OSTER
Researching Services
12897 Colonial Dr. • Mt. Airy, Md. 21771
301-253-6040

20028

APR 2 - 1996

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RECEIVED
SURFACE TRANSPORTATION BOARD

Counterparts - Mary AOst

April 25, 1996

Mr. Vernon Williams
Secretary
Surface Transportation Board
12th & Constitution Avenue, N.W.
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recording with the Surface Transportation Board is a Loan and Security Agreement dated 4/9/96 between the following parties:

Secured Party: FBS Business Finance Corporation
601 Second Avenue South
Minneapolis, MN 55402

Debtor: Independent Locomotive Service, Inc.
21 Main Street N.E.
Bethel, MN 55005

The equipment included in this agreement is as follows:

Equipment: 1, GP-9 Locomotive, #1363
1, SW-7 Locomotive, #1373

Please record this agreement as a primary document. The filing fee of $21 is enclosed.

Thank you for your assistance.

Sincerely,

Mary Ann Oster

Mary Ann Oster
Research Consultant

Enclosure

SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C. 20423-0001

4/25/96

Mary AnnOster
Research Consultant
Oster Reseaching Services
12897 Colonial Drive
Mt.Airy, MD., 21771

Dear Madam:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 4/25/96 **at** 9:30AM **, and assigned recordation number(s).** 20028, 20029 and 20029-A.

Sincerely yours,

Vernon A. Williams

Vernon A. Williams
Secretary

Enclosure(s)

$ 63.00 **The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgment that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one typed on this receipt. In the event of an error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.**

Signature Janice M. Fort

20028

APR 2 - 1996

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT as of the date set forth below, by and between **INDEPENDENT LOCOMOTIVE SERVICE, INC.**, a MINN. corporation ("Borrower"), at 21 Main Street N.E. - P.O. Box 79 - Bethel, MN 55005 and **FBS Business Finance Corporation**, Leasing Division, a Delaware corporation ("Secured Party"), First Bank Place, 601 Second Avenue South, Minneapolis, Minnesota 55402.

In consideration of the mutual covenants hereinafter set forth in this Loan and Security Agreement (the "Agreement"), and intending to be legally bound, the Borrower and Secured Party hereto agree as follows:

1. The Loan

(a) Subject to the terms and conditions hereof, Secured Party agrees to make a term loan to Borrower in the principal amount of **$125,000.00** the ("Loan"). Secured Party shall advance funds to Borrower as Borrower may request on or after the date hereof and up to and including **May 1, 1996.**

The Loan shall be evidenced by a promissory note of Borrower, in substantially the form of Exhibit A attached hereto, with appropriate insertions, dated the date of the Loan (the "Note"). Interest under the Note shall be calculated from the date of the Note through the maturity thereof at the rate shown on the Note.

(b) The Note shall be payable in equal consecutive monthly installments of principal and interest in such amounts and on such dates as shown in the Note. Each monthly installment shall be applied first to accrued interest, then to principal and thereafter to any late charge or other costs then due.

(c) If any installment is received by Secured Party more than ten (10) days after its due date, Borrower agrees to pay a late charge of five percent (5%) of such payment but not in excess of the maximum late charge permitted by law.

(d) Interest and fees shall be calculated on the basis of a 30 day month and a 360 day year. If any payment hereunder or on the Note becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day. The term "Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in Minneapolis, Minnesota are authorized or required by law to close. All payments by Borrower on the Note and all fees, expenses and other obligation under this Agreement payable to Secured Party shall be made without setoff or counterclaim in lawful money of the United States of America, received no later than 3:00 p.m. (Minneapolis time) on the dates called for under this Agreement, at the Secured Party's main office.

(e) Borrower further promises to pay interest at a rate equal to the lesser of 18% per annum or the highest rate permitted by law from and after the maturity of the Note on the then outstanding amount of principal, whether such maturity is caused by default, acceleration or otherwise, and, to the extent permitted by law, to pay interest on overdue interest at a rate equal to the lesser of 18% per annum or the highest rate permitted by law, until such amounts are paid.

(f) Upon the terms and subject to the conditions set forth in this Subsection (d), the Borrower, at its option, and upon three (3) Business Days' prior written notice to Secured Party, may prepay the Note in whole or in part, subject to the following;

(i) If such prepayment occurs during the first half of the term of the Note, a prepayment premium equal to 2% of the principal amount prepaid shall accompany

such prepayment. Any partial prepayment shall be applied pro rata to the then remaining installments of principal of the Note. Each prepayment under this Section shall be made with accrued interest on the principal prepaid. No partial prepayment of the principal of the Note shall relieve Borrower of its obligation to pay the fixed installments of the principal of the Note on the dates and, except as reduced by prepayments applied pursuant to this paragraph 1(f)(i), in the amounts, specified in the Note.

(ii) For purposes of this Section, the terms "Government Yield" means, as of the date of determination, the yield (converted as necessary to the equivalent semi-annual compound rate) on U.S. Treasury securities (as published by the Federal Reserve Bank of New York) having a maturity date closest to the scheduled maturity of the Note. "U.S. Treasury securities" means actively traded U.S. Treasury bonds, bills and notes and, if more than one issue of U.S. Treasury securities is scheduled to mature at or about the time of the scheduled maturity of the Note, then to the extent possible the issue having a coupon rate or stated interest rate closest to the rate of interest on the Note (the "Note Rate") will be chosen as the basis for the Government Yield.

(iii) If at the time of any prepayment (including a prepayment occurring as a result of acceleration of the Note) the Government Yield is less than the Note Rate, the Borrower will be required to pay, in addition to the prepayment fee described in Section (f)(i) above, an additional prepayment premium calculated as follows: a new monthly payment (Payment I) will be derived that will amortize the amount so prepaid at the Note Rate over the number of whole months then remaining to the scheduled maturity of the Note. A second monthly payment (Payment 2) will be derived that will amortize the amount so prepaid at the Government Yield over the number of whole months then remaining to the scheduled maturity of the Note. Such additional prepayment premium shall be the present value of the date of prepayment (using the Government Yield as the discount factor) of a stream of hypothetical equal monthly payments in number equal to the number of whole months remaining to the scheduled maturity of the Note, with the amount of each hypothetical monthly payment equal to the difference between Payment I and Payment 2 and with the first payment payable thirty (30) days from the date of prepayment.

2. Security

(a) As security for the payment of the Loan, the Note and all other notes of Borrower concurrently herewith, heretofore or hereafter delivered to or purchased or otherwise acquired by Secured Party and also to secure any other indebtedness or liability of Borrower to Secured Party hereunder and under any other agreement, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, joint or several, howsoever created, arising or evidenced (all hereinafter called "Secured Obligations"), Borrower hereby, assigns, grants and conveys to Secured Party a security interest in: (i) the Equipment described on Exhibit B-1 attached hereto, and all attachments, accessories, additions, replacements and substitutions thereto, whether now owned or hereafter acquired (the "Equipment"), and, (ii) and all proceeds thereof, including without limitation, all insurance proceeds (all of the foregoing, in the aggregate, called the "Collateral").

(b) All items of Equipment shall remain personal property and shall not be in any way allowed to become part of or to be affixed to any real property without first assuring to Secured Party's reasonable satisfaction that Secured Party's security interest in the Collateral is prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein. Borrower's chief executive office is located at the address shown on the first page hereof. Borrower will provide Secured Party at least (30) days prior written notice of any change in location of Borrower's chief executive office.

3. Representations and Warranties. Borrower represents and warrants that:

(a) Borrower has or will acquire title to the Collateral, free and clear of all liens, security interests and encumbrances, except for the security interest granted herein. There is no encumbrance or security interest with respect to all or any part of the Collateral which is superior to Secured Party's security interest. All costs of keeping the Collateral free of all encumbrances and security interest prohibited by this Agreement and of removing same if they should arise shall be borne and paid by Borrower; and

(b) By consummation of this transaction, Borrower is not in violation of any local, state or federal statute or any rule or regulation issued by any local, state or federal regulatory agency, all as may apply to Borrower, nor will consummation of this transaction cause any breach, default or violation of any judgment, decree, loan, mortgage, agreement, indenture or any other instrument applicable to Borrower or of Borrower's articles of incorporation or bylaws; and

(c) Borrower has delivered to Secured Party the balance sheets of Borrower and the related statements of income and retained earnings of Borrower for its most recent fiscal year end and for the most recent fiscal quarter. Such balance sheets and statements fairly present the financial condition of Borrower as of such dates and the results of the operations of Borrower for the period ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since the end of the latest fiscal quarter, there has been no material adverse change in such condition or operations; and

(d) Upon appropriate filings with the ICC, the security interest contemplated hereby will at all times constitute a valid, perfected and enforceable first priority security interest in favor of Secured Party, subject to no other security interest, mortgage, lien or encumbrance and Borrower shall provide Secured Party with an opinion of counsel confirming same; and

(e) Borrower has filed all applicable tax returns required to be filed by it, and has paid or made provisions for the payment of all taxes which have become due pursuant to said returns or pursuant to any assessment received by Borrower except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with generally accepted accounting principles, and warrants that such returns properly reflect the United States income and tax liability of Borrower for the period covered thereby; and

(f) Borrower is duly organized, validly existing and in good standing under the laws of the State of Montana and has the corporate power and authority to own and operate its property, to conduct the business in which it is currently engaged, and to make, deliver and perform this Agreement and the Note and to borrow hereunder, and has taken all necessary corporate action and obtained any necessary governmental consent or authorization to authorize borrowings on the terms and conditions of this Agreement and the Note and to authorize the execution, delivery and performance of this Agreement and the Note, which have been or will be duly executed and delivered, and which accordingly constitute or will constitute legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms; and

(g) No litigation, investigation or proceeding of or before any arbitrator or governmental authority is pending or, to the knowledge of Borrower, threatened by or against Borrower or against its properties or revenues with respect to this Agreement or the Note or any of the transactions contemplated thereby, or which could have a material adverse effect on the business, operations, property or financial or other condition of Borrower; and

(h) Borrower is not in default under any agreement, instrument or undertaking in any respect which could be materially adverse to, and no agreement, instrument, undertaking, law, rule or regulation, or determination of a court or other governmental authority, materially adversely affects, or insofar

as Borrower may reasonably foresee may so affect, (i) the business, operations, property or financial or other condition of Borrower or (ii) Borrower's ability to perform its obligations under this Agreement or the Note; and

(i) No reportable event, as defined in Title IV of the Employee Retirement Income Security Act of 1984, as amended ("ERISA") has occurred and is continuing with respect to any employee benefit plan or other plan maintained for employees of Borrower and covered by ERISA.

4. Affirmative Covenants. Borrower hereby agrees that, so long as any Secured Obligations remain outstanding and unpaid, Borrower shall:

(a) pay and perform all of the Secured Obligations according to their terms; and

(b) on demand of Secured Party and at Borrower's sole expense, (i) execute any written agreement or do any other acts reasonably necessary to effectuate the purposes and provisions of this Agreement, (ii) execute any instrument or statement required by law or otherwise in order to perfect, continue or terminate the security interest of Secured Party in the Collateral, and (iii) pay all costs of filing in connection with perfecting, continuing or terminating said security interest; and

(c) retain possession of the Collateral and not sell, exchange, assign, loan, deliver, lease without the prior written permission of Secured Party, mortgage or otherwise dispose of the Collateral, and

(d) Secured Party further acknowledges and consents to the use of the Collateral upon the railroad system of North America, pursuant to the rules and regulations of the Interstate Commerce Commission and the Association of American Railroads; and

(e) keep the Collateral free and clear of all liens, charges and encumbrances; and

(f) pay, when due, all license fees, assessments and sales, use, property, excise and other taxes now or hereafter imposed by any governmental body or agency in connection with the Collateral or this transaction, and keep the Collateral free from all liens arising therefrom, except such fees, assessments, taxes or liens as are being contested by Borrower in good faith and as to which adequate reserves have been provided in accordance with generally accepted accounting principles; and

(g) at its own expense, for Collateral, maintain (1) actual cash value all risk insurance on the Equipment naming Secured Party as Loss Payee and (2) single limit public liability and property damage insurance of not less than $1,000,000 per occurrence, or such greater or lesser amount as Secured Party may from time to time request on notice to Borrower. Policies shall be obtained from responsible insurers authorized to do business in Montana. Each such policy of insurance shall provide that the insurance company shall give Secured Party thirty (30) days' prior written notice of the effective date of any alteration or cancellation of such policy; and

(h) keep the Collateral, at Borrower's own cost and expense, in good repair and condition and in compliance with all applicable laws, regulations and rules (including, but not limited to, those set forth in Section 4.(n) below) and available, together with the records relative thereto, for inspection by Secured Party; and

(i) not change: (i) its fiscal year end from JAN 31 without the prior written consent of Secured Party; (ii) its name or principal place of business from those set forth in the preamble to this Agreement without at least thirty (30) days' prior written notice to Secured Party, or (iii) its state of incorporation without the prior written consent of the Secured Party; and

(j) indemnify and save harmless Secured Party, its successors and assigns, employees, officers, directors and agents from and against any and all claims or suits for any loss, damage or injury

sustained by any person whatsoever by reason of the sale, financing, use or disposition of the Collateral, and in this connection, Borrower shall pay the costs of all reasonable legal fees and all other reasonable expenses incurred by Secured Party; and

(k) furnish Secured Party, as soon as available, but in no event more than ninety (90) days after the end of each fiscal year of Borrower, a copy of the balance sheet of Borrower as at the end of such year and the related statements of operations, and such other financial information as Secured Party may from time to time request. Borrower warrants and represents that all such financial statements shall be complete and correct in all material respects and be prepared in reasonable detail and in accordance with generally accepted accounting principles applied consistently throughout the periods reflected therein; and

(l) at its own expense, upon written direction from Secured Party, do all further acts and execute, acknowledge and deliver all instruments and assurances reasonably necessary or proper to comply with or accomplish the covenants and agreements contained in this Agreement, and in the event that Borrower does not so perform, Borrower hereby authorizes Secured Party to do such acts as Secured Party, in its sole discretion, shall deem necessary to protect the interests created hereby and agrees to pay to Secured Party on demand all reasonable costs and expenses associated with Secured Party's actions in connection herewith; and

(m) obtain execution, acknowledgment and delivery to Secured Party of such instruments, mortgages, deeds of trust, security agreements, guaranty agreements, statements, assignments, financing statements and lien documents in a form acceptable to Secured Party as may be reasonably necessary to enforce, to grant to Secured Party and to perfect the security interests, liens and mortgages on the Collateral granted hereunder by Borrower to Secured Party; and

(n) continue to engage in business of the same general type as now conducted by it, and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business and comply with all agreements, instruments, undertakings, laws, rules, regulations and determinations of any court binding upon Borrower except to the extent that the failure to comply therewith could not, in the aggregate, have a material adverse effect on the business, operations, property or financial or other condition of Borrower; and

(o) agrees to comply with all laws of the jurisdictions in which its operations involving the Equipment may extend, with the interchange rules of the Association of American Railroads (and qualify for interchange service in accordance with such interchange rules) and with all lawful rules of the United States Department of Transportation, the Interstate Commerce Commission and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Equipment, to the extent that such laws and rules affect the title, operation, maintenance or use of the Equipment, and in the event that such laws or rules require any alteration, replacement or addition of or to any Equipment, Borrower will conform therewith at its own expense; and

(p) shall not use the Equipment, or permit it to be used, for the transportation or storage of any substance which is categorized as, or required to be labeled as, "poison" or "poisonous", "explosive" or "radioactive" (or any categories or labels substituted for such categories or labels as in effect on the day hereof) under 49 CFR 171 or other applicable Federal rules in effect from time to time regulating the transportation of hazardous materials; and

(q) will cause the Equipment to be kept numbered with the identification numbers as shall be set forth in any amendment or supplement hereto. Borrower will not change the identification number of any unit of Equipment unless and until (i) a statement of new number or numbers to be substituted therefor shall have been filed with Secured Party and filed, recorded and deposited by Borrower in all public offices where this Loan and Security Agreement shall have been filed, recorded and deposited and (ii) Borrower shall have furnished Secured Party an opinion of counsel

in form and substance reasonably satisfactory to Secured Party to the effect that such statement has been so filed, recorded and deposited, such filing, recordation and deposit will protect Secured Party's interests in such Equipment and that no other filing, recording, deposit or giving of notice with or to any other Federal, State or local government or agency thereof is necessary to protect the interests of Secured Party in such Equipment; and

5. Default and Remedies

(a) The occurrence of any of the following events shall constitute a default by Borrower; (i) failure to pay when due any amounts payable under the Note, this Agreement or the Secured Obligations; (ii) failure of Borrower to comply with any provisions or perform any of the obligations arising under this Agreement, or under any other documents and agreements relating hereto after receipt of written notice of such failure; (iii) any representations or warranties made or given by Borrower in connection with this Agreement or any other document or agreement related hereto were false or untrue when made; (iv) subjection of the Collateral to levy or execution or any other judicial process which is not or cannot be removed within thirty (30) days from said subjection or levy, substantial damage to, destruction, theft, or encumbrance to or of any portion of the Collateral; (v) Borrower shall admit in writing its inability, or fail generally, to pay its debts as they become due, or the commencement of any insolvency, bankruptcy or similar proceeding by or against Borrower or any guarantor of the Secured Obligations under the provisions of the United States Bankruptcy Code or any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors, including any assignment by Borrower for the benefit of creditors which proceeding, if filed against Borrower, has not been dismissed within thirty (30) days; (vi) the liquidation or dissolution of Borrower or the commencement of any acts relative thereto, or, without the prior written consent of Secured Party, any sale or other disposition of all or substantially all of the assets of Borrower including any merger or consolidation of Borrower unless Borrower is the surviving corporation; (vii) any default by Borrower of its obligations to Secured Party under any loan, indenture, agreement or undertaking; (viii) any judgment, writ or warrant of attachment or of any similar process against Borrower or its property shall remain unpaid for a period of thirty (30) days after said judgment became final and unappealable or all appeals are exhausted; (ix) Borrower ceases to do business; or (x) Secured Party in the exercise of reasonable discretion deems itself unsecured for any reason whatsoever.

(b) Whenever an event of default shall exist, Secured Party may, at its option, without demand or notice (provided, however, that before exercising any of the remedies enumerated herein, Secured Party shall, in the event of a default under Section 5(a) (i), (ii) (vii) or (x), give Borrower a Notice of Default, and Borrower shall have five (5) business days after receipt of said Notice to correct the default), exercise any one or more of the following remedies: (i) declare all Secured Obligations immediately due and payable in full, without presentment or other notice or demand; (ii) secure peaceable repossession of the Collateral without judicial process or the removal of the same by Secured Party or its representative(s); (iii) require Borrower to assemble the Collateral and make it available to Secured Party at a place designated by Secured Party which is reasonably convenient to both parties; (iv) sell the Collateral at public or private sale, without advertisement or notice except that required by law, for the best price that Secured Party can obtain and upon such terms as Secured Party may deem advisable and be the purchaser at any such sale; (v) require Borrower to pay all expenses of such retaking, selling or the like, including Secured Party's reasonable attorneys' fees and legal expenses, incurred in the collection of any of the Secured Obligations and the enforcement of any of Secured Party's rights (including, but not limited to, efforts to seek relief from the automatic stay imposed by 11 U.S.C. sec. 362 or other litigation in bankruptcy proceedings); (vi) exercise any other right or remedy which may be available to it under the Uniform Commercial Code or any other applicable law, equity or agreement or proceed by appropriate court action to enforce the terms of this Agreement or to recover damages for the breach of this Agreement; (vii) offset any indebtedness Secured Party, its participants, successors or assigns then owes to Borrower, whether or not then due, against any Secured Obligation, whether or not then

due; or (viii) declare Secured Party's obligation to make the Loan under this Agreement to be terminated, whereupon said obligation shall immediately be terminated. Upon the occurrence of a default described in Section 5(a)(v), (vi) or (ix), all Secured Obligations shall be immediately due and payable without demand or notice thereof and Secured Party's obligation to make the Loan under this Agreement shall be terminated without demand or notice thereof. Borrower agrees that Secured Party's exercise of any remedy shall obligate Borrower, and Borrower agrees that it will take such action and pay such amounts as are required by Secured Party. Borrower shall be liable for any deficiency remaining after sale of the Collateral and application of the net proceeds to the Secured Obligations. If such proceeds exceed the amount due and owing Secured Party for such Secured Obligations, Secured Party agrees to pay over the surplus to Borrower. If any notification of intended disposition of any of the Collateral is required by law, such notification shall be deemed reasonably and properly given if mailed at least ten (10) days before such disposition, postage prepaid, addressed to Borrower at the address set forth below. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in selection of the bailee or other third person, and Secured Collateral or, in the case of Collateral in the custody or possession selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Borrower may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application.

(c) Borrower agrees to pay reasonable attorneys' fees whenever an attorney is used to collect on or enforce this Agreement or to enforce, defend, declare or adjudicate any of Secured Party's rights or interests hereunder or with respect to any Collateral, whether by suit, negotiation or otherwise and regardless of the forum excluding inquiries not involving Borrower's default or nonperformance, including, but not limited to, credit checks, auditors' letters, and inquiries from brokers, stock exchanges, and regulatory agencies.

(d) All rights and remedies of Secured Party pursuant to the provisions of this Agreement are cumulative, and may, to the extent permitted by law, be exercised concurrently or separately, and the exercise or partial exercise of any right or remedy shall not be deemed to be an election of such right or remedy or to preclude any other or further or future exercise of any other right or remedy. No failure on the part of Secured Party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof or of any similar or other right or remedy in the future.

6. Miscellaneous.

(a) This Agreement and all of the provisions hereof shall inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns; provided, however, that Borrower may not assign this Agreement or any provision thereof without the prior written consent of Secured Party.

(b) Notices, requests or other communications required under this Agreement to be sent to either party shall be in writing and shall be by mail, postage prepaid; provided, however, that any required notice of default as defined in Section 5(b) shall be by certified mail, return receipt requested. If not accepted then deemed given on third business day after deposit in mail. All notices will be addressed as follows:

If to Secured Party:

FBS Business Finance Corporation
First Bank Place, 601 Second Avenue South
Minneapolis, MN 55402
Attention: Deborah Eckert, MPFP0904

If to Borrower:

INDEPENDENT LOCOMOTIVE SERVICE, INC.
21 Main Street N.E.
Bethel, MN 55005
Attention: Frank Nesbit

(c) This Agreement may not be amended, modified, changed, discharged or waived in any respect except by an instrument in writing signed by the party against whom said amendment, modification, change, discharge or waiver is sought to be enforced.

(d) Notwithstanding a termination of this Agreement, all representations, warranties, covenants, agreements and obligations contained in this Agreement or made in writing by Borrower in connection herewith shall remain in full force and effect to the extent required for their full observance and performance.

(e) If any provision of this Agreement shall be invalid, illegal or unenforceable in any respect, then such provision shall be deemed null and void without invalidating the remaining provisions hereof.

(f) THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE SUBSTANTIVE LAWS (BUT NOT THE LAW OF CONFLICTS) OF THE STATE OF MINNESOTA.

(g) BORROWER AND SECURED PARTY EACH IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the 9th day of April, 1996.

BORROWER:

INDEPENDENT LOCOMOTIVE SERVICE, INC.

By: Frank W Nesbit
Its: pres

By: Audrey M Nesbit
Its: Treasurer

SECURED PARTY:

FBS BUSINESS FINANCE CORPORATION

By Deborah J. Eckert
Its: Assistant Vice President

By: _____
Its: _____

EXHIBIT A

PROMISSORY NOTE

$ _____ _____, 19 ____

FOR VALUE RECEIVED, the undersigned _____. a _____ corporation (the "Borrower") hereby promises to pay to the order of FBS Business Finance Corporation, Leasing Division, a Delaware corporation, (the "Secured Party"), at its main office at First Bank Place, 601 Second Avenue S., Minneapolis, Minnesota 55402 in lawful money of the United States of America, the principal sum of _____ DOLLARS ($ _____), together with interest on the unpaid principal balance from time to time outstanding (computed on the basis of a 30 day month and a year of 360 days), at the rate of _____% per annum.

The principal hereof and interest accrued hereon shall be paid together in _____, (____) equal consecutive monthly installments, each in the amount of _____ DOLLARS ($_____), with the first such installment payable _____, 19 ___, and thereafter on the same day of each succeeding month until _____, 19 ___, and a final installment of _____ DOLLARS ($_____), on _____, 19 ____, when the entire remaining balance hereof and all accrued and unpaid interest shall be paid in full. If any installment is more than ten (10) days late, Borrower agrees to pay a late charge of five percent (5%) of such payment but not in excess of the maximum late charge permitted by law. Each monthly installment shall be applied first to the accrued interest, then to principal and thereafter to any late charges or other costs then due.

This note is the Note referred to in the Loan and Security Agreement dated as of _____, 19 ___ by and between the Borrower and the Secured Party. The Borrower, the Secured Party and the holders hereof are entitled to all of the benefits provided for or referred to in the Loan and Security Agreement. The maturity of this Note is subject to acceleration upon the terms provided in said Loan and Security Agreement.

The undersigned hereby waives presentment, demand, protest, notice of dishonor and diligence in collecting, and agrees to pay all costs of collection, including reasonable attorneys' fees, in the event payment of this Promissory Note is not made in accordance with its terms.

THIS NOTE REPRESENTS A LOAN NEGOTIATED, EXECUTED AND TO BE PERFORMED IN THE STATE OF MINNESOTA AND SHALL BE CONSTRUED, INTERPRETED AND GOVERNED BY THE SUBSTANTIVE LAWS (BUT NOT THE LAW OF CONFLICTS) OF SAID STATE. THE BORROWER HEREBY CONSENTS TO THE PERSONAL JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OF MINNESOTA IN CONNECTION WITH ANY CONTROVERSY RELATED TO THIS NOTE, WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT AND AGREES THAT ANY LITIGATION INSTIGATED BY THE BORROWER AGAINST SECURED PARTY IN CONNECTION WITH THIS NOTE SHALL BE VENUED IN EITHER THE DISTRICT COURTS OF HENNEPIN COUNTY, MINNESOTA, OR THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MINNESOTA, FOURTH DIVISION.

BORROWER AND SECURED PARTY EACH IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

By: _____
Its: _____

By: _____
Its: _____

Exhibit B-1

EQUIPMENT DESCRIPTION

One (1) EMD General GP-9 1750 H.P. Unit No. 1363 (Formerly Unit No. 1828)
One (1) EMD General SW-7 1200 H.P. Unit No. 1373 (Formerly Unit No. 8858)

STATE OF MINNESOTA

COUNTY OF ANOKA

On this 9th day of APRIL, 1996, before me personally came FRANK W. NESBIT to me known, who, being by me duly sworn, did depose and say that he/she is the PRESIDENT of INDEPENDANT LOCOMOTIVE SERVICE, Inc MINNESOTA corporation, and he/she acknowledged to me that he/she executed the foregoing document on behalf of said corporation by order of its Board of Directors and that such document was the free act and deed of said corporation.

Witness my hand and official seal.

JOHN E. POST
NOTARY PUBLIC - MINNESOTA
ANOKA COUNTY
My Commission Expires Jan. 31, 2000

John E. Post
Notary Public in and for said State

My commission expires:
JANUARY 31, 2000

STATE OF MINNESOTA

COUNTY OF ANOKA

On this 9th day of APRIL, 1996, before me personally came AUDREY Y. NESBIT to me known, who, being by me duly sworn, did depose and say that he/she is the TREASURER of INDEPENDENT LOCOMOTIVE SERVICE, Inc MINNESOTA corporation, and he/she acknowledged to me that he/she executed the foregoing document on behalf of said corporation by order of its Board of Directors and that such document was the free act and deed of said corporation.

Witness my hand and official seal.

JOHN E. POST
NOTARY PUBLIC - MINNESOTA
ANOKA COUNTY
My Commission Expires Jan. 31, 2000

John E. Post
Notary Public in and for said State

My commission expires:
JANUARY 31, 2000

STATE OF Minnesota

COUNTY OF Hennepin

On this 9th day of April, 1996, before me personally came Deborah J. Eckert to me known, who, being by me duly sworn, did depose and say that he/she is the Assistant Vice President of FBS Business Finance Corporation, a Delaware corporation, and he/she acknowledged to me that he/she executed the foregoing document on behalf of said corporation by order of its Board of Directors and that such document was the free act and deed of said corporation.

Witness my hand and official seal.

Notary Public in and for said State

My commission expires:

JACQUELINE P. BARRAGAN
NOTARY PUBLIC MINNESOTA
MY COMMISSION EXPIRES
JANUARY 31, 2000