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RECORDATION NO. 20813 FILED

AUG 11 1997

9-30PM

AUG 11 1997

11-30PM

August 8, 1997

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, DC 20423

Attn: Mrs. Janice Fort
Chief, Railroad Equipment Recordation Unit

AUG 11 1 30 PM '97
SURFACE TRANSPORTATION BOARD RECEIVED

Dear Secretary Williams:

Enclosed are one original and one copy of the executed and verified document described below, to be recorded pursuant to the provisions of 49 U.S.C. 11301 and 49 C.F.R. 1177.1, et seq.

The document is a Security Agreement, a primary document, dated as of July 18, 1997.

The names and addresses of the parties to the document are (i) BankBoston, N.A., 150 Federal Street, Boston, MA 02110, as agent for itself and other lending institutions and (ii) the guarantors, Kyle Railways, Inc. 7557 Rambler Road, Suite 280, Dallas, TX 75231, Kyle Railroad Company, P.O. Box 566, 3rd & RR Ave., Phillipsburg, KS 67661, San Joaquin Valley Railroad Company, P.O. Box 937, 221 North F Street, Exeter, CA 93221, California Western Railroad, Inc., 7557 Rambler Road, Suite 280, Dallas, TX 75231, Eastern Alabama Railway, P.O. Box 658, 2413 Hill Road, Industrial Park, Sylacuaga, AL 35150, SWKR Operating Co., Inc., P.O. Box 1420, 796 E. Country Club Drive, Benson, AZ 85602, Railroads of Hawaii, Inc., 975 Limahana Place, Suite 203, Lahaina, Maui, HI 96761, Idaho Western Railway Co., P.O. Box 619, 318 N. Tenth, St. Maries, ID 83861, Port Railroads, Inc., 7557 Rambler Road, Suite 280, Dallas, TX 75231, San Pedro Trails, Inc., 7557 Rambler Road, Suite 280, Dallas, TX 75231 and St. Louis Car, Inc., 7557 Rambler Road, Suite 280, Dallas, TX 75231.

A description of the covered rolling stock is attached to the Security Agreement as Schedule 2, as the same may be revised from time to time, but the property of the guarantors covered by the Security Agreement is not limited to that listed on Schedule 2.

A check for \$24 in payment of the recording fee is attached. Please acknowledge receipt of the enclosed document by stamping and returning to our messenger the enclosed copy of this letter together with the Security Agreement as filed.

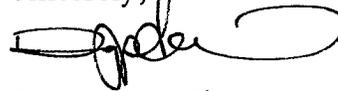
Counterpart - Cont. chd

A short summary of the document to appear in the index is, as follows:

A Security Agreement between (i) BankBoston, N.A., as agent for itself and other lending institutions and (ii) the guarantors, Kyle Railways, Inc., Kyle Railroad Company, San Joaquin Valley Railroad Company, California Western Railroad, Inc., Eastern Alabama Railway, SWKR Operating Co., Inc., Railroads of Hawaii, Inc., Idaho Western Railway Co., Port Railroads, Inc., San Pedro Trails, Inc. and St. Louis Car, Inc., dated as of July 18, 1997, covering all of the guarantors' rolling stock and all other properties and rights. A description of the rolling stock is attached to the Security Agreement as Schedule 2.

If you have any questions concerning this recordation request which you believe I may be able to answer or if I otherwise can be of assistance, please feel free to call me collect at 617-951-8804.

Sincerely,



Dongsup S. Kim

Enclosures

cc: Barbara Wilson, Vice President
Amy L. Kyle, Esq.
Michael E. Gibney, Esq.
(each w/o enclosures)

RECORDATION NO. 20813 FILED
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SECURITY AGREEMENT

SUBSIDIARIES

SECURITY AGREEMENT, dated as of July 18, 1997, among KYLE RAILWAYS, INC., a Delaware corporation, KYLE RAILROAD COMPANY, a Kansas corporation, SAN JOAQUIN VALLEY RAILROAD CO., a California corporation, CALIFORNIA WESTERN RAILROAD, INC., an Arizona corporation, EASTERN ALABAMA RAILWAY, INC., an Alabama corporation, SWKR OPERATING CO., INC., an Arizona corporation, RAILROADS OF HAWAII, INC., a Hawaii corporation, IDAHO WESTERN RAILWAY CO., a California corporation, PORT RAILROADS, INC., a California corporation, SAN PEDRO TRAILS, INC., an Arizona corporation, ST. LOUIS CAR, INC., a Wisconsin corporation and such other subsidiaries of the Borrower (as defined below) which may become a party hereunder pursuant to a duly executed Instrument of Adherence in the form attached as Exhibit A hereto (collectively, the "Subsidiaries" and each, individually, a "Subsidiary"), and BANKBOSTON, N.A., a national banking association, as agent (hereinafter, in such capacity, the "Agent") for itself and other banking institutions (hereinafter, collectively, the "Banks") which are or may become parties to a Revolving Credit Agreement dated as of July 18, 1997 (as amended and in effect from time to time, the "Credit Agreement"), among STATESRAIL, INC., a Delaware corporation (the "Borrower"), the Banks and the Agent.

WHEREAS, it is a condition precedent to the Banks' making any loans or otherwise extending credit to the Borrower under the Credit Agreement that the Subsidiaries execute and deliver to the Agent, for the benefit of the Banks and the Agent, a security agreement in substantially the form hereof;

WHEREAS, the Subsidiaries will receive substantial direct and indirect benefits from the banks making loans and otherwise extending credit to the Borrowers under the Credit Agreement.

WHEREAS, the Subsidiaries have executed a Guaranty dated as of July 18, 1997 (the "Guaranty") in favor of the Agent and the Banks;

WHEREAS, the Subsidiaries wish to grant security interests in favor of the Agent, for the benefit of the Banks and the Agent, as herein provided;

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NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein without definitions shall have the respective meanings provided therefor in the Guaranty. All terms defined in the Uniform Commercial Code of the and used herein shall have the same definitions herein as specified therein. In addition, the following term shall have the meaning set forth in this §1 of this Security Agreement referred to below:

Obligations. All indebtedness, obligations and liabilities of the Subsidiaries to the Agent and the Banks, individually or collectively, under the Guaranty.

2. Grant of Security Interest.

2.1. Collateral Granted. Each of the Subsidiaries hereby jointly and severally grants to the Agent, for the benefit of the Banks and the Agent, to secure the payment and performance in full of all of the Obligations, a security interest in and so pledge and assign to the Agent, for the benefit of the Banks and the Agent, the following properties, assets and rights of such Subsidiary, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"):

All personal and fixture property of every kind and nature including, without limitation, all goods, accounts, including all accounts receivable, deposit accounts, contract rights, all rights of such Subsidiary under any agreements with operating railroads pursuant to which rights of passage over tracks are granted during periods of emergency and disasters, all rights of such Subsidiary under any leases pursuant to which such Subsidiary leases any rolling stock, locomotives or other rail cars, of every kind and description, to any other person, all licenses, permits, agreements of any kind or nature pursuant to which such Subsidiary possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of such Subsidiary, all recorded data of any kind or nature, regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics, all rights to the payment of money including without limitation tax refund claims, insurance refund claims and all other insurance claims and proceeds, tort claims, chattel paper, documents, instruments, general intangibles, securities and other investment property, together with all income therefrom, increases thereunder and proceeds thereof, patents, patent applications, trademarks, trademark applications, tradenames, copyrights, copyright applications, rights to sue and recover for past infringement of patents,

trademarks and copyrights, computer programs, computer software, engineering drawings, service marks, customer lists, goodwill, books and records, furniture, fixtures, motor vehicles of every kind and description including, without limitation, the motor vehicles described on Schedule 1 attached hereto, and all related equipment, parts and accessories with respect thereto (including, without limitation, tires and parts, whether now owned or hereafter acquired), and all substitutions and replacements therefor, rolling stock, locomotives and all other rail cars of every kind and description, including, without limitation, the rolling stock, locomotives and rail cars described on Schedule 2 attached hereto, rail, ties and capital improvements thereon, equipment, all maintenance of way equipment, including, without limitation, the maintenance of way equipment which is described on Schedule 3 attached hereto, inventory and all other capital assets and raw materials.

2.2. Delivery of Instruments, Etc. Pursuant to the terms hereof, each of the Subsidiaries has endorsed, assigned and delivered to the Agent all negotiable or non-negotiable instruments (including certificated securities) and chattel paper pledged by it hereunder in the aggregate amount of \$100,000 or greater (including such instruments or chattel paper pledged by any of the other Subsidiaries hereunder), together with instruments of transfer or assignment duly executed in blank as the Agent may have specified. In the event that any of the Subsidiaries shall, after the date of this Agreement, acquire any other negotiable or non-negotiable instruments (including certificated securities) or chattel paper to be pledged by it hereunder and the aggregate amount of all such instruments or chattel paper pledged by any of the Subsidiaries is \$100,000 or greater, such Subsidiary shall forthwith endorse, assign and deliver the same to the Agent, accompanied by instruments of transfer or assignment duly executed in blank as the Agent may from time to time specify. To the extent that any securities are uncertificated, appropriate book-entry transfers reflecting the pledge of such securities created hereby have been or, in the case of uncertificated securities hereafter acquired by any of the Subsidiaries, will at the time of such acquisition be, duly made for the account of the Agent or one or more nominees of the Agent with the issuer of such securities or other appropriate book-entry facility or financial intermediary, with the Agent having at all times the right to obtain definitive certificates (in the Agent's name or in the name of one or more nominees of the Agent) where the issuer customarily or otherwise issues certificates, all to be held as Collateral hereunder. Each of the Subsidiaries hereby acknowledges that the Agent may, in its discretion, appoint one or more financial institutions to act as the Agent's agent in holding in custodial account instruments or other financial assets in which the Agent is granted a security interest hereunder, including, without limitation, certificates of deposit and other instruments evidencing short term obligations.

2.3. Excluded Collateral. Notwithstanding the foregoing provisions of this §2, such grant of security interest shall not extend to, and the term "Collateral" shall not include, any Rolling Stock (as defined below), chattel

paper, or general intangibles which are now or hereafter owned or held by any of the Subsidiaries as licensee, lessee or otherwise, to the extent that (a) such Rolling Stock, chattel paper or general intangibles are not assignable or capable of being encumbered as a matter of law or under the terms of the license, lease, contract or other agreement applicable thereto (but solely to the extent that any such restriction shall be enforceable under applicable law), without the consent of the licensor or lessor thereof or other contracting party or other applicable party thereto and (b) such consent has not been obtained; provided, however, that the foregoing grant of security interest shall extend to, and the term "Collateral" shall include (i) any and all proceeds of such Rolling Stock, chattel paper and general intangibles to the extent that the assignment or encumbering of such proceeds is not so restricted and (ii) following the obtaining of the consent of any such licensor, lessor or other contracting party or other applicable party with respect to any such otherwise excluded Rolling Stock, chattel paper or general intangibles, such Rolling Stock, chattel paper or general intangibles as well as any and all proceeds thereof that might have theretofore have been excluded from such grant of a security interest and the term "Collateral".

2.4 Stock Pledge Agreement. Concurrently herewith certain of the Subsidiaries are executing and delivering to the Agent, for the benefit of the Banks and the Agent, a stock pledge agreement pursuant to which such Subsidiary is pledging to the Agent, for the benefit of the Banks and the Agent, all of the shares of the capital stock of such Subsidiary's subsidiary or subsidiaries. Such pledge shall be governed by the terms of such stock pledge agreement and not by the terms of this Agreement.

3. CERTAIN REPRESENTATIONS AND COVENANTS OF THE SUBSIDIARIES.

3.1. Real Property. Each Subsidiary represents to the Agent and the Banks that the real property listed underneath such Subsidiary's name on Schedule 4 hereto constitutes all of the real property which such Subsidiary owns or leases. Each Subsidiary agrees to notify the Agent of any other real property which such Subsidiary may hereafter acquire or lease.

3.2. Rolling Stock. Each Subsidiary represents to the Agent and the Banks that the Rolling Stock (as defined in this §3.2) listed underneath such Subsidiary's name on Schedule 2 hereto constitutes all of the Rolling Stock which such Subsidiary owns or leases. Each Subsidiary agrees not to change any markings or serial numbers on any of the Rolling Stock listed on Schedule 2 until after such Subsidiary has given notice in writing to the Agent of its intention to make such change, which such notice need not be given more frequently than once a month. Each Subsidiary agrees to notify the Agent of any other Rolling Stock which such Subsidiary may hereafter acquire or lease. Each Subsidiary agrees that it will execute and deliver to the Agent supplemental security agreements and other instruments, as referred to in §3.5

hereof (which, in the case of any additions to Schedule 2 hereto, shall be substantially in the form of the Amendment to the Security Agreement attached hereto as Exhibit A) and file the same in the appropriate recording offices (a) with respect to the Rolling Stock listed underneath such Subsidiary's name on Schedule 2 hereto, (b) at such times as any assignable right, title or interest is acquired in the future by such Subsidiary in any other Rolling Stock and (c) at such times as any change is made in one or more of the markings or serial numbers on any of the Rolling Stock listed underneath such Subsidiary's name on Schedule 2 hereto or on any other Rolling Stock owned or leased by such Subsidiary. All such supplemental security agreements and other instruments shall secure all of the Obligations pro rata and shall be on terms and conditions satisfactory to the Agent as evidenced by its written consent thereto. The term "Rolling Stock" as used herein means all rolling stock of every kind and description, locomotives and all other rail cars.

3.3. Motor Vehicles. Each Subsidiary represents and warrants to the Agent and covenants with the Agent that all Collateral consisting of motor vehicles of such Subsidiary are listed underneath such Subsidiary's name on Schedule 1 attached hereto, and that such Collateral is titled or registered in the jurisdictions located in the United States of America listed underneath such Subsidiary's name on Schedule 1 and will remain titled or registered in such jurisdictions. The Agent acknowledges that delivery of certificates of title to the Agent with respect to such motor vehicles has not been required as of the Closing Date. However, the Agent reserves its rights, upon notice to the Subsidiaries, to require such delivery at a later date.

3.4. Patents, Trademarks, Copyrights. Each Subsidiary represents to the Agent that as of the date hereof, except as set forth underneath such Subsidiary's name on Schedule 5 hereto, it has no right, title or interest in any patent, trademark registrations, copyright registrations or service mark registrations, or in any pending applications for the same, and agrees promptly to furnish to the Agent written notice of each such patent, trademark, copyright or service mark registrations, or any applications for same, in which it may hereafter acquire any right, title or interest. Each Subsidiary shall, on request by the Agent, execute, acknowledge and deliver all such documents and instruments as the Agent may reasonably require to confirm the Agent's security interest in and to any such patent, trademark or service mark registrations, or application for the same as part of such Collateral hereunder and appoints the Agent as such Subsidiary's attorney-in-fact to execute and file the same.

3.5. Creation and Perfection of Lien. Each Subsidiary represents and warrants to the Agent and covenants with the Agent that this Agreement creates a valid security interest in the Collateral as security for the payment and performance of the Obligations. Upon (i) the filing and recording of this Agreement with the Surface Transportation Board (the "Board") in accordance with §11303 of Title 49 of the United States Code and the rules and regulations

thereunder, and (ii) the filing under the Uniform Commercial Code as in effect in the states in which such Subsidiary or any Collateral is located (the "UCC") of UCC financing statements describing the Collateral naming the appropriate Subsidiary as Subsidiary and the Agent as secured party, all filings, assignments, pledges and deposits of documents or instruments will have been made and all other actions will have been taken that are necessary or advisable, under applicable law, to establish and perfect or to continue the perfection of, as the case may be, the security interest of the Agent for the benefit of the Banks and the Agent in such of the Collateral as to which a security interest may be perfected by filing under the UCC or the ICC Termination Act of 1995, as amended (the "ITA"), and such security interest shall remain prior to all other liens, except as contemplated by the Credit Agreement. No further filings, recordings or other actions are or will be necessary to maintain the priority of such security interest other than the filing of UCC continuation statements within six months prior to the expiration of a period of five years after the original filing thereof. The Collateral and the Agent's rights with respect to the Collateral are not subject to any setoff, claims, withholdings or other defenses.

3.6. No Further Actions. Except for the filings referred to in §3.5 hereof, no authorization, approval or other action by, and no notice of filing with, any governmental authority or regulatory body or other Person that has not been received, taken or made is required (i) for the grant by the Subsidiaries of the security interest granted hereby or for the execution, delivery or performance of this Agreement by any Subsidiary, (ii) for the perfection and maintenance of the security interest hereunder (including the first priority nature of such security interest with respect to Collateral of the Subsidiaries), or (iii) for the exercise by the Agent of the rights or the remedies in respect of the Collateral pursuant to this Agreement.

3.7. Government Contracts. Each Subsidiary agrees that it shall execute all such documents, and take all such actions, as the Agent shall determine to be necessary or appropriate from time to time under the federal Assignment of Claims Act of 1940, as amended, or the laws of appropriate states relating to the assignment of state government receivables, as the case may be, in order to confirm and assure to the Agent, for the benefit of the Banks and the Agent, its rights under this Agreement with respect to any and all Collateral consisting of such Subsidiary's rights to monies due or to become due under any contracts or agreements with or orders from the United States government or any agency or department thereof, or any state government or any agency or department thereof, as the case may be, the assignment of which is not prohibited by such contract or agreement (collectively, "Government Receivables"). Without limiting the generality of the foregoing, each Subsidiary agrees that simultaneously with the execution and delivery of this Agreement it shall execute and deliver to the Agent a confirmatory assignment substantially in the form of Exhibit C attached hereto (a "Confirmatory Assignment") with respect to each Government Receivable existing on the date hereof where the aggregate proceeds payable to such Subsidiary thereunder exceed \$100,000, and

within ten Business Days after the creation of any such new Government Receivable, such Subsidiary shall execute and deliver to the Agent a Confirmatory Assignment with respect thereto. Each Subsidiary hereby irrevocably authorizes the Agent, or its designee, at such Subsidiary's expense, to file with the United States government or the appropriate state government, as the case may be, (or the appropriate agency or instrumentality thereof) a notice of each assignment of a Government Receivable substantially in the form of Exhibit D attached hereto (a "Notice of Assignment"), to which a copy of the relevant Confirmatory Assignment may be attached, and appoints the Agent as such Subsidiary's attorney-in-fact to execute and file any such Confirmatory Assignments, Notices of Assignment and any ancillary documents relating thereto.

4. CONTINUOUS PERFECTION. Each Subsidiary's place of business or, if more than one, chief executive office is indicated on the Perfection Certificate with respect to such Subsidiary delivered to the Agent herewith (collectively, the "Perfection Certificates" and each, individually, a "Perfection Certificate"). None of the Subsidiaries will change the same, or the name, identity, corporate structure or federal tax identification number of such Subsidiary in any manner, without providing at least 30 days prior written notice to the Agent. The Collateral, to the extent not delivered to the Agent pursuant to §2.2, will be kept at those locations listed on the Perfection Certificates and the Subsidiaries will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Agent.

5. NO LIENS. Except for the security interest herein granted and liens permitted by the Credit Agreement, each of the Subsidiaries is and shall be the owner of the Collateral free from any lien, security interest or other encumbrance, and the Subsidiaries shall defend the same against all claims and demands of all persons at any time claiming the same or any interests therein adverse to the Agent or any of the Banks. The Subsidiaries shall not pledge, mortgage or create, or suffer to exist a security interest in the Collateral in favor of any person other than the Agent, for the benefit of the Banks and the Agent, except for liens permitted by the Credit Agreement.

6. NO TRANSFERS. The Subsidiaries will not sell or offer to sell or otherwise transfer the Collateral or any interest therein except as set forth in §9 of the Credit Agreement.

7. INSURANCE.

7.1. Maintenance of Insurance. Each of the Subsidiaries will maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with general practices of businesses engaged in similar activities in similar geographic areas. Such insurance shall be in such minimum amounts that such Subsidiary will not be deemed a co-insurer under applicable insurance laws, regulations and policies and otherwise shall be in

such amounts, contain such terms, be in such forms and be for such periods as may be reasonably satisfactory to the Agent. In addition, all such insurance shall be payable to the Agent as loss payee under a "standard" or "New York" loss payee clause for the benefit of the Banks and the Agent. Without limiting the foregoing, each of the Subsidiaries will (i) keep all of its physical property insured with casualty or physical hazard insurance on an "all risks" basis with a full replacement cost endorsement and an "agreed amount" clause in an amount equal to 100% of the full replacement cost of such property, (ii) maintain all such workers' compensation or similar insurance as may be required by law and (iii) maintain, in amounts equal to those generally maintained by businesses engaged in similar activities in similar geographic areas, general public liability insurance against claims of bodily injury, death or property damage occurring, on, in or about the properties of the Subsidiaries; and product liability insurance.

7.2. Insurance Proceeds. The proceeds of any property casualty insurance in respect of any casualty loss of any of the Collateral shall, subject to the rights, if any, of other parties with a prior interest in the property covered thereby, (i) so long as no Default or Event of Default has occurred and is continuing, be disbursed to the appropriate Subsidiary for direct application by such Subsidiary solely to the repair or replacement of such Subsidiary's property so damaged or destroyed and (ii) in all other circumstances, be held by the Agent as cash collateral for the Obligations. The Agent may, at its sole option, disburse from time to time all or any part of such proceeds so held as cash collateral, upon such terms and conditions as the Agent may reasonably prescribe, for direct application by the appropriate Subsidiary solely to the repair or replacement of such Subsidiary's property so damaged or destroyed, or the Agent may apply all or any part of such proceeds to the Obligations with the Total Commitment (if not then terminated) being reduced by the amount so applied to the Obligations.

7.3. Notice of Cancellation, etc. All policies of insurance shall provide for at least 30 days prior written cancellation notice to the Agent. In the event of failure by any of the Subsidiaries to provide and maintain insurance as herein provided, the Agent may, at its option, provide such insurance and charge the amount thereof to the Subsidiaries. Each of the Subsidiaries shall furnish the Agent with certificates of insurance and policies evidencing compliance with the foregoing insurance provision.

8. MAINTENANCE OF COLLATERAL; COMPLIANCE WITH LAW. The Subsidiaries will maintain the Collateral in such condition, repair and working order as is reasonable and prudent in light of all the relevant facts and circumstances and is consistent with the standards maintained by businesses engaged in similar activities in similar geographic areas, and will not use the same in violation of law or any policy of insurance thereon. The Agent, or its designee, may inspect the Collateral at any reasonable time, wherever

located. The Subsidiaries will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of such Collateral or incurred in connection with this Agreement. Each of the Subsidiaries has at all times operated, and each of the Subsidiaries will continue to operate, its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances.

9. COLLATERAL PROTECTION EXPENSES; PRESERVATION OF COLLATERAL.

9.1. Expenses Incurred by Agent. In its discretion, the Agent may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, make repairs thereto and pay any necessary filing fees. The Subsidiaries jointly and severally agree to reimburse the Agent on demand for any and all expenditures so made. The Agent shall have no obligation to any of the Subsidiaries to make any such expenditures, nor shall the making thereof relieve any of the Subsidiaries of any default.

9.2. Agent's Obligations and Duties. Anything herein to the contrary notwithstanding, each of the Subsidiaries shall remain liable under each contract or agreement comprising the Collateral to be observed or performed by such Subsidiary thereunder. Neither the Agent nor any Bank shall have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Agent or any Bank of any payment relating to any of the Collateral, nor shall the Agent or any Bank be obligated in any manner to perform any of the obligations of the Subsidiaries under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Agent or any Bank in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Agent or to which the Agent or any Bank may be entitled at any time or times. The Agent's sole duty with respect to the custody, safe keeping and physical preservation of the Collateral in its possession, under §9-207 of the Uniform Commercial Code of the Commonwealth of Massachusetts or otherwise, shall be to deal with such Collateral in the same manner as the Agent deals with similar property for its own account. Notwithstanding the foregoing sentence, the Agent recognizes that in accordance with §1-102(3) of the Uniform Commercial Code of the Commonwealth of Massachusetts it may not disclaim its duty of reasonable care with respect to §9-207(1) of the Uniform Commercial Code of the Commonwealth of Massachusetts.

10. SECURITIES AND DEPOSITS. The Agent may at any time after the occurrence and during the continuance of a Default or an Event of Default, at its option, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. Whether or not any Obligations are due, after the occurrence and during the continuance of a Default or an Event of Default the Agent may demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Obligations, any deposits or other sums at any time credited by or due from the Agent or any Bank to any of the Subsidiaries may at any time after the occurrence and during the continuance of a Default or an Event of Default be applied to or set off against any of the Obligations.

11. NOTIFICATION TO ACCOUNT DEBTORS AND OTHER OBLIGORS. If a Default or an Event of Default shall have occurred and be continuing, each of the Subsidiaries shall, at the request of the Agent, notify account debtors on accounts, chattel paper and general intangibles of such Subsidiary and obligors on instruments for which such Subsidiary is an obligee of the security interest of the Agent in any account, chattel paper, general intangible or instrument and that payment thereof is to be made directly to the Agent or to any financial institution designated by the Agent as the Agent's agent therefor, and the Agent may itself, if a Default or an Event of Default shall have occurred and be continuing, without notice to or demand upon any of the Subsidiaries, so notify account debtors and obligors. After the making of such a request or the giving of any such notification, each of the Subsidiaries shall hold any proceeds of collection of accounts, chattel paper, general intangibles and instruments received by such Subsidiary as trustee for the Agent, for the benefit of the Banks and the Agent, without commingling the same with other funds of such Subsidiary and shall turn the same over to the Agent in the identical form received, together with any necessary endorsements or assignments. The Agent shall apply the proceeds of collection of accounts, chattel paper, general intangibles and instruments received by the Agent to the Obligations, such proceeds to be immediately entered after final payment in cash or solvent credits of the items giving rise to them.

12. FURTHER ASSURANCES. Each of the Subsidiaries, at its own expense, shall do, make, execute and deliver all such additional and further acts, things, deeds, assurances and instruments as the Agent may reasonably require more completely to vest in and assure to the Agent and the Banks their respective rights hereunder or in any of the Collateral, including, without limitation, (a) executing, delivering and, where appropriate, filing (i) financing statements and continuation statements under the Uniform Commercial Code and (ii) supplemental security agreements and other instruments as referred to in §§3.2 and 3.5, (c) obtaining governmental and other third party consents and approvals, including without limitation any consents referred to in §3.7 hereof, (c) obtaining waivers from mortgagees and landlords and (d) taking all actions required by Sections 8-313 and 8-321 of the Uniform Commercial Code, as

applicable in each relevant jurisdiction, with respect to certificated and uncertificated securities.

13. POWER OF ATTORNEY.

13.1. Appointment and Powers of Agent. Each of the Subsidiaries hereby irrevocably constitutes and appoints the Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Subsidiary or in the Agent's own name, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or desirable to accomplish the purposes of this Agreement and generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the Commonwealth of Massachusetts as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do at such Subsidiary's expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve or realize upon the Collateral and the Agent's security interest therein, in order to effect the intent of this Agreement, all as fully and effectively as such Subsidiary might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropriate federal or local agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to such Subsidiary, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Agent so elects, with a view to causing the liquidation in a commercially reasonable manner of assets of the issuer of any such securities and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to file such financing statements with respect hereto, with or without Subsidiary's signature, or a photocopy of this Agreement in substitution for a financing statement, as the Agent may deem appropriate and to execute in such Subsidiary's name such financing statements and amendments thereto and continuation statements which may require such Subsidiary's signature.

13.2. Ratification by Subsidiaries. To the extent permitted by law, each of the Subsidiaries hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

13.3. No Duty on Agent. The powers conferred on the Agent hereunder are solely to protect the interests of the Agent and the Banks in the Collateral and shall not impose any duty upon the Agent to exercise any such powers. The Agent shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to any of the Subsidiaries for any act or failure to act, except for the Agent's own gross negligence or willful misconduct.

14. REMEDIES. If an Event of Default shall have occurred and be continuing, the Agent may, without notice to or demand upon any of the Subsidiaries, declare this Agreement to be in default, and the Agent shall thereafter have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code and the rights and remedies of a secured party holding a security interest in collateral pursuant to the ITA, including, without limitation, the right to take possession of the Collateral, and for that purpose the Agent may, so far as the Subsidiaries can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Agent may in its discretion require the Subsidiaries to assemble all or any part of the Collateral at such location or locations within the state(s) of the Subsidiary's principal office(s) or at such other locations as the Agent may designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Agent shall give to the Subsidiaries at least ten (10) Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. Each of the Subsidiaries hereby acknowledges that ten (10) Business Days prior written notice of such sale or sales shall be reasonable notice. To the extent that any of the Obligations are to be paid or performed by a person other than the Subsidiaries, each of the Subsidiaries waives and agrees not to assert any rights or privileges which it may have under §9-112 of the Uniform Commercial Code of the Commonwealth of Massachusetts.

15. NO WAIVER, ETC. Each of the Subsidiaries waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, each of the Subsidiaries assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Agent may deem advisable. The Agent shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties,

nor as to the preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in §9.2 hereof. The Agent shall not be deemed to have waived any of its rights upon or under the Obligations or the Collateral unless such waiver shall be in writing and signed by the Agent with the consent of the Majority Banks. No delay or omission on the part of the Agent in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right on any future occasion. All rights and remedies of the Agent with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Agent deems expedient.

16. MARSHALLING. Neither the Agent nor any Bank shall be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of the rights of the Agent hereunder and of the Agent or any Bank in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, each of the Subsidiaries hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Agent's rights under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each of the Subsidiaries hereby irrevocably waives the benefits of all such laws.

17. PROCEEDS OF DISPOSITIONS; EXPENSES. The Subsidiaries jointly and severally agree to pay to the Agent on demand any and all expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Agent in protecting, preserving or enforcing the Agent's or the Banks' rights under or in respect of any of the Obligations or any of the Collateral. After deducting all of said expenses, the residue of any proceeds of collection or sale of the Obligations or Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as is provided in the Credit Agreement, proper allowance and provision being made for any Obligations not then due. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required by Section 9-504(1)(c) of the Uniform Commercial Code of the Commonwealth of Massachusetts, any excess shall be returned to the Subsidiaries, and the Subsidiaries shall remain liable for any deficiency in the payment of the Obligations.

18. OVERDUE AMOUNTS. Until paid, all amounts due and payable by the Subsidiaries hereunder shall be a debt secured by the Collateral and shall

bear, whether before or after judgment, interest at the rate of interest for overdue principal set forth in the Credit Agreement.

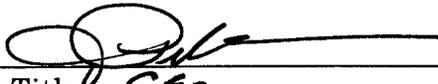
19. GOVERNING LAW; CONSENT TO JURISDICTION. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. Each of the Subsidiaries agrees that any suit for the enforcement of this Agreement may be brought in the courts of the Commonwealth of Massachusetts or any federal court sitting therein and consents to the non-exclusive jurisdiction of such court and to service of process in any such suit being made upon such Subsidiary by mail at the address specified in §21 of the Credit Agreement.

20. WAIVER OF JURY TRIAL. EACH OF THE SUBSIDIARIES WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THE PERFORMANCE OF ANY SUCH RIGHTS OR OBLIGATIONS. Except as prohibited by law, each of the Subsidiaries waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary or punitive damages or any damages other than, or in addition to, actual damages. Each of the Subsidiaries (i) certifies that neither the Agent or any Bank nor any representative, agent or attorney of the Agent or any Bank has represented, expressly or otherwise, that the Agent or any Bank would not, in the event of litigation, seek to enforce the foregoing waivers and (ii) acknowledges that, in entering into the Credit Agreement and the other Loan Documents to which the Agent or any Bank is a party, the Agent and the Banks are relying upon, among other things, the waivers and certifications contained in this §20.

21. MISCELLANEOUS. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon each of the Subsidiaries and its respective successors and assigns, and shall inure to the benefit of the Agent, the Banks and their respective successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Subsidiaries acknowledge receipt of a copy of this Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Company has caused this Agreement to be duly executed as of the date first above written.

KYLE RAILWAYS, INC.

By: 
Title: CEO

KYLE RAILROAD COMPANY

By: 
Title: CEO

SAN JOAQUIN VALLEY RAILROAD
CO.

By: 
Title: CEO

~~ARIZONA EASTERN RAILWAY
COMPANY~~

~~By: 
Title: CEO~~

CALIFORNIA WESTERN RAILROAD
INC.

By: 
Title: CEO

EASTERN ALABAMA RAILWAY, INC.

By: 
Title: CEO

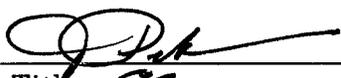
SWKR OPERATING CO., INC.

By: 
Title: CEO

RAILROADS OF HAWAII, INC.

By: 
Title: CEO

IDAHO WESTERN RAILWAY CO.

By: 
Title: CEO

PORT RAILROADS, INC.

By: 
Title: CEO

SAN PEDRO TRAILS, INC.

By: 
Title: CEO

ST. LOUIS CAR, INC.

By: 
Title: CEO

Accepted:

BANKBOSTON, N.A.
as Agent

By: _____
Title:

ST. LOUIS CAR, INC.

By: _____
Title:

Accepted:

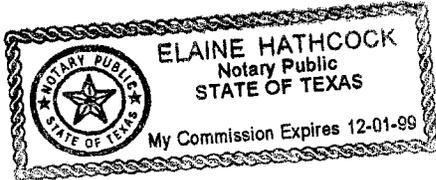
BANKBOSTON, N.A.
as Agent

By: *Vito Garcia*
Title: *VICE PRESIDENT*

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Kyle Railways, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

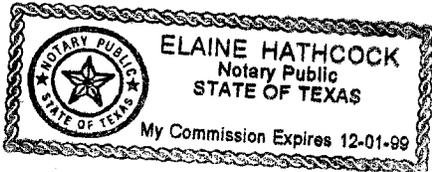


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Kyle Railroad Company, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

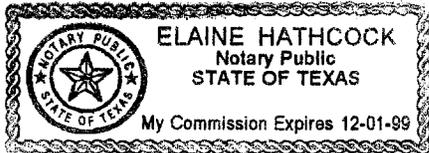


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of San Joaquin Valley Railroad Co., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

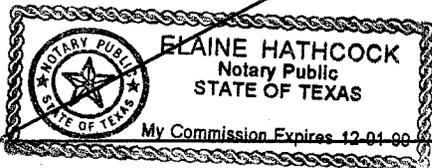


Elaine Hathcock
Notary Public
My commission expires:

~~CERTIFICATE OF ACKNOWLEDGMENT~~

~~COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)~~

~~Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Arizona Eastern Railway Company, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.~~

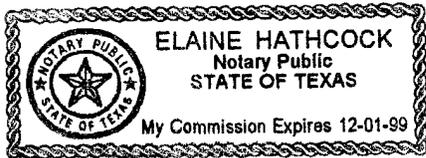


~~Elaine Hathcock
Notary Public
My commission expires:~~

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of California Western Railroad Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

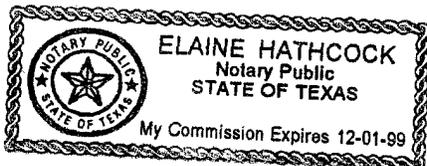


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Eastern Alabama Railway, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

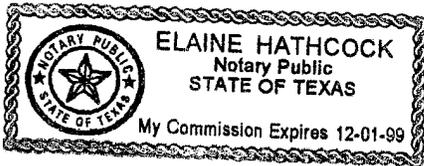


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of SWKR Operating Co., Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

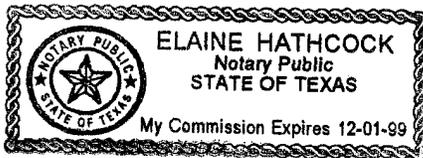


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Railroads of Hawaii, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

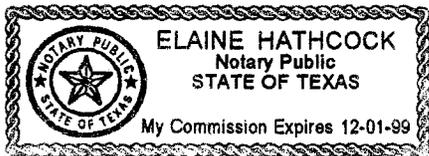


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 27th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Idaho Western Railway Co., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

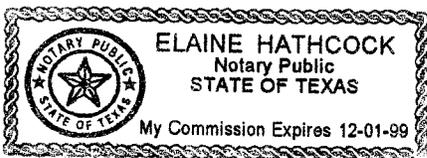


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 27th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of Port Railroads, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

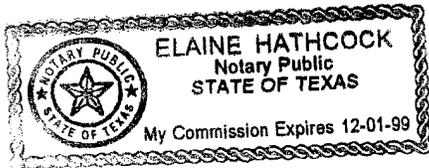


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of San Pedro Trails, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.

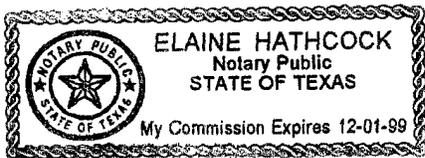


Elaine Hathcock
Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 29th day of July, 1997, personally appeared J. PETER KLEIFGEN to me known personally, and who, being by me duly sworn, deposes and says that he is the CEO of St. Louis Car, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said CEO acknowledged said instrument to be the free act and deed of said corporation.



Elaine Hathcock
Notary Public
My commission expires:

INSTRUMENT OF ADHERENCE
FOR SECURITY AGREEMENT

To: The Agent and the Banks who are parties to the
Credit Agreement (as such terms are defined below):

Reference is hereby made to the Security Agreement (the "Security Agreement") dated as of July 18, 1997, among (a) Kyle Railways, Inc., Kyle Railroad Company, San Joaquin Valley Railroad Co., California Western Railroad, Inc., Eastern Alabama Railway, Inc., SWKR Operating Co., Inc., Railroads of Hawaii, Inc., Idaho Western Railway Co., Port Railroads, Inc., San Pedro Trails, Inc., St. Louis Car, Inc., (together the "Original Subsidiaries"), and (b) BankBoston, N.A., a national banking association, as agent (hereinafter, in such capacity, the "Agent") for itself and other financial institutions (hereinafter, collectively, the "Banks") which are or may become parties to the Revolving Credit Agreement dated as of July 18, 1997 (as amended and in effect from time to time, the "Credit Agreement"), among StatesRail, Inc. (the "Borrower"), the Banks and the Agent. All capitalized terms used herein without definitions shall have the meanings given such terms in the Security Agreement.

The undersigned acknowledges, and represents and warrants, the following: (i) the undersigned is a corporation incorporated on or prior to the date hereof; (ii) as of the date hereof the undersigned is jointly and severally liable, together with the Original Subsidiaries, for the payment and performance of all obligations of the Subsidiaries under the Security Agreement; (iii) it is a condition precedent to the Banks' making any additional loans or otherwise extending credit to the Borrower under the Credit Agreement that the undersigned execute and deliver to the Agent, for the benefit of the Banks and the Agent, this instrument of adherence; and (v) the undersigned wishes to grant security interests in favor of the Agent, for the benefit of the Banks and the Agent, as herein provided and to become a party to the Security Agreement.

The undersigned by its execution of this Instrument of Adherence hereby joins the Security Agreement and becomes a Subsidiary party thereto for all purposes thereof. The undersigned further covenants and agrees that by its execution hereof it shall be bound by and shall comply with all terms and conditions of the Security Agreement, and thereby and hereby grants to the Agent, for the benefit of the Banks and the Agent, to secure the payment and performance in full of all of the obligations, liabilities and indebtedness of the undersigned to the Agent and the Banks under that

certain Guaranty of even date herewith, (the "Obligations"), a security interest in and so pledges and assigns to the Agent, for the benefit of the Banks and the Agent, the following properties, assets and rights of the undersigned, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"):

All personal and fixture property of every kind and nature including, without limitation, all goods, accounts, including all accounts receivable, deposit accounts, contract rights, all rights of the New Borrower under any agreements with operating railroads pursuant to which rights of passage over tracks are granted during periods of emergency and disasters, all rights of the New Borrower under any leases pursuant to which the New Borrower leases any rolling stock, locomotives or other rail cars, of every kind and description, to any other person, all licenses, permits, agreements of any kind or nature pursuant to which the New Borrower possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of the New Borrower, all recorded data of any kind or nature, regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics, all rights to the payment of money including without limitation tax refund claims, insurance refund claims and all other insurance claims and proceeds, tort claims, chattel paper, documents, instruments, general intangibles, securities and other investment property, together with all income therefrom, increases thereunder and proceeds thereof, patents, patent applications, trademarks, trademark applications, tradenames, copyrights, copyright applications, rights to sue and recover for past infringement of patents, trademarks and copyrights, computer programs, computer software, engineering drawings, service marks, customer lists, goodwill, books and records, furniture, fixtures, motor vehicles of every kind and description including, without limitation, the motor vehicles described on Schedule 1 attached hereto, and all related equipment, parts and accessories with respect thereto (including, without limitation, tires and parts, whether now owned or hereafter acquired), and all substitutions and replacements therefor, rolling stock, locomotives and all other rail cars of every kind and description, including, without limitation, the rolling stock, locomotives and rail cars described on Schedule 2 attached hereto, rail, ties and capital improvements thereon, equipment, all maintenance of way equipment, including, without limitation, the maintenance of way equipment which is described on Schedule 3 attached hereto, inventory and all other capital assets and raw materials.

The undersigned has attached hereto a duly completed Perfection Certificate in the form prescribed by the Security Agreement, and represents and warrants as provided in the Security Agreement with respect to the matters set forth in such Perfection Certificate. The undersigned further covenants and agrees that by its execution hereof it shall provide all such information, complete all such forms and, take all such actions, and enter into all such agreements, in form and substance reasonably satisfactory to the Agent that are reasonably deemed necessary by the Agent in order to grant a valid, first-priority perfected security interest to the Agent and the Banks in all of the assets of the undersigned securing the Obligations.

Very truly yours,

[NEW SUBSIDIARY]

By: _____
Title:

Accepted:

BANKBOSTON, N.A., as Agent

By: _____
Title:

**FORM OF AMENDMENT TO
SECURITY AGREEMENT**

AMENDMENT NO. ___ TO SECURITY AGREEMENT (this "Amendment"), dated as of _____, is by and among KYLE RAILWAYS, INC., a Delaware corporation, KYLE RAILROAD COMPANY, a Kansas corporation, SAN JOAQUIN VALLEY RAILROAD CO., a California corporation, CALIFORNIA WESTERN RAILROAD, INC., an Arizona corporation, EASTERN ALABAMA RAILWAY, INC., an Alabama corporation, SWKR OPERATING CO., INC., an Arizona corporation, RAILROADS OF HAWAII, INC., a Hawaii corporation, IDAHO WESTERN RAILWAY CO., a California corporation, PORT RAILROADS, INC., a California corporation, SAN PEDRO TRAILS, INC., an Arizona corporation, ST. LOUIS CAR, INC., a Wisconsin corporation and such other subsidiaries of the Borrower (as defined below) which may become a party hereunder (collectively, the "Subsidiaries" and each, individually, a "Subsidiary"), and , a , as agent (hereinafter, in such capacity, the "Agent") for itself and other banking institutions (hereinafter, collectively, the "Banks") which are or may become parties to a dated as of (as amended and in effect from time to time, the "Credit Agreement"), among STATESRAIL, INC., a Delaware corporation (the "Borrower"), the Banks and the Agent.

WHEREAS, the Subsidiaries and the Agent are parties to a Security Agreement dated as of July 18, 1997 (as amended and in effect from time to time, the "Security Agreement").

WHEREAS, the Subsidiaries and the Agent wish to add certain newly acquired Rolling Stock to the security interest created by the Security Agreement, to change the identifying numbers on certain of the Rolling Stock and in connection therewith to make certain amendments to the Security Agreement; and to reaffirm the Security Agreement's effectiveness upon such amendment;

NOW, THEREFORE, in consideration of the foregoing premises, the parties hereby agree as follows:

1. **Capitalized Terms.** Capitalized terms used herein without definition that are defined in (or defined by reference in) the Security Agreement shall have the same meanings herein as in the Security Agreement.

2. **Amendment to the Security Agreement.** Schedule 2 to the Security Agreement, which lists all Rolling Stock of the Borrowers, is hereby amended by adding thereto the Rolling Stock listed on Schedule 2 dated _____, 199__ attached hereto. Schedule 2 dated _____, 199__ is an addition to and does not supersede any Schedule 2 previously attached to the Security Agreement.

3. **Continued Validity of Security Agreement.** The Security Agreement remains in full force and effect, and each of the Subsidiaries reaffirms the continued validity of the Security Agreement and the security interests and obligations created thereby. Each of the Subsidiaries hereby pledges and grants to the Agent for the benefit of the Banks (and confirms its pledge and grant pursuant to the Security Agreement) a security interest in and lien on all of the Collateral (as such term is defined in the Security Agreement) including without limitation the Collateral described on Schedule 2 attached hereto.

4. **Representations and Warranties.** Each of the Subsidiaries represents and warrants that all of the representations and warranties set forth in the Security Agreement as hereby amended are true and correct on and as of the date hereof. All such representations and warranties are hereby ratified, affirmed and incorporated herein by reference, with the same force and effect as if set forth herein in their entirety.

5. **Effectiveness.** This Amendment shall become effective as of the date first set forth above upon receipt by the Agent of counterparts of this Amendment duly executed by each of the Subsidiaries and the Agent.

6. **Miscellaneous Provisions.** (a) Except as otherwise expressly provided by this Amendment, all of the terms, conditions and provisions of the Security Agreement shall remain the same. It is declared and agreed by each of the parties hereto this Amendment and the Security Agreement shall be read and construed as one instrument.

(b) **THIS AMENDMENT IS INTENDED TO TAKE EFFECT AS AN AGREEMENT UNDER SEAL AND SHALL BE CONSTRUED ACCORDING TO AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS.**

(c) This Amendment may be executed in any number of counterparts, but all such counterparts shall together constitute but one instrument. In making proof of this Amendment it shall not be necessary to produce or account for more than one counterpart signed by each party hereto by and against which enforcement hereof is sought.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their duly authorized officers as of the date first set forth above.

KYLE RAILWAYS, INC.

By: _____
Title:

KYLE RAILROAD COMPANY

By: _____
Title:

SAN JOAQUIN VALLEY RAILROAD
CO.

By: _____
Title:

CALIFORNIA WESTERN RAILROAD
INC.

By: _____
Title:

EASTERN ALABAMA RAILWAY, INC.

By: _____
Title:

SWKR OPERATING CO., INC.

By: _____
Title:

RAILROADS OF HAWAII, INC.

By: _____
Title:

IDAHO WESTERN RAILWAY CO.

By: _____
Title:

PORT RAILROADS, INC.

By: _____
Title:

SAN PEDRO TRAILS, INC.

By: _____
Title:

ST. LOUIS CAR, INC.

By: _____
Title:

Accepted:

BANKBOSTON, N.A.,
as Agent

By: _____
Title:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Kyle Railways, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Kyle Railroad Company, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of San Joaquin Valley Railroad Co., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of California Western Railroad Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Eastern Alabama Railway, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of SWKR Operating Co., Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Railroads of Hawaii, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Idaho Western Railway Co., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of Port Railroads, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of San Pedro Trails, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OR STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ___ day of _____, 1997, personally appeared _____ to me known personally, and who, being by me duly sworn, deposes and says that he is the _____ of St. Louis Car, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

FORM OF CONFIRMATORY ASSIGNMENT OF CONTRACT

[To be adapted as appropriate for assignment of state government receivables]

This ASSIGNMENT, dated as of _____, is by [INSERT NAME OF SUBSIDIARY], a _____ (the "Subsidiary") in favor of The First National Bank of Boston as agent (in such capacity the "Agent") for itself and certain other lending institutions (collectively, the "Banks").

WHEREAS, the Subsidiary is party to Contract No. _____ dated _____ between the Borrower and _____ (the "Contract") a copy of which is attached hereto; and

WHEREAS, the Borrower and the Agent have entered into a certain Security Agreement, dated as of July 18, 1997 (as amended and in effect from time to time, the "Security Agreement"), pursuant to which the Subsidiary has granted to the Agent, for the benefit of the Banks and the Agent, a security interest in certain assets of the Subsidiary, including all of the Subsidiary's rights in, to and under the Contract, to secure the Obligations referred to in the Security Agreement;

NOW, THEREFORE, the Subsidiary hereby confirms, acknowledges and agrees that, pursuant to and subject to the terms of the Security Agreement, the Subsidiary hereby assigns, transfers, pledges and grants to the Agent a security interest in all of the Subsidiary's right, title and interest in and to all monies due or to become due under the Contract.

EXECUTED as of the date first above written.

[NAME OF SUBSIDIARY]

By: _____
Title: _____

**FORM OF NOTICE OF ASSIGNMENT OF
ACCOUNTS RECEIVABLE AS SECURITY**

[To be adapted as appropriate for assignment of state government receivables]

BANKBOSTON, N.A., as Agent

[Insert Date]

To: [Contracting Official or Head of
Agency, and Disbursing Official]

Re: Payments to [INSERT NAME OF SUBSIDIARY]
Contract Number:
Made by the United States of America
Department:
Division:

For:

Dated:

Ladies and Gentlemen:

PLEASE TAKE NOTICE that monies due or to become due to [INSERT NAME OF SUBSIDIARY] (the "Subsidiary") under the contract described above have been assigned to BankBoston, N.A. as agent (in such capacity the "Agent") for itself and certain other lending institutions (collectively, the "Banks") as security for certain obligations of the Borrower to the Banks, as described more particularly in a Security Agreement (a true and correct copy of which is attached hereto), dated as of July 18, 1997, as the same may be amended and in effect from time to time. This notice is given pursuant to the provisions of the Assignment of Claims Act of 1940, as amended (31 U.S.C. §3727).

Payments due or to become due to the Subsidiary under the contract described above should continue to be made to the Subsidiary until you receive written notice from the Agent directing that such payments be made to another party.

Please return to the undersigned (in the enclosed, self-addressed stamped envelope) the enclosed extra copy of this notice with appropriate notations showing the

date and hour of receipt and duly signed by the person acknowledging receipt on behalf of the addressee.

Very truly yours,

BANKBOSTON, N.A.,
as Agent

By: _____

Authorized Official
100 Federal Street
Boston, MA 02110

IRREVOCABLY ACKNOWLEDGED AND
AGREED TO:

[NAME OF SUBSIDIARY]

By: _____

Title: _____

ACKNOWLEDGMENT OF RECEIPT

Receipt of the above notice and a copy of the Security Agreement described above is hereby acknowledged. These were received at ____ a.m./p.m. on _____, _____.

Signature

On Behalf of: [Name and Title of
Addressee of Notice]

SECURITY AGREEMENT

SCHEDULE 1

MOTOR VEHICLES

*StatesRail, Inc.
Subsidiaries*

Subsidiary	Motor Vehicle
Kyle Railways, Inc.	<i>See Attached Insured Vehicle List</i>
Eastern Alabama Railway, Inc.	1990 Ford - Hi Rail 1992 GMC Hi Rail 1992 Ford Explorer 1986 Chevy Hi Rail Truck 1988 GMC Dump Truck 1992 Chevy S-10 1995 Jeep Cherokee
Kyle Railroad Company	<i>See Attached Insured Vehicle List</i>
Railroads of Hawaii, Inc.	<i>See Attached Insured Vehicle List</i>
San Joaquin Valley Railroad, Co.	<i>See Attached Insured Vehicle List</i>
SWKR Operating Co., Inc.	<i>See Attached Insured Vehicle List</i>

**KYLE RAILWAYS, INC.
INSURED VEHICLE LIST
1997-1998**

VIN	YEAR	MAKE	MODEL	EMPLOYEE
2G4WB54T4P1499613	93	BUICK	REGAL 4 DR SEDAN	B. ALLEN
1GNEK13R4TJ369143	96	CHEV	TAHOE LT	R. CECIL

**EASTERN ALABAMA RAILWAY
INSURED VEHICLE LIST
1997-1998**

VIN	YEAR	MAKE	MODEL	EMPLOYEE
1GTM7D1FSJV513062	88	GMC	7000 DUMP TRUCK	MAINT. OF WAY DEPT.
2FDLF47GXLCB26591	90	FORD	CB TRUCK (HI-RAIL)	D. GARRETT JR.
2FDLF47M5LCA81341	90	FORD	F476 HI-RAIL P/U	R. CHATENAY
1GCGS14R8N8171352	92	CHEV	S-10 P/U	B. GILMER
1FMDU32X7NUC58061	92	FORD	EXPLORER	TRANSPORTATION
1GDKP32K3N3500322	92	GMC	HY-RAIL TRUCK	TRACK CREW
1F4FJ28SXSL516970	95	JEEP	CHEROKEE	L. NORDQUIST

**KYLE RAILROAD COMPANY
INSURED VEHICLE LIST
1997-1998**

VIN	YEAR	MAKE	MODEL	EMPLOYEE
CE539P851085	69	CHEV	C-50 HEAVY TRUCK	R. BRINEY
T81JVY49468	77	FORD	BOOM TRUCK	L. KOELZER
4PPCPGG026649	79	WHIT	TRUCK	C. MOTT
KS111800	80	CHEV	TRAILER OLD 9644	R. BENSON
KS111460	82	CHEV	TRAILER	M. BECKER-PURCH.
1G3AW69Y0CM311276	82	OLDS	AUTO	T. RHOADS
2FTHW35G2DCA48042	83	FORD	1 TON	OPEN
1FABP43F9EZ170166	84	FORD	AUTO LTD	S. LAKE
1GBG7D1B1FV111111	85	CHEV	DUMPTRUCK	G. ACOSTA
1FTEF25Y7FPB32672	85	FORD	3/4 TON	R. BRINEY
1GCGR24K3HS131130	87	CHEV	3/4 TON	M. BECKER
1FABP52UXHA189915	87	FORD	TAURUS	R. BRINEY
1GBHR34N4JJ113515	88	CHEV	C-30	L. KOELZER
1GCGR23K5JJ116979	88	CHEV	CUSTOM	OPEN
1GCGC34K2JE105873	88	CHEV	SILVERADO	K. POYSER
1GCGC24K1KE120439	89	CHEV	2500	R. SCHNEIDER
2GCGC39N8K1180812	89	CHEV	1 TON P/U	T. HICKERT
1FTHX25H2KKA39186	89	FORD	F 250	S. GRIFFITH
1FTHX26M4KKA63033	89	FORD	F250 S/C	J. VANDERVEEN
2MEBM75F1KX665995	89	MERC	MARQUIS	T. RHOADS
1GCGC24K1LE130874	90	CHEV	SCOTTSDALE P/U	L. KOELZER
2GCGC39N9L1125657	90	CHEV	1 TON	M. GARRETT
2G1WL54R8L9134586	90	CHEV	LUMINA	S. LAKE
2GCGC29K6L1208284	90	CHEV	PICKUP	M. GARRETT
1FTHF25H3LLB27971	90	FORD	3/4 TON	P. MOLZAN
1FTHX25H6LKB56819	90	FORD	3/4 TON	OPEN
1FTHF25H4LNA38754	90	FORD	3/4 TON	A. WHITE
2FDLF47GOMCB1314	91	FORD	F476 P/U	R. HULTGREN
2FDLF47GXMCA00264	91	FORD	F450	L. KOELZER
2FTJW35H3MCA03881	91	FORD	F350	OPEN
11YUC1929MT001079	91	SAMS	TRAILER	S. GRIFFITH
1FTHX25H7NKA68011	92	FORD	X 259	J. HUDSON
2FACP73W6NX153790	92	FORD	CROWN VICTORIA	R. BRINEY
2FDLF47MONCA79547	92	FORD	F477	R. BENSON
4ET829F25P1001863	93	EAGLE	FLAT TRAILER	G. ACOSTA
2FTJW35H4PCB02634	93	FORD	F350	R. OLMSTED
11YUH2123PT001318	93	SAMS	18' TRAILER	L. KOELZER
1FTHX26G8RKA40004	94	FORD	F250	R. BRINEY
2FALP74W3RX179770	94	FORD	CROWN VICTORIA LX	J. DEWITT
2FALP73WXR124587	94	FORD	CROWN VICTORIA	D. LOVELADY
1GCGC29K8SE189105	95	CHEV	CHEYENNE P/U	T. SMITH
1GCGC29K9SE194796	95	CHEV	CHEYENNE	T. RHOADS
1GCGC29N4SE145256	95	CHEV	SILVERADO	B. SARGENT
1FTHX25G9SKA56896	95	FORD	X259	J. LORIMOR
1FTHX25H9TEB71328	96	FORD	STYLESIDE S/C P/U	D. KINZIE
1TKC02427TM104107	96	TR KING	TK20 FLAT BED TRAILER	C. MOTT

**RAILROADS OF HAWAII, INC.
INSURED VEHICLE LIST
1997-1998**

VIN	YEAR	MAKE	MODEL	EMPLOYEE
156001	64	BRISTOL	BUS	P. GOINS
FLF236191	67	BRISTL	BUS	
T16PAAV605815	81	GMC	BUS	P. GOINS
1B7MD34W9ES321858	84	DODGE	FLAT BED	P. GOINS
1FALP52U4SG201258	95	FORD	TAURUS GL	D. FIELDS
1N6SD11S9SC431549	95	NISSAN	PICKUP	P. GOINS

**SAN JOAQUIN VALLEY RAILROAD
INSURED VEHICLE LIST
1997-1998**

VIN	YEAR	MAKE	MODEL	EMPLOYEE
CA698613	69	FORD	DUMP TRUCK	NOT ASSIGNED
W81QVAG6390	78	FORD	WHEEL TRUCK	J. GUTIERREZ
ZP10648	82	ZEMAN	BACKHOE TRAILER	MAINT. OF WAY
1GBHC34W5DV109884	83	CHEVY	350	D. ROWLAND
1GCGC24M3GJ168606	86	CHEV	PICK-UP	NOT ASSIGNED
1FTHX25L9GKA75985	86	FORD	F-250	J. HOLLAND
1GCGC34NOJE134430	88	CHEV	PICKUP	J. KRISSE
2FTHF25G2LCA85567	90	FORD	F250	W. GRAHAM
1G3AL54N4N6413316	92	OLDS	CUTLAS SIERRA	D. ADAME
1GNNDT13W6R2178941	94	CHEV	BLAZER	F. KREBS
1GNCS13W2R2171788	94	CHEV	BLAZER	M. PRINCE
1GNCS13W3R2179270	94	CHEV	BLAZER	R. THOMAS
1G1BL52W6RR126749	94	CHEVY	CAPRICE	B. TONGATE
1FTHX25H9SKA55823	95	FORD	F250	S. HOLM
1FTJW35G1SEA19561	95	FORD	F350	M. MONTOYA
1FTHX25H7SKA54220	95	FORD	F250	T. NORTHRUP
1FTHX25H7SKA54217	95	FORD	F250	W. GRAHAM
1FTJW35G5SEA18607	95	FORD	F350	V. CASTILLO
1FTJW35GXSEA18604	95	FORD	F350	R. ELIZONDO

SWKR OPERATING CO.
INSURED VEHICLE LIST
1997-1998

VIN	YEAR	MAKE	MODEL	EMPLOYEE
1FTHX2615GKA44388	86	FORD	F250 EXT. CAB HY-RAIL	C.COOLEY/McFARLAND
1FTHX25L6GKB63859	86	FORD	XLT LARIAT	C. JOHANSEN
1G2NE55M3SM577380	95	PONT	GRAND AM 4 DR.	T. COOLEY
1GCHK33NXRJ410463	94	CHEV	3500 CREW CAB DUALEY	C. COOLEY

SECURITY AGREEMENT

SCHEDULE 2

ROLLING STOCK

StatesRail, Inc.
Subsidiaries

Subsidiary	Rolling Stock
Kyle Railways, Inc.	None
Kyle Railroad Company	Side Dump Cars Ballast Car; ATSF 176919; MW 23 Ballast Car; ATSF 176973; MW 21 Ballast Car; ATSF 177003; MW 22 Ballast Car; ATSF 177090; MW 25 Ballast Car; ATSF 177129; MW 24 Ballast Reg; Kershaw Maintenance of Way Switch Engine #1102 (Leased to U.G.) Weed Sprayer Car Locomotive 6230; EMD SD39 Locomotive 1125; SW1000 Locomotive 1309; SW13 Locomotive 1511; GP7'53 Locomotive 1756; GP9'56 Locomotive 1757; GP9 Locomotive 1812; '91 Locomotive 6231; EMD SD39 Locomotive 6232; EMD SD39 Locomotive 6233; EMD SD39 Locomotive 2200; GP30'63 Locomotive 2202; GP30'63 Locomotive 2210; GP30'63 Locomotive 2238; GP30'63 Locomotive 2504; GP35E Locomotive 2505; EMDGP35R Locomotive 2506; EMDGP35R Locomotive 5795; GEU30B'75 Locomotive 5819; GEU30C'73 Locomotive 5820; GEU30C'73 Locomotive 5928; GEU30C'73 Switch Engines (4) Switch Engines (4) ADD Switch Engines (4) ADD

SECURITY AGREEMENT

SCHEDULE 2

ROLLING STOCK

StatesRail, Inc.
Subsidiaries

Subsidiary	Rolling Stock
Railroads of Hawaii, Inc.	Locomotive "ANAKA" LKP 1 Locomotive "MYRTLE" LKP 3 Locomotive "Oahu 85" LKP 85 Locomotive "Oahu 45" LKP 45 Locomotive "Oahu 5" LKP 5 Coach "Pioneer Mill" LKP 101 Coach "Kalakua" LKP 102 Coach "Duke Kahanamoka" LKP 104 Coach "Willis B. Kyle" LKP 105 Coach "Kaanapali Landing" LKP 106 Coach "A.W. "Mack" McKelvey" LKP 107 Coach "Kahekili" LKP 108 Coach "Haleakala" LKP 109 Ballast Car (No Number) Flatcar MOW (No Number)
San Joaquin Valley Railroad Co.	Caboose; SP1908 Locomotive 1761; GP9 80; Purch, Repr Locomotive 1763; GP9 80; Purchase Locomotive 1764; GP9 80; Purchase
SWKR Operating Co., Inc.	Locomotive SWKR 2039; GP20 Locomotive SWKR 2044; GP20 Locomotive AZER 2046; GP20 Coach SWKR 690; Lawawana Caboose SWKR 1 Coach SWKR 2692; Pova Coach SWKR 683; Articulated Coach SWKR 685; Articulated Coach SWKR 691 Coach SWKR 692 Coach SWKR 693 Beverage Car SWKR 695 Flat Car with Rails & Seats Observation SWKR 3117 3 Push Cars; 4000 GVW Each (No Number) Back Hoe; 580C with Rail Gear (No Number)

SECURITY AGREEMENT

SCHEDULE 3

MAINTENANCE OF WAY EQUIPMENT

StatesRail, Inc.
Subsidiaries

Subsidiary	Maintenance of Way Equipment
Kyle Railways, Inc.	None
Eastern Alabama Railway, Inc.	Speedswing w/Brushcutter - Pettibone SS527 Spike Driver - Hydro Tamper / Canron MK 1 - AZER Purchase 1991 Tamper / Canron MK 1 - AZER Repair 1994
Kyle Railroad Company	Ballast Reg; YLW#2; Kershaw; Klut Backhoe Backhoe; 580SK Crane/Mobile; Grain; EQ166 Crane/MOW; Module 32R Crane/Tie; RTW; SE WS056 Crane/Tie; Brush Cutter Hydrospiker; Norberg Super B Jordan Spreader; #4016 Snow Plow; ATSF 199398 Snow Plow; Vanderbilt Snow Plow; (5) B340 Speed Swing 441B; Purchase Spike Puller; Fairmont Sprayer Unit 3NP 110 Tamper C154BR; Fairmont Tamper Jackson Tamper Mark 3 Tamper Mark 3 Tie Handler / RTW Tie Inserter, TR-10 Tie Inserter / MBTX; Fairmont Tie Inserter; TR1 Track Scanner; MK III
Railroads of Hawaii, Inc.	Backhoe, Case 580C Track Broom

SECURITY AGREEMENT

SCHEDULE 3

MAINTENANCE OF WAY EQUIPMENT

StatesRail, Inc.
Subsidiaries

Subsidiary	Maintenance of Way Equipment
San Joaquin Valley Railroad Co.	Air Compressor & Fittings; Midwel Backhoe; Case 580 Super K Ballast Regulator; Kershaw; 1977 Bolt Machine Spike Driver; Muffled Tamper Trailer/Backhoe
SWKR Operating Co., Inc.	Backhoe; Case 580C

SECURITY AGREEMENT

SCHEDULE 4

REAL PROPERTY

StatesRail, Inc.
Subsidiaries

Subsidiary	Real Property
Kyle Railroad Company	<i>See Attached Property Description</i>
SWKR Operating Co., Inc.	<i>See Attached Property Description</i>

Kyle Railroad Company

Scandia Branch

[Handwritten signatures and notes]

This instrument was filed for record on the 27 day of July A.D. 1986 at 6:22-8 o'clock PM in the office of the Register of Deeds for the County of Cloud, State of Kansas.
Lois Duewell Register of Deeds

QUITCLAIM DEED

THIS DEED, made and entered into by and between MISSOURI PACIFIC RAILROAD COMPANY, a Delaware corporation, herein called "Grantor", and KYLE RAILROAD COMPANY, a Kansas corporation, to be addressed at Third and Railroad Avenue, P.O. Box 566, Phillipsburg, KS 67661, herein called "Grantee", WITNESSETH:

That the Grantor, for and in consideration of TEN AND NO/100 DOLLARS (\$10.00), and other good and valuable consideration, paid by Grantee to Grantor, receipt of which is hereby acknowledged, does by these presents Remise, Release and forever QUITCLAIM unto the Grantee, its successors and assigns, all of said Grantor's right, title and interest, if any, in and to Grantor's right-of-way from milepost 490.37, Hastings Junction (Yuma), Cloud County, Kansas to milepost 504.81, Scandia, Republic County, Kansas, described in Exhibit "A" attached hereto, together with Grantor's trackage and all other facilities of Grantor thereon, and all appurtenances thereto appertaining or otherwise belonging, to be used by Grantee in its operations as a railroad, less and except, however, all coal, oil, gas, casinghead gas, casinghead gasoline and minerals of every nature and character whatsoever, like or unlike, known or unknown, underlying the above-described and hereby conveyed right-of-way lands; provided, however, that no operations of investigating, exploring, prospecting or mining for or storing or transporting said minerals or any of them shall be conducted or placed upon the surface of the lands hereby conveyed.

Subject to (i) building lines, restrictions, conditions and easements, whether or not of record, if any, (ii) zoning laws or other ordinances affecting said property, if any, (iii) lawful encroachments, measurements or other facts which a correct survey would show, (iv) rights of others in connection with underground pipes, wires or conduits, if any, (v) rights of others in and to all utility lines and appurtenances located on or over said property, if any, and (vi) general taxes for the calendar year 1986 and thereafter, and the special taxes assessed and becoming a lien after the date of this deed.

TO HAVE AND TO HOLD the same, together with all rights and appurtenances to the same belonging, unto Grantee, its successors and assigns, forever.

IN WITNESS WHEREOF, Grantor has caused this instrument to be executed by its officers thereunto duly authorized the 1st day of July, 1986.

ATTEST:

MISSOURI PACIFIC RAILROAD COMPANY

By D. D. Tippery
Assistant Secretary
D. D. Tippery

By R. K. Davidson
Vice President
R. K. Davidson

QUITCLAIM DEED

THIS DEED, made and entered into by and between MISSOURI PACIFIC RAILROAD COMPANY, a Delaware corporation, herein called "Grantor", and KYLE RAILROAD COMPANY, a Kansas corporation, to be addressed at Third and Railroad Avenue, P.O. Box 566, Phillipsburg, KS 67661, herein called "Grantee", WITNESSETH:

That the Grantor, for and in consideration of TEN AND NO/100 DOLLARS (\$10.00), and other good and valuable consideration, paid by Grantee to Grantor, receipt of which is hereby acknowledged, does by these presents Remise, Release and forever QUITCLAIM unto the Grantee, its successors and assigns, all of said Grantor's right, title and interest, if any, in and to Grantor's right-of-way from milepost 504.81, Scandia, Republic County, Kansas to milepost 506.0, near Scandia, Republic County, Kansas, described in Exhibit "A" attached hereto, together with Grantor's trackage and all other facilities of Grantor thereon, and all appurtenances thereto appertaining or otherwise belonging, to be used by Grantee in its operations as a railroad, less and except, however, all coal, oil, gas, casinghead gas, casinghead gasoline and minerals of every nature and character whatsoever, like or unlike, known or unknown, underlying the above-described and hereby conveyed right-of-way lands; provided, however, that no operations of investigating, exploring, prospecting or mining for or storing or transporting said minerals or any of them shall be conducted or placed upon the surface of the lands hereby conveyed. Real Estate Validation Questionnaire Not Required Due to Exception No. 13.

Subject to (i) building lines, restrictions, conditions and easements, whether or not of record, if any, (ii) zoning laws or other ordinances affecting said property, if any, (iii) lawful encroachments, measurements or other facts which a correct survey would show, (iv) rights of others in connection with underground pipes, wires or conduits, if any, (v) rights of others in and to all utility lines and appurtenances located on or over said property, if any, and (vi) general taxes for the calendar year 1986 and thereafter, and the special taxes assessed and becoming a lien after the date of this deed.

TO HAVE AND TO HOLD the same, together with all rights and appurtenances to the same belonging, unto Grantee, its successors and assigns, forever.

IN WITNESS WHEREOF, Grantor has caused this instrument to be executed by its officers thereunto duly authorized the 15th day of July, 1986.

ATTEST:

MISSOURI PACIFIC RAILROAD COMPANY

BY

D. D. Tippery
Assistant Secretary
D. D. Tippery

BY

R. K. Davidson
Vice President
R. K. Davidson

Said centerline of abandoned main track, hereinabove referred to, is described more particularly as follows:

Beginning at a point in the south line of Section 17, T. 3 S., R. 4 W., of the 6th P.M., in Republic County, Kansas, which is 985 feet, more or less, west of the southeast corner thereof;

thence N. 4°51' W., a distance of 3769.7 feet to the beginning of a tangent curve concave southwesterly having a radius of 2864.93 feet;

thence northwesterly along said curve through a central angle of 9°52', a distance of 493.3 feet;

thence N. 14°43' west along a straight line tangent to the end of the last described curve, a distance of 190.5 feet to the beginning of a tangent curve concave southwesterly having a radius of 2864.93 feet;

thence northwesterly along said curve through a central angle of 7°14', a distance of 361.7 feet;

thence N. 21°57' W., along a straight line tangent to the end of the last described curve, a distance of 1864.2 feet, more or less to the south line of said Lot 5 of Section 8, T. 3 S., R. 4 W., of the 6th P.M., in said Republic County, at a point thereon which is 1040 feet west of the northeast corner of said Lot 5;

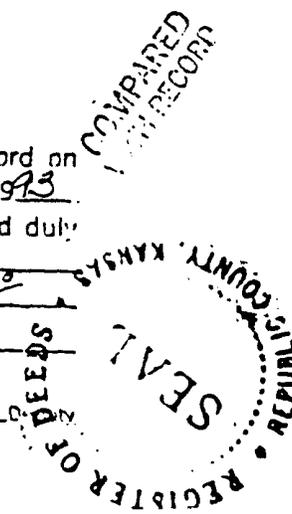
thence continuing N. 21°57' W., a distance of 807 feet, more or less, to the beginning of a tangent curve concave northeasterly having a radius of 2864.93 feet;

thence northwesterly along said curve through a central angle of 6°36', a distance of 330 feet;

thence N. 15°21' W., along a straight line tangent to the end of the last described curve, a distance of 3041 feet, more or less, to the north line of said Section 8 at a point thereon beyond the limits of the parcels hereby being described.

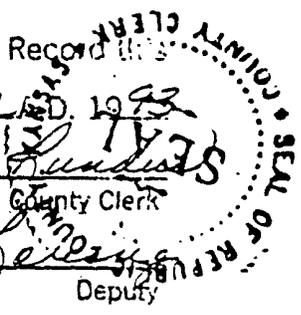
State of Kansas)
Republic County) ss.
This instrument was filed for record on the 27th day of Dec A.D. 1993 at 8:00 o'clock A M., and duly recorded in book 286 on page 401-405 Fee \$14.00

Nadine Stutzman
Register of Deeds
Ruth Baker



Entered in Transfer Record on the 27 day of Dec 1993

Sharon Kay Hundert
County Clerk
Cheryl L. ...
Deputy



*SWKR Operating
Company, Inc.*

EXHIBIT "A"

That certain 200 foot wide strip of land situated in the County of Cochise, State of Arizona, being that portion of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company (now Southern Pacific Transportation Company), shown on map filed December 5, 1904, and approved by the Secretary of Interior of the United States of America on March 10, 1905, said centerline is more particularly described as follows:

Beginning at Railroad Engineer Station 384+39.4 (Milepost NA-1040.15) on said original located centerline; thence southerly, following the curvatures and courses of said centerline, through the southwest quarter of the southwest quarter of Section 8 and the west half of the west half of Section 17, Township 18 South, Range 12 East, G.&S.R.B.&M., to the intersection of said centerline with the South line of said Section 17 at Railroad Engineer Station 446+55 (Milepost NA-1041.32).

The side lines of the above described 200 foot wide strip of land terminate northerly in a line drawn radially through said point of Beginning, and terminate southerly in said South line of said Section 17.

EXHIBIT "A"

Those certain parcels of land situated in the County of Cochise, State of Arizona, described as follows:

Parcel No. 1

A strip of land 200 feet wide, being that portion of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed December 5, 1904, approved March 10, 1905, by the Secretary of Interior of the United States of America, said centerline is more particularly described as follows:

Beginning at the intersection of said centerline at Engineer's Station 555+52 (M.P. 1071.15) with the northerly line of the northeast quarter of the northeast quarter of Section 27, Township 23 South, Range 22 East, G. & S.R., B. & M., thence southeasterly, following the curvatures and courses of said centerline, through the northeast quarter of the northeast quarter of Section 27, the northwest and the southeast quarters of Section 26, the southwest quarter of the southwest quarter of Section 25, the northwest quarter, the southwest quarter of the northeast quarter and the north-half of the southeast quarter of Section 36, all situated in Township 23 South, Range 22 East, G. & S.R., B. & M., the southwest quarter of Section 31, Township 23 South, Range 23 East, G. & S.R., B. & M., the northeast quarter of the northwest quarter,

the northwest quarter of the northeast quarter, the southwest quarter of the northeast quarter, the southeast quarter of the northeast quarter, and the northeast quarter of the southeast quarter of Section 6, Township 24 South, Range 23 East, G. & S.R.B. & M., and the southwest quarter of Section 5, Township 24 South, Range 23 East, G & S.R.B. & M., to a point at Engineer's Station 314+38.

The side lines of the above described 200-foot wide strip of land terminate in said northerly line of the northeast quarter of said Section 27 and in the easterly line of said southwest quarter of said Section 5.

Parcel No. 2

A triangular piece of land, situated in the southeast quarter of the southeast quarter of Section 4, Township 24 South, Range 23 East, G. & S.R.B. & M., being that portion of the Congressional Grant of March 3, 1875, shown on map filed December 5, 1904, and approved March 10, 1905, by the Secretary of Interior of the United States of America, extending from the westerly line, southeasterly, to the southerly line of said southeast quarter of the southeast quarter of said Section 4.

Parcel No. 3

Those portions of the 200-foot wide strips of land of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed December 5, 1904, and approved March 10,

1905, by the Secretary of Interior of the United States of America, situated through the following Sections, Townships and Ranges:

- (a) Northwest quarter of the northeast quarter of Section 10, Township 24 South, Range 23 East, G. & S.R., B. & M., extending from the westerly line southeasterly, to the southerly line of said quarter Section.
- (b) Southeast quarter of the northeast quarter of said Section 10, T.24S., R.23E., G. & S.R.B. & M., extending from the westerly line southeasterly, to the southerly line of said quarter Section.
- (c) The northeasterly 50 feet and the southwesterly 50 feet of that portion of aforesaid 200-foot wide Congressional Grant, situated in the southwest quarter, the southwest quarter of the southeast quarter of Section 11 and in the southeast quarter of the southeast quarter of Section 10, both situated in T.24S., R.23E., G. & S.R.B. & M., extending from the westerly line southeasterly, to the southerly line of said quarter Section 11 and from the northerly line southeasterly, to the easterly line of said quarter Section 10.
- (d) Southeast quarter of the northeast quarter of Section 14, T.24S., R.23E., G. & S.R.B. & M., extending from the northerly line southeasterly and easterly, to the easterly line of said quarter Section.

Parcel No. 4

A strip of land 200 feet wide, being that portion of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed March 29, 1906, approved May 15, 1906 by the Secretary of Interior of the United States of America, situated in the north-half of the southwest quarter, the northwest quarter of the southeast quarter, the south-half of the northeast quarter of Section 16, T.24S., R.24E, G. & S.R.B. & M., extending from the westerly line northeasterly, to the easterly line of said Section 16.

Parcel No. 5

A strip of land 200 feet wide, being that portion of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed February 18, 1902, approved December 23, 1902 and on map filed March 29, 1906, approved May 15, 1906 by the Secretary of Interior of the United States of America, situated through, across and upon the following Sections, Townships and Ranges, Gila and Salt River, Base & Meridian:

The southeast quarter of Section 11, the southwest quarter of the southwest quarter of Section 12, the north half of Section 13,

all situated in T.24S.,R.24E., the south-half of the northwest quarter, southwest quarter of the northeast quarter, the northeast quarter of the southwest quarter, the north-half of the southeast quarter of Section 18, the southwest quarter, the south-half of the southeast quarter of Section 17, the south-half of the southwest and southeast quarters, the northeast quarter of the southeast quarter of Section 16, the west-half of the southwest quarter, the south-half of the northwest quarter, the northeast quarter of Section 15, the south-half of the northwest quarter, the southwest quarter of the northeast quarter, the east-half of the northeast quarter of Section 14, the east-half of the southeast and northeast quarters of Section 11, the west-half of the northwest quarter of Section 12, the south-half of Section 1, all situated in T.24S.,R.25E., the south-half of the northwest and northeast quarters, the north-half of the southwest and southeast quarters of Section 6, west-half of the southwest quarter, the southeast quarter of the southwest quarter and the south half of the southeast quarter of Section 5, the south half of the southwest quarter, the southwest quarter of the southeast quarter of Section 4, the northeast quarter of the northwest quarter and the north-half of the northeast quarter of Section 9, the north-half of the north-half of Section 10, the north-half of the northwest quarter, the northeast quarter of Section 11, the south-half of the north-half of Section 12, all situated in T.24S.,R.26E., the south-half of the north-half and the north-half of the southeast quarter of

Section 7, the north-half of the south-half of Section 8, the north-half of the southwest quarter, and the southeast quarter of Section 9, all situated in T.24S.,R.27E., extending from the westerly line of said southeast quarter of Section 11, T.24S.,R.24E., following the courses and curvatures of said centerline to the easterly line of said southeast quarter of Section 9, T.24S.,R.27E.

Parcel No. 6

Those certain strips of land 200 feet wide, being portions of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed February 18, 1902, approved December 23, 1902 by the Secretary of Interior of the United States of America, situated through, across and upon the following Sections and Ranges:

- (a) The south-half of the south-half of Section 11, the north-half of the northeast quarter of Section 14, and a fraction of the northwest corner of Section 13, both situated in T.24S.,R.27E., extending from the westerly line of said south-half of the south-half of Section 11, southeasterly, to that portion of said northwest corner, bounded by the southerly line of 15th Street and of the westerly line of that parcel of land described in deed dated April 3, 1905 from the

International Land and Improvement Company to the El Paso & Southwestern Railroad Company, recorded May 12, 1905 in Book 27 of Deeds, Page 635, Records of Cochise County, Arizona.

- (b) The north-half of the southeast quarter of Section 12, Township 24 South, Range 27 East, extending from the southerly line of the northwest quarter of said southeast quarter, northeasterly, to the northerly line of said north-half of the southeast quarter of Section 12.

Parcel No. 7 (Bisbee Branch)

Those strips of land 200 feet wide, being that portion of the Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed March 29, 1906, approved May 15, 1906 by the Secretary of Interior of the United States of America, situated through, across and upon the following:

- (a) East-half of the northeast quarter of Section 10, T.24S., R.24E., G. & S.R., B. & M., extending from the southerly line, northeasterly, to the northerly line of said quarter Section.
- (b) East-half of the southeast quarter of Section 34, the west-half of the southwest quarter of Section 35, both situated in T.23S., R.24E., G. & S.R., B. & M., extending from the southerly

line of the southeast quarter of the southeast quarter of said Section 34, northeasterly, to the southerly line of that certain mining claim known as "Dawson City".

Parcel No. 8 (Bisbee Branch)

Those certain strips of land 200 feet wide, being those portions of Congressional Grant of March 3, 1875, lying equally 100 feet on each side of the original located centerline of the El Paso & Southwestern Railroad Company, now Southern Pacific Transportation Company, shown on map filed on December 4, 1890 & approved October 2, 1891, February 18, 1902 & approved December 23, 1902, July 1, 1903 & approved June 29, 1910, July 1, 1905 & approved June 29, 1910 and March 29, 1906 & approved May 15, 1906 by the Secretary of Interior of the United States of America, situated through, across and upon the following mining claims in the Warren Mining District:

DAWSON CITY - TOMBSTONE - SQUARE - GRANT - LAWRENCE - CALIFORNIA -
STATION - HAPPIE - U.S. - LIBBIE - DEVEREAUX - BRIDGE - IVANHOE -
HELENA - WILLIAM - OLD STRATTON - SCHENECTADY - FRACTION NO. 4 -
STAR - BLACK BEAR - CLIMAX - EPOCH - CYCLONE - GERMANY - MULE PASS -
RUSTLER - MAJOR - ALCATRAZ - CONTRACTOR - SEPOY WALES - GRAND PRIZE
- O.K. - WAR EAGLE - NACO PASS - BLACK HAWK - HAMILTON - ALMA -
ALICE - CHRISTMAS '96 - SIXTEEN TO ONE - DANIEL FRACTION - HARD CASH
- NELLIE - RATHMOON.

Excepting therefrom that portion included within the land described in deed dated March 7, 1918, from Phelps Dodge Corporation to El Paso Southwestern Railroad Company, recorded May 24, 1918 in Book 29 of Miscl. Deeds, Page 130, Records of Cochise County, Arizona.

Also excepting therefrom that portion included within the land described in deed dated May 16, 1919, from Calumet & Arizona Mining Company to El Paso & Southwestern Railroad Company, recorded June 18, 1920 in Book 81 of Deeds, Page 498, Records of said County.

Also excepting therefrom that portion included within the land described in deed dated April 8, 1920, from Phelps Dodge Corporation to El Paso & Southwestern Railroad Company, recorded June 18, 1920 in Book 81 of Deeds, Page 494, Records of said County.

Also excepting therefrom all of the land described in deed dated May 2, 1979 from Southern Pacific Transportation Company to Industrial Development Authority of the City of Bisbee, recorded June 26, 1979 in Docket 1340, Page 460, Records of said County.

Also excepting therefrom all of the land described in deed dated July 23, 1984 from Southern Pacific Transportation Company to Industrial Development Authority of the City of Bisbee, recorded August 31, 1984 in Docket 1792, Page 521, Records of said County.

Also excepting therefrom that portion lying northerly of a line drawn at right angles to said centerline at Engineer's Station 1833+45, Mile Post 1901.057, retirements authorized under A.F.E. 51319-53.

EXHIBIT "B"

Those strips of land situated in the County of Cochise, State of Arizona, and more particularly described as follows:

PARCEL A: (Bisbee Br.)(Par. 4)

A strip of land 80 feet wide, situated in the east half of the east half of Section 3, Township 24 South, Range 24 East, Gila and Salt River Base and Meridian of said County, described as follows:

Bounded westerly by a line parallel with and distant 100 feet westerly, measured at right angles, from the original located centerline of Southern Pacific Transportation Company's main track (Bisbee Br.); Bounded northerly by the northerly line of the northeast quarter of the northeast quarter of said Section 3; Bounded easterly by a line parallel with and distant 100 feet easterly, measured at right angles, from said original located centerline; Bounded southerly by the southerly line of the southeast quarter of the southeast quarter of said Section 3.

PARCEL B: (Douglas Br.-Paul Spur)(Par. 4)

Those strips of land situated in the southwest quarter of the southwest quarter of Section 5, the southeast quarter of the southeast quarter of Section 6, and the northeast quarter of the northeast quarter of Section 7, Township 24 South, Range 26 East, Gila and Salt River Base and Meridian of said County, and extending westerly, southwesterly, and southerly from a point in the

southerly line of Southern Pacific Transportation Company's 200-foot wide strip of land acquired by virtue of Act of Congress, March 29, 1906, opposite E.S. 796+82.

PARCEL C: (Douglas Br.-Smelter Spur)(Par. 3)

Those strips of land situated in the southeast quarter of the southeast quarter of Section 9, the south half of the south half of the southwest quarter of Section 10, the north half of the northwest quarter of Section 15, the northwest quarter of the northwest quarter of the northeast quarter of Section 15, the west half of the southwest quarter of the northwest quarter of Section 15, and the northwest quarter of the northwest quarter of the southwest quarter of Section 15, Township 24 South, Range 27 East, Gila and Salt River Base and Meridian of said County, and extending southeasterly, easterly, and southerly from a point in the southerly line of Southern Pacific Transportation Company's 200-foot wide strip of land acquired by virtue of Act of Congress March 3, 1875, opposite E.S. 1045+14.

PARCEL D: (Douglas Br.)(Par. 25)

Those strips of land situated in the northeast quarter of the northwest quarter, and the southeast quarter of the northwest quarter of Section 13, Township 24 South, Range 27 East, Gila and Salt River Base and Meridian, in Blocks 101, 114, and 115, in 11th, 12th, and 13th Streets, as said Blocks and Streets are delineated

on a city map, all in said County, and described in the following six (6) strips:

STRIP ONE: (11th St.)

Bounded northerly by the northerly line of said 11th St. (70 feet wide), being also the southerly line of Lot 32 in said Block 101; Bounded easterly by a line parallel with and distant 15 feet easterly, measured at right angles, from the southerly prolongation of the westerly line of said Lot 32; Bounded southerly by the southerly line of said 11th Street, being also the northerly line of Lot 13 in Block 98, as said Lot and Block are delineated on a city map; Bounded westerly by the southerly prolongation of said westerly line of said Lot 32;

STRIP TWO: (Block 101-Alley)

Bounded northerly by the southerly line of Lot 13 in said Block 101; Bounded easterly by the southerly prolongation of the easterly line of said Lot 13; Bounded southerly by the northerly line of Lot 32 in said Block 101; Bounded westerly by the southerly prolongation of the westerly line of said Lot 13.

STRIP THREE: (12th St.)

Bounded northerly by the northerly line of 12th Street (70 feet wide), being also the southerly line of Lot 32 in said Block 114; Bounded easterly by the southerly prolongation of the easterly line of said Lot 32; Bounded southerly by the southerly line of said 12th Street, being also the northerly line of Lot 13 in said Block 101; Bounded westerly by the southerly prolongation of the westerly line of said Lot 32.

STRIP FOUR: (Block 114-Alley)

Bounded northerly by the southerly line of Lot 12 in said Block 114; Bounded easterly by the southerly prolongation of the easterly line of said Lot 12; Bounded southerly by the northerly line of Lot 32 in said Block 114; Bounded westerly by the southerly prolongation of the westerly line of said Lot 12.

STRIP FIVE: (13th St.)

Bounded northerly by the northerly line of said 13th Street (70 feet wide), being also the southerly line of Lot 27 in said Block 115; Bounded easterly by the southerly prolongation of the easterly line of said Lot 27; Bounded southerly by a line parallel with and distant 15 feet northerly, measured at right angles, from the

southerly line of said 13th Street; Bounded westerly by the southerly prolongation of the westerly line of said Lot 27.

STRIP SIX: (Block 115-Alley)

Bounded northerly by the southerly line of Lot 13 in said Block 115 and the easterly prolongation thereof; Bounded easterly by a line parallel with and distant 5 feet easterly, measured at right angles, from the southerly prolongation of the easterly line of said Lot 13; Bounded southerly by the northerly line of Lot 27 in said Block 115 and the easterly prolongation thereof; Bounded westerly by the southerly prolongation of the westerly line of said Lot 13.

DEED PARCELS - SALE TO SWQR - DOUGLAS & BISBEE
BRANCHES

PKK
12-14-9

EXHIBIT "C"

PART ONE (Douglas Branch)

Being portions of that certain 32.967 mile portion of the Douglas Branch beginning at MP.1075.716 (ES.314+38) in the west line of the southwest quarter of the southeast quarter of Section 5, Township 24 South, Range 23 East, Gila and Salt River Base and Meridian, to MP.1108.683 (ES.94+15) in the west line of the southwest quarter of the southeast quarter of Section 6, Township 24 South, Range 28 East, Gila and Salt River Base and Meridian, County of Cochise, State of Arizona, and more particularly described in the following deeds:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-41/21	1	Harry Lee Hardt	D.B. 19	496	07-31-1903
"	3	Lydia L. Fike	D.B. 19	493	"
"	4	Harry Lee Hardt	D.B. 19	496	"
ARIZ. V-41/20	2	R.L. Benton, et al	D.B. 23	16	10-07-1903
"	3	E.M. Fike	D.B. 19	498	07-31-1903
"	5	Lydia L. Fike	D.B. 19	493	"
"	6	B.L. Robinson	D.B. 19	491	"
"	7	P.J. Fike	D.B. 19	488	"
"	8	August Bohmfalk	D.B. 19	500	"
"	9	Henry Lee Hardt	D.B. 19	496	"
"	10	P.J. Fike	D.B. 19	488	"
"	13	Naco R.E. & Improvement Company	D.B. 23	438	02-04-1904

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-41/20	17	Charles P. Walker, Executor	D.B. 106	191	12-18-1929
"	18	Charles P. Walker, Executor	D.B. 106	191	"
"	20	Homer R. Fike, et al, Trustee	M.R. 54	267	09-08-1941
"	21	"	"	"	"
"	22	"	"	"	"
"	23	State of Arizona, Pat. No. 2490	D.B. 80	342	05-21-1942
"	24	State of Arizona, Pat. No. 2491	D.B. 80	341	"
"	25	State of Arizona, Pat. NO. 2492	D.B. 80	340	"
ARIZ. V-41/19	2	Arizona & Colorado R.R. Company	D.B. 29	95	06-02-1905
"	3	J.V. Vickers, et ux	D.B. 50	416	02-14-1910
"	4	Naco R.E. & Improvement Company	D.B. 23	438	02-04-1904
"	6	Carmen S. Dagnino	D.B. 141	169	05-31-1945
"	7	"	"	"	"
ARIZ. V-41-18	2	Arizona & Colorado R.R. Company	D.B. 29	95	06-02-1905
ARIZ. V-41-14	2	Ryan Bros. Cattle Company	D.B. 14	334	03-18-1901
ARIZ. V-41/13	2	Ryan Bros. Cattle Company	D.B. 14	334	03-18-1901
"	5	International Land & Improvement Co.	D.B. 27	635	05-12-1905
"	6	"	D.B. 21	114	04-16-1903
"	8	Douglas Improvement Co.	D.B. 59	58	05-07-1914
"	9	Cochise County	Vacation - 15th St.		11-06-1912
"	10	Helen M. Meguire	D.B. 19	212	04-16-1903
"	11	Michael J. Donohoe, et ux	D.B. 56	33	03-21-1913

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-41/13	12	Douglas Traction & Light Company	D.B. 61	14	03-10-1915
"	13	Michael J. Donohoe, et ux	D.B. 56	33	03-21-1913
"	15	Asa Barnaby, et ux	D.B. 56	84	04-14-1913
"	16	Asa Barnaby, et al	D.B. 25	132	05-09-1904
"	32	Jess H. Fisher, et ux	D.B. 48	226	03-05-1909
"	34	The Meguire Co.	D.B. 48	221	"
"	36	Arizona Edison Co., Inc.	D.B. 127	49	04-17-1939
"	38	Phelps Dodge Corp.	Misc. Bk. 52	458	07-22-1940
"	40	Gordon D. Whatley	DKT. 1580	509	03-30-1982

Excepting from the land described in the deeds in Part One,
all the land described in the following deeds:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-41/19	un.2	Artemisa Mines Ltd.	10.64 acs		03-24-1941
"	un.4	School Trustees Naco School District	0.918 acs.		03-20-1908
"	"	U.S.A.	0.311 acs.		04-20-1935
"	"	Fred Giesler	5.93 acs.		02-01-1937
"	"	"	0.588 acs.		11-04-1943
"	"	Naco School District	2.747 acs.		10-31-1957
ARIZ. V-41/13	un.5	International Land & Improvement Co.	19.498 acs.		07-28-1909
"	"	No Record	0.10 acs.		03-25-1913
"	"	State of Arizona	2.74 acs.		01-06-1965

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R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-41/13	un.5	Y.M.C.A. of Douglas	0.645		08-30-1967
"	"	City of Douglas	DKT. 1219	505	03-02-1978
"	"	"	Instr. 16965		08-27-1985
"	"	"	Instr. 85-1021243		10-24-1985
"	un.8	"	Instr. 91-1020733		10-16-1991
"	"	"	Instr. 85-1021243		10-24-1985
"	"	"	Instr. 91-1020733		10-16-1991
"	un.9	"	Instr. 85-1021243		10-24-1985
"	"	"	Instr. 91-1020733		10-16-1991
"	un.32	Ronald J. Borane, et al	DKT.1602	329	07-02-1982
"	un.34	U.S.A.	4.248 acs.		03-28-1944

Also, excepting from first described land in said deed recorded February 4, 1904, all the land lying southeasterly and easterly of the westerly prolongation of a line parallel with and distant 60 feet northerly, measured at right angles, from the southerly line of the 200-foot wide strip of land acquired by virtue of Act of Congress, March 3, 1875, the easterly terminus of said westerly prolongation being at the point of intersection of said parallel line with the northeasterly line of first said 200-foot wide strip of land, being also the northwesterly prolongation of the southwesterly line of Harvey Street (50 feet wide), included within first described land.

Also, excepting all the land second described in said deed recorded February 4, 1904.

Also, excepting from the land described in said deed recorded May 12, 1905, that certain parcel of land situated in the northwest quarter of Section 13, Township 24 South, Range 27 East, G. & S.R.B. & M., described as follows:

Commencing at the northwest corner of said land described in deed recorded May 12, 1905 in Book 27, page 635; thence South $0^{\circ}30'$ West, along the westerly line of said land, 100.81 feet to a line parallel and concentric with and distant 25.00 feet southerly and southeasterly, measured at right angles and radially, from the centerline of El Paso & Southwestern Railroad Company's main track (Forrest-Douglas), and the True Point of Beginning of the parcel of land to be described; thence South $83^{\circ}06'00''$ East, along said parallel and concentric line, 557.20 feet to the beginning of a curve; thence southeasterly and northeasterly on a curve to the left having a radius of 2316.88 feet, tangent to said curve is last described course, through a central angle of $23^{\circ}45'55''$, an arc length of 961.00 feet to the westerly line of the land described in deeds to the City of Douglas from Southern Pacific Transportation Company, recorded October 24, 1985, as Instrument 851021243 and October 10, 1991, as Instrument 911020733; thence South $17^{\circ}23'35''$ East, along last said westerly line, 214.31 feet to the southwesterly corner of last said land; thence South $88^{\circ}14'10''$ East, along the southerly line of last said land, 372.80 feet to a line that is parallel with and distant 25.00 feet northwesterly, measured at right angles, from the centerline of El Paso &

Southwestern Railroad Company's "Z" track (Douglas-Nacozari); thence South $17^{\circ}03'00''$ West, along said parallel line, to the northerly line of land described in deed from Southern Pacific Transportation Company to the City of Douglas, recorded August 27, 1985, as Instrument 16965; thence South $89^{\circ}59'54''$ West, along said northerly line, 496.07 feet to the westerly line of last said Company's land; thence North $17^{\circ}03'00''$ East, along last said westerly line, 1399.88 feet to the southwesterly line of land described in a deed from Southern Pacific Transportation Company to the City of Douglas, recorded March 2, 1978 in Docket 1219, Page 505; thence South $73^{\circ}32'$ East, along said southwesterly line, 403.78 feet to the easterly line last said land; thence North $29^{\circ}47'35''$ East, 46.77 feet; thence North $25^{\circ}48'40''$ East, 389.54 feet; thence North $20^{\circ}02'35''$ East, 78.73 feet; thence North $16^{\circ}34'$ East, 86.44 feet; thence North $13^{\circ}07'45''$ East, 76.19 feet; thence North $4^{\circ}53'20''$ East, 187.92 feet to the easterly corner of last said land; thence North $73^{\circ}32'$ West, along the northeasterly line of last said land, 333.98 feet; thence South $16^{\circ}28'$ West, 130.00 feet; thence North $73^{\circ}32'$ West, 100.00 feet; thence North $16^{\circ}28'$ East, 130.00 feet; thence North $73^{\circ}32'$ West, 1351.74 feet to the westerly line of said Company's land, last said line being parallel with and distant 33.00 feet easterly, measured at right angles, from the westerly line of said Section 13; thence North $0^{\circ}30'00''$ East, along said westerly line of said Company's land, 313.44 feet to the True Point of Beginning.

PART TWO (Bisbee Branch)

Being those certain portions of the Bisbee Branch situated in the Warren Mining District, County of Cochise, State of Arizona, and more particularly described in three (3) line segments, as follows:

LINE SEGMENT ONE:

Being portions of that certain 2.956 mile portion of said branch beginning at Mile Post 1087.524 (E.S.49+50) in the northwest quarter of the southwest quarter of Section 35, Township 23 South, Range 24 East, Gila and Salt River Base and Meridian, in said County, to Mile Post 1090.480 (E.S.1802+98.3) in the "Pay Day" mining claim shown in deed dated May 16, 1919, from Calumet & Arizona Mining Company to El Paso & Southwestern Railroad Company (now Southern Pacific Transportation Company), recorded May 24, 1918, in Book 29 of Deeds, page 130, records of said County, including right of way areas for former wye-track and spur track, described in the following deeds:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/1	2	Phelps Dodge Corp.	D.B. 81	494	06-18-1920
ARIZ. V-42/2	1	"	"	"	"
"	2	"	"	"	"
"	3	Calumet & Arizona Mining Co.	"	498	"
"	4	"	"	"	"

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/2	5	Denn Arizona Copper Co.	D.B. 82	281	08-14-1920
"	6	"	"	"	"
"	7	Phelps Dodge Corp.	Doc. 16305 (Lease)	12500 sq.ft.	10-14-1920
"	8	"	Doc. 16305 (Lease)	1.148 acs.	06-12-1924
"	9	"	Doc. 53614 (Agreement)	32400 sq.ft.	07-31-1941

Excepting from Line Segment One all the land described in the following deed and A.F.E.:

R.O.W. and Track Map	Parcel Number	Sale Deeds Grantee	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/2	un.3	Phelps Dodge Corp.	0.956 acs.		AFE.75912 -1959
"	un.3	Don D. Campbell, et ux	Dkt. 1819	577	12-21-1984

LINE SEGMENT TWO:

Being portions of that certain 1.815 mile portion of said branch beginning at Mile Post 1088.235 (E.S.1684+44.7) in the "Lawrence" mining claim shown in deed dated April 8, 1920, from Phelps Dodge Corporation to El Paso & Southwestern Railroad Company (now Southern Pacific Transportation Company), recorded June 18, 1920, in Book 81 of Deeds, page 494, records of said County, to Mile Post 1090.05 (E.S.1780+30) in the "Contractor" mining claim

shown in deed dated March 7, 1918, from Phelps Dodge Corporation to El Paso and Southwestern Railroad Company, recorded May 24, 1918, in Book 29 of Deeds, page 130, records of said County, including right of way areas for former wye-track and spur track described in the following deeds:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/1	2	Phelps Dodge Corp.	D.B. 81	494	06-18-1920
"	3	"	D.B. 29	130	05-24-1918
"	8	"	"	"	"
ARIZ. V-42/4	1	"	"	"	"
"	2	Calumet & Arizona Mining Co.	D.B. 81	498	06-18-1920

LINE SEGMENT THREE:

Being portions of that certain 1.392 mile portion of said branch beginning at Mile Post 1089.854 (E.S.1769+92.7) in the "Grand Prize" mining claim shown in deed dated May 16, 1919, from Calumet & Arizona Mining Company to El Paso & Southwestern Railroad Company (now Southern Pacific Transportation Company), recorded June 18, 1920, in Book 81 of Deeds, page 498, records of said County, to Mile Post 1091.175 (E.S. 103+46.9) in the "Bengal" mining claim shown in said deed dated May 16, 1919, including right of way area for former interchange track, section house area, and remaining right of way area in "Galena" mining claim shown in deed dated March 7, 1918, from Phelps Dodge Corporation to El Paso &

Southwestern Railroad Co., recorded May 24, 1918, in Book 29 of Deeds, page 130, records of said County, described in the following deeds and documents:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/3	11	Phelps Dodge Corp.	D.B. 29	130	05-24-1918
"	20	Calumet & Arizona Mining Co.	D.B. 81	498	06-18-1920
"	30	Phelps Dodge Corp.	Doc. 16132 (Lease)	0.49 acs.	11-13-1920
"	39	"	D.B. 29	130	05-24-1918
ARIZ. V-42-4	2	Calumet & Arizona Mining Co.	D.B. 81	498	06-18-1920

Excepting from Line Segment Three all the land described in the following two (2) A.F.E.'s and Document:

R.O.W. and Track Map	Parcel Number	Acquisition Deeds Grantor	Cochise County Recordation		
			Volume	Page	Date
ARIZ. V-42/3	un.11	Phelps Dodge Corp.	2.798 acs.		AFE. 75912-1959
"	un.20	"	Doc. 53614 -3.10 acs		07-31-1941
"	un.20		2.445.acs.		AFE. 51319-1953

a:RHS_DOUG.exc/sca

SECURITY AGREEMENT

SCHEDULE 5

INTELLECTUAL PROPERTY

StatesRail, Inc.

Subsidiaries

Subsidiary	Intellectual Property
Kyle Railways, Inc.	Caboose Joose
SWKR Operating Co., Inc.	Passenger Reservations

Excursion Trains Reservation System

The Excursion Trains Reservation System is a multi-faceted Foxpro based, menu driven program developed by Kyle Railways Inc. As described below this system provides reservations, accounting, and marketing functions for the excursion trains.

RESERVATIONS: This section of the program allows the input of any excursion train schedule based on the day, date, time of day, busy season and the number of available seats inside or outside and trip charges. Reservations are then put in with the customers name, address, telephone number, a referral code, their trip preferences, credit card information, applicable discounts and/or taxes and any special needs requested by the customer. Tickets are printed by the system after all charges have been paid.

There are a variety of reports available with this system. They provide information on historic ridership statistics and projected ridership statistics.

ACCOUNTING: All money collected is input into the reservation system. At the end of each trip the reservation system and money collected are audited to insure they balance. Any fees to be paid to or collected from outside agencies is automatically calculated by the reservation system.

All month end reports and billings are done through the reservation system.

MARKETING: Using the reservation data collected from the customers, the following is a sample of the many reports which are produced to assist us in our marketing efforts;

Referral Report - Identifies which advertising medium is the most successful.

Demographic Reports - Identifies where our customers are coming from by zip and area codes.

Mailing Lists and Labels - Allows us to utilize the existing customer database, both riders and information requests, for direct mail .