



First Interstate Bank
of California
San Francisco
Regional Corporate Center
345 California Street
San Francisco, CA 94104
415 773-7013

1-337A004

Alma P. Agcaoli
Assistant Vice President

November 26, 1991

RECORDATION NO 17610 FILED 1425

DEC 3 1991 - 10:22 AM
INTERSTATE COMMERCE COMMISSION

Mildred Lee, Chief Recording Officer
Interstate Commerce Commission
Twelfth Street and Constitution Avenue, N.W.
Washington, D.C. 20423
Attn: Room 2303

Re: California Western Railroad Security Agreement

Dear Ms. Lee:

Enclosed is an original and a notarized copy of a security agreement dated August 14, 1991, signed by California Western Railroad to be registered.

The names and addresses of all parties are as follows:

- Borrower: Kyle Railways, Inc.
World Trade Center #221
San Francisco, CA 94111
- Collateral Owner: California Western Railroad
90 W. Redwood Avenue
Fort Bragg, CA 95437
- Lien Holder: First Interstate Bank of California
345 California Street, 23rd Floor
San Francisco, CA 94104
Attn: Amanda C. Stanton, AVP
SF23-8

DEC 3 10 26 AM '91
FOTOR OPERATING UNIT

Enclosed is a cashier's check in the amount of \$16.00 to cover the fee. Please feel free to give me a call if you have any questions.

Thank you.

Sincerely yours,

Alma P. Agcaoli

Interstate Commerce Commission

Washington, D.C. 20423

12/3/91

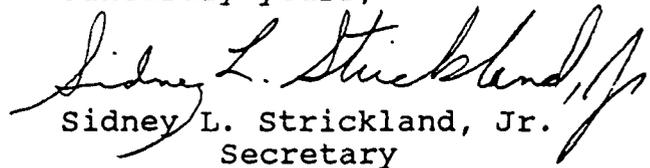
OFFICE OF THE SECRETARY

Alma P. Agcaoili
First Interstate Bank of California
345 California Street
Regional Corporate Center
San Francisco, CA. 94104

Dear Sirs:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 12/3/91 at 10:30AM , and assigned recordation number(s).17610.

Sincerely yours,


Sidney L. Strickland, Jr.
Secretary

THIS AGREEMENT is entered into this 14th day of August, 1991, between California Western Railroad

, operating under the trade name or tradestyle of same, a California Corporation, having its chief executive office and keeping its business records, including records with respect to accounts, inventory and equipment, at 90 W. Redwood Avenue, Fort Bragg, CA 95437

(Grantor), and FIRST INTERSTATE BANK OF CALIFORNIA, a California banking corporation, having its principal place of business in Los Angeles, California, and maintaining an office at 345 California St. 23rd Floor, San Francisco, California (Bank).

Grantor may from time to time request loans and advances from Bank, or give Grantor's guarantees to Bank guaranteeing the obligations owed Bank by others, or secure the obligations owed Bank by others, all secured by certain of Grantor's personal property and Bank is willing, in its sole discretion, to make such loans and advances to Grantor and to accept such guarantees or security subject to the terms and provisions of this Agreement and any amendments hereto.

In order to induce Bank to make such loans and advances, accept such guarantees or security and/or to extend or renew any existing indebtedness, as defined in paragraph 3, to Bank, Grantor and Bank hereby agree as follows:

*** INITIAL
[Signature]

1. Definitions.

A. The term "Equipment" means all of Grantor's furniture, fixtures, machinery and equipment, whether the same constitutes personal property or fixtures, now owned or hereafter acquired by Grantor, wherever situated, including all substitutions, accretions, component parts, replacements thereof and additions thereto, and the Proceeds of all of the foregoing.

B. The term "Proceeds" includes, but is not limited to, inventory, returned or reacquired merchandise, accounts, chattel paper, general intangibles, insurance proceeds, documents, money, goods, Equipment, Instruments and any other tangible or intangible property arising under the sale, lease, exchange, collection or other disposition of the Equipment of Grantor.

C. The term "Collateral" means Equipment and Proceeds as herein defined.

2. Creation Of Security Interest. To secure the payment of all indebtedness, as hereinafter defined, of Grantor to Bank, Grantor hereby grants Bank a security interest, pursuant to the California Commercial Code, in and to all Collateral. The security interest granted herein shall continue to be effective, or shall be reinstated, as the case may be, if at any time any payment, or any part thereof, of the indebtedness is rescinded or shall otherwise be restored or returned by Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Grantor or any guarantor of the indebtedness or any Borrower, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, Grantor or any guarantor or any Borrower or any substantial part of such person's property, or otherwise, all as though such payment had not been made.

3. Obligations Secured. The security interest herein granted to Bank shall secure the payment to Bank and/or performance by Grantor of the following (collectively "Indebtedness"), which, subject to Paragraph 19, Grantor hereby unconditionally promises to pay Bank in accordance with the terms of any document or agreement evidencing said indebtedness, provided, however, that if no such document or agreement evidences such indebtedness, then the same is payable to Bank upon demand:

A. All loans, advances, letters of credit, extensions of credit (provisional or otherwise), guarantees, overdrafts, indebtedness and obligations of Grantor or any Borrower, as defined in Paragraph 23, to Bank (collectively "Loans") heretofore or hereafter made or incurred, together with interest thereon and any renewals and extensions thereof, whether or not evidenced by notes, drafts, guarantees or other agreements by or on behalf of Grantor or any Borrower, or evidenced by accounts maintained by Bank, all such notes, drafts, guarantees, agreements and accounts shall be conclusive evidence of such indebtedness at any time owing to Bank;

B. All amounts, costs and expenses (appellate and otherwise) advanced, committed, expended or incurred by Bank pursuant to the terms of this Agreement, including reasonable attorneys' fees and expenses and allocated costs of in-house counsel, whether or not litigation is initiated and including those incurred in appellate proceedings, for or in connection with the maintenance, sale, removal, storage and/or preservation of the Collateral hypothecated to Bank as provided herein;

C. Any and all other obligations or liabilities of Grantor or any Borrower to Bank due or to become due, direct or indirect, absolute or contingent, joint or several, whether or not otherwise secured, and whether now existing or hereafter arising.

4. Documentation. From time to time, if required by Bank to do so, Grantor shall execute and deliver to Bank, evidencing Bank's security interest, a separate assignment or assignments, in form satisfactory to Bank, of Grantor's right, title and interest in specific Collateral so designated by Bank, and Grantor hereby agrees to execute and deliver to Bank such documents and instruments as Bank may require in order to confirm or affirm or further assure the hypothecation to Bank of any Collateral or Bank's security interest in the same, or to give any third party, including account debtors, notice of Bank's interest in Collateral hypothecated to Bank. However, notwithstanding any requests by Bank for separate assignments or other documentation, this Agreement constitutes a formal hypothecation to Bank of all present and future Collateral. Grantor shall also execute and deliver to Bank all other documents, in the opinion of Bank, necessary or convenient to perfect and maintain a security interest in favor of Bank in and to all Collateral, including, but not limited to, financing statements and amendment statements pursuant to the California Commercial Code or other applicable laws, all in form and substance acceptable to Bank, and Bank may file in the appropriate public office any document required or permitted by law to be filed.

5. Obligations Of Bank. The execution and delivery of this Agreement is not a commitment on behalf of Bank to grant any loans and Bank expressly reserves the right to refuse at any time any request by Grantor or any Borrower for any such accommodations.

6. Warranties, Representation And Covenants. Grantor hereby warrants, represents, covenants and agrees as follows:

A. Organizational Existence. Grantor is duly organized, validly existing and in good standing under the laws of the State of its formation and the execution, delivery and performance of this Agreement and any agreements or documents evidencing the indebtedness are within Grantor's powers, have been duly authorized, and are not in conflict with law or the charter or by-laws of Grantor or other organizational documentation or any provisions of any indenture, agreement or undertaking to which Grantor is a party or by which Grantor is bound or affected.

B. Trade Names. Grantor does not, and will not, during the term of this Agreement, without prior written notice to Bank, operate under any trade names or tradestyles, except those listed in the introductory paragraph of this Agreement.

C. Title To Collateral. Except as described in the financial statements provided Bank on or before the date of this Agreement, Grantor is, or at the time any Collateral comes into existence will be, the true and lawful owner of, and has, or at the time it comes into existence will have, good and clear title to, all Collateral, subject only to Bank's security interest therein.

D. Maintenance Of Records And Preservation Of Collateral. Grantor will maintain records of all Collateral at its chief executive office and will promptly disclose to Bank any and all locations where Grantor may from time to time maintain possession of any Collateral subject to the security interest herein; will do all acts which may be necessary to maintain, preserve and protect all Collateral which is subject to Bank's security interest; will keep all Collateral in good condition and repair; will not cause or permit any waste or unusual or unreasonable depreciation of any Collateral or any act for which said Collateral might be confiscated; and will pay before delinquency all taxes, assessments and liens now or hereafter imposed upon any Collateral.

E. Validity Of Accounts. Each account and all documents pertaining thereto are genuine in all respects and the amount thereof represents an undisputed claim or demand for the amount shown due and is not subject to any known defense, offset, counterclaim or any contingency whatever.

F. Sale, Transfer Or Encumbering Of Collateral. Grantor will not sell, lease, assign, transfer or dispose of any Collateral, except for transactions in the ordinary course of Grantor's business; nor will Grantor create or permit to exist any lien, charge, security interest or encumbrance on any Collateral, except that Grantor may, upon prior written notice to Bank, create and permit to exist purchase money security interests in Equipment.

G. Bank's Rights To Protect Collateral. Grantor agrees to promptly pay any debt when due relating to or affecting Collateral, and if Grantor fails to make any such payment or do any act as herein required, Bank may, but without obligation to do so, and without notice or demand upon Grantor, make such payment and take such action as Bank may deem necessary to protect and preserve Collateral as permitted by the California Commercial Code, including, without limitation, the right to take possession of Collateral, to pay, purchase, contest and compromise any encumbrance, charge or lien which, in the judgment of Bank, appears to be prior or superior to the security interest granted pursuant to this Agreement, and in the exercise of any such power and authority, Bank may pay necessary expenses, employ counsel and pay reasonable fees therefor. Grantor hereby agrees to repay immediately and without demand all sums so expended by Bank, with interest from date of expenditure at the highest rate of any loan extended by Bank to Grantor or any Borrower then outstanding secured by this Agreement.

H. Remittance On Disposition Of Collateral. Any remittances or other proceeds which may be received by Grantor on account of any sale or other disposition of any Collateral regardless of the form of such proceeds, shall be received by Grantor on behalf of Bank and shall, upon written notice by Bank, be kept separate and apart from all other funds and property so as to be capable of identification as the property of Bank and Grantor shall promptly deliver all such remittances to Bank.

I. Insurance. Grantor shall maintain at all times with respect to Collateral, insurance against risks of fire, so-called extended coverage, sprinkler leakage and other risks customarily insured against by companies engaged in similar business to that of Grantor, in amounts, containing such terms, in such form, for such periods and written by such companies as may be satisfactory to Bank, such insurance to be payable to Bank and to Grantor as their interests may appear. All policies of insurance shall provide for ten (10) days written minimum cancellation notice to Bank. In the event of failure to maintain such insurance, Bank may at its option, after notice to Grantor, provide such insurance at the expense of Grantor. Grantor shall furnish to Bank certificates or other evidence satisfactory to Bank of compliance with the foregoing provisions. In the event Bank takes possession of any Collateral, the insurance policy or policies and any unearned or returned premium thereon and the proceeds thereof shall, at the option of Bank, become the sole property of Bank, such policies and proceeds being hereby assigned to Bank.

7. Collection Of Accounts By Grantor.

A. Bank authorizes Grantor to collect all accounts hypothecated to Bank and Grantor agrees to use its best efforts to effect the prompt collection thereof, provided however, that at no time shall accounts in an aggregate of 10% of the gross amount of such accounts be assigned to a third party for collection purposes without Bank's prior written consent. Upon written notice by Bank to Grantor, all monies and remittances in any form received by Grantor from the debtor on any such account shall be kept by Grantor separate and apart from any other monies or property in the possession of Grantor and all such monies and receipts on such accounts shall be held in trust for Bank to be deposited in a separate account with Bank daily in the identical form received. Authorization to collect such accounts may be terminated at any time with or without notice to Grantor and whether or not Grantor is in default hereunder, and Bank may, at its election, notify any debtor on any such account of the hypothecation thereof and effect collection of any such account directly from the debtor obligated thereon.

B. Cash proceeds of the collections when received by Bank shall be applied toward the indebtedness in any order of priority that Bank determines, in its sole discretion, and any balances in excess of said indebtedness may be credited to Grantor's general account or remitted to Grantor.

8. Power Of Attorney. Grantor hereby irrevocably appoints Bank, or any person designated by Bank, its true and lawful attorney-in-fact to endorse the name of Grantor on any notes, invoices, freight or express bills, warehouse receipts, instruments, acceptances, checks, drafts, money orders, or other remittances, to sign the name of Grantor to financing statements, drafts against account debtors, assignments or verifications of accounts hypothecated to Bank and notices to account debtors, and to do all other acts and things necessary to carry out the intent of this Agreement. Bank may place its representatives on the premises of Grantor to enforce and implement these agreements of Grantor. Bank may receive, open and dispose of all mail addressed to Grantor and notify the postal authorities to change the address for delivery of mail addressed to Grantor to such address as Bank may designate. The authority herein granted Bank shall remain in full force and effect until all indebtedness of Grantor and each Borrower to Bank has been paid in full. Grantor indemnifies and holds harmless Bank and the postal authorities from any liability or loss from such changing of address, receiving, opening or disposing of the mail.

9. Notation Of Records. Grantor agrees to make appropriate notations and entries on its ledgers and books, disclosing the hypothecation of the Collateral to Bank.

10. Obligations Of Third Parties. Bank shall have the right to settle or adjust all disputes or claims directly with the debtors with respect to accounts hypothecated to Bank and to compromise or extend the time of payment for any such accounts on such terms and conditions as Bank may determine without liability to Grantor. It is specifically understood and agreed by Grantor that Bank may, from time to time and without notice, release or otherwise deal with any person now or hereafter liable for the payment of the indebtedness and may renew, extend or alter the time or terms of payment of such indebtedness, and release, surrender or substitute any property or other security for such indebtedness, or accept any type of further security therefor, without in any way affecting the obligations of Grantor to Bank. Consent is hereby given to Bank to delay or grant indulgences in enforcing payment or performance of any such indebtedness, and diligence, presentment, protest, demand and notice of every kind, as well as the right to require Bank to proceed against any person liable for the payment of any such indebtedness, or to foreclose upon, sell, or otherwise realize upon or collect or apply any other property, real or personal, securing any such indebtedness, as a condition or prior to proceeding hereunder, are hereby waived.

11. Additional Covenants. Grantor covenants and agrees:

A. Reports. To furnish to Bank from time to time such financial statements and information as Bank may reasonably request and inform Bank immediately of the occurrence of a material adverse change in Grantor's financial condition and, upon written notice by Bank, to furnish monthly within fifteen (15) days of the end of each month, or at such other times as may be required by Bank, a report of all Collateral hypothecated to Bank, which report shall show the value of all Collateral and shall be in such form and shall contain such information as Bank may require.

B. Accuracy Of Reports. Subject to any limitations stated therein, that all financial statements and other financial data furnished to Bank or which may be furnished to Bank hereunder shall fairly represent the financial condition of Grantor as of the dates thereof and the results of Grantor's operations for the periods for which the same are furnished. All other information, reports and other data furnished to Bank are or shall be at the time they are furnished complete, accurate and correct in all material respects.

C. Verification. To permit representatives of Bank to inspect Grantor's books, records and files and make extracts at any reasonable time and arrange for verification of accounts hypothecated to Bank, under reasonable procedures, acceptable to Bank, directly with the account debtors at Grantor's expense.

D. Inspection. To allow and arrange for Bank at any reasonable time, through its duly authorized representative or representatives, to inspect any Collateral at any premises or facilities of Grantor or elsewhere.

E. **Legal Process.** To promptly notify Bank of any attachment or other legal process levied against any Collateral and any information received by Grantor, including about accounts, the account debtors, or other persons obligated on accounts, that may in any way affect the value of any Collateral or the rights and remedies of Bank in any Collateral.

F. **Operation And Location.** To register, use, operate and control all Collateral in accordance with all statutes, laws, ordinances and regulations relating to the registration, use or control of said Collateral; that Grantor will neither use, nor permit any Collateral to be used for any unlawful purpose nor remove or permit any Collateral to be removed from the State of California or such other location outside of California presently permitted by Bank, without the prior written consent of Bank.

G. **Taxes.** Upon written request by Bank, that Grantor will concurrently with payment thereof, deliver to Bank written evidence of payment of withholding and payroll taxes. If not timely paid, Grantor agrees to forthwith notify Bank in writing of any such failure to pay.

H. **Expenses Of Bank.** To pay on demand any and all costs and expenses, including, without limitation, reasonable attorneys' fees (including allocated costs of in-house counsel), incurred by Bank in connection with the administration of this Agreement and the enforcement and protection of the rights of Bank under this Agreement, including the protection of the rights of Bank in any bankruptcy, reorganization, liquidation or insolvency proceeding.

I. **Offices Of Borrower.** To notify Bank of each office of Grantor where Grantor keeps books and records with respect to any Collateral.

12. **Charges.** Subject to Paragraph 19, Grantor authorizes Bank to charge, from time to time, Grantor's accounts for any fees and interest accrued and owing to Bank. Interest rates and any fees shall be set forth in agreements supplemental hereto or in separate debt instruments.

13. **Bank Accounts.** Grantor authorizes Bank to effect transfers between and among any bank accounts maintained by Grantor with Bank, provided, however, that nothing herein shall be deemed an express or implied authority to Grantor to effect any overdraft.

14. **Events Of Default And Rights On Default.** If one or more of the following described events of default shall occur:

A. Grantor or any guarantor or any Borrower shall default in the payment of the Indebtedness when the same shall become due and payable; or

B. Any of the representations or warranties made by Grantor or any guarantor or any Borrower herein or in any certificate or financial or other statements heretofore or hereafter furnished by or on behalf of Grantor or any guarantor or any Borrower in connection with the making of this Agreement or the granting of the Indebtedness shall be incorrect in any material respect at the time made; or

C. Grantor shall fail to perform or observe, or any person shall dispute the applicability or the validity of, any covenant, term, provision, condition, agreement or obligation of this Agreement; or

D. Any guarantor of the Indebtedness shall terminate any guarantee or dispute such guarantor's liability under or the validity or terms of such guarantee; or

E. Grantor or any guarantor or any Borrower shall fail to perform or observe any of the covenants, terms, provisions, conditions, agreements or obligations under any other agreement, indenture, document, note or other instrument executed or to be executed by such person; or

F. Grantor or any guarantor or any Borrower shall become insolvent; or admit in writing its inability to pay its debts as they mature; or make an assignment for the benefit of creditors or commence proceedings for dissolution, termination or cessation of organizational existence; or apply for or consent to the appointment of a trustee or receiver for it or for a substantial part of its property or business; or

G. A trustee, liquidator or receiver shall be appointed for Grantor or any guarantor or any Borrower or for a substantial part of its property or business without its consent; or

H. Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency shall assume custody or control of the whole or any substantial portion of the properties or assets of Grantor or any guarantor or any Borrower; or

I. Any money judgment, writ or warrant of attachment, or similar process shall be entered or filed against Grantor or any guarantor or any Borrower or any of its properties or other assets and shall remain unvacated, unbonded, or unstayed for a period of fifteen (15) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

J. Bankruptcy, reorganization, insolvency, or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against Grantor or any guarantor or any Borrower and, if instituted against Grantor or any guarantor or any Borrower shall not be dismissed within thirty (30) days after such institution, or Grantor or any guarantor or any Borrower shall by any action or answer approve of, consent to, or acquiesce in any such proceeding or admit the material allegations of, or default in answering a petition filed in any such proceeding; or

K. Grantor shall voluntarily suspend the transaction of business for more than five (5) days in any calendar year from the effective date of this Agreement; or

L. In the opinion of Bank, there is a materially adverse change in the financial condition, ownership or management of Grantor or any guarantor or any Borrower;

THEN, or at any time thereafter, and in each and every such case, unless such event or events of default shall have been waived in writing by Bank, all Indebtedness shall forthwith become due and payable, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, anything herein or in any evidence of Indebtedness or other instruments contained to the contrary notwithstanding, and Bank may immediately, and without expiration of any period of grace, exercise Bank's right of offset; and enforce any and all of Bank's rights and/or remedies provided for in this Agreement, which shall include the remedies of a secured party under the California Commercial Code, including, without limitation:

A. The right to require Grantor to immediately assemble any or all Collateral and make it available to Bank at a place designated by Bank;

B. The right to immediately take possession of any or all Collateral wherever it may be found, using all necessary, lawful force to do so and Grantor waives all claims to damages due to or arising from or connected with any such taking;

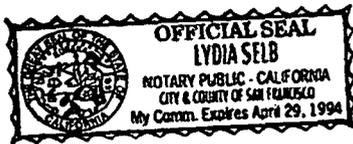
C. The right to proceed in the foreclosure of this Agreement and sell any or all Collateral in any manner permitted by law or provided for herein;

D. The right to sell any or all Collateral at one or more public or private sales with or without having said Collateral at the place of sale, and upon terms and in such manner as Bank may determine and Bank is authorized to purchase same at any such sale. Prior to any sale, Bank may at its option complete the processing of or repair or recondition any Collateral to such extent as Bank may deem advisable and any sums expended therefor by Bank shall immediately be repaid by Grantor. Bank may take possession of Grantor's premises to complete such processing, repairing and reconditioning, using the facilities and other property of Grantor to do so, to store any Collateral subject to Bank's security interest and to conduct any sale as provided for herein, all without compensation to Grantor;

E. The right upon legal notice to sell, in one or more sales, at public or private sale without appraisal, any or all of the accounts hypothecated to Bank. Bank may be the purchaser of any account so sold and hold the same thereafter in its own rights absolutely free from any claims of Grantor or right of redemption thereof.

The net proceeds of any sale or sales as described above shall be applied against the Indebtedness owed to Bank hereunder in any order of priority that Bank, in its sole discretion determines and, thereafter, any other obligations of Grantor to Bank. Grantor shall forthwith pay to Bank any deficiency upon demand and shall be entitled to any surplus resulting from sale or sales. Demand of performance, advertisement and presence of property at any sale or sales are hereby waived and Bank is hereby authorized to sell hereunder any evidence of debt assigned to it if it does not exercise its right to collect on such evidence of debt. All demands and presentments of any kind or nature are expressly waived by Grantor. Grantor hereby waives the right to require Bank to proceed against any Collateral or other security it may hold. Grantor waives the right to require Bank to pursue any other remedy for the benefit of Grantor

STATE OF CALIFORNIA
COUNTY OF SAN FRANCISCO



This document is only a general form which may be proper for use in simple transactions and in no way acts, or is intended to act, as a substitute for the advice of an attorney. The publisher does not make any warranty either express or implied as to the legal validity of any provision or the suitability of these forms in any specific transaction.

On this 22nd day of NOVEMBER in the year
1991 before me
The undersigned _____, a Notary Public, State of California,
duly commissioned and sworn, personally appeared Amanda
C. Stanton,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the Assistant Vice President of the corporation
that executed the within instrument, and also known to me to be the
person _____ who executed the within instrument on behalf of the corpora-
tion therein named, and acknowledged to me that such corporation executed
the same _____.

IN WITNESS WHEREOF I have hereunto set my hand and affixed
my official seal in the City and County of San
Francisco on the date set forth above in this certificate.

Lydia Selb
Notary Public, State of California
My commission expires April 29, 1994

and agrees that Bank may proceed against Grantor for the amount of the Indebtedness owed by Grantor to Bank without taking any action against any account debtor or any other party and without selling or otherwise proceeding against or applying any security it may hold. Bank shall have the right to enforce any one or more remedies hereunder, successively or concurrently, and any such action shall not estop or prevent Bank from pursuing any further remedy which it may have hereunder by law, and all remedies, either under this Agreement or by law or otherwise afforded to Bank, shall be cumulative and not alternate.

15. **Waiver.** As against Bank, Grantor waives its rights and the protections granted it, if any, under Division Third, Part 4, Title 13 of the California Civil Code, including Sections 2787 through 2855, dealing with sureties. Grantor agrees that Bank may in its absolute discretion and without prejudice to or in any way limiting or lessening the liability of Grantor under this Agreement: (a) extend credit to any Borrower in such amount and at such times as Bank may determine, and whether Bank has knowledge of facts with respect to any Borrower which might be construed as materially prejudicial to the interests of Grantor, Bank being hereby relieved of any duty to disclose any such facts to Grantor; (b) grant extensions of time or other indulgences; (c) change the interest rate; (d) take or give up or modify, vary, exchange, renew or abstain from perfecting or taking advantage of any security; (e) accept or make compositions or other arrangements or file or refrain from filing a claim in any bankruptcy proceeding of any Borrower or guarantor; (f) discharge or release any party or parties; (g) realize or not realize on any security regardless of effect on Grantor's subrogation or reimbursement rights; (h) apply payments in such manner and order of priority as Bank sees fit; and (i) otherwise deal with any Borrower or guarantor or other parties and security as Bank may deem expedient. Grantor shall not be entitled to be subrogated to any of the rights of Bank against any Borrower or any guarantor or any collateral security held by Bank for the payment of all or any part of the Indebtedness, nor shall Grantor seek any reimbursement from any such person or asset, until all amounts owed to Bank by such person for or on account of the Indebtedness are paid in full.

No delay or omission to exercise any right, power or remedy accruing to Bank shall impair any such right, power or remedy of Bank, nor shall it be construed to be a waiver of any breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of Bank, of any breach or default under this Agreement, or any waiver on the part of Bank, of any provision or condition of this Agreement, must be in writing and shall be effective only to the extent in such writing specifically set forth.

16. **Effect On Other Agreements.** Nothing in this Agreement shall in any way limit the effect of the covenants, conditions, terms and provisions set forth in any other security or other agreement previously or later executed by Grantor, but each and every provision of this Agreement shall be in addition to the others.

17. **Notices.** Any notice required hereunder may be made in writing through United States mail addressed to Grantor and Bank's branch office at the addresses set forth in the first paragraph of this Agreement.

18. **Law Governing.** This Agreement is being delivered and shall be deemed entered into in the State of California and shall be governed by and construed according to the laws of such state.

19. **Separate Property And Individual Liability.** Any person who joins in executing this Agreement and any note or other agreement to repay the Indebtedness secured hereby agrees and expressly assents to the liability of all separate property for the Indebtedness. Any person who joins in executing this Agreement and who is not otherwise liable for repayment of the Indebtedness hereby agrees only to those provisions of this Agreement which relate to the grant of the security interest in the property described herein and the exercise of the rights of a secured party by Bank, and does not assume, by execution of this Agreement alone, additional liability for repayment of the Indebtedness secured hereby.

20. **Statute Of Limitations.** The right to plead any and all statutes of limitations as a defense to any demand secured by this Agreement is hereby waived to the full extent and longest period allowed by law.

21. **Captions.** The captions used in this Agreement are for the convenience of the parties. The captions are not to be utilized to construe or interpret the provisions of this Agreement.

22. **Miscellaneous.** The words "Grantor" and "Bank", as used herein, shall be construed to include the heirs, legatees, devisees, administrators, executors, successors and assigns of Grantor and Bank. This Agreement shall bind and inure to the benefit of Grantor and Bank. Grantor may not assign this Agreement or any of the rights of Grantor hereunder without the prior written consent of Bank. Whenever the context so requires, the singular number includes the plural and vice versa. If there be more than one Grantor, it is agreed that the provisions of this Agreement in reference to Grantor shall be construed to apply jointly and severally to each of the Grantors.

23. **Borrowers.** In addition to any Indebtedness owed Bank by Grantor, this Agreement secures all joint and several Indebtedness owed Bank by Kyle Railways, Inc. and/or _____ (collectively and individually "Borrower").

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date appearing in the opening paragraph hereof.

FIRST INTERSTATE BANK OF CALIFORNIA

By Amanda C. Stanton
Amanda Stanton, AVP
By Assistant Vice President

California Western Railroad
By [Signature]
By President

***, including, but not limited to, the following equipment and fixtures, locomotives, motor cars, passenger coaches, office and station equipment, shops and enginehouse, international 5D8 tractor, roundhouse inventory, open cars, cabooses, flat cars, dayton generator, compressors, crane and Hansen shovel. The above goods are or are to become fixtures on the property located in the City of Fort Bragg, County of Mendocino, State of California, described as SEE EXHIBIT A in the office of the County Recorder of Mendocino County, commonly known as Foot of Laurel Street, and this financing statement is to be recorded in the real estate records. The name of the record owner of the real estate is Mendocino Coast Railway, Inc.

I hereby certify that this is a copy of the Original Security Agreement dated August 14, 1991 signed by California Western Railroad

Amanda C. Stanton, AVP
Amanda C. Stanton, AVP

