

VEDDER PRICE

VEDDER, PRICE, KAUFMAN & KAMMHOLZ
222 NORTH LASALLE STREET
CHICAGO, ILLINOIS 60601-1003
312-609-7500
FACSIMILE 312-609-5005

KRISTEN KELLEY
LEGAL ASSISTANT
312-609-7674

20174
RECORDATION NO. _____ FILED _____
JUL 9 1996 10 22 AM
INTERSTATE COMMERCE COMMISSION

A PARTNERSHIP INCLUDING VEDDER, PRICE, KAUFMAN & KAMMHOLZ, P.C.
WITH OFFICES IN CHICAGO AND NEW YORK CITY

July 8, 1996

VIA FEDERAL EXPRESS

Surface Transportation Board
Room 2303
12th Street & Constitution Ave., N.W.
Washington, DC 20423

ATTN: Mr. Vernon A. Williams

Dear Mr. Williams:

Enclosed for recording with the Board pursuant to Section 11303 of Title 49 of the U.S. Code is an original fully executed and notarized document as described below.

This document is a Security Agreement, a primary document, dated as of June 26, 1996, between Rail Logistics Services, Inc., as the debtor (the "Debtor"), and LaSalle National Bank, as the secured party (the "Secured Party"), covering all of the Debtor's rolling stock. A description of the rolling stock is contained in Section 4(a) of the Security Agreement.

The names and addresses of the parties to the Security Agreement are as follows: the Debtor is Rail Logistics Services, Inc., whose principal place of business is located at 280 Park Avenue, 28th Floor, East Building New York, NY 10017; the Secured Party is LaSalle National Bank whose principal place of business is located at 120 South LaSalle Street, Chicago, Illinois 60603.

Included in the property covered by the aforesaid Security Agreement are all railroad cars, locomotives and other rolling stock intended for use related to interstate commerce, or interests therein, owned by the Debtor at the date of said Security Agreement or thereafter.

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

"A Security Agreement, dated as of June 26, 1996, between Rail Logistics Services, Inc., as the debtor, and LaSalle National Bank, as the secured party, covering all of the debtor's rolling stock now owned or

RECEIVED
SURFACE TRANSPORTATION
BOARD
JUL 9 9 37 AM '96

VEDDERPRICE

Surface Transportation Board
Attention: Mr. Vernon A. Williams
July 8, 1996
Page 2

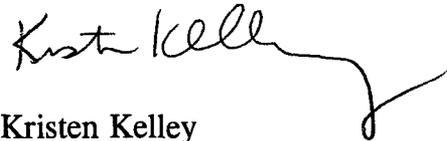
hereafter acquired. A description of the rolling stock is contained in Section 4(a) of the Security Agreement."

Also enclosed is a check in the amount of \$ 21.00 payable to the Surface Transportation Board, to cover the recording fee prescribed by the Board in its rules and regulations.

Please acknowledge receipt of the enclosed documents by stamping and returning to me the enclosed copy of this letter together with the Security Agreement as filed.

If you have any questions with respect to the enclosed documents, please call me collect.

Sincerely,

A handwritten signature in cursive script that reads "Kristen Kelley". The signature is written in black ink and extends to the right with a long, sweeping tail.

Kristen Kelley

KK/vlk
Enclosures

SURFACE TRANSPORTATION BOARD

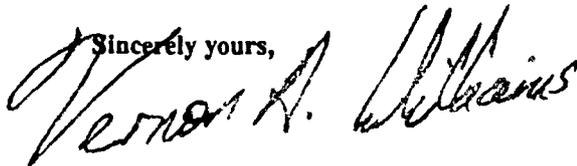
7/9/96

Kristen Kelley
Vedder Price
Vedder, Price, Kaufman & Kammholz
222 North LaSalle Street
Chicago, Illinois 60601-1003

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 7/9/96 at 9:40AM, and assigned recordation number(s) 20174.

Sincerely yours,

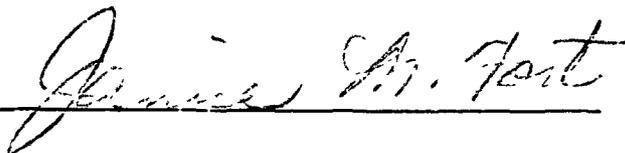


Vernon A. Williams
Secretary

Enclosure(s)

\$ 21.00 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



COPY

20174

July 3 1996 10:49 AM

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement"), dated as of June 26, 1996, between RAIL LOGISTICS SERVICES, INC., a California corporation having its principal place of business at 280 Park Avenue, 28th Floor, East Building, New York, NY 10017 ("Borrower") and LASALLE NATIONAL BANK, a national banking association with its principal place of business at 120 South LaSalle Street, Chicago, Illinois 60603 ("Bank"). Capitalized terms used but not defined herein shall have the meanings assigned to them in that certain Promissory Note dated as of June 26, 1996 executed by Borrower for the benefit of Bank (said Promissory Note as the same may be amended from time to time, the "Loan Agreement").

1. GRANT OF SECURITY INTEREST, ETC. Borrower hereby grants, pledges and assigns to Bank a continuing security interest in and lien on all Rolling Stock (as such term is defined in Paragraph 4(a) hereof), all proceeds and products thereof, including without limitation all rights of Borrower under all leases, assignments and similar arrangements regarding such Rolling Stock and all books and records related to the foregoing (all such properties, assets and rights hereinafter sometimes called, collectively, the "Collateral").

2. OBLIGATIONS SECURED. The Collateral hereunder constitutes and will constitute continuing security for all the obligations and liabilities ("Obligations") of Borrower to Bank (and any permitted assign or successor thereto).

3. APPLICATION OF PROCEEDS OF COLLATERAL. All amounts owing with respect to the Obligations shall be secured by the Collateral without distinction as to whether some Obligations are then due and payable and other Obligations are not then due and payable. Upon any realization upon the Collateral by Bank, whether by receipt of insurance proceeds pursuant to Paragraph 4(e) or upon foreclosure and sale of all or part of the Collateral pursuant to Paragraph 6 or otherwise, Borrower and Bank agree that, except as otherwise specifically provided in the Loan Agreement, the proceeds thereof shall be applied (i) first, to the payment of expenses incurred with respect to maintenance and protection of the Collateral pursuant to Paragraph 4 and of expenses incurred pursuant to Paragraph 10 with respect to the sale of or realization upon, any of the Collateral or the perfection, enforcement or protection of the rights of Bank (including reasonable attorney's fees and expenses of every kind); (ii) second, to all amounts of interest, expenses and fees outstanding which constitute Obligations; (iii) third, to all amounts of principal outstanding under the Obligations; (iv) fourth, any excess, after payment in full of all of the Obligations, shall be returned to Borrower or to any other party as required by applicable law. Proceeds applied to the payment of the Obligations shall be applied first to interest, expenses and fees due with respect to the Obligations and then to the principal amounts of the Obligations. Borrower and Bank agree that all amounts received with respect to any of the Obligations, whether by realization on the Collateral or otherwise, shall be applied to the payment of the Obligations in accordance with the provisions of this Paragraph.

4. REPRESENTATIONS AND COVENANTS OF BORROWER.

(a) Rolling Stock. Borrower represents to Bank that the Rolling Stock (as defined in this Paragraph) listed on Schedule A hereto constitutes all of the Rolling Stock that Borrower owns or leases. Borrower agrees not to change any markings or serial numbers on any of the Rolling Stock listed on Schedule A until after it has given notice in writing to Bank of its intention to make such change. Borrower agrees to notify Bank of any other Rolling Stock that Borrower may hereafter acquire or lease. Borrower agrees that it will execute and deliver to Bank supplemental security agreements and other instruments, as referred to in Paragraph 4(g), (i) with respect to the Rolling Stock listed on Schedule A hereto, (ii) at such times as any assignable right, title or interest is acquired in the future by Borrower in any other Rolling Stock and (iii) 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 on Schedule A hereto or on any other Rolling Stock owned or leased by Borrower. 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 Bank as evidenced by its written consent thereto. The term "Rolling Stock" as used herein means those certain locomotives listed on Schedule A attached hereto.

(b) Location of Principal Place of Business, etc. Borrower represents to Bank that the location of its principal place of business and the location where the books and records of Borrower are kept is 280 Park Avenue, 28th Floor, East Building, New York, NY 10017. Borrower agrees that it will not change the location of its principal place of business or the location where its books and records are kept without 30 days' prior written notice to Bank and will promptly advise Bank as to any change in the location of any property comprising a material part of the Collateral, except for changes in the location of Rolling Stock in the ordinary course of business.

(c) Ownership of Collateral

(i) Borrower represents that it is the owner of the Collateral free from any adverse lien, security interest or encumbrance.

(ii) Borrower shall be the owner of the Collateral free of any lien, security interest or encumbrance and Borrower shall defend the same against all claims and demands of all persons at any time claiming the same or any interest therein adverse to Bank. Borrower shall not pledge, mortgage or create or suffer to assist a security interest in the Collateral in favor of any person other than Bank.

(d) Sale or Disposition of Collateral. Borrower will not sell or offer to sell or otherwise transfer the Collateral or any interest therein unless all the proceeds from any such sale or transfer (after deducting reasonable costs of sale) are delivered Bank for application to the Obligations.

security interest in collateral pursuant to the Interstate Commerce Act of 1887, as amended.

(b) Furthermore, without limiting the generality of any of the rights and remedies conferred upon Bank under Paragraph 6(a) hereof, Bank may, to the fullest extent permitted by law, enter upon the premises of Borrower, exclude Borrower therefrom and take immediate possession of the Collateral, either personally or by means of a receiver appointed by a court therefor, using all necessary force to do so, and may, at its option, use, operate, manage and control the Collateral in any lawful manner and may collect and receive all rents, income, revenue, earnings, issues and profits therefrom, and may maintain, repair, renovate, alter or remove the Collateral as Bank may determine in its discretion, and any such monies so collected or received by Bank shall be applied to, or may be accumulated for application upon, the Obligations in accordance with Paragraph 3 of this Agreement.

7. **MARSHALLING.** Bank shall not be required to marshal any present or future security for (including but not limited to this Agreement and the Collateral subject to the security interest created hereby), or guaranties of, the Obligations or any of them, or to resort to such security or guaranties in any particular order; and all of Bank's rights hereunder and in respect of such securities and guaranties shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, Borrower 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 Bank's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or guaranteed, and to the extent that it lawfully may, Borrower hereby irrevocably waives the benefits of all such laws.

8. **BORROWER'S OBLIGATIONS NOT AFFECTED.** To the extent permitted by law, the obligations of Borrower under this Agreement shall remain in full force and effect without regard to, and shall not be impaired by (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of Borrower, to the extent permitted by law; (b) any exercise or nonexercise, or any waiver, by Bank of any right, remedy, power or privilege under or in respect of any of the Obligations or any security therefor (including this Agreement); (c) any amendment to or modification of this Agreement or any instrument evidencing any of the Obligations or pursuant to which any of them were issued (except to the extent so amended); (d) any amendment to or modification of any instrument or agreement (other than this Agreement) securing any of the Obligations; or (e) the taking of additional security for or any guaranty of any of the Obligations or the release or discharge or termination of any security or guaranty for any of the Obligations; and whether or not Borrower shall have notice or knowledge of any of the foregoing.

9. **NO WAIVER.** No failure on the part of Bank to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Bank of any right, remedy or power hereunder preclude any other

or future exercise of any other right, remedy or power. Each and every right, remedy and power hereby granted to Bank or allowed to it by law or other agreement, including, without limitation, the Loan Agreement, the Notes, and the Other Agreements, shall be cumulative and not exclusive of any other, and, subject to the provisions of this Agreement, may be exercised by Bank (or any permitted assign or successor thereto).

10. EXPENSES. Borrower agrees to pay, in accordance with the provisions of the Loan Agreement, all reasonable costs and expenses (including reasonable attorneys' fees and expenses for legal services of every kind) of Bank incidental to the sale of, or realization upon, any of the Collateral or in any way relating to the perfection, enforcement or protection of the rights of Bank hereunder; and Bank may at any time apply to the payment of all such costs and expenses all monies of Borrower or other proceeds arising from its possession or disposition of all or any portion of the Collateral.

11. CONSENTS, AMENDMENTS, WAIVERS, ETC. Any term of this Agreement may be amended, and the performance or observance by Borrower of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument signed by Borrower and Bank.

12. GOVERNING LAW. Except as otherwise required by the laws of any jurisdiction in which any Collateral is located, this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

13. PARTIES IN INTEREST. All terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto including without limitation, any institutional lender who becomes a participant in any of the Obligations, by amendment to the Loan Agreement or otherwise, provided that Borrower may not assign or transfer its rights hereunder without the prior written consent of Bank and Bank may not assign or transfer its rights hereunder unless the assignee confirms in writing its agreement to be bound by the provisions of this Agreement.

14. COUNTERPARTS. This Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

15. TERMINATION. Upon payment in full of the Obligations in accordance with their terms, this Agreement shall terminate and Borrower shall be entitled to the prompt return, at Borrower's expense, of such Collateral in the possession or control of Bank as has not theretofore been disposed of pursuant to the provisions hereof. Bank shall use reasonable care in the care and custody of any Collateral within its possession.

16. **NOTICE**. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by another, or whenever any of the parties desire to give or serve upon another any communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing, shall be delivered in person (by personal delivery, delivery service or overnight courier service) with receipt acknowledged, or telecopied with receipt acknowledged, or sent by certified mail, return receipt requested, postage prepaid, addressed as hereafter set forth, or mailed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows and in each case with a copy addressed as follows:

(A) If to Bank: LaSalle National Bank
120 South LaSalle Street
Chicago, Illinois 60603
Attention: Kent A. Hammerstrom
Telecopier No.: (312) 606-8423

With a copy to: Vedder, Price, Kaufman & Kammholz
222 North LaSalle Street
Suite 2600
Chicago, Illinois 60601
Attention: John T. McEnroe
Telecopier No.: (312) 609-5005

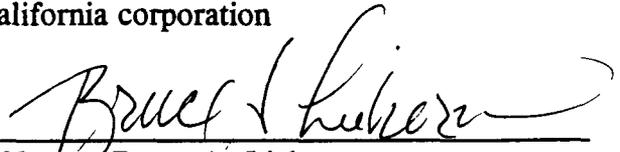
(B) If to Borrower: Rail Logistics Services, Inc.
c/o Anacostia & Pacific Company, Inc.
280 Park Avenue
28th Floor
East Building
New York, NY 10017
Attention: Bruce A. Lieberman
Telecopier No.: (212) 687-9501

With a copy to: Weiner, Brodsky, Sidman & Kider
1350 New York Avenue N.W.
Suite 800
Washington, D.C. 20005
Attention: Mark H. Sidman
Telecopier No.: (202) 628-2011

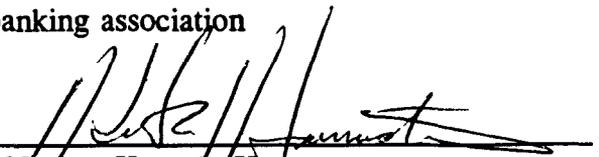
17. **CONFLICT OF TERMS**. Except as otherwise provided in this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in the Loan Agreement, the provision in the Loan Agreement shall govern and control to the extent of such conflict or inconsistency, unless the provision of the Loan Agreement is unenforceable.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as an instrument under seal by their authorized representatives as of the date first written above.

RAIL LOGISTICS SERVICES, INC.,
a California corporation

By: 
Name: Bruce A. Lieberman
Title: Treasurer

LASALLE NATIONAL BANK, a national
banking association

By: 
Name: Kent A. Hammerstrom
Title: First Vice-President

Schedule A - Rolling Stock

PHL Unit 9378
PHL Unit 9381
PHL Unit 9363
PHL Unit 9358
PHL Unit 9326
PHL Unit 9319