SIDLEY & AUSTIN
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

1722 EYE STREET, N W
WASHINGTON, D C 20006
TELEPHONE 202 736-8000
TELEX 89-463
FACSIMILE 202 736-8711

CHICAGO
LOS ANGELES
NEW YORK

LONDON
SINGAPORE
TOKYO

125th Anniversary
1866-1991

WRITER'S DIRECT NUMBER

November 12, 1993

18468

RECORDATION NO. FILED 1425

NOV 12 1993 3:[illegible] PM

INTERSTATE COMMERCE COMMISSION

Office of the Secretary
Recordations Unit
Room 2303
Interstate Commerce Commission
12th and Constitution Avenue, N.W.
Washington, D.C. 20423

Attention: Ms. Mildred Lee

Dear Ms. Lee:

Enclosed are three original counterparts of the document described below, to be recorded pursuant to 49 U.S.C. § 11303.

The Mortgage and Security Agreement dated as of November 12, 1993 is a primary document. The names and addresses of the parties to such document are as follows:

Southern Pacific Transportation Company
One Market Plaza, Room 666
San Francisco, CA 94105

AT&T Commercial Finance Corporation
44 Whippany Road
Morristown, NJ 07962-1983

RECORDATION NUMBER FILED 1425
NOV 12 3 39 PM '93
INTERSTATE COMMERCE COMMISSION

The equipment affected by the documents consists of sixteen locomotives specifically described in the Mortgage and Security Agreement.

A filing fee of $18.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to the undersigned.

A short summary of the documents to appear in the index follows:

Mortgage and Security Agreement dated as of November 12, 1993, between AT&T Commercial Finance Corporation, as Collateral Agent, and Southern Pacific Transportation Company, as Lessee, covering sixteen locomotives identified by the Lessee in Exhibit A thereto.

Very truly yours,

G. Paul Moates

Enclosures

SCD93A07.WPN (11/12/93 11:37am)

18468-C

EXECUTION COPY

RECORDATION NO. _____ FILED 1425

NOV 12 1993 3 25 PM

INTERSTATE COMMERCE COMMISSION

MORTGAGE AND SECURITY AGREEMENT

Dated as of November 12, 1993

between

SOUTHERN PACIFIC TRANSPORTATION COMPANY,
Lessee

and

AT&T COMMERCIAL FINANCE CORPORATION,
as Collateral Agent

16 LOCOMOTIVES

LICENSING & RESEARCH
NOV 12 3 23 PM '93

FILED WITH THE INTERSTATE COMMERCE COMMISSION
PURSUANT TO 49 U.S.C. § 11303
ON NOVEMBER 12, 1993 AT _____ _.M.
RECORDATION NUMBER _____

MORTGAGE AND SECURITY AGREEMENT

THIS MORTGAGE AND SECURITY AGREEMENT is made as of the 12th day of November, 1993 (the "Security Agreement") by and between SOUTHERN PACIFIC TRANSPORTATION COMPANY, a Delaware corporation (the "Lessee"), and AT&T COMMERCIAL FINANCE CORPORATION, a Delaware corporation, as collateral agent (in such capacity, the "Collateral Agent") for the holders of the "Obligations" (as defined below). Unless otherwise defined herein, capitalized terms are used herein as defined in the "Equipment Lease" (as defined below).

W I T N E S S E T H T H A T:

WHEREAS, pursuant to the terms and conditions of that certain Equipment Lease Agreement of even date herewith between Lessee and AT&T Commercial Finance Corporation (as amended from time to time, the "Lease"), AT&T Commercial Finance Corporation has agreed to lease to the Lessee certain "Equipment" (as defined in the Lease) (the Lease, together with all "Lease Supplements" (as defined therein), being the "Equipment Lease"); and

WHEREAS, in order to secure the Lessee's obligations under the Equipment Lease and certain related agreements, the Lessee has agreed to mortgage and pledge and grant to the Collateral Agent, for its own benefit and for the benefit of each Lessor under the Equipment Lease and each holder of the Obligations (collectively, the "Holders"), a perfected, first priority security interest in all of the Lessee's rights, title and interests in and with respect to certain locomotives as more fully and precisely described in Exhibit A hereto (each such locomotive, an "Item of Mortgaged Equipment", and such locomotives collectively or generally, the "Mortgaged Equipment");

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. The Security Interests.

In order to secure (i) the due, punctual and full payment of the Rental Payments, Lessor's Return and any other payment obligations of the Lessee under the Equipment Lease and any other Fundamental Agreement and any arrearages payable by Lessee in respect thereof; (ii) the due and punctual payment and performance of all other obligations of the Lessee under the Equipment Lease and any other Fundamental Agreement; and (iii) the due and punctual payment and performance of all obligations of the Lessee hereunder and under all other agreements executed

or delivered by the Lessee in connection herewith or with the Equipment Lease (all of the foregoing are hereinafter collectively called the "Obligations"), the Lessee hereby conveys, assigns, mortgages, transfers, delivers and sets over and pledges to the Collateral Agent and grants to the Collateral Agent, for its own benefit and the benefit of each Holder, a first priority, continuing security interest in all the Lessee's right, title, interest, estate, claims and demands which it now has or may hereafter acquire in, to and under the following properties (hereinafter collectively called the "Collateral"):

> (a) all Mortgaged Equipment and all related engines, parts, appliances and components of any kind and whether or not affixed thereto; (b) all rentals of, replacements and substitutions for, and all accessions, attachments, additions or improvements to, and all proceeds and products of, all of the foregoing, including proceeds of insurance and claims of the Lessee against third parties for loss or damages to, or destruction of, any of the foregoing; (c) all warranties and indemnities payable at any time to, or performable at any time for the benefit of, the Lessee by any servicer, manufacturer or vendor with respect to the foregoing; and (d) all books, records, documents, logs, computer tapes and discs to the extent relating to any of the foregoing; and (e) all proceeds of the foregoing.

The security interests granted pursuant to this Section 1 (the "Security Interests") are granted as security only and shall not subject the Collateral Agent or any Holder to, or transfer to the Collateral Agent or any Holder, or in any way affect or modify, any obligation or liability of the Lessee under or relating to any of the Collateral or any transaction which give rise thereto.

The Collateral Agent acknowledges and agrees that, as more fully set forth in Section 9(c) hereof and subject to the terms thereof, the Collateral Agent shall be entitled hereunder, in the event of occurrence of an Event of Default hereunder that is attributable solely to an Event of Default under the Lease Agreement, to sell, lease or foreclose on the Collateral only after the applicable Deficiency Amount has been established pursuant to Section 19 of the Lease.

The Collateral Agent and each Holder shall have the unqualified right to assign, transfer or otherwise convey any of its right and interest (including Security Interest) hereunder and to the Collateral (collectively, "Collateral Interests"), in whole or in part, without prior notice to, or consent of, Lessee. The Collateral Agent and Holders may, in connection with any such

assignment, transfer or conveyance (i) divide the Collateral to cover discrete portions of the Obligations (or to provide security for discrete portions of the Obligations on a senior and subordinated basis as between such Obligations) and (ii) choose to hold the Collateral Interests directly as Holders, through the Collateral Agent or through one or more collateral agents or in any combination thereof. Lessee agrees that it shall, if requested by the Collateral Agent or any Holder, in connection with any complete or partial assignment by the Collateral Agent or any Holder of its Collateral Interests (i) amend and restate this Security Agreement (or otherwise enter into such other agreements and documents as may be reasonably required by the Collateral Agent or any Holder) solely in order to reflect such assignment or change in or elimination of collateral agents and indicate the identity of the assignees and related matters and to indicate the continuing interests, if any, of the Collateral Agent or other Collateral Agents and any Holder hereunder and with respect to any applicable Collateral Interests; and (ii) execute and file such amended and restated Security Agreements and other documents with the ICC and other appropriate statutory authorities or filing offices in order to record the Security Interests in effect after giving effect to such assignments and amendments. It is further agreed that: (x) each assignee shall be entitled to all of the Collateral Agent's or each Holder's, as the case may be, Collateral Interests to the extent assigned; and (y) any assignee shall have the same rights of assignment provided hereunder as do the original Collateral Agent and Holder. The parties acknowledge that the sole Holder as of November 9, 1993 is AT&T Commercial Finance Corporation, a Delaware corporation.

Section 2. Filing; Further Assurances.

The Lessee will, at its expense, execute, deliver, file and record (in such manner and form as the Collateral Agent may require), or permit the Collateral Agent to file and record (i) this Security Agreement with ICC pursuant to Section 11303 of Title 49 of the United States Code and (ii) any financing statements, any carbon, photographic or other reproduction of a financing statement or of this Security Agreement (which the parties hereto agree shall be sufficient as a financing statement hereunder), any specific assignments or other paper that may be reasonably necessary or desirable, or that the Collateral Agent may request, in each case in order to create, confirm, preserve, perfect or validate any Security Interest or to enable the Collateral Agent to exercise and enforce its rights hereunder, under the Equipment Lease or under Applicable Law with respect to any of the Collateral. The Lessee hereby appoints the Collateral Agent as the Lessee's attorney-in-fact to execute in the name and on behalf of the Lessee such additional filings with ICC or

financing statements with applicable offices, in each case as the Collateral Agent may at any time request or require in respect of the Collateral.

Section 3. Representations and Warranties of the Lessee.

The Lessee hereby represents and warrants to the Collateral Agent as follows:

(a) The Lessee is, or to the extent that certain of the Collateral is to be acquired after the date hereof, will be, the owner of the Collateral, with full legal right, title and interest thereto free from any Lien (other than the Liens created hereunder in favor of the Collateral Agent).

(b) There is no financing statement or other evidence or recording of a Lien covering the Collateral on file in any public office, other than the financing statements filed pursuant to this Security Agreement; there is no filing covering the Collateral with the ICC or equivalent Canadian authority evidencing a Lien thereon in favor of any Person other than the filing hereof made pursuant to this Security Agreement.

(c) "Southern Pacific Transportation Company" is the exact corporate name and title of Lessee. Lessee has not used any other corporate name or title within the previous ten years. The only trade name used by Lessee in its business on a regular basis is "Southern Pacific Lines". Lessee's chief executive office is One Market Plaza, San Francisco, California.

(d) There is no Loss or Event of Default or event which, with the passage of time or provision of notice or both, would constitute a Loss or an Event of Default, in existence.

Section 4. Covenants of the Lessee.

The Lessee hereby covenants and agrees as follows:

(a) The Lessee will defend the Collateral against all claims and demands of all Persons (other than the Collateral Agent and Holders) at any time claiming any interest therein.

(b) The Lessee will provide the Collateral Agent, at least thirty (30) business days prior to occurrence, with written notice of any change in the chief executive office of the Lessee, and immediate notice (within one business day) of any suspension or termination of material operations by the Lessee or any notice given thereof or any corporate action taken in respect thereof.

(c) The Lessee shall promptly pay any and all taxes, assessments and governmental charges upon the Collateral prior to the date penalties are attached thereto, except to the extent that such taxes, assessments and charges shall be contested in good faith by the Lessee by appropriate proceedings (provided no Lien or assessment attaches to or is claimed against any of the Collateral during the pendency of such proceedings) and adequate reserves have been set aside therefor. Notwithstanding any other provision of this Security Agreement, Lessee's obligation to pay any Sales Tax in the context of an Event of Default shall be conditioned upon delivery by the Collateral Agent of such properly completed and validly executed resale certificates or similar documents as may timely be reasonably requested in writing by Lessee, within 10 days of such request.

(d) The Lessee shall immediately notify the Collateral Agent of any event causing a substantial loss in the value of all or any material part of the Collateral at any location and the amount or an estimate of the amount of such loss.

(e) The Lessee shall not sell or offer to sell or otherwise assign, transfer or dispose of the Collateral or any interest therein, without the prior written consent of the Collateral Agent.

(f) The Lessee shall keep all of the Collateral free from any and all Liens and in good repair, working order and condition, reasonable wear and tear excepted, other than (i) the Security Interests in the Collateral created hereunder, (ii) materialmen's, mechanic's, workmen's and other like Liens arising in the ordinary course of Lessee's or any permitted lessee's business securing obligations that are not overdue and (iii) Liens for Taxes of Lessee that are not overdue (it being understood that the exceptions contained in clauses (ii) and (iii) above shall not limit or qualify Lessee's obligations hereunder to transfer the Collateral upon the occurrence of an Event of Default or otherwise as specified herein free and clear of all Liens).

(g) The Lessee shall not use any of the Collateral in material violation of any statute or ordinance or other Applicable Law or otherwise than for its originally intended purposes.

(h) The Lessee shall not change its corporate name without prior notice thereof to the Collateral Agent. The Lessee shall not consolidate with or merge into any corporation or other entity or person or convey, transfer or lease all or substantially all of its assets to any corporation or other entity or person except in compliance with Section 16(e) of the

Lease, the terms of which are hereby incorporated as if set forth herein.

(i) Lessee shall mark its books and records relating to the Collateral to evidence this Security Agreement and the Security Interests, and post such notices as the Collateral Agent may designate on each Item of Mortgaged Equipment as the Collateral Agent may require.

(j) A. Lessee shall carry or cause to be maintained in effect at its expense (i) comprehensive liability (including, without limitation, contractual, bodily injury and property damage liability) and third party property damage insurance with respect to the Mortgaged Equipment, (A) in an amount not less than the greater of (x) the amounts of comprehensive liability and third party property damage insurance from time to time applicable to locomotives owned or operated by Lessee of the same type as the Mortgaged Equipment, and (y) $100,000,000 per occurrence, (B) of the type and covering the same risks as from time to time applicable to locomotives owned or operated by Lessee of the same type as the Mortgaged Equipment and (C) which is maintained in effect with insurers rated by A.M. Best (or any successor entity) with a rating of B or better and Class VI or higher (or, alternatively, insurers acceptable to the Collateral Agent). Lessee may self insure against the risks required to be insured against pursuant to this paragraph A up to a maximum self-insurance retention of $10,000,000 for all such risks for which Lessee may be liable.

B. Lessee shall maintain or cause to be maintained in effect, at its expense, with insurers rated by A.M. Best (or any successor entity) with a rating of B or better and Class VI or higher (or, alternatively, insurers acceptable to the Collateral Agent), all-risk casualty and property damage insurance covering each Item of Mortgaged Equipment for an amount equal to the greater of, for each Item of Mortgaged Equipment, (x) the replacement value of such Item of Mortgaged Equipment and (y) the amount of such casualty and property damage insurance from time to time applicable to locomotives owned or operated by Lessee of the same type as the Item of Mortgaged Equipment. Lessee may maintain, with respect to the risks required to be insured against pursuant to this paragraph B, a deductible customary for locomotive insurance for purposes of reducing handling charges.

C. Except during a period when an Event of Default or event which, with notice or lapse of time or both, would constitute an Event of Default, has occurred and is continuing, all losses will be adjusted by Lessee (giving due regard to the Collateral Agent's and Holders' interests) with the

insurers. As between the Collateral Agent and Lessee, it is agreed that all casualty insurance payments received as the result of the occurrence of a Loss (as hereinafter defined) with respect to any Mortgaged Equipment shall, unless such property is repaired or substituted pursuant to Section 4(q) hereof, be applied in satisfaction of Lessee's obligation to provide cash collateral pursuant to Section 4(q) hereof.

D. Any amount referred to in this Section 4(j) which is payable to or retainable by Lessee shall not be paid to or retained by Lessee if at the time of such payment or retention an Event of Default or event which, with notice or lapse of time or both, would constitute an Event of Default shall have occurred and be continuing, but shall be held by or paid over to the Collateral Agent as security under this Security Agreement and, if an Event of Default or event which, with notice or lapse of time or both, would constitute an Event of Default shall have occurred and be continuing, applied pursuant to the terms hereof and Section 4(q) hereof. Unless otherwise provided in Section 4(q) hereof, at such time as there shall not be continuing any such Event of Default or event which, with notice or lapse of time or both, would constitute an Event of Default, such amount shall be paid to Lessee to the extent not previously applied in accordance with the preceding sentence.

E. Any policies carried in accordance with paragraphs A and B of this Section 4(j) and any policies taken out in substitution or replacement for any such policies, (A) shall name the Collateral Agent and each Holder as an additional insured, and, in the case of insurance required to be maintained pursuant to paragraph (B) of this Section 4(j), loss payee, as its interests may appear (but without imposing on the Collateral Agent or any Holder liability to pay premiums with respect to such insurance), (B) shall provide that if the insurers cancel such insurance for any reason whatever, or if any material change is made in the insurance which adversely affects the interests of the Collateral Agent or any Holder as additional insured or loss payee, such cancellation or change shall not be effective as to the Collateral Agent or such Holder for thirty days after receipt by the Collateral Agent or such Holder of written notice by such insurers of such cancellation or change, (C) shall provide that in respect of the respective interests of the Collateral Agent and each Holder as additional insured in such policies the insurance shall not be invalidated by any action or inaction of Lessee and shall insure the respective interests of the Collateral Agent and such Holder as they appear regardless of any breach or violation of any warranty, declaration or condition contained in such policies by Lessee, (D) shall be primary without any right of contribution from any other insurance which is carried by the Collateral Agent or any Holder, (E) shall waive

any right of the insurers of subrogation or to set-off or counterclaim or any other deduction, whether by attachment or otherwise, in respect of any liability of the Collateral Agent or any Holder, and (F) shall provide that (i) in the event of a Loss involving any Mortgaged Equipment for which proceeds are in excess of $1,500,000, the proceeds of casualty insurance in respect of such Loss up to the amount of replacement value of the Mortgaged Equipment shall be payable to the Collateral Agent and held as security hereunder by the Collateral Agent until, if the repair or substitution provisions of Section 4(q) are applicable, such Mortgaged Equipment is repaired or substituted pursuant to Section 4(q) hereof and, upon such repair, released to Lessee or, if the repair or substitution provisions of Section 4(q) hereof are not applicable, applied by the Collateral Agent as provided therein and (ii) the entire amount of any such Loss for which proceeds of casualty insurance are $1,500,000 or less shall be paid to Lessee or applied pursuant to Section 4(q) hereof.

F. Each of the additional insureds covered or required to be covered under the liability policies required to be maintained by Lessee pursuant to this Section 4(j) shall have the same protection as would have been available to them had these policies been issued individually to each of them, except that this requirement shall not in any event increase the insurers' total liability beyond the limits set forth in such policies.

(k) Lessee, at its own expense and risk, shall maintain and repair the Mortgaged Equipment so as to keep it in good repair, condition and working order, ordinary wear and tear excepted, at least (x) in accordance with the standards of maintenance, if any, for similar rail equipment operating on the lines of Class I Railroads, (y) in accordance with the engineering and maintenance standards recommended by the manufacturer or manufacturers of the Mortgaged Equipment and (z) in the manner and in the same condition as the Lessee, in the prudent management of its own business, maintains and repairs similar equipment owned or leased by it and any Affiliate thereof. In any event, Lessee shall ensure that the Mortgaged Equipment shall remain at all times (i) in good operating condition (ordinary wear and tear excepted), (ii) in compliance with any and all Applicable Law, (iii) eligible under all warranties provided for the Mortgaged Equipment by its manufacturer or manufacturers, (iv) in compliance with the then prevailing rules of the American Association of Railroads and the Federal Railroad Administration which are applicable to Class I Railroads, (v) suitable for interchange generally by a Class I Railroad, and (vi) in compliance with the applicable requirements of any insurance being maintained pursuant to the terms of this Security Agreement.

(l) Lessee shall (i) at its own expense and risk, make all improvements, alterations or additions to the Mortgaged Equipment or any portion thereof that may be required or supplied by the Manufacturer of the Mortgaged Equipment or that may be required under Applicable Law in connection with the use and operation of the Mortgaged Equipment or any portion thereof or otherwise; and (ii) make no other improvements, alterations or additions to the Mortgaged Equipment (except for improvements, alterations or additions that will not impair the value, utility, condition or performance of the Mortgaged Equipment and that are readily removable without damage to the Mortgaged Equipment).

(m) Each Item of Mortgaged Equipment will be used in the general operation of Lessee's or any permitted lessee's freight rail business on Lessee's railroad system, on railroad lines over which Lessee or any permitted lessee has trackage rights and on railroad lines of other railroads in the 48 contiguous states of the continental United States and, solely in the usual interchange of traffic or in through or run-through service, in Canada and Mexico; provided, however, that Lessee (i) shall use each Item of Mortgaged Equipment only in the manner for which it was designed and intended and (ii) shall not use or operate any such Item of Mortgaged Equipment in any manner contrary to Applicable Law. Neither Lessee nor any permitted lessee shall at any time locate or transfer any Item of Mortgaged Equipment outside the 48 contiguous states of the United States, Canada or Mexico.

(n) **EXCEPT AS PROVIDED IN SECTION 4(H) OR 4(Q) HEREOF, WITHOUT THE COLLATERAL AGENT'S PRIOR WRITTEN CONSENT, LESSEE SHALL NOT ASSIGN THIS SECURITY AGREEMENT OR ASSIGN ITS RIGHTS IN OR LEASE OR DELIVER, TRANSFER OR RELINQUISH POSSESSION OF ANY ITEM OF MORTGAGED EQUIPMENT OR ANY INTEREST THEREIN.** Notwithstanding the foregoing, so long as no Event of Default or event which, with notice or lapse of time or both, would constitute an Event of Default has occurred and is continuing, Lessee may, without the prior written consent of the Collateral Agent, lease any Item of Mortgaged Equipment to any railroad company which is incorporated in the United States of America (or any State thereof or the District of Columbia); provided that (A) such lessee shall (i) at the time of inception of such lease not be subject to any bankruptcy, receivership, insolvency or similar proceedings and (ii) constitute a "railroad" within the meaning of Chapter 11 of Title 11 of the United States Code (or any successor provision), (B) such lease shall be subject and subordinate to all the terms and conditions of this Security Agreement and shall contain the terms set forth in Exhibit B hereto and (C) no subleasing of the Mortgage Equipment is permitted; and provided, further, that the Collateral Agent's

consent, which shall not be unreasonably withheld, must be obtained for any lease that has a term longer than 12 months. No such lease shall relieve Lessee of its obligations under this Security Agreement, which obligations shall be and remain those of a principal and not a surety.

(o) Lessee will cause each Item of Mortgaged Equipment to be numbered with the reporting marks set forth on Exhibit A hereto, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each Item of Mortgaged Equipment, in letters not less than one inch in height, the words "Subject to Security Interests Recorded with the Interstate Commerce Commission", with appropriate changes thereof or additions thereto as from time to time may be required by Applicable Law in order to protect the Collateral Agent's interest in such Item of Mortgaged Equipment. Lessee will replace promptly any such markings which may be removed, defaced, obliterated or destroyed. Lessee will not place any Item of Mortgaged Equipment in operation until the required legend shall have been so marked on both sides thereof. Lessee will not change the reporting marks of any Item of Mortgaged Equipment unless and until (i) a statement of new number or numbers to be substituted therefor shall have been filed with the Collateral Agent and duly filed by Lessee in all public offices where a memorandum of or financing statement relating to this Security Agreement shall have been filed and (ii) Lessee shall have furnished the Collateral Agent an Opinion of Counsel to the effect that such statement has been so filed, and that no other filing or giving of notice with or to any federal, state, or local government or agency of any thereof is necessary to protect the rights of the Collateral Agent in such Item of Mortgaged Equipment.

(p) Lessee agrees that Lessee will be consistent in its record keeping practices for rail equipment owned or leased by Lessee which is substantially similar in type, service and use to the Mortgaged Equipment, subject to the phasing in or modification of such practices from time to time in the ordinary course of business and shall ensure that all maintenance and use records and logs with respect to the Mortgaged Equipment are currently accessible without undue administrative burden under its practices as of the date hereof.

(q) Lessee shall advise the Collateral Agent in writing within thirty (30) days of any officer of Lessee or any Affiliate or any other employee of Lessee having responsibility for administering this Agreement or the Mortgaged Equipment obtaining knowledge of a loss, theft, destruction or damage to the Equipment from any cause whatsoever or requisition of the Equipment by any governmental entity or the taking of title to

any Item of Mortgaged Equipment by eminent domain or otherwise (individually and collectively, "Loss") with respect to any Item of Mortgaged Equipment. In the event of any such Loss with respect to any Item of Mortgaged Equipment, Lessee, at its option, may: (a) if the Loss has not materially impaired the Item of Mortgaged Equipment (in Lessee's reasonable judgment) promptly (and in no event later than forty-five (45) days after the occurrence of such Loss) place the Item of Mortgaged Equipment in good condition and repair in accordance with the terms hereof; or (b) if the Loss has materially impaired the Item of Mortgaged Equipment (in Lessee's reasonable judgment), promptly (and in no event later than forty-five (45) days after the occurrence of such Loss (or such longer period during which Lessee has provided to Collateral Agent a perfected, first priority Security Interest hereunder in cash equal to the replacement value of the Item of Mortgaged Equipment (established to Collateral Agent's reasonable satisfaction) that has suffered a Loss (in addition to any other amounts of cash then subject to the Security Interest hereunder)) subject to the Security Interest provided to the Collateral Agent hereunder, for its benefit and the benefit of the Holders, a replacement or substitute locomotive or other collateral of similar type, in each case satisfactory to the Collateral Agent and having a value at least equal to the value of the Item of Mortgaged Equipment immediately prior to the Loss (assuming such Item of Mortgaged Equipment was in the condition required to be maintained by Lessee pursuant to the terms hereof) and in connection therewith Lessee shall execute such documents, effect such filings and take such other actions as may be requested by the Collateral Agent to ensure that the Collateral Agent has a valid, perfected first priority Security Interest hereunder, for its benefit and the benefit of the Holders, in such replacement or substitute collateral, which shall be subject to no other Liens, and until Lessee shall have effected the foregoing, the Collateral Agent shall have a Security Interest hereunder in all proceeds received with respect to the Item of Mortgaged Equipment subject to such Loss (including insurance and requisition proceeds) and Lessee shall deposit such proceeds in an account specified by the Collateral Agent and execute such documents, effect such filings and take such other actions as may be requested by the Collateral Agent to ensure that the Collateral Agent has a valid, perfected first priority Security Interest hereunder, for its benefit and the benefit of the Holders, in such proceeds, which shall be subject to no other Liens; provided that if an Event of Default shall have occurred and is continuing, the Collateral Agent may, but shall not be required to, cause Lessee to make either of the elections specified in clauses (a) and (b) above. Upon valid and

effective substitution pursuant to the terms hereof of an Item of Mortgaged Equipment and the creation in favor of the Collateral Agent of a valid, perfected first priority Security Interest in the substitute Collateral, the substituted Item of Mortgaged Equipment shall be released from the Security Interest hereunder and the Collateral Agent shall, if requested by Lessee, deliver to Lessee, at Lessee's cost and expense, an instrument of release therefor.

(r) Lessee shall provide to the Collateral Agent, promptly upon the occurrence thereof, notice and information as to the nature and status of any Event of Default or event which, with notice or lapse of time or both, would constitute a Loss or an Event of Default.

Section 5. Records Relating to Collateral.

The Lessee will keep its records concerning the Collateral at its chief executive offices located at One Market Plaza, San Francisco, California or at such other place or places of business as the Collateral Agent may approve in advance in writing. The Lessee will hold and preserve such records and will permit representatives of the Collateral Agent at any time during normal business hours to examine and inspect the Collateral and to make abstracts from such records, and will furnish to the Collateral Agent such information and records regarding the Collateral as the Collateral Agent may from time to time reasonably request.

Section 6. General Authority.

The Lessee hereby irrevocably appoints the Collateral Agent the Lessee's true and lawful attorney, with full power of substitution, in the name of the Lessee, the Collateral Agent or otherwise, for the sole use and benefit of the Collateral Agent, but at the Lessee's expense, to the extent permitted by law to exercise, at any time and from time to time after any Event of Default has occurred, all or any of the following powers with respect to all or any of the Collateral (which power shall be in addition and supplemental to any powers, rights and remedies of the Collateral Agent described herein or otherwise available to the Collateral Agent or Holders under the Equipment Lease or any other document or otherwise under Applicable Law);

(i) to demand, sue for, collect, receive and give acquittance for any and all moneys due or to become due upon or by virtue thereof;

(ii) to receive, take, endorse, assign and deliver any and all checks, notes, drafts, documents

and other negotiable and non-negotiable instruments and chattel paper taken or received by the Collateral Agent in connection therewith;

(iii) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto;

(iv) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof, as fully and effectually as if the Collateral Agent were the absolute owner thereof;

(v) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto; and

(vi) to discharge any taxes, liens, security interests or other encumbrances at any time placed thereon.

Section 7. Events of Default.

The Lessee shall be in default under this Security Agreement upon the occurrence of any one or more of the following events (each such event is herein referred to as an "Event of Default"):

(a) default by the Lessee in the observance or performance of any material covenant or material agreement herein contained and failure by Lessee to cure any such breach within 10 days after notice thereof; or

(b) any representation or warranty herein contained shall have been untrue or misleading in any material respect at the time it was made; or

(c) the occurrence of any "Event of Default" as defined in the Equipment Lease.

Section 8. Remedies Upon Event of Default.

(a) If any Event of Default shall have occurred, the Collateral Agent may exercise all the rights and remedies of a secured party under the Uniform Commercial Code of New Jersey and under Title 49 of the United States Code (including rules and regulations promulgated by the ICC thereunder or in connection therewith) and, in addition, the Collateral Agent may, without being required to give any notice, except as herein provided or

as may be required by mandatory provisions of law, (i) apply the cash, if any, then or thereafter held by it as Collateral in the manner specified in Section 10, and (ii) if there shall be no such cash or if such cash shall be insufficient to pay all the Obligations in full, sell the Collateral, or any part thereof, at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Collateral Agent may deem satisfactory. The Collateral Agent may require the Lessee to assemble all or any part of the Collateral and make it available to the Collateral Agent at a place to be designated by the Collateral Agent which is reasonably convenient. The Collateral Agent or any Holder may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale) and thereafter hold the same absolutely, free from any right or claim of whatsoever kind. Upon any such sale the Collateral Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold absolutely free from any claim or right of whatsoever kind, including any equity or right of redemption of the Lessee. The Collateral Agent and the Lessee agree that ten (10) days' prior written notice by the Collateral Agent of its intention to make any such public or private sale constitutes "reasonable notification" within the meaning of Section 9-504(3) of the Uniform Commercial Code. Such notice, in case of a public sale, shall state the time and place fixed for such sale. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may determine. The Collateral Agent shall not be obligated to make such sale pursuant to any such notice. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the selling price is paid by the purchaser thereof, but the Collateral Agent shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

(b) The Collateral Agent, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or

suits at law or in equity to enforce the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(c) All rights and remedies contained herein shall be separate and cumulative and in addition to all other rights and remedies available to a secured party under other documents evidencing or securing any of the Obligations or otherwise Applicable Law, and the exercise of one shall not in any way limit or prejudice the exercise of any other such rights or remedies.

Section 9. Right of the Collateral Agent to Lease, Use and Operate Collateral, Etc.

(a) Upon the occurrence of an Event of Default, to the extent permitted by law, the Collateral Agent shall have the right and power to take possession of all or any part of the Collateral, and to exclude the Lessee and all persons claiming under the Lessee wholly or partly therefrom, and thereafter to lease, hold, store, and/or use, operate, manage and control the same. Upon any such taking of possession, the Collateral Agent may, from time to time, at the expense of the Lessee, make all such replacements, alterations, additions and improvements to and of the Collateral as the Collateral Agent may deem proper. In such case, the Collateral Agent shall have the right to manage and control the Collateral and to carry on the business and to exercise all rights and powers of the Lessee in respect thereto as the Collateral Agent shall deem best, including the right to enter into any and all such agreements with respect to the leasing and/or operation of the Collateral or any part thereof as the Collateral Agent may deem fit; and the Collateral Agent shall be entitled to collect and receive all rents, issues, profits, fees, revenues and other income of the same and every part thereof. Such rents, issues, profits, fees, revenues and other income shall be applied to pay the expenses of holding and operating the Collateral and of conducting the business thereof, and of all maintenance, repairs, replacements, alterations, additions and improvements, and to make all payments which the Collateral Agent may be required or may elect to make, if any, for taxes, assessments, insurance and other charges upon the Collateral or any part thereof, and all other payments which the Collateral Agent may be required or authorized to make under any provision of this Security Agreement (including legal costs and attorney's fees). The remainder of such rents, issues, profits, fees, revenues and other income shall be applied to the payment of the Obligations in such order or priority as the Collateral Agent shall determine (subject to the provisions of Section 11 hereof) and, unless otherwise provided by law or by a court of competent jurisdiction, any surplus shall be paid over the Lessee.

(b) In the event that the Collateral Agent shall notify the Lessee of its intention to exercise its rights pursuant to Section 9(a) hereof, Lessee shall (i) promptly notify the Collateral Agent as to the location of each Item of Mortgaged Equipment and (ii) on the date specified by the Collateral Agent, assemble and deliver possession of the Mortgaged Equipment to the Collateral Agent, at Lessee's own expense and risk, in such numbers and to such location or locations on Lessee's lines reasonably accessible to the Collateral Agent, its agents and assigns, or to such interconnection point or points on Lessee's lines, in each case as the Collateral Agent shall designate. In addition, Lessee shall also furnish to the Collateral Agent copies of any then available maintenance and use records and logs pertaining to all Items of Mortgaged Equipment and shall perform, at Lessee's expense, such overhaul services with respect to any Items of Mortgaged Equipment so repossessed as the Collateral Agent may reasonably request.

(c) Notwithstanding any other provision of this Security Agreement, in the event of occurrence of an Event of Default hereunder that is attributable solely to an Event of Default under the Equipment Lease, the Collateral Agent shall be entitled to sell, lease or foreclose on the Collateral only after the Deficiency Amount has been established pursuant to Section 19 of the Lease for all Items of Equipment with respect to which the Collateral Agent shall seek to enforce its Security Interest hereunder with respect to such Deficiency Amount. The foregoing provision shall not be deemed to negate the Collateral Agent's rights under this Security Agreement, immediately upon the occurrence and during the continuation of any Event of Default (including an Event of Default hereunder that is attributable solely to an Event of Default under the Equipment Lease) to possess, collect, marshall, store, maintain, hold, operate, manage and control any Collateral and exclude the Lessee and all persons claiming under the Lessee therefrom, to make replacements, alterations, additions, repairs and improvements and effect maintenance thereof, to effect any filings and execute any documents necessary or appropriate to protect and enforce its Security Interest hereunder, to make expenditures in respect of the Collateral and to collect and receive any proceeds, rents, issues, profits, fees, revenues and other income of or with respect to the Collateral. In addition, the foregoing provision shall not be construed to limit the scope of the Security Interest granted to the Collateral Agent, for its benefit and the benefit of the Holders, to secure payment or enforce performance of any Obligations (including Rental Payments, Lessor's Return, indemnity payments and interest at the Past Due Rate on any overdue payment Obligations).

Section 10. Application of Collateral and Proceeds.

The proceeds of any sale or lease of, or other realization upon, all or any part of the Collateral shall be applied in the following order of priorities:

(a) first, to pay the expenses of such sale, lease or other realization, including reasonable commission to any agents or brokers, and all expenses, liabilities and advances incurred or made by the Collateral Agent in connection therewith, and any other unreimbursed expenses for which the Collateral Agent is to be reimbursed pursuant to Section 11;

(b) second, to the payment of the Obligations in such order and manner as the Collateral Agent, in its sole discretion, shall determine; and

(c) finally, unless Applicable Law otherwise provides, to pay to the Lessee, or its successors or assigns, or as a court of competent jurisdiction may direct, any surplus then remaining from such proceeds.

Section 11. Taxes; Expenses; Further Assurances.

(a) The Lessee will forthwith upon demand pay to the Collateral Agent the amount of any Taxes (excluding those Taxes excluded in Section 8(a) of the Lease) which the Collateral Agent may at any time be required to pay by reason of the Security Interests (including any applicable transfer Taxes) or to free any of the Collateral from any Lien thereon.

(b) Upon demand, Lessee will promptly reimburse Lessor for any filing or recordation fees or expenses (including actual lien search fees, reasonable legal fees and reasonable costs but not including the expenses incurred by the Collateral Agent in connection with the initial preparation of this Security Agreement) incurred by the Collateral Agent or any Holder in perfecting or protecting or enforcing its Security Interest in the Collateral and under this Security Agreement and effecting any amendments to this Security Agreement (other than amendments effected solely in connection with an assignment of security interests hereunder pursuant to Section 1 hereof unless an Event of Default shall have occurred and be continuing).

(c) Lessee shall promptly execute and deliver to the Collateral Agent such documents and take such further action as the Collateral Agent may from time to time reasonably request in order to carry out the intent and purpose of this Security Agreement and to protect the Security Interests, rights and

remedies of the Collateral Agent created or intended to be created under this Security Agreement (including, without limitation, filing this Security Agreement or any other appropriate agreement or instrument to create or continue a first perfected Security Interest in favor of the Collateral Agent in the United States and Canada).

Section 12. Termination of Security Interests; Release of Collateral.

(a) Upon the earlier to occur of (i) the payment and performance in full of all the Obligations and (ii) occurrence of a "Termination Event" (as defined in paragraph (b) below), the Security Interests and all of Lessee's other obligations under this Security Agreement shall terminate (in whole or, in the case of a partial release of Collateral in the context of a Termination Event, in relevant part) and all rights to the Collateral (or the relevant portions thereof, in the event of a partial release of Collateral in the context of a Termination Event) shall revert to the Lessee. Upon any such termination of the Security Interests or release of Collateral, the Collateral Agent will, at the Lessee's expense to the extent permitted by law, execute and deliver to the Lessee such documents as the Lessee shall reasonably request to evidence the termination of the Security Interests or the release of such Collateral, as the case may be.

(b) The Lessee shall have the right to request the Collateral Agent, in June of each calendar year of the Term beginning June 1997, to release all or a portion of the Collateral. In the event Lessee delivers such request to the Collateral Agent during June of any such year beginning 1997, the Collateral Agent shall consider such request in good faith and may, in its sole discretion, decide not to agree to release any of the Collateral from the Security Interest granted hereunder or to release the Collateral or any portion thereof from the Security Interest granted hereunder. In the event the Collateral Agent decides, in writing to Lessee, to release any such Collateral from the Security Interest granted hereunder a "Termination Event" shall be deemed to have occurred solely with respect to the Collateral specified in such writing.

Section 13. Notices.

All notices, requests, demands and other communications provided for hereunder shall be made in accordance with Section 24 of the Lease.

Section 14. Waivers; Non-Exclusive Remedies.

(a) No failure on the part of the Collateral Agent to exercise, and no delay in exercising, and no course of dealing with respect to, any right, power or remedy under this Security Agreement shall operate as a waiver thereof; nor shall any single or partial exercise by the Collateral Agent of any right, power or remedy under this Security Agreement preclude any other right, power or remedy. Neither this Security Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

(b) The remedies in this Security Agreement are cumulative and are not exclusive of any other remedies provided by law or otherwise available to the Collateral Agent. The Lessee, to the extent it may lawfully do so, hereby consents to the jurisdiction of the courts of the State of New Jersey and the United States District Court for the District of New Jersey for the purpose of any suit or proceeding brought in connection with or respect to this Security Agreement.

Section 15. Consent and Waiver.

(A) THE LESSEE HEREBY WAIVES TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS SECURITY AGREEMENT. NEITHER THE LESSEE NOR ANY ASSIGNEE OF OR SUCCESSOR TO THE LESSEE, SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM, OR ANY OTHER LITIGATION OR PROCEDURE BASED UPON, OR ARISING OUT OF, THIS SECURITY AGREEMENT OR THE DEALINGS OR THE RELATIONSHIP BETWEEN OR AMONG THE PARTIES HERETO. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION, IN WHICH A JURY TRIAL HAS BEEN WAIVED, WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE PARTIES HERETO, AND THESE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

(B) THE LESSEE CONSENTS TO THE JURISDICTION AND VENUE OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THE STATE OF NEW JERSEY AND WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON THE LESSEE, AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO THE LESSEE AT THE ADDRESS STATED BELOW AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED THREE (3) DAYS AFTER THE SAME SHALL HAVE BEEN POSTED AS AFORESAID. THE LESSEE WAIVES ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY THE COURT. **THE LESSEE WAIVES, TO THE EXTENT PERMITTED BY LAW, ANY BOND OR SURETY OR SECURITY UPON SUCH**

BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF THE COLLATERAL AGENT. NOTHING CONTAINED IN THIS PARAGRAPH SHALL AFFECT THE RIGHT OF THE COLLATERAL AGENT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF THE COLLATERAL AGENT TO BRING ANY ACTION OR PROCEEDING AGAINST THE LESSEE IN THE COURTS OF ANY OTHER JURISDICTION.

Section 16. Assignment by the Holders.

The parties hereto acknowledge and agree that, as more fully set forth in Section 1 hereof, (i) the Security Interests have been granted by Lessee to the Collateral Agent for its own benefit and for the benefit of the Holders and (ii) each Holder is entitled under the Equipment Lease to sell, assign and transfer its rights and interests thereunder without Lessee's consent and that any assignee or transferee thereof shall be entitled to the benefit of this Security Agreement as a secured party to the extent of such assignment or transfer.

Section 17. Choice of Law; Meaning of Terms.

This Security Agreement shall be construed in accordance with and governed by the internal laws (as opposed to conflict of law provisions) and decisions of the State of New Jersey applicable to contracts made and performed in said state, except to the extent that remedies provided by the laws of any State other than New Jersey are governed by the laws of said State.

Section 18. Marshalling; Payments Set Aside.

The Collateral Agent shall be under no obligation to marshall any assets in favor of the Lessee or any other party or against or in payment of any or all of the Obligations. To the extent that the Lessee makes a payment or payments to the Collateral Agent or the Collateral Agent enforces its security interests or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

Section 19. 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 or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 20. Headings.

The headings in this Security Agreement are for the purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 21. Counterparts.

This Security Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, this Security Agreement has been executed by the parties hereto all as of the day and year first above written.

SOUTHERN PACIFIC TRANSPORTATION COMPANY

By: _____
Name:
Title:

AT&T COMMERCIAL FINANCE CORPORATION

By: _____
Name: Edward W. Andrews, Jr.
Title: Senior Vice President

State of New Jersey)
)
County of Morris)

On this 12th day of November, 1993, before me personally appeared, Edward W. Andrews, Jr., to me personally known, who being by me duly sworn, says that (s)he is the Senior Vice President of AT&T COMMERCIAL FINANCE CORPORATION, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on November 9, 1993 on behalf of said corporation by authority of its Board of Directors, and (s)he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Mary Ann V. Gross
Notary Public

[Notarial Seal]

MARY ANN V. GROSS
NOTARY PUBLIC OF NEW JERSEY
MY COMMISSION EXPIRES JULY 2, 1997

My commission expires _____.

IN WITNESS WHEREOF, this Security Agreement has been executed by the parties hereto all as of the day and year first above written.

SOUTHERN PACIFIC TRANSPORTATION COMPANY

By: _____
Name: L.C. YARBERRY
Title: Vice President - Finance

AT&T COMMERCIAL FINANCE CORPORATION

By: _____
Name:
Title:

State of California)
)
County of San Francisco)

On November 12, 1993, before me, Lenona Rusconi, Notary Public, personally appeared L. C. Yarberry, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Lenona Rusconi

PC01 LENONA RUSCONI PC01
COMM #1001077
NOTARY PUBLIC-CALIFORNIA
SAN FRANCISCO COUNTY
My Comm. Expires Aug. 20, 1997

EXHIBIT A

Description of Mortgaged Equipment

Thirteen SD 45-T2 locomotives with the following road numbers:

SP 9242
SP 9276
SP 9778
SP 9346
SP 9349
SP 9358
SP 9365
SP 9366
SP 9368
SP 9372
SP 9393
SP 9396
SP 9404

and three SD 40-2 locomotives with the following road numbers:

SP 7348
SP 7351
SP 7367