

RECORDATION NO. 24762 FILED

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SURFACE TRANSPORTATION BOARD

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ELIAS C. ALVORD (1942)
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OF COUNSEL
URBAN A. LESTER

January 7, 2004

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Co-Borrower Security Agreement, dated as of December 30, 2003, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Debtors: Arizona Railroad Group, LLC
1109 Jefferson Street
Napa, CA 94559

San Pedro Railroad
Operating Company, LLC
3099 Dry Creek Road
Napa, CA 94558

Secured
Party: LaSalle Bank National Association
135 South LaSalle Street
Chicago, Illinois 60603

Mr. Vernon A. Williams
January 7, 2004
Page Two

A description of the railroad equipment covered by the enclosed document
is:

All rolling stock of each Debtor whether NOW OWNED OR HEREAFTER
ACQUIRED

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

Co-Borrower Security Agreement

Also enclosed is a check in the amount of \$30.00 payable to the order
of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned.

Very truly yours,



Robert W. Alvord

RWA/anr
Enclosures

RECORDATION NO. 24762 FILED

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CO-BORROWER SECURITY AGREEMENT SURFACE TRANSPORTATION BOARD

This Security Agreement (this "Agreement"), dated as of December 30, 2003 is made by among ARIZONA RAILROAD GROUP, LLC, an Arizona limited liability company, and SAN PEDRO RAILROAD OPERATING COMPANY, LLC, an Arizona limited liability company (each a "Debtor" and collectively the "Debtors"), for the benefit of LASALLE BANK NATIONAL ASSOCIATION, a national banking association (the "Secured Party").

The Secured Party and the Debtors are parties to a Credit Agreement of even date herewith (as the same may be amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Secured Party may from time to time make loans and extend other financial accommodations to the Debtors.

As a condition to extending any credit to the Debtors under the Credit Agreement, the Secured Party has required the execution and delivery of this Agreement by the Debtors.

ACCORDINGLY, in consideration of the mutual covenants contained in the Credit Agreement and herein, the parties hereby agree as follows:

1. Definitions. All terms defined in the recitals hereto that are not otherwise defined herein shall have the meanings given them in the recitals. All terms not defined in the recitals hereto or below shall have the meanings given to them in the Credit Agreement. All terms used herein and not defined herein but are defined in the ILUCC shall have the same definitions herein as specified therein; provided, however, that if a term is defined in Article 9 of the ILUCC differently than in another Article of the ILUCC, the term has the meaning specified in Article 9 of the ILUCC. In addition, the following terms have the meanings set forth below or in the referenced Section of this Agreement:

"Accounts" means each and every account and other right of any Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by any Debtor, out of a rendering of services by any Debtor, out of a loan by any Debtor, out of the overpayment of taxes or other liabilities by any Debtor, or otherwise arises under any contract or agreement, whether such right to payment is created, generated or earned by any Debtor or by some other person who subsequently transfers such person's interest to a Debtor, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all Liens) which any Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor, all including but not limited to all present and future accounts, contract rights, loans and obligations receivable,

chattel papers, bonds, notes and other debt instruments, tax refunds and rights to payment in the nature of general intangibles.

“Collateral” means all personal property of each Debtor, including, without limitation, the Accounts, Equipment, General Intangibles (including, without limitation, Intellectual Property Rights), Inventory, Investment Property, Rolling Stock, and all of each Debtor’s chattel paper, deposit accounts, documents, goods, instruments, letter-of-credit rights, letters of credit, all sums on deposit in any collateral account, and any items in any lockbox, and all fixtures, together with (i) all substitutions and replacements for and products of any of the foregoing property, (ii) in the case of goods, all accessions, (iii) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any goods, (iv) all warehouse receipts, bills of lading and other documents of title now or hereafter covering any goods, (v) any money, or other assets of any Debtor that now or hereafter come into the possession, custody, or control of the Secured Party, and (vi) proceeds of any and all of the foregoing, including all proceeds of insurance.

“Copyright Office” shall mean the United States Copyright Office.

“Copyrights” shall mean all of the following now owned or hereafter acquired by any of the Debtors: (a) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise, and (b) all registrations and applications for registration of any such copyright in the United States or any other country and all extensions and renewals thereof.

“Equipment” means all equipment of any Debtor, whether now owned or hereafter acquired and wherever located, including but not limited to all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, shop equipment, office and recordkeeping equipment, parts, tools and supplies.

“Event of Default” has the meaning given to that term in the Credit Agreement.

“General Intangibles” means all general intangibles of any Debtor, whether now owned or hereafter acquired, including but not limited to all present and future Intellectual Property Rights, customer or supplier lists and contracts, manuals, operating instructions, permits, franchises, the right to use any such Debtor’s name and the goodwill of any such Debtor’s business.

“Intellectual Property Rights” means all actual or prospective rights arising in connection with any intellectual property or other proprietary rights, including all rights arising in connection with Copyrights, Patents or Trademarks.

“Inventory” means all inventory of any Debtor, whether now owned or hereafter acquired and wherever located, whether consisting of whole goods, spare

parts or components, supplies or materials, whether acquired, held or furnished for sale, for lease or under service contracts or for manufacture or processing, and wherever located.

“Investment Property” means all investment property of any Debtor, whether now owned or hereafter acquired, including but not limited to all securities, security entitlements, securities accounts, commodity contracts, commodity accounts, stocks, bonds, mutual fund shares, money market shares and U.S. Government securities.

“Lien” means any security interest, mortgage, deed of trust, pledge, lien, charge or encumbrance of any kind whatsoever, including, but not limited to the interest of the lessor or titleholder under any capitalized lease, title retention contract or similar agreement and the interest of any bondsman under any payment or performance bond, in, of or on any assets or properties of a person, whether now owned or hereafter acquired and whether arising by agreement or by operation of law.

“ILUCC” means the Uniform Commercial Code as in effect in the State of Illinois from time to time.

“Obligations” means (i) the Note, including interest thereon and any extensions, renewals or replacements thereof, and (ii) each and every other debt, liability and obligation of every type and description arising under or in connection with the Credit Agreement (including the “Obligations” defined therein) or the Loan Documents which any Debtor may now or at any time hereafter owe to the Secured Party whether such debt, liability or obligation now exists or is hereafter created or incurred and whether it is or may be direct or indirect, due or to become due, or absolute or contingent.

“Patents” shall mean all of the following now owned or hereafter acquired by any of the Debtors: (a) all letters patent of the United States or any other country, all registrations and recordings thereof, and all pending applications for letters patent of the United States or any other country, including registrations, recordings and applications in the PTO or in any similar office or agency of the United States, any State or Territory thereof, or any other country, and (b) all reissues, continuations, divisions, continuations-in-part, renewals or extensions thereof and the inventions disclosed or claimed therein, including the right to make, use and/or sell inventions disclosed or claimed therein.

“PTO” shall mean the United States Patent and Trademark Office.

“Permitted Lien” means (i) the Security Interest, and (ii) Liens permitted under Section 6.1 of the Credit Agreement.

“Rolling Stock” means all locomotives, boxcars, hoppers, tank cars, cabooses, and any and all other railroad cars owned by the Debtors, and any such railroad cars hereafter acquired by any Debtor.

“Security Interest” has the meaning specified in Section 2.

“Trademarks” shall mean all of the following now owned or hereafter acquired by any of the Debtors: (a) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and registration applications in the PTO, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, (b) all goodwill associated therewith or symbolized thereby and (c) all other assets, rights and interests that uniquely reflect or embody such goodwill.

“UCC” means the Uniform Commercial Code as in effect in any jurisdiction.

2. Security Interest. The Debtors hereby grant the Secured Party a security interest (the “Security Interest”) in the Collateral to secure payment and performance in full of the Obligations.

3. Debtor Acknowledgement/Financing Statements. Each Debtor hereby acknowledges that its grant of the Security Interest in Section 2 hereof constitutes a grant of a security interest in all of its personal property and irrevocably authorizes the Secured Party at any time and from time to time to file in any jurisdiction in which the UCC has been adopted or any other applicable jurisdiction any initial financing statements and amendments thereto or other notices of security interests that designate (a) the Collateral described therein as “all personal property” of such Debtor regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the ILUCC or the UCC of such other jurisdiction or the personal/property security law of such other jurisdiction and (b) that contain any other information required by part 5 of Article 9 of the UCC or the personal/property security law of such other jurisdiction for the sufficiency or filing office acceptance of any initial financing statement or amendment or notice of security interests.

4. Representations, Warranties and Agreements. The Debtors hereby represent, warrant and agree as follows:

- (a) Title. One or more of the Debtors have absolute title to each item of Collateral in existence on the date hereof, free and clear of all Liens except Permitted Liens. The applicable Debtor will have, at the time any Debtor acquires any rights in Collateral hereafter arising, absolute title to each such item of Collateral free and clear of all Liens except Permitted Liens. The Debtors will

keep all Collateral free and clear of all Liens except Permitted Liens and will defend the Collateral against all claims or demands (other than claims and demands based on Permitted Liens) of all Persons other than the Secured Party. Other than (i) sales of Inventory and the use of cash in the ordinary course of business and as permitted under Section 6.8 of the Credit Agreement, (ii) purchases and sales of Investment Property permitted by the terms of the Credit Agreement, (iii) sales of assets permitted under Section 6.8 of the Credit Agreement, and (iv) sale and leaseback permitted under Section 6.10 of the Credit Agreement, no Debtor will sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of the Secured Party.

- (b) Legal Name; Chief Executive Office; Identification Numbers. Each Debtor's correct legal name, chief executive office and principal place of business, federal employer identification number and organizational identification number are properly set forth by its signature below.
- (c) Changes in Name, Location or Jurisdiction of Organization. No Debtor will change its legal name, business address, chief executive office, jurisdiction of organization, federal employer identification number or organizational identification number without thirty (30) days' prior written notice to the Secured Party.

(d) Authority; Binding Obligation; No Conflict. Each of the Debtors has full power and authority to execute, deliver and perform its obligations in accordance with the terms of this Agreement and the other documents, agreements and supplements to be executed pursuant to the terms hereof (collectively, the "Security Documents") and to grant to the Secured Party the Security Interest in the Collateral pursuant hereto, without the consent or approval of any other person or entity other than any consent or approval which has been obtained and is in full force and effect. This Agreement has been and the other Security Documents have been or will be duly authorized, executed and delivered by each of the Debtors and this Agreement is and each of the other Security Documents is, or upon execution and delivery will be, the legally valid and binding obligation of such Debtor, enforceable against such Debtor in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws or equitable principles relating to or limiting creditor's rights generally. The granting to the Secured Party of the Security Interest in the Collateral, the execution by each of the Debtors of this Agreement and the other Security Documents and the performance by each Debtor of its obligations hereunder does not and will not (a) result in the existence or imposition of any Lien nor obligate any of the Debtors to create any Lien (other than the Security Interest) in favor of any person or entity over all or any of its assets; (b) conflict with any agreement, mortgage, bond or other instrument to which any Debtor is a party or which is binding upon any Debtor or any of their assets; (c) conflict with any

Debtor's articles of organization, operating agreement, or other organizational or charter documents; or (d) conflict with any law, regulation or judicial order binding on any of the Debtors or any of the Collateral.

- (e) Fixtures. No Debtor will permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of the Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein.
- (f) Rights to Payment. Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising, issued or assigned to the Secured Party) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim (other than those arising in the ordinary course of business), of the account debtor or other obligor named therein or in the Debtors' records pertaining thereto as being obligated to pay such obligation. Except in the ordinary course of business, no Debtor will agree to any material modification or amendment of, or agree to any forbearance, release or cancellation of, any such obligation without the Secured Party's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.
- (g) Commercial Tort Claims. Reasonably promptly upon knowledge or prior notice thereof, each Debtor will deliver to the Secured Party written notice of any commercial tort claims it may bring against any person, including the name and address of each defendant, a summary of the facts, an estimate of such Debtor's damages, copies of any complaint or demand letter submitted by such Debtor, and such other information as the Secured Party may request. Simultaneously with the delivery of such notice described above, each Debtor will grant to the Secured Party, in a writing in form and substance reasonably satisfactory to the Secured Party, a security interest in all commercial tort claims, and the proceeds thereof, that such Debtor may have against any person.
- (h) Nature of Collateral. None of the Collateral constitutes, or is the proceeds of, farm products and none of the Collateral has been purchased or will be used by any Debtor primarily for personal, family or household purposes.
 - (i) no Debtor holds any interest in, title to or power to transfer, any Patents, Trademarks or Copyrights; and
 - (ii) no Debtor holds any interest in, title to or power to transfer any Intellectual Property that is eligible for registration in the PTO or the Copyright Office.

- (a) Validity of Security Interest. The Security Interest constitutes (a) a legal and valid security interest in all of the Collateral securing the payment and performance of the Secured Obligations and (b) upon the giving of value, the filing of financing statements describing the Collateral in the appropriate filing offices in Arizona, the taking of all applicable actions in respect of perfection contemplated by paragraph (j) of this Section 4 in respect of Collateral in which a security interest cannot be perfected by the filing of a financing statement or a notice of security interest, as the case may be, the Security Interest will be valid, enforceable and perfected in all Collateral in which a security interest can be perfected by the Secured Party filing a financing statement, taking possession or obtaining control under the UCC or filing of a notice of lien or security interest and appropriate security agreement or lien documents. The Security Interest is and shall be prior to any other Lien on the Collateral, other than Permitted Liens.
- (j) Non-filing Collateral. The Debtors shall take the actions described below with respect to the Collateral in which a security interest cannot be perfected by the filing of a financing statement or a notice.
- (i) Promissory Notes and Tangible Chattel Paper. If one or more of the Debtors shall at any time hold or acquire any promissory notes or tangible chattel paper, each such Debtor shall forthwith endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify and with respect to any such Collateral in the possession or control of the Secured Party, each such Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1) and 9-207(c)(2) of the ILUCC and similar provisions of other applicable law.
- (ii) Deposit Accounts. For each deposit account that any Debtor at any time opens or maintains, such Debtor shall, at the Secured Party's request and option, either (a) cause the depository bank to enter into a written agreement or other authenticated record with the Secured Party, in form and substance reasonably satisfactory to the Secured Party, pursuant to which such depository bank shall agree, among other things, to comply at any time with instructions from the Secured Party to such depository bank directing the disposition of funds from time to time credited to such deposit account, without further consent of such Debtor, or (b) arrange for the Secured Party to become the customer of the depository bank with respect to the deposit account. The foregoing provisions shall not apply to (i) deposit accounts for which the Secured Party is the depository bank and (ii) deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of any Debtor's salaried employees. With respect to any deposit accounts, rights arising under deposit

accounts or proceeds thereof in the possession or within the control of the Secured Party, each applicable Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1), 9-207(c)(2) and 9-208 of the ILUCC and similar provisions of other applicable law.

(iii) Investment Property. If any Debtor shall at any time hold or acquire any certificated securities, such Debtor shall forthwith endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify. If any securities now owned or hereafter acquired by any Debtor are uncertificated and are issued to such Debtor or its nominee directly by the issuer thereof, such Debtor shall promptly notify the Secured Party thereof and, at the Secured Party's request and option, either (a) cause the issuer to enter into a written agreement or other authenticated record with the Secured Party, in form and substance reasonably satisfactory to the Secured Party, pursuant to which such issuer shall agree, among other things, to comply with instructions from the Secured Party as to such securities, without further consent of such Debtor or such nominee, or (b) arrange for the Secured Party to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by any Debtor are held or acquired by such Debtor or its nominee through a securities intermediary or commodity intermediary, such Debtor shall promptly notify the Secured Party thereof and, at the Secured Party's request and option, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to enter into a written agreement or other authenticated record with the Secured Party, in form and substance reasonably satisfactory to the Secured Party, pursuant to which such securities intermediary or commodities intermediary, as the case may be, shall, among other things, agree to comply with entitlement orders or other instructions from the Secured Party to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Secured Party to such commodity intermediary, in each case without further consent of such Debtor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Secured Party to become the entitlement holder with respect to such investment property, with such Debtor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw or otherwise deal with such investment property. The Secured Party agrees with the Debtors that the Secured Party shall not give any such entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary, and shall not withhold its consent to the exercise of any withdrawal or dealing rights by any Debtor, unless an Event of Default has occurred and is continuing, or, after giving effect to any such investment and

withdrawal rights not otherwise permitted by the Loan Documents, would occur. The provisions of this subparagraph (j)(iii) shall not apply to any financial assets credited to a securities account for which the Secured Party is the securities intermediary. With respect to any such Collateral in the possession or within the control of the Secured Party, the applicable Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1), 9-207(c)(2) and 9-208 of the ILUCC and similar provisions of other applicable law.

(iv) Collateral in the Possession of a Bailee. If any goods are at any time in the possession of a bailee, the applicable Debtor shall promptly notify the Secured Party thereof and, if requested by the Secured Party, shall promptly obtain an acknowledgement from such bailee, in form and substance reasonably satisfactory to the Secured Party, that such bailee holds such Collateral for the benefit of the Secured Party and shall act upon the instructions of the Secured Party, without the further consent of the applicable Debtor. The Secured Party agrees with the Debtors that the Secured Party shall not give any such instructions unless an Event of Default has occurred and is continuing or would occur after taking into account any action by the applicable Debtor with respect to such bailee. With respect to any such Collateral in the possession or within the control of the Secured Party or a bailee, the applicable Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1) and 9-207(c)(2) of the ILUCC and similar provisions of other applicable law.

(v) Electronic Chattel Paper and Transferable Records. If any Debtor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record," as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, such Debtor shall promptly notify the Secured Party thereof and, at the request of the Secured Party, shall take such action as the Secured Party may reasonably request to vest in the Secured Party control, under Section 9-105 of the UCC, of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, or other applicable law, of such transferable record. The Secured Party agrees with the Debtors that the Secured Party shall arrange, pursuant to procedures reasonably satisfactory to the Secured Party and so long as such procedures will not result in the Secured Party's loss of control, for the applicable Debtor to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the

Uniform Electronic Transactions Act or other applicable law, unless an Event of Default has occurred and is continuing or would occur after taking into account any action by the applicable Debtor with respect to such electronic chattel paper or transferable record. With respect to any such Collateral in the possession or within the control of the Secured Party, the applicable Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1), 9-207(c)(2) and 9-208 of the ILUCC and similar provisions of other applicable law.

(vi) Letter of Credit Rights. If any Debtor is at any time a beneficiary under a letter of credit now or hereafter issued in favor of such Debtor, such Debtor shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, such Debtor shall either (a) arrange, for the issuer and any nominated person with respect to such letter of credit to consent, pursuant to an agreement or other authenticated record with and in form and substance reasonably satisfactory to the Secured Party, to an assignment to the Secured Party of the proceeds of any drawing under the letter of credit or (b) arrange for the Secured Party to become the transferee beneficiary of the letter of credit. With respect to any such Collateral in the possession or within the control of the Secured Party, the applicable Debtor waives, to the extent permitted by applicable law, any restriction or obligation imposed on the Secured Party by Sections 9-207(c)(1), 9-207(c)(2) and 9-208 of the ILUCC and similar provisions of other applicable law.

(vii) Intellectual Property.

(A) In no event shall any Debtor, either itself or through any agent, employee, licensee or designee, file an application for the registration of any Patent, Trademark, or Copyright with the PTO, the Copyright Office or any similar office or agency of any jurisdiction without giving the Secured Party prior written notice thereof, and, upon request of the Secured Party, such Debtor shall execute and deliver any and all supplements, agreements, certificates or any other document as the Secured Party may reasonably request to evidence the Secured Party's Security Interest in such Patent, Trademark or Copyright, and the general intangibles of such Debtor relating thereto or represented thereby.

(B) Each Debtor shall register all of its material Copyrights with the Copyright Office and take all actions necessary or reasonably requested by the Secured Party to maintain and pursue each application, to obtain the relevant registration and to maintain the registration of each Copyright (now or hereafter existing), including the filing of applications for renewal, affidavits of use, affidavits of

noncontestability and opposition and interference and cancellation proceedings.

(C) Each Debtor shall take all actions necessary or reasonably requested by the Secured Party to maintain and pursue each application, to obtain the relevant registration and to maintain the registration of each Patent or Trademark (now or hereafter existing), including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings.

(D) In the event that any of the Collateral consisting of Patents, Trademarks or Copyrights is infringed upon, or misappropriated or diluted by a third party, the applicable Debtor shall notify the Secured Party promptly after such Debtor learns thereof; such Debtor shall, unless such Debtor shall reasonably determine that such Patent, Trademark or Copyright is not material to the conduct of its business or operations, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and shall take such other actions as the Secured Party shall reasonably deem appropriate under the circumstances to protect such Patent, Trademark or Copyright.

(k) Insurance. The Debtors will at all times keep all Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts and in such a manner as are specified in the Credit Agreement. All property damage insurance maintained on any portion of the Collateral shall name the Secured Party as loss payee, and all liability insurance maintained in respect of any portion of the Collateral shall name the Secured Party as an additional insured in accordance with the terms of the Credit Agreement. The Debtors shall furnish the Secured Party with certificates of insurance and policies evidencing compliance with the foregoing insurance provision.

(l) Miscellaneous Covenants. The Debtors will:

(i) except in accordance with the terms of the Credit Agreement, keep all tangible Collateral in good repair, working order and condition, normal depreciation and wear and tear excepted, and will, from time to time, replace any worn, broken or defective parts thereof;

(ii) pay before delinquent all taxes and other governmental charges levied or assessed upon or against any Collateral, or upon or against the creation, perfection or continuance of the Security Interest, except to the extent that the amount, applicability or validity of such taxes or charges is being contested in good faith by appropriate proceedings and for which the

applicable Debtor has provided adequate reserves in accordance with generally accepted accounting principles;

(iii) at all reasonable times during normal business hours, permit the Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy the Debtors' books and records pertaining to the Collateral and their business and financial condition and to send and discuss with account debtors and other obligors requests for verifications of amounts owed to the Debtors; provided, that the Secured Party will use reasonable efforts to conduct (or have conducted) any such examination or inspection so as to minimize disruptions to the operations of such Debtor;

(iv) keep accurate and complete records pertaining to the Collateral and pertaining to the Debtors' businesses and financial condition and submit to the Secured Party such periodic reports concerning the Collateral as the Secured Party may from time to time reasonably request;

(v) promptly notify the Secured Party of any material loss of or material damage to any Collateral or of any material adverse change, known to any Debtor, in the prospect of payment of any material sums due on or under any instrument, chattel paper, or account constituting Collateral;

(vi) if the Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to the Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by the applicable Debtor;

(vii) from time to time promptly following the Secured Party's request, execute such documents as may be requested by the Secured Party to have the Security Interest properly noted on a certificate of title;

(viii) pay when due or reimburse the Secured Party on demand for all costs of collection of any of the Obligations and all other reasonable out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by the Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings;

(ix) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings and take any other action which the Secured Party may at any time reasonably request in order to insure the attachment and perfection of, and the ability of the Secured Party to enforce, the Security Interest in any and all of the Collateral and the Secured Party's rights under this Agreement, including without

limitation, (A) executing, delivering and, where appropriate, filing appropriate notices of liens and security interests under the law of any jurisdiction where the UCC is not in effect, to the extent, if any, that any Debtor's signature thereon is required therefor; (B) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to the attachment, perfection or priority of, or the ability of the Secured Party to enforce, the Security Interest in such Collateral; (C) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on Collateral; (D) obtaining waivers from mortgagees, bailees, landlords and any other person who has possession of or any interest in any Collateral or any real property on which any Collateral may be located, in form and substance satisfactory to the Secured Party; and (E) taking all actions required by the UCC or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction;

(x) not use or maintain any Collateral, or permit it to be used or maintained, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; and

(xi) not amend any financing statement in favor of the Secured Party as secured party except upon written authorization of the Secured Party.

- (m) Secured Party's Right to Take Action. If any Debtor at any time fails to perform or observe any agreement contained in Section 4(g), and if such failure continues for a period of ten calendar days after the Secured Party gives the Debtors written notice thereof (or, in the case of the agreements contained in clauses (vii) and (viii) of Section 4(g), immediately upon the occurrence of such failure, without notice or lapse of time), the Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of the Debtors (or, at the Secured Party's option, in the Secured Party's own name) and may (but need not) take any and all other actions which the Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the filing of financing statements, the endorsement of instruments, and the procurement of repairs or transportation); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, the Debtors shall thereupon pay the Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by the Secured Party in connection with or as a result of the Secured Party's performing or observing such agreements or taking such actions, together with interest thereon from the date expended or incurred by the Secured Party at the highest rate then

applicable to any of the Obligations. To facilitate the performance or observance by the Secured Party of such agreements of the Debtors, each Debtor hereby irrevocably appoints (which appointment is coupled with an interest) the Secured Party, or its delegate, as the attorney-in-fact of that Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of that Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by the Debtors under this Section 4 and Section 5 and which are not so obtained, executed, delivered or endorsed by the Debtors.

5. Rights of Secured Party. The Secured Party may take any or all of the following additional actions:

- (a) Account Verification. The Secured Party may verify any accounts in the name of the Debtors or in its own name; and the Debtors, whenever reasonably requested, shall furnish the Secured Party with duplicate statements of the accounts, which statements may be mailed or delivered by the Secured Party for that purpose.
- (b) Collateral Account. Upon the occurrence of an Event of Default, the Secured Party may establish a collateral account for the deposit of checks, drafts and cash payments made by the Debtors' account debtors. If a collateral account is so established, each Debtor shall promptly deliver to the Secured Party, for deposit into said collateral account, all payments on accounts and chattel paper received by it. All such payments shall be delivered to the Secured Party in the form received (except for the applicable Debtor's endorsement where necessary). Following such establishment and until so deposited, all payments on accounts and chattel paper received by the Debtors shall be held in trust by the Debtors for and as the property of the Secured Party and shall not be commingled with any funds or property of the Debtors. All deposits in said collateral account shall constitute proceeds of Collateral and shall not constitute payment of any Obligation. At its option, the Secured Party may, at any time following the occurrence of an Event of Default, apply finally collected funds on deposit in said collateral account to the payment of the Obligations in such order of application as the Secured Party may determine, or permit the Debtors to withdraw all or any part of the balance on deposit in said collateral account.
- (c) Lock Box. Following the occurrence of an Event of Default, the Secured Party may, by notice to the Debtors, require the Debtors to direct each of their account debtors to make payments due under the relevant account or chattel paper directly to a special lock box to be under the control of the Secured Party. Each Debtor hereby authorizes and directs the Secured Party to deposit

all checks, drafts and cash payments received in said lock box into the collateral account established as set forth above.

- (d) Direct Collection. Following the occurrence of an Event of Default, the Secured Party may notify any account debtor, or any other person obligated to pay any amount due, that such chattel paper, account, or other right to payment has been assigned or transferred to the Secured Party for security and shall be paid directly to the Secured Party. If the Secured Party so requests at any time, following the occurrence of an Event of Default, the Debtors will so notify such account debtors and other obligors in writing and will indicate on all invoices to such account debtors or other obligors that the amount due is payable directly to the Secured Party. At any time after the Secured Party or the Debtors give such notice to an account debtor or other obligor, the Secured Party may (but need not), in its own name or in the name of the Debtors, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such chattel paper, account, or other right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor.

6. Assignment of Insurance. The Debtors hereby assign to the Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of the Debtors under or with respect to, any and all policies of insurance covering the Collateral, and the Debtors hereby direct the issuer of any such policy to pay any such moneys directly to the Secured Party. Both before and after the occurrence of an Event of Default, the Secured Party may (but need not), in its own name or in the name of the Debtors, execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

7. Remedies upon Event of Default. Upon the occurrence of an Event of Default, the Secured Party may exercise any one or more of the following rights and remedies: (a) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (b) exercise and enforce any or all rights and remedies available upon default to a secured party under the ILUCC or the UCC of any other jurisdiction in which Collateral is located or under the law of any other jurisdiction in which such law is applicable to the Collateral, including, without limitation, the right to take possession of any Collateral, and for that purpose the Secured Party may, so far as the Debtors can give authority therefor enter upon any premises on which the Collateral may be situated and remove the same therefrom, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which each Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, the Secured

Party may require the Debtors to make the Collateral available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties, and if notice to the Debtors of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 10 at least (ten) 10 calendar days prior to the date of intended disposition or other action; and (c) exercise or enforce any or all other rights or remedies available to the Secured Party by law or agreement against the Collateral, against the Debtors or against any other person or property. The Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all Intellectual Property Rights of the Debtors that the Secured Party deems necessary or appropriate to the disposition of any Collateral.

8. Application of Proceeds Upon Event of Default. Notwithstanding any provision of this Agreement or any other Loan Document to the contrary, after the occurrence of an Event of Default, all amounts received by the Agent as proceeds of any realization on Collateral shall be applied (i) first to the Secured Party to pay all reasonable fees, expenses and costs of collection owing to it under the terms of the Loan Documents and until all Obligations shall have been paid in full, and (ii) second, to the Debtors or as otherwise may be directed by court order or by other applicable law.

9. Other Personal Property. Unless at the time the Secured Party takes possession of any tangible Collateral, or within seven days thereafter, the Debtors give written notice to the Secured Party of the existence of any goods, papers or other property of the Debtors, not affixed to or constituting a part of such Collateral, but which are located or found upon or within such Collateral, describing such property, the Secured Party shall not be responsible or liable to the Debtors for any action taken or omitted by or on behalf of the Secured Party with respect to such property.

10. Notice; Requests for Accounting. All notices and other communications hereunder shall be in writing and shall be delivered, and deemed delivered, in accordance with the Credit Agreement. All requests under Section 9-210 of the UCC or other comparable applicable law (i) shall be made in a writing signed by an authorized person, (ii) shall be personally delivered, sent by registered or certified mail, return receipt requested, or by overnight courier of national reputation (iii) shall be deemed to be received in accordance with the Credit Agreement and (iv) shall otherwise comply with the requirements of Section 9-210 or other comparable applicable law. The Debtors request that the Secured Party respond to all such requests which on their face appear to come from an authorized individual and release the Secured Party from any liability for so responding. The Debtors shall pay Secured Party the maximum amount allowed by law for responding to such requests.

11. Accommodation Party Defenses Waived. The parties intend that each of the Debtors shall be fully liable, jointly and severally, for the Obligations. Nonetheless, in case a court finds that any Debtor is not such a primary obligor with respect to all or any part of the Obligations, the Debtors expressly waive the benefit of any and all defenses and

discharges available to a guarantor, surety, endorser or accommodation party dependent on an obligor's character as such. Without limiting the generality of the foregoing, the liability of the Debtors with respect to the Obligations and hereunder shall not be affected or impaired in any way by any of the following acts or things (which the Secured Party is hereby expressly authorized to do, omit or suffer from time to time without notice to or consent of anyone): (i) any acceptance of collateral security, guarantors, accommodation parties or sureties for any or all indebtedness arising under the Credit Agreement or otherwise secured by this Agreement; (ii) any extension or renewal of any such indebtedness (whether or not for longer than the original period) or any modification of the interest rate, maturity or other terms of any such indebtedness; (iii) any waiver or indulgence granted to any Debtor, and any delay or lack of diligence in the enforcement of the indebtedness arising under the Credit Agreement or otherwise secured by this Agreement; (iv) any full or partial release of, compromise or settlement with, or agreement not to sue, any Debtor or any guarantor or other person liable on any such indebtedness; (v) any release, surrender, cancellation or other discharge of any indebtedness arising under the Credit Agreement or otherwise secured by this Agreement or the acceptance of any instrument in renewal or substitution for any instrument evidencing any such indebtedness; (vi) any failure to obtain collateral security (including rights of setoff) for any indebtedness arising under the Credit Agreement or otherwise secured by this Agreement, or to see to the proper or sufficient creation and perfection thereof, or to establish the priority thereof, or to preserve, protect, insure, care for, exercise or enforce any collateral security for any such indebtedness; (vii) any modification, alteration, substitution, exchange, surrender, cancellation, termination, release or other change, impairment, limitation, loss or discharge of any collateral security for any such indebtedness; (viii) any assignment, sale, pledge or other transfer of any of the indebtedness arising under the Credit Agreement or otherwise secured by this Agreement; or (ix) any manner, order or method of application of any payments or credits on any indebtedness arising under the Credit Agreement or otherwise secured by this Agreement. The Debtors waive all rights that they may have, whether by subrogation, contract or otherwise, to recover any amount on account of the Credit Agreement or this Agreement from any other Debtor, and agree that no Debtor shall enter into an agreement with any other Debtor for the repayment of such amount, all of which shall be deemed contributions of capital from one Debtor to the other.

14. Miscellaneous. This Agreement has been duly and validly authorized by all necessary corporate action. This Agreement does not contemplate a sale of accounts, or chattel paper. This Agreement can be waived, modified, amended, terminated or discharged only explicitly in a writing signed by the Secured Party and Debtors, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party. A waiver signed by the Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of the Secured Party's rights or remedies. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly or concurrently, at the Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. The Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be

deemed fulfilled if the Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and the Secured Party need not otherwise preserve, protect, insure or care for any Collateral. The Secured Party shall not be obligated to preserve any rights any Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of the Debtors and the Secured Party and their respective successors and assigns and shall take effect when signed by the Debtors and delivered to the Secured Party, and the Debtors waive notice of the Secured Party's acceptance hereof. This Agreement shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of Illinois, including the ILUCC except in the case of other law which may govern the perfection and effect of perfection of security interests in the Collateral. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

15. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the Debtor has executed this Agreement as of the date and year first above written.

Address:

1109 Jefferson Street
Napa, California 94559
Attn: David L. Parkinson
Telecopy No.: (707) 251-8691

Federal Identification No. 20-0313749
Organizational Identification No.
L-1096472-5

ARIZONA RAILROAD GROUP, LLC

By David L. Parkinson
Name: David L. Parkinson
Title: SOLE MANAGER

Address:

3099 Dry Creek Road
Napa, California 94558
Attn: David L. Parkinson
Telecopy No.: (707) 251-8691

Federal Identification No. 20-0313749
Organizational Identification No.
L-1096390-4

SAN PEDRO RAILROAD OPERATING
COMPANY, LLC

By David L. Parkinson
Name: David L. Parkinson
Title: SOLE MANAGER OF
SOLE MEMBER

[Signature Page 1 of 3 to Co-Borrower Security Agreement]

Corporate Form of Acknowledgement

I, David L. Parkinson, certify that I am The Sole Manager of Arizona Railroad Group, LLC, that the foregoing instrument was signed and sealed on behalf of the organization by authority of its Members, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the organization. I further declare under penalty of perjury that the foregoing is true and correct. Executed on December 30, 2003.

Signature: David L. Parkinson

Acknowledgement

State of Idaho)
County of Blaine) ss.

On this 30th day of December, 2003, before me personally appeared David L. Parkinson, to me personally known, who being by me duly sworn, says that he is the Sole manager of Arizona Railroad Group, LLC, that the seal affixed to the foregoing instrument is the corporate seal of said organization, that said instrument was signed and sealed on behalf of said organization by authority of its Members, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said company.

(SEAL)

Anthony Schinella
Signature of Notary Public

My Commission expires: 3/04

[Signature Page 2 of 3 to Co-Borrower Security Agreement]

Corporate Form of Acknowledgement

I, David L. Parkinson, certify that I am the Sole manager of the Sole member of San Pedro Railroad Operating Company, LLC, that the foregoing instrument was signed and sealed on behalf of the organization by authority of its Members, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the organization. I further declare under penalty of perjury that the foregoing is true and correct. Executed on December 30, 2003.

Signature: David L. Parkinson

Acknowledgement

State of Idaho)
County of Blaine) ss.

On this 30th day of December, 2003, before me personally appeared David L. Parkinson, to me personally known, who being by me duly sworn, says that he is the Sole member of San Pedro Railroad Operating Company, LLC, that the seal affixed to the foregoing instrument is the corporate seal of said organization, that said instrument was signed and sealed on behalf of said organization by authority of its Members, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said company.

Sole manager of the sole member
(SEAL)

Mattie Spinella
Signature of Notary Public

My Commission expires: 3/04

[Signature Page 3 of 3 to Co-Borrower Security Agreement]