

REGISTRATION NO 17219 FILED FEB 11 1991

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FEB 11 1991 9:10 AM

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INTERSTATE COMMERCE COMMISSION

INTERSTATE COMMERCE COMMISSION

ITEL

February 11, 1991

Itel Rail Corporation

550 California Street
San Francisco, CA 94104 1-042A001
(415) 984-4200

Hon. Sidney L. Strickland, Jr., Esq.
Secretary
Interstate Commerce Commission
Washington, DC 20423

\$30.00 Filing Fee

*NEW NUMBER
+
- A*

Re: (1) Chattel Mortgage and Security Agreement Dated
As of January 30, 1991 Between Itel Rail Corporation,
as Debtor, and NMB Lease NV, as Secured Party (the
"Security Agreement"); and
(2) Supplement No. 1 to the Security Agreement
("Supplement No. 1")

Dear Mr. Strickland:

On behalf of Itel Rail Corporation, the above instruments, in four (4) counterparts each, are hereby submitted for filing and recording pursuant to 49 U.S.C. Section 11303(a), along with the \$30 recordation fee.

Please record the Security Agreement under a new recordation number and Supplement No. 1 under the recordation number assigned to the Security Agreement and the letter designation -A.

The parties to the aforementioned instruments are listed below:

Itel Rail Corporation (Debtor)
550 California Street
San Francisco, California 94104

NMB Lease NV (Secured Party)
Gebouw Nieuw Amsterdam
Hoekenrode 8
1102 Amsterdam Zuidoost
The Netherlands

FEB 11 9 09 AM '91
MOTOR OPERATED UNIT

The Security Agreement creates a security interest in favor of the Secured Party in the railcar equipment listed on Schedule 1 to Supplement No. 1.

Please return to the undersigned the stamped counterparts not required for filing purposes, together with the ICC fee receipt and acknowledgment letter.

Very truly yours,

Howard S. Chabner
Howard L. Chabner
Assistant General Counsel

Case 11-1991-0001 - A/K/K

Interstate Commerce Commission
Washington, D.C. 20423

2/11/91

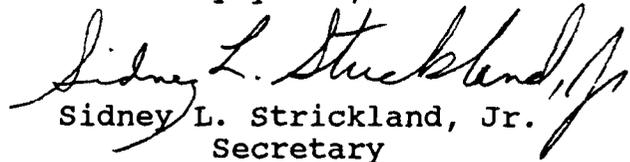
OFFICE OF THE SECRETARY

Howard L. Chabner
Assistant General Counsel
Itel Rail Corporation
550 California Street
San Francisco, California 94104

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 2/11/91 at 9:10am, and assigned recordation number(s) 17219 & 17219-A

Sincerely yours,


Sidney L. Strickland, Jr.
Secretary

NEW NUMBER

17219
RECORDATION NO. FILED 1991

FEB 11 1991 - 9 42 AM
INTERSTATE COMMERCE COMMISSION

CHATTEL MORTGAGE AND SECURITY AGREEMENT

Dated as of January 30, 1991

Between

ITEL RAIL CORPORATION,
as Debtor

and

NMB LEASE NV,
as Original Note Purchaser and as Secured Party

TABLE OF CONTENTS

(Not a part of the Agreement)

<u>Section</u>	<u>Heading</u>	<u>Page</u>
	RECITALS	1
SECTION 1.	GRANT OF SECURITY	1
1.1.	Equipment Collateral	2
1.2.	Lease Collateral.....	2
1.3.	Duration of Security Interest	4
SECTION 2.	EXECUTION, PAYMENT, REGISTRATION, ETC. OF SECURED NOTES	4
2.1.	Execution of Secured Notes; Principal Amount .	4
2.2.	Payment of Secured Notes	4
2.3.	Registered Secured Notes; the Register	4
2.4.	Transfers and Exchanges of Secured Notes	5
2.5.	The New Secured Notes	6
2.6.	Cancellation of Secured Notes	7
2.7.	Ownership	7
2.8.	Withholding	8
SECTION 3.	COVENANTS AND WARRANTIES OF THE DEBTOR	9
3.1.	Debtor's Duties	9
3.2.	Warranty	9
3.3.	Leases	10
3.4.	After-Acquired Property	10
3.5.	Recordation and Filing	11
3.6.	Duty to Number and Mark Equipment	11
3.7.	Rules, Laws and Regulations	11
3.8.	Maintenance of Equipment	12
3.9.	Insurance Requirement	13
3.10.	Inspection Rights	14
3.11.	Debtor's Use of Equipment	14
3.12.	Transfers by Debtor	15
3.13.	Merger, Consolidation of Sale of Assets	15
3.14.	Lease	17
3.15.	Power of Attorney	17
3.16.	Maintenance of Existence	18

<u>Section</u>	<u>Heading</u>	<u>Page</u>
3.17.	Chief Executive Office; Corporate Name Records	18
3.18.	Financial and Other Reports	18
3.19.	Inspection; Books and Records	20
3.20.	Financial Covenants	20
3.21.	Stamp Tax	21
SECTION 4.	POSSESSION, USE AND RELEASE OF PROPERTY	21
4.1.	Possession of Collateral	21
4.2.	Release of Property and Liens	21
4.3.	Condemnation	22
4.4.	Release of Collateral - Consent of Secured Party	22
4.5.	Protection of Purchaser	23
4.6.	Insurance Proceeds and Condemnation Payments.	23
SECTION 5.	EVENT OF LOSS	24
SECTION 6.	PREPAYMENT OF SECURED NOTES	25
6.1.	Prepayments	25
6.2.	Mandatory Prepayments	25
6.3.	Reset Prepayment	26
6.4.	Voluntary Prepayments	26
6.5.	Tax-Related Prepayment	26
6.6.	Notice of Prepayment; Partial Prepayments ...	27
6.7.	Payment of Swap Breakage Gain	27
6.8.	Other Payments	28
SECTION 7.	DEFAULTS AND OTHER PROVISIONS	29
7.1.	Events of Default	29
7.2.	Secured Party's Rights	31
7.3.	Acceleration Clause	33
7.4.	Waiver by Debtor	34
7.5.	Effect of Sale	34
7.6.	Application of Proceeds	35
7.7.	Discontinuance of Remedies	35
7.8.	Cumulative Remedies	36
7.9.	Indemnity	36

<u>Section</u>	<u>Heading</u>	<u>Page</u>
SECTION 8.	MISCELLANEOUS	37
8.1.	Successors and Assigns	37
8.2.	Severability	37
8.3.	Communications	38
8.4.	Release	39
8.5.	Business Day	39
8.6.	Governing Law	39
8.7.	Counterparts	39
8.8.	Headings	39
Signature Page	40

ATTACHMENTS TO SECURITY AGREEMENT

- Exhibit A - Form of Secured Note
- Exhibit B - Form of Supplement
- Exhibit C - Form of Lease Legend, Subordination
and Assignment Provisions
- Annex I - Definitions

CHATTEL MORTGAGE AND SECURITY AGREEMENT

THIS CHATTEL MORTGAGE AND SECURITY AGREEMENT dated as of January 30, 1991 (the "Security Agreement") is between ITEL RAIL CORPORATION, a Delaware corporation (the "Debtor"), and NMB LEASE NV, a company organized under the laws of The Netherlands, individually (in such capacity, the "Note Purchaser") and as agent for the Note Purchasers (as defined below) (in such capacity, the "Secured Party").

R E C I T A L S:

A. The capitalized terms used in this Security Agreement shall have the meanings specified in Annex I hereto unless otherwise herein defined or the context hereof shall otherwise require.

B. The Debtor and the Secured Party have entered into a Note Purchase Agreement providing for the commitment of the Secured Party to purchase on the Closing Date, Secured Notes of the Debtor in an aggregate principal amount not to exceed _____ The Secured Notes are to be dated the date of issue, to bear interest from such date to maturity at the Coupon Rate payable quarterly in arrears on the months and dates in each year which are the month of the Closing Date and the third, sixth and ninth months thereafter and the date which corresponds to the Closing Date to and including the Maturity Date, the principal portion thereof to be payable in accordance with the amortization schedule attached thereto. The Secured Notes are to be otherwise substantially in the form attached hereto as Exhibit A.

C. It is a condition to the obligation of the Secured Party under the Note Purchase Agreement to purchase the Secured Notes that the parties shall have entered into this Security Agreement.

D. All of the requirements of law relating to the transaction contemplated hereby have been fully complied with and all other acts and things necessary to make this Security Agreement a valid, binding and legal instrument for the security of the Secured Notes have been done and performed.

SECTION 1. GRANT OF SECURITY.

The Debtor, in consideration of the premises and other good and valuable consideration, receipt whereof is hereby acknowledged, and in order to secure the payment of all Secured

Indebtedness and the performance and observance of all of the Debtor's covenants contained in the Secured Notes and in this Security Agreement and in the Note Purchase Agreement, does, subject to the terms and provisions hereof, hereby convey, warrant, mortgage, assign, pledge and grant unto the Secured Party, its successors and assigns, a security interest in all and singular of the Debtor's right, title and interest in and to the properties, rights, interests and privileges described in Sections 1.1 and 1.2 hereof (all of which properties being hereby mortgaged, assigned and pledged or intended so to be are hereinafter collectively referred to as the "Collateral"); provided, however, that any payments or amounts which have been distributed to the Debtor by the Secured Party in accordance with the provisions of this Security Agreement, and to which the Debtor is entitled hereunder, shall not be subject to the security interest of this Security Agreement.

1.1. Equipment Collateral. Collateral includes (i) the Equipment described in Schedule 1 to the Supplement, the form of which is attached hereto as Exhibit B and made a part hereof (the "Supplement"); together with (i) all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment hereinabove described, whether now owned or hereafter acquired, (ii) all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment, (iii) all of the rents, issues, profits, revenues and other income of the Equipment, and (iv) all proceeds, including, but not limited to, all insurance proceeds related thereto.

1.2. Lease Collateral.

(a) Subject to Section 1.2(c) hereof, Collateral also includes all right, title and interest of the Debtor in and to each and every lease agreement currently in effect or hereafter entered into by the Debtor as lessor relating to the Equipment which does not constitute a Nonassigned Lease, insofar as such lease agreement and such rights relate to the Equipment (the "Assigned Leases"), including but not limited to:

(i) all payments due and to become due under any Assigned Lease whether as contractual obligations, damages or otherwise;

(ii) all of its claims, rights, powers, or privileges and remedies under any Assigned Lease only to the extent permitted by a lessee under any Assigned Lease;

(iii) all of its rights under any Assigned Lease to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval together with full power and authority with respect to any Assigned Lease to demand, receive, enforce, collect or give receipt for any of the foregoing rights or any property the subject of any of the Assigned Leases, to enforce or execute any checks, or other instruments or orders, to file any claims and to take any action which (in the opinion of the Secured Party) may be necessary or advisable in connection with any of the foregoing insofar, but only insofar, as such rights relate to the Equipment which is subject to such Assigned Leases, together with all extensions, renewals and replacements of such Assigned Leases (which extensions, renewals or replacements do not constitute Nonassigned Leases), whether now owned or hereafter acquired, and all income, profits and avails therefrom, all rights thereunder and all proceeds thereof.

(b) Subject to Section 1.2(c) hereof, Collateral also includes (i) all right, title and interest of the Debtor to all rent or lease payments due or to become due with respect to Equipment under each lease agreement currently in effect or hereafter entered into relating to the Equipment which (i) contains subordination language substantially in the form included in Exhibit C attached hereto, and (ii) has a term of not more than one (1) year or relates to not more than twenty (20) Units, insofar as such rights and payments relate to the Equipment (the "Nonassigned Leases"), (each such right, title or interest with respect thereto being a "Nonassigned Lease Payment Right").

(c) Notwithstanding anything contained in this Security Agreement:

(i) until the occurrence and continuance of an Event of Default, the Debtor may exercise all of the Debtor's rights, powers, privileges and remedies under the Assigned Leases and Nonassigned Leases including, without limitation, the right to receive any and all monies due or to become due under the Assigned Leases and Nonassigned Leases; and

(ii) the Debtor shall be entitled to retain possession of the signed copies of the Assigned Leases and Nonassigned Leases.

1.3. Duration of Security Interest.

The security interest of the Secured Party in any Collateral is granted upon the express condition that if the Debtor shall pay or cause to be paid all the Secured Indebtedness then these presents and the estate hereby granted and conveyed shall cease and this Security Agreement shall become null and void, and in such event the Secured Party shall (upon the request of the Debtor and at no cost to the Secured Party) execute and deliver to the Debtor such instrument or instruments as may be necessary or appropriate in order to make clear upon the public records the title of the Debtor in and to the Collateral.

SECTION 2. EXECUTION, PAYMENT, REGISTRATION, ETC. OF SECURED NOTES.

2.1. Execution of Secured Notes; Principal Amount.

(a) The Secured Notes shall be signed on behalf of the Debtor by any Person who, at the date of the actual execution of such Secured Note, shall be a proper officer of the Debtor.

(b) The aggregate principal amount of the Secured Notes to be issued hereunder shall not exceed except as provided in Section 2.4 hereof.

2.2. Payment of Secured Notes.

The principal of, and interest on the Secured Notes, and LIBOR Break Funding Costs and Swap Breakage Loss, if any, shall be payable prior to 12:00 p.m. San Francisco, California time on the date due at the principal office of the Debtor, in lawful money of the United States of America. Payment of principal and interest on the Secured Notes shall be made as provided in Sections 5.10 and 5.15 of the Note Purchase Agreement. Any payment or prepayment of amounts due on the Secured Notes in accordance with the terms thereof and hereof which is due on a date which is not a Business Day shall be payable on the immediately succeeding Business Day unless such Business Day falls in the next calendar month in which case payment shall be made on the immediately preceding Business Day.

2.3. Registered Secured Notes; the Book-Entry System. The Secured Notes shall be issuable as fully registered Secured Notes in the form attached hereto as Exhibit A. The Debtor shall cause to be kept at its principal office a register for the registration of Secured Notes (herein called the "Book-Entry System"). The names and addresses of the

holders of the Secured Notes shall be registered in the Book-Entry System. The right to receive payment of the principal of and interest on the Secured Notes may be transferred only through the Book-Entry System. The Debtor shall make payments under the Secured Notes to the Secured Party only for the account of the Persons that are identified as the owners of the Secured Notes in the Book-Entry System.

2.4. Transfers and Exchanges of Secured Notes; Lost or Mutilated Secured Notes.

(a) Subject to Section 5.12 of the Note Purchase Agreement, the registered owner of any Secured Note may transfer a Secured Note upon the surrender thereof to the Debtor at its principal office, or upon notice to the Debtor as provided in Section 6.2 of the Note Purchase Agreement, in each case with such transfer to be reflected on and effected by an entry of such transfer on the Book-Entry System. If such registered owner has surrendered its Secured Note to the Debtor, thereupon the Debtor shall execute in favor of the transferee a new Secured Note or Secured Notes in an aggregate principal amount equal to the original principal amount of the Secured Note so surrendered, and the Debtor shall deliver such new Secured Note or Secured Notes to such transferee; provided, however, that except as otherwise agreed by the Debtor, no such new Secured Note is required to be delivered to any holder in violation of the provisions of Section 5.12 of the Note Purchase Agreement.

(b) All Secured Notes presented or surrendered for transfer shall be accompanied (if so required by the Debtor) by a written instrument or instruments of assignment or transfer, in form satisfactory to the Debtor, duly executed by the holder or by its attorney duly authorized in writing. The Debtor shall not be required to make a transfer or an exchange of any Secured Note for a period of ten (10) days preceding any Interest Payment Date with respect thereto.

(c) No notarial seal shall be necessary for the transfer or exchange of any Secured Note pursuant to this Section 2.4, and, subject to Section 5 of the Note Purchase Agreement, the registered owner of any Secured Note issued as provided in this Section 2.4 shall be entitled to any and all rights and privileges granted under this Security Agreement to a registered owner of a Secured Note.

(d) In case any Secured Note shall become mutilated or be destroyed, lost or stolen, the Debtor, upon the written request of the registered owner thereof, shall execute and deliver a new Secured Note in exchange and substitution for the

mutilated Secured Note, or in lieu of and in substitution for the Secured Note so destroyed, lost or stolen. In making such request, the applicant for a substitute Secured Note shall furnish to the Debtor such security or indemnity as may be required by the Debtor to save it harmless from any loss, resulting from the authentication and delivery of the substitute Secured Note; however remote, including claims for principal of and premium, if any, and interest on the purportedly lost, stolen or destroyed Secured Note, and the applicant shall also furnish to the Debtor evidence to its satisfaction of the mutilation, destruction, loss or theft of the applicant's Secured Note and of the ownership thereof. In case any Secured Note which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Debtor may, instead of issuing a substitute Secured Note, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Secured Note) if the applicant for such payment shall furnish to the Debtor and to the Agent such security or indemnity as they may require to save them harmless, and shall provide evidence to the satisfaction of the Debtor and the Agent of the mutilation, destruction, loss or theft of such Secured Note and the ownership thereof. If an institutional investor or its nominee is the registered owner of any mutilated, destroyed, lost or stolen Secured Note, then the affidavit of its Secretary or Assistant Secretary in form reasonably satisfactory to the Debtor and the Agent setting forth the fact of destruction, loss or theft and its ownership of the Secured Note at the time of such mutilation, destruction, loss or theft shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a condition to execution and delivery of a new Secured Note other than the written agreement of such owner, in form reasonably satisfactory to the Debtor and the Agent to indemnify the Debtor and the Agent from all risks resulting from the authentication and delivery of the substitute Secured Note.

2.5. The New Secured Notes.

(a) Each new Secured Note (herein, in this Section 2.5, called a "New Secured Note") issued pursuant to Sections 2.4(a) or (d) hereof in exchange for or in substitution or in lieu of an outstanding Secured Note (herein, in this Section 2.5, called an "Old Secured Note") shall be dated the date of such Old Secured Note. The Debtor shall mark on each New Secured Note (i) the date to which principal and interest have been paid on such Old Secured Note, and (ii) all payments and prepayments of principal previously made on such Old Secured Note which are allocable to such New Secured Note. Interest shall be deemed to have been paid on such New Secured

Note to the date on which interest shall have been paid on such Old Secured Note, and all payments and prepayments of principal marked on such New Secured Note, as provided in clause (ii) above, shall be deemed to have been made thereon.

(b) Upon the issuance of a New Secured Note pursuant to Sections 2.4(a) or (d) hereof, the Debtor may require from the registered owner the payment of a sum to reimburse it for, or to provide it with funds for, the payment of any tax or other governmental charge or any other charges and expenses connected therewith which are paid or payable by the Debtor and the registered owner shall, promptly upon request by the Debtor, so reimburse the Debtor.

(c) All New Secured Notes issued pursuant to Sections 2.4(a) or (d) hereof in exchange for or in substitution or in lieu of Old Secured Notes shall be valid obligations of the Debtor evidencing the same debt as the Old Secured Notes and shall be entitled to the benefits and security of this Security Agreement to the same extent as the Old Secured Notes.

(d) Upon the issuance of any Secured Note pursuant to Sections 2.4(a) or (d) hereof, the Agent shall deliver to the registered owner thereof an amortization schedule with respect to such Secured Note setting forth the amount of the scheduled principal to be paid on such Secured Note after the date of issuance thereof and the unpaid principal balance of such Secured Note after each such payment.

2.6. Cancellation of Secured Notes. All Secured Notes surrendered for the purpose of payment, redemption, transfer or exchange shall be delivered to the Debtor for cancellation or, if surrendered to the Debtor, shall be cancelled by it, and no Secured Notes shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Security Agreement.

2.7. Ownership. The Person in whose name any Secured Note shall be registered in the Book-Entry System shall be deemed and treated as the owner thereof for all purposes of the Operative Agreements and neither the Debtor nor the Agent shall be affected by any notice to the contrary. For the purpose of any request, direction or consent hereunder, the Debtor may deem and treat the registered owner of any Secured Note as the owner and holder thereof without production of such Secured Note.

"Reset Date" shall mean the First Reset Date and the numerically corresponding date in each third month thereafter until but not including the Maturity Date.

"Secured Indebtedness" shall mean the outstanding Secured Notes and all principal thereof and interest thereon and LIBOR Break Funding Costs, Swap Breakage Loss and Additional Amounts, if any, and all other sums at any time due and owing from or required to be paid by the Borrower under the terms of the Note Purchase Agreement, the outstanding Secured Notes or the Security Agreement.

"Secured Notes" shall mean the Secured Notes due on the Maturity Date of the Borrower, bearing interest at the Coupon Rate, substantially in the form of Exhibit A to the Security Agreement.

"Secured Party" shall mean the Agent.

"Security" shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

"Security Agreement" shall mean the Chattel Mortgage and Security Agreement dated as of January 30, 1991 between the Borrower, as debtor, and the Original Note Purchaser, individually, and in its capacity as Agent, as secured party, as amended, supplemented or otherwise modified from time to time.

"Senior Debt" of the Borrower and its consolidated Subsidiaries means indebtedness incurred by the Borrower and its consolidated Subsidiaries of any term of maturity incurred in respect of (i) money borrowed or raised, (ii) any bond, note, loan, stock, debenture or similar instrument, (iii) acceptance or documentary credit facilities, (iv) the deferred payment for assets or services acquired (other than payments deferred for not more than 60 days for assets or services acquired, where such deferral is granted or acquisition is made in the ordinary course of business), (v) rental payments under leases (whether in respect of land, machinery, equipment or otherwise) which are treated as capitalized leases for the purposes of generally accepted accounting principles in the United States of America as in force at the date of the Security Agreement and (vi) the present value (discounted at a per annum rate equal to the interest rate on the debt incurred by the lessor in connection with the acquisition of the equipment subject to such lease, or if there is no such rate or the Borrower does not know such rate, at the Prime Rate in effect at the inception of such lease) of all rentals under operating leases. Senior Debt shall not include any Unsecured Subordinated Debt.

available exemption from a deduction or withholding of United States Federal income tax, and (C) file such other forms as the Debtor shall reasonably request from time to time, to the extent the affected Person is able to do so, subject to the proviso above relating to disclosure of information, in order to establish an exemption from deduction or withholding.

(b) Change in Office. If the Debtor would be obligated to pay Additional Amounts pursuant to Section 2.8(a), the affected Person shall promptly, at the written request of the Debtor, use all reasonable efforts to cause a change in the office of the affected Person to which payments are to be made, or transfer the applicable Secured Notes to an Affiliate of the affected Person, in each case if that change or transfer (i) would avoid the necessity of, or minimize to the greatest extent possible, such withholding obligation and (ii) will not, in the reasonable judgment of the affected Person, be otherwise disadvantageous to the affected Person.

(c) Indemnity. The Debtor shall indemnify and hold harmless each affected Person for any incremental Tax that may become payable as a result of any failure by the Debtor to comply with clauses (ii) and (iii) of Section 2.8(a).

SECTION 3. COVENANTS AND WARRANTIES OF THE DEBTOR.

The Debtor covenants, warrants and agrees for the benefit of the Secured Party as follows:

3.1. Debtor's Duties. The Debtor covenants and agrees to perform each and all of the terms, provisions, restrictions, covenants and agreements set forth in this Security Agreement and the Note Purchase Agreement, and in each and every supplement thereto or amendment thereof which may at any time or from time to time be executed and delivered by the parties thereto or their successors and assigns, to the same extent as though each and all of said terms, provisions, restrictions, covenants and agreements were fully set out herein and as though any amendment or supplement to the Note Purchase Agreement were fully set out in an amendment or supplement to this Security Agreement. The Debtor undertakes to perform only such duties as are expressly and specifically set forth herein and in the other Operative Agreements and no implied obligations or covenants shall be read into this Security Agreement or any other Operative Agreement against the Debtor.

3.2. Warranty. The Debtor has the right, power and authority to grant a valid first priority Lien and security interest in the Collateral to the Secured Party for the uses

and purposes herein set forth. No Lien currently attaches to the Collateral other than this Security Agreement and the Debtor will warrant and defend the title to the Collateral against all claims and demands of all persons other than the Secured Party. The Debtor will not create, assume or suffer to exist any Lien on the Collateral other than Permitted Liens and the Debtor will, at its own cost and expense promptly take such action as may be necessary to duly discharge any other Lien on the Collateral. Without limiting the foregoing, there is no financing statement or other filed or recorded instrument in which the Debtor is named and which the Debtor has signed, as debtor or mortgagor, now on file in any public office covering any of the Collateral excepting the financing statements or other instruments filed or to be filed in respect of and for the security interest provided for herein.

3.3. Leases.

(a) Except for those Assigned Leases delivered to the Agent pursuant to Section 3.1(q) of the Note Purchase Agreement, each Assigned Lease and Nonassigned Lease will contain language substantially in the form set forth in Exhibit C attached hereto, provided that Assigned Leases need not contain the subordination language set forth in Exhibit C attached hereto.

(b) The Debtor will cause the executed original copies of each Assigned Lease and Nonassigned Lease entered into after the Closing Date to be duly stamped with a legend substantially in the form set forth in Exhibit C attached hereto.

(c) The Debtor will provide true and correct copies of each Assigned Lease and Nonassigned Lease to the Secured Party promptly upon the execution thereof.

3.4. After-Acquired Property. Any and all property described or referred to in the granting clauses hereof which is hereafter acquired shall ipso facto, and without any further conveyance, assignment or act on the part of the Debtor or the Secured Party, become and be subject to the security interest herein granted as fully and completely as though specifically described herein. In the event that the Debtor enters into an Assigned Lease following the Closing Date, the Debtor will, on or within five (5) Business Days of the date on which it enters into such Assigned Lease, at no expense to the Secured Party, (a) execute and deliver a Lease Assignment in the form of Exhibit B attached to the Note Purchase Agreement covering such Assigned Lease, (b) cause such Assigned Lease, together with the Supplement and Lease Assignment relating thereto, to be

filed with the ICC and (c) cause Uniform Commercial Code financing statements naming the Debtor as debtor to be filed in such public offices as are deemed necessary or appropriate by the Secured Party to perfect the right, title and interest of the Secured Party in such Assigned Lease. Nothing in this Section 3.4 shall be deemed to modify or change the obligations of the Debtor under Section 3.3 hereof.

3.5. Recordation and Filing. The Debtor will cause this Security Agreement and all Supplements hereto, any Lease Assignments relating to Assigned Leases, any Assigned Leases hereafter entered into and all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at no expense to the Secured Party with the ICC and the Registrar General of Canada and in such other places as may be reasonably requested in writing by the Secured Party in order to fully preserve and protect the rights of the Secured Party hereunder.

3.6. Duty to Number and Mark Equipment. On or prior to the Closing Date, the Debtor will cause each Unit described on the Supplement delivered by the Debtor on the Closing Date to be numbered with the reporting mark shown on the Supplement covering such Unit. As soon as practicable, but in any event within ninety (90) days of the Closing Date, the Debtor will keep and maintain, plainly, distinctly, permanently and conspicuously marked by a plate or stencil printed in contrasting colors upon each side of each Unit, in letters not less than one inch in height, substantially as follows:

"Owned by or subject to a security interest in favor of a bank or trustee under an agreement recorded with the Interstate Commerce Commission"

with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the rights of the Secured Party hereunder. The Debtor will not change the reporting mark of any Unit except in accordance with a statement of new reporting marks to be substituted therefor, which statement shall be recorded as a Supplement in the form of Exhibit B hereto in all public offices where this Security Agreement shall have been filed or recorded and a copy of which shall be provided to the Secured Party. The Debtor shall maintain a record which sets forth with respect to each Unit each and every reporting mark applicable to such Unit during such time as this Security Agreement remains in effect.

3.7. Rules, Laws and Regulations. The Debtor agrees to comply with all governmental laws, regulations, requirements and rules (including, without limitation, the rules of the

Federal Railroad Administration, the ICC and the Interchange Rules or supplements thereto of the Mechanical Division, Association of American Railroads, as the same may be in effect from time to time) (the "Interchange Rules") with respect to the use, maintenance and operation of each Unit subject to this Security Agreement. In case any equipment or appliance is required to be altered, added, replaced or modified in any Unit in order to comply with such laws, regulations, requirements and rules, the Debtor agrees to make such alterations, additions, replacements and/or modifications at its own expense; provided, however, that, so long as no Event of Default has occurred and is continuing, the Debtor may, in good faith and by appropriate legal proceedings, contest the validity or application of any such law, regulation, requirement or rule in any reasonable manner which does not adversely affect the rights or interests of the Secured Party in the Equipment or hereunder.

3.8. Maintenance of Equipment.

(a) The Debtor shall, at its own cost and expense, maintain and keep the Equipment, each Unit thereof, and the component Parts thereof in good operating order, repair and condition, ordinary wear excepted, to a standard at least equal to the standard of maintenance performed on other similar equipment owned or leased by the Debtor (provided that such standard shall be at least equal to the standard of maintenance performed on similar equipment owned or leased by Class I railroads), ordinary wear excepted, and suitable for use in interchange service in accordance with the Interchange Rules and suitable for use by Class I railroads. Any Part which is a replacement of or substitution for a Part existing on the Closing Date (and any successive replacements for or substitutions of such Part) and which is installed pursuant to this Section 3.8(a) shall be immediately deemed to be an addition and appurtenance to the Unit to which the same is attached. The Debtor shall maintain all records, logs and other materials required by the American Association of Railroads, the Federal Railroad Administration or any other governmental authority having jurisdiction over the Equipment or the Debtor, to be maintained in respect of the Equipment, and shall permit the Secured Party to inspect the same in accordance with Section 3.19 hereof.

(b) Except as otherwise provided herein, the Debtor may modify any Unit or make additions or improvements thereto; provided that no modification, addition or improvement to any Unit (the "Modifications") shall materially diminish the value, utility or economic life of such Unit. Any Modification shall be immediately deemed to be an addition and appurtenance to the Unit to which the same is attached.

3.9. Insurance Requirement.

The Debtor will at all times and at its own expense cause to be carried and maintained property insurance and liability insurance in respect of the Units of Equipment in such amounts, against such risks and on such terms and conditions as is customarily obtained by the Debtor in respect of similar equipment owned or leased by it and comparable to such coverage maintained by other Persons in the same business and similarly situated. All policies with respect to such insurance shall (a) name the Secured Party as an additional insured and loss payee, (b) include waivers by the insurer of all claims for premiums against the Secured Party, (c) to the extent such provision is available and is customarily obtained by the Debtor in respect of similar equipment owned or leased by it, provide that in respect of the interest of the Secured Party in such policies the insurance shall not be invalidated by any action or inaction of the Debtor and shall insure the Secured Party's interest regardless of any breach or violation of any warranty, declaration or condition contained in such policies by the Debtor, and (d) provide that, if such insurance is cancelled for any reason whatsoever, or any substantial change is made in the coverage which affects the interest of the Secured Party, or if such insurance is allowed to lapse for non-payment of premium, such cancellation, change or lapse shall not be effective as to the Secured Party for thirty (30) days after receipt by the Secured Party of written notice from such insurers of such cancellation, change or lapse (and the Debtor shall provide thirty (30) days' prior written notice to the Secured Party in any such event). Each such insurance policy shall provide that all of the provisions thereof except the limits of liability (which shall be applicable to all insureds as a group) and liability for premiums (which shall be solely a liability of the Debtor) shall operate in the same manner as if there were a separate policy covering each insured and shall be primary without right of contribution from any insurance carried by the Secured Party. The Debtor shall, at no cost or expense to the Secured Party, make all proofs of loss and take all other steps necessary to collect the proceeds of such insurance. On or before the Closing Date, and annually not later than thirty (30) days following each anniversary of the Closing Date, the Debtor shall furnish to the Secured Party a certificate of the Debtor's independent insurance broker evidencing the maintenance of the insurance required. The Debtor shall furnish to the Secured Party certificates evidencing renewal of such policy or policies not later than fifteen (15) days after the expiration date of such policy or policies. The Debtor shall furnish to the Secured Party prompt telephonic notice of (and shall promptly confirm in writing) any material adverse change in the Debtor's

insurance program. In the event that the Debtor shall fail to maintain insurance as herein provided, and has failed to obtain separate policies reasonably satisfactory to the Secured Party, the Secured Party may at its option on five (5) Business Days' prior written notice to the Debtor provide such insurance (giving the Debtor prompt written notice thereof) and, in such event, the Debtor shall, upon demand from time to time, reimburse the Secured Party for the cost thereof together with interest on the amount of such cost from the date of payment of such cost to the date of such reimbursement at a per annum rate equal to one percent (1%) plus the Coupon Rate. Any amounts paid or payable to the Secured Party under the insurance required to be maintained pursuant to this Section 3.9 shall not be reduced on account of any amount which may be paid or payable to the Secured Party by reasons of claims made under any other policies or insurance under which the Secured Party is a beneficiary claimant. The Secured Party shall have the right to carry insurance on the Units of Equipment for its own benefit; provided, that such insurance is carried at the expense of a Person other than the Debtor.

3.10. Inspection Rights. The Secured Party shall have the right, but not the obligation, at its sole cost, expense and risk, except as provided below, by its respective authorized representatives, to the extent within the Debtor's control, to inspect the Equipment and the Debtor's records with respect thereto, during the Debtor's normal business hours and upon reasonable prior notice to the Debtor, to confirm the existence and proper maintenance of the Equipment; provided, however, that upon the occurrence and during the continuance of an Event of Default, such inspection shall be at the Debtor's cost and expense for out-of-pocket expense; and provided, further, that the Debtor shall not be liable, except in the case of negligence or willful misconduct of the Debtor or of its employees or agents, for any injury to, or the death of, any Person exercising, on behalf of the Secured Party, the rights of inspection granted under this Section 3.10. Subject to the terms and conditions of this Section 3.10, the Secured Party may exercise such inspection rights in connection with any appraisal of the Equipment undertaken by the Secured Party at its option and at its sole cost and expense; provided that the Secured Party shall not be entitled to conduct more than one (1) such appraisal in any given twelve (12) month period during the term hereof.

3.11. Debtor's Use of Equipment. The Debtor may use the Equipment in any lawful manner whatsoever in the United States, Canada and Mexico; provided, however, that at no time during the term hereof shall Units representing more than twenty percent (20%) of all Units be leased or subleased to a

user or users organized under the laws of Mexico. The Debtor shall at no time, assign or permit the assignment of, or permit any lessee to assign or permit the assignment of, any Unit for use in service other than within the United States, Canada and Mexico.

3.12. Transfers by Debtor. The Debtor shall not, without the prior consent of the Secured Party, assign, sell, transfer, pledge or encumber any of the Equipment; provided, however, that, so long as, immediately before and immediately after such transfer, no Event of Default shall have occurred and be continuing, the Debtor may (a) lease any Unit of Equipment in the ordinary course of its business, provided that not more than 175 Units shall be leased pursuant to Nonassigned Leases, and (b) transfer any Unit of Equipment to an Affiliate of the Debtor provided, that (i) such Affiliate is a corporation incorporated in any State of the United States or the District of Columbia which shall have all necessary authorizations and approvals to own and operate such assets, (ii) the Secured Party shall have received assurances reasonably satisfactory to it (A) to the effect that the insurance provisions of this Agreement have been complied with in respect of such Unit after giving effect to such transfer, (B) of the payment by the Debtor of any expenses of the Secured Party in connection with such transfer, (C) as to the continued status of the Secured Party as the holder of a first priority security interest in the Collateral, (D) that such change will not result in the imposition of, or increase in the amount of, any Tax in respect of the Operative Agreements for which the Debtor is not required to indemnify the Secured Party and (E) that such Affiliate shall have undertaken to perform or comply with all covenants of the Debtor relating to the possession, maintenance and use of such Unit, and (iii) the Debtor shall deliver to the Secured Party an opinion of legal counsel, in form and substance reasonably acceptable to the Secured Party, regarding the taking of all corporate and other actions necessary in connection with such transfer and the compliance with the conditions set forth in this Section 3.12.

3.13. Merger, Etc. The Debtor shall not consolidate with or merge into any other corporation, or permit any other corporation to merge into it, or convey, transfer or lease in one or more transactions all or substantially all of its assets to any Person, unless:

(i) the corporation formed by such consolidation or into which the Debtor is merged or which merges into the Debtor or the Person which acquires by conveyance, transfer or lease all or substantially all of the assets of the Debtor (the "Successor") (a)

shall be a corporation organized and existing under the laws of the United States or America or any state or the District of Columbia, (b) shall have a Tangible Net Worth equal to or greater than the Tangible Net Worth of the Debtor immediately prior to such consolidation, merger, conveyance, transfer or lease, (c) shall execute and deliver to the Secured Party an agreement, in form reasonably satisfactory to the Secured Party, containing an assumption by the Successor of the due and punctual performance and observance of each covenant and condition of this Agreement, the Secured Notes and the Note Purchase Agreement to be performed or observed by the Debtor and an agreement to be bound by all of the terms and provisions of this Agreement, the Secured Notes and the Note Purchase Agreement with the same effect as though named the Debtor herein and therein (provided that any plan or agreement of merger which is filed with any state government authority in order to effect a merger of the Debtor with another Person and which provides for such assumption by the Successor shall be deemed to be satisfactory to the Secured Party for purposes of this clause (i)) and (d) shall make such filings and recordings as shall be necessary, desirable or otherwise reasonably requested by the Secured Party to evidence such consolidation, merger, conveyance, transfer or lease;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(iii) the Debtor shall have delivered to the Secured Party an Officer's Certificate and an opinion of counsel to the Successor, such opinion to be in form and substance reasonably satisfactory to the Secured Party, each stating that (A) such consolidation, merger, conveyance, transfer or lease and the assumption agreement or plan or agreement of merger described in clause (i) comply with such clause (i) (and, in the case of such certificate, clause (ii) of this Section 3.13 also), (B) the agreements entered into to effect such consolidation, merger, conveyance, transfer or lease and the assumption agreement described in clause (i) above, are legal, valid and binding obligations of the Successor enforceable against the Successor in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium and other similar laws and equitable

principles affecting the enforcement of creditors' rights generally, (C) all conditions precedent herein provided for relating to such transactions have been complied with and (D) such other matters relating to such consolidation, merger, conveyance, transfer or lease as the Secured Party may reasonably request.

Upon any consolidation or merger, or any conveyance, transfer or lease of all or substantially all of the assets of the Debtor in accordance with this Section 3.13, the Successor shall succeed to, be substituted for, and may exercise every right and power of, and shall assume every obligation and liability of, the Debtor under this Agreement, the Secured Notes and the Note Purchase Agreement with the same effect as if the Successor had been named as the Debtor herein and therein and if the Debtor is not the Successor, the Debtor shall be released from its liabilities hereunder. Nothing contained herein shall permit any lease, sublease or other arrangement for the use, operation or possession of the Units of Equipment except in compliance with the applicable provisions of this Agreement.

3.14. Lease. The Debtor covenants and agrees to warrant and defend the right, title and interest of the Secured Party granted and assigned hereby with respect to the Assigned Leases and Nonassigned Lease Payment Rights against the claims and demands of any Person and hereby grants the Secured Party full power and authority to take all actions as the Secured Party deems necessary to obtain the benefits of such grant and assignment with respect to the Assigned Leases and Nonassigned Lease Payment Rights, including, without limitation, to make all claims, take all actions and obtain all payments with respect thereto, provided that the Secured Party hereby agrees to exercise such power and authority only upon the occurrence and during the continuance of an Event of Default.

3.15. Power of Attorney. The Debtor does hereby irrevocably constitute and appoint the Secured Party its true and lawful attorney with full power of substitution, for it and in its name, place and stead, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, income and other sums which are assigned under Section 1 hereof with full power to settle, adjust or compromise any claim thereunder with respect to such assigned sums as fully as the Debtor could itself do, and to endorse the name of the Debtor on all commercial paper given in payment or in part payment thereof, and, subject to the limitations set forth in this Security Agreement in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Debtor or otherwise, which the

Secured Party may deem necessary or appropriate to protect and preserve the right, title and interest of the Secured Party in and to such rents and other sums and the security intended to be afforded hereby, provided that the Secured Party hereby agrees to exercise such powers and rights only upon the occurrence and during the continuance of an Event of Default.

3.16. Maintenance of Existence. Subject to the provisions of Section 3.13 hereof, the Debtor will preserve and keep in full force and effect its existence, rights and franchises and all licenses and permits necessary to the performance of its obligations hereunder.

3.17. Chief Executive Office; Corporate Name Records. The chief executive office and place of business of the Debtor is located at 550 California Street, San Francisco, California 94104, and the Debtor will not change the same without giving at least thirty (30) days prior written notice to the Secured Party.

3.18. Financial and Other Reports. The Debtor agrees that it will furnish directly to the Secured Party, at the address thereof appearing in the Book-Entry System, or as the Debtor has otherwise been directed in writing by the Secured Party, the following:

(a) As soon as available and in any event within sixty (60) days after the end of each quarterly period, except the last, consolidated balance sheets of the Debtor and its Subsidiaries as at the end of such period, together with the related consolidated statements of income and cash flows of the Debtor and its Subsidiaries for the period beginning on the first day of such fiscal year and ending on the last day of such quarterly period, setting forth (except with respect to the quarterly financial statements for the first two quarters in the fiscal year ending December 31, 1990) in each case in comparative form the figures for the corresponding periods of the previous fiscal year, all in reasonable detail and certified by the principal financial officer of the Debtor;

(b) As soon as available and in any event within ninety (90) days after the last day of each fiscal year, a copy of the Debtor's annual audited report covering the operations of the Debtor and its Subsidiaries, including consolidated balance sheets, and related consolidated statements of income and retained earnings and consolidated statements of cash flows of the Debtor and its Subsidiaries for such

fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, which statements will have been certified by a firm of independent public accountants of recognized national standing selected by the Debtor;

(c) Within the period provided in subparagraph (b) above, a certificate, signed by the principal financial officer of the Debtor, to the effect that the signer thereof is familiar with the terms and provisions of this Security Agreement and the Note Purchase Agreement, and that at the date of said certificate the signer is not aware of any Default or Event of Default, or if the signer is aware of any such Default or Event of Default, he shall disclose in such certificate the nature thereof and the nature of the action the Debtor is taking or proposes to take with respect thereto and setting forth sufficient financial data to evidence compliance by the Debtor with the financial covenants contained in Section 3.20;

(d) Promptly upon receipt thereof, copies of all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Reports on Form 8-K, final registration statements and final prospectuses, if any, filed by the Debtor or ITEL Corporation with the Securities and Exchange Commission or any governmental authority succeeding to any of its functions;

(e) As soon as possible, notice of the occurrence of a Default or an Event of Default;

(f) Notice of any litigation or proceeding affecting the Debtor which is reasonably likely to be adversely determined and, if adversely determined, would have a material adverse effect on (i) the business, operations or financial condition of the Debtor and its Subsidiaries, taken as a whole or (ii) the Debtor's ability to perform its obligations under any of the Operative Agreements; and

(g) Within ninety (90) days after the last day of each fiscal year and at such other times as may be reasonably requested by the Secured Party, a report setting forth each Assigned Lease and Nonassigned Lease in effect as of the last day of such fiscal year and identifying the Equipment subject thereto.

(h) As soon as reasonably practicable, notice of any material amendment to the Credit Agreement dated as of December 21, 1989 between the Debtor, Chemical

Bank as agent and certain lenders (the "Chemical Agreement") (or if the Chemical Agreement has been terminated or expired, the loan documents relating to the Debtor's then principal credit facility) relating to or modifying the covenants, duties or obligations of the Debtor thereunder.

(i) Such additional information (including financial information and information as to leases to which Equipment is subject) reasonably related to the transactions contemplated hereby as the Secured Party may reasonably request concerning the Debtor.

3.19. Inspection; Books and Records. Upon prior reasonable notice to the Debtor, the Debtor agrees to permit the Secured Party at its sole cost, expense and risk, to examine the books and records of the Debtor with respect to the transactions contemplated hereby and to discuss the Debtor's affairs, finances and accounts with respect to the transactions contemplated hereby with the Debtor's officers, employees and independent public accountants (and by this provision the Debtor authorizes said accountants to discuss such finances, affairs and accounts), subject to the same terms and conditions set forth in Section 3.10 hereof, all at such reasonable times and as often as the Secured Party may reasonably desire. The Secured Party shall treat all information obtained as a result of any such inspections or discussions as confidential; provided, however, that such obligation shall not apply to any information which (i) is or becomes available to the public other than as a result of disclosure by such party, (ii) is required to be disclosed under applicable law, government regulation or by an order, decree, judicial process, administrative agency or other government agency, or to the extent required by a government agency, or to the extent required by a government agency in connection with any supervisory examination or any other regulatory procedure; provided that such party shall send a copy of any subpoena or request for production it receives with respect to such information to the Debtor unless prohibited by law, or (iii) is required to be disclosed to its employees, legal counsel or other independent advisors (including, without limitation, accountants) in connection with the transactions contemplated by the Operative Agreements (but only if such employees, legal counsel or other independent professional advisors shall agree to be bound by the restrictions contained in this Section 3.19).

3.20. Financial Covenants. The Debtor hereby covenants and agrees that so long as this Security Agreement shall remain in effect:

3.21. Stamp Tax. Whether or not any Secured Note is issued under this Agreement, the Debtor shall pay promptly, and in any event before any penalty becomes payable in respect thereof, any stamp, value-added, documentation, registration or other similar tax payable in connection with the execution, delivery, performance or enforcement of this Agreement or any Secured Note, or in connection with any amount payable under this Agreement or any Secured Note; provided that this Section 3.21 shall not apply to (i) any such tax imposed by the jurisdiction outside the United States in which a Note Purchaser is principally resident for tax purposes or in which the office is located through which a Note Purchaser is acting for purposes of this Agreement, or (ii) any such tax imposed in connection with the assignment by a Note Purchaser of any of its interest in a Secured Note or the transactions contemplated hereby, or any reissuance of a Secured Note requested by a Note Purchaser. The Debtor shall indemnify and hold harmless each affected party from any and all liabilities with respect to or resulting from any delay in paying, or omission to pay, such taxes.

SECTION 4. POSSESSION, USE AND RELEASE OF PROPERTY.

4.1. Possession of Collateral. Unless and until an Event of Default shall have occurred and be continuing hereunder, the Debtor shall, to the exclusion of the Secured Party, be permitted to remain in full possession, enjoyment and control of the Collateral and to manage, operate, lease and use the same and each part thereof with the rights and franchises appertaining thereto.

4.2. Release of Property and Liens.

(a) So long as no Event of Default has occurred and is continuing to the knowledge of the Secured Party, the Secured Party shall execute a release in respect of any Unit designated by the Debtor for settlement of the Loan Value or for replacement pursuant to Section 5 hereof, upon receipt from

the Debtor of written notice designating the Unit with respect to such Event of Loss and the receipt from Debtor or such other Person, as the case may be, of all sums payable or documents required in compliance with said Section 5. Any such written notice from the Debtor shall be accompanied by an Officer's Certificate of the Debtor setting forth the basis for such request, together with such additional evidence of such compliance as the Secured Party shall reasonably request. The Secured Party agrees at no cost to itself to execute such instruments as the Debtor shall reasonably request to evidence such release and consents to all appropriate filings to confirm such release of public record.

(b) Upon the written request and at the sole cost and expense of the Debtor, the Secured Party shall execute and deliver any and all releases, termination statements and other agreements and filings as Debtor shall reasonably request to evidence the termination of the Secured Party's security interests in the Collateral as set forth in and in accordance with Section 1.3 of this Security Agreement.

4.3. Condemnation. The Debtor, immediately upon obtaining actual knowledge of the institution of any proceedings for the condemnation of any Unit of Equipment, which such condemnation proceedings, if successful, would reasonably be likely to result in an Event of Loss, shall notify the Secured Party of the pendency of such proceedings. The Secured Party, at its own cost and expense, may participate in any such proceedings, and the Debtor from time to time will deliver or cause to be delivered to the Secured Party all instruments requested by it to permit such participation. In the event of such condemnation proceedings, the award or compensation payable to the Debtor shall be paid to the Secured Party, and such award or compensation shall be paid or applied in accordance with Section 4.6. The Secured Party shall be under no obligation to question the amount of the award or compensation and the Secured Party may accept any such award or compensation. In any such compensation proceedings, the Secured Party may be represented by counsel.

4.4. Release of Collateral - Consent of Secured Party. In addition to any release pursuant to Section 1.3 and Section 4.2 hereof, the Debtor may sell or otherwise dispose of all or any part of the Collateral then subject to the Lien of this Security Agreement upon the written consent of the Secured Party, and the Secured Party shall release the same from the Lien and security interest hereof, to the extent and on the terms and upon compliance with the conditions provided for in any such written consent.

4.5. Protection of Purchaser. No purchaser in good faith of property purporting to be released hereunder shall be bound to ascertain the authority of the Secured Party to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser, in good faith, of any item or Unit of the Collateral be under obligation to ascertain or inquire into the conditions upon which any such sale is hereby authorized.

4.6. Insurance Proceeds and Condemnation Payments. If the Secured Party shall receive any insurance proceeds under insurance required to be maintained by the Debtor hereunder or condemnation payments in respect of such Units suffering an Event of Loss, (a) if the Debtor shall not at the time be obligated to pay the Loan Value of any Unit of Equipment as provided in Section 5, the Secured Party shall pay such proceeds or condemnation payments to the Debtor or (b) if the Debtor shall at the time be obligated to pay Loan Value, the Secured Party shall use such proceeds or condemnation payments to reimburse the Debtor for its payment of Loan Value to the Secured Party (to the extent the Debtor shall have already paid such Loan Value), or, if not already paid by the Debtor, apply such proceeds or condemnation payments in satisfaction of the obligation of the Debtor to pay the Loan Value then due, and the balance, if any, of such proceeds or condemnation payments shall be paid over to the Debtor; provided, however, that no Default or Event of Default shall have occurred and be continuing. All insurance proceeds received by the Secured Party under insurance required to be maintained by the Debtor hereunder in respect of any Unit not suffering an Event of Loss shall be paid to the Debtor upon proof satisfactory to the Debtor that any damage to such Unit in respect of which such proceeds were paid has been fully repaired, provided that no Default or Event of Default shall have occurred and be continuing.

Any amount referred to in the preceding paragraph which is payable to the Debtor shall not be paid to the Debtor or, if it has been previously paid directly to the Debtor, shall not be retained by the Debtor, if at the time of such payment an Event of Default shall have occurred and be continuing, but shall be paid to and held by the Secured Party, as part of the Collateral, and at such time as there shall not be continuing any such Event of Default, such amount shall be paid to the Debtor; provided, that if (i) any such amount has been so held by the Secured Party as security for more than 360 days, (ii) the Debtor is not subject to a petition under the federal bankruptcy laws, and (iii) the Secured Party shall not have exercised any remedy available to it under Section 7.2, then such amount shall be paid to the Debtor.

SECTION 5. EVENT OF LOSS.

(a) Payment of Loan Value. In the event that any Unit (a) shall suffer an actual or constructive total loss, (b) shall suffer destruction or damage which, in the Debtor's good faith opinion, makes repair uneconomic or renders such Unit unfit for commercial use, (c) shall have title thereto taken or appropriated by any governmental authority under the power of eminent domain or otherwise, or (d) shall be taken or requisitioned for use by any governmental authority under the power of eminent domain or otherwise for a period extending beyond the earlier of (i) twelve (12) months after the date of such taking or requisition, or (ii) the Maturity Date (any such occurrence being hereinafter called an "Event of Loss"), the Debtor shall promptly and fully inform the Secured Party of such Event of Loss. At such date as Events of Loss in respect of twenty five (25) Units (exclusive of those Units for which substitute Units have been provided under Section 5(b)) shall have occurred (which date shall be referred to as a "Loss Date") the Debtor shall become obligated to prepay a principal amount of the Secured Notes in accordance with the provisions of Section 6 hereof. For purposes of this Security Agreement, the "Loan Value" in respect of any Unit shall be an amount equal to the product of (A) a fraction, the numerator of which is an amount equal to the Equipment Cost of such Unit which has suffered an Event of Loss, and the denominator of which is the Total Equipment Cost of all Units then subject to this Security Agreement, times (B) the unpaid principal amount of the Secured Notes immediately prior to the payment provided for in this Section 5.

(b) Substitution. Provided no Default or Event of Default shall have occurred and be continuing, in lieu of payment of all or a portion of the Loan Value for any Unit due and owing as provided in subsection (a) above, the Debtor shall make a good faith effort, on or prior to the date on which such Loan Value would have otherwise been due and payable, to substitute as collateral hereunder for any such Unit with respect to which an Event of Loss occurred, a Unit of Equipment (a "Substitute Unit"), title to which shall be held by the Debtor free and clear of all Liens other than Permitted Liens, provided that such Substitute Unit has a value, utility and remaining economic life at least equal to, and being in as good operating condition as, such Unit with respect to which an Event of Loss occurred assuming such Unit was in the condition and repair required by the terms hereof immediately prior to the occurrence of such Event of Loss. Prior to or at the time of any such substitution the Lessee, at its own expense, will furnish the Lessor with a Supplement, in the form attached as Exhibit B hereto, with respect to such Substitute Unit, and

shall so execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the protection of the security interest being herein provided for in such Substitute Unit.

SECTION 6. PREPAYMENT OF SECURED NOTES.

6.1. Prepayments. Neither any prepayment of any Secured Note nor any purchase by the Debtor of any Secured Note may be made except to the extent and in the manner expressly permitted by this Security Agreement. Every prepayment of Secured Notes required to be made pursuant to this Section 6 and any prepayment permitted to be made under Section 7 hereof shall be made in accordance with the provisions of this Section 6. All prepayments shall be applied to the Secured Notes of all Note Purchasers pro rata.

6.2. Mandatory Prepayments.

(a) In the event of an Event of Loss or series of Events of Loss which gives rise to a Loss Date pursuant to the provisions of Section 5 hereof, if the Debtor does not provide substitute equipment in accordance with Section 5(b) hereof, then on the first day of the next succeeding Interest Period following the Loss Date, or if the Loss Date occurs less than thirty (30) days prior to the next succeeding Interest Period, then on the first day of the second succeeding Interest Period, the Debtor shall prepay and apply, and there shall become due and payable, a principal amount of the Secured Notes equal to the aggregate Loan Value of the Units suffering such Event(s) of Loss so as to give rise to a Loss Date, and all accrued and unpaid interest thereon, together with an amount equal to the sum of the applicable LIBOR Break Funding Cost and Swap Breakage Loss, if any.

Notwithstanding the foregoing, if at the time such a prepayment is required, the Swap Counterparty declines to permit a partial break of the Swap Transaction, if the Swap Break Amount resulting from such prepayment is, in the good faith judgment of the Debtor and the Secured Party, excessive or unreasonable in the circumstances, the Debtor and the Secured Party shall enter into a mutually agreeable arrangement providing for the escrow deposit by the Debtor with the Secured Party of an amount of cash equal to the Loan Value to be prepaid, such deposit to be pledged to the Secured Party as security for the Secured Indebtedness, and to be applied to the prepayment of the Secured Notes upon the earlier to occur of (i) the date the entire unpaid balance of the Secured Notes is due and payable (whether upon maturity, acceleration or otherwise) and (ii) the date on which the Secured Party and the Debtor agree that the prepayment shall be effected.

(b) In the event that an Event of Default has occurred and is continuing and the Secured Party has exercised its right under Section 7.2(a) to declare the entire unpaid balance of the Secured Notes immediately due and payable, the Debtor shall, within twenty (20) Business Days of receipt by the Debtor of notice of acceleration pursuant to Section 7.2(a) hereof, prepay all of the Secured Notes by payment of the unpaid principal thereof, plus all accrued and unpaid interest thereon, together with an amount equal to the sum of the applicable LIBOR Break Funding Costs and Swap Breakage Loss, if any. Notice of prepayment pursuant to this clause (b) shall be given within ten (10) Business Days of receipt by the Debtor of the notice of acceleration.

6.3. Reset Prepayment. On any Reset Date, the Debtor may prepay all of the Secured Notes by payment of the unpaid principal thereof, plus all accrued and unpaid interest thereon, together with the applicable Swap Breakage Loss, if any; provided that the Debtor shall have given notice of such payment to the Secured Party at least five (5) Business' Days prior to such Reset Date.

6.4. Voluntary Prepayments. On or after the fifth (5th) anniversary of the Closing Date, on any Interest Payment Date, the Debtor shall have the option to prepay all of the Secured Notes by payment of the unpaid principal thereof, plus all accrued and unpaid interest thereon, together with an amount equal to the sum of the applicable LIBOR Break Funding Costs and applicable Swap Breakage Loss; provided that notice of any such payment shall have been given to the Secured Party at least sixty (60) and not more than ninety (90) days prior to the date fixed for payment.

6.5. Tax-Related Prepayment.

(a) Withholding. If, after giving effect to the provisions of Section 2.8(b) hereof, the Debtor is required to pay Additional Amounts under Section 2.8(a), then on any Interest Payment Date, the Debtor shall have the option to prepay the Secured Notes in respect of which such Additional Amounts are payable by payment of the unpaid principal thereof, plus all accrued and unpaid interest thereon, together with an amount equal to the sum of the applicable LIBOR Break Funding Costs and Swap Breakage Loss; provided that notice of any such payment shall have been given to the Secured Party at least thirty (30) and not more than ninety (90) days prior to the date fixed for payment.

(b) Future Indemnity Payments. If the Debtor is required to make an indemnity payment under Section 7.9 with respect to a Tax in circumstances where a similar indemnity

could reasonably be expected to be payable in the future thereunder (a "Future Indemnity"), then (i) the Indemnified Party and the Debtor shall consult in good faith and shall each use its best efforts to avoid or mitigate the amount of such Future Indemnity, including, without limitation, by assigning the rights and obligations of the Indemnified Party hereunder or of any office, branch or Affiliate in connection herewith (including any rights and obligations in connection with payments to an office, branch or Affiliate of the Indemnified Party), to another office, branch, subsidiary or Affiliate or the Indemnified Party if the effect would be to avoid or mitigate the amount of such Future Indemnity, provided that the Indemnified Party shall not be required to incur any costs in connection with such efforts that Indemnified Party reasonably considers material, and (ii) if the efforts referred to in clause (i) do not result in avoiding such Future Indemnity, the Debtor shall have the right to prepay the Secured Notes with respect to which the Future Indemnity could arise, by payment of the unpaid principal thereof, plus all accrued and unpaid interest thereon, together with an amount equal to the sum of the applicable LIBOR Break Funding Costs and Swap Breakage Loss; provided that notice of any such payment shall have been given to the Secured Party at least thirty (30) and not more than ninety (90) days prior to the date fixed for payment.

6.6. Notice of Prepayment; Partial Prepayments. In the case of any payment which will discharge any Secured Indebtedness, notice thereof in writing shall be sent by the Debtor to the Secured Party in the manner set forth in Section 8.3 hereof and in accordance with the terms of Section 6.2, 6.3, 6.4 or 6.5 hereof, as applicable. Such notice shall specify the date fixed for payment and the provision hereof under which such payment is being effected, and on the date fixed for payment there will become due and payable upon each Secured Note or portion thereof so to be paid at the place where the principal of the Secured Notes to be paid is payable, the specified amount of principal thereof, together with the accrued interest to such date. Promptly following determination of the amount thereof the Secured Party shall notify the Debtor in writing of the amount of any LIBOR Break Funding Cost and any Swap Breakage Loss or Swap Breakage Gain, and the date on which such amounts are due for payment, which date shall be at least two (2) Business Days later than the date of such notice.

6.7. Payment of Swap Breakage Amounts and LIBOR Break Funding Cost

(a) The amount of any Swap Breakage Loss and LIBOR Break Funding Cost that may be payable to the Secured Party by the Debtor as a result of a prepayment of the Secured

Notes shall be paid by the Debtor on the date specified for payment in the notice provided by the Secured Party pursuant to Section 6.6, by wire transfer of immediately available funds to the account of the Secured Party specified in Schedule I to the Note Purchase Agreement.

(b) The amount of any Swap Breakage Gain that may be payable to the Debtor by the Secured Party as a result of a prepayment of the Secured Notes shall be paid by the Secured Party, promptly following receipt thereof from the Swap Counterparty, by wire transfer of immediately available Federal Reserve funds to a bank in the continental United States as specified in the notice provided by the Debtor pursuant to Section 6.6 hereof.

6.8. Other Prepayments

(a) Increased Cost. If the enactment, adoption or promulgation, after the date of this Agreement, of any applicable law or regulation, or any change, after the date of this Agreement, in any applicable law, rule, regulation or exceptions thereto or in the interpretation thereof by any governmental, fiscal, monetary or other authority charged with the administration or application thereof (whether or not having the force of law), shall impose, modify or deem applicable any reserve, special deposit, capital adequacy or similar requirement or other governmental, monetary or other charge which is in the nature of such reserve, special deposit, capital adequacy or similar requirement against assets of, deposits with or for the account of, or credit extended by the Original Note Purchaser (or for purposes of this section, any office, branch or Affiliate thereof) by reason of the funding by the Original Note Purchaser of its purchase of the Secured Notes or otherwise as a result of the transactions contemplated by this Agreement and the Note Purchase Agreement, and the result of the foregoing shall be to increase the costs to the Original Note Purchaser in a respect the Original Note Purchaser reasonably considers material (including for this purpose, any office, branch or Affiliate thereof) (any such reserve special deposit, capital adequacy, similar requirement, or other governmental, monetary or other charge, an "Increased Cost"), then the Original Note Purchaser shall promptly provide the Debtor with written notice of such event giving rise to such Increased Cost and a good faith estimate of the amount thereof; provided, however, such amount shall represent a pro rata portion of the Increased Cost allocable to all similar obligations. This Section 6.8(a) shall not apply to any Tax. The Original Note Purchaser and the Debtor shall consult in good faith and shall each use its best efforts to avoid such imposition or to avoid or mitigate the amount of such Increased

Costs, including without limitation, by assigning the rights and obligations of the Secured Party hereunder or of any such office, branch or Affiliate in connection herewith (including any rights and obligations in connection with payments to an office, branch or Affiliate of the Original Note Purchaser) to another office, branch, subsidiary or Affiliate of the Original Note Purchaser that would not be subject to any such Increased Cost, provided that the Original Note Purchaser shall not be required to incur any costs in connection with such efforts that the Original Note Purchaser reasonably considers material. If no such assignment can reasonably be made, the Debtor shall have the right, on two (2) Business Days' notice to the Original Note Purchaser (given in accordance with Section 8.3 hereof), to prepay the Secured Notes, and the Secured Notes shall thereupon become due and payable on the date specified in the Debtor's prepayment notice.

(b) Illegality. If it shall have become, or in the Original Note Purchaser's reasonable judgment will become, a violation of law or regulation under the laws of any applicable jurisdiction for the Original Note Purchaser (including any office, branch or Affiliate thereof) to participate, or continue to participate, in the transactions contemplated by this Agreement and the Note Purchase Agreement or to perform any material obligation hereunder or thereunder, then the Original Note Purchaser may, upon not less than ten (10) days' written notice, given in accordance with Section 8.3 hereof (or such shorter notice as may be necessary in order to avoid a violation of such law) to require the Debtor to prepay the Secured Notes, and the Secured Notes and accrued interest thereon shall thereupon become due and payable on the date specified in such notice. Within five (5) days after providing such notice, the Original Note Purchaser shall furnish to the Debtor a statement describing those actions, obligations or provisions the performance of, or compliance with which have become, or which the Original Note Purchaser reasonably anticipates will become, unlawful and stating that no reasonable course of action was available to the Original Note Purchaser (including any office, branch or Affiliate thereof) which would render the performance of such actions or obligations or the compliance with such provisions lawful under the laws of such jurisdiction.

SECTION 7. DEFAULTS AND OTHER PROVISIONS.

7.1. Events of Default. The term "Event of Default" for all purposes of this Security Agreement shall mean one or more of the following:

(a) Default in payment of an installment of the principal of or interest on any Secured Note, or any applicable LIBOR Break Funding Costs or Swap Breakage Loss or Additional Amounts, when and as the same shall become due and payable, whether at the due date thereof or at the date fixed for prepayment or by acceleration or otherwise, and such default shall continue unremedied for three (3) Business Days;

(b) Default in payment of any amounts payable by Debtor to the Secured Party under the Secured Notes or this Security Agreement (other than those described in clause (a) above), and such default shall continue unremedied for ten (10) Business Days after written notice from the Secured Party to the Debtor, specifying the default and demanding the same to be remedied;

(c) Default on the part of the Debtor in the due observance or performance of any covenant or agreement to be observed or performed by the Debtor under the Secured Notes, this Security Agreement or the Note Purchase Agreement, and such default shall continue unremedied for thirty (30) days after written notice from the Secured Party to the Debtor, specifying the default and demanding the same to be remedied; provided, however, that if such default is not capable of cure during such thirty (30) day period, no Event of Default shall occur under this paragraph (c) so long as such Event of Default is capable of cure and the Debtor is diligently undertaking to cure such default, but in no event longer than one hundred eighty (180) days;

(d) Any material representation or warranty on the part of the Debtor made herein or in the Note Purchase Agreement or in any report, certificate, financial or other statement furnished by the Debtor or in connection with this Security Agreement or the Note Purchase Agreement, or the transactions contemplated therein, is untrue or incorrect in any material respect as of the date of issuance or making thereof;

(e) The Debtor (i) shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator,

custodian or other similar official of it or any substantial part of its property, or (ii) shall consent to any such relief or to the appointment of or taking possession by any such official in any voluntary case or other proceeding commenced against it, or (iii) shall make a general assignment for the benefit of creditors, or (iv) shall fail generally to pay its debts as they become due, or (v) shall take any corporate action to authorize any of the foregoing; or

(f) An involuntary case or other proceeding shall be commenced against the Debtor seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of ninety (90) days.

(g) The Debtor shall, in respect of any of its indebtedness for borrowed money, whether secured or unsecured, in an amount, individually or in the aggregate, exceeding Five Million Dollars (\$5,000,000), default in the performance or observance of any provisions contained in any instrument or agreement evidencing such indebtedness (which default shall not have been waived) if the effect of such failure or default is to cause, or permit the holder of such indebtedness or a trustee or agent to cause, all amounts due under such indebtedness to become due and payable prior to its scheduled maturity.

7.2. Secured Party's Rights. The Debtor agrees that when any Event of Default has occurred and is continuing, the Secured Party shall have the rights, options, duties and remedies of a secured party, and the Debtor shall have the rights and duties of a debtor, under the Uniform Commercial Code of California, and without limiting the foregoing, the Secured Party may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute:

(a) The Secured Party may, by notice in writing to the Debtor, declare the entire unpaid balance of the Secured Notes to be immediately due and payable, and thereupon all such unpaid balance, together with all accrued interest thereon, shall be and become immediately due and payable;

(b) Subject always to the existing rights, if any, of a lessee under an Assigned Lease or Nonassigned Lease, the Secured Party personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Debtor, with or without notice, demand, process of law or other legal procedure, if this can be done without breach of the peace, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold, and to collect and receive all earnings, revenues, rents, issues, proceeds and income of the Collateral and every part thereof, to make alterations, improvements and additions thereon or remove and dispose of any portion of the Collateral and to otherwise exercise any and all of the rights and powers of the Debtor in respect thereof;

(c) Subject always to the existing rights, if any, of a lessee under an Assigned Lease or Nonassigned Lease, the Secured Party may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of any such sale by registered mail to the Debtor at least ten (10) days prior to (i) the date of any public sale or (ii) the date on or after which any private sale may take place, and any other notice which may be required by law, sell and dispose of the Collateral, or any part thereof, at public auction to the highest bidder or at private sale or sales conducted in a commercially reasonable manner, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Secured Party may determine, and at any place (whether or not it be the location of the Collateral or any part thereof) designated in the notice above referred to. Any such sale or sales may

be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and the Secured Party or the holder or holders of the Secured Notes, or of any interest therein, or the Debtor may bid and become the purchaser at any such sale;

(d) Subject always to the existing rights, if any, of a lessee under an Assigned Lease or Nonassigned Lease, the Secured Party may proceed to protect and enforce this Security Agreement and the Secured Notes by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the Collateral or any part thereof, for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper, legal or equitable remedy available under applicable law; and

(e) Subject always to the existing rights, if any, of a lessee under an Assigned Lease or Nonassigned Lease, the Secured Party may (i) proceed to exercise all rights, privileges and remedies of the Debtor under any or all of the Assigned Leases or Nonassigned Leases, to the extent assigned as Collateral pursuant to Section 1.2 hereof, and may exercise all such rights and remedies either in the name of the Secured Party or in the name of the Debtor for the use and benefit of the Secured Party, and/or (ii) substitute itself or any nominee or agent in lieu of the Debtor as party to any Assigned Lease or Nonassigned Lease, and to notify the lessee under any Assigned Lease or Nonassigned Lease (Debtor hereby agrees to deliver any such notice at the request of the Secured Party) that all payments and performances under such Assigned Lease or Nonassigned Lease, to the extent assigned as Collateral pursuant to Section 1.2 hereof, shall be made or rendered to the Secured Party or such other Person as it may designate.

7.3. Acceleration Clause. In case of any sale of the Collateral, or of any part thereof, pursuant to any judgment or decree of any court or otherwise in connection with the enforcement of any of the terms of this Security Agreement, the principal of the Secured Notes, if not previously due, and the interest accrued thereon, shall at once become and be

immediately due and payable; also in the case of any such sale, the purchaser or purchasers, for the purpose of making settlement for or payment of the purchase price, shall be entitled to turn in and use the Secured Notes and any claims for interest matured and unpaid thereon, in order that there may be credited as paid on the purchase price the sum apportionable and applicable to the Secured Notes including principal and interest thereof out of the net proceeds of such sale after allowing for the proportion of the total purchase price required to be paid in cash.

7.4. Waiver by Debtor. To the extent permitted by law, the Debtor covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Debtor acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Security Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Secured Party, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

7.5. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Debtor in and to the property sold, and shall be a perpetual bar, both at law and in equity, against the Debtor, its successors and assigns, and against any and all Persons claiming the property sold or any part thereof under, by or through the Debtor, its successors or assigns (subject, however, to the then existing rights, if any, of a lessee under any Assigned Lease or Nonassigned Lease).

7.6. Application of Proceeds. The purchase money proceeds and/or avails of any sale of the Collateral or any part thereof and the proceeds and the avails of any remedy hereunder shall be paid to and applied as follows:

(a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including legal expenses and attorneys' fees, incurred or made hereunder by the Secured Party, and any compensation due and owing to the Secured Party and of all taxes, assessment or Liens superior to the Lien of these presents, except any taxes, assessments or other superior lien subject to which said sale may have been made;

(b) Second, to the payment to the Secured Party of the amount then owing or unpaid on the Secured Notes for principal or interest, and Additional Amounts, LIBOR Break Funding Costs and Swap Breakage Loss, if any; and in case such proceeds shall be insufficient to pay in full the whole amount so due, owing or unpaid upon the Secured Notes, then ratably according to the aggregate of such principal and the accrued and unpaid interest, Additional Amounts, LIBOR Break Funding Costs and Swap Breakage Loss, if any, with application on each Secured Note to be made, first, to the unpaid interest thereon (and Additional Amounts in respect thereof), second, to unpaid LIBOR Break Funding Costs and Swap Breakage Loss, if any, thereon (and Additional Amounts in respect thereof), and third, to unpaid principal thereof (and Additional Amounts in respect thereof); such application to be made upon presentation of the several Secured Notes, and the notation thereon of the payments if partially paid, or the surrender and cancellation thereof, if fully paid; and

(c) Third, to the payment of the surplus, if any, to the Debtor, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

7.7. Discontinuance of Remedies. The Secured Party may discontinue any enforcement proceedings commenced by it. Without limiting the foregoing, the Secured Party may, upon written notice to the Debtor, rescind any acceleration of the maturity of the Secured Notes, and direct that the payment schedule on the Secured Notes shall be that which existed immediately prior to such acceleration, if (i) all Events of

Default, other than the non-payment of any portion of the Secured Notes which has become due and payable solely by reason of the acceleration of the Secured Notes, have been cured or waived, and (ii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. In case the Secured Party shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, then and in every such case the Debtor and the Secured Party shall be restored to their former positions and rights hereunder with respect to the property subject to the security interest created under this Security Agreement.

7.8. Cumulative Remedies. No delay or omission of the Secured Party to exercise any right or power arising from any Default or Event of Default shall exhaust or impair any such right or power or prevent its exercise during the continuance thereof. No waiver by the Secured Party of any such Default or Event of Default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent Default or Event of Default, or to impair the rights resulting therefrom except as may be otherwise provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the Secured Indebtedness operate to prejudice, waive or affect the security of this Security Agreement or any rights, powers or remedies hereunder, nor shall the Secured Party be required to first look to, enforce or exhaust such other or additional security, collateral or guaranty.

7.9. Indemnity. The Debtor agrees to indemnify, protect and hold harmless the Original Note Purchaser and the Secured Party (each, an "Indemnified Party") from and against all losses, damages, injuries, liabilities, claims, Taxes and demands whatsoever, regardless of the cause thereof (except arising from the wilful misconduct or gross negligence of the Indemnified Party), and expenses in connection therewith, including, but not limited to, any Increased Costs incurred by the Original Note Purchaser, reasonable counsel fees and expenses, penalties and interest, arising out of, or as the result of the entering into, performance of, or receipt of payments under, the Note Purchase Agreement, this Security Agreement or the Secured Notes, the retention by the Secured Party of a security interest in the Collateral, the receipt of payments in respect of, or on the sale of, any Collateral, the ordering, acquisition, use, operation, condition, purchase,

delivery, rejection, storage or repossession of any of the Equipment or any accident in connection with the operation, use, condition, possession, storage or repossession of any of the Collateral resulting in damage to property or injury or death to any Person during the period while a security interest therein remains in the Secured Party or during the period of the transfer of such security interest in the Collateral by the Secured Party pursuant to any of the provisions of this Security Agreement, provided, however, that the foregoing indemnity shall not apply to any (i) United States Tax imposed by deduction or withholding on a payment hereunder (but without prejudice to the rights of the Secured Party under Section 2.8(a) hereof), (ii) a Tax on the overall net income, or a franchise or other Tax imposed for the privilege of doing business which is measured by overall net income, imposed on the Original Note Purchaser or the office through which the Original Note Purchaser is acting for the purposes of this Agreement, which Tax is imposed by (x) the jurisdiction in which the Original Note Purchaser is principally resident for tax purposes, (y) the jurisdiction in which such office is located or (z) the State of California, if the Original Note Purchaser or its Affiliates are doing business in such State and are required to file tax returns therein other than solely by reason of the transactions contemplated by the Operative Agreements or (iv) any Tax imposed in connection with an assignment by the Original Note Purchaser of any of its interest in a Secured Note or the transactions contemplated hereby. The Debtor shall be entitled to reasonable rights to participate, at its expense, in a contest of the imposition of any Tax with respect to which an indemnity is otherwise payable under this Section 7.9 (provided that the Secured Party shall not be required to disclose any information concerning its internal tax affairs or tax computations). This covenant of indemnity shall continue in full force and effect notwithstanding the full payment of the Secured Indebtedness and the release of the security interest in the Collateral, as provided in Section 1.3 hereof, or the termination of this Security Agreement in any manner whatsoever.

SECTION 8. MISCELLANEOUS.

8.1. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all the covenants, promises and agreements in this Security Agreement contained by or on behalf of the Debtor or by or on behalf of the Secured Party, shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

8.2. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without

invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.3 Communications. All communications provided for herein shall be in writing or by a telecommunications device capable of creating a written record, and any such notice shall become effective (a) upon personal delivery thereof, including, without limitation, by overnight mail and courier service, (b) five (5) days after the date on which it shall have been mailed by United States mail, certified or registered, postage prepaid, return receipt requested, or, (c) in the case of notice by such a telecommunications device, when a written acknowledgment as to the receipt thereof by the transmittee has been received by the sender, addressed to each party at the following addresses:

If to the Debtor:

Itel Rail Corporation
550 California Street
San Francisco, California 94133
Attention: Robert C. Kiehle
Vice President-Finance
Fax No.: (415) 984-4364
Confirmation No.: (415) 984-4200

with a copy to:

Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center, Suite 2100
San Francisco, CA 94111
Attention: Michael U. Alvarez
Fax No.: (415) 421-1068
Confirmation No.: (415) 392-6320

If to the Secured Party:

NMB Lease NV
Gebouw Nieuw Amsterdam
Hoekenrode 8
1102 BR Amsterdam Zuidoost
The Netherlands
Attention: Managing Director
Structured Finance
Fax No.: 020 563 8555
Confirmation No.: 020 563 8575

With a copy to:

Morgan Lewis & Bockius
101 Park Avenue
New York, New York 10178
Attention: H. Franklin Bloomer, Jr.
Fax No.: (212) 309-6273
Confirmation No.: (212) 389-6000

or to any such party at such other address as such party may designate by notice duly given in accordance with this Section to the other parties.

8.4. Release. The Secured Party shall release this Security Agreement and the security interest granted hereby by proper instrument or instruments upon presentation of satisfactory evidence that all indebtedness hereby secured has been fully paid or discharged.

8.5. Business Day. Notwithstanding anything herein or in any other Operative Agreement to the contrary, if the date on which any payment is to be made pursuant to this Security Agreement is not a Business Day, the payment otherwise payable on such date shall be payable on the next succeeding Business Day unless such Business Day falls in the next calendar month in which case payment shall be made on the immediately preceding Business Day.

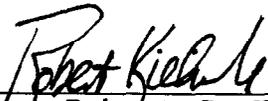
8.6. Governing Law. This Security Agreement and the Secured Notes shall be construed in accordance with and governed by the internal laws and decisions (as opposed to conflicts of law provisions) of the State of California.

8.7. Counterparts. This Security Agreement may be executed, acknowledged and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Security Agreement.

8.8. Headings. Any headings or captions preceding the text of the several sections hereof are intended solely for convenience of reference and shall not constitute a part of this Security Agreement nor shall they affect its meaning, construction or effect.

IN WITNESS WHEREOF, the Debtor and the Secured Party have caused this Security Agreement to be executed, as of the day and year first above written.

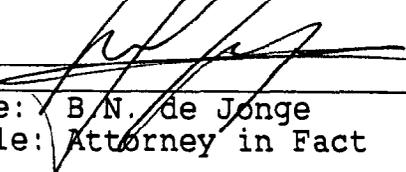
ITEL RAIL CORPORATION

By 
Name: Robert C. Kiehnle
Title: Vice President - Finance

AS DEBTOR

NMB LEASE NV

By 
Name: Han Willem L. Hoolboom
Title: Attorney in Fact

By 
Name: B.N. de Jonge
Title: Attorney in Fact

AS SECURED PARTY

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN FRANCISCO)

On this 31st day of January, 1991, before me personally appeared Robert C. Kiehle to me personally known, who being by me duly sworn, says that he is the Vice President - Finance of ITEL RAIL CORPORATION, that said instrument was signed and sealed on January 31, 1991 on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.



Jane Wilson
Notary Public

My commission expires: 6/19/92

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN FRANCISCO)

On this 31st day of January, 1991, before me personally appeared Han Willem L. Hoolboom, to me personally known, who being by me duly sworn (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to this instrument as the attorney in fact of NMB LEASE NV, says that said instrument was signed and sealed on January 31, 1991 on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation and that he signed his own name as attorney in fact.



(SEAL)

Jane Wilson
Notary Public

My commission expires: 6/19/92

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN FRANCISCO)

On this 31st day of January, 1991, before me personally appeared B. N. de Jonge, to me personally known, who being by me duly sworn (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to this instrument as the attorney in fact of NMB LEASE NV, says that said instrument was signed and sealed on January 31, 1991 on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation and that he signed his own name as attorney in fact.



(SEAL)

Jane Wilson
Notary Public

My commission expires: 6/19/92

CHattel MORTGAGE AND SECURITY AGREEMENT
SUPPLEMENT NO. 1

CHattel MORTGAGE AND SECURITY AGREEMENT SUPPLEMENT NO. 1 (this "Supplement") dated January __, 1991, by ITEL RAIL CORPORATION, a Delaware corporation, as Debtor (the "Debtor").

W I T N E S S E T H:

The Chattel Mortgage and Security Agreement dated as of January __, 1991 (herein called the "Security Agreement") between the Debtor and NMB Lease NV, a company organized under the laws of The Netherlands, as Original Note Purchaser and as Secured Party (the "Secured Party"), provides for the execution and delivery of a Supplement thereto substantially in the form hereof, which shall particularly describe the Equipment, the Assigned Leases and the Nonassigned Lease Payment Rights (such terms and other defined terms in the Security Agreement being herein used with the same meanings) and shall specifically grant a security interest in such Equipment and in such Assigned Leases and Nonassigned Lease Payment Rights;

The Debtor, in consideration of the premises and other good and valuable consideration, receipt whereof is hereby acknowledged, and intending to be legally bound, and in order to secure the payment of all Secured Indebtedness and the performance and observance of all the covenants and conditions contained in the Secured Notes, the Security Agreement and the Note Purchase Agreement, does hereby convey, warrant, mortgage, assign, pledge and grant unto the Secured Party, its successors and assigns, forever, a security interest in, all right, title and interest of the Debtor in: (i) the Equipment described in Schedule 1 hereto; together with (1) all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment hereinabove described, whether now owned or hereafter acquired, (2) all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment, (3) all of the rents, issues, profits, revenues and other income of said Equipment and (4) all proceeds, including but not limited to, all insurance proceeds related thereto; (ii) subject to Sections 1.2(c) of the Security Agreement, each and every lease agreement currently in effect or hereafter entered into by the Debtor as lessor relating to the Equipment which does not constitute a Nonassigned Lease, insofar as such lease agreement and such rights relate to the Equipment (the "Assigned Leases"), including, but not limited to: (1) all payments due and to become due under any Assigned Lease whether as

EXHIBIT B
(to Security Agreement)

contractual obligations, damages or otherwise; (2) all of its claims, rights, powers, or privileges and remedies under any Assigned Lease only to the extent permitted by a lessee under any Assigned Lease; (3) all of its rights under any Assigned Lease to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval together with full power and authority with respect to any Assigned Lease to demand, receive, enforce, collect or give receipt for any of the foregoing rights or any property the subject of any of the Assigned Leases, to enforce or execute any checks, or other instruments or orders, to file any claims and to take any action which (in the opinion of the Secured Party) may be necessary or advisable in connection with any of the foregoing insofar, but only insofar, as such rights relate to the Equipment which is subject to such Assigned Leases, together with all extensions, renewals and replacements of such Assigned Leases (which extensions, renewals or replacements do not constitute Nonassigned Leases), whether now owned or hereafter acquired, and all income, profits and avails therefrom, all rights thereunder and all proceeds thereof; and (iii) subject to Section 1.2(c) of the Security Agreement, (1) all rent or lease payments due or to become due with respect to Equipment under each lease agreement currently in effect or hereafter entered into relating to the Equipment which (i) contains language to the effect that the lessee's rights thereunder are subject and subordinate to the rights and remedies of a lender to Debtor and (ii) has a term of not more than one (1) year or relates to not more than twenty (20) Units insofar as such rights and payments relate to the Equipment (the "Nonassigned Leases").

TO HAVE AND TO HOLD the aforesaid property unto the Secured Party, its successors and assigns forever, upon the terms and conditions set forth in the Security Agreement.

This Supplement shall be construed in connection with and as part of the Security Agreement and all terms, conditions and covenants contained in the Security Agreement, except as herein modified, shall be and remain in full force and effect.

Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this Supplement may refer to the "Chattel Mortgage and Security Agreement dated as of January 30, 1991" or the "Chattel Mortgage and Security Agreement" without making specific reference to this Supplement, but nevertheless all such references shall be deemed to include this Supplement unless the context shall otherwise require.

Section 1.1. Counterparts. This Supplement may be executed and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Supplement.

Section 1.2. Governing Law. This Supplement shall be construed in accordance with and governed by the internal laws and decisions (as opposed to conflict of law provisions) of the State of California.

Section 1.3. Headings. Any headings or captions preceding the text of the several sections hereof are intended solely for convenience of reference and shall not constitute a part of this Supplement nor shall they affect its meaning, construction or effect.

IN WITNESS WHEREOF, the Debtor has caused this Supplement to be executed, and the Secured Party in evidence of its acceptance of the trusts hereby created, has caused this Supplement to be executed on its behalf by one of its duly authorized officers.

ITEL RAIL CORPORATION

By _____
Name: _____
Title: _____

AS DEBTOR

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN FRANCISCO)

On this ____ day of _____, _____, before me personally appeared _____, to me personally known, who being by me duly sworn, says that he is a _____ of ITEL RAIL CORPORATION, that said instrument was signed and sealed on _____, _____ on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Notary Public

Exhibit C
to Security
Agreement

Form of Legend to Be Stamped on
Each Assigned and Nonassigned Lease

THIS LEASE AND/OR THE RIGHTS TO PAYMENTS DUE HEREUNDER TO ITEL RAIL CORPORATION HAVE BEEN ASSIGNED IN WHOLE OR IN PART AS COLLATERAL SECURITY TO ONE OR MORE FINANCING PARTIES FOR OBLIGATIONS OF ITEL RAIL CORPORATION TO SUCH PARTIES UNDER ONE OR MORE AGREEMENTS RECORDED WITH THE INTERSTATE COMMERCE COMMISSION.

Form of Subordination, Assignment and
Nonassignment Clauses

Subordination. This Agreement and Lessee's rights hereby are subject and subordinate to the rights and remedies of any lender, owner or other party which finances the Cars.

Assignment. All rights and obligations of Lessor under this Agreement may be assigned, pledged, or transferred in whole or in part without consent by Lessee.

Nonassignment. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Lessee may not without the prior written consent of Lessor assign this Agreement or any of its rights or obligations hereunder or assign any Cars to any party. Any purported assignment in violation hereof shall be void. This Section shall not prohibit Lessee from engaging in the practice commonly known in the railroad industry as assigning Cars to a shipper on Lessee's lines.

ANNEX I

DEFINITIONS

General Provisions

The following terms shall have the following meanings for all purposes of the Operative Agreements referred to below, unless otherwise defined in an Operative Agreement or the context thereof shall otherwise require. In the case of any conflict between the provisions of this Annex I and the provisions of the main body of any Operative Agreement, the provisions of the main body of such Operative Agreement shall control the construction of such Operative Agreement.

Unless the context otherwise requires, (i) references to agreements shall be deemed to mean and include such agreements as the same may be amended, supplemented and otherwise modified from time to time, and (ii) references to parties to agreements shall be deemed to include the successors and permitted assigns of such parties.

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of the Operative Agreements, this shall be done in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of any Operative Agreement.

Defined Terms

"Additional Amounts" shall have the meaning specified in Section 2.8 of the Security Agreement.

"Affiliate" of any Person shall mean any other Person which directly or indirectly controls, or is controlled by, or is under a common control with, such Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agent" shall mean NMB Lease NV, acting in its capacity as agent for the Note Purchasers under the Note Purchase Agreement, or its successor appointed pursuant to the terms of the Note Purchase Agreement.

"Assigned Leases" shall have the meaning specified in Section 1.2(a) of the Security Agreement.

"Bankruptcy Code" shall mean the United States Bankruptcy Reform Act of 1978, as amended from time to time, 11 U.S.C. § 101 et seq.

"Book-Entry System" shall have the meaning specified in Section 2.3 of the Security Agreement.

"Borrower" shall mean ITEL Rail Corporation, a Delaware corporation, and any corporation which succeeds thereto by merger or consolidation or which acquires all or substantially all of the assets thereto or otherwise.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in the States of California or New York, or the City of Amsterdam are authorized or permitted to be closed and which also is a day on which dealings in Dollar deposits are carried out in the London interbank market.

"Closing Date" shall have the meaning specified in Section 1.2 of the Note Purchase Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall have the meaning specified in Section 1 of the Security Agreement.

"Coupon Rate" shall mean, with respect to any Secured Note, the Fixed Rate or the Floating Rate, as determined in accordance with Sections 1.1(d) and 1.4(a) of the Note Purchase Agreement.

"Debtor" shall mean the Borrower.

"Default" shall mean an Event of Default or an event which with notice or lapse of time or both would become an Event of Default.

"Dollar(s)" and "\$" means United States dollars or such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts in the United States of America.

"Equipment" shall mean collectively those items of railroad rolling stock described in any Supplement, together with any and all accessions, additions, improvements and replacements from time to time incorporated or installed on any item thereof which are the property of the Borrower.

"Equipment Cost" shall mean the amount agreed upon by the Note Purchaser and the Borrower as the equipment cost for each Unit as set forth in Schedule 1 to the Supplement delivered on the Closing Date.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law.

"Event of Default" shall have the meaning specified in Section 7.1 of the Security Agreement.

"Event of Loss" shall have the meaning specified in Section 5 of the Security Agreement.

"First Reset Date"

"Fixed Rate"

"Foreign Person" shall mean any Person who, for United States Federal income tax purposes, is a foreign corporation, a nonresident alien individual, a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more members of which is, for United States Federal income tax purposes, a foreign corporation, a nonresident alien individual or a nonresident alien fiduciary of a foreign estate or trust.

"Floating Rate"

"ICC" shall mean the Interstate Commerce Commission.

"Interchange Rules" shall have the meaning specified in Section 3.7 of the Security Agreement.

"Interest Payment Date" shall mean a date on which interest is due and payable on the Secured Notes.

"Interest Period" shall mean each three-month period commencing on the Closing Date and ending on the numerically corresponding date in each third month thereafter.

"Late Rate"

"Lease Assignment" shall have the meaning specified in Section 4(a)(ii) to the Note Purchase Agreement.

"LIBOR Break Funding Costs"

"LIBOR Rate"

"Lien" shall mean any mortgage, pledge, security interest, lien, encumbrance or other charge of any kind on property.

"Loan Value" shall have the meaning specified in Section 5 of the Security Agreement.

"Loss Date" shall have the meaning specified in Section 5 of the Security Agreement.

"Majority Note Purchasers" shall mean, at any time, Note Purchasers having Proportionate Shares which in the aggregate exceed 50%.

"Modifications" shall have the meaning specified in Section 3.9 of the Security Agreement.

"New Secured Notes" shall have the meaning specified in Section 2.5 of the Security Agreement.

"Nonassigned Leases" shall have the meaning specified in Section 1.2(b) of the Security Agreement.

"Nonassigned Lease Payment Rights" shall have the meaning specified in Section 1.2(b) of the Security Agreement.

"Note Purchase Agreement" shall mean the Note Purchase Agreement, dated as of January 30, 1991, between the Borrower and NMB Lease NV, as Agent and Original Note Purchaser.

"Note Purchaser" shall mean the registered owner of any Secured Note from time to time in accordance with the Book-Entry System, all in accordance with Section 2 of the Security Agreement and Section 5 of the Note Purchase Agreement

"Officer's Certificate" shall mean a certificate signed (i) in the case of a corporation by the President, any Vice President, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of such corporation, (ii) in the case of a partnership by the Chairman of the Board, the President or any Vice President, the Treasurer or an Assistant Treasurer of a corporate general partner, and (iii) in the case of a commercial bank or trust company, the Chairman or Vice Chairman of the Executive Committee or the Treasurer, any Trust Officer, any Vice President, any Executive or Senior or Second or Assistant Vice President, or any other officer or assistant officer customarily performing the functions similar to those performed by the persons who at the time shall be such officers, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

"Old Secured Notes" shall have the meaning specified in Section 2.5 of the Security Agreement.

"Operative Agreements" shall mean the Note Purchase Agreement, the Secured Notes outstanding at the time of reference, the Security Agreement and the Supplement.

"Optional Fixed Rate"

"Original Note Purchaser" shall mean NMB Lease NV.

"Parts" means all appliances, parts, instruments, appurtenances, accessories and other equipment of whatever nature which may from time to time be incorporated or installed in or attached to the Equipment.

"Permitted Bank" shall have the meaning specified in clause (iii) of the definition of the term "Permitted Investments."

"Permitted Investments" shall mean (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency thereof and maturing within one year from the date of acquisition thereof, (ii) commercial paper maturing not more than 270 days from the date of creation and having at the time such investment is made a rating of at least A-1 from Standard & Poor's Corporation or at least P-1 from Moody's Investors Service, Inc., (iii) certificates of deposit of any banking institution existing under the laws of the United States of America or any state thereof having capital, surplus and undivided profits (or the equivalent) of at least US\$100,000,000 and having at the time such investment is made, a long term deposit rating of at least A from Standard & Poor's Corporation or its equivalent from Moody's Investors Service, Inc. (such banking institution being hereinafter referred to as a "Permitted Bank"), (iv) money market preferred stock having, at the time such investment is made, a rating of at least A from Standard & Poor's Corporation or its equivalent from Moody's Investors Service, Inc., (v) repurchase obligations of Permitted Banks, (vi) investments in any Subsidiary of the Borrower, (vii) certificates of deposit of non-Permitted Banks existing under the laws of the United States of America or any state thereof in an amount not to exceed either US\$10,000,000 in the aggregate or US\$1,000,000 with any one such institution, or (viii) certificates of deposit of any banking institution existing under the laws of

Canada or any province thereof having capital, surplus and undivided profits (or the equivalent) of at least C\$1,000,000,000 or having capital, surplus and undivided profits (or the equivalent) of at least C\$250,000,000 and having at the time such investment is made, a long-term deposit rating of at least A1 from Moody's Investors Service, Inc., not to exceed C\$10,000,000 in the aggregate with respect to all certificates of deposit under this clause (viii).

"Permitted Liens" with respect to the Equipment and each Unit thereof, shall mean: (i) the interests of any lessee or sublessee under any Assigned Lease or Nonassigned Lease; (ii) any Liens thereon for taxes, assessments, levies, fees and other governmental and similar charges not due and payable or the amount or validity of which is being contested so long as there exists no material danger of sale, forfeiture, loss or loss of use of such Equipment or Unit and for the payment of which adequate reserves have been provided; (iii) any Liens of mechanics, suppliers, materialmen, laborers, employees, repairmen and other like Liens arising in the ordinary course of business securing obligations which are not due and payable or the amount or validity of which is being contested so long as there exists no material danger of sale, forfeiture, loss or loss of use of such Equipment or Unit and for the payment of which adequate reserves have been provided; (iv) the Lien and security interest granted to the Secured Party under and pursuant to the Security Agreement; (v) Liens arising out of any judgment or award against the Borrower (or any lessee or sublessee under a lease agreement relating to the Equipment), with respect to which an appeal or proceeding for review is being presented in good faith and with respect to which there shall have been secured a stay of execution pending such appeal or proceeding for review; and (vi) any other Lien with respect to which the Borrower (or any lessee or sublessee under a lease agreement relating to the Equipment) shall have provided a bond adequate in the reasonable opinion of the Secured Party.

"Person" shall mean an individual, partnership, corporation, trust, association or unincorporated organization, and a government or agency or political subdivision thereof.

"Prime Rate"

"Proportionate Share" shall mean, with respect to any Note Purchaser, at any time, the percentage share of the then total outstanding principal amount of Secured Notes owned by such Note Purchaser.

"Reset Date" shall mean the First Reset Date and the numerically corresponding date in each third month thereafter until but not including the Maturity Date.

"Secured Indebtedness" shall mean the outstanding Secured Notes and all principal thereof and interest thereon and LIBOR Break Funding Costs, Swap Breakage Loss and Additional Amounts, if any, and all other sums at any time due and owing from or required to be paid by the Borrower under the terms of the Note Purchase Agreement, the outstanding Secured Notes or the Security Agreement.

"Secured Notes" shall mean the Secured Notes due on the Maturity Date of the Borrower, bearing interest at the Coupon Rate, substantially in the form of Exhibit A to the Security Agreement.

"Secured Party" shall mean the Agent.

"Security" shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

"Security Agreement" shall mean the Chattel Mortgage and Security Agreement dated as of January 30, 1991 between the Borrower, as debtor, and the Original Note Purchaser, individually, and in its capacity as Agent, as secured party, as amended, supplemented or otherwise modified from time to time.

"Senior Debt" of the Borrower and its consolidated Subsidiaries means indebtedness incurred by the Borrower and its consolidated Subsidiaries of any term of maturity incurred in respect of (i) money borrowed or raised, (ii) any bond, note, loan, stock, debenture or similar instrument, (iii) acceptance or documentary credit facilities, (iv) the deferred payment for assets or services acquired (other than payments deferred for not more than 60 days for assets or services acquired, where such deferral is granted or acquisition is made in the ordinary course of business), (v) rental payments under leases (whether in respect of land, machinery, equipment or otherwise) which are treated as capitalized leases for the purposes of generally accepted accounting principles in the United States of America as in force at the date of the Security Agreement and (vi) the present value (discounted at a per annum rate equal to the interest rate on the debt incurred by the lessor in connection with the acquisition of the equipment subject to such lease, or if there is no such rate or the Borrower does not know such rate, at the Prime Rate in effect at the inception of such lease) of all rentals under operating leases. Senior Debt shall not include any Unsecured Subordinated Debt.

"Subsidiary" of any Person shall mean any corporation, association, or other business entity of which more than 50% (by number of votes) of the Voting Stock at the time outstanding shall at the time be owned, directly or indirectly, by such Person or by any other corporation, association or trust which is itself a Subsidiary within the meaning of this definition, or collectively by such Person and any one or more such Subsidiaries.

"Supplement" shall mean (a) the Supplement to the Security Agreement, substantially in the form of Exhibit B to the Security Agreement, between the Borrower and the Secured Party, covering the Collateral pledged on the Closing Date and (b) any supplement to the Security Agreement covering Collateral delivered thereafter.

"Swap Break Amount"

"Swap Breakage Gain"

"Swap Breakage Loss"

"Swap Counterparty" has the meaning specified in the definition of "Swap Transaction."

"Swap Form" means the standard form of Interest Rate and Currency Exchange Agreement published in 1987 by, and incorporating by reference therein the definitions and provisions contained in the 1987 Interest Rate and Currency Exchange Definitions of, the International Swap Dealers Association, Inc., expressly modified to provide that a prepayment of the Secured Notes pursuant to the Security Agreement shall constitute a Termination Event with respect to the Swap Transaction and for the purposes thereof the Swap Transaction shall be the sole Affected Transaction and the Original Note Purchaser shall be the sole Affected Party.

"Swap Transaction" means any one or more interest rate exchange transactions or other hedging arrangements entered into by the Original Note Purchaser with a counterparty (the "Swap Counterparty"), each, other than the economic terms thereof, governed by the terms of the Swap Form, pursuant to which the

Original Note Purchaser is to receive dollar-denominated variable rate payments in connection with any Note Purchaser's purchase of the Secured Notes.

"Tangible Assets" means, at any date, all of the assets of the Borrower and its consolidated Subsidiaries as determined in accordance with generally accepted accounting principles then in effect consistently applied except: (a) patents, copyrights, trademarks, trade names, franchises, goodwill, and other intangibles; (b) unamortized debt discount and expense; and (c) investments which are not Permitted Investments.

"Tangible Net Worth" means, at any date: (a) the book value (net of depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with generally accepted accounting principles consistently applied) at which Tangible Assets would be shown on a consolidated balance sheet of the Borrower and its Subsidiaries at such date prepared in accordance with generally accepted accounting principles then in effect consistently applied; less (b) the amount at which the liabilities of the Borrower and its Subsidiaries would be shown on such consolidated balance sheet.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee (including interest, penalties or additions thereto) that is imposed by any government or other taxing authority, other than a stamp, value added, documentation, registration or other similar tax.

"Total Equipment Cost" shall mean the sum of the Equipment Cost for each Unit then subject to the Lien of the Security Agreement.

"Unit" shall mean each unit or item of Equipment.

"Unsecured Subordinated Debt" means any unsecured indebtedness which would be Senior Debt but for the fact that it is junior and subordinated in right of payment or otherwise to any Senior Debt of the Borrower or its consolidated Subsidiaries.

"United States Tax" means any Tax imposed by the United States (or any political subdivision or taxing authority thereof or therein).

"Voting Stock" shall mean Securities of any class or classes of a corporation, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the board of directors (or persons performing similar functions).