

LAW OFFICES
MILES & STOCKBRIDGE

A PROFESSIONAL CORPORATION

10 LIGHT STREET
BALTIMORE, MARYLAND 21202-1487

TELEPHONE 410-727-6464
FAX 410-385-3700

CAMBRIDGE, MD
COLUMBIA, MD
EASTON, MD
FREDERICK, MD

McLEAN, VA
ROCKVILLE, MD
TOWSON, MD
WASHINGTON, D.C.

JOHN A. STALFORD
410-385-3424

December 12, 1997

via FEDERAL EXPRESS

Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001
Attention: Mrs. Janice Fort
Recordation

RECORDATION NO. 21068 FILED

DEC 15 '97

10-44 AM

RECORDATION NO. 21068-A FILED

DEC 15 '97

10-44 AM

Re: Our File No.: 258-1788

Dear Mrs. Fort:

Enclosed for filing as a primary document pursuant to the provisions of 49 U.S.C. 11301(a) are one original and one notarized copy of the following document:

Primary

Memorandum of Lease of Railroad Equipment dated as of December 3, 1997 between Philip W. Hoffman (970 Los Vallecitos Boulevard, Suite 224, San Marcos, California 92069) and Union Pacific Railroad Company (1416 Dodge Street, Omaha, Nebraska 68179)

Also enclosed for filing as a secondary document are one original and one notarized copy of the following document:

A

Assignment of Lessor's Interest in Leases dated December 12, 1997 by Philip W. Hoffman (970 Los Vallecitos Boulevard, Suite 224, San Marcos, California 92069) in favor of The First National Bank of Maryland (25 South Charles Street, Baltimore, Maryland 21201) which relates to the above-referenced Memorandum of Lease of Railroad Equipment.

Also enclosed are two (2) checks, each in the amount of \$24.00 to cover the costs of recording the enclosed documents.

RECEIVED
SURFACE TRANSPORTATION BOARD
DEC 15 10 44 AM '97

Once these documents have been recorded, please return the same to the undersigned.

Thank you for your prompt attention to this matter. Please call me at (410) 385-3425 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Michele E. Sperato". The signature is written in black ink and is positioned above the typed name.

Michele E. Sperato
Secretary to John A. Stalfort

Enclosures

STATE OF MARYLAND

CITY OF BALTIMORE, TO WIT:

THIS IS TO CERTIFY that the attached Memorandum of Lease of Railroad Equipment is a true and complete copy of such Memorandum of Lease of Railroad Equipment.

WITNESS my hand and seal this 12th day of December, 1997.

Michelle E. Sperato
Notary Public

My Commission Expires: January 28, 2001

STATE OF MARYLAND

CITY OF BALTIMORE, TO WIT:

THIS IS TO CERTIFY that the attached Assignment of Lessor's Interest in Leases is a true and complete copy of such Assignment of Lessor's Interest in Leases.

WITNESS my hand and seal this 12th day of December 1997.

Michelle E. Sperato
Notary Public

My Commission Expires:

January 28, 2001

DEC 15 '97

10-44 AM

ASSIGNMENT OF LESSOR'S INTEREST IN LEASES

THIS ASSIGNMENT OF LESSOR'S INTEREST IN LEASES (this "Agreement") is made as of this 12th day of December, 1997, by PHILIP W. HOFFMAN, an individual ("Pledgor"), in favor of THE FIRST NATIONAL BANK OF MARYLAND, a national banking association ("Lender"); witnesseth:

Recitals

Pledgor has applied to Lender for a loan in the principal amount of \$ _____ (the "Financial Accommodations") pursuant to the provisions of a certain Loan Agreement of even date herewith by and between Lender and Pledgor (the "Loan Agreement"). The Financial Accommodations are to be evidenced by, and repaid with interest in accordance with provisions of, a Promissory Note of even date herewith from Pledgor payable to the Lender (the "Note"). Repayment of the Note is secured by, inter alia, a Security Agreement of even date herewith from Pledgor to Lender (the "Security Agreement"). Pledgor is the lessor under a Lease of Railroad Equipment dated as of July 20, 1992 between H&G Locomotive (predecessor to Pledgor) and Union Pacific Railroad Company ("Lessee"), as assigned to Pledgor pursuant to an Assignment and Assumption Agreement dated as of December 1, 1996, and amended by First Amendment to Lease of Railroad Equipment dated as of August 1, 1997, and pursuant to which Pledgor has leased certain locomotives to Lessee (the "Locomotives"). Lender has required, as a condition to the making of the Financial Accommodations, the execution of this Agreement by Pledgor.

NOW, THEREFORE, in order to secure (a) the prompt payment of all past, present, and future indebtedness, liabilities, and obligations of Pledgor to Lender of any nature whatsoever in connection with the Loan, including, without limitation, the Liabilities (as defined in the Loan Agreement) (collectively, the "Pledgor's Liabilities"), and (b) the performance by Pledgor of all of the terms, conditions, and provisions of this Agreement, the Loan Agreement, the Note, the Security Agreement, and of any other note, security agreement, pledge agreement, guaranty agreement, mortgage, deed of trust, loan agreement, hypothecation agreement, subordination agreement, indemnity agreement, letter of credit application, assignment, or any other document previously, simultaneously, or hereafter executed and delivered by Pledgor and/or any other person, singly or jointly with another person or persons, evidencing, securing, guarantying, or in connection with any of Pledgor's Liabilities (collectively, the "Loan Documents"), Pledgor hereby pledges, assigns, and grants to Lender a security interest in and assigns to Lender all now existing or hereafter created leases of all or any portion of the Locomotives (collectively the "Leases"), together with all rents, royalties, issues, income, profits, revenues, other benefits, and security deposits arising from the Leases and the Locomotives and all cash and non-cash proceeds thereof and the proceeds of all insurance

policies covering all or any part of such property (all of the foregoing is herein collectively referred to as the "Collateral").

A. TO PROTECT THE SECURITY OF THIS AGREEMENT, PLEDGOR COVENANTS:

1. To observe and perform all of the obligations imposed upon the lessor in the Leases and not to do or permit to be done anything to impair the security thereof; that the Leases are or will be valid and enforceable and that Lessees are not in default under any of the terms thereof; that no rents reserved in the Leases have been anticipated or assigned; not to collect any of the rents, payments with respect to casualty, income, and profits arising or accruing from the Locomotives in advance of the time when the same becomes due under the terms of the Leases; not to discount any future accruing rents; not to execute any other assignment of the Leases or assignment of rents of the Locomotives; and not to alter, modify, or change the terms of the Leases or surrender, cancel, or terminate the same without the prior written consent of Lender.

2. To assign and transfer to Lender any and all further Leases upon all or any part of the Locomotives and to execute and deliver, at the request of Lender, all such further assurances and assignments as Lender shall from time to time require.

B. IT IS MUTUALLY AGREED THAT:

1. All rents, payments with respect to casualty, income, and profits from the Locomotives shall be paid to the account of Pledgor maintained with Lender (the "Collateral Account"). Pledgor hereby assigns to and grants a security interest in the Collateral Account to Lender. After the occurrence of an event of default under the Loan Documents, Pledgor hereby authorizes and directs Lessees under any Leases, including Lessee under the Lease, to pay all rents, payments with respect to casualty, income and profits from the Leases due to Pledgor under the Leases directly to Lender and to continue to do so until otherwise notified by Lender.

2. Lender shall have the right to apply any moneys in the Collateral Account to the payment of Pledgor's Liabilities in accordance with the Note and the Security Agreement. Prior to the occurrence of an event of default under the Loan Documents, after such payment, any moneys in the Collateral Account may be disbursed to Pledgor by Lender at Pledgor's direction.

3. Lender shall not be obligated to perform or discharge, nor does it hereby undertake to perform or discharge, any obligation, duty, or liability under the Leases, or under or by reason of this Agreement, and Pledgor shall and does hereby agree to indemnify Lender for and to hold Lender harmless of and from any and all liability, loss, or damage which Lender may or might incur under

the Leases or under or by reason of this Agreement, and of and from any and all claims and demands whatsoever which may be asserted against Lender by reason of any alleged obligations or undertakings on Lender's part to perform or discharge any of the terms, covenants, or agreements contained in the Leases. Should Lender incur any such liability, loss, or damage under the Leases or under or by reason of this Agreement or in the defense of any such claims or demands, the amount thereof including costs, expenses, and reasonable attorneys' fees shall be secured hereby, and Pledgor shall reimburse Lender therefor immediately upon demand, and upon the failure of Pledgor so to do, Lender may declare all sums secured hereby immediately due and payable.

4. Upon the payment in full of all indebtedness secured hereby, this Agreement shall become and be void and of no effect, but the affidavit, certificate, letter, or statement of any officer, supervisor, or attorney of Lender showing any part of said indebtedness to remain unpaid shall be and constitute conclusive evidence (except in an action between Pledgor and Lender or its assigns) of the validity, effectiveness, and continuing force of this Agreement, and any person may and is hereby authorized to rely thereon.

5. Lender may take or release other security; may release any party primarily or secondarily liable for any indebtedness secured hereby; may grant extensions, renewals, or indulgences with respect to such indebtedness; and may apply any other security therefor held by it to the satisfaction of such indebtedness without prejudice to any of its rights hereunder.

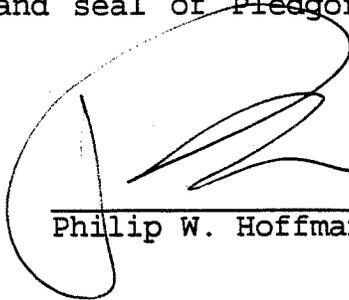
6. The term "Leases" as used herein means the Lease hereby assigned and any extension or renewal thereof, and any lease subsequently executed by Pledgor covering the Locomotives or any part thereof.

7. Nothing herein contained and no act done or omitted by Lender pursuant to the powers and rights granted to Lender herein shall be deemed to be a waiver by Lender of its rights and remedies under the Loan Documents, but this Agreement is made and accepted without prejudice to any of the rights and remedies possessed by Lender under the terms thereof. The right of Lender to collect the indebtedness and to enforce any other security therefor owned by it may be exercised by Lender either prior to, simultaneously with, or subsequent to any action taken by it hereunder.

8. In the event the Note is transferred by Lender to any other person or entity, Pledgor covenants and agrees that all the provisions herein contained shall be applied to and inure to the benefit of the holder of the Note in the same manner and to the same extent as if it was the original assignee of the Leases herein named.

WITNESS the signature and seal of Pledgor as of the day and year first above written.

WITNESS



Philip W. Hoffman (SEAL)

STATE OF CALIFORNIA, COUNTY OF SAN DIEGO, TO WIT:

I HEREBY CERTIFY that on this 9th day of December, 1997, before me, the undersigned, a Notary Public of said State, personally appeared Philip W. Hoffman, one of the parties of the foregoing instrument, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, who signed the same in my presence, acknowledged that the foregoing instrument is his act and that he executed the same for the purposes contained therein.

WITNESS my hand and Notarial Seal.



Notary Public

My Commission Expires:

Hoffman/FN178801.ass

SEP 4, 1999

