shop. From and after the expiration of this Lease until the earlier of (i) 90 days after the expiration of this Lease, or (ii) the date the Units have been removed from the underlying flatcars the Lessee shall pay all costs associated with the Units including but not limited to storage costs and the costs of maintaining insurance in accordance with the standards set forth in Section 7.6 hereof, but excluding any transportation charges which are for the account of the Owner as aforesaid.

(b) If the Owner directs the Lessee to detach the Units in a form suitable for being shipped as scrap, then the Lessee shall within 30 days of the date on which the Lease terminates, remove the Units from the underlying flatcar, cut them into pieces which can be reasonably and safely shipped in a gondola car, load all such pieces of the Units into gondola cars and deliver such gondola cars to the Owner's possession at any interchange point designated by the Owner along the Lessee's lines or at any point along such lines. If any Unit is not so returned during such 30 day period the Lessee shall pay rental for each such Unit that is not returned in accordance with the provisions of Section 17.1 hereof. From and after the expiration of this Lease and until the Units have been returned to the Owner

the Lessee shall pay all costs associated with the Units, including but not limited to storage costs and the costs of maintaining insurance in accordance with the standards set forth in Section 7.6 hereof.

SECTION 18. FILING

The Lessee, at its own expense, will cause this Lease, the CSA, the CSA Assignment and the Lease Assignment to be filed with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 and deposited with the Registrar General of Canada (notice of such deposit to be forthwith given in The Canada Gazette) pursuant to Section 86 of the Railroad Act of Canada prior to the delivery and acceptance of any Unit hereunder, and will pay for the filing required of the Owner under the CSA. The Lessee will further cause this Lease and/or appropriate financing statements or continuation statements to be filed and recorded, and, from time to time when required, refiled and rerecorded, in accordance with the applicable provisions of the Uniform Commercial Code as in effect in the State of Michigan (and, if the Lessee changes its chief place of business, in any such other state) in like manner as if the Owner's interest in this Lease represented a security interest or in any other state of the United States of America or the District of Columbia where filing is reasonably requested by the Owner or the Agent for the purpose of proper protection, to the satisfaction of counsel of the Owner and Agent, of their interests and rights under this Lease for the purpose of carrying out the intention of this Lease. The Lessee will from time to time perform any other act and will execute, acknowledge, deliver and file (and will refile whenever required) any and all further instruments required by law or reasonably requested by the Owner or the Agent for the purpose of proper protection, to their satisfaction, of their respective interests in the Units, or for the purpose of carrying out the intention of this Lease, the CSA, the CSA Assignment and the Lease Assignment; and the Lessee will promptly furnish to the Agent and the Owner evidence of all such filings and an opinion or opinions of counsel for the Lessee with respect thereto satisfactory to the Agent and the Owner.

SECTION 19. INTEREST ON OVERDUE RENTALS

The Lessee shall pay promptly, to the extent legally enforceable, an amount equal to 11-5/8% per annum of the overdue rentals and other overdue obligations hereunder which are intended to satisfy the obligations of the Owner with respect to the CSA Indebtedness and an amount equal to 14% per annum (as applicable the "Overdue Rate") of the other overdue rental and other overdue obligations hereunder for the period of time during which they are overdue, computed on the basis of a 360-day year of twelve 30-day months.

SECTION 20. OWNER'S RIGHT TO PERFORM FOR LESSEE

If the Lessee fails to perform any of its agreements contained herein, the Owner may upon notice to the Lessee perform such agreement, and the amount of the reasonable cost and expenses of the Owner incurred in connection with such performance, together with interest on such amount at the Overdue Rate shall be payable by the Lessee upon demand, except as otherwise provided in this Lease. No such performance or compliance by the Owner shall be deemed a waiver of the rights and remedies of the Owner against the Lessee hereunder, including, without limitation, the right of the Agent to terminate this Lease pursuant to Article 16 of the CSA and the Lease Assignment, and no such performance or compliance by the Owner shall be deemed to cure an Event of Default hereunder for purposes of Article 16 of the CSA except as otherwise provided in Section 16.1(e) of the CSA.

SECTION 21. NOTICES

Any notice required or permitted hereunder shall be deemed to have been received by the addressee on the date of actual receipt (if such date is a Business Day, otherwise on the next Business Day), if transmitted by mail, recognized courier service, telex, telecopy or similar transmission, or by hand, addressed as follows:

(a) if to the Lessee, at 131 West Lafayette Boulevard, Detroit, Michigan 48226, attention of Treasurer with a copy to the Guarantor at its address set forth in Article XIII of the Participation Agreement; and

(b) if to the Owner, at 6200 South Quebec Street; Suite 330; Englewood, Colorado 80111, attention of President.

or addressed to any party at such other address as such party shall hereafter furnish to the other parties in writing. Copies of each such notice shall be given to the Agent at 135 South LaSalle Street, Chicago, Illinois 60690, Attention of Corporate Trust Department.

SECTION 22. SEVERABILITY

Any provision of this Lease which is prohibited or unenforceable in any jurisdiction, shall be, as to such jurisdiction, ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability shall not invalidate or render unenforceable such provision in any other jurisdiction. When a conflicting provision of any applicable law may be waived, the Lessee hereby so waives such provision to the end that this Lease may be enforced as written.

SECTION 23. EFFECT AND MODIFICATION OF LEASE

Except for the Participation Agreement, the CSA and the Indemnity Agreement, this Lease exclusively and completely states the rights of the Owner and the Lessee with respect to the leasing of the Units and supersedes all other agreements, oral or written, with respect thereto. No variation or modification of this Lease and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers for the Owner and the Lessee.

SECTION 24. EXECUTION

This Lease may be executed in any number of counterparts, all of which together shall constitute a single instrument, but the counterpart delivered to the Agent pursuant to the Lease Assignment shall be deemed to be the original counterpart. Although for convenience this Lease is dated as of the date first above written, the actual dates of execution hereof by the parties hereto are the dates stated in the acknowledgments hereto annexed.

SECTION 25. FURTHER ASSURANCES.

The Lessee and the Owner hereby agree that at any time and from time to time, after the execution and delivery of this Lease, each shall execute and deliver such further documents and do such further acts and things as may be reasonably requested by the other and necessary in order to fully effect the purposes of this Lease.

SECTION 26. RIGHTS, REMEDIES AND POWERS.

Each and every right, remedy and power granted to the Owner hereunder shall not be exclusive but shall be cumulative and in addition to any other right, remedy or power herein specifically granted or hereafter existing in equity, at law, by virtue of statute or otherwise and each may be exercised by the Owner from time to time concurrently or independently and as often and in such order as the Owner may deem expedient. Any failure or delay on the part of the Owner in exercising any such right, remedy or power, or the abandonment or the discontinuance of steps to enforce the same shall not operate as a waiver thereof or affect the Owner's right thereafter to exercise the same, and any single or partial exercise of any such right, remedy or power shall not preclude any other or further exercise thereof or the exercise of any other right, remedy or power.

SECTION 27. GOVERNING LAW

This Lease shall be governed by and construed in accordance with the laws of the State of Michigan; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. § 11303, such additional rights arising out of the filing, recording or deposit hereof, if any, and out of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Lease or any assignment hereof shall be filed, recorded or deposited or in which any Unit shall be located, and any rights arising out of the marking of the Units.

SECTION 28. AGREEMENTS FOR BENEFIT OF OWNER'S ASSIGNS

All rights of the Owner hereunder shall inure to the benefit of the Owner and any of the Owner's assigns (including the Agent).

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by duly authorized officers as of the date first above written.

GRAND TRUNK WESTERN RAILROAD COMPANY,

by

[Corporate Seal]

Vice President

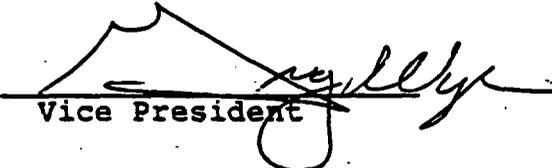
Attest:

Secretary

U S WEST FINANCIAL SERVICES, INC.,

by

[Corporate Seal]



Vice President

Attest:



Secretary

STATE OF MICHIGAN)
) ss.:
COUNTY OF WAYNE)

On this 24TH day of December 1985, before me personally appeared GREGG R. VYE, to me personally known, who, being by me duly sworn, says that he is a Vice President of GRAND TRUNK WESTERN RAILROAD COMPANY, a Michigan and Indiana corporation, that one of the seals affixed to the foregoing instrument is the corporate seal of said Corporation, 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.

[Notarial Seal]

Notary Public

My Commission expires

STATE OF COLORADO,)
) ss.:
COUNTY OF ARAPAHOE,)

On this _____ day of December 1985, before me personally appeared _____, to me personally known, who, being by me duly sworn, says that he is a Vice President of U S WEST FINANCIAL SERVICES, INC., a Colorado corporation, that one of the seals affixed to the foregoing instrument is the seal of said corporation, 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.

[Notarial Seal]

Judy K. O'Neill

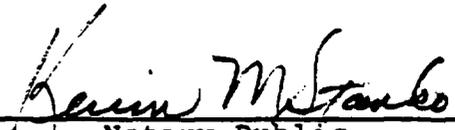
Notary Public

My Commission expires

STATE OF MICHIGAN)
) ss.:
COUNTY OF WAYNE)

On this 27th day of December 1985, before me personally appeared P. E. TATRO, to me personally known, who, being by me duly sworn, says that he is a Vice President of GRAND TRUNK WESTERN RAILROAD COMPANY, a Michigan and Indiana corporation, that one of the seals affixed to the foregoing instrument is the corporate seal of said Corporation, 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.

[Notarial Seal]



Notary Public

My Commission expires

KEVIN M. STANKO
Notary Public, Macomb County, Michigan
Acting in Wayne County
My Commission Expires July 27, 1986

STATE OF COLORADO,)
) ss.:
COUNTY OF ARAPAHOE,)

On this _____ day of December 1985, before me personally appeared _____, to me personally known, who, being by me duly sworn, says that he is a Vice President of U S WEST FINANCIAL SERVICES, INC., a Colorado corporation, that one of the seals affixed to the foregoing instrument is the seal of said corporation, 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.

[Notarial Seal]

Notary Public

My Commission expires

APPENDIX A TO LEASE

Units of Railroad Equipment

<u>Type</u>	<u>Specifications</u>	<u>AAR Mechanical Designation</u>	<u>Plant</u>	<u>Quantity</u>	<u>Lessee's Identification</u>		<u>Estimated Unit Base Price</u>	<u>Estimated Total Base Price</u>	<u>Estimated Time and Place of Delivery</u>
					<u>Numbers (Both Inclusive)</u>	<u>Estimated Unit Base Price</u>			
tri-level fully enclosed auto racks w/tie downs	ASK-7863	FA	Chicago Heights, Ill.	212	85300-85511	\$38,000	\$8,056,000	Nov. '85-Mar. '86 at Builder's Plant	
bi-level fully enclosed auto racks w/tie downs	ASK-7865	FA	Chicago Heights, Ill.	108	85600-85707	\$27,000	\$2,916,000	Nov. '85-Mar. '86 at Builder's Plant	
				<u>320</u>			<u>\$10,972,000</u>		

Lease of Railroad Equipment

Casualty Value Percentages Schedule

<u>Casualty Payment Date</u>	<u>Percentage of Purchase Price</u>
7/2/86	110.78428
1/2/87	112.56292
7/2/87	107.03905
1/2/88	108.15277
7/2/88	101.75369
1/2/89	102.45648
7/2/89	95.12880
1/2/90	95.40651
7/2/90	87.17107
1/2/91	87.39673
7/2/91	78.69692
1/2/92	68.99403
7/2/92	69.74228
1/2/93	59.39969
7/2/93	60.53537
1/2/94	49.35110
7/2/94	50.94587
1/2/95	39.57023
7/2/95	40.80426
1/2/96	29.04432
7/2/96	30.00000

EXHIBIT B

Description Underlying Equipment

<u>Type</u>	<u>Specifications</u>	<u>AAR Mechanical Designation</u>	<u>Builder's Plant</u>	<u>Quantity</u>	<u>Lessee's Identification Numbers (Both Inclusive)</u>
Tri-level fully enclosed auto racks with tie downs	ASK-7863	FA	Chicago Heights, IL	212	85300-85511
Bi-level fully enclosed auto racks with tie downs	ASK-7865	FA	Chicago Heights, IL	<u>108</u>	85600-85707
				<u>320</u>	