

RECORDATION NO. 19548 FILED 1425

AUG 4 1995 - 12 15 PM

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101 BAY STREET
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11550 RANDOM HILLS ROAD
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30 WEST PATRICK STREET
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22 WEST JEFFERSON STREET
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600 WASHINGTON AVENUE
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1450 G STREET N.W.
WASHINGTON, D.C. 20005-3001

19549 A

AUG 4 1995 - 12 15 PM

August 1, 1995

RECORDATION NO. 19550 FILED 1425

AUG 4 1995 - 12 15 PM

Interstate Commerce Commission
12th and Constitution Avenue, N.W.
Washington, D.C. 20423
Attn: Janice Fort, Recordation

RE: Our File No. 258-1549

Dear Mrs. Fort:

Enclosed for recordation as a primary document pursuant to the provisions of 49 U.S.C. 11303 are one original and one notarized copy of the following documents:

(1) Memorandum of Lease Agreement dated August 2, 1995 between SRL Partners #1, a Nevada Limited Partnership and successor by assignment located at 2533 North Carson Street, Carson City, Nevada 89706 to Southern Rail Leasing, Inc. ("Lessor") located at 955 South Virginia Street, Reno, Nevada 89502, and The Kansas City Southern Railway Company, successor by merger to SouthRail Corporation ("Lessee") located at 114 West 11th Street, Kansas City, Missouri 64105-1804, please see Exhibit A for a summary of equipment;

(2) Security Agreement from Guarantor dated August 2, 1995 between SRL Partners #1, a Nevada Limited Partnership (the "Pledgor"), in favor of The First National Bank of Maryland, a National Banking Association (the "Lender") located at 25 South Charles Street, 15th Floor, Baltimore, Maryland 21201, please see Exhibit A for a summary of equipment; and

(3) Security Agreement from Borrower dated August 2, 1995 between Southern Rail Leasing, Inc., a Nevada corporation (the "Pledgor") located at 955 South Virginia Street, Reno, Nevada 89502, in favor of The First National Bank of Maryland, a National Banking Association (the "Lender"), please see Exhibit A for a summary of equipment.

Also enclosed for recordation as a secondary document pursuant to the provisions of 49 U.S.C. 11303 are one original and one notarized copy of the following documents:

(4) Assignment of Lessor's Interest in Leases from the Borrower dated August 2, 1995 between Southern Rail Leasing,

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A PROFESSIONAL CORPORATION

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Inc., a Nevada corporation (the "Pledgor") in favor of The First National Bank of Maryland, a National Banking Association (the "Lender"); and

(5) Assignment of Lessor's Interest in Leases from the Guarantor dated August 2, 1995 between SRL Partner #1, a Nevada Limited Partnership (the "Pledgor"), in favor of The First National Bank of Maryland, a National Banking Association (the "Lender").

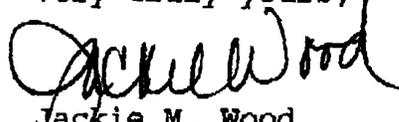
Also enclosed are checks, each in the amount of \$21.00, to cover the costs of recordation.

Once these documents have been recorded, please return them to:

John Stalfort, Esquire
Miles & Stockbridge
10 Light Street
Baltimore, Maryland 21202

Thank you for your prompt attention to this matter. Please call me at 410-385-3660 should you have any questions.

Very truly yours,


Jackie M. Wood
Legal Assistant

/jmw
Enclosures

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NOTARIAL PUBLIC COMMISSION

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is made as of this 2nd day of August, 1995, by SOUTHERN RAIL LEASING, INC., a Nevada corporation (the "Pledgor"), in favor of THE FIRST NATIONAL BANK OF MARYLAND, a national banking association (the "Lender"); witnesseth:

Recitals

The Pledgor has applied to the Lender for a line of credit in the maximum principal amount of \$ (the "Financial Accommodations") pursuant to the provisions of a certain Loan Agreement of even date herewith by and between the Lender and the 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 the Pledgor payable to the Lender in the principal amount of the Financial Accommodations (the "Note"). The Lender has required, as a condition to the making of the Financial Accommodations, the execution of this Agreement by the Pledgor.

NOW, THEREFORE, in order to secure (a) the prompt payment of all past, present, and future indebtedness, liabilities, and obligations of the Pledgor to the Lender of any nature whatsoever in connection with the Financial Accommodations, including, without limitation, the Liabilities (as defined in the Loan Agreement) (collectively the "Pledgor's Liabilities"), and (b) the performance by the Pledgor of all of the terms, conditions, and provisions of this Agreement, the Loan Agreement, the Note, 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 the Pledgor and/or any other person, singly or jointly with another person or persons, evidencing, securing, guaranteeing, or in connection with any of the Pledgor's Liabilities (collectively, the "Loan Documents"), the Pledgor agrees with the Lender as follows:

1. Collateral. The Pledgor hereby grants to the Lender a security interest in all of the Pledgor's equipment described in Exhibit A attached hereto and made a part hereof by reference, together with (i) all additions, parts, fittings, accessories, special tools, attachments, and accessions now and hereafter affixed thereto and/or used in connection therewith, (ii) all replacements thereof and substitutions therefor, and (iii) all cash and non-cash proceeds and products thereof (the "KCS Railcars").

The term "Collateral" as used herein means each and all of the items of Collateral described above and the term "proceeds" as used herein includes, without limitation, the proceeds of all insurance policies covering all or any part of such items of Collateral.

2. Payment and Performance. The Pledgor will pay the Pledgor's Liabilities as and when due and payable and will perform, comply with, and observe the terms and conditions of the Loan Documents to be performed, complied with, and observed by the Pledgor.

3. Title to Collateral. The Pledgor represents and warrants that it is the owner of the Collateral and has good and marketable title to the Collateral free and clear of all liens, security interests, and other encumbrances except for those in favor of the Lender and the lien of the lessee under the Lease Agreement dated as of September 9, 1993 between the Pledgor and The Kansas City Southern Railway Company.

4. Further Assurances. The Pledgor will defend its title to the Collateral against all persons and will, upon request of the Lender, (a) furnish such further assurances of title as may be required by the Lender, and (b) deliver and execute or cause to be delivered and executed, in form and content satisfactory to the Lender, any financing, continuation, termination, or security interest filing statement, security agreement, or other document as the Lender may request in order to perfect, preserve, maintain, or continue the perfection of the Lender's security interest in the Collateral and/or its priority. The Pledgor will pay the costs of filing any financing, continuation, termination, or security interest filing statement as well as any recordation or transfer tax required by law to be paid in connection with the filing or recording of any such statement. A carbon, photographic, or other reproduction of a security agreement or a financing statement is sufficient as a financing statement.

5. Transfer and Other Liens. The Pledgor will not sell, lease, transfer, exchange, or otherwise dispose of the Collateral, or any part thereof, without the prior written consent of the Lender and will not permit any lien, security interest, or other encumbrance to attach to the Collateral, or any part thereof, other than those in favor of the Lender or those permitted by the Lender in writing, except that the Pledgor may, in the ordinary course of its business, and in the absence of an Event of Default hereunder, sell or lease an item of the Collateral other than the KCS Railcars provided that the Pledgor repays the Line of Credit Loan (as defined in the Loan Agreement) attributable to such item of the Collateral as provided in Section 5.12(b) of the Loan Agreement.

6. Financial Statements, Books and Records. The Pledgor will (a) at all times maintain, in accordance with generally accepted accounting principles, accurate and complete books and records pertaining to the operation, business, and financial condition of the Pledgor and pertaining to the Collateral and any contracts and collections relating to the Collateral, (b) furnish to the Lender promptly upon request, and in the form and content and at the intervals specified by the Lender, such financial statements, reports, schedules, and other information with respect to the operation, business affairs, and financial condition of the

Pledgor as the Lender may from time to time require, (c) at all reasonable times and without hindrance or delay, permit the Lender or any person designated by the Lender to enter any place of business of the Pledgor or any other premises where any books, records, and other data concerning the Pledgor and/or the Collateral may be kept and to examine, audit, inspect, and make extracts from and photocopies of any such books, records, and other data, and (d) mark its books and records in a manner satisfactory to the Lender so that the Lender's rights in and to the Collateral will be shown.

7. Name of Pledgor, Place(s) of Business, and Location of Collateral. The Pledgor represents and warrants that its correct legal name is as specified on the signature lines of this Agreement, and each legal or trade name of the Pledgor for the previous twelve (12) years (if different from the Pledgor's current legal name) is as specified below the signature lines of this Agreement. Without the prior written consent of the Lender, the Pledgor will not change its name, dissolve, merge, or consolidate with any other person. The Pledgor warrants that the address of the Pledgor's chief executive office and the address of each other place of business of the Pledgor are as specified below the signature lines of this Agreement. All books and records pertaining to the Collateral have been, are, and will be located at the Pledgor's chief executive office specified below. The Pledgor will immediately advise the Lender in writing of any change in the location of the places where the books and records concerning the Collateral, or any part thereof, are kept.

8. Care of Collateral. The Pledgor will maintain the Collateral in good condition and will not do or permit anything to be done to the Collateral that may impair its value or that may violate the terms of any insurance covering the Collateral or any part thereof. The Lender shall have no duty to, and the Pledgor hereby releases the Lender from all claims for loss or damage caused by the failure to collect or enforce any account or chattel paper or to preserve rights against prior parties to the Collateral.

9. Insurance. The Pledgor will insure the Collateral against such casualties and risks (including casualty, public liability, and property damage risks) in such form and amount as may from time to time be required by the Lender. All casualty and similar insurance proceeds shall be payable to the Lender, and all policies of insurance shall be furnished to the Lender. The Pledgor will pay all premiums due or to become due for such insurance and hereby assigns to the Lender any returned or unearned premiums which may be due upon cancellation of insurance coverage. The Lender is hereby irrevocably (a) appointed the Pledgor's attorney-in-fact (which appointment is coupled with an interest) to endorse any draft or check which may be payable to the Pledgor in order to collect such returned or unearned premiums or the proceeds of insurance and (b) authorized to apply such insurance proceeds in

the same manner and order as the proceeds of sale or other disposition of the Collateral are to be applied pursuant to paragraph 14 hereof.

10. Taxes. The Pledgor will pay as and when due and payable all taxes, levies, license fees, assessments, and other impositions levied on the Collateral or any part thereof or for its use and operation .

11. Delivery, etc. of Chattel Paper. The Pledgor will promptly upon request by the Lender deliver, assign, and endorse to the Lender all chattel paper and all other documents held by the Pledgor in connection therewith.

12. Performance by the Lender. If the Pledgor fails to perform, observe, or comply with any of the conditions, terms, or covenants contained in this Agreement, the Lender, without notice to or demand upon the Pledgor and without waiving or releasing any of the Pledgor's Liabilities or any Event of Default, may (but shall be under no obligation to) at any time thereafter perform such conditions, terms, or covenants for the account and at the expense of the Pledgor, and may enter upon any place of business or other premises of the Pledgor for that purpose and take all such action thereon as the Lender may consider necessary or appropriate for such purpose. All sums paid or advanced by the Lender in connection with the foregoing and all costs and expenses (including, without limitation, attorneys' fees and expenses) incurred in connection therewith (collectively, the "Expense Payments") together with interest thereon at a per annum rate of interest which is equal to the then highest rate of interest charged on the principal of any of the Pledgor's Liabilities, plus one percent (1%) per annum, from the date of payment until repaid in full, shall be paid by the Pledgor to the Lender on demand and shall constitute and become a part of the Pledgor's Liabilities secured hereby.

13. Default. The occurrence of any one or more of the following events shall constitute an event of default (an "Event of Default") under this Agreement: (a) failure of the Pledgor to pay any of the Pledgor's Liabilities as and when due and payable; (b) failure of the Pledgor to perform, observe, or comply with any of the provisions of this Agreement or of the other Loan Documents; or (c) the occurrence of an event of default (as defined therein) under any of the other Loan Documents.

14. Rights and Remedies Upon Default. Upon the occurrence of an Event of Default hereunder (and in addition to all of its other rights, powers, and remedies under this Agreement), the Lender may, at its option, and without notice to the Pledgor, declare the unpaid balance of the Pledgor's Liabilities to be immediately due and payable. The occurrence or non-occurrence of an Event of Default shall in no manner impair the ability of the Lender to demand payment of any portion of the Pledgor's Liabilities which

are payable on demand. The Lender shall have all of the rights and remedies of a secured party under the Maryland Uniform Commercial Code and other applicable laws. Upon the occurrence of an Event of Default hereunder, the Lender or its agents may enter upon the Pledgor's premises to take possession of the Collateral, to remove it, to render it unusable, or to sell or otherwise dispose of it, all without judicial process or proceedings.

Any written notice of the sale, disposition, or other intended action by the Lender with respect to the Collateral which is required by applicable laws and is sent by certified mail, postage prepaid, to the Pledgor at the address of the Pledgor's chief executive office specified below, or such other address of the Pledgor which may from time to time be shown on the Lender's records, at least ten (10) days prior to such sale, disposition, or other action, shall constitute reasonable notice to the Pledgor. The Pledgor shall pay on demand all costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or on behalf of the Lender (a) in enforcing the Pledgor's Liabilities, and (b) in connection with the taking, holding, preparing for sale or other disposition, selling, managing, collecting, or otherwise disposing of the Collateral. All of such costs and expenses (collectively, the "Liquidation Costs") together with interest thereon at a per annum rate of interest which is equal to the then highest rate of interest charged on the principal of any of the Pledgor's Liabilities, plus one percent (1%) per annum, from the date of payment until repaid in full, shall be paid by the Pledgor to the Lender on demand and shall constitute and become a part of the Pledgor's Liabilities secured hereby. Any proceeds of sale or other disposition of the Collateral will be applied by the Lender to the payment of the Liquidation Costs and Expense Payments, and any balance of such proceeds will be applied by the Lender to the payment of the remaining Pledgor's Liabilities in such order and manner of application as the Lender may from time to time in its sole discretion determine.

15. Deficiency. If the sale or other disposition of the Collateral fails to fully satisfy the Pledgor's Liabilities, the Pledgor shall remain liable to the Lender for any deficiency.

16. Remedies Cumulative. Each right, power, and remedy of the Lender as provided for in this Agreement or in the other Loan Documents or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power, or remedy provided for in this Agreement or in the other Loan Documents or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by the Lender of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by the Lender of any or all such other rights, powers, or remedies.

17. Waiver. No failure or delay by the Lender to insist upon the strict performance of any term, condition, covenant, or agreement of this Agreement or of the other Loan Documents, or to exercise any right, power, or remedy consequent upon a breach thereof, shall constitute a waiver of any such term, condition, covenant, or agreement or of any such breach, or preclude the Lender from exercising any such right, power, or remedy at any later time or times. By accepting payment after the due date of any of the Pledgor's Liabilities, the Lender shall not be deemed to have waived the right either to require payment when due of all other Pledgor's Liabilities or to declare an Event of Default for failure to effect such payment of any such other Pledgor's Liabilities. The Pledgor waives presentment, notice of dishonor, and notice of non-payment with respect to accounts and chattel paper.

18. Miscellaneous. The paragraph headings of this Agreement are for convenience only and shall not limit or otherwise affect any of the terms hereof. Neither this Agreement nor any term, condition, covenant, or agreement hereof may be changed, waived, discharged, or terminated orally but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, or termination is sought. This Agreement shall be governed by the laws of the State of Maryland and shall be binding upon the heirs, personal representatives, successors, and assigns of the Pledgor and shall inure to the benefit of the successors and assigns of the Lender. As used herein, the singular number shall include the plural, the plural the singular, and the use of the masculine, feminine, or neuter gender shall include all genders, as the context may require, and the term "person" shall include an individual, a corporation, an association, a partnership, a trust, and an organization. Unless varied by this Agreement, all terms used herein which are defined by the Maryland Uniform Commercial Code shall have the same meanings hereunder as assigned to them by the Maryland Uniform Commercial Code.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

The signature and seal of the Pledgor are subscribed to this Agreement the day and year written above.

WITNESS/ATTEST:

SOUTHERN RAIL LEASING, INC.

John C. Chomh

By: *[Signature]* 7/20/95 (SEAL)

Address of Pledgor's chief executive office:

955 South Virginia Street
Reno, Nevada 89502

Previous legal and/or trade name(s) of the Pledgor: None.

STATE OF CALIFORNIA
COUNTY OF San Diego

On 7-20 1995, before me, Susan D. Parker, personally appeared Phillip W. Hoffman, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



Signature *Susan D. Parker* (Seal)

EXHIBIT A

DESCRIPTION OF RAILCARS

Fifty (50) 2,500 cubic foot capacity, 100-ton, roller-bearing, mill gondola rail cars bearing car marks and numbers as follows:

KCS 899000 through 899049

STATE OF MARYLAND, COUNTY OF BALTIMORE, TO WIT:

I HEREBY CERTIFY that the attached Security Agreement is a true and complete copy of said Security Agreement.

WITNESS my hand and seal this 4 day of August, 1995.

Joseph M. Wood
Notary Public



My Commission Expires: 4-99

STATE OF MARYLAND, COUNTY OF BALTIMORE, TO WIT:

I HEREBY CERTIFY that the attached Bill of Sale is a true and complete copy of said Bill of Sale.

WITNESS my hand and seal this 1st day of August, 1995.

Reginald M. Wood
Notary Public

My Commission Expires: 4-10-99