SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

MOTIVEPOWER INDUSTRIES INC

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SIC: **3743** Railroad equipment

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 For the fiscal year ended December 31, 1996, or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 For the transition period from______ to_______

Commission file number 0-23802

MOTIVEPOWER INDUSTRIES, INC.
(formerly known as MK Rail Corporation)
(Exact name of registrant as specified in its charter)

Delaware	82-0461010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 Reedsdale Street, Pittsburgh, PA	15233
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (412) 237-2250

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class
Common stock, $.01 par value

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

State the aggregate market value of the voting stock held by nonaffiliates of the registrant at March 10 1997: $193,190,700

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 10, 1997
Common stock, $.01 par value	17,562,793

Documents Incorporated by Reference: Certain sections or portions of the registrant's proxy statement for the annual meeting of stockholders to be held on June 24, 1997, described in Part III hereof are incorporated by reference in this report.

PART I

Unless otherwise indicated or the context otherwise requires, the terms "Company" and "MotivePower" refer to MotivePower Industries, Inc. and its predecessors.

Item 1. BUSINESS

The Company

MotivePower, formerly MK Rail Corporation, is a leading supplier of

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products and services to the railroad industry. The Company was formed in April 1993 by Morrison Knudsen Corporation ("Morrison Knudsen"), which later sold 35 percent of the Company's common stock in an initial public stock offering in April 1994. In October 1996, Morrison Knudsen distributed all of its remaining ownership stake in the Company to Morrison Knudsen's creditors as part of Morrison Knudsen's bankruptcy settlement. The Company and its subsidiaries design, manufacture and distribute engineered locomotive components and parts; provide locomotive fleet maintenance, remanufacturing and overhauls; and manufacture environmentally friendly switcher, commuter and mid-range, DC traction, diesel-electric and liquefied natural gas locomotives up to 4,000 horsepower. The Company provides products and services to freight and passenger railroads, including every Class I Railroad in North America, commuter rail and transit authorities, original equipment manufacturers and other customers internationally.

Forward-looking Statements

Statements in this Form 10-K as to efforts to increase or maximize stockholder value or otherwise improve operations, are forward-looking statements. Factors such as a decrease in rail traffic, a reduction in railroads' capital and maintenance spending plans with regard to their locomotive fleets, industry consolidations, a decrease in railroads' outsourcing trends, increased competition in the locomotive or locomotive components segments, adverse general economic conditions, changes in laws or regulations affecting the industry, technological developments that render existing industry technology obsolete or the Company's inability to retain existing contracts and or obtain new contract awards are among the factors which could cause the Company to be unable to meet its objectives.

Business Strategy

MotivePower's business strategy is to grow and continue to strengthen its core businesses. The Company considers the following to be core businesses: manufacturing and distributing engineered locomotive components and parts; providing locomotive fleet maintenance and overhauling and remanufacturing locomotives; and manufacturing environmentally friendly switcher, commuter and mid-range, DC traction, diesel-electric and liquefied natural gas locomotives up to 4,000 horsepower. To the extent market conditions, technological developments or other factors change, management will reconsider its strategy to best position the Company under the conditions and circumstances then prevailing.

Industry Conditions and Trends

The Company's operating results are strongly influenced by general economic conditions, railroad freight traffic, the financial condition of the railroad industry and their outsourcing of

work to improve their competitive position. Favorable conditions generally prevailed in the economy and the railroad industry during 1996, although there is no assurance that these favorable conditions in the railroad industry will continue. Historically, however, the components and parts, maintenance and overhaul segments of the railroad industry, while still subject to the impact of rail traffic fluctuations, have been more stable and less cyclical than the new and remanufactured locomotive segments. The Company operates in a highly competitive environment, and there can be no assurance that increased rail traffic and outsourcing by the railroads will benefit the Company.

Since the deregulation of the U.S. railroad industry in 1980, freight railroads have reduced their equipment base and consolidated operations to reduce operating costs and improve their competitive position compared to trucking companies, which compete with the railroad industry. In recent years, railroads have been consolidating and merging, hoping to achieve additional operating and financial efficiencies that will allow them to compete more effectively with other modes of transportation. Management believes these consolidations offer the Company opportunities to increase business with the surviving railroads as these railroads seek operating efficiencies through such means as outsourcing locomotive fleet maintenance and components repair. This is a forward-looking statement. There can be no assurances, however, that continued consolidation will not adversely impact the Company through concentration of bargaining power over prices or rationalization of locomotive fleet sizes.

Description of Business Operations

The Company operates principally through two business units, the Components Group and the Locomotive Group.

Components Group

The Components Group manufactures and distributes primarily aftermarket, or replacement components and parts for freight and passenger railroads, including every Class I Railroad in North America, metropolitan transit and commuter rail authorities, original equipment manufacturers and other customers internationally. MotivePower provides most aftermarket components for locomotives manufactured by the Electro-Motive Division of General Motors Corporation ("EMD") and certain components for locomotives made

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by the GE Transportation Systems unit of General Electric Company ("GE"). MotivePower believes it is the leading independent supplier in North America of aftermarket locomotive components such as traction motors, alternators, turbochargers, cooling systems and overhauled diesel engines.

Demand for components tends to depend largely on rail traffic. As traffic increases, the railroads seek to maximize locomotive availability and capacity, which can increase the frequency of necessary repairs and maintenance. This business is highly competitive, as the Company faces competition from EMD, GE and numerous smaller, independent manufacturers and distributors. EMD and GE accounted for virtually 100% of the new high-horsepower locomotives delivered in the United States in the past five years and, as original equipment manufacturers, are the principal suppliers of original parts for their locomotives.

Locomotive Group

The Locomotive Group provides fleet maintenance, overhauling and remanufacturing, and manufacturing of environmentally friendly switcher, commuter and mid-range, DC traction,

diesel-electric and liquefied natural gas locomotives up to 4,000 horsepower. The Company's fleet maintenance business unit provides locomotive maintenance under long-term contracts. These contracts generally cover normal, expected maintenance costs but also allow the Company to bill additional amounts to cover extraordinary maintenance.

Demand for fleet maintenance services is driven by the railroads' focus on cost reduction and productivity improvements as the industry has consolidated over recent decades, and as railroads consider outsourcing non-transportation functions. While most railroads have their own mechanical and maintenance facilities, some can achieve cost savings and productivity improvements by outsourcing the work to an independent servicer. In this business segment, the Company competes against GE, EMD and the captive in-house shops of certain railroads. When possible, the Company supplies its own component parts, at market prices, for use in overhaul and maintenance under these contracts. In this manner, the locomotive fleet maintenance contracts provide additional opportunities for sales of component parts.

There are approximately 4,000 locomotives operating in switcher/short-haul service in the United States and Canada, with an average age of 30 years. Demand for new mid- range locomotives has been minimal since the early 1980s because the railroads have focused instead on modernizing, rationalizing and downsizing their higher-horsepower freight locomotive fleets. In addition, older freight locomotives are sometimes used as switchers. As a result of this low level of demand, few switcher manufacturers exist today. In this business, the Company competes against Peoria Locomotive Works. In 1996, the Company delivered 32 switchers to two terminal railroads in Houston. Although the Company does not currently have additional switcher contracts, it has several proposals outstanding as of March 1997 for delivery in 1997 and 1998.

The Company has been providing overhauling and remanufacturing services to the railroad industry since 1972, and management believes the Company is the largest, independent remanufacturer of locomotives in North America. In this business segment, the Company faces competition from VMV, AMF Canada, GEC Alsthom Mexico, numerous smaller regional remanufacturers, the captive in-house shops of Class I railroads, and from GE and EMD. Most large railroads have in-house capacity to overhaul locomotives but not to remanufacture them.

Typically, a locomotive overhaul includes replacement of various engine and electrical rotating equipment. The cost can vary greatly depending on the number and type of options included. Remanufacturing is a more extensive process involving the disassembly, redesign from the frame up and reassembly of a locomotive with upgraded equipment to substantially as-new condition.

The Company's overhauling and remanufacturing businesses have been driven by the aging of the rail industry's locomotive fleet and the historical cost advantages compared to purchasing new locomotives. Between 1970 and 1980, the industry purchased approximately 12,000 new locomotives, compared to approximately 8,000 since then. As a result, the average age of the fleet has increased, with nearly 75% of the fleet at least 10 years old. The typical maintenance cycle calls for a locomotive to be overhauled after approximately seven years, remanufactured after 15 years and replaced after 20 to 25 years if it has not been remanufactured.

Product Development In 1994 and 1995, MotivePower signed agreements with CSX Intermodal ("CSXI"), a unit of CSX Corporation, for the development and manufacturing of the Iron Highway, a proposed new system for intermodal freight transportation. The Company developed four Iron

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Highway trainsets, two of which are currently in revenue-testing service by CP Rail. CSXI has postponed testing of its two units. In 1996, the Company and CSXI cancelled an Iron Highway manufacturing agreement. The Company currently receives no revenues and incurs no costs for the Iron Highway project, and there is no certainty that CP Rail will proceed with the Iron Highway beyond the testing phase, or that CSXI will resume testing.

Backlog

At December 31, 1996, the Company's backlog was approximately $526 million, related to the Company's multi-year locomotive fleet maintenance agreements. The largest agreement is subject to termination, but the Company would receive a substantial termination settlement.

The Components Group, which represented approximately 50% of Company sales in 1996, has no backlog because the vast majority of its sales are considered to be maintenance items on short lead time cycles. However, the Components Group does have several long-term supply agreements with certain Class I railroads that designate that Group as the preferred supplier of required maintenance products.

Employees

At March 10, 1997, MotivePower had 2,102 employees versus 2,141 in 1995. This included 589 salaried employees and 898 hourly employees in the United States, and 135 salaried employees and 480 hourly employees in Mexico. Of the hourly employees in the United States, 348 at Boise Locomotive Company ("Boise Locomotive") are represented by the International Union of Operating Engineers ("Operating Engineers"), and 550 at Motor Coils Manufacturing Co. ("Motor Coils") are represented by the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers ("Electrical Workers"). The collective bargaining agreement with the Operating Engineers expires in June 2000 and the three collective bargaining agreements with the Electrical Workers, covering Motor Coils employees in Braddock and Emporium, Pennsylvania, and St. Louis, Missouri, expire in July 1998, October 1998 and June 2000, respectively. The Company considers its relations with its employees and union representation to be good.

Environmental Matters

The Company is subject to federal, state, local and foreign environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances and petroleum products (collectively referred to as "waste"). Examples of regulated activities are the disposal of lubricating oil, the discharge of water used to clean parts and to cool machines, the maintenance of underground storage tanks and the release of particulate emissions produced by Company operations. For some activities the Company must obtain permits. Violation of environmental laws or regulations could subject the Company and its management to civil and criminal penalties and other liabilities. In addition, third parties may make claims for personal injuries and property damage associated with releases of waste. A current or prior owner or operator of property may be required to investigate and clean up waste releases and may be liable to governmental entities or some other third party for their investigation and remediation costs in connection with the contamination. The Company arranges for the disposal or treatment of waste at disposal or treatment facilities owned by third parties. The Company could be liable for the costs of removing or remediating a release of waste at such facilities.

Because it owns and operates property, the Company may have responsibility and liability even if it does not know of or cause the presence of contaminants. Liability is often joint and several and is generally not limited. The cost to investigate, remediate and remove waste may be substantial and may even exceed the value of the property or the aggregate assets of the owner or operator. The Company may have difficulty selling or renting contaminated property or borrowing against such property. The government sometimes creates liens against property for damages and costs it incurs in connection with contamination. The Company has potential liabilities associated with its and its predecessor's past waste disposal activities, including disposal activities at plants currently being operated by the Company.

The Company has a Chief Compliance Officer who audits the Company policy and reports directly to the Audit Committee of the Board of Directors. All Audit Committee members are independent directors.

Boise, Idaho

Heavy equipment repair and locomotive remanufacturing commenced at Boise Locomotive in 1972. At the time, solvents were used in the process of cleaning parts and equipment as part of the repair/remanufacturing process at the facility. Wastewater generated from the equipment cleaning process containing solvents was discharged during the process to in-ground wastewater separation basins that were connected to buried drain fields. This wastewater treatment system was in place until 1984. In 1985, the Company's predecessor received

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notices from the Idaho Department of Health and Welfare, Division of Environmental Quality and the United States Environmental Protection Agency, indicating that it was in violation of state and federal environmental laws with respect to this treatment system at Boise Locomotive. Related regulatory requirements led to the closure of the buried drain fields and a buried trench that was used for disposal of waste material. Further requirements led to the issuance in 1991 of a Resource Conservation and Recovery Act Part B Post Closure Permit (the "Permit"), which is the formal permit pursuant to which a detailed corrective action plan is specified for groundwater cleanup and for protection of the public and environment following the "closure" or termination of the releases which created the problem. In compliance with the Permit, about 57 wells have been drilled on the Boise Locomotive property and on adjacent property to monitor, collect, and treat contaminated shallow groundwater, to monitor any movement of the contaminated plume, and to monitor the deeper groundwater systems at the facility. The Company was in compliance with the Permit at December 31, 1996. In addition, Boise Locomotive would be liable for any damages resulting from hazardous substances migrating from the facility to deeper groundwater systems, including the regional aquifer system which serves most of the domestic and industrial users of groundwater in the area (which includes and extends beyond Boise). Three private off-site wells are known to have been impacted by shallow groundwater contamination. Two of these wells are used for residential domestic purposes, and the third well is used for supply to a pond and landscape watering for a residential subdivision. Boise Locomotive has entered into agreements whereby the residential domestic use of the wells will be abandoned and domestic water will be provided via a public water supply hook-up. In the event of contamination of the regional aquifer, Boise Locomotive would be required, among other things, to provide potable water to affected users and to install a treatment system to clean up the polluted water, and could incur other liabilities, the combined cost of which cannot be estimated, but would be expected to be material in amount. The regional aquifer system, however, occurs at a depth which is

approximately 200 feet below the shallow contaminated groundwater that is currently being remediated. While management believes there is no evidence that the regional aquifer system is currently threatened by releases of contaminants from Boise Locomotive, no assurance can be given in this regard.

Mexico

Through its MK Gain, S.A. de C.V. ("MK Gain") subsidiary, the Company has operational responsibility for facilities in Acambaro and San Luis Potosi in Mexico, pursuant to a contract with the Mexican National Railway. Under the contract, MK Gain is responsible for performing certain work related to environmental protection at the facilities, such as waste water treatment, storm water control, tank repair, and spill prevention and control. The costs of this work are either to be directly reimbursed to MK Gain by the Mexican National Railway or recoverable through fees payable under the contract, which has been structured to account for such cost. No assurance can be given, however, that the Mexican National Railway will not dispute any submissions for reimbursement or that the fee structure under the contract will, in fact, cover costs. MK Gain's operations are subject to Mexican environmental laws and regulations. It has obtained, or is in the process of obtaining, environmental permits, licenses and approvals required for its continuing operations.

Mountaintop, Pennsylvania

The Comprehensive Environmental Response, Compensation and Liability Act (also known as "CERCLA" or "Superfund") is a federal law regarding abandoned hazardous waste sites which imposes joint and several liability, without regard to fault or the legality of the original act, on certain classes of persons, including those who contribute to the release of a "hazardous substance" into the environment. Foster Wheeler Energy Corporation ("FWEC") is named as a potentially responsible party with respect to the Company's Mountaintop, Pennsylvania plant, which has been listed by the EPA in its data base of potential hazardous waste sites, the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS"). FWEC, the seller of the Mountaintop property to the Company's predecessor in 1989, agreed to indemnify the Company's predecessor against any liabilities associated with this Superfund site. Management believes that this indemnification arrangement is enforceable for the benefit of the Company and, although such obligation is unsecured and therefore structurally subordinate to secured indebtedness of FWEC, that FWEC has the financial resources to honor its obligations under this indemnification arrangement. This indemnification does not alter the Company's potential liability to third parties (other than FWEC) or governmental agencies under CERCLA but creates contractual obligations on the part of FWEC for such liabilities.

Richland Township, Pennsylvania

Motor Coils owns a vacant lot in Richland Township, Pennsylvania which has been subject to unauthorized dumping by unknown parties. The Company has not yet tested the soil at the site or materials disposed there. Based on a visual

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inspection, Motor Coils cannot yet estimate the cost to remove and properly dispose of the material, and does not believe that the removal will have a material adverse impact on the Company's financial position or results of operations.

St. Louis, Missouri

Motor Coils completed voluntary remediation of surficial contamination resulting from a release of xylene in connection with a storage tank leak at its St. Louis, Missouri facility. Motor Coils notified the relevant state regulatory agency of its remediation plan and, with the concurrence of the state agency, initiated site remediation in 1994. Based on monitoring results, the Company discontinued site remediation in 1996.

The Company believes that its planned expenditures are adequate to meet its known environmental obligations and liabilities, including those under the Permit, and under CERCLA and similar legislation. The Company's knowledge of its environmental obligations and liabilities is, for the majority of its facilities, based on assessments and due diligence conducted by its predecessor's personnel and Phase I and/or Phase II environmental assessments conducted by third-party consultants. No assurance can be given, however, that stricter interpretation and enforcement of existing environmental laws or regulations, the adoption of new laws or regulations, the discovery of currently unknown waste or contamination for which the Company may be liable, the inability of the Company to enforce the indemnification with respect to the Mountaintop plant or the continued spread of the hazardous waste plume through off-site groundwater near Boise Locomotive will not result in significantly higher environmental costs to the Company.

Environmental laws and regulations are subject to change at any time. Compliance with current or future laws and regulations could potentially necessitate significant capital outlays by the Company, affect the economics of a given project or cause material changes or delays in intended activities.

In October 1996, the American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities" ("SOP 96-1"). SOP 96-1 is effective for fiscal years beginning after December 15, 1996. The Company believes that its liabilities have been recorded in compliance with SOP 96-1 and, therefore, implementation of SOP 96-1 will have no impact on the Company's financial position or results of operations.

Major Customers

In 1996, sales to three customers exceeded 10% of total sales: Burlington Northern/Santa Fe (19%), Union Pacific (16%), and the Mexican National Railway (14%). No other single customer accounted for 10% or more of sales. Based on current operations, management expects that sales to Burlington Northern/Santa Fe, Union Pacific and the Mexican National Railway will exceed 10% of 1997 total sales.

Item 2. PROPERTIES

The Company's headquarters are located in Pittsburgh, Pennsylvania and its manufacturing facilities are located in the United States and Mexico. The Company considers that its properties are generally in good condition, are well-maintained, and are generally suitable and adequate to carry on its business. The principal facilities of the Company and its subsidiaries or operating units are as follows:

Location	Square Footage	Owned/ Leased	Use
MotivePower Industries, Inc.			
Pittsburgh, Pennsylvania	8,430	Leased	Corporate Headquarters
Boise Locomotive Company			
Pittsburgh, Pennsylvania	5,000	Leased	Office
Mountaintop, Pennsylvania*	204,000	Owned	Manufacturing
Boise, Idaho	210,000	Owned	Manufacturing
Boise, Idaho	66,900	Owned	Manufacturing

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Helper, Utah**	--	Leased	Maintenance Shop
Barstow, California**	--	Leased	Maintenance Shop
Clark Industries Co.			
Gilman, Illinois	31,800	Leased	Manufacturing
Engine Systems Co., Inc.			
Latham, New York	63,000	Owned	Manufacturing
MK Gain, S.A. de C.V.			
San Luis Potosi, Mexico	968,400	Leased	Manufacturing
Acambaro, Mexico	138,000	Leased	Manufacturing
Mexico City, Mexico	3,700	Leased	Office
Motor Coils Mfg. Co.			
Pittsburgh, Pennsylvania	61,777	Leased	Office
Pittsburgh, Pennsylvania	57,000	Leased	Warehouse
Pittsburgh, Pennsylvania	71,950	Leased	Warehouse/Manufacturing
Braddock, Pennsylvania	111,000	Owned	Manufacturing
Emporium, Pennsylvania	37,000	Owned	Manufacturing
St. Louis, Missouri	65,000	Owned	Manufacturing
Power Parts Co.			
Elk Grove Village, Illinois	18,000	Leased	Office
Elk Grove Village, Illinois***	132,700	Leased	Warehouse
Touchstone Co.			
Jackson, Tennessee	88,000	Owned	Manufacturing
Jackson, Tennessee	77,200	Leased	Warehouse
Jackson, Tennessee	2,590	Leased	Storage
Jackson, Tennessee	1,540	Leased	Office
Racine, Wisconsin	1,200	Leased	Office

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* The Company closed this facility in the second quarter of 1996. On March 6, 1997 the Company signed a letter of intent to sell this facility.

**Represents unspecified portions of maintenance facilities owned by the railroads for which the Company provides locomotive fleet maintenance services. These facilities have been made available to the Company to perform these services for nominal consideration.
*** The Company subleases 59,500 sq. ft. of space through July 1997, subject to two consecutive six-month renewals at the option of the subtenant.

Item 3. LEGAL PROCEEDINGS

In December 1995, Morrison Knudsen, the Company and certain of Morrison Knudsen's directors and officers were named as defendants in a complaint (the "Pilarczyk Lawsuit") filed in the United States District Court for the Northern District of New York by plaintiffs who were principals in and/or held substantial stock in TMS, Inc. ("TMS"), a New York corporation acquired by Morrison Knudsen on December 30, 1992. The complaint alleges, among other things, violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, breach of contract, unjust enrichment, negligent misrepresentation and common law fraud during Morrison Knudsen's acquisition of TMS in 1992. Plaintiffs assert that the Company, which was not formed by Morrison Knudsen until 1993, is fully responsible for the acts of Morrison Knudsen. However, the actions complained of occurred before the Company was formed and the Company did not assume such liabilities of Morrison Knudsen. A motion to dismiss, filed in April 1996 on behalf of all defendants to the Pilarczyk Lawsuit, is still pending. Counsel to the Company believes the causes of action in the Pilarczyk Lawsuit relating to the Company are without merit and the Company expects that it will be successful on this motion, even if the suit is not dismissed as to all defendants. If the Company is successful, the Company intends to make appropriate requests to the court to seek to require the plaintiff to pay the Company's legal fees and costs.

In June 1995, the Company was named as defendant in a complaint filed with the Idaho Human Rights Commission (the "Idaho Commission") and the Equal Employment Opportunity Commission by a female employee on behalf of herself and other women employed by the Company alleging discrimination based on sex, which complaint was amended in December 1995 to include allegations of retaliatory discharge. In 1996, the idaho Commission announced that it found no probable cause to believe either discrimination or retaliatory discharge had occurred as alleged in the complaint and, accordingly, the proceeding was dismissed.

The Company is engaged in a commercial dispute with a former supplier, Samyoung Machinery Industrial Co. and Samyoung (America), Inc. (collectively, "Samyoung"). The Company filed suit on April 16, 1996 alleging delivery of defective product and seeking damages in excess of $1 million. Samyoung denies

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that the product was defective and countersued to recover $300,000 under the contract, and $10 million for trade libel and interference with prospective economic relationships as a result of the Company allegedly making false disparaging statements concerning the diesel engine assembly liners to customers. The Company believes that Samyoung's claims are without merit, and, to date, no evidence supporting Samyoung's counterclaims has come to light through the discovery being conducted by the parties. The Company intends to vigorously prosecute its own claims and defend against Samyoung's counterclaims.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On October 30, 1996, the annual meeting of the shareholders of the Company was held, at which the shareholders voted on and approved the following matters:

1. The election of John C. Pope and Nicholas J. Stanley to the Board of Directors for a term of three years. A summary of the voting results is as follows:

	John C. Pope	Nicholas J. Stanley
For	14,474,146	14,459,321
Withheld	32,198	47,023

2. The amendment of the Company's Certificate of Incorporation to permit vacancies on the Board or newly created directorships to be filled at meetings of the stockholders called by the Board. A summary of the voting results is as follows:

For	13,056,523
Against	34,700
Abstain	10,013

3. The amendment of the Company's Stock Incentive Plan to increase the maximum number of shares which may be issued under such Plan by one million shares. A summary of the voting results is as follows:

For	12,707,091
Against	273,480
Abstain	20,309

4. The amendment of the Company's Stock Option Plan for Non-Employee Directors to (i) provide for annual stock option awards to the Company's non-employee directors and (ii) increase the maximum number of shares which may be issued under such plan by 50,000 shares. A summary of the voting results is as follows:

For	12,630,604
Against	382,521
Abstain	19,709

5. The appointment of Deloitte & Touche LLP as the Company's independent auditors. A summary of the voting results is as follows:

For	14,459,462
Against	38,681
Abstain	8,201

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MotivePower's Common Stock trades on the Nasdaq National Market Tier of the Nasdaq Stock Market under the symbol "MOPO." As of March 10, 1997, the approximate number of holders of record of its Common Stock was 983.

The high and low sales prices for the Company's Common Stock, as

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reported in the Nasdaq Stock Market Summary of Activity reports in 1996, were as follows:

	1996		1995	
	High	Low	High	Low
First Quarter	$4.50	$2.88	$10.63	$5.75
Second Quarter	6.75	3.38	9.25	4.50
Third Quarter	6.63	5.00	8.75	6.38
Fourth Quarter	8.00	5.88	8.75	3.88

The Board did not declare dividends for 1995 or 1996. On February 27, 1997, the Company entered into a new credit facility which allows up to $3 million in annual dividends to be paid if declared by the Board of Directors. The Board reviews its dividend policy regularly.

At the close of business on March 10, 1997, the Company's Common Stock was trading at $11.00 per share.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following Selected Consolidated Financial Data are qualified in their entirety by, and should be read in conjunction with, the Consolidated Financial Statements of the Company and the related notes thereto, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth under Item 7. The Balance Sheet Data at December 31, 1992, 1993, 1994, 1995 and 1996, and the Statement of Operations Data for each of the five years in the period ended December 31, 1996, have been derived from the audited Consolidated Financial Statements of the Company.

<TABLE>
<CAPTION>

	December 31,				
	1996	1995	1994	1993	1992
	(In thousands except share information)				
Statements of Operations Data:					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 291,407	$263,718	$368,537	$218,160	$129,507
Net income (loss)	11,509	(40,414)	(42,793)	3,632	1,790
Earnings (loss) per common share	0.66	(2.34)	--	--	--
Pro forma supplemental income (loss) per common share (1)	--	--	(2.47)	0.21	--
Special dividend to Morrison Knudsen	--	--	3.19	--	--
Other dividends	--	0.04	0.12	--	--
Balance Sheet Data:					
Total assets	$ 234,044	$280,948	$311,297	$181,930	$138,263
Long-term debt and Redeemable Preferred Stock	27,161	61,296	40,867	--	--
Stockholders' equity	120,980	94,527	114,124	100,061	68,863

<FN>

(1) The net loss for 1994 has been adjusted to reflect the following: additional

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interest expense on a $19 million debt from January 1, 1994 through February 25, 1994, transferred from Morrison Knudsen and assumed by the Company; a reduction of interest expense resulting from the assumed payment of $39.6 million on the intercompany debt due Morrison Knudsen, and a dividend payment of $35.6 million to Morrison Knudsen. Net income for 1993 has been adjusted for the net effects of the acquisitions of Touchstone, Inc., Clark Industries, Inc., and Arrowsmith Power Systems, Inc., as if such acquisitions occurred on January 1, 1993.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

In 1996, MotivePower had net income of $11.5 million, or 66 cents per share, on sales of $291.4 million. During the year, the Company reduced debt by $71 million, cut general and administrative costs by $13 million, sold $21 million of non-core assets and reduced inventories by $21 million. For the year, both the Locomotive Group and the Components Group had operating income above prior year results, exclusive of any Unusual Items. The Company's Boise Locomotive subsidiary completed a contract for 32 switcher locomotives during the year, contributing significantly to the improved performance of the Company.

Business Strategy

MotivePower's business strategy is to grow and continue to strengthen its core businesses. The Company considers the following to be core businesses: manufacturing and distributing engineered locomotive components and parts; providing locomotive fleet maintenance and overhauling and remanufacturing locomotives; and manufacturing environmentally friendly switcher, commuter and mid-range DC traction, diesel electric and liquefied natural gas locomotives up to 4,000 horsepower. To the extent market conditions, technological developments or other factors change, management will reconsider its strategy to best position the Company under the conditions and circumstances then prevailing.

Industry Conditions and Trends

The Company's operating results are strongly influenced by general economic conditions, railroad freight traffic, the financial condition of the railroad industry and their outsourcing of work to improve their competitive position. Favorable conditions generally prevailed in the economy and the railroad industry during 1996, although there is no assurance that these favorable conditions in the railroad industry will continue. Historically, however, the components and parts, maintenance and overhaul segments of the railroad industry, while still subject to the impact of rail traffic fluctuations, have been more stable and less cyclical than the new and remanufactured locomotive segments. The Company operates in a highly competitive environment, and there can be no assurance that increased rail traffic and outsourcing will benefit the Company.

Since the deregulation of the U.S. railroad industry in 1980, freight railroads have reduced their equipment base and consolidated operations to reduce operating costs and improve their competitive position compared to trucking companies, which compete with the railroad industry. In recent years, railroads have been consolidating and merging. Management believes these consolidations offer the Company opportunities to increase business with the surviving railroads as these railroads seek operating efficiencies through such means as outsourcing locomotive fleet maintenance and parts repair. This is a forward-looking statement. There can be no assurances, however, that continued consolidation will not adversely impact the Company through concentration of bargaining power over prices or rationalization of locomotive fleet sizes.

Results of Operations

The following table sets forth the percentage of sales represented by certain items in the Company's Consolidated Statements of Operations for the years indicated.

Year Ended December 31,

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	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of sales	(79.8)	(86.5)	(90.8)
Unusual items	(0.7)	(15.5)	(10.6)
Gross profit (loss)	19.5	(2.0)	(1.4)
General and administrative expenses	(11.2)	(17.4)	(11.2)
Research and development expense	--	--	(0.9)
Operating income (loss)	8.3	(19.4)	(13.5)
Interest income	0.7	0.4	0.5
Interest expense	(3.1)	(3.6)	(1.8)
Other income	0.5	--	--
Gain on sale of assets	0.5	--	--
Foreign exchange gain (loss)	0.1	(0.2)	(0.3)
Income (loss) before income taxes and minority interest	7.0	(22.8)	(15.1)
Income tax (expense) benefit	(2.6)	7.5	3.3
Minority interest in loss of subsidiary	--	--	0.3
Income (loss) before extraordinary item	4.4	(15.3)	(11.5)
Extraordinary loss on extinguishment of debt	(0.4)	--	--
Net income (loss)	4.0%	(15.3%)	(11.5%)

Consolidated Operations

1996 Compared to 1995

Sales increased 10% to $291.4 million in 1996 from $263.7 million in 1995. The increase was primarily due to increased sales in the Locomotive Group which completed a $34 million contract to deliver switcher locomotives in December 1996. The Components Group had lower sales in 1996 versus 1995 principally as a result of the sale of non-core businesses during the year.

Cost of sales (exclusive of Unusual Items) as a percentage of sales decreased to 80% in 1996 compared to 87% in 1995, resulting in gross profit margins of 20% and 13%, respectively. The

improvement in gross profit is the result of cost reductions and improved productivity in the operating groups and increased profitability at the higher sales volume due to the benefits of operating leverage.

Charges for Unusual Items were $2.1 million in 1996 compared to $40.8 million in 1995. The charges in 1996 were incurred due to the impairment of certain assets, facility rationalization and the restructuring of lease commitments. The charges in 1995 related to the Company's exit from the high-horsepower locomotive business, the impairment of the Mountaintop facility and the locomotive lease fleet, the disposition of the Company's Australian operations and other miscellaneous charges.

General and administrative expenses decreased 29% to $32.6 million in 1996 from $45.9 million in 1995. The decrease resulted from the elimination of $4.5 million in costs incurred in 1995 during the attempt to sell the Company, cost reductions at the operating entities and reductions in corporate overhead, including legal expenses and staff reductions.

Interest income increased 108% to $2 million in 1996 from $951,000 in 1995. The 1996 amount includes $947,000 of interest income on the notes receivable related to the restructuring of the Company's Argentina investment and $1 million in interest on funds invested by MK Gain. Based on the remaining term of the notes receivable, the Company expects interest income to be minimal in 1997.

Interest expense decreased 5% to $9.1 million in 1996 from $9.6 million in 1995. The decrease is the result of a decrease of $1.6 million in interest expense on the amount owed to Morrison Knudsen which was paid off in September

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1996, a decrease of $1 million in interest expense on the amount owed on the Company's domestic credit facility which was paid down $30 million in 1996, partially offset by an increase in interest expense of $1.4 million on the Company's Mexican credit facility, and an increase in interest expense of $737,000 on customer advances to Boise Locomotive Company related to contracts for the production of switcher locomotives.

Other income of $1.6 million in 1996 represents funds received on the unsecured portion of the Company's restructured Argentina investments. There is no assurance that the Company will receive such payments in the future.

Gain on sale of assets of $1.5 million in 1996 is the result of a gain on the sale of Alert Manufacturing and Supply Co. ("Alert") of $700,000 and a gain on the sale of Power Parts Sign Co. ("Sign") of $783,000. Both companies were sold in the second half of 1996 after having been previously identified as non-core assets.

The foreign exchange gain in 1996 of $169,000 compares to a foreign exchange loss of $544,000 in 1995. The respective gain and loss is the result of fluctuations in the Mexican peso and its effects on the net peso exposure at the Company's Mexican subsidiary.

The extraordinary loss on extinguishment of debt in 1996, net of deferred tax benefit of $687,000, is the result of the Company's restructuring of its domestic credit facility. The gross charge includes $1 million paid to bank syndication partners for the break-up of the existing facility and the write-off of $751,000 of unamortized fees related to that facility.

The Company recorded income tax expense of $7.7 million in 1996 versus a benefit of $19.9 million in 1995. The 1995 benefit was a result of the Company's net loss during the year. At December 31, 1996, MK Gain had a net operating loss carryforward of approximately $23 million, expiring in various amounts during 2004-2005, and the Company had a consolidated United States federal net operating loss carryforward of approximately $48 million, expiring in various amounts during 2009-2010. The Company has reflected a valuation allowance with respect to these net operating loss carryforwards of $6.3 million at December 31, 1996.

1995 Compared to 1994

Sales decreased 28%, to $263.7 million in 1995 from $368.5 million in 1994. The decrease was primarily due to lower sales in the Locomotive Group, which completed a major remanufacturing contract in February 1995 and did not secure comparable new contracts. The Components Group also had lower sales due to a general slowdown in rail traffic growth for much of the year. The decrease in sales in 1995 was partially offset by sales increases from a full year's results of operations for the Company's maintenance contracts.

Cost of sales (exclusive of Unusual Items) as a percentage of sales decreased to 87% in 1995 from 91% in 1994 resulting in a gross margin of 13% of sales in 1995 versus 9% in 1994. The improvement in the gross margin for 1995 was primarily a result of cost reductions in the Locomotive Group resulting from the decline in sales volume, and the inclusion of the operating results of MK Gain for the entire year of 1995.

General and administrative expenses increased 12%, to $45.9 million in 1995 from $41.1 million in 1994. The increase resulted primarily from expenses related to efforts to sell the Company, costs associated with hiring and relocating corporate employees, and costs related to fulfilling regulatory and other requirements.

Research and development expense decreased to zero in 1995, from $3.4 million in 1994. The decrease was due to the curtailment of the Company's high-horsepower (over 4,000 horsepower) locomotive manufacturing program in early 1995.

Interest income decreased 52% to $951,000 in 1995 from $2 million in 1994. The decrease was due primarily to the elimination of an intercompany receivable from Morrison Knudsen. Interest expense increased 43% to $9.6 million in 1995 from $6.7 million in 1994. The increase resulted from increased borrowings under existing credit facilities needed to fund operating capital requirements and significantly higher general and administrative expenses.

The Company's foreign exchange loss decreased 55% to $544,000 in 1995 from $1.2 million in 1994. The decrease is the result of the use of U.S. dollars as the functional currency for the Company's Mexican operations in 1995 versus the Mexican peso as the functional currency in 1994. The change in functional currency resulted from changes in the sourcing of component parts from U.S. suppliers during the year and the U.S. dollar-denominated financing secured by MK Gain in 1995.

Income taxes reflect a benefit of $19.9 million that resulted from the Company's net loss in 1995.

Components Group

1996 Compared to 1995

In 1996, net sales for the Components Group decreased 1% to $145 million from $146 million in 1995. The decrease is primarily attributed to the sale of Alert which generated net sales of $5.6 million in 1996 prior to the

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sale, compared to $10.7 million in the full year 1995. Excluding the sales of Alert for both periods, net sales increased 3% in 1996 compared to 1995. Operating income (exclusive of Unusual Items) increased 27% to $19.9 million in 1996 from $15.7 million in 1995. The increase is attributed to cost-cutting and productivity improvements.

1995 Compared to 1994

In 1995, net sales for the Components Group decreased 6% to $146 million from $156 million in 1994. The decrease was due to a general slowdown in rail traffic growth for much of 1995, which caused the railroads to defer certain maintenance costs. Operating income also

decreased by 37% to $14.2 million in 1995 from $22.6 million in 1994. Excluding charges related to the discontinued high-horsepower program, the group's operating profit would have been $15.7 million in 1995. The decrease in operating income was due primarily to the group's high level of fixed costs.

Locomotive Group

1996 Compared to 1995

In 1996, net sales increased by 25% to $146.8 million from $117.4 million in 1995. The increase is attributed to a 38% increase in net sales at Boise Locomotive, primarily the result of the completion of contracts for 32 switcher locomotives which were manufactured during the year. Six of the switcher locomotives were accelerated for delivery in 1996, at the customer's request, to allow the units to be operating in the customer's fleet by the end of the year. In addition, MK Gain had an 11% increase in net sales under its contract to provide locomotive operations and maintenance. Operating income increased to $16.7 million in 1996 from an operating loss (exclusive of Unusual Items) of $6.2 million in 1995. The increase is attributed to the increase in sales, costs reductions and improved productivity, and the accelerated delivery of switcher locomotives in 1996.

1995 Compared to 1994

In 1995, net sales for the Locomotive Group decreased 45%, to $117.4 million from $212.8 million in 1994. The decrease was due primarily to the completion of a large remanufacturing contract, which produced sales of approximately $80 million in 1994 and $10.7 million in 1995, which more than offset an increase in sales at MK Gain. The group had an operating loss of $45.4 million in 1995, compared to an operating loss of $40.8 million in 1994. MK Gain had sales of $46 million and $18 million, and operating income of $1.7 million and $1.7 million in 1995 and 1994, respectively. The 1995 loss included Unusual Items of $39.3 million to discontinue manufacturing of high-horsepower locomotives, and to establish reserves against the locomotive lease fleet and a manufacturing plant in Mountaintop, Pa. Excluding these charges and losses in the discontinued Australian operations, the group would have had an operating loss of $1.7 million in 1995. The comparable loss in 1994, excluding Unusual Items, was $8.9 million.

Financial Condition, Liquidity and Capital Resources

During 1996 the Company significantly improved its financial liquidity through improved operating results, an overall reduction of debt of $71 million including the repurchase of debt the Company owed to Morrison Knudsen, a reduction of receivables of $6 million, a reduction of inventory of $19 million, and the restructuring of its domestic credit facility. In addition, the Company sold non-core assets during the year, including Alert, Sign and the majority of its locomotive lease fleet as part of the restructuring plan. Also, capital expenditures were reduced in 1996, and certain overhead costs were reduced through work force reductions at both the operating level and the corporate level.

The following table summarizes the net changes in cash flows for the years ended December 31, 1996, 1995 and 1994:

	Year Ended December 31,		
	1996	1995	1994

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	(In thousands)		
Net cash provided by (used in)			
Operating activities	$ 43,368	$ (21,743)	$ (85,141)
Investing activities	12,407	(15,408)	(36,941)
Financing activities	(56,235)	30,388	120,463
Effect of exchange rates on cash	--	--	2,207
Net (decrease) increase in cash and cash equivalents	$ (460)	$ (6,763)	$ 588
Cash and cash equivalents at end of year	$ 5,236	$ 5,696	$ 12,459

Net cash provided by operations in 1996 was $43.4 million, primarily the result of net income of $11.5 million and working capital management. During 1996, steps were taken to return the Company to profitability, including improving operations through production efficiencies and cutting overhead costs. As a result of these actions, and significantly improved sales volume in the Locomotive Group, the Company improved its financial condition and is positioned for future growth. In addition, inventories were reduced by $19 million in 1996 as the Company continued to manage assets and improve liquidity. Non-cash charges during the year for depreciation and amortization totaled $10.4 million.

Net cash provided by investing activities in 1996 was $12.4 million. As part of the Company's restructuring plan, non-core assets were sold during the year, generating net proceeds of $14.9 million. Offsetting these proceeds were capital additions of $4.1 million. Domestic capital spending during the year was limited to normal maintenance items, with MK Gain expenditures being made in accordance with contractual obligations. Other investing activities provided cash of $1.6 million, principally from the reduction of other long-term assets. The Company anticipates a $10 million increase in capital expenditures in 1997, principally due to contractual obligations at MK Gain and the construction of a new facility at its Touchstone subsidiary. This is a forward-looking statement. Actual capital expenditures could vary based on availability of capital, interest rate increases, site availability and changes in market conditions.

Cash used in financing activities in 1996 totaled $56.2 million, primarily the result of the buy back of the note payable to Morrison Knudsen for $34.6 million and the reduction of debt under credit agreements of $17 million. In addition, the Company also used funds to buy back the preferred stock outstanding for $1.1 million. The repurchase of the Morrison Knudsen note was completed at a discount of approximately $22 million, as the note plus interest at the date of closing was $56.6 million. This debt repurchase was part of the Company's overall strategy of reducing debt and improving liquidity. As a result of the improved operating results, the proceeds from the sale of non-core assets and funds received from unsecured notes related to the Company's restructured Argentina investments, the Company was able to pay down amounts owed under existing credit agreements. Also, in December 1996, the Company restructured its domestic credit

facility to reduce the cost of borrowing and increase net borrowing availability through increases in the term loan portion of the facility, and MK Gain entered into a new credit agreement which will provide up to $3.5 million in additional financing to support investments in property, plant and equipment.

Currency Risks

MK Gain is the source of foreign currency risks. Under a contract with the Mexican National Railway, MK Gain provides locomotive fleet maintenance and overhauls for 276 locomotives. For its services, MK Gain receives a monthly fee paid in Mexican pesos. As currency exchange or inflation rates fluctuate, the fee is adjusted periodically (currently monthly) based on an escalation formula in the contract. In 1996, despite continued fluctuation of the peso and a high rate of Mexican inflation, the formula effectively preserved the U.S. dollar value of the monthly fee.

MotivePower did, however, record a foreign currency gain of $169,000 for the year, related to MK Gain's net peso exposure. Most goods and services used in maintenance and overhaul activities are invoiced in U.S. dollars.

The Company does not speculate or use derivatives in any of its investment decisions. The Company will continue to monitor its exposure to foreign currency risks and may adjust its strategy in the future.

Inflation

General price inflation in the United States has been moderate during the three-year period ended December 31, 1996 and has not had a material impact on the Company's results of operations. Some of the Company's labor contracts contain negotiated salary and benefit increases, and others contain cost-of-living adjustment clauses which would cause the Company's costs to

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automatically increase if inflation were to become significant. Because of the competitive nature of the Company's business and its long-term contract terms and conditions, it is possible that the Company may be unable to pass on any significant inflationary effects to the Company's customers in the form of higher prices. The Company's strategy for reducing the possible adverse effects of higher inflation is to continue to adopt methods to increase productivity and reduce manufacturing costs.

Stock Ownership

Stock ownership guidelines for the Company's officers, directors and key managers, which sets minimum levels of Company stock ownership as a multiple of annual salaries, have been established as of March 1997. Their purpose is to encourage ownership of 10% or more of the Company's stock within five years to demonstrate an owner/management commitment to increase long-term stockholder value.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Financial Statements as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996	
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Consolidated Statements of Operations	23
Consolidated Balance Sheets	24
Consolidated Statements of Cash Flows	25
Consolidated Statements of Changes in Stockholders' Equity	27
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INDEPENDENT AUDITORS' REPORT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF MOTIVEPOWER INDUSTRIES, INC.:

We have audited the consolidated financial statements of MotivePower Industries, Inc. and subsidiaries listed in the accompanying index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MotivePower Industries, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Pittsburgh, Pennsylvania
February 10, 1997
(except for Note 7, as to which the date is February 27, 1997 and Note 18, as to which the date is March 6, 1997)

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MOTIVEPOWER INDUSTRIES, INC.
(Formerly known as MK Rail Corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of dollars except share data)

Year Ended December 31,	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales	$ 291,407	$ 263,718	$ 368,537
Cost of sales	(232,434)	(228,047)	(334,799)
Unusual items	(2,126)	(40,838)	(39,216)
Gross profit (loss)	56,847	(5,167)	(5,478)
General and administrative expenses	(32,615)	(45,946)	(41,125)
Research and development expense	--	--	(3,374)
Operating income (loss)	24,232	(51,113)	(49,977)
Interest income	1,981	951	1,979
Interest expense	(9,143)	(9,602)	(6,724)
Other income	1,565	--	--
Gain on sale of assets	1,483	--	--
Foreign exchange gain (loss)	169	(544)	(1,204)
Income (loss) before income taxes and minority interest	20,287	(60,308)	(55,926)
Income tax (expense) benefit	(7,714)	19,894	12,065
Minority interest in loss of subsidiary	--	--	1,068
Income (loss) before extraordinary item	12,573	(40,414)	(42,793)
Extraordinary loss on extinguishment of debt, net of income tax benefit of $687	(1,064)	--	--
Net income (loss)	$ 11,509	$ (40,414)	$ (42,793)
Weighted average shares outstanding	17,562,793	17,255,953	16,852,668
Earnings (loss) per share:			
Earnings (loss) before extraordinary item	$ .72	$ (2.34)	$ --
Extraordinary item	(.06)	--	--
Earnings (loss)	$ .66	$ (2.34)	$ --
Supplemental pro forma loss per share	$ --	$ --	$ (2.47)
Dividends per share:			
Other dividends	$ --	$ .04	$ .12
Special dividend to Morrison Knudsen (on 11,149,000 shares)	$ --	$ --	$ 3.19

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MOTIVEPOWER INDUSTRIES, INC.
(Formerly known as MK Rail Corporation)
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars except share data)

	December 31, 1996	December 31, 1995
ASSETS		
Current Assets:		
<S>	<C>	<C>
Cash and cash equivalents	$ 5,236	$ 5,696
Receivables from customers:		
Billed, net of allowance for doubtful accounts of $284 and $531, respectively	25,754	29,684
Unbilled	468	3,922
Inventories	78,438	99,459
Deferred income taxes	4,635	1,082
Other current assets	2,638	2,903
Total current assets	117,169	142,746
Locomotive lease fleet, net	2,083	14,840
Property, plant and equipment:		
Land	1,193	1,193
Buildings and improvements	47,298	40,952
Machinery and equipment	39,136	42,612
Property, plant and equipment - cost	87,627	84,757
Less accumulated depreciation	(43,644)	(38,010)
Property, plant and equipment - net	43,983	46,747
Underbillings	19,561	10,328
Deferred income taxes	15,348	27,530
Goodwill and other intangibles	24,637	27,789
Other	11,263	10,968
Total assets	$ 234,044	$ 280,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 11,626	$ 978
Current portion of note payable to Morrison Knudsen	--	10,440
Accounts payable:		
Trade	13,470	18,509
Morrison Knudsen	--	2,348
Accrued expenses and other current liabilities	28,236	33,271
Income taxes payable	1,957	249
Revolving credit agreement borrowings	22,431	59,847
Total current liabilities	77,720	125,642
Long-term debt	15,535	7,198
Note payable to Morrison Knudsen	--	41,655
Commitments and contingencies	18,394	9,299
Other	1,415	1,602
Total liabilities	113,064	185,396
Redeemable Preferred Stock, par value $.10 per share, authorized 10,000,000 shares, redemption price $100 per share; shares issued 0 at December 31, 1996, 10,000 Class A, at December 31, 1995	--	1,025
Stockholders' Equity:		
Common Stock, par value $.01 per share, authorized 55,000,000 shares; issued 17,562,793 shares	176	176
Additional paid-in capital	201,661	186,681
Deficit	(75,629)	(87,107)
Cumulative translation adjustments, net of tax	(5,105)	(5,105)
Deferred compensation	(123)	(118)
Total stockholders' equity	120,980	94,527

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Total liabilities and stockholders' equity	$ 234,044	$ 280,948

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The accompanying notes are an integral part of the financial statements.

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MOTIVEPOWER INDUSTRIES, INC.
(formerly known as MK Rail Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended December 31,		
	1996	1995	1994
Operating Activities			
<S>	<C>	<C>	<C>
Net income (loss)	$ 11,509	$ (40,414)	$ (42,793)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	6,950	8,209	8,315
Amortization	3,407	3,123	3,317
Extraordinary loss on extinguishment of debt (net of tax)	1,064	--	--
Gain on sale of assets	(1,483)	--	--
Deferred income taxes	5,403	(20,341)	(16,166)
Provision for loss on disposition of Argentine operations	--	--	11,060
Unusual Items	2,126	40,838	--
Gain on sale of Talleres	--	--	(1,255)
Other, net	82	194	105
Changes in operating assets and liabilities net of 1994 purchase of Touchstone and the 1996 sale of Alert and Sign:			
Receivables from customers	5,787	13,090	(31,440)
Inventories	19,088	(4,823)	(26,339)
Other current assets	(2,919)	93	(2,763)
Long-term lease	--	--	(12,297)
Accounts payable	(4,162)	(9,866)	14,440
Accrued expenses and other current liabilities	(5,054)	(2,241)	20,194
Advances from customers	--	--	(9,204)
Income taxes payable	1,708	(74)	(2,218)
Underbillings/overbillings	(9,233)	(12,252)	2,778
Commitments and contingencies	9,095	2,721	7,893
Argentine operations - noncash charges and working capital changes	--	--	(8,768)
Net cash provided by (used in) operating activities	43,368	(21,743)	(85,141)
Investing Activities			
Additions to property, plant and equipment	(4,063)	(8,565)	(21,041)
Proceeds from (additions to) locomotive lease fleet	10,071	(6,389)	(15,333)
Proceeds from sale of assets	4,838	--	--
Proceeds from sale of Talleres	--	--	4,303
Purchase of Touchstone	--	--	(3,900)
Other, net	1,561	(454)	(970)
Net cash provided by (used in) investing activities	12,407	(15,408)	(36,941)
Financing Activities			
Repayment of preferred stock	(1,056)	--	--
Increase in intangibles	(1,228)	(2,688)	--
Increase in restricted cash	(2,043)	(601)	--

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Payments of long-term debt	(2,461)	(475)	(36,922)
Net borrowings under credit agreements	(16,970)	27,667	52,870
Change in payable to Morrison Knudsen	(32,477)	11,628	41,581
Funding of MKA operations prior to disposition	--	(3,771)	--
Dividends paid	--	(1,372)	(36,972)
Proceeds from public sale of common stock	--	--	88,237
Capital contributions	--	--	11,669
Net cash (used in) provided by financing activities	(56,235)	30,388	120,463
Effect of exchange rates on cash	--	--	2,207
Net (decrease) increase in cash and cash equivalents	(460)	(6,763)	588
Cash and cash equivalents at beginning of year	5,696	12,459	11,871
Cash and cash equivalents at end of year	$ 5,236	$ 5,696	$ 12,459

</TABLE>

The accompanying notes are an integral part of the financial statements

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MOTIVEPOWER INDUSTRIES, INC.
(formerly known as MK Rail Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended December 31,		
	1996	1995	1994
Supplemental Disclosures of Cash Flow Information:			
<S>	<C>	<C>	<C>
Interest paid	$ 1,126	$ 3,244	$ 5,795
Income taxes paid (refunded)	(169)	610	6,263
Noncash Investing and Financing Activities:			
Reduction of payable to Morrison Knudsen:			
Payable to Morrison Knudsen	18,816	29,500	--
Additional paid-in capital	(14,902)	(18,600)	--
Deferred income taxes	(3,914)	(10,900)	--
Deferred compensation	78	54	152
Issuance of equity securities to settle obligation:			
Preferred stock	--	(1,000)	--
Common stock	--	(5)	--
Additional paid-in capital	--	(2,995)	--
Commitments and contingencies	--	(4,000)	--
Acquisition of assets for stock:			
Property, plant and equipment and other assets	--	--	12,619
Goodwill and other intangibles	--	--	19,840
Liabilities assumed	--	--	(9,952)
Additional paid-in capital	--	--	241
Exchange of locomotive lease for raw materials	--	--	910
Assumption of debt	--	--	(22,900)

</TABLE>

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<TABLE>
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MOTIVEPOWER INDUSTRIES, INC.
(Formerly known as MK Rail Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Thousands of dollars)

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings (Deficit) <C>	Cumulative Translation Adjustments <C>	Deferred Compensation <C>
Balance December 31, 1993 ...	$ 111	$ 85,952	$ 13,944	$ 54	$ --
Net loss	--	--	(42,793)	--	--
Proceeds from initial public offering, net of related expenses of $7,763	60	88,177	--	--	--
Dividends, including special dividend	--	(20,525)	(17,133)	--	--
Capital contribution, net of debt assumed	--	11,276	--	--	--
Cumulative translation adjustment, net of deferred taxes of $1,145	--	--	--	(5,023)	--
Compensatory stock options granted	--	152	--	--	(152)
Compensation expense	--	--	--	--	24
Balance December 31, 1994 ...	$ 171	$ 165,032	$ (45,982)	$ (4,969)	$ (128)
Net loss	--	--	(40,414)	--	--
Dividends	--	--	(686)	--	--
Sale of MKA, impact on cumulative translation adjustment	--	--	--	(136)	--
Issuance of equity securities to settle litigation	5	2,995	--	--	--
Capital contribution, reduction of payable to Morrison Knudsen, net of deferred taxes of $10,900	--	18,600	--	--	--
Accretion of preferred stock	--	--	(25)	--	--
Compensatory stock options granted	--	54	--	--	(54)
Compensation expense	--	--	--	--	64
Balance December 31, 1995 ...	$ 176	$ 186,681	$ (87,107)	$ (5,105)	$ (118)
Net income	--	--	11,509	--	--
Capital contribution, reduction of payable to Morrison Knudsen, net of deferred taxes of $ 3,914	--	14,902	--	--	--
Accretion of preferred stock	--	--	(31)	--	--
Compensatory stock options granted	--	78	--	--	(78)
Compensation expense	--	--	--	--	73
Balance December 31, 1996 ...	$ 176	$ 201,661	$ (75,629)	$ (5,105)	$ (123)

</TABLE>

The accompanying notes are an integral part of the financial statements.

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MOTIVEPOWER INDUSTRIES, INC.
(Formerly known as MK Rail Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Operations and Basis of Accounting

The consolidated financial statements include the accounts of MotivePower Industries, Inc. (the "Company"), formerly known as MK Rail Corporation, formed in April 1993, which was a wholly-owned subsidiary of Morrison Knudsen Corporation ("Morrison Knudsen"). The Company acquired certain assets of the Rail Systems Group of Morrison Knudsen, including the Locomotive Division, which have been included in the financial statements for all periods presented on a pooling-of-interests basis for entities under common control.

On April 26, 1994, the Company, then a wholly-owned subsidiary of Morrison Knudsen, commenced an initial public offering of 6 million shares of its Common Stock at an offering price of $16 a share which decreased Morrison Knudsen's interest in the Company to 65%. Effective as of September 11, 1996, as part of its bankruptcy plan, Morrison Knudsen distributed all of its ownership in the Company to its creditors and certain of its then current stockholders. Morrison Knudsen is no longer a stockholder in the Company.

The Company and its subsidiaries design, manufacture and distribute engineered locomotive components and parts; provide locomotive fleet maintenance, overhauling and remanufacturing locomotives; and manufacture environmentally friendly switcher, commuter and mid-range DC traction, diesel electric and liquefied natural gas locomotives up to 4,000 horsepower. The consolidated financial statements include the following:

Subsidiaries (Wholly Owned):
Boise Locomotive Company ("Boise Locomotive"), formed in 1972, performs locomotive remanufacturing, overhauling and manufacturing as its principal business.

Clark Industries Company ("Clark"), acquired in 1993, is a manufacturer of cylinder heads, pistons and liner assemblies.

Engine Systems Company, Inc. (formerly known as MK Engine Systems Company, Inc.) ("Engine Systems"), formed in 1994, remanufactures turbochargers for locomotive, industrial and marine engines.

MK Gain S.A. de C.V. ("MK Gain"), a Mexican variable stock corporation formed in 1994, performs locomotive fleet maintenance as its principal business, almost exclusively for one customer, Ferrocarriles Nacionales de Mexico ("Mexican National Railway").

Motor Coils Manufacturing Company ("Motor Coils"), acquired in 1991, is a remanufacturer of locomotive traction motors and a manufacturer of rotating electrical components.

Power Parts Company ("Power Parts"), acquired in 1992, is a supplier of new and replacement engine and nonengine parts for locomotives.

Touchstone Company ("Touchstone"), acquired in 1994, manufactures, remanufactures and distributes locomotive radiators, oil coolers, brake adjusters and other industrial heat exchangers.

Affiliates:
MK Rail Systems of Argentina, S.A., the Company's 19% investment in Morrison Knudsen Rail Systems of Argentina, S.A. ("MKRSA"), is accounted for by the cost method and has been valued at zero.

Trenes de Buenos Aires S.A. ("TBA"), a 19%-owned affiliate which operates a concession contract to operate the Mitre and Sarmiento railway passenger lines in Buenos Aires is accounted for by the cost method and has been valued at zero.

On July 6, 1995, the Company sold its interest in Morrison Knudsen of Australia, Ltd. (MKA) to Morrison Knudsen. In consideration, the Company received a nominal cash payment and MKA's redeemable preferred stock bearing a 9% cumulative dividend. The Company has valued this stock at zero.

On October 25, 1996, the Company sold substantially all of the assets of the Company's Power Parts Sign Co. ("Sign") for $1.3 million plus the assumption of certain trade payables. In addition, on July 26, 1996, the Company sold substantially all of the assets of the Company's Alert Manufacturing and Supply Co. ("Alert") for $3.9 million plus the assumption of trade payables of $750,000. The Company recorded gains of $783,000 and $700,000 on the sale of the assets of Sign and Alert, respectively.

2. Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the

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accounts of the Company and all of its majority-owned subsidiaries. Sales between the Company and its subsidiaries are billed at prices consistent with sales to third parties and are eliminated in consolidation. Investments in affiliates in which the Company's ownership is less than 20% are accounted for using the cost method.

Revenue Recognition: The Company recognizes revenues on locomotive remanufacturing and manufacturing contracts on the percentage of completion-units delivered method, and on component part sales when product is shipped to the customer. Contract revenues and cost estimates are reviewed and revised periodically and adjustments are reflected in the accounting period when known. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivable represent shipments for which invoices have not been processed.

Revenue recognized on the MK Gain long-term maintenance contract is based upon a percentage of the expected gross margin. Under the terms of the maintenance contract, significant costs are incurred in the early years (locomotive overhauls and fleet normalization), while payments from the customer remain relatively constant throughout the life of the contract. By using a percentage of the expected gross margin to recognize revenue under the maintenance contract appropriate consideration is given to the risks associated with the contract. Costs and estimated earnings in excess of billings ("Underbillings") and billings in excess of costs and estimated earnings ("Overbillings") on the contract in progress are recorded on the balance sheet and are classified as current or non-current based upon the expected timing of their realization or liquidation.

Remanufactured locomotives are warranted for a period from one to three years, and component parts are warranted for a period from one to four years. Additionally, the Company provides an overhaul reserve on owned locomotives. Estimated costs for product warranty are recognized at the time the products are sold. Overhaul reserves are recorded on a straight-line basis over the period of time from acquisition of the locomotive to the estimated date of the related overhaul. Warranty and overhaul reserves of $7.1 million and $4.4 million at December 31, 1996 and 1995, respectively, are included in accrued expenses in the consolidated balance sheets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents consist of investments in highly liquid debt securities having an original maturity of three months or less. Such securities are considered to be held to maturity.

Inventories: Inventories are stated at the lower of cost or market. Locomotive inventories under long-term contracts consist of actual direct material, labor and manufacturing overhead and are allocated to individual units based on the estimated average production costs of units to be produced under a contract. Locomotive inventories under contract were $3.5 million and $2.5 million at December 31, 1996 and 1995, respectively. Component part inventories are valued at purchase cost using the last-in first-out (LIFO) method or average production cost.

Credit Risks: Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and accounts receivable. The Company, by policy, limits the amount of credit exposure to any one financial institution and places its investments with financial institutions that the Company believes are financially sound. The Company provides its products and services to the Class I Railroads in North America, to metropolitan transit and commuter rail authorities, to Amtrak, to original equipment manufacturers and to other customers internationally. A relatively small number of customers has represented a significant percentage of the Company's revenues in most years. Collectively, the Company's top five customers accounted for 63%, 62%, and 57% of sales in the years ended December 1996, 1995 and 1994, respectively. The Company performs ongoing credit evaluations of its customers and their accounts with the Company. The Company historically has not incurred any significant credit-related losses.

Locomotive Lease Fleet: Equipment on operating leases includes the Company's locomotive lease fleet. The locomotives are depreciated on a straight-line basis over their estimated useful lives of five to 15 years. Cost and accumulated depreciation at December 31, 1996 were $3.6 million and $1.5 million, respectively. Cost and accumulated depreciation at December 31, 1995 were $17.9 million and $3.1 million, respectively.

Property, Plant and Equipment: Buildings and improvements and machinery and

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equipment are recorded at cost and depreciated on the straight-line method over periods from three to 30 years. The cost and accumulated depreciation associated with property and equipment that is disposed of are removed from the

accounts, and gains or losses from such disposals are included in income. Leasehold improvements are capitalized and amortized on the straight-line method over the terms of the related leases. Expenditures for repairs and maintenance are charged to expense as incurred.

Goodwill and Other Intangibles: Goodwill and other intangibles consist of the following:

Goodwill - Cost in excess of tangible assets of businesses acquired in purchase transactions is amortized on the straight-line method over 15 years from the date of acquisition. The unamortized cost of goodwill was $17.8 million at December 31, 1996 and $19.5 million at December 31, 1995.

Covenants Not To Compete - These agreements are recorded at cost and amortized on the straight-line method over the terms of the agreements. Terms of the agreements range from three to 10 years. The unamortized cost was $4.5 million at December 31, 1996 and $5.3 million at December 31, 1995.

Loan Origination Fees - These fees are associated with the origination of the Company's debt. The fees are recorded at cost and amortized on the straight-line method over the terms of the respective loan agreements. The unamortized cost was $2.1 million at December 31, 1996 and $2.5 million at December 31, 1995.

Patent Costs - Patent costs related to proprietary technology have been deferred and are amortized on the straight-line method over three years. The unamortized cost was $217,000 at December 31, 1996 and $417,000 at December 31, 1995.

Accumulated amortization at December 31, 1996 and 1995 was $8.0 million and $4.1 million, respectively. The Company evaluates the realization of intangible assets on a quarterly basis and adjusts, if necessary, the carrying value or useful life accordingly.

Research and Development: Research and development costs are expensed as incurred and include research and development expenses for new product development and costs to improve existing products. The Company does not engage in research and development activities in the normal course of business, but rather in point of use engineering.

Foreign Currency Translation: During 1995, due to changes in the sourcing of component parts to U.S. suppliers at MK Gain and the U.S. dollar-denominated financing secured by MK Gain in 1995, it was determined that MK Gain's functional currency was the U.S. dollar and not the Mexican peso. As a result, MK Gain remeasures monetary assets and liabilities at year end exchange rates and inventory, property and nonmonetary assets and liabilities at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except that depreciation, amortization and cost of sales are remeasured at historical rates. Adjustments resulting from the remeasurement are included in the result of operations as they occur. Gains and losses resulting from foreign currency transactions are

included in income based upon the provisions of Statement of Financial Accounting Standards No. 52 Foreign Currency Translation. MK Gain has a contract that provides for escalation adjustments to the base contract based upon, among other things, changes in the exchange rate. Such escalation adjustments are included in revenues when realized.

Income Taxes: The provision for income taxes includes federal, state and foreign income taxes currently payable and those deferred or prepaid because of temporary differences between the financial statement and tax basis of assets and liabilities. The carrying amounts of deferred tax assets and liabilities are determined based on differences between the financial statement amounts and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. The Company has recorded a net deferred tax asset of $20 million reflecting the benefit of $71 million in loss carryforwards, which expire in varying amounts between 2004 and 2010.

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Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized.

Asset Impairment: In March 1995, Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121") was issued. The Company adopted SFAS 121 on January 1, 1996. Adoption of SFAS 121 did not have an effect on the Company's financial position or results of operations.

Stock-based Compensation: In October 1995, Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") was issued. SFAS 123 is effective for transactions entered into in fiscal years that begin after December 15, 1995. The Company adopted SFAS 123 on January 1, 1996, and as permitted by that standard the Company retained the recognition provisions of Accounting Principles Board Opinion Number 25. Adoption of SFAS 123 did not have an impact on the Company's financial position or results of operations.

Environmental Remediation Liabilities: In October 1996, the American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities" ("SOP 96-1"). SOP 96-1 is effective for fiscal years beginning after December 15, 1996. The Company believes that its liabilities have been recorded in compliance with SOP 96-1 and, therefore, implementation of SOP 96-1 will have no impact on the Company's financial position or results of operations.

Reclassifications: Certain reclassifications have been made to the 1995 and 1994 financial statements to conform to the current year presentation.

3. Unusual Items

The Company incurred charges for Unusual Items in 1996, 1995 and 1994 which consisted of the following:

<TABLE>
<CAPTION>

	December 31,		
	1996	1995	1994
	(In thousands)		
<S>	<C>	<C>	<C>
Provisions for impaired assets and lease losses	$ 2,126	$ --	$ --
High horsepower locomotive manufacturing and technology	--	20,273	8,398
Mountaintop facility writedown	--	9,570	--
Locomotive lease fleet impairment	--	7,064	--
Provision for loss on disposition of Australian operations	--	2,849	--
Contract losses	--	500	12,418
Provision for loss on disposition of Argentine operations	--	--	11,060
Legal and finance (primarily attributable to stockholder litigation), Other	--	582	7,340
	$ 2,126	$40,838	$39,216

</TABLE>

Year Ended December 31, 1996

As a continuation of the restructuring plan of the Company, which began in early 1996, charges were incurred due to the impairment of certain assets, facility rationalization and the restructuring of lease commitments.

Year Ended December 31, 1995

Charges for Unusual Items in 1995 were incurred principally due to the Company's exit from the high-horsepower locomotive manufacturing business, the writedown of the Mountaintop production facility, the impairment of the locomotive lease fleet and the disposition of the Company's Australian operations. These charges were incurred as part of the Company's restructuring plan, which would allow the Company to concentrate efforts on its core businesses.

Year Ended December 31, 1994

Charges for Unusual Items in 1994 were incurred due to losses on high-horsepower locomotive manufacturing, contract losses for locomotive remanufacturing, maintenance contracts, and losses on certain contracts in Australia, the restructuring and disposition of Argentine operations and legal costs incurred in connection with stockholder litigation. In 1994, the Company

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experienced significant operational and financial management turnover and incurred charges to provide for the losses on previously underbid contracts and the decision to terminate manufacturing operations in Argentina.

4. Inventories

Inventories consist of the following:

	December 31, 1996	December 31, 1995
	(In thousands)	
Raw materials	$50,699	$74,251
Work in process	13,912	14,279
Finished goods	13,827	10,929
Total inventories	$78,438	$99,459

Approximately $34 million and $37 million of total inventories at December 31, 1996 and 1995, respectively, were valued on the LIFO cost method, and the excess of current replacement cost of these inventories over the stated LIFO value was $902,000 and $3.6 million, at December 31, 1996 and December 31, 1995, respectively. Two of the Company's domestic subsidiaries value inventory on the LIFO basis.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31, 1996	December 31, 1995
	(In thousands)	
Accrued payroll and benefits	$ 8,075	$ 8,260
Warranty and overhaul accruals	7,053	4,402
Reserve for future losses	2,085	12,308
Other accrued liabilities	11,023	8,301
Total	$28,236	$33,271

6. Underbillings

During 1994, MK Gain entered into a long-term contract to provide maintenance and other locomotive services. Details relative to cumulative costs incurred and revenue recognized are as follows:

	December 31, 1996	December 31, 1995
	(In thousands)	
Costs incurred	$ 101,326	$ 56,602
Estimated earnings	12,682	6,655
	114,008	63,257
Less billings to date	(94,447)	(52,929)
Underbillings	$ 19,561	$ 10,328

7. Indebtedness

In August 1995, the Company and its subsidiaries entered into a $75 million loan agreement (the "Loan Agreement") with BankAmerica Business Credit ("BABC") which provided for revolving borrowings based on the amounts of eligible accounts receivable, inventory, and certain other assets which,

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together with property, plant and equipment, collateralized the amounts borrowed.

The Loan Agreement was modified several times during 1995 and 1996 to revise covenants, provide for term borrowings, and various other provisions and, on September 10, 1996, was amended and renamed the Amended and Restated Loan and Security Agreement (the "Restated Agreement"). On December 31, 1996, the Restated Agreement was modified to effect reductions in rates on borrowings, reinstate the Company's ability to convert borrowings to LIBOR-based rather than base-rate loans, and to provide for a September 30, 1997 termination date for the Restated Agreement at which time all outstanding principal and interest would become due. In connection with the modifications to the Restated Agreement, the Company repaid amounts owed certain participating lenders who are no longer lenders under the Restated Agreement, as modified, and paid early termination fees to those lenders. The early termination fees and a proportionate unamortized portion of previously incurred deferred debt issuance costs were expensed as an extraordinary item of $1,751,000 in the 1996 statement of operations.

Under the terms of the Restated Agreement, as modified, the interest rate on amounts drawn under the revolving portion of the facility was reduced to the base rate plus .5% (as compared to the prior rate of the base rate plus 1.5%), and the rate on the term loan portion of the facility was reduced to the base rate plus .75% (compared to the prior rate of the base rate plus 1.75%). Additionally, the modifications enabled the Company to convert revolving base-rate borrowings to LIBOR-based borrowings at LIBOR plus 2%. Under both the Loan Agreement and the Restated Agreement, the Company was required to pay a monthly fee based on the unused portion of its borrowing capacity. At December 31, 1996 and 1995, balances outstanding under the Restated Agreement and Loan Agreement were $29.8 million and $59.8 million, respectively, and unused borrowing capacity at those dates was $22.8 million and $3.1 million, respectively. The interest rates in effect on amounts borrowed at Decmber 31, 1996 ranged from 8.75% to 9.00%, and at December 31,1995 was 10%.

The Restated Agreement provides for a maximum of $10 million of letters of credit, of which approximately $4.3 million was outstanding at December 31, 1996. The Company pays a monthly fee of 1.5% per annum on the undrawn amount of outstanding letters of credit.

The Restated Agreement provides certain restrictive covenants, including attaining a minimum consolidated tangible net worth, fixed charge coverage, limitations on capital expenditures, restrictions on the payment of dividends and other financial covenants.

In November 1995, the Financial Accounting Standards Board Emerging Issues Task Force reached a consensus on issue number 95-22, "Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include both a Subjective Acceleration Clause and a Lock-Box Arrangement"("EITF 95-22"). In accordance with EITF 95-22, the Company has classified the balance of the revolving loans due under the Loan Agreement as current.

On February 27, 1997, the Company and a syndicate of lenders led by Bank of America NT and SA entered into a Second Amended and Restated Credit Agreement to replace the Company's Restated Agreement with BABC. The facility consists of a $20 million amortizing term loan and a $55 million revolving credit line including a $15 million letter of credit subfacility. The entire $75 million facility is for a term of four years and is collateralized by substantially all of the domestic assets of the Company. Interest rate spreads charged under the new facility will reset at the end of each quarter based on the ratio of the Company's quarter-ending debt to trailing 12-month cash flow. Both base rate and LIBOR

borrowings are available, at the Company's discretion. Interest rates range from LIBOR plus 0.50% to LIBOR plus 2.0%, and base rate plus 0.0% to base rate plus 1.0%. For the first six months of the facility, interest rates may not go below LIBOR plus 1.0% for LIBOR-based borrowings, and base rate plus 0.0% for base rate borrowings.

On July 6, 1995, MK Gain entered into a $30 million loan agreement (the "Agreement") with Bancomer, S.A. ("Bancomer"), a Mexican bank. Under the Agreement, Bancomer will advance up to $30 million to finance 85% of the purchase price of U.S.-manufactured locomotive parts and components exported to Mexico for use in the overhaul of locomotives in connection with the Mexican National Railway contract. Each advance under the Agreement is subject to interest at the Funding Rate (5.9180% to 6.0625% at December 31, 1996), as defined in the Agreement plus 2.5%. The Canadian Imperial Bank of Commerce ("CIBC") has agreed to fund Bancomer in connection with this transaction. The Export-Import Bank of the United States ("Eximbank") has issued a credit guarantee which covers repayment risk between Bancomer and CIBC. Upon funding, Eximbank receives, from MK Gain, an Exposure Fee equal to 4.14% of each advance under the Agreement.

Advances under the Agreement will be drawn over a period of up to 36 months from July 6, 1995 as documents evidencing MK Gain's receipt of U.S. exports are presented to the satisfaction of Bancomer, CIBC and Eximbank. Principal and interest payments on each advance are to be made in 10 semi-annual installments due on May 15 and November 15 of each year with interest payments

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beginning May 15, 1996 and principal payments beginning November 15, 1996. The Agreement provides for a prepayment penalty under certain circumstances. The balance outstanding at December 31, 1996 and 1995 was $18 million and $6 million, respectively. Maturities under the Agreement are as follows: 1997 to 2000 - $3,888,000 annually; and 2001 - $2,479,000.

The Agreement contains certain covenants, including a requirement that MK Gain maintain specified cash-flow-to-debt-service and debt-to-equity ratios. Additionally, the return of $13.7 million of the initial equity investment to the Company from MK Gain is restricted by a subordination agreement. If MK Gain maintains specified operating and financial ratios, the subordination agreement permits payments of interest and principal on the intercompany debt concurrently with payments to Bancomer under the Agreement.

In connection with the Agreement, MK Gain entered into a trust agreement ("Trust Agreement") with a Mexican multiple banking institution ("Trustee"). The Trust Agreement provides that all monies received from the Mexican National Railway contract are to be deposited into a trust. The Trustee is required to maintain specified balances in a reserve fund established for debt service. Once required debt service and other payments have been made, any remaining amounts in excess of the reserve fund requirements are to be returned to MK Gain. Amounts held in trust at the balance sheet date are classified as restricted cash and have been included in other non-current assets in the accompanying consolidated balance sheets at December 31, 1996 and 1995.

On December 16, 1996, MK Gain and Bancomer amended the Agreement. The amendment is intended to provide MK Gain with greater financial flexibility by way of, among other modifications, an increase in the maximum permitted monthly disbursement from $1.1 million to $1.5 million, an increase in the maximum amount of principal that MK Gain is permitted to have outstanding under this facility from $23.5 million to $27.1 million, a change in the calculation of the success fee payable to Bancomer from 5.56% of net after-tax cash flow without limitation to a series of 11 fixed semi-annual payments of $75,000 each, and an initial payment of $90,000 which was made in December 1996. The amendment did not modify the interest rate or term of the facility.

On December 16, 1996, MK Gain entered into an additional credit agreement with Bancomer which will provide up to $3.5 million in U.S. dollar financing, non-recourse to MotivePower, to support MK Gain's investments in property, plant and equipment. At December 31, 1996 and 1995, a domestic subsidiary of the Company had other outstanding debt obligations of $1.8 million and $2.2 million, respectively. These obligations consist primarily of Industrial Revenue Bonds ("IRB") in the amount of $1.4 million in 1996 and $1.6 million in 1995, and bear interest at rates ranging from 4.5% to 10%. Maturities under these obligations at December 31, 1996 were as follows: 1997 - $411,000; 1998 - $444,000; 1999 - $477,000; and 2000 - $471,000. Total maturities under long-term obligations are as follows: 1997 - $11,626,000; 1998 - $4,332,000; 1999 - $4,365,000; 2000 - $4,359,000; 2001 - $2,479,000.

8. Redeemable Preferred Stock

In September 1995, the Company deposited 10,000 shares of Class A Preferred Stock into a joint settlement account in connection with the settlement of certain class action suits. Effective as of May 15, 1996, the Company exercised its right to replace the Class A Preferred Stock with $1 million in cash and issued 10,000 shares of Class B Preferred Stock to The Fidelity & Casualty Company of New York in consideration of $1 million, which was in turn paid to the plaintiffs to satisfy the Company's obligations to settle the class action suits, and all of the previously issued shares of Class A Preferred Stock were simultaneously canceled. On December 6, 1996, the Company exercised its option to redeem all of the outstanding shares of Class B Preferred Stock at a price of $1.1 million including accrued dividends.

9. Stock Option Plans

The Company has established two stock option plans which are described below. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans.

The compensation cost that has been charged against income was $775,000 and $63,000 for 1996 and 1995, respectively. Had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1996	1995
Net income (loss)	As reported....	$ 11,509	$ (40,414)
	Pro forma......	$ 11,104	$ (40,414)
Earnings (loss) per share	As reported....	$ .66	$ (2.34)
	Pro forma......	$ .63	$ (2.34)

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The following weighted-average assumptions were used to estimate the fair value of each option grant on the grant date using the Black-Scholes option-pricing model in 1996 and 1995, respectively; dividend yield of zero percent for all years; expected volatility of 72% and 69%; risk free interest rates of 6.5% and 6.0%; and expected lives of 10 years for all plans.

In the MotivePower Industries, Inc. Stock Incentive Plan (the "Incentive Plan"), a maximum of 2.5 million shares may be issued upon the exercise of stock options granted or through limited stock appreciation rights. Officers and other key employees of the Company or its subsidiaries are eligible to receive awards. The exercise price, term and other conditions applicable to each award are determined by

the Compensation Committee of the Board of Directors at the time of the grant of each award and may vary with each award granted. Awards, which are made at not less than current market prices at date of grant, have been granted to executives and directors under the Incentive Plan in the form of stock options. Options granted generally vest either over a five-year period, 20% on each anniversary date following the grant, or a four-year period 25% on each anniversary date following the grant. All unexercised options expire 10 years from the date of grant, subject to acceleration in certain cases.

Restricted stock awards for a total of 150,000 shares of the Company's Common Stock have been granted to certain key management employees. The weighted average grant date fair value of restricted stock granted was $5.27 per share. Sale restrictions on the restricted stock lapse between January 1, 1997 and June 30, 2001. The Company recorded an expense of $155,000 in 1996 related to the restricted stock.

In the MotivePower Industries, Inc. Stock Option Plan for Non-Employee Directors (the "Non-Employee Directors Plan"), a maximum of 150,000 shares may be granted. The price per share of the options shall be equal to 50% of the fair market value of the stock on the grant date. All options granted shall vest over a three-year period, one-third on each anniversary date. Unearned compensation, representing the difference between the fair market value at the grant date and the exercise price is charged to income over the vesting period.

A summary of the status of the Company's two stock option plans as of December 31, 1996 and 1995 and the changes during the years ending on those dates is presented below:

<TABLE>
<CAPTION>

	1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	1, 271,000	$ 5.26	1,476,250	$ 14.91
Granted	1,261,500	$ 4.96	532,000	$ 7.72
Forfeited	(792,000)	$ 10.59	(737,250)	$ 15.82
Outstanding at end of year	1,740,500	$ 7.08	1,271,000	$ 5.26
Options exercisable at year end	457,396		313,292	
Weighted average fair value of options granted during the year	$ 3.98		$ 6.20	

</TABLE>

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The following table summarizes information about stock options outstanding at December 31, 1996:
<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise price	Number Exercisable	Weighted Average Exercise Price
<C> <C>	<C>	<C>	<C>	<C>	<C>
$4.75 to $16.00	374,000	7.5	$ 14.26	282,500	$ 13.74
$5.375 to $8.00	105,000	8.6	$ 7.00	41,396	$ 6.64
$2.84 to $8.00	1,261,500	9.3	$ 4.96	150,000	$ 3.81
	1,740,500			457,396	

</TABLE>

10. Taxes on Income

The Company and its domestic subsidiaries file a consolidated federal income tax return and certain combined or separate state income tax returns. MK Gain files an income tax return in Mexico. For tax periods ended prior to May 3, 1994, the Company filed consolidated federal income tax returns and certain combined state income tax returns with Morrison Knudsen and its subsidiaries. The Company is responsible for all taxes attributable to the Company with respect to periods ending after May 3, 1994.

The components of income tax (expense) benefit are as follows:

	Year ended December 31, (In thousands)		
	1996	1995	1994
Currently payable:			
U.S. federal	$ (1,687)	$ --	$ (2,370)
State and local	(625)	(447)	(505)
Foreign	--	--	(133)
	(2,312)	(447)	(3,008)
Deferred:			
U.S. federal	(4,235)	16,957	15,067
State and local	345	3,172	332
Foreign	(1,512)	212	(326)
	(5,402)	20,341	15,073
Total income tax (expense) benefit	$ (7,714)	$ 19,894	$ 12,065

For the year ended December 31, 1996, income tax expense was $7.7 million, and the extraordinary loss on debt extinguishment produced an income tax benefit of $687,000.

As discussed in Note 12, on September 10, 1996, the Company repurchased for $34.6 million all of the debt plus accrued interest of the Company owed to Morrison Knudsen, which totaled $56.6 million. This settlement decreased the net deferred tax asset by $3.9 million. On June 15, 1995 the Company and Morrison Knudsen entered into an agreement under which the Company's net intercompany account was reduced by $29.5 million. This settlement decreased the net deferred tax asset by $10.9 million.

At December 31, 1996, MK Gain had a net operating loss carryforward of approximately $23.4 million expiring in various amounts during 2004-2005, and the Company had a consolidated U.S. federal net operating loss carryforward of

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approximately $48 million expiring in various amounts during 2009- 2010. Due to an ownership change on September 11, 1996, the Company will be restricted as to annual use of certain tax attributes.

For the years ended December 31, 1996, 1995 and 1994 foreign income (loss) before income tax (benefit) was $4.6 million, ($3.2) million and ($12.3) million, respectively.

Deferred tax assets and liabilities as of December 31, 1996 and 1995 consist of the following:

<TABLE>
<CAPTION>

	December 31, 1996 (In thousands)			December 31, 1995 (In thousands)		
	Assets	Liabilities	Total	Assets	Liabilities	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Provision for estimated losses	$ 18,624	$ --	$ 18,624	$ 22,818	$ --	$ 22,818
Depreciation	--	(3,022)	(3,022)	--	(5,753)	(5,753)
Revenue recognition	--	(3,293)	(3,293)	--	(5,230)	(5,230)
Employee benefit plans	2,249	--	2,249	1,246	--	1,246
Deferred costs	--	(538)	(538)	--	(1,834)	(1,834)
Affiliate earnings	3,222	--	3,222	3,519	--	3,519
Other	260	--	260	854	--	854
Net operating loss carryforwards	8,792	--	8,792	22,400	--	22,400
Subtotal	33,147	(6,853)	26,294	50,837	(12,817)	38,020
Valuation allowance	(6,311)	--	(6,311)	(9,408)	--	(9,408)
Net deferred tax assets (liabilities)	$ 26,836	$(6,853)	$ 19,983	$ 41,429	$(12,817)	$ 28,612

</TABLE>

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has established a valuation allowance for certain net operating loss carryforwards not expected to be utilized and for losses anticipated to produce no tax benefit.

The provision for income taxes differ from the amounts computed by applying the statutory U.S. Corporate income tax rate of 35% for all years shown for the following reasons:

<TABLE>
<CAPTION>

	Year ended December 31, (In thousands)		
	1996	1995	1994
<S>	<C>	<C>	<C>
U.S. corporate income tax (expense) benefit at statutory rate	$(7,100)	$ 21,108	$ 19,547
Research and development tax credits	--	--	149
State income taxes, net of federal benefit	(855)	1,187	2,205
Foreign income taxes	--	680	328
Losses involving jurisdictions without tax benefit	--	(1,590)	(4,242)
Valuation allowance	1,762	(2,156)	(6,063)
Other	(1,521)	665	141
Income tax (expense) benefit	$(7,714)	$ 19,894	$ 12,065

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</TABLE>

11. Benefit Plans

Retirement: Beginning in May 1994, the Company established a defined contribution, 401(k) savings plan to replace the former Morrison Knudsen plan. In January 1996, the Company suspended Company contributions to the 401(K) savings plan. On January 1, 1997 the Company partially reinstated those contributions equal to 1% of an eligible employees gross salary in the form of Company stock. The program may be fully reinstated (2%) later in 1997 dependent upon the achievement of certain performance goals. The Company's costs of this plan were $71,000, $752,000 and $446,000 for 1996, 1995 and 1994, respectively.

In addition, Company salaried employees participated through April 1994 in a Morrison Knudsen Employee Stock Ownership Plan ("ESOP"). Compensation expense was $281,000 in 1994. The Company's employees had the option of transferring their contributions into the Company's new 401(k) plan or leaving their contributions in the Morrison Knudsen ESOP.

One of the Company's subsidiaries sponsored a non-contributory defined benefit pension plan covering certain nonunion salaried employees of that subsidiary. During 1994, the subsidiary curtailed its plan resulting in a loss of $233,000. In 1996 the plan was settled which resulted in a gain of $309,000. Pension cost included the following components:

	Year ended December 31,		
	1996	1995	1994
	(In thousands)		
Service cost of benefits earned during year .	$ --	$ --	$ 39
Interest cost on projected benefit obligation	--	61	16
Prior service cost	311	--	--
Return on plan assets	--	(96)	(10)
Net amortization and deferral	--	(22)	10
Net periodic pension (income) cost	311	(57)	55
Curtailment loss	--	--	233
Settlement gain	(309)	--	--
Pension (income) cost	$ 2	$(57)	$ 288

The funded status of the plan is as follows:

	December 31,	
	1996	1995
	(In thousands)	
Accumulated benefit obligation (all vested)	$ --	$ (868)
Projected benefit obligation	--	$ (868)
Plan assets at fair value	--	1,183
Excess of plan assets over projected benefit obligation	--	315
Unrecognized net gains	--	(309)

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Prepaid pension liability	$ --	$ 6

The discount rates used in determining the actuarial present value of the accumulated benefit obligation were 7.5% and 8.5% for 1995 and 1994, respectively. The expected long-term rate of return was 8.5% for 1995 and 1994.

The Company participates in multiemployer pension, and health and welfare plans. The plans are defined contribution plans and provide benefits for craft employees covered under collective bargaining agreements at Boise Locomotive and Motor Coils. Costs under the plan amounted to $2.1 million, $2.3 million and $3.8 million for 1996, 1995 and 1994, respectively.

The Company adopted two long-term incentive plans for selected employees in 1994. The plans provide deferred compensation based upon total shareholder return or return on total capital. No compensation expense was recognized in connection with these plans in 1996, 1995 or 1994.

Health Care: Certain health care benefits are provided for employees who retired prior to July 1, 1993. Employees who have retired, or will retire, thereafter must pay the full cost of postretirement health care benefits. Retirees who retired before July 1, 1990 pay no contributions for coverage while those who retired after July 1, 1990 and before July 1, 1993 make monthly contributions equal to 1% of their final annual pay.

Net post-retirement health care cost includes the following components:

	Year Ended December 31,		
	1996	1995	1994
	(In thousands)		
Interest cost on accumulated postretirement benefit obligation	$122	$138	$79
Net amortization and deferral	25	20	17
Net postretirement health care cost	$147	$158	$96

The plans' funded status was as follows:

	December 31,		
	1996	1995	1994
	(In thousands)		
Actuarial present value of benefit obligation:			
Retirees	$(1,578)	$(1,800)	$(1,678)
Accumulated postretirement benefit obligations in excess of plan assets	(1,578)	(1,800)	(1,678)
Unrecognized net loss	266	505	455
Accrued postretirement health care obligation	$(1,312)	$(1,295)	$(1,223)

Assumptions used for the Company's retiree health care plans as of December 31 include:

	1996	1995	1994
Discount rate for determining benefit obligations	7.5%	7.0%	8.5%
Discount rate for interest cost	7.0%	8.5%	7.0%

The annual rate increase in the per capita cost of health care benefits is assumed to be 9% in 1996, decreasing to 8% in 1999 and then grading down .5% per year to 4.5% in 2006 and thereafter, over the projected payout

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period of the benefits. A 1% increase in the health care cost trend rate would increase accumulated postretirement benefit obligation as of December 31, 1996 by $133,347 and the aggregate of the service and interest cost components for the year then ended by $13,052.

12. Related Party Transactions

As of December 31, 1995, the Company's note payable to Morrison Knudsen was $52.1 million. This note related to various items, including advances made to the Company by Morrison Knudsen net of repayments made by the Company to Morrison Knudsen.

On June 15, 1995, in order to settle their good faith dispute regarding the intercompany account and the various transactions related thereto, the Company and Morrison Knudsen entered into an agreement under which the Company's net intercompany account was reduced by $29.5 million from $81.7 million as of May 31, 1995 to $52.2 million.

The $52.2 million original balance of the net intercompany account was evidenced by an unsecured promissory note, due May 31, 2000, bearing interest at the prime rate. On September 10, 1996, the Company repurchased for $34.6 million all of the debt of the Company owed to Morrison Knudsen. The amount of the debt outstanding as of the date of repurchase, including accrued interest, was $56.6 million. The effect of this transaction was an increase to additional paid-in capital of $14.9 million, a decrease in the Deferred Tax Asset of $3.9 million and a reduction in amounts due to Morrison Knudsen of $56.6 million.

The Company leases certain facilities from certain directors and former directors and officers of the Company. Lease payments, including utilities, to these individuals totaled $1.1 million, $986,000 and $900,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company incurred $1.9 million and $3.6 million of legal fees and expenses from a firm in which a former officer of the Company is a shareholder, for the years ended December 31, 1996 and 1995, respectively.

13. Commitments and Contingencies

The Company has commitments and performance guarantees arising from locomotive remanufacturing contracts and maintenance agreements, and warranties from the sale of new locomotives, remanufactured locomotives and locomotive components.

Environmental: The Company is subject to federal, state, local and foreign environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances and petroleum products (collectively referred to as "waste"). Examples of regulated activities are the disposal of lubricating oil, the discharge of water used to clean parts and to cool machines, the maintenance of underground storage tanks and the release of particulate emissions produced by Company operations. For some activities the Company must obtain permits.

Violation of environmental laws or regulations could subject the Company and its management to civil and criminal penalties and other liabilities. In addition, third parties may make claims for personal injuries and property damage associated with releases of waste. A current or prior owner or operator of property may be required to investigate and clean up waste releases and may be liable to governmental entities or some other third party for their investigation and remediation costs in connection with the contamination. The Company arranges for the disposal or treatment of waste at disposal or treatment facilities owned by third parties. The Company could be liable for the costs of removing or remediating a release of waste at such facilities.

Because it owns and operates property, the Company may have responsibility and liability even if it does not know of or cause the presence of contaminants. Liability is often joint and several and is generally not limited. The cost to investigate, remediate and remove waste may be substantial

and may even exceed the value of the property or the aggregate assets of the owner or operator. The Company may have difficulty selling or renting contaminated property or borrowing against such property. The government sometimes creates liens against property for damages and costs it incurs in connection with contamination. The Company has potential liabilities associated with its and its predecessor's past waste disposal activities, including disposal activities at plants currently being operated by the Company.

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Boise, Idaho

Heavy equipment repair and locomotive remanufacturing commenced at Boise Locomotive in 1972. At the time, solvents were used in the process of cleaning parts and equipment as part of the repair/remanufacturing process at the facility. Wastewater generated from the equipment cleaning process containing solvents was discharged during the process to in-ground wastewater separation basins that were connected to buried drain fields. This wastewater treatment system was in place until 1984. In 1985, the Company's predecessor received notices from the Idaho Department of Health and Welfare, Division of Environmental Quality and the United States Environmental Protection Agency, indicating that it was in violation of state and federal environmental laws with respect to this treatment system at Boise Locomotive. Related regulatory requirements led to the closure of the buried drain fields and a buried trench that was used for disposal of waste material. Further requirements led to the issuance in 1991 of a Resource Conservation and Recovery Act Part B Post Closure Permit (the "Permit"), which is the formal permit pursuant to which a detailed corrective action plan is specified for groundwater cleanup and for protection of the public and environment following the "closure" or termination of the releases which created the problem. In compliance with the Permit, about 57 wells have been drilled on the Boise Locomotive property and on adjacent property to monitor, collect, and treat contaminated shallow groundwater, to monitor any movement of the contaminated plume, and to monitor the deeper groundwater systems at the facility. The Company has estimated the expected aggregate undiscounted costs to be incurred over the next 24 years, adjusted for inflation at 3% per annum, to be $4.8 million, based on the Permit's corrective action plan, and $4.4 million for contingent additional Permit compliance requirements related to off-site groundwater contamination. The discounted liability at December 31, 1996, using a discount rate of 6.5%, was $2.1 million based on the Permit's corrective action plan, and $2 million for contingent additional Permit compliance requirements related to off-site groundwater contamination. The estimated outlays for each of the five succeeding years from 1997 to 2001 are: $253,000, $260,000, $268,000, $317,000 and $284,000. The Company was in compliance with the Permit at December 31, 1996. In addition, Boise Locomotive would be liable for any damages resulting from hazardous substances migrating from the facility to deeper groundwater systems, including the regional aquifer system which serves most of the domestic and industrial users of groundwater in the area (which includes and extends beyond Boise). Three private off-site wells are known to have been impacted by shallow groundwater contamination. Two of these wells are used for residential domestic purposes, and the third well is used for supply to a pond and landscape watering for a residential subdivision. Boise Locomotive has entered into agreements whereby the residential domestic use of the wells will be abandoned and domestic water will be provided via a public water supply hook-up. In the event of contamination of the regional aquifer, Boise Locomotive would be required, among other things, to provide potable water to affected users and to install a treatment system to clean up the polluted water, and could incur other liabilities, the combined cost of which cannot be estimated, but would be expected to be material in amount. The regional aquifer system, however, occurs at a depth which is approximately 200 feet below the shallow

contaminated groundwater that is currently being remediated. While management believes there is no evidence that the regional aquifer system is currently threatened by releases of contaminants from Boise Locomotive, no assurance can be given in this regard.

Mexico

Through its MK Gain, S.A. de C.V. ("MK Gain") subsidiary, the Company has operational responsibility for facilities in Acambaro and San Luis Potosi in Mexico, pursuant to a contract with the Mexican National Railway. Under the contract, MK Gain is responsible for performing certain work related to environmental protection at the facilities, such as waste water treatment, storm water control, tank repair, and spill prevention and control. The costs of this work are either to be directly reimbursed to MK Gain by the Mexican National Railway or recoverable through fees payable under the contract, which has been structured to account for such cost. No assurance can be given, however, that the Mexican National Railway will not dispute any submissions for reimbursement or that the fee structure under the contract will, in fact, cover costs. MK Gain's operations are subject to Mexican environmental laws and regulations. It has obtained, or is in the process of obtaining, environmental permits, licenses and approvals required for its operations.

Mountaintop, Pennsylvania

The Comprehensive Environmental Response, Compensation and Liability Act (also known as "CERCLA" or "Superfund") is a federal law regarding abandoned hazardous waste sites which imposes joint and several liability, without regard to fault or the legality of the original act, on certain classes of persons, including those who contribute to the release of a "hazardous substance" into the environment. Foster Wheeler Energy Corporation ("FWEC") is named as a potentially responsible party with respect to the Company's Mountaintop,

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Pennsylvania plant, which has been listed by the EPA in its data base of potential hazardous waste sites, the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS"). FWEC, the seller of the Mountaintop property to the Company's predecessor in 1989, agreed to indemnify the Company's predecessor against any liabilities associated with this Superfund site. Management believes that this indemnification arrangement is enforceable for the benefit of the Company and, although such obligation is unsecured and therefore structurally subordinate to secured indebtedness of FWEC, that FWEC has the financial resources to honor its obligations under this indemnification arrangement. This indemnification does not alter the Company's potential liability to third parties (other than FWEC) or governmental agencies under CERCLA but creates contractual obligations on the part of FWEC for such liabilities.

Richland Township, Pennsylvania

Motor Coils owns a vacant lot in Richland Township, Pennsylvania which has been subject to unauthorized dumping by unknown parties. The Company has not yet tested the soil at the site or materials disposed there. Based on a visual inspection, Motor Coils cannot yet estimate the cost to remove and properly dispose of the material, and does not believe that the removal will have a material adverse impact on the Company's financial position or results of operations.

St. Louis, Missouri Motor Coils completed voluntary remediation of surficial contamination resulting from a release of xylene in connection with a storage tank leak at its St. Louis, Missouri facility. Motor Coils

notified the relevant state regulatory agency of its remediation plan and, with the concurrence of the state agency, initiated site remediation in 1994. Based on monitoring results, the Company discontinued site remediation in 1996.

The Company believes that its planned expenditures are adequate to meet its known environmental obligations and liabilities, including those under the Permit, and under CERCLA and similar legislation. The Company's knowledge of its environmental obligations and liabilities is, for the majority of its facilities, based on assessments and due diligence conducted by its predecessor's personnel and Phase I and/or Phase II environmental assessments conducted by third-party consultants. No assurance can be given, however, that stricter interpretation and enforcement of existing environmental laws or regulations, the adoption of new laws or regulations, the discovery of currently unknown waste or contamination for which the Company may be liable, the inability of the Company to enforce the indemnification with respect to the Mountaintop plant or the continued spread of the hazardous waste plume through off-site groundwater near Boise Locomotive will not result in significantly higher environmental costs to the Company.

Environmental laws and regulations are subject to change at any time. Compliance with current or future laws and regulations could potentially necessitate significant capital outlays by the Company, affect the economics of a given project or cause material changes or delays in intended activities.

Leases: The Company leases office and manufacturing facilities under operating leases with terms ranging from one to 12 years, excluding renewal options.

The Company has also financed its locomotive lease fleet with operating leases arising from sale and leaseback transactions. The Company has sold remanufactured locomotives to various financial institutions and leased them back under operating leases with terms from five to 20 years.

Total net rental expense (income) charged (or credited) to operations in 1996, 1995 and 1994 was $(799,000), $(504,000), and $3 million, respectively. Certain of the Company's equipment rental obligations under operating leases pertain to locomotives which are subleased to customers under both short-term and long-term agreements. The above amounts are shown net of sublease rentals of $8.7 million, $7.8 million, and $5.7 million for the years 1996, 1995 and 1994, respectively. Future minimum rental payments under operating leases with remaining noncancelable terms in excess of one year are as follows (in thousands):

Year	Real Estate	Equipment	Sublease Rentals	Total
1997	$ 1,005	$ 6,139	$ (4,751)	$ 2,393
1998	999	5,933	(4,395)	2,537
1999	1,041	4,852	(2,750)	3,143
2000	1,039	4,748	(2,750)	3,037
2001	1,044	4,616	(2,376)	3,284
2002 and after	4,188	33,039	(12,805)	24,422

Legal Proceedings: In December 1995, Morrison Knudsen, the Company and certain of Morrison Knudsen's directors and officers were named as defendants in a

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complaint (the "Pilarczyk Lawsuit") filed in the United States District Court for the Northern District of New York by plaintiffs who were

principals in and/or held substantial stock in TMS, Inc. ("TMS"), a New York corporation acquired by Morrison Knudsen on December 30, 1992. The complaint alleges, among other things, violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, breach of contract, unjust enrichment, negligent misrepresentation and common law fraud during Morrison Knudsen's acquisition of TMS in 1992. Plaintiffs assert that the Company, which was not formed by Morrison Knudsen until 1993, is fully responsible for the acts of Morrison Knudsen. However, the actions complained of occurred before the Company was formed and the Company did not assume such liabilities of Morrison Knudsen. A motion to dismiss, filed in April 1996 on behalf of all defendants to the Pilarczyk Lawsuit, is still pending. Counsel to the Company believes the causes of action in the Pilarczyk Lawsuit relating to the Company are without merit and the Company expects that it will be successful on this motion, even if the suit is not dismissed as to all defendants. If the Company is successful, the Company intends to make appropriate requests to the court to seek to require the plaintiff to pay the Company's legal fees and costs.

In June 1995, the Company was named as defendant in a complaint filed with the Idaho Human Rights Commission (the "Idaho Commission") and the Equal Employment Opportunity Commission by a female employee on behalf of herself and other women employed by the Company alleging discrimination based on sex, which complaint was amended in December 1995 to include allegations of retaliatory discharge. In 1996, the idaho Commission announced that it found no probable cause to believe either discrimination or retaliatory discharge had occurred as alleged in the complaint and, accordingly, the proceeding was dismissed.

The Company is engaged in a commercial dispute with a former supplier, Samyoung Machinery Industrial Co. and Samyoung (America), Inc. (collectively, "Samyoung"). The Company filed suit on April 16, 1996 alleging delivery of defective product and seeking damages in excess of $1 million. Samyoung denies that the product was defective and countersued to recover $300,000 under the contract, and $10 million for trade libel and interference with prospective economic relationships as a result of the Company allegedly making false disparaging statements concerning the diesel engine assembly liners to customers. The Company believes that Samyoung's claims are without merit, and, to date, no evidence supporting Samyoung's counterclaims has come to light through the discovery being conducted by the parties. The Company intends to vigorously prosecute its own claims and defend against Samyoung's counterclaims.

In the ordinary course of its business, the Company is involved in legal proceedings incident to the normal conduct of its business, including contract claims and employee matters. Although the outcome of any pending legal proceeding cannot be predicted with certainty, at December 31, 1996, the Company had accrued approximately $405,000 for these matters. In part because of this accrual, and based upon the information obtained to date, management believes that such legal proceedings, individually and in the aggregate, will not have a material adverse effect on the consolidated operations or financial condition of the Company.

14. Geographic Information and Major Customers

A summary of the Company's operations for the years ended December 31, 1996, 1995 and 1994 and the operating assets employed at the end of such years by geographic area as follows:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1996	1995	1994
	(In thousands)		
Sales			
<S>	<C>	<C>	<C>

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United States	$ 253,026	$ 234,300	$ 315,323
Mexico	51,196	46,032	17,919
Australia	--	1,830	36,041
Argentina	--	--	4,923
United States sales to other geographic areas	(12,815)	(18,444)	(5,669)
Net sales to customers	$ 291,407	$ 263,718	$ 368,537

</TABLE>

	Year Ended December 31,		
	1996	1995	1994
	(In thousands)		
Operating income (loss)			
United States	$ 19,051	$(48,319)	$(38,447)
Mexico	5,181	1,691	1,705
Australia	--	(4,485)	(674)
Argentina	--	--	(12,561)
Operating income (loss)	$ 24,232	$(51,113)	$(49,977)

	Year Ended December 31,	
	1996	1995
	(In thousands)	
Identifiable assets		
United States	$181,131	$238,258
Mexico	52,913	42,690
Total identifiable assets	$234,044	$280,948

The following table shows the annual percentage of the Company's sales to customers who accounted for 10% or more of the Company's sales for the three years ended December 31, 1996:

	Year Ended December 31,		
	1996	1995	1994
Burlington Northern/Santa Fe	19%	18%	12%
Union Pacific/Southern Pacific	16%	21%	32%
Mexican National Railway	14%	14%	5%

The Mexican National Railway has the right, exercisable at any time, to rescind its contract with the Company. While it is not presently determinable what effect, if any, this would have, if the contract is rescinded, the Company has the right to collect a termination payment intended to provide for the recovery of the Company's investment. In addition, the contract with the Mexican National Railway is subject to certain governmental privatization actions.

15. Supplemental Pro Forma Earnings Per Share

Supplemental pro forma earnings per share for the year ended December 31, 1994 is determined by dividing the adjusted net income for the period by the number of shares determined as follows due to the initial public offering:

Common stock outstanding prior	11,149,000
Incremental shares of common stock	5,111,005

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Weighted average shares since May 3, 1994	592,663
Weighted average shares	16,852,668

The net loss for the year ended December 31, 1994, was adjusted to reflect the additional interest expense on a $19 million debt from January 1, 1994, through February 25, 1994, transferred from Morrison Knudsen and assumed by the Company and the reduction of interest expense resulting from the assumed payment of $35.6 million dividend notes and $39.6 million gross intercompany debt due Morrison Knudsen as if such debt had been paid at the beginning of 1994.

16. Financial Instruments

The estimated fair values of financial instruments have been determined by the Company, using available market information and appropriate valuation methodologies. Although considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, due to the small notional amount of outstanding letters of credit, in the estimation of the Company's management, the fair values of the Company's financial instruments are not materially different from their carrying values on the Company's financial statements. In management's estimation, based on the variable interest rates applicable to outstanding long-term debt, the fair value of the long-term debt is not materially different from its carrying value.

17. Quarterly Financial Information (unaudited)

The following information summarizes the Company's quarterly financial results. Information for the first and second quarters of 1995 has been restated for the effects of certain accounting adjustments.

<TABLE>
<CAPTION>

	Quarter				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
1996					
Net sales	$ 69,655	$ 66,581	$ 69,046	$ 86,125	$ 291,407
Unusual items	--	--	--	(2,126)	(2,126)
Gross profit	13,786	12,885	12,716	17,460	56,847
Income before extraordinary items	2,584	2,437	2,588	4,964	12,573
Extraordinary item	--	--	--	(1,064)	(1,064)
Net income	2,584	2,437	2,588	3,900	11,509
Earnings per share before extraordinary items	0.15	0.14	0.15	0.28	0.72
Earnings per share	0.15	0.14	0.15	0.22	0.66
1995					
Net sales	$ 78,404	$ 60,669	$ 57,189	$ 67,456	$ 263,718
Unusual items	--	(2,849)	(125)	(37,864)	(40,838)
Gross profit (loss)	10,181	6,642	10,822	(32,812)	(5,167)
Net loss	(4,155)	(3,735)	(3,212)	(29,312)	(40,414)
Loss per share	(0.24)	(0.22)	(0.19)	(1.67)	(2.34)

</TABLE>

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18. Subsequent Event

On March 6, 1997 the Company signed a letter of intent to sell its Mountaintop, Pa. plant for $2.9 million. The transaction, which is subject to certain conditions, is expected to close later this year.

PART III

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors and executive officers of the Company is set forth under the captions "Election of Directors" and "Information Concerning Executive Officers" in the company's proxy statement related to the 1997 annual meeting of stockholders (the "Proxy Statement") and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is set forth under the caption "Compensation" in the Proxy Statement and, except for the information under the caption "Executive Compensation - Report of the Compensation Committee" and "Executive Compensation - Performance Information", is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is set forth under the caption "Security Ownership" in the Proxy Statement and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is set forth under the caption "Certain Relationships and Related transactions" in the Proxy Statement and is incorporated by reference herein.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, REPORTS ON FORM 8-K

(a) Documents filed as a part of this Report:

(1) A list of the financial statements filed as a part of this Annual Report on Form 10-K is set forth on page 22 hereof.

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(2) See Item 14(d) below, for a description of the financial statement schedule filed as a part of this Annual Report on Form 10-K.

(3) The following Exhibits are included as a part of this Annual Report on Form 10-K or are incorporated herein by reference:

Exhibit No.	Document Description
3.01[1]	Form of Amended and Restated Certificate of Incorporation of the Company
3.02[18]	Form of Amended and Restated By-Laws of the Company as of December 26, 1996
3.03[7]	Designation of Rights and Preferences of Class A Preferred Stock
3.04[7]	Designation of Rights and Preferences of Class B Preferred Stock
3.05[9]	Certificate of Designations of Series C Junior Participating Preferred Stock
3.06[12]	Certificate of Designations of Class B Preferred Stock
3.07[18]	Certificate of Ownership and Merger of MotivePower Industries, Inc. Into MK Rail Corporation dated December 26, 1996.
4.01[9]	Rights Agreement, dated as of January 19, 1996, between the Company and Chemical Mellon Shareholder Services, L.L.C.
4.02[9]	Form of Right Certificate
4.03[11]	Amendment to Rights Agreement dated as of April 5, 1996 between the Company and Chase Mellon Shareholder Services, L.L.C. (Formerly Chemical Mellon Shareholder Services, L.L.C.)
4.04[13]	Second Amendment to Rights Agreement dated as of June 20, 1996 between the Company and Chase Mellon Shareholder Services, L.L.C.
10.01[2]	Environmental Liability Transfer Agreement between the Company and Morrison Knudsen Corporation
10.02[2]	Corporate Support and Professional Services Agreement between the Company and Morrison Knudsen Corporation
10.03[2]	Form of Tax Matters Agreement between the Company and Morrison Knudsen Corporation
10.04[1]	Agreement between Morrison Knudsen Corporation and Local 370 of the International Union of Operating Engineers, effective July 1, 1992
10.05[1]	Agreement between Motor Coils Manufacturing Company and Local 606 of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL-CIO, effective August 1, 1990

10.06[1]	Agreement between Motor Coils Manufacturing Company and Local 607 of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL-CIO, effective November 1, 1990
10.07[1]	Agreement between Motor Coils Manufacturing Company and Local 823 of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL-CIO, effective July 1, 1992
10.08[3]+	Railroad Equipment Lease Agreement between Caterpillar Financial Services Corporation and Morrison Knudsen Corporation, dated December 27, 1991
10.09[3]+	Railroad Equipment Lease Agreement between Caterpillar Financial Services Corporation and Morrison Knudsen Corporation, dated December 21, 1993
10.10[3]+	Master Equipment Lease Agreement between Pitney Bowes Credit Corporation and Morrison Knudsen Corporation, dated December 21, 1991
10.11[3]+	Master Equipment Lease Agreement between Pitney Bowes Credit Corporation and Morrison Knudsen Corporation, dated December 10, 1993
10.12[1]	Passenger Railway Service Joint Venture Agreement between Benito Roggio e Hijos, S.A., Cometrans, S.A., Burlington Northern Railroad Company and Morrison Knudsen Corporation, dated June 1, 1992
10.13[1]	Joint Venture Agreement between Morrison Knudsen Corporation and Cometrans S.A. and IDESA S.A., dated May 7, 1993
10.14[3]	Concession Agreement between the Argentine Government Ministry of Economy and Public Works and Services and Metrovias S.A.
10.15[6]	Waiver and Amendment Letter Agreement dated February 7, 1995 between the Company and PNC Bank, National Association
10.16[2]	Form of MotivePower Industries , Inc. Stock Incentive Plan
10.17[1]	Credit Agreement between Morrison Knudsen Corporation and CIBC, Inc., dated as of February 18, 1994
10.18[6]	Lease between M & T Partners and Motor Coils Manufacturing Co., dated July 16, 1991, and Amendment dated January 30, 1995
10.19[1]	Lease between Pittsburgh Flatroll Company and Motor Coils Manufacturing Company, dated March 1, 1991

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10.20[6]	Lease between MotivePower Industries, Inc. and SCI North Carolina Limited Partnership dated May 17, 1995
10.21[6]	Lease between MotivePower Industries, Inc. and M & T Partners effective April 1, 1994
10.22[10]	Employment Agreement between the Company and Joseph Fearon
10.23[2]	Form of Employment Agreement between the Company and Michael J. Farrell
10.24[3]	Master Lease Purchase Agreement, dated December 29, 1993, between MetLife Capital Corporation and Morrison Knudsen Corporation.
10.25[5]	Revolving Credit and Letter of Credit Insurance Agreement and Receivables Purchase Agreement dated September 30, 1994 among MotivePower Industries, Inc., Touchstone, Inc. MK Engine Systems Company, Inc., Motor Coils Manufacturing Co., Power Parts Company and PNC Bank, National Association
10.26[4]	Form of Company's Indemnification Agreement and a schedule of individuals with whom the Company has entered into such agreements
10.27[5]	A schedule listing additional individuals with whom the Company has entered into Indemnification Agreements

10.28[5]	Employment Agreement between Company and Joseph S. Crawford dated as of March 29, 1994
10.29[5]	Receivables Purchase Agreement dated as of September 30, 1994, among the Company, Touchstone, Inc., MK Engine Systems Company, Inc., Motor Coils Manufacturing Co., Power Parts Company, and Clark Industries, Inc., and PNC Bank, National Association
10.30[5]	Indemnification Agreement between the Company and Morrison Knudsen Corporation, dated as of October 20, 1994
10.31[5]	MotivePower Industries, Inc. Deferred Compensation Plan
10.32[6]	Amended and Restated Revolving Credit and Letter of Credit Issuance Agreement dated March 31, 1995 among MotivePower Industries, Inc., Touchstone, Inc., MK Engine Systems Company, Inc., Motor Coils Manufacturing Co., Power Parts Company, Power Parts Sign Company, Alert Manufacturing & Supply Company, Clark Industries, Inc. and PNC Bank, National Association
10.33[6]	Agreement on Transfer of Rights and Corporate Governance with Cometrans dated February 21, 1995
10.34[6]	Agreement with Benito Roggio e Hijos S.A. regarding sale of interest in Metrovias dated February 21, 1995
10.35[6]	Development Agreement and Manufacturing and License Agreement by and between MotivePower Industries, Inc. and CSX Intermodal, Inc., dated March 30, 1995 (The Iron Highway)
10.36[7]	Global Settlement Agreement dated June 15, 1995 between the Company and Morrison Knudsen Corporation
10.37[6]	Share Purchase Agreement dated June 15, 1995 between the Company and Morrison Knudsen Corporation
10.38[8]	Credit Line Agreement dated July 6, 1995 among Bancomer, S.A., Institution De Banca Multiple, Grupo Financiero Bancomer and MK Gain S.A. De C.V. (Translated version from Spanish to English)
10.39[7]	Loan and Security Agreement dated August 31, 1995, among the financial institutions named as lenders and BankAmerica Business Credit, Inc., as agent, and the Company, Motor Coils Manufacturing Co., MK Engine Systems Co., Inc., Clark Industries, Inc., Power Parts, Inc., Touchstone, Inc., Power Parts Sign Co. and Alert Mfg. & Supply Co.
10.40[8]	Waiver and First Amendment to the Loan and Security Agreement dated November 7, 1995, among the financial institutions named as lenders and BankAmerica Business Credit, Inc., as agent, and the Company, Motor Coils Manufacturing Co., MK Engine Systems Co., Inc., Clark Industries, Inc., Power Parts, Inc., Touchstone, Inc., Power Parts Sign Co. and Alert Mfg. & Supply Co.
10.41[7]	Memorandum of Understanding between Plaintiffs and the Individual Defendants re: Newman v. Agee, et al. and Susser v. Agee, et al. and side letters thereto
10.42[7]	Memorandum of Understanding between Plaintiffs, the Underwriter Defendants, MotivePower Industries and MK re: Newman v. Agee, et al. and Susser v. Agee, et al. and side letter thereto
10.43[7]	MotivePower Industries Derivative Litigation Memorandum of Understanding re: Wohlgelernter v. Agee, et al.
10.44[10]	Employment Agreement between Company and John C. Pope dated as of December 29, 1995
10.45[10]	Stipulation of Settlement between Plaintiffs, the Underwriter Defendants, the Individual Defendants, Deloitte & Touche LLP and the Insurers re: Newman v. Agee, et al. and Susser v. Agee, et al.
10.46[10]	Stipulation of Settlement between Plaintiffs acting derivatively,

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	Defendants and the Insurers re: Wohlgelernter v. Agee, et al.
10.47[10]	Second Amendment to the Loan and Security Agreement dated January 22, 1996, among the financial institutions named as lenders and BankAmerica Business Credit, Inc., as agent, and the Company, Motor Coils Manufacturing Co., MK Engine Systems Co., Inc., Clark Industries, Inc., Power Parts, Inc., Touchstone, Inc., Power Parts Sign Co. and Alert Mfg. & Supply Co.
10.48[10]	Waiver and Amendment No. 3 to the Loan and Security Agreement dated February 15, 1996, among the financial institutions named as lenders and BankAmerica Business Credit, Inc., as agent, and the Company, Motor Coils Manufacturing Co., MK Engine Systems Co., Inc., Clark Industries, Inc., Power Parts, Inc., Touchstone, Inc., Power Parts Sign Co. and Alert Mfg. & Supply Co.
10.49[14]	Locomotive Purchase Agreement dated as of April 8, 1996 between the Company and Helm Financial Corporation.
10.50[14]	Representative Agreement dated as of March 20, 1996 between the Company and Helm Financial Corporation.
10.51[14]	Agreement dated April 16, 1996 between the Company and Helm Financial Corporation.
10.52[14]	Locomotive Lease Agreement dated as of April 1, 1996 between MK Gain S.A. de C.V. and Helm Financial Corporation.
10.53[17]	Note Cancellation and Restructuring Agreement dated as of June 20, 1996, by and among MK Rail Corporation, Morrisson Knudsen Corporation, a Delaware corporation, and Morrison Knudsen Corporation, an Ohio Corporation
10.54[17]	Stockholders Agreement dated as of June 20, 1996 between MK Rail Corporation and Morrison Knudsen Corporation
10.55[17]	Agreement for the Purchase and sale of Assets dated June 27, 1996 by and among MK Rail Corporation, Alert Manufacturing & Supply Co. and All-State Industrial Rubber Co., Inc.
10.56[15]	Closing Agreement dated July 29, 1996 among the Company, Alert Manufacturing & Supply Co. and All-State Industrial Rubber Co., Inc.
10.57[16]	Asset Purchase Agreement dated October 15, 1996 among Power Parts Sign Company and RI-DEL MFG. INC.
10.58[18]	Amendment No. 1 and Waiver to Amended and Restated Loan and Security Agreement dated December 30, 1996

10.59[18]	Second Amended and Restated Credit Agreement dated February 27, 1997 among MotivePower Industries, Inc., as borrower, and Bank of America National Trust and Savings Association, as Agent and Lender, and The Other Financial Institutions Party Hereto, as lenders
10.60[18]	Form of Employment Agreement and Exhibits thereto, dated July 1, 1996 between MotivePower Industries, Inc. and Michael A. Wolf
10.61[18]	Form of Amendment to the Credit Agreement dated December 13,1996 between Bancomer, A.A., Multiple Banking Institution, Bancomer Financial Group and MK Gain, S.A. de C.V.(Translated version from Spanish to English)
10.62[18]	Form of Loan Agreement dated December 13,1996 between Bancomer, A.A., Multiple Banking Institution, Bancomer Financial Group and MK Gain, S.A. de C.V.(Translated version from Spanish to English)
11.01[10]	Computation of Per Share Earnings
21.01[10]	Subsidiaries of the Company
23.01[18]	Consent of Independent Auditor
27.01[18]	Article 5 Financial Data Schedule for the Year Ended December 31, 1996
99.01[2]	Form of MotivePower Industries, Inc. Executive Incentive Plan
99.02[2]	Form of MotivePower Industries, Inc. Stock Option Plan for Non-Employee Directors
99.03[2]	Form of MotivePower Industries, Inc. Long-Term Performance Compensation Benefit Plan
99.04[6]	Form of MotivePower Industries, Inc. Long Term Incentive Plan
99.05[6]	Class Action Complaint filed in the case of Newman v. Agee, et al., United States District Court, District of Idaho (Case No. CIV 94-0478-S-EJL).
99.06[6]	Class Action Complaint filed in the case of Susser v. Agee, et al., United States District Court, District of Idaho (Case No. CIV 94-0477-S-LMB).
99.07[6]	Derivative Complaint filed in the District Court of the Fourth Judicial District of the State of Idaho in the case of Wohlgelernter v. Agee, et al. (Case No. CV OC 9500656 D).
99.08[9]	First Amended Complaint, Pilarczyk et al. v. Morrison Knudsen , Inc., MotivePower Industries, Inc. et al., U.S. District Court, Northern District of New York, Civil Action No. 95-CV-1835
99.09[14]	Complaint of Vicki Kovash dated June 19,1995, as amended December

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21, 1995, filed with the Idaho Human Rights Commission and the United States Equal Employment Opportunity Commission.

1.	Incorporated by reference to the Company's Registration Statement on Form S-1 filed with the Commission on February 24, 1994.
2.	Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed with the Commission on March 29, 1994.
3.	Incorporated by reference to Amendment No. 3 to the Company's Registration Statement on Form S-1 filed with the Commission on April 18, 1994.
4.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1994.
5.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1994.
6.	Incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 1994.
7.	Incorporated by reference to the Company's Report on Form 8-K filed with the Commission on September 18, 1995.
8.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1995.

9.	Incorporated by reference to the Company's Report on Form 8-K filed with the Commission on January 31, 1996.
10.	Incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 1995.
11.	Incorporated by reference to the Company's Amendment No. 1 on Form 8-A/A filed with the Commission on April 25, 1996.
12.	Incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on April 18, 1995.
13.	Incorporated by reference to the Company's Amendment No. 2 on Form 8-A/A filed with the Commission on July 3, 1996.
14.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1996.
15.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1996.
16.	Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1996.
17.	Incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on July 3, 1996.
18.	Filed herewith.

+ Subject to Freedom of Information Act request for confidential treatment.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended December 31, 1996.

(c) Exhibits

The exhibits listed under Item 14(a)(3) are filed herewith or are incorporated by reference herein.

(d) Financial Statement Schedules

Independent Auditors' Report

Schedule II - Valuation and Qualifying Accounts is filed herewith.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
MotivePower Industries, Inc.:

We have audited the consolidated financial statements of MotivePower Industries, Inc. and subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, and have issued our report thereon dated February 10, 1997 (except for Note 7, as to which the date is February 27, 1997 and Note 18, as to which the date is March 6, 1997); such report is included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of MotivePower Industries, Inc.,

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listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
February 10, 1997

<TABLE>

<CAPTION>

Schedule II

MotivePower Industries, Inc.
Valuation and Qualifying Accounts
(In thousands)

Description	Balance at beginning of period	Additions - Charged to costs and expenses	Additions - Charged to other accounts - describe	Deductions	Balance at end of period
Year Ended December 31, 1996					
<S>	<C>	<C>	<C>	<C>	<C>
Loss reserves	$ 15,176	$ 2,841	$ --	$ (5,896)	$ 12,121
Warranty and overhaul reserves	4,402	5,450	--	(2,799)	7,053
Inventory reserves	13,028	4,072	--	(13,554)	3,546
Allowance for doubtful accounts	531	97	--	(344)	284
Valuation allowance - taxes ...	9,408	--	--	(3,097)	6,311
Environmental reserves	4,060	18	--	--	4,078
Year Ended December 31, 1995					
Loss reserves	$ 14,903	$ 10,458	$ --	$(10,185)	$ 15,176
Warranty and overhaul reserves	5,434	6,370	--	(7,402)	4,402
Inventory reserves	865	12,263	--	(100)	13,028
Allowance for doubtful accounts	205	450	--	(124)	531
Valuation allowance - taxes ...	7,252	2,156	--	--	9,408
Environmental reserves	2,653	1,451	--	(44)	4,060
Year Ended December 31, 1994					
Loss reserves	$ 797	$ 15,790	$ --	$ (1,684)	$ 14,903
Warranty and overhaul reserves	4,032	4,315	--	(2,913)	5,434
Inventory reserves	351	790	--	(276)	865
Allowance for doubtful accounts	111	651	--	(557)	205
Valuation allowance - taxes ...	--	6,063	1,189(a)	--	7,252
Environmental reserves	2,669	160	--	(176)	2,653

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<FN>

Notes:
(a) Effect of valuation allowance related to deferred income taxes resulting from translation gains and losses deferred as a separate component of stockholders' equity.
</FN>
</TABLE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MotivePower Industries, Inc.

By:/s/ Michael A. Wolf
Michael A. Wolf
President and Chief Executive Officer

Date: March 13, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. Pope John C. Pope	Non-Executive Chairman and Director	March 13, 1997
/s/ Michael A. Wolf Michael A. Wolf	President and Chief Executive Officer and Director (Principal Executive Officer)	March 13, 1997
/s/ William F. Fabrizio William F. Fabrizio	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 13, 1997
/s/ William D. Grab William D. Grab	Vice President, Controller and Principal Accounting Officer	March 13, 1997
/s/ Gilbert E. Carmichael Gilbert E. Carmichael	Vice Chairman and Director	March 13, 1997
Ernesto Fernandez Hurtado	Director	March 13, 1997
/s/ Lee B. Foster II Lee B. Foster II	Director	March 13, 1997

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/s/ James P. Miscoll ----------------------------- James P. Miscoll	Director	March 13, 1997
/s/ Nicholas J. Stanley ----------------------------- Nicholas J. Stanley	Director	March 13, 1997

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Exhibit 3.02

MOTIVEPOWER INDUSTRIES, INC.
AMENDED AND RESTATED
BY-LAWS

Reflecting changes through December 26, 1996

MOTIVEPOWER INDUSTRIES, INC.
AMENDED AND RESTATED
BY-LAWS
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STOCKHOLDERS' MEETINGS

1. Time and Place of Meetings. All meetings of the stockholders for the election of Directors or for any other purpose will be held at such time and place, within or without the State of Delaware, as may be designated by the Board or, in the absence of a designation by the Board, the Chairman, the President, or the Secretary, and stated in the notice of meeting. The Board may postpone and reschedule any previously scheduled annual or special meeting of the stockholders.

2. Annual Meeting. An annual meeting of the stockholders will be held at such date and time as may be designated from time to time by the Board, at which meeting the stockholders will elect by a plurality vote the Directors to succeed those whose terms expire at such meeting and will transact such other business as may properly be brought before the meeting in accordance with By-Law 8.

3. Special Meetings. Special meetings of the stockholders may be called only by (i) the Chairman and (ii) the Secretary within 10 calendar days after receipt of the written request of a majority of the Whole Board. Any such request by a majority of the Whole Board must be sent to the Chairman and the Secretary and must state the purpose or purposes of the proposed meeting. Special meetings of holders of the outstanding Preferred Stock, if any, may be called in the manner and for the purposes provided in the applicable Preferred Stock Designation.

4. Notice of MEETINGS. Written notice of every meeting of the stockholders, stating the place, date, and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, will be given not less than 10 nor more than 60 calendar days before the date of the meeting to each stockholder of record entitled to vote at such meeting, except as otherwise provided herein or by law. When a meeting is adjourned to another place, date, or time, written notice need not be given of the adjourned meeting if the place, date, and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than 30 calendar days, or if after the adjournment a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting must be given in conformity herewith. At any adjourned meeting, any business may be transacted which properly could have been transacted at the original meeting.

5. Inspectors. The Board may appoint one or more inspectors of election to act as judges of the voting and to determine those entitled to vote at any meeting of the stockholders, or any adjournment thereof, in advance of such meeting. The Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the presiding officer of the meeting may appoint one or more substitute inspectors.

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6. Quorum. Except as otherwise provided by law or in a Preferred Stock Designation, the holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, will constitute a quorum at all meetings of the stockholders for the transaction of business thereat. If, however, such quorum is not present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, will have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented.

7. Voting. Except as otherwise provided by law, by the Certificate of Incorporation, or in a Preferred Stock Designation, each stockholder will be entitled at every meeting of the stockholders to one vote for each share of stock having voting power standing in the name of such stockholder on the books of the Company on the record date for the meeting and such votes may be cast either in person or by written proxy. Every proxy must be duly executed and filed with the Secretary. A stockholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary. The vote upon any question brought before a meeting of the stockholders may be by voice vote, unless otherwise required by the Certificate of Incorporation or these By-Laws or unless the Chairman or the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting otherwise determine. Every vote taken by written ballot will be counted by the inspectors of election. When a quorum is present at any meeting, the affirmative vote of the holders of a majority of the stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter and which has actually been voted will be the act of the stockholders, except in the election of Directors or as otherwise provided in these By-Laws, the Certificate of Incorporation, a Preferred Stock Designation, or by law.

8. Order of Business. (a) The Chairman, or such other officer of the Company designated by a majority of the Whole Board, will call meetings of the stockholders to order and will act as presiding officer thereof. Unless otherwise determined by the Board prior to the meeting, the presiding officer of the meeting of the stockholders will also determine the order of business and have the authority in his or her sole discretion to regulate the conduct of any such meeting, including without limitation by imposing restrictions on the persons (other than stockholders of the Company or their duly appointed proxies) who may attend any such stockholders' meeting, by ascertaining whether any stockholder or his proxy may be excluded from any meeting of the stockholders based upon any determination by the presiding officer, in his sole discretion,

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that any such person has unduly disrupted or is likely to disrupt the proceedings thereat, and by determining the circumstances in which any person may make a statement or ask questions at any meeting of the stockholders.

(b) At any annual meeting of the stockholders, only such business will be conducted or considered as is properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board in accordance with By-Law 4, (ii) otherwise

properly brought before the meeting by the presiding officer or by or at the direction of a majority of the Whole Board, or (iii) otherwise properly requested to be brought before the meeting by a stockholder of the Company in accordance with By-Law 8(c).

(c) For business to be properly requested by a stockholder to be brought before an annual meeting, the stockholder must (i) be a stockholder of the Company of record at the time of the giving of the notice for such annual meeting provided for in these By-Laws, (ii) be entitled to vote at such meeting, and (iii) have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Company not less than 60 calendar days prior to the annual meeting; provided, however, that in the event public announcement of the date of the annual meeting is not made at least 75 calendar days prior to the date of the annual meeting, notice by the stockholder to be timely must be so received not later than the close of business on the 10th calendar day following the day on which public announcement is first made of the date of the annual meeting. A stockholder's notice to the Secretary must set forth as to each matter the stockholder proposes to bring before the annual meeting (A) a description in reasonable detail of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (B) the name and address, as they appear on the Company's books, of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (C) the class and number of shares of the Company that are owned beneficially and of record by the stockholder proposing such business and by the beneficial owner, if any, on whose behalf the proposal is made, and (D) any material interest of such stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made in such business. A stockholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this By-Law B(c). For purposes of this By-Law 8(c) and By-Law 13, "public announcement" means disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to

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Sections 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended, or furnished to stockholders. Nothing in this By-Law 8(c) will be deemed to affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, an amended.

(d) At a special meeting of stockholders, only such business may be conducted or considered as is properly brought before the meeting. To be properly brought before a special meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Chairman or a majority of the Whole Board in accordance with By-Law 4 or (ii) otherwise properly brought before the meeting by the presiding officer or by or at the direction of a majority of the Whole Board.

(e) The determination of whether any business sought to be brought before any annual or special meeting of the stockholders is properly brought before such meeting in

accordance with this By-Law 8 will be made by the presiding officer of such meeting. If the presiding officer determines that any business is not properly brought before such meeting, he or she will so declare to the meeting and any such business will not be conducted or considered.

DIRECTORS

9. Function. The business and affairs of the Company will be managed under the direction of its Board.

10. Number, Election, and Terms. (a) Subject to the rights, if any, of any series of Preferred Stock to elect additional Directors under circumstances specified in a Preferred Stock Designation and to the minimum and maximum number of authorized Directors provided in the Certificate of Incorporation, the authorized number of Directors may be determined from time to time only by a vote of a majority of the Whole Board. The Directors, other than those who may be elected by the holders of any series of the Preferred Stock, will be classified with respect to the time for which they severally hold office in accordance with the Certificate of Incorporation.

(b) Notwithstanding anything contained in the Certificate of Incorporation or these By-Laws to the contrary, the term of any Director who is also an officer of the Company will terminate automatically, without any further action on the part of the Board or such Director, upon the termination for any reason of such Director in his or her capacity as an officer of the Company. Notwithstanding anything contained in the Certificate of Incorporation or these

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ByLaws to the contrary, the affirmative vote of at least 66-23% of the Directors then in office will be required to amend, repeal, or adopt any provision inconsistent with this By-Law 10(b).

11. Vacancies and Newly Created Directorships. Subject to the rights, if any, of the holders of any series of Preferred Stock to elect additional Directors under circumstances specified in a Preferred Stock Designation, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board resulting from death, resignation, disqualification, removal, or other cause will be filled solely by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board, or by a sole remaining Director; provided, however, that at the sole option of the Board, effected by a resolution of the Board of Directors, one or more such vacancies or newly created directorships may be filled by the stockholders at a meeting of the stockholders called by the Board of Directors. Any Director elected in accordance with the preceding sentence will hold office for the remainder of the full term of the class of Directors in which the new directorship was created or the vacancy occurred and until such Director's successor is elected and qualified. No decrease in the number of Directors constituting the Board will shorten the term of an incumbent Director.

12. Removal. Subject to the rights, if any, of the holders of any series of Preferred Stock to elect additional Directors under circumstances specified in a Preferred Stock

Designation, any Director may be removed from office by the stockholders only for cause and only in the manner provided in the Certificate of Incorporation and, if applicable, any amendment to this By-Law 12.

13. Nominations of Directors: Election. (a) Subject to the rights, if any, of the holders of any series of Preferred Stock to elect additional Directors under circumstances specified in a Preferred Stock Designation, only persons who are nominated in accordance with the following procedures will be eligible for election at a meeting of stockholders as Directors of the Company.

(b) Nominations of persons for election as Directors of the Company may be made only at an annual meeting of stockholders (i) by or at the direction of the Board or (ii) by any stockholder who is a stockholder of record at the time of giving of notice provided for in this By-Law 13, who is entitled to vote for the election of Directors at such meeting, and who complies with the procedures set forth in this By-Law 13. All nominations by stockholders must be made pursuant to timely notice in proper written form to the Secretary.

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(c) To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Company not less than 60 calendar days prior to the annual meeting of stockholders; provided, however, that in the event that public announcement of the date of the annual meeting is not made at least 75 calendar days prior to the date of the annual meeting, notice by the stockholder to be timely must be so received no later than the close of business on the 10th calendar day following the day an which public announcement is first made of the date of the annual meeting. To be in proper written form, such stockholder's notice must set forth or include (i) the name and address, as they appear on the Company's books, of the stockholder giving the notice and of the beneficial owner, if any, on whose behalf the nomination is made; (ii) a representation that the stockholder giving the notice is a holder of record of stock of the Company entitled to vote at such annual meeting and intends to appear in person or by proxy at the annual meeting to nominate the person or persons specified in the notice; (iii) the class and number of shares of stock of the Company owned beneficially and of record by the stockholder giving the notice and by the beneficial owner, if any on whose behalf the nomination is made; (iv) a description of all arrangements or understandings between or among any of (A) the stockholder giving the notice, (B) the beneficial owner on whose behalf the notice is given, (C) each nominee, and (D) any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder giving the notice; (v) such other information regarding each nominee proposed by the stockholder giving the notice as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the Board; and (vi) the signed consent of each nominee to serve as a Director of the Company if so elected. At the request of the Board, any person nominated by the Board for election as a Director must furnish to the Secretary that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. The presiding officer of any annual meeting will, if the facts warrant, determine that a nomination was not made in accordance with the procedures

prescribed by this By-Law 13, and if he or she should so determine, he or she will so declare to the meeting and the defective nomination will be disregarded. A stockholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this By-Law 13.

14. Resignation. Any Director may resign at any time by giving written notice of his resignation to the Chairman or the Secretary. Any resignation will be effective upon actual receipt by any such person or, if later, as of the date and time specified in such written notice.

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15. Regular Meetings. Regular meetings of the Board may be held immediately after the annual meeting of the stockholders and at such other time and place either within or without the State of Delaware as may from time to time be determined by the Board. Notice of regular meetings of the Board need not be given.

16. Special Meetings. Special meetings of the Board may be called by the Chairman or the President on one day's notice to each Director by whom such notice is not waived, given either personally or by mail, telephone, telegram, telex, facsimile, or similar medium of communication, and will be called by the Chairman or the President in like manner and on like notice on the written request of three or more Directors. Special meetings of the Board may be held at such time and place either within or without the State of Delaware as is determined by the Board or specified in the notice of any such meeting.

17. Quorum. At all meetings of the Board, a majority of the total number of Directors then in office will constitute a quorum for the transaction of business. Except for the designation of committees as hereinafter provided and except for actions required by these ByLaws or the Certificate of Incorporation to be taken by a majority of the Whole Board, the act of a majority of the Directors present at any meeting at which there is a quorum will be the act of the Board. If a quorum is not present at any meeting of the Board, the Directors present thereat may adjourn the meeting from time to time to another place, time, or date, without notice other than announcement at the meeting, until a quorum is present.

18. Participation in Meetings by Telephone Conference. Members of the Board or any committee designated by the Board may participate in a meeting of the Board or any such committee, as the case may be, by means of telephone conference or similar means by which all persons participating in the meeting can hear each other, and such participation in a meeting will constitute presence in person at the meeting.

19. Committees. (a) The Board, by resolution passed by a majority of the Whole Board, will designate an executive and finance committee ("Executive and Finance Committee") of not less than three members of the Board, one of whom will be the Chairman. The Executive and Finance Committee will have and may exercise the powers of the Board, except the power to amend these By-Laws or the Certificate of Incorporation (except, to the extent authorized by a resolution of the Whole Board, to fix the designation, preferences, and other terms

of any series of Preferred Stock), adopt an agreement of merger or consolidation, authorize the issuance of stock, declare a dividend, or recommend to the stockholders the sale, lease, or exchange of all or substantially all of

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the Company's property and assets, a dissolution of the Company, or a revocation of a dissolution, and except an otherwise provided by law.

(b) The Board, by resolution passed by a majority of the Whole Board, may designate one or more additional committees, each such committee to consist of one or more Directors and each to have such lawfully delegable powers and duties as the Board may confer.

(c) The Executive and Finance Committee and each other committee of the Board will serve at the pleasure of the Board or as may be specified in any resolution from time to time adopted by the Board. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent or disqualified member at any meeting of such committee. In lieu of such action by the Board, in the absence or disqualification of any member of a committee of the Board, the members thereof present at any such meeting of such committee and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

(d) Except as otherwise provided in these By-Laws or by law, any committee of the Board, to the extent provided in By-Law 19(a) or, if applicable, in the resolution of the Board, will have and may exercise all the powers and authority of the Board in the direction of the management of the business and affairs of the Company. Any such committee designated by the Board will have such name as may be determined from time to time by resolution adopted by the Board. Unless otherwise prescribed by the Board, a majority of the members of any committee of the Board will constitute a quorum for the transaction of business, and the act of a majority of the members present at a meeting at which there is a quorum will be the act of such committee. Each committee of the Board may prescribe its own rules for calling and holding meetings and its method of procedure, subject to any rules prescribed by the Board, and will keep a written record of all actions taken by it.

20. Compensation. The Board may establish the compensation for, and reimbursement of the expenses of, Directors for membership on the Board and on committees of the Board, attendance at meetings of the Board or committees of the Board, and for other services by Directors to the Company or any of its majority-owned subsidiaries.

21. Rules. The Board may adopt rules and regulations for the conduct of meetings and the oversight of the management of the affairs of the Company.

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NOTICES

22. Generally. Except as otherwise provided by law, these By-Laws, or the Certificate of Incorporation, whenever by law or under the provisions of the Certificate of Incorporation or these By-Laws notice in required to be given to any Director or stockholder, it will not be construed to require personal notice, but such notice may be given in writing, by mail, addressed to such Director or stockholder, at the address of such Director or stockholder as it appears on the records of the Company, with postage thereon prepaid, and such notice will be deemed to be given at the time when the same is deposited in the United States mail. Notice to Directors may also be given by telephone, telegram, telex, facsimile, or similar medium of communication or as otherwise nay be permitted by these By-Laws.

23. Waivers. Whenever any notice is required to be given by law or under the provisions of the Certificate of Incorporation or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time of the event for which notice is to be given, will be deemed equivalent to such notice. Attendance of a person at a meeting will constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction, of any business because the meeting is not lawfully called or convened.

OFFICERS

24. Generally. The officers of the Company will be elected by the Board and will consist of a Chairman, a Chief Executive Officer, a President (who may also be the Chief Executive Officer), a Secretary, and a Treasurer. The Board of Directors may also choose any or all of the following: one or more Vice Chairmen (which Vice Chairman for all purposes shall possess all the rights and powers of the Chairman), one or more Assistants to the Chairman, one or more Vice Presidents (who may be given particular designations with respect to authority, function, or seniority), and such other officers as the Board may from time to time determine. Notwithstanding the foregoing, by specific action the Board may authorize the Chairman, or the President to appoint any person to any office other than Chairman, President, Secretary, or Treasurer. Any number of offices may be held by the same person. Any of the offices may be left vacant from time to time as the Board may determine. In the case of the absence or disability of any officer of the Company or for any other reason deemed sufficient by a majority of the Board, the Board may delegate the absent or disabled officer's powers or duties to any other officer or to any Director.

25. Compensation. The compensation of all officers and agents of the Company who are also Directors of the Company will be fixed by the Board or by a committee of the Board. The Board may fix, or delegate the power to fix, the compensation of other officers and agents of the Company to an officer of the Company.

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26. Succession. The officers of the Company will hold office until their successors are elected and qualified. Any officer may be removed at any time by the affirmative vote of a majority of the Whole Board. Any vacancy occurring in any office of the Company may be filled by the Board or by the Chairman as provided in By-Law 24.

27. Authority and Duties. Each of the officers of the Company will have such authority and will perform such duties as are customarily incident to their respective offices or as may be specified from time to time by the Board.

STOCK

28. Certificates. Certificates representing shares of stock of the Company will be in such form as is determined by the Board, subject to applicable legal requirements. Each such certificate will be numbered and its issuance recorded in the books of the Company, and such certificate will exhibit the holder's name and the number of shares and will be signed by, or in the name of, the Company by the Chairman and the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer, and will also be signed by, or bear the facsimile signature of, a duly authorized officer or agent of any properly designated transfer agent of the Company. Any or all of the signatures and the seal of the Company, if any, upon such certificates may be facsimiles, engraved, or printed. Such certificates may be issued and delivered notwithstanding that the person whose facsimile signature appears thereon may have ceased to be such officer at the time the certificates are issued and delivered.

29. Classes of Stock. The designations, preferences, and relative participating, optional, or other special rights of the various classes of stock or series thereof, and the qualifications, limitations, or restrictions thereof, will be set forth in full or summarized on the face or back of the certificates which the Company issues to represent its stock or, in lieu thereof, such certificates will set forth the office of the Company from which the holders of certificates may obtain a copy of such information.

30. Lost, Stolen, or Destroyed Certificates. The Secretary may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Company alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact, satisfactory to the Secretary, by the person claiming the certificate of stock to be lost, stolen, or destroyed. As a condition precedent to the issuance of a new certificate or certificates, the Secretary may require the owners of such lost, stolen, or destroyed certificate or certificates to give the Company a bond in such sum and with such surety or sureties as the Secretary may direct as

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indemnity against any claims that may be made against the Company with respect to the certificate alleged to have been lost, stolen, or destroyed or the issuance of the new certificate.

31. Record Dates. (a) In order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board may fix a record date, which will not be more than 60 nor less than 10 calendar days before the date of such meeting. If no record date is fixed by the Board, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders will be at the close of business on the calendar day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the calendar day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of the stockholders will apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

(b) In order that the Company may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Board may fix a record date, which record date will not be more than 60 calendar days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose will be at the close of business on the calendar day on which the Board adopts the resolution relating thereto.

(c) The Company will be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes, and will not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Company has notice thereof, except as expressly provided by applicable law.

INDEMNIFICATION

32. Damages and Expenses. (a) Without limiting the generality or effect of Article Ninth of the Certificate of Incorporation, the Company will go the fullest extent permitted by applicable law as then in effect indemnify any person (an "Indemnitee") who is or was involved in any manner (including without limitation as a party or a witness) or is threatened to be made so involved in any threatened, pending, or completed investigation, claim, action, suit, or proceeding, whether civil, criminal, administrative, or investigative

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(including without limitation any action, suit, or proceeding by or in the right of the Company to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was or had agreed to become a director, officer, employee, or agent of the Company, or is or was serving at the request of the Board or an officer of the Company as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, whether for profit or not for profit, or anything done or not by such person in any such capacity, against all expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with such proceeding. Such indemnification will be a contract right and will include the right to receive payment in advance of any expenses incurred by an Indemnitee in connection with such Proceeding upon receipt of an undertaking by or on behalf of

such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized by this By-Law 32 or otherwise.

(b) The right of indemnification provided in this By-Law 32 will not be exclusive of any other rights to which any person seeking indemnification may otherwise be entitled and will be applicable to Proceedings commenced or continuing after the adoption of this By-Law 32, whether arising from acts or emissions occurring before or after such adoption.

(c) The indemnification and advancement of expenses provided by, or granted pursuant to, this By-Law 32 shall, unless otherwise provided when authorized or ratified, continue as to a person-who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

33. Insurance, Contracts, and Funding. The Company may purchase and maintain insurance to protect itself and any Indemnitee against any expenses, judgments, fines, and amounts paid in settlement or incurred by any Indemnitee in connection with any Proceeding referred to in By-Law 32 or otherwise, to the fullest extent permitted by applicable law as then in effect. The Company may enter into contracts with any person entitled to indemnification under By-Law 32 or otherwise, and may create a trust fund, grant a security interest, or use other means (including without limitation a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in By-Law 32.

GENERAL

34. Fiscal Year. The fiscal year of the Company will end

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December 31st of each year or such other date as may be fixed from time to time by the Board.

35. Seal. The Board may adopt a corporate seal and use the same by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

36. Reliance upon Books, Reports, and Records. Each Director, each member of a committee designated by the Board, and each officer of the Company will, in the performance of his or her duties, be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports, or statements presented to the Company by any of the Company's officers or employees, or committees of the Board, or by any other person or entity as to matters the Director, committee member, or officer believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company.

37. Time Periods. In applying any provision of these By-Laws that requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days will be used unless otherwise specified, the day of the doing of the act will be excluded, and the day of the event will be included.

38. Amendments. Except as otherwise provided by law or by the Certificate of Incorporation or these By-Laws, these By-Laws or any of them may be amended in any respect or repealed at any time, either (i) at any meeting of stockholders, provided that any amendment or supplement proposed to be acted upon at any such meeting has been described or referred to in the notice of such meeting, or (ii) at any meeting of the Board, provided that no amendment adopted by the Board may vary or conflict with any amendment adopted by the stockholders.

39. Certain Defined Terms. Terms used herein with initial capital-letters that are not otherwise defined are used herein as defined in the Certificate of Incorporation.

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Exhibit 3.07

Certificate of Ownership and Merger
of
MotivePower Industries, Inc. (Subsidiary)
(a Delaware corporation)
into
MK Rail Corporation (Parent)
(a Delaware corporation)

Pursuant to Section 253 of the General Corporation Law of the State of Delaware, MK Rail Corporation (the "Parent"), a Delaware corporation and the parent corporation to its wholly-owned subsidiary, MotivePower Industries, Inc. (the "Subsidiary"), a Delaware corporation, hereby certifies that:

1. Attached hereto as Exhibit A are resolutions (the "Resolutions of Merger") duly adopted on December 16, 1996 by the Board of Directors of the Parent, pursuant to which the Subsidiary shall be merged into the Parent, and the name of the surviving parent corporation shall be changed from "MK Rail Corporation" to "MotivePower Industries, Inc.," which Resolutions of Merger have been approved and adopted by the Board of Directors of the Parent in accordance with the requirements of the General Corporation Law of the State of Delaware.

2. The Certificate of Incorporation of the surviving corporation shall be the Certificate of Incorporation of the Parent as in effect immediately prior to the merger (except the name shall be changed as provided in the Resolutions of Merger and as noted in paragraph 1 of this Certificate).

3. The Resolutions of Merger are on file at 1200 Reedsdale Street, Pittsburgh, Pennsylvania 15233, the principal place of business of the surviving corporation.

4. The merger shall be effective at 12:01 a.m. on January 1, 1997.

IN WITNESS WHEREOF, this Certificate is executed by the undersigned duly authorized officer on behalf of MK Rail Corporation, a Delaware corporation, this 26th day of December, 1996.

MK Rail Corporation
(a Delaware corporation)

By: /s/ William D. Grab
Name: William D. Grab
Title: Vice President

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Exhibit A

Resolutions of the Board of Directors of MK Rail Corporation (the "Company") Adopted at a Meeting of the Board of Directors on December 16, 1996

WHEREAS, MotivePower Industries, Inc., a Delaware corporation, was incorporated on August 26, 1996; and

WHEREAS, the Company owns all of the issued and outstanding stock of MotivePower Industries, Inc.; and

WHEREAS, the Company desires to merge MotivePower Industries, Inc. into the Company under Sections 253 of the Delaware General Corporation Law (the "DGCL"); and

WHEREAS, the Company shall be the surviving corporation of the said merger; and

WHEREAS, as a result of said merger, the name of Company shall change to MotivePower Industries, Inc.;

RESOLVED, that the merger of MotivePower Industries, Inc., which is a wholly-owned subsidiary of the Company, with and into the Company shall be, and hereby is, approved in all respects; and further

RESOLVED, that as a result of the merger, all stock of MotivePower Industries, Inc. outstanding immediately prior to the merger shall be cancelled and all stock of the Parent outstanding immediately prior to the merger shall continue to be stock of the surviving corporation after the merger; and further

RESOLVED, that the Certificate of Incorporation of the Company in effect immediately prior to the merger shall be the Certificate of Incorporation of the Company as the surviving corporation at and after the effective date of the merger, except that the name of the surviving corporation shall be changed from MK Rail Corporation to MotivePower Industries, Inc.; and further

RESOLVED, that the merger shall be effective on January 1, 1997; and further

RESOLVED, that the President or any Vice President of the Company is hereby authorized, empowered and directed to execute for and on behalf of the Company a Certificate of Ownership and Merger and such other

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documents, all containing such terms as any such officer approves, such approval to be conclusively evidenced by any such officer's execution and delivery thereof, and to perform such other acts as any such officer shall deem necessary or appropriate to effectuate such merger in the State of Delaware; and further

RESOLVED, that the President and any Vice President and Secretary of the Company be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Company, and as its corporate act and deed, to execute and deliver all other documents, instruments, certificates, and agreements, and to do all acts and things as may be necessary and appropriate to carry out the purpose and intent of these resolutions.

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Exhibit 10.58

AMENDMENT NO. 1 AND WAIVER TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Amendment No. 1 and Waiver (this "Amendment") is entered into as of December 30, 1996 by and among MK Rail Corporation, a Delaware corporation ("MKR"), with its chief executive office at 1200 Reedsdale Street, Pittsburgh, Pennsylvania 15233; Motor Coils Manufacturing Co., a Pennsylvania corporation ("Motor Coils"); MK Engine Systems Company, Inc., a New York Corporation ("MKES"); Clark Industries, Inc., an Illinois corporation ("Clark"); Power Parts Company, a Nevada corporation ("Power Parts"); Touchstone, Inc., a Tennessee corporation ("Touchstone"); Power Parts Sign Co., an Illinois corporation ("Sign") (each of MKR and the Component Subsidiaries a "Borrower" and collectively the "Borrowers"), and BankAmerica Business Credit, Inc., a Delaware corporation, individually as a lender ("Lender") and as agent ("Agent").

RECITALS

A. The Borrowers, the Agent and the Lender are party to that certain Amended and Restated Loan and Security Agreement dated as of September 10, 1996 (as previously amended, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. Immediately prior to the execution of this Amendment, the Agent and the Lender entered into Assignment and Acceptance Agreements dated the date hereof (the "Assignment Agreements") with each of Heller Financial, Inc., Green Tree Financial Servicing Corporation and Star Bank, N.A (collectively, the "Former Lenders"), pursuant to which the Lender purchased from such Persons all of their outstanding Loans and commitments under the Credit Agreement (the "Buyout"), and paid them (on behalf of and with the consent of the Borrowers) a prepayment fee for agreeing to the Buyout, plus any and all unpaid accrued interest and fees owed by the Borrowers through the date hereof or the Effective Date, whichever is later, all amounts as set forth in each Exhibit A to the Assignment Agreements.

C. The Borrowers intend to implement a corporate restructuring, effective as of January 1, 1997, as set forth in Exhibit A hereto.

D. The Borrowers, the Lender and the Agent wish to amend the Credit Agreement and waive certain provisions thereof with respect to (a) the corporate

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restructuring, (b) the maturity date of the Loans and (c) the rate of interest on the Loans, all pursuant to the terms as set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. Amendment to Credit Agreement. Upon the "Effective Date" (as defined below), the Credit Agreement shall be amended as follows:

(a) The following definitions in Section 1.1 are amended in their entirety to read as follows:

- "'Stated Termination Date' means September 30, 1997."
- "'Applicable Revolver Base Rate Margin' shall mean one half of one percent (0.50%)."
- "'Applicable Revolver LIBOR Margin' shall mean two percent (2%)."
- "'Applicable Term Base Rate Margin' shall mean three-quarters of one percent (0.75%)."
- "'Applicable Term LIBOR Margin' shall mean two and one-quarter percent (2.25%)."
- "'Default Rate' means a fluctuating per annum interest rate at all times equal to the sum of (a) the Interest Rate for each Loan or Obligation which would be derived by applying the otherwise Applicable Margin, plus (b) two percent (2.0%). Each Default Rate shall be adjusted simultaneously with any change in the applicable Interest Rate. In addition, with respect to Letters of Credit, the Default Rate shall mean an increase in the Letter of Credit Fee by two percent (2.0%) per annum."

(b) The second sentence of Section 2.2(c) is amended in its entirety to read as follows:

"The Term Loan Notes delivered to the Agent (on behalf of the Lenders) shall be dated the Closing Date and the principal amount of the Term Loan shall mature in thirteen (13) monthly installments. Each of the first twelve (12)

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installments of principal shall be payable in an amount equal to $133,334 (and paid ratably by the Borrowers receiving Term Loans) and shall be payable on the first day of each month, commencing on October 1, 1996 and ending on September 1, 1997, and the final installment of principal on the Term Loan shall be payable in an amount equal to $6,399,992 or, if

different, the then remaining principal balance of the Term Loan, and shall be payable on the Stated Termination Date."

(c) Thefirst paragraph of Section 3.1(a)(iii) is amended in its entirety to read as follows:

"(iii) Without limiting any other restrictions herein on the availability of LIBOR Rate Loans, the Borrowers shall not have the option to elect, designate, continue or convert any Loans into LIBOR Rate Loans on the Closing Date (through October 31, 1996) or at any time when a Default or an Event of Default has occurred and is continuing." (d) Section 3.1(b) is amended in its entirety to read as follows:

"(b). Intentionally Omitted."

(e) Section 3.2(c) is amended in its entirety to read as follows:

"(c) If upon the expiration of any Interest Period applicable to LIBOR Rate Loans, MKR has failed to select timely a new Interest Period to be applicable to LIBOR Rate Loans or if any Default or Event of Default then exists, then the applicable Borrower shall be deemed to have elected to convert such LIBOR Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period."

(f) Section 4.2 is amended in its entirety to read as follows:

"4.2 Termination of Facility; Prepayments. The Borrowers may terminate this Agreement upon at least ten (10) Business Days' prior written notice from MKR to the Agent and the Lenders, upon (a) the payment in full in cash of all outstanding Loans, together with

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accrued interest thereon, and the cancellation of all outstanding Letters of Credit, (b) the payment in full in cash of all other Obligations together with accrued interest thereon, and (c) with respect to any LIBOR Rate Loans prepaid in connection with such termination prior to the expiration date of the Interest Period applicable thereto, the payment of the amounts described in Section 5.4."

(g) Schedules 8.5 and 8.7 are deleted and Schedules 8.5 and 8.7 attached hereto are hereby substituted in their entirety therefor.

(h) The Lender's signature page to the Credit Agreement is amended and substituted in its entirety by the form of signature page signed by the Lender and attached to this Amendment.

2. Consent and Waiver.

(a) Notwithstanding anything to the contrary set forth in Section 9.21 of the Credit Agreement, the Agent and Lender consent to MKR creating the following new wholly-owned subsidiaries as of January 1, 1997:

(i) MotivePower Investments Ltd., a Delaware corporation;

(ii) MotivePower Investments, Inc., a Delaware corporation;

(iii) Boise Locomotive Company, a Delaware corporation; and

(iv) Motive Power Foreign Sales Corporation, a Barbados corporation;

provided, however, that the consent in this paragraph (a) is conditioned on the Borrower's acknowledgment and agreement that each of these subsidiaries shall not (i) conduct business or business operations, (ii) start operations without the written consent of the Agent and (iii) have assets or liabilities of any kind in excess of

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$10,000 in the aggregate.

(b) Notwithstanding anything to the contrary set forth in Section 9.9 of the Credit Agreement, the Agent and the Lender consent to (a) the merger of MotivePower Industries, Inc. into MKR to be effective as of January 1, 1997 and (b) the dissolution of Sign and AMS Manufacturing Company (f/k/a Alert Mfg. & Supply Co.) to be effective as of January 1, 1997.

(c) Notwithstanding anything to the contrary set forth in Section 7.3(j) of the Credit Agreement, the Agent and the Lender consent to the Borrowers name changes as set forth in Exhibit A hereto.

(d) No later than January 6, 1997, the Borrowers shall provide to the Agent and the Lender written evidence in form and substance acceptable to the Agent and the Lender of the effectiveness of (i) the Merger of MotivePower Industries, Inc. into MKR, (ii) the dissolution of Sign and AMS Manufacturing Company (f/k/a Alert Mfg. & Supply Co.), and (iii) the name changes as set forth in Exhibit A hereto.

3. Representations and Warranties of the Borrower. Each of the Borrowers represents and warrants that:

(a) The execution, delivery and performance by the Borrowers of this Amendment have been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrowers enforceable against the Borrowers in accordance with its terms, except as the enforcement thereof may be subject to (i) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law);

(b) Each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof;

(c) The execution, delivery and performance by the Borrowers of this Amendment, and the performance by the Borrowers of the Credit Agreement (as amended hereby) do not and will not (i) violate any provision of any law, rule or regulation applicable to the Borrowers, the Certificate or Articles of Incorporation or Bylaws of the Borrowers or any order, judgment or decree of any court or other agency or government binding on any Borrower, (ii) conflict with,

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result in a breach of or constitute (with due notice or lapse of time or both) a default under any contract, agreement, mortgage or obligation of any Borrower except where the Borrowers shall have obtained waivers or consents from the other parties to such agreements and disclosed the same to the Agent, (iii) result in or require the creation or imposition of any lien upon any of the Borrowers' properties or assets (other than Liens permitted under Section 9.19 of the Credit Agreement) or (iv) require any approval of stockholders or any approval or consent of any Person under any contract, agreement, mortgage or obligation to which any Borrower is a party (or by which its assets or properties are bound) except for the approvals or consents which will be obtained on or before the date hereof and disclosed in writing to the Agent.

(d) After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

(e) The Borrowers authorize and agree that on the Effective Date (i) MKR will be deemed to have made a Revolving Loan borrowing (and to have provided the funds to the Agent for the use set forth below) in an aggregate amount equal to the prepayment fee as set forth on each Exhibit A to the Assignment Agreements of approximately $1,000,000 in the aggregate (the "Prepayment Fee"), plus any and all unpaid accrued interest and fees owed by the Borrowers to the Former Lenders through the date hereof or the Effective Date, whichever is later as set forth on each Exhibit A to the Assignment Agreements (the "Payoff Amount"),and (ii) the Agent will use the proceeds of such Revolving Loan borrowing on behalf of the Borrowers to pay to the Former Lenders the Prepayment Fee, plus the Payoff Amount as consideration for consenting to the Buyout.

4. Effective Time. Sections 1 and 2 of this Amendment shall become effective - upon:

(a) the execution and delivery hereof by the Borrowers, the Lender and the Agent;

(b) the payment by the Borrowers to BankAmerica Business Credit, Inc., individually, on the date hereof of a prepayment fee of $500,000 in immediately available funds, which fee shall be deemed fully earned and non-refundable on the date hereof, and MKR hereby authorizes such payment to be made as a revolving loan advance to MKR;

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(c) the delivery of a legal opinion from Doepken Keevican & Weiss, counsel to the Borrowers, as to all the transactions described herein;

(d) receipt by the Agent of evidence of the corporate restructuring and the other documents and deliveries as set forth in the Closing Memorandum attached hereto as Exhibit B all in form and substance acceptable to the Agent; and

(e) the execution and delivery of that certain Commitment Letter and Fee Letter among MKR, Bank of America Illinois, Bank of America NT & SA and BA Securities, Inc.

In the event the Effective Time has not occurred on or before 5:00 p.m. (Chicago time) December 31, 1996, Sections 1 and 2 hereof shall not become operative and shall be of no force or effect.

5. Reference to and Effect Upon the Credit Agreement.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

6. Costs and Expenses.

(a) The Borrower hereby affirms its obligation under Section 15.7 of the Credit Agreement to reimburse the Agent and the Lender for all reasonable costs, internal

charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys (and the allocated cost of in-house counsel)

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for the Agent with respect thereto.

7. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS; PROVIDED THAT THE LENDERS AND THE AGENT SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

8. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

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

10. JURY TRIAL WAIVER. THE BORROWERS, THE AGENT AND THE LENDERS HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND AND RIGHTS UNDER THIS AMENDMENT, THE LOAN DOCUMENTS OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AMENDMENT OR ANY LOAN DOCUMENT, AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

11. Releases. In further consideration of the execution of this Amendment by the Agent and the Lenders, the Borrowers hereby release the Agent and the Lenders and all current and future holders of assignments of or participations in the Obligations and their respective affiliates, officers, employees, directors, agents and attorneys (collectively, the "Releasees") from any and all claims, demands, liabilities, responsibilities, disputes, causes of action (whether at law or in equity) and obligations of every nature whatsoever, whether liquidated or unliquidated, known or unknown, matured or unmatured, fixed or contingent (collectively, "Claims") that the Borrowers may have against the Releasees which arise from or relate to any actions which the Releasees may have taken or omitted to take on or prior to the date hereof with respect to the Obligations, any Collateral, the Credit Agreement, any other Loan Document and any third parties liable in whole or in part for the Obligations. For purposes of the release contained in this paragraph, the term "Borrowers" shall mean and include the Borrowers and their successors and assigns, including, without limitation, any trustees acting on behalf of such parties and any debtor-in-possession in respect of any such party.

12. Reaffirmation of Guaranty. Each of the Borrowers as a

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guarantor under Article 16 of the Credit Agreement hereby (i) acknowledges and reaffirms all of its obligations and undertakings under the guaranty under Article 16 of the Credit Agreement, and (ii) acknowledges and agrees that subsequent to, and taking into account this Amendment, the guaranty under Article 16 of the Credit Agreement is and shall remain in full force and effect in accordance with the terms thereof.

13. Date Down on Title Insurance. If on March 31, 1997 the Lender still has any outstanding Commitment under the Credit Agreement, the Borrowers shall deliver to the Agent and the Lender date down endorsements for the title policies with respect to the Mortgages in form and substance acceptable to the Agent.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

"BORROWERS"

Power Parts Company

By:
Title:

MK Rail Corporation

By:
Title:

Touchstone, Inc.

By:
Title:

Motor Coils Manufacturing Co.

By:
Title:

Power Parts Sign Co.

By:
Title:

MK Engine Systems Company, Inc.

By:
Title:

Clark Industries, Inc.

By:
Title:

Acknowledged and agreed to:

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AMS Manufacturing Company
(f/k/a Alert Mfg & Supply Co.)

By:
Title:

Commitment:	$75,000,000	BANKAMERICA BUSINESS CREDIT, INC., individually as a Lender and as Agent
Revolving Loan Commitment:	$67,000,000	
		By:
Term Loan Commitment:	$8,000,000	Its:
Pro Rate Share:	100%	

EXHIBIT A

Corporate Restructuring

Existing Name	New Name as of January 1, 1997

EXHIBIT B

Closing Memorandum

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Exhibit 10.59

SECOND AMENDED AND RESTATED

CREDIT AGREEMENT

Dated as of February 27, 1997

among

MOTIVEPOWER INDUSTRIES, INC.,
as Borrower

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION,
as Agent and Lender,

and

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO,
as Lenders

Arranged By

BANCAMERICA SECURITIES, INC.

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SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This SECOND AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of February 27, 1997, among MotivePower Industries, Inc., a Delaware corporation (the "Borrower"), the several financial institutions from time to time party to this Agreement (collectively, the "Lenders"; individually, a "Lender"), and Bank of America National Trust and Savings Association, as agent for the Lenders (the "Agent").

WHEREAS, MotivePower Industries, Inc. (f/k/a MK Rail Corporation), a Delaware corporation, Motor Coils Manufacturing Company (f/k/a Motor Coils Manufacturing Co.), a Pennsylvania corporation ("Motor Coils"), Engine Systems Company, Inc. (f/k/a MK Engine Systems Company, Inc.), a New York corporation ("Engine"), Clark Industries Company (f/k/a Clark Industries, Inc.), an Illinois corporation ("Clark"), Touchstone Company (f/k/a Touchstone, Inc.), a Tennessee corporation ("Touchstone"), Power Parts Company, a Nevada corporation ("Power

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Parts") (each an "Existing Borrower" and collectively, the "Existing Borrowers"), and BankAmerica Business Credit, Inc., a Delaware corporation individually as a lender and as agent ("BABC"), are parties to that certain Amended and Restated Loan and Security Agreement dated as of September 10, 1996 (as amended, the "Existing Loan Agreement");

WHEREAS, immediately prior to the effectiveness of this amendment and restatement of the Agreement, BABC has resigned as agent and assigned to the Agent all of its rights, duties and obligations as agent under the Existing Loan Agreement (and Agent has assumed all such rights, duties and obligations as the successor agent thereunder), and BABC has assigned to the Lenders all of its rights and outstanding loans, commitments and letter of credit obligations under the Existing Loan Agreement, and each Lender has assumed its ratable share of such loans, commitments and letter of credit obligations in accordance with the Pro Rata Shares (as defined below) hereunder;

WHEREAS, on the Closing Date (as defined below) the Borrower and its Subsidiaries are undertaking a reorganization (the "Reorganization")of their corporate structure as described in full on Schedule 1.1A hereto, pursuant to which (among other things) the Borrower will become a holding company and no longer conduct business operations;

WHEREAS, pursuant to the Borrower's request on the Closing Date, the proceeds of the Loans (as defined below) hereunder, to the extent necessary, are being applied in repayment of the outstanding loans to the Borrowing Subsidiaries (as defined below) on the date hereof under the Existing Loan Agreement and Boise Locomotive Company, a Delaware corporation ("Boise

Locomotive"), provided, that such repayment shall not in any way release the Borrowing Subsidiaries from their continuing obligations under the Guaranty (as defined below); and

WHEREAS, the Agent, the Lenders and the Borrower have agreed to amend and restate the Existing Loan Agreement (i) to continue to make available to the Borrower credit facilities in an aggregate amount up to $75,000,000, which will (among other things) be restated as a secured term loan which is increased to $20,000,000 and a secured revolving credit facility which is reduced to $55,000,000, all upon the terms and conditions set forth in this Agreement, (ii) to amend and restate the guaranty obligations of the Borrowing Subsidiaries and certain other Subsidiaries of the Borrower set forth in the Existing Loan Agreement to continue such obligations as part of the Guaranty, and (iii) to amend and restate the mortgages, security interests and liens granted by Borrower, the Borrowing Subsidiaries and certain other Subsidiaries of the Borrower in the Existing Loan Agreement and the other agreements contemplated thereby to continue such mortgages, liens and security interests pursuant to the Security Agreements and other Collateral Documents (as such terms are defined below);

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 Certain Defined Terms. The following terms have the following meanings:

"Account Debtor" means the Person obligated in any way on or in connection with an Account.

"Accounts" means all of the Borrower's, the Borrowing Subsidiaries', Clark's and in certain limited circumstances, the FSC's (on a consolidated basis) now owned or hereafter acquired or arising accounts, and any other rights to payment for the sale or lease of goods or rendition of services, whether or not they have been earned by performance.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person, or otherwise

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causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower or the Subsidiary is the surviving entity.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise; provided, however, that neither Agent, Arranger or Bank of America Illinois shall in any event be deemed to be Affiliates of the Borrower or its Affiliates.

"Agent" means BofA in its capacity as agent for the Lenders hereunder, and any successor agent arising under Section 9.09.

"Agent-Related Persons" means BofA and any successor agent arising under Section 9.09, together with their respective Affiliates (including, without limitation, in the case of BofA, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Agent's Payment Office" means the address for payments set forth on Schedule 10.02 or such other address as the Agent may from time to time specify.

"Agreement" means this Second Amended and Restated Credit Agreement, as hereafter modified, amended or restated from time to time.

"Applicable Margin" means the percentage as set forth below then applicable to, respectively, the Commitment Fee, Offshore Rate Loans, Base Rate Loans, documentary or commercial Letter of Credit fees and stand-by Letter of Credit fees as determined by using the following performance based grid after determining which of the pricing levels (being I through V) specified thereon is then in effect:

<TABLE>

<CAPTION>

Ratio of: (A) Funded Debt to (B) Cash Flow	Pricing Level I: less than 1.00x	Pricing Level II: less than 1.50x and greater than or equal to 1.00x	Pricing Level III: less than 2.25x and greater than or equal to 1.50x	Pricing Level IV: less than 3.00x and greater than or equal to 2.25x	Pricing Level V: greater than 3.00
<S>	<C>	<C>	<C>	<C>	<C>
Commitment Fee:	0.20%	0.25%	0.30%	0.35%	0.375%
Offshore Rate Loans:	0.50%	0.75%	1.00%	1.50%	2.00%
Base Rate Loans:	0.00%	0.00%	0.00%	0.50%	1.00%
Documentary or Commercial Letters of Credit:	0.25%	0.375%	0.50%	0.75%	1.00%

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Stand-by Letters of Credit:	0.50%	0.75%	1.00%	1.50%	2.00%

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As of the Closing Date, the Applicable Margin shall mean the percentages set forth under Pricing Level III and in no event will the Applicable Margin be reduced below Pricing Level III for a period of six (6) months after the Closing Date. Subject to the limitations of the first sentence of this paragraph, the Pricing Level in effect and thereby the Applicable Margin will first be subject to adjustment on the third (3rd) Business Day following delivery of the financial statements as required by Section 6.01(b) and the Compliance Certificate as required by Section 6.02(b) for the Fiscal Quarter ending June 27, 1997, and any such adjustment shall be effective as of the third (3rd) Business Day following the delivery of such quarterly financial statements for each Fiscal Quarter thereafter; provided, however, that if the Borrower would be entitled to have the Applicable Margin decreased based on the financial results for its Fiscal Quarter ending in June, 1997 but for the operation of the first sentence of this paragraph, then such decrease in the Applicable Margin shall instead take effect as of the date which is the six (6) month anniversary of the Closing Date, and the Applicable Margin shall be readjusted again based on the financial results for the Borrower's Fiscal Quarter ending in September 1997 and thereafter from time to time in accordance with the above provision. The applicable pricing level set forth in the grid above (and as such the Applicable Margin) for the Commitment Fee, Offshore Rate Loans, Base Rate Loans, documentary or commercial Letter of Credit fees and stand-by Letter of Credit fees will be determined and adjusted (up or down) as necessary quarterly based on which pricing level as set forth in the grid above reflects the Borrower's ratio of Funded Debt to Cash Flow (as determined pursuant to Section

7.16) for the trailing twelve month period then ended as calculated using the Borrower's quarterly consolidated financial statements. Further, if Borrower's annual audited financial statements (as required by Section 6.01(a)) and the Compliance Certificate as required by Section 6.02(b) for any Fiscal Year as subsequently delivered demonstrate that such ratio of Funded Debt to Cash Flow (as determined pursuant to Section 7.16) calculated at the end of the final Fiscal Quarter in such Fiscal Year was higher than was reported in the final quarterly financial statement delivered during any such Fiscal Year, then the Borrower shall pay to the Agent for the ratable benefit of Lenders a make-up payment within five (5) days after delivery of the Borrower's annual audited financial statements. The make-up payment shall be equal to the difference between interest that should have been paid during such Fiscal Year and interest actually paid. Notwithstanding the foregoing, at any time during which the Borrower has failed to deliver the financial statements for any Fiscal Quarter end as required by Section 6.01(b) and the Compliance Certificate as required by Section 6.02(b), or the annual audited financial statements required by Section 6.01(a) hereof and the Compliance Certificate as required by Section 6.02(b), the ratio of Funded Debt to Cash Flow shall be deemed to be greater than or equal to 3.0 to 1.0 for purposes of the calculation of which Pricing Level shall apply in determining the Applicable Margin.

"Arranger" means BancAmerica Securities, Inc., a Delaware corporation.

"Assignee" has the meaning specified in Section 10.08(a).

"Attorney Costs" means and includes all fees and disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"Availability" means, at any time, (a) the sum of (A) eighty-five percent (85%) of the Net Amount of Eligible Accounts of the Borrower, the Borrowing Subsidiaries, Clark and the FSC (on a consolidated basis) plus (B) seventy percent (70%) of the aggregate

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amount of all Eligible Inventory consisting of raw materials and finished goods of the Borrower, the Borrowing Subsidiaries and Clark (on a consolidated basis), plus (C) thirty percent (30%) of the aggregate amount of all Eligible Inventory consisting of work-in-process of the Borrower, the Borrowing Subsidiaries and Clark (on a consolidated basis), minus (b) the sum of (i) reserves for accrued interest on the Obligations, (ii) the Environmental Compliance Reserve, and (iii) all other reserves which the Agent deems necessary in the exercise of

its reasonable credit judgment to maintain with respect to the Borrower's, the Borrowing Subsidiaries', Clark's and the FSC's Accounts and/or Inventory, including, without limitation, reserves for any amounts which the Agent or any Lender may be obligated to pay in the future for the account of the Borrower or any Guarantor.

"BABC" means BankAmerica Business Credit, Inc., a Delaware corporation.

"Bankruptcy Code" means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. ss.101, et seq.).

"Base Rate" means, for any day, the higher of: (a) one-half of one percent (0.50%) per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by BofA in San Francisco, California, as its "reference rate." (The "reference rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the reference rate announced by BofA shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Loan" means a Loan that bears interest based on the Base Rate.

"BofA" means Bank of America National Trust and Savings Association, a national banking association.

"Boise Locomotive" has the meaning set forth in the recitals to this Agreement.

"Borrower" means MotivePower Industries, Inc., a Delaware corporation.

"Borrower Pledge Agreement" means the Pledge Agreement of even date herewith executed by the Borrower in favor of the Agent, on behalf of the Lenders, pledging all the stock of its Subsidiaries (other than MK Gain), and any amendments, modifications or restatements thereof, or any pledge agreements entered into after the Closing Date by the Borrower.

"Borrowing" means a borrowing hereunder consisting of Loans of the same Type made to the Borrower on the same day by the Lenders under Article II, and, other than in the case of Base Rate Loans, having the same Interest Period.

"Borrowing Date" means any date on which a Borrowing occurs under Section 2.03 or a letter of credit is issued under Section 2.01.

"Borrowing Subsidiary" or "Borrowing Subsidiaries" means, individually or collectively, Engine Systems Company, Inc., a New York corporation; Motor Coils Manufacturing Company, a Pennsylvania corporation; Power Parts Company, a Nevada corporation; Touchstone

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Company, a Tennessee corporation; and Boise Locomotive Company, a Delaware corporation.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in Chicago are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means such a day on which dealings are carried on in the applicable offshore dollar interbank market.

"Capital Adequacy Regulation" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"Capital Expenditures" means, all payments due (whether or not paid) during a Fiscal Year in respect of the cost of any fixed asset or improvement, or replacement, substitution, or addition thereto, which has a useful life of more than one year, including, without limitation, those costs arising in connection with the direct or indirect acquisition of such asset by way of increased product or service charges or offset items or in connection with a capital lease.

"Cash Flow" means, as to any Person and for any period for which such amount is being determined, EBITDA minus Capital Expenditures.

"CERCLA" has the meaning specified in the definition of "Environmental Laws."

"Change of Control" means (a) that the Borrower shall cease to own, directly or indirectly, all of the outstanding capital stock of each Guarantor or MK Gain and its Subsidiaries; or (b) that any Person or group of Persons (within the meaning of the Exchange Act) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Exchange Act) of 20% or more of the issued and outstanding shares of the Borrower's capital stock having the right to vote for the election of directors of Borrower

under ordinary circumstances; or (c) that during any period of twelve (12) consecutive calendar months, individuals who at the beginning of such period constituted the Borrower's board of directors (together with any new directors whose election by the Borrower's board of directors or whose nomination for election by the Borrower's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

"Closing Date" means the date of this Agreement.

"Code" means the Internal Revenue Code of 1986, and regulations promulgated thereunder.

"Collateral" means all property and interests in property and proceeds thereof now owned or hereafter acquired by the Borrower or any Guarantor or any Borrowing Subsidiary (excluding the capital stock of MK Gain), including, without limitation, any such property or interests in property (or the proceeds thereof) in or upon which a Lien now or hereafter exists in favor of the Lenders, or the Agent on behalf of the Lenders, whether under this Agreement or under any other documents executed by any such Person and delivered to the Agent or the Lenders.

"Collateral Documents" means, collectively, (i) the Security Agreements, the Guaranty, the Mortgages, the Pledge Agreements and all other locomotive mortgages and lease assignments, security agreements, mortgages, deeds of trust, patent and trademark assignments, lease assignments, guarantees and other similar agreements between the Borrower or any Borrowing Subsidiary or any Guarantor and the Lenders or the Agents for the benefit of the Agent (on behalf of the Lenders) and/or the Lenders now or hereafter delivered to the Lenders or the Agent pursuant to or in connection with the transactions contemplated hereby, and all financing statements (or comparable documents now or

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hereafter filed in accordance with the Uniform Commercial Code or comparable law) against the Borrower, any Borrowing Subsidiary or any Guarantor as debtor in favor of the Lenders or the Agent for the benefit of the Lenders as secured party, and (ii) any amendments, supplements, modifications, renewals, replacements, consolidations, substitutions and extensions of any of the foregoing.

"Commitment", as to each Lender, means such Lender's Pro Rata Share of each of the Term Commitment and the Revolving Commitment as the same may be reduced under

Section 2.05 or as a result of one or more assignments under Section 10.08.

"Commitment Fee" has the meaning specified in Section 2.09.

"Compliance Certificate" means a certificate substantially in the form of Exhibit A.

"Contingent Obligation" means, as to any Person, any direct or indirect liability of that Person, whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a "Guaranty Obligation"); (b) with respect to any Surety Instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered or (d) in respect of any Swap Contract.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"Conversion/Continuation Date" means any date on which, under Section 2.04, the Borrower (a) converts Loans of one Type to another Type, or (b) continues as Loans of the same Type, but with a new Interest Period, Loans having Interest Periods expiring on such date.

"Default" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"Disposition" means (i) the sale, lease, conveyance or other disposition of property or assets by the Borrower or any Subsidiary of the Borrower and/or (ii) the sale or transfer by the Borrower or any Subsidiary of the Borrower of any equity securities issued by any

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Subsidiary of the Borrower and held by such transferor Person.

"Dollars", "dollars" and "$" each mean lawful money of the United States.

"EBITDA" means, as to any Person and for any period as to which such amount is being determined, the sum of the amounts (on a consolidated basis) for such period of (i) net income from operations (meaning, among other things, income exclusive of extraordinary gains and losses), (ii) interest expense, (iii) provisions for taxes based on income, (iv) depreciation expense, and (v) amortization expense.

"Eligible Accounts" means all Accounts of the Borrower, the Borrowing Subsidiaries, Clark and the FSC (on a consolidated basis) which the Agent in the exercise of its reasonable commercial discretion determines to be Eligible Accounts. Without limiting the discretion of the Agent to establish other criteria of ineligibility, Eligible Accounts shall not include any Account:

(A) with respect to which more than 90 days have elapsed since the date of the original invoice therefor or which is more than 60 days past due except to the extent that such Account is secured or payable by a letter of credit in form and substance and from an issuer satisfactory to the Agent in its reasonable discretion (and assigned to the Agent, for the benefit of the Lenders); provided, however, that if the Account Debtor is either (i) a Class I Carrier (as defined for carriers other than common and contract carriers of passengers from time to time in the rules and regulations promulgated by the Surface Transportation Board, Department of Transportation) or (ii) a Specified Original Equipment Manufacturer, then up to $3,000,000 of Accounts owing by such Account Debtors otherwise deemed ineligible by virtue of not having satisfied the requirements of the first part of this clause (A) shall nonetheless be eligible so long as not more than 120 days have elapsed since the date of the original invoices therefor and such Accounts are not more than 90 days past due and otherwise satisfy the requirements for Eligible Accounts;

(B) with respect to which any of the representations, warranties, covenants, and agreements contained in any Security Agreement are not or have ceased to be complete and correct or have been breached;

(C) with respect to which, in whole or in part, a check, promissory note, draft, trade acceptance or other instrument for the payment of money has been received, presented for payment and returned uncollected for any reason;

(D) which represents a progress billing (as hereinafter defined), arises under a contract backed by a performance bond, or as to which the Borrower has extended the time for payment without the consent of the Agent; for the purposes hereof, "progress billing" means any invoice for goods sold or leased or services rendered under a contract or agreement pursuant to which the Account Debtor's obligation to pay such invoice is conditioned upon the Borrower's, such Borrowing Subsidiary's, Clark's or the FSC's completion of any further performance under the contract or agreement;

(E) as to which any one or more of the following events has occurred with respect to the Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor, including, without limitation, the appointment of or taking possession by a "custodian", as defined in the Bankruptcy Code; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding

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up of affairs of, the Account Debtor; the nonpayment generally by the Account Debtor of its debts as they become due; or the cessation of the business of the Account Debtor as a going concern;

(F) if fifty percent (50%) or more of the aggregate dollar amount of outstanding Accounts (excluding, however, any so-called retainages which are not then due and owing) owed at such time by the Account Debtor is classified

as ineligible under the other criteria set forth herein or otherwise established by the Agent;

(G) owed to the FSC or owed to any Person by an Account Debtor which: (i) does not maintain its chief executive office in the United States; or (ii) is not organized under the laws of the United States or any state thereof; or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof; except to the extent that such Account is secured or payable by a letter of credit or foreign credit insurance in form and substance and from an issuer satisfactory to the Agent in its reasonable discretion (and assigned to the Agent on behalf of the Lenders);

(H) owed by an Account Debtor which is an Affiliate or employee of the Borrower or any Subsidiary of the Borrower including, without limitation, the FSC or MK Gain and its Subsidiaries;

(I) except as provided in clause (K) below, as to which either the perfection, enforceability, or validity of the Agent's Lien in such Account, or the Agent's right or ability to obtain direct payment to the Agent of the proceeds of such Account, is governed by any federal, state, or local statutory requirements other than those of the UCC;

(J) which is owed by an Account Debtor to which the Borrower or any of its Subsidiaries is indebted in any way, or which is subject to any right of setoff or recoupment by the Account Debtor, unless the Account Debtor has entered into an agreement acceptable to the Agent to waive setoff rights; or if the Account Debtor thereon has disputed liability or made any claim with respect to any other Account due from such Account Debtor; but in each such case only to the extent of such indebtedness, setoff, recoupment, dispute, or claim;

(K) which is owed by the government of the United States of America, or any department, agency, public corporation, or other instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. ss. 3727 et seq.), and any other steps necessary to perfect the Agent's Lien therein, have been complied with to the Agent's satisfaction with respect to such Account;

(L) which is owed by any state, municipality, or other political subdivision of the United States of America, or any department, agency, public corporation, or other

instrumentality thereof and as to which the Agent determines that its Lien therein is not or cannot be perfected;

(M) which represents a sale on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis;

(N) which is evidenced by a promissory note or other instrument or by chattel paper;

(O) if Agent believes, in the exercise of its

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reasonable judgment, that the prospect of collection of such Account is impaired or that the Account may not be paid by reason of the Account Debtor's financial inability to pay;

(P) with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, West Virginia, or any other state requiring the filing of a Business Activity Report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state, unless the Borrower, any Borrowing Subsidiary, Clark or the FSC, as applicable, has qualified to do business in New Jersey, Minnesota, West Virginia, or such other state, or has filed a Notice of Business Activities Report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement;

(Q) arises out of a sale not made in the ordinary course of the Borrower's, any such Borrowing Subsidiary's, Clark's, or the FSC's business;

(R) the goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor or the services giving rise to such Account have not been performed by the Borrower or any applicable Borrowing Subsidiary or Clark, and, if applicable, accepted by the Account Debtor, or the Account Debtor revokes its acceptance of such goods or services;

(S) arising under a contract providing for financial penalties for default that may be set-off against such Account;

(T) which is not subject to a first priority and perfected security interest in favor of the Agent for the benefit of the Lenders;

(U) of Touchstone with respect to which the Account Debtor is located in Minnesota; or

(V) which is owed by an Account Debtor who has been issued, granted or provided with a performance bond, surety contract or other Surety Instrument with respect to Accounts which are related to a contract so secured by such performance bond, surety contract or other Surety Instrument.

If any Account at any time ceases to be an Eligible Account by reason of any of the foregoing exclusions or any failure to meet any other eligibility criteria established by the Agent in the exercise of its reasonable discretion then such Account shall promptly be excluded from the calculation of Eligible Accounts, and the Accounts of the FSC shall not in any event be Eligible Accounts unless they satisfy all of the restrictions above, including, without limitation clause (G) above, and in addition the Borrower shall have provided the Agent (on behalf of the Lenders) with a legal opinion from counsel licensed in Barbados and such other documents as the Agent shall request all in form and substance and from Persons acceptable to the Agent establishing that Agent (on behalf of the Lenders) has a prior perfected security interest in such Accounts and such other matters as the Agent shall request on the FSC and further that the Agent shall be satisfied with its ability to prosecute any claims related to such Accounts.

"Eligible Assignee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least $100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having a combined capital and surplus of at least $100,000,000, provided that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Lender, (ii) a Subsidiary of a Person of which a Lender is a Subsidiary, or (iii) a Person of which a Lender is a Subsidiary; (d) a commercial finance company or finance subsidiary of a corporation organized under the laws of the United

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States of America, or any State thereof, and having total assets in excess of $100,000,000; (e) an insurance company organized under the laws of the United States of America (or any State thereof) and having total assets in excess of $100,000,000; (f) a savings bank or savings and loan association organized under the laws of the United States of America, or any State thereof, and having total assets in excess of $100,000,000; (g) a pension fund or other institutional lender or investor; (h) a corporation (other than a financial institution) organized under the laws of any State of the United States of America and having total assets in excess

of $100,000,000; and (i) and any Lender party to this Agreement on the Closing Date or any Affiliate of any thereof.

"Eligible Inventory" means all Inventory of the Borrower, the Borrowing Subsidiaries and Clark (determined individually or on a consolidated basis, as applicable), valued at the lower of cost or market on a first-in, first out ("FIFO") basis, that constitutes raw materials, work-in-process, and first quality finished goods and that: (a) is not, in the Agent's reasonable opinion, obsolete, slow-moving or unmerchantable; (b) is located at premises owned by the Borrower, Borrowing Subsidiary or Clark or on premises otherwise reasonably acceptable to the Agent, provided, however, that Inventory located on premises leased to the Borrower, a Borrowing Subsidiary or Clark shall not be Eligible Inventory unless the Agent shall have received a written waiver or subordination agreement, duly executed on behalf of the appropriate landlord and in form and substance acceptable to the Agent, of all Liens which the landlord for such premises may be entitled to assert against such Inventory; (c) is not in transit or held on consignment or at a third party's premises; (d) upon which the Agent for the benefit of the Lenders has a first priority perfected security interest; (e) is not spare parts (for manufacturing equipment or not otherwise held for sale in the ordinary course), packaging and shipping materials, supplies, bill-and-hold Inventory, returned or defective Inventory, or Inventory delivered to the Borrower, a Borrowing Subsidiary or Clark on consignment; (f) is not raw materials, work-in-process or finished goods identified to a specific contract as to which progress payments have been received; (g) has excluded from the value thereof freight-in and other transportation charges and warehouse overhead; (h) is not raw materials, work-in-process or finished goods inventory in excess of $3,000,000 in value (based on the lower of cost or market value on a FIFO basis) in the aggregate to the extent it has been identified to a specific contract for which performance bonds or a surety contract or other Surety Instrument of any kind has been issued or provided; or (i) the Agent, in the exercise of its reasonable commercial discretion, deems eligible as the basis for Revolving Loans based on such collateral and credit criteria as the Agent may from time to time establish. If any Inventory at any time ceases to be Eligible Inventory, such Inventory shall promptly be excluded from the calculation of Eligible Inventory.

"Environmental Claims" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment or threat to public health, personal injury

(including sickness, disease or death), property damage, natural resources damage, or otherwise alleging liability or responsibility for damages (punitive or otherwise), investigation, cleanup, removal, remedial or response costs, restitution, civil or criminal penalties, injunctive relief, or other type of relief, resulting from or based upon the presence, placement, discharge, emission or release (including intentional and unintentional, negligent and non-negligent, sudden or non-sudden, accidental or non-accidental, placement, spills, leaks, discharges, emissions or releases) of any Hazardous Material at, in, or

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from Property, whether or not owned by the Borrower or taken as Collateral in connection with any operations of the Borrower.

"Environmental Compliance Reserve" means any reserves which the Agent, after the Closing Date, establishes from time to time for amounts that are reasonably likely to be expended by the Borrower (or its Subsidiaries) in order for the Borrower (or its Subsidiaries) and their operations and property to comply with any notice from a Governmental Authority asserting material non-compliance with Environmental Laws; provided, however, that such reserve shall be limited to an amount reasonably likely to be expended by the Borrower (or its Subsidiaries) prior to the Stated Maturity Date, all as reasonably determined by Agent.

"Environmental Laws" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters; including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Clean Air Act, the Federal Water Pollution Control Act of 1972, the Solid Waste Disposal Act, the Federal Resource Conservation and Recovery Act, the Toxic Substances Control Act, and the Emergency Planning and Community Right-to-Know Act.

"ERISA" means the Employee Retirement Income Security Act of 1974, and regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063

of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

"Estimated Remediation Costs" means all costs associated with performing work to remediate contamination of real property or groundwater, including engineering and other professional fees and expenses, costs to remove, transport and dispose of contaminated soil, costs to "cap" or otherwise contain contaminated soil, and costs to pump and treat water and monitor water quality.

"Eurodollar Reserve Percentage" has the meaning specified in the definition of "Offshore Rate".

"Event of Default" means any of the events or circumstances specified in Section 8.01.

"Event of Loss" means, with respect to any property, any of the following: (a) any loss, destruction or damage of such property; (b) any pending or threatened institution of any proceedings for the condemnation or seizure of such property or for the exercise of any right of eminent domain; or (c) any actual condemnation, seizure or taking, by exercise of the power of eminent domain or otherwise, of such property, or confiscation of such property or the requisition of

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the use of such property.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and regulations promulgated thereunder.

"Existing Borrowers" has the meaning set forth in the recitals to this Agreement.

"Existing Loan Agreement" has the meaning set forth in the recitals to this Agreement.

"FDIC" means the Federal Deposit Insurance Corporation, and any Governmental Authority succeeding to any of its principal functions.

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Agent of the rates for the last transaction in overnight federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of federal funds transactions in New York City selected by the Agent.

"Fee Letter" has the meaning specified in Section 2.10(a).

"Fiscal Month" means Borrower's fiscal month for accounting purposes, which shall be the four or five week period ending on the last Friday of each calendar month.

"Fiscal Quarter" means the Borrower's fiscal quarter for accounting purposes, which shall be the three (3) Fiscal Month period ending during the calendar months of March, June, September and December of each year.

"Fiscal Year" means the Borrower's fiscal year for financial accounting purposes. The current Fiscal Year of the Borrower will end on December 31, 1997.

"Fixed Charges" means, as to any Person and for any period on which such amount is to be determined, the sum of the amounts (on a consolidated basis) for such period for (i) interest expense, (ii) rent expenses pursuant to all operating leases, (iii) Capital Expenditures, (iv) principal payments which such Person is obligated to make as scheduled payments with respect to the Commitments, Loans and other Indebtedness, (v) cash tax expense paid or due and (vi) cash dividends paid.

"FRB" means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

"FSC" means MotivePower Foreign Sales Corporation, a Barbados corporation.

"Funded Debt" means, for any Person and for any period for which such amount is being determined, the sum of the

amounts for such period (without duplication) of (i) Indebtedness, (ii) the aggregate drawn amount of all outstanding Letters of Credit, (iii) the aggregate amount of payments which the Borrower is obligated to pay

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at any time with respect to its redeemable preferred stock and (iv) the aggregate amount of obligations with respect to capital leases.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the Closing Date and consistently applied.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guarantors" means each of the Borrowing Subsidiaries, MotivePower Investments, Clark, FSC, and any other Person that becomes a Subsidiary of the Borrower after the Closing Date other than MK Gain and its Subsidiaries.

"Guaranty" means the Amended and Restated Guaranty of even date herewith in substantially the form of Exhibit B executed by the Guarantors in favor of the Agent, on behalf of the Lenders, together with all amendments, modifications and supplements thereto consented to by the Agent in writing.

"Guaranty Obligation" has the meaning specified in the definition of "Contingent Obligation."

"Hazardous Materials" means all those substances that are regulated by, or which may form the basis of liability or a standard of conduct under, any Environmental Law, including any substance identified under any Environmental Law as a pollutant, contaminant, hazardous waste, hazardous constituent, special waste, hazardous substance, hazardous material, or toxic substance, or petroleum or petroleum derived substance or waste.

"HBTC" means the Houston Belt & Terminal Railway Company, a corporation.

"Indebtedness" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all obligations with respect to capital leases; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (h) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (g) above.

"Indemnified Liabilities" has the meaning specified in Section 10.05.

"Indemnified Person" has the meaning specified in Section 10.05.

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"Independent Auditor" has the meaning specified in Section 6.01(a).

"Insolvency Proceeding" means (a) any case, action or proceeding before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors; undertaken under U.S. federal, state or foreign law, including the Bankruptcy Code.

"Interest Payment Date" means, (a) as to any Offshore Rate Loan, the last day of each Interest Period applicable

to such Offshore Rate Loan, (b) as to any Offshore Rate Loan with a 6- or 12-month Interest Period, on each 3-month anniversary of the making of such Offshore Rate Loan and the last day of the Interest Period of such Offshore Rate Loan, and (c) as to any Base Rate Loan, the last Business Day of each calendar quarter and each date such Loan is converted into another Type of Loan.

"Interest Period" means, as to any Offshore Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as an Offshore Rate Loan, and ending on the date one, two, three or six months (or if available, 12-months) thereafter as selected by the Borrower in its Notice of Borrowing or Notice of Conversion/Continuation; provided that:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period for any Loan shall extend beyond the Stated Maturity Date.

"Inventory" means all of the Borrower's, the Borrowing Subsidiaries' and Clark's (on a consolidated basis) now owned and hereafter acquired inventory, goods, merchandise, and other personal property, wherever located, to be furnished under any contract of service or held for sale, all returned goods, raw materials, other materials and supplies of any kind, nature or description which are or might be consumed in such Person's business or used in connection with the packing, shipping, advertising, selling or finishing of such goods, merchandise and such other personal property, and all documents of title or other documents representing them but excluding, in any event, railroad locomotives and rolling stock held for lease.

"IRS" means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

"Issuing Bank" shall initially mean BofA, and any other bank

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selected by the Agent from time to time to issue Letters of Credit under Section 2.01(c).

"Joint Venture" means a partnership, limited liability company, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) now or hereafter formed by the Borrower or any of its Subsidiaries with another Person in order to conduct a common venture or enterprise with such Person.

"Lenders" means the institutions specified in the introductory clause hereto. Unless the context otherwise clearly requires, "Lender" includes any such institution in its capacity as Specified Swap Provider or the Issuing Bank. Unless the context otherwise clearly requires, references to any such institution as a "Lender" shall also include any of such institution's Affiliates that may at any time of determination be Specified Swap Providers or the Issuing Bank.

"Lending Office" means, as to any Lender, the office or offices of such Lender specified as its "Lending Office" or "Domestic Lending Office" or "Offshore Lending Office", as the case may be, on Schedule 10.02, or such other office or offices as the Lender may from time to time
notify the Borrower and the Agent.

"Lien" means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law), but not including the interest of a lessor under an operating lease.

"Letter of Credit" has the meaning specified in Section 2.01(c).

"Loan" means an extension of credit by a Lender to the Borrower under Article II, and may be a Base Rate Loan or an Offshore Rate Loan (each, a "Type" of Loan), and includes any Revolving Loan or Term Loan.

"Loan Documents" means this Agreement, the Notes, the Collateral Documents, the Fee Letter, any documents evidencing or related to Specified Swap Contracts or Letters

of Credit, and all other documents delivered to the Agent, any Lender, a Specified Swap Provider or the Issuing Bank in connection with the transactions contemplated by this Agreement.

"Majority Lenders" means, at any time, Lenders then holding at least 66-2/3% of the then aggregate unpaid principal amount of the Loans, or, if no such principal amount is then outstanding, Lenders then having at least 66-2/3% of the Commitments.

"Margin Stock" means "margin stock" as such term is defined in Regulation G, T, U or X of the FRB.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Borrower or the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Borrower or any Guarantor to perform under any Loan Document and to avoid any Event of Default; or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against the Borrower or any Guarantor of any Loan Document, or (ii) the perfection or priority of any Lien granted under any of the Collateral Documents.

"MK Gain" means (i) initially MK Gain, S.A. de C.V., a Mexican corporation, and its direct and indirect wholly owned subsidiaries and (ii) thereafter MPI de Mexico, S.A.

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de C.V. if and when the Agent is notified in writing of the consummation of the Borrower's corporate reorganization of its Mexican operations, pursuant to which a newly formed holding company, MPI de Mexico, S.A. de C.V., shall become a Wholly-Owned Subsidiary of the Borrower and all of the assets and operations of MK Gain, S.A. de C.V. shall have been merged into or contributed to such Person.

"Mortgage" means any deed of trust, mortgage, leasehold mortgage, assignment of rents or other document creating a Lien on real property or any interest in real property.

"Mortgaged Property" means all property subject to a Lien pursuant to a Mortgage.

"MotivePower Investments" means MotivePower Investments Limited, a Delaware corporation and a direct Wholly-Owned subsidiary of the Borrower.

"MotivePower Investments Pledge Agreement" means the Pledge Agreement of even date herewith executed by MotivePower Investments in favor of the Agent, on behalf of the Lenders, pledging all the stock of its Subsidiaries, and

any amendments, modifications or restatements thereof, or any pledge agreements entered into after the Closing Date by MotivePower Investments.

"Multiemployer Plan" means a "Multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes, is making, or is obligated to make contributions or, during the preceding three calendar years, has made, or been obligated to make, contributions.

"Net Amount of Eligible Accounts" means, at any time, the gross amount of Eligible Accounts less sales, excise or similar taxes, and less returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed.

"Net Issuance Proceeds" means, as to any issuance of debt or equity by any Person, cash proceeds and non-cash proceeds received or receivable by such Person in connection therewith, net of reasonable out-of-pocket costs and expenses paid or incurred in connection therewith in favor of any Person not an Affiliate of such Person, such costs and expenses not to exceed 5% of the gross proceeds of such issuance.

"Net Proceeds" means, as to any Disposition by a Person, proceeds in cash, checks or other cash equivalent financial instruments as and when received by such Person, net of: (a) the direct costs relating to such Disposition excluding amounts payable to such Person or any Affiliate of such Person, (b) sales, use or other transaction taxes paid or payable by such Person as a direct result thereof, and (c) amounts required to be applied to repay principal, interest and prepayment premiums and penalties on Indebtedness secured by a Lien on the asset which is the subject of such Disposition. "Net Proceeds" shall also include proceeds paid on account of any Event of Loss, net of (i) all money actually applied to repair or reconstruct the damaged property or property affected by the condemnation or taking, (ii) all of the costs and expenses reasonably incurred in connection with the collection of such proceeds, award or other payments, and (iii) any amounts retained by or paid to parties having superior rights to such proceeds, awards or other payments.

"Note" or "Notes" means the Revolving Loan Note and the Term Loan Note.

"Notice of Borrowing" means a notice in substantially the form of Exhibit B.

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"Notice of Conversion/Continuation" means a notice in substantially the form of Exhibit C.

"Obligations" means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by the Borrower, the Borrowing Subsidiaries and any other Guarantor to any Lender, the Agent, the Issuing Bank, a Specified Swap Provider and/or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising.

"Offshore Rate" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/16th of 1%) determined by the Agent as follows:

$$\text{Offshore Rate} = \frac{\text{LIBOR}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"Eurodollar Reserve Percentage" means for any day for any Interest Period the maximum reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day (whether or not applicable to any Lender) under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities"); and

"LIBOR" means the rate of interest per annum determined by the Agent to be the arithmetic mean (rounded upward to the next 1/16th of 1%) of the rates of interest per annum notified to the Agent by each Reference Lender as the rate of interest at which dollar deposits in the approximate amount of the amount of the Loan to be made or continued as, or converted into, an Offshore Rate Loan by such Reference Lender and having a maturity comparable to such Interest Period would be offered to major banks in the London interbank market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

The Offshore Rate shall be adjusted automatically as to all Offshore Rate Loans then outstanding as of the effective date of any change in the Eurodollar Reserve Percentage.

"Offshore Rate Loan" means a Loan that bears interest based on the Offshore Rate.

"Organization Documents" means, for any corporation, the certificate or articles of incorporation, the bylaws, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation.

"Other Taxes" means any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

"Participant" has the meaning specified in Section 10.08(d).

"PBGC" means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

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"Pension Plan" means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which the Borrower sponsors, maintains, or to which it makes, is making, or is obligated to make contributions, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five (5) plan years.

"Permitted Acquisitions" has the meaning specified in Section 7.03.

"Permitted Liens" has the meaning specified in Section 7.01.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which the Borrower sponsors or maintains or to which the Borrower makes, is making, or is obligated to make contributions and includes any Pension Plan.

"Pledge Agreements" means the Borrower Pledge Agreement, the MotivePower Investments Pledge Agreement and the Power Pledge Agreement.

"Pledged Collateral" has the meaning specified in the Pledge Agreements.

"Power Pledge Agreement" means the Pledge Agreement of even date herewith executed by Power Parts Company, a Nevada corporation in favor of the Agent, on behalf of the Lenders, pledging all the stock of its Subsidiaries, and any amendments, modifications or restatements thereof, or any pledge agreements entered into after the Closing Date by such Person.

"Pro Rata Share" means, as to any Lender at any time, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of such Lender's Commitment divided by the combined Commitments of all Lenders.

"PTRA" means the Port Terminal Railroad Association, a Texas association.

"Reference Lender" means BofA.

"Reorganization" shall have the meaning specified in the recitals hereto.

"Replacement Lender" has the meaning specified in Section 3.08.

"Reportable Event" means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"Requirement of Law" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.

"Responsible Officer" means the chief executive officer or the president of the Borrower, or any other officer having substantially the same authority and responsibility; or, with respect to compliance with financial covenants, the chief financial officer or the treasurer of the Borrower, or any other officer having substantially the same authority and responsibility.

"Revolving Commitment" means Fifty-Five Million Dollars ($55,000,000).

"Revolving Loan" has the meaning specified in

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Section 2.01.

"Revolving Loan Note" means the promissory note executed by the Borrower in favor of the Agent, on behalf of the Lenders pursuant to Section 2.02(b), in substantially the form of Exhibit E as thereafter amended from time to time with the consent of the Agent.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"Security Agreement (Borrower)" means the Amended and Restated Security Agreement executed by the Borrower in favor of the Agent, on behalf of the Lenders, in substan tially the form of Exhibit G together with all amendments, modifications and supplements thereto consented to by the Agent in writing.

"Security Agreement (Guarantors)" means the Amended and Restated Security Agreement executed by the Guarantors in favor of the Agent, on behalf of the Lenders, in substantially the form of Exhibit H together with all amendments, modifications and supplements thereto consented to by the Agent in writing.

"Security Agreements" means, collectively, the Security Agreement (Borrower) and the Security Agreement (Guarantors).

"Solvent" means, as to any Person at any time, that (a) the fair value of the property of such Person is greater than the amount of such Person's liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated for purposes of Section 101(31) of the Bankruptcy Code and, in the alternative, for purposes of the Illinois Uniform Fraudulent Transfer Act; (b) the present fair saleable value of the property of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (c) such Person is able to realize upon its property and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business; (d) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital.

"Specified Original Equipment Manufacturer" means General Motors Corporation and General Electric Company and their respective Subsidiaries and divisions that engage

primarily in the business of manufacturing railroad locomotives or locomotive parts.

"Specified Swap Contract" means any Swap Contract made or entered into at any time, or in effect at any time (whether heretofore or hereafter), whether directly or indirectly, and whether as a result of assignment or transfer or otherwise, between the Borrower and any Specified Swap Provider which Swap Contract is or was intended by the Borrower to have been entered into, in part or entirely, for purposes of mitigating interest rate or currency exchange risk relating to the Loans (which intent shall conclusively be deemed to exist if the Borrower so represents to the Specified Swap Provider in writing), and as to which the final scheduled payment by the Borrower is not later than the Stated Maturity Date.

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"Specified Swap Provider" means any Lender, or any Affiliate of any Lender, that is at the time of determina tion party to a Specified Swap Contract with the Borrower.

"Stated Maturity Date" means the fourth (4th) anniversary of the Closing Date.

"Subsidiary" of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than 50% of the voting stock, membership interests or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof. Unless the context otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary or Subsidiaries of the Borrower including, without limitation, MK Gain and the Guarantors.

"Surety Instruments" means all letters of credit (including standby and commercial), banker's acceptances, performance bonds, bank guaranties, shipside bonds, surety bonds and similar instruments.

"Swap Contract" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swap option, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

"Tangible Net Worth" means, as to any Person and as of any date on which the amount thereof is to be determined, (a) the stated amount of the shareholders' equity for all issued and outstanding capital stock, minus (b) the aggregate stated amount of any redeemable preferred stock (plus accrued and unpaid dividends), and minus (c) the stated amount of all patents, copyrights, trademarks, trade names, franchises, goodwill, deferred charges, organization expenses, unamortized discounts and other intangibles.

"Taxes" means any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, such taxes (including income taxes or franchise taxes) as are imposed on or measured by each Lender's net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Lender or the Agent, as the case may be, is organized or maintains a lending office.

"Term Commitment" means Twenty Million Dollars ($20,000,000).

"Term Loan" has the meaning specified in Section 2.01.

"Term Loan Note" means the amended and restated term loan promissory note executed by the Borrower in favor of the Agent on behalf of the Lenders pursuant to Section 2.02(b),in substantially the form of Exhibit F as thereafter amended from time to time with the consent of the Agent.

"Type" has the meaning specified in the definition of "Loan."

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Illinois; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the security interest of Agent (or any party for which Agent is agent) in any collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Illinois, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction solely for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such

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provisions.

"Unfunded Pension Liability" means the excess of a Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan's assets, determined in accordance with the assumptions used for

funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"United States" and "U.S." each means the United States of America.

"Unused Letter of Credit Subfacility" means an amount equal to $15,000,000 minus the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit plus (b) the aggregate unpaid reimbursement obligations with respect to all Letters of Credit.

"Wholly-Owned Subsidiary" means any corporation in which (other than directors' qualifying shares required by law) 100% of the capital stock of each class having ordinary voting power, and 100% of the capital stock of every other class, in each case, at the time as of which any determination is being made, is owned, beneficially and of record, by the Person being considered, or by one or more of the other Wholly-Owned Subsidiaries, or both.

1.02 Other Interpretive Provisions. (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(iv) The term "property" includes any kind of property or asset, real, personal or mixed, tangible or intangible.

(v) Reference to "$" or "dollars" shall mean US Dollars or if evaluating another currency, then the US Dollar value or equivalent at the time of consideration utilizing the spot rate for open market transactions in such currency.

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this

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Agreement.

(f) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms. Unless otherwise expressly provided, any reference to any action of the Agent or the Lenders by way of consent, approval or waiver shall be deemed modified by the phrase "in its/their sole discretion."

(g) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrower and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or the Agent merely because of the Agent's or Lenders' involvement in their preparation.

1.03 Accounting Principles. Unless the context otherwise clearly requires or Mexican GAAP is specifically referenced, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied. References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Borrower.

1.04 Amendment and Restatement. (a) This Agreement, the Guaranty and the Security Agreements collectively amend and restate in its entirety the Existing Loan Agreement and, upon effectiveness of this Agreement, the Guaranty and the Security Agreements, the terms and provisions of the Existing Loan Agreement shall, subject to Sections 1.04(b) and (c), be superseded hereby and thereby.

(b) Notwithstanding the amendment and restatement of the Existing Loan Agreement by this Agreement, the Guaranty, the Security Agreements and the Notes, the Borrower and the other Existing Borrowers shall continue to be liable to BABC, the Agent and the Lenders with respect to agreements on the part of the Existing Borrowers under the Existing Loan Agreement to indemnify

and hold BABC, the Agent and the Lenders harmless from and against all claims, demands, liabilities, damages, losses, costs, charges and expenses to which BABC, the Agent or any Lender may be subject arising in connection with any action taken, failure to take action or transaction contemplated in or under the Existing Loan Agreement during the period that such agreement was in effect.

(c) Notwithstanding the amendment and restatement of the Existing Loan Agreement by this Agreement, the Guaranty and the Security Agreements, the indebtedness, liabilities and obligations owing to the Agent and the Lenders by the Borrower and the other Existing Borrowers under the Existing Loan Agreement remain outstanding as of the date hereof, constitute continuing Obligations hereunder and thereunder and shall continue to be secured by the Collateral.

This Agreement is given in partial substitution for the Existing Loan Agreement, and does not evidence a repayment and reborrowing of the obligations of the Existing Borrowers under such agreement, and is in no way intended to constitute a novation of the Existing Loan Agreement, including, without limitation, the guarantees provided thereunder which shall be continuing under the Guaranty and the Liens granted thereunder which shall be continuing under the Security Agreements.

(d) Upon the effectiveness of this Agreement, each reference to the Existing Loan Agreement in any other document, instrument or agreement executed and/or delivered in connection therewith (the "Existing Loan Documents") shall mean and be a reference to this Agreement.

(e) The parties hereto acknowledge and agree that any waivers, express or implied by course of conduct or otherwise, amendments or other actions (or failures to act) under the Existing Loan Agreement and the other Existing Loan Documents shall be of no force or effect, and of no use in interpreting the rights and duties of the parties under this Agreement and the other Loan Documents.

ARTICLE II

THE CREDITS

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2.01 Amounts and Terms of Commitments.

(a) The Term Credit. Each Lender severally agrees, on the terms and conditions set forth herein, to continue to make a single loan to the Borrower (each such Loan, a "Term Loan") on the Closing Date in an amount not to exceed such Lender's Pro Rata Share of the Term Commitment, and that such Term Loan shall be made by continuing the Borrower's term loan under the Existing

Loan Agreement and converting as much of the revolving loan under the Existing Loan Agreement as shall be necessary thereafter so that the Borrower has borrowed the aggregate Term Commitment of the Lenders on the Closing Date. Amounts borrowed as Term Loans which are repaid or prepaid by the Borrower may not be reborrowed.

(b) The Revolving Credit. Each Lender severally agrees, on the terms and conditions set forth herein, to make revolving loans to the Borrower (each such loan, a "Revolving Loan") from time to time on any Business Day during the period from the Closing Date to the Stated Maturity Date, in amounts not to exceed such Lender's Pro Rata Share of the lesser of (i) the Availability and (ii) the Revolving Commitment; provided, however, that, if after giving effect to any proposed Borrowing of Revolving Loans, the aggregate principal amount of all outstanding Revolving Loans, the undrawn amount of outstanding Letters of Credit and any unpaid reimbursement obligations in respect of the Letters of Credit would exceed either of the Availability or the Revolving Commitment of the Lenders, then the Lenders shall not be obligated to make such proposed Revolving Loans until such excess has been eliminated. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(b), prepay under Section 2.06 and reborrow under this Section 2.01(b).

(c) Letters of Credit.

(i) Agreement to Cause Issuance. Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties of the Borrower herein set forth, the Agent agrees to take reasonable steps to cause the Issuing Bank to issue for the account of the Borrower and to provide credit support or other enhancement in connection with one or more stand-by or documentary letters of credit (each such letter of credit, a "Letter of Credit" and such letters of credit, collectively, the "Letters of Credit") in accordance with this Section 2.01(c) from time to time during the term of this Agreement.

(ii) Amounts; Outside Expiration Date. The Agent shall not have any obligation to take steps to cause to be issued any Letter of Credit at any time: (1) if the maximum undrawn amount of the requested Letter of Credit is greater than the Unused Letter of Credit Subfacility at such time; (2) if the maximum undrawn amount of the requested Letter of Credit and all commissions, fees, and charges due from the Borrower in connection with the opening thereof exceed the Availability of Borrower at such time; (3) which has an expiration date later than the Stated Maturity Date; or (4) if the stated amount of all Letters of Credit (including the one proposed to be issued) supporting or issued in respect

of any performance bonds, surety contracts or Surety Instruments of any kind exceeds $2,500,000; provided, however, that, if after giving effect to any such new Letter of Credit, the aggregate principal amount of all outstanding Revolving Loans, the undrawn amount of outstanding Letters of Credit and any unpaid reimbursement obligations in respect of the Letters of Credit exceeds the Availability or the Revolving Commitment of the Lenders, then the Lenders shall refuse to make or otherwise restrict the issuance of new Letters of Credit as the Lenders determine until such excess has been eliminated.

(iii) Other Conditions. In addition to being subject to the

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satisfaction of the applicable conditions precedent contained in Article IV, the obligation of the Agent to take reasonable steps to cause to be issued any Letter of Credit is subject to the following conditions precedent having been satisfied in a manner satisfactory to the Agent:

(1) The Borrower shall have delivered to the proposed Issuing Bank of such Letter of Credit, at such time and in such manner as such proposed issuer may prescribe, an application in form and substance satisfactory to such proposed issuer for the issuance of the Letter of Credit and such other documents as may be required pursuant to the terms thereof, the form and terms of the proposed Letter of Credit shall be satisfactory to the Agent and such proposed Issuing Bank; and

(2) as of the date of issuance, no order of any court, arbitrator or Governmental Authority shall purport by its terms to enjoin or restrain money center banks generally from issuing letters of credit of the type and in the amount of the proposed Letter of Credit, and no law, rule or regulation applicable to money center banks generally and no request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over money center banks generally shall prohibit, or request that the proposed issuer of such Letter of Credit refrain from, the issuance of letters of credit generally or the issuance of such Letters of Credit.

(iv) Issuance of Letters of Credit.

(1) Request for Issuance. The Borrower shall give the Agent and the Issuing Bank three (3) Business Days' prior written notice, containing the original signature of a Responsible Officer of the Borrower of Borrower's request for the issuance of a Letter of Credit. Such notice shall be irrevocable and shall specify the original face amount of the Letter of Credit requested, the effective date (which date shall be a Business Day) of issuance of such requested Letter of Credit, whether such Letter of Credit may be drawn in a single or in partial draws, the date on which such requested Letter of Credit is to expire (which date shall be a Business Day), the purpose for which such

Letter of Credit is to be issued (such Letter of Credit shall not be issued for the purpose of backing the issuance of performance bonds, or to a surety or in lieu of performance bonds unless such surety or performance bond has been issued in accordance with Section 7.08(e) hereof), and the beneficiary of the requested Letter of Credit. The Borrower shall attach to such notice the proposed form of the Letter of Credit that the Agent is requested to cause to be issued.

(2) <u>Responsibilities of the Agent; Issuance</u>. The Agent shall determine, as of the Business Day immediately preceding the requested effective date of issuance of the Letter of Credit set forth in the notice from the Borrower pursuant to <u>Section 2.01(c)(1)</u>, (i) the amount of the applicable Unused Letter of Credit Subfacility and (ii) the Availability of the Borrower as of such date, and that such issuance will comply with <u>Section 2.01(c)(ii)</u>. If the undrawn amount of the requested Letter of Credit is not greater than the applicable Unused Letter of Credit Subfacility and would not exceed the Availability of the Borrower, and if such issuance will comply with <u>Section 2.01(c)(ii)</u>, then the Agent shall take reasonable steps to cause such issuer to issue the requested Letter of Credit on such requested effective date of issuance.

(3) Notice of Issuance. Promptly after the issuance of any Letter of Credit, the Agent shall give notice to each Lender of the issuance of such Letter of Credit.

(4) No Extensions or Amendment. The Agent shall not be obligated to cause any Letter of Credit to be extended or amended unless the requirements of this Section 2.01(c)(iv)(4) are met as though a new Letter of Credit were being requested and issued. With respect to any Letter of Credit which contains any "evergreen" or automatic renewal provision, each Lender shall

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be deemed to have consented to any such extension or renewal unless any such Lender shall have provided to the Agent, not less than 30 days prior to the last date on which the applicable issuer can in accordance with the terms of the applicable Letter of Credit decline to extend or renew such Letter of Credit, written notice that it declines to consent to any such extension or renewal, provided, that if all of the requirements of this Section 2.01(c)(iv) are met and no Event or Event of Default exists, no Lender shall decline to consent to any such extension or renewal.

(v) Payments Pursuant to Letters of Credit.

(1) Payment of Letter of Credit Obligations. The Borrower agrees to reimburse the Issuing Bank for any draw under any Letter of Credit issued for its benefit immediately upon demand, and to pay the issuer of the Letter of Credit the amount of all other obligations and other amounts payable to such issuer under or in connection with any Letter of Credit immediately when due, irrespective of any claim, setoff, defense or other right

which the Borrower may have at any time against such Issuing Bank or any other Person.

(2) Revolving Loans to Satisfy Reimbursement Obligations. In the event that the Issuing Bank of any Letter of Credit honors a draw under such Letter of Credit and the Borrower shall not have repaid such amount to the Issuing Bank of such Letter of Credit pursuant to Section 2.04(c)(v)(1), the Agent shall, upon receiving notice of such failure, notify each Lender of such failure, and each Lender shall unconditionally pay to the Agent, for the account of such Issuing Bank, as and when provided hereinbelow, an amount equal to such Lender's Pro Rata Share of the amount of such payment in Dollars and in same day funds. If the Agent so notifies the Lenders prior to noon (Chicago time) on any Business Day, each Lender shall make available to the Agent the amount of such payment, as provided in the immediately preceding sentence, on such Business Day. Such amounts paid by the Lenders to the Agent, for the benefit of the Issuing Bank, shall constitute Revolving Loans which shall be deemed to have been requested by the Borrower pursuant to Section 2.01(b).

(vi) Participations.

(1) Purchase of Participations. With respect to all Letters of Credit set forth on Schedule 2.01(c) and immediately upon issuance of any other Letter of Credit in accordance with Section 2.01(c)(iv) each Lender shall be deemed to have irrevocably and unconditionally purchased and received without recourse or warranty, an undivided interest and participation in the credit support or enhancement provided through the Agent to such Issuing Bank in connection with the issuance of such Letter of Credit, equal to such Lender's Pro Rata Share of the face amount of such Letter of Credit (including, without limitation, all obligations of the Borrower with respect thereto, and any security therefor or guaranty pertaining thereto).

(2) Sharing of Reimbursement Obligation Payments. Whenever the Agent receives a payment from the Borrower on account of reimbursement obligations in respect of a Letter of Credit as to which the Agent has previously received for the account of the Issuing Bank thereof payment from a Lender pursuant to Section 2.01(c)(v)(2), the Agent shall promptly pay to such Lender such Lender's Pro Rata Share of such payment from Borrower in Dollars. Each such payment shall be made by the Agent on the Business Day on which the Agent receives immediately available funds paid to such Person pursuant to the immediately preceding sentence, if received prior to noon (Chicago time) on such Business Day and otherwise on the next succeeding Business Day.

(3) Documentation. Upon the request of any Lender, the Agent shall furnish to such Lender copies of any Letter of Credit, reimbursement agreements executed in connection

therewith, application for any Letter of Credit and credit support or enhancement provided through the Agent in connection with the issuance of any

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Letter of Credit, and such other documentation as may reasonably be requested by such Lender.

(4) Obligations Irrevocable. The obligations of each Lender to make payments to the Agent, for the benefit of the Issuing Bank, with respect to any Letter of Credit or with respect to any credit support or enhancement provided through the Agent with respect to a Letter of Credit, and the obligations of the Borrower to make payments to the Agent, for the account of the Lenders, shall be irrevocable, not subject to any qualification or exception whatsoever, including, without limitation, any of the following circumstances:

(I) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(II) the existence of any claim, setoff, defense or other right which the Borrower may have at any time against a beneficiary named in a Letter of Credit or any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), any Lender, the Agent, the Issuing Bank of such Letter of Credit, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between the Borrower or any other Person and the beneficiary named in any Letter of Credit);

(III) any draft, certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(IV) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or

(V) the occurrence of any Default or Event of Default.

(vii) Recovery or Avoidance of Payments. In the event any payment by or on behalf of the Borrower received by the Agent with respect to any Letter of Credit (or any guaranty by the Borrower or reimbursement obligation of the Borrower relating thereto) and distributed by the Agent to the Lenders on account of their respective participations therein is thereafter set aside, avoided or recovered from the Agent in connection with any receivership, liquidation or bankruptcy proceeding, the Lenders shall, upon demand by the Agent, pay to the Agent their respective Pro Rata Shares of such amount set aside, avoided or recovered, together with interest at the rate required to be paid by the Agent upon the amount required to be repaid by it.

(viii) Indemnification; Exoneration.

(1) Indemnification. In addition to amounts payable as elsewhere provided in this Section 2.01(c), the Borrower hereby agrees to protect, indemnify, pay and save the Lenders, the Issuing Bank and the Agent harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) which any Lender or the Agent may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit or the provision of any credit support or enhancement in connection therewith.

(2) Assumption of Risk by the Borrower. As among the Borrower, the Lenders, the Issuing Bank and the Agent, the Borrower assumes all risks of the acts and omissions of, or misuse of any of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, subject to the provisions of the applications for the issuance of Letters of Credit, the Lenders, the Issuing Bank and the Agent shall not be responsible for: (A) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any Person in connection with the application for and issuance of and presentation of drafts with respect to any of the Letters of Credit, even if it should prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (B) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (C) the failure of the beneficiary of any Letter of Credit to comply duly with conditions required in order to draw upon such Letter of Credit; (D) errors, omissions, interruptions, or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or

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otherwise, whether or not they be in cipher; (E) errors in interpretation of technical terms; (F) any loss or delay in the transmission or otherwise of any document required in order make a drawing under any Letter of Credit or of the proceeds thereof; (G) the misapplication by the beneficiary of any Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (H) any consequences arising from causes beyond the control of the Lenders, the Issuing Bank or the Agent, including, without limitation, any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Authority. None of the foregoing shall affect, impair or prevent the vesting of any rights or powers of the Agent, the Issuing Bank or any Lender under this Section 2.01(c).

(ix) Outstanding Letters of Credit at Closing. Schedule 2.01(c) sets forth a complete list, as of the Closing Date, of all outstanding Letters of Credit under the Existing

Loan Agreement which are continuing as Letters of Credit hereunder, including the number of such Letters of Credit, the beneficiary, the stated amount and the expiry date thereof.

2.02 Loan Accounts; Notes. (a) The Loans made by each Lender shall be evidenced by one or more loan accounts or records maintained by such Lender in the ordinary course of business. The loan accounts or records maintained by the Agent and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Borrower and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Loans.

(b) The Loans made by the Lenders will be evidenced by the Revolving Loan Note and the Term Loan Note in addition to loan accounts. The Agent, on behalf of the Lenders, is irrevocably authorized by the Borrower to endorse the Note(s) and the Agent's record shall be conclusive absent manifest error; provided, however, that the failure of the Agent to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Borrower hereunder or under any such Note to the Agent or any Lender.

2.03 Procedure for Borrowing. (a) Each Borrowing shall be made upon the Borrower's irrevocable written notice delivered to the Agent in the form of a Notice of Borrowing (which notice must be received by the Agent prior to 11:00 a.m. (Chicago time)) (i) three (3) Business Days prior to the requested Borrowing Date, in the case of Offshore Rate Loans, and (ii) one (1) Business Day prior to the requested Borrowing Date, in the case of Base Rate Loans, specifying:

(A) the amount of the Borrowing, which shall be in an aggregate minimum amount of (i) $5,000,000 or any multiple of $1,000,000 in excess thereof in the case of Offshore Rate Loans and (ii) $1,000,000 or any multiple of $500,000 in excess thereof in the case of Base Rate Loans;

(B) the requested Borrowing Date, which shall be a Business Day;

(C) the Type of Loans comprising the Borrowing; and

(D) if an Offshore Rate Loan, the duration of the Interest Period applicable to such Loans included in such notice. If the Notice of Borrowing fails to specify the duration of the Interest Period for any

Borrowing comprised of Offshore Rate Loans, such Interest Period shall be three months.

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provided, however, that with respect to the Borrowing to be made on the Closing Date, the Notice of Borrowing shall be delivered to the Agent not later than 12:00 noon (Chicago time) on the Closing Date and such Borrowing will consist of Base Rate Loans only; and further provided that if so requested by the Agent, all Borrowings during the first sixty (60) days following the Closing Date shall have the same Interest Period and shall be Base Rate Loans or Offshore Rate Loans for Interest Periods no longer than one month.

(b) The Agent will promptly notify each Lender of its receipt of any Notice of Borrowing and of the amount of such Lender's Pro Rata Share of that Borrowing.

(c) Each Lender will make the amount of its Pro Rata Share of each Borrowing available to the Agent for the account of the Borrower at the Agent's Payment Office by 11:00 a.m. (Chicago time) on the Borrowing Date requested by the Borrower in funds immediately available to the Agent. The proceeds of all such Loans will then be made available to the Borrower by the Agent by wire transfer in accordance with written instructions provided to the Agent by the Borrower of like funds as received by the Agent.

(d) After giving effect to any Borrowing, unless the Agent shall otherwise consent, there may not be more than five (5) different Interest Periods in effect.

2.04 Conversion and Continuation Elections. (a) The Borrower may, upon irrevocable written notice to the Agent in accordance with Section 2.04(b):

(i) elect, as of any Business Day, in the case of Base Rate Loans, or as of the last day of the applicable Interest Period, in the case of any other Type of Loans, to convert any such Loans (or any part thereof in an amount not less than $5,000,000, or that is in an integral multiple of $1,000,000 in excess thereof) into Offshore Rate Loans; or

(ii) elect, as of the last day of the applicable Interest Period, to continue any Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than $5,000,000, or that is in an integral multiple of $1,000,000 in excess thereof) as Offshore Rate Loans with an Interest Period of the same duration;

provided, that if at any time the aggregate amount of Offshore Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than $5,000,000, such Offshore Rate Loans shall automatically convert into Base Rate Loans, and on and after such date the right of the

Borrower to continue such Loans as, and convert such Loans into, Offshore Rate Loans shall terminate.

(b) The Borrower shall deliver a Notice of Conversion/Continuation to be received by the Agent not later than 11:00 a.m. (Chicago time) at least (i) three Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Offshore Rate Loans; and (ii) one Business Day in advance of the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date;

(B) the aggregate amount of Loans to be converted or continued;

(C) the Type of Loans resulting from the proposed conversion or continuation; and

(D) other than in the case of conversions into Base Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Offshore Rate Loans, the Borrower has failed to select timely a new Interest Period to be applicable to such Offshore Rate Loans or if any Default or Event of Default then exists, the Borrower shall be deemed to have elected to convert such Offshore Rate Loans into Base Rate Loans effective as of the expiration

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date of such Interest Period.

(d) The Agent will promptly notify each Lender of its receipt of a Notice of Conversion/Continuation, or, if no timely notice is provided by the Borrower, the Agent will promptly notify each Lender of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans with respect to which the notice was given held by each Lender.

(e) Unless the Majority Lenders otherwise consent, during the existence of a Default or Event of Default, the Borrower may not elect to have a Loan funded as, converted into or continued as an Offshore Rate Loan.

(f) After giving effect to any conversion or continuation of Loans, unless the Agent shall otherwise consent, there may not be more than five (5) different Interest Periods in effect.

2.05 Voluntary Termination or Reduction of Commitments. The Borrower may, upon not less than four (4) Business Days' prior notice to the Agent, terminate the Term Commitments, or

permanently reduce the Revolving Commitments by an aggregate minimum amount of $5,000,000 or any multiple of $1,000,000 in excess thereof; unless, after giving effect thereto and to any prepayments of Loans made on the effective date thereof, the then-outstanding principal amount of the Loans would exceed the amount of the combined Commitments then in effect. Once reduced in accordance with this Section 2.05, the Commitments may not be increased. Any reduction of the Commitments shall be applied to each Lender according to its Pro Rata Share. All accrued Commitment Fees to, but not including the effective date of any reduction or termination of Commitments, shall be paid on the effective date of such reduction or termination.

2.06 Optional Prepayments. Subject to Section 3.04, the Borrower may, at any time or from time to time, upon not less than four (4) Business Days' irrevocable notice to the Agent (or on one (1) Business Days' irrevocable notice to the Agent with respect to Base Rate Loans outstanding as Revolving Loans), ratably prepay Loans in whole or in part, in minimum amounts of $5,000,000 or any multiple of $1,000,000 in excess thereof. Such notice of prepayment shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Agent will promptly notify each Lender of its receipt of any such notice, and of such Lender's Pro Rata Share of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to each such date on the amount prepaid and any amounts required pursuant to Section 3.04. Optional prepayments of the Term Loan shall be made without prepayment penalties other than any amounts owing pursuant to Section 3.04 and shall be applied in inverse order of maturity.

2.07 Mandatory Prepayments of Loans; Mandatory Commitment Reductions.

(a) Asset Dispositions. If the Borrower or any of its Subsidiaries (other than MK Gain) shall at any time or from time to time make or agree to make a Disposition, or shall suffer an Event of Loss, then (i) the Borrower shall promptly notify the Agent of such proposed Disposition or Event of Loss (including the amount of the estimated Net Proceeds to be received by the Borrower or such Subsidiary in respect thereof) and (ii) promptly upon, and in no event later than 10 days after, receipt by the Borrower or such Subsidiary of the Net Proceeds of such Disposition or Event of Loss, the Borrower shall prepay the Term Loan in an aggregate amount equal to such Net Proceeds, in the inverse order of their stated maturity; provided, however, that no such prepayment shall be required with respect to (A) equipment sales in the ordinary course of business of obsolete and non-useable equipment to the extent the Net Proceeds of such sale are reinvested in equipment used in the business of the Borrower or any such Subsidiary within 90 days of receipt

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thereof, or (B) the sale of the Borrower's facility located in Mountaintop, Pennsylvania or Touchstone's facility located in Jackson, Tennessee to the extent the Net Proceeds of such sale (I) received in cash are reinvested in a new facility for Touchstone and construction for such facility begins within 12 months from the date of such sale and is completed with reasonable diligence thereafter and (II) received in the form of a promissory note of up to $500,000 in principal amount are reinvested in equipment used in the business of the Borrower or any Guarantor within 90 days of receipt of the cash payments under or in respect of such promissory note, or (C) the sale of equipment resulting in Net Proceeds of up to $2,000,000 in aggregate amount by Motor Coils from its machine shop in Braddock, Pennsylvania and identified on Schedule 2.07 hereto to the extent the Net Proceeds of such sales are reinvested in equipment used by Motor Coils on or before December 31, 1997.

(b) Subordinated Debt Issuance. If the Borrower or any Subsidiary (other than MK Gain) shall, at any time, issue any Indebtedness after the Closing Date which is subordinated in right of payment to the Obligations, is permitted under Section 7.05 and is otherwise on terms and conditions including, without limitation, subordination and standstill provisions acceptable to the Agent in its sole discretion, then the Borrower shall promptly notify the Agent of the estimated Net Issuance Proceeds of such issuance to be received by the Borrower in respect thereof. Promptly upon, and in no event later than 1 day after, receipt by the Borrower of Net Issuance Proceeds of such issuance, the Borrower shall prepay the Term Loan in an aggregate amount equal to the amount of such Net Issuance Proceeds, in the inverse order of maturity.

(c) Overadvances. In the event that the outstanding balance of the Revolving Loans shall, at any time, exceed the lesser at such time of (i) the Revolving Commitment and (ii) Availability less in both the case of clause (i) and (ii) above the outstanding amount of the Letters of Credit and the unpaid reimbursement obligations in respect of drawn letters of credit, the Borrower shall immediately repay the Revolving Loans in the amount of such excess.

(d) General. Any prepayments pursuant to this Section 2.07 shall be applied first to any Base Rate Loans then outstanding and then to Offshore Rate Loans with the shortest Interest Periods remaining; provided, however, that if the amount of Base Rate Loans then outstanding is not sufficient to satisfy the entire prepayment requirement, the Borrower may, at its option, place any amounts which it would otherwise be required to use to prepay Offshore Rate Loans on a day other than the last day of the Interest Period therefor in an interest-bearing account pledged to the Agent for the benefit of the Lenders until the end of such Interest Period at which time such pledged amounts will be applied to prepay such Offshore Rate Loans. The

Borrower shall pay, together with each prepayment under this Section 2.07, accrued interest on the amount prepaid and any amounts required pursuant to Section 3.04.

(e) Reduction of Commitment. Upon the making of any mandatory prepayment under this Section 2.07 (other than under paragraph (c), the Commitment of each Lender shall automatically be reduced by an amount equal to such Lender's ratable share of the aggregate of principal repaid, effective as of the earlier of the date that such prepayment is made or the date by which such prepayment is due and payable hereunder. All accrued Commitment Fees to, but not including the effective date of any reduction or termination of Commitments, shall be paid on the effective date of such reduction or termination.

2.08 Repayment.

(a) The Term Credit. The Borrower shall repay the Term Loan on each date as follows (each a "Principal Payment Date"):

Payment Date	Quarterly Term Loan Repayment Amount
each of June 30, 1997, September 30, 1997, December 31, 1997, and	$625,000 each

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March 31, 1998	
each of June 30, 1998, September 30, 1998, December 31, 1998 and March 31, 1999	$1,250,000 each
each of June 30, 1999, September 30, 1999, December 31, 1999 and March 31, 2000	$1,250,000 each
each of June 30, 2000, September 30, 2000, and December 31, 2000	$1,875,000 each
Stated Maturity Date	$1,875,000 or the then remaining principal amount of the Term Loan

(b) The Revolving Credit. The Borrower shall repay to the Lenders in full on the Stated Maturity Date the aggregate principal amount of Revolving Loans outstanding on such date.

2.09 Interest. (a) Each Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the Offshore Rate or the Base Rate, as the case may be (and subject to the Borrower's right to convert to other Types of Loans under Section 2.04), plus the Applicable Margin in effect for such Type of Loan from time to time.

(b) Interest on each Loan shall be paid in arrears on each Interest Payment Date. Interest shall also be paid on the date of any prepayment of Loans under Section 2.06 or 2.07 for the portion of the Loans so prepaid and upon payment (including prepayment) in full thereof and, during the existence of any Event of Default, interest shall be paid on demand of the Agent, which shall be made at the request or with the consent of the Majority Lenders.

(c) Notwithstanding subsection (a) of this Section 2.09, while any Event of Default exists and after acceleration of the maturity date of the Loans, the Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all outstanding Loans, at a rate per annum which is determined by adding 2% per annum to the otherwise applicable interest rate in effect for such Loans; provided, however, that, on and after the expiration of any Interest Period applicable to any Offshore Rate Loan outstanding on the date of occurrence of such Event of Default or acceleration, the principal amount of such Loan shall, during the continuation of such Event of Default or after acceleration, bear interest as a Base Rate Loan at a rate per annum equal to the Base Rate plus (i) the Applicable Margin in effect for such Loan plus (ii) an additional two percent (2%).

(d) Anything herein to the contrary notwithstanding, the obligations of the Borrower to any Lender hereunder shall be subject to the limitation that payments of interest shall not be required, for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by such Lender would be contrary to the provisions of any law applicable to such Lender limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Lender, and in such event the Borrower shall pay such Lender interest at the highest rate permitted by applicable law.

2.10 Fees. (a) Arrangement, Agency Fees. The Borrower shall pay an arrangement fee to the Arranger for the Arranger's own account, and shall pay an agency fee to the Agent for the Agent's own account, as required by the letter agreement ("Fee Letter") between the Borrower, the Arranger BofA and Bank of America Illinois dated December 30, 1996, as amended from time to time.

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(b) Commitment Fees. The Borrower shall pay to the Agent for the account of each Lender a commitment fee (the "Commitment Fee") on the average daily unused portion of such Lender's Revolving Commitment, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter as an amount equal to the average daily non-utilization for that quarter as calculated by the Agent on the Revolving Commitment multiplied by a per annum rate equal to the Applicable Margin then in effect for the Commitment Fee. Such Commitment Fee shall accrue from the Closing Date to the Stated Maturity Date and shall be due and payable quarterly in arrears on the last Business Day of each quarter commencing on March 31, 1997 through the Stated Maturity Date, with the final payment to be made on the Stated Maturity Date; provided that, in connection with any reduction or termination of Commitments under Section 2.05 or Section 2.07, the accrued Commitment Fee calculated for the period ending on such date shall also be paid on the date of such reduction or termination, with the following quarterly payment being calculated on the basis of the period from such reduction or termination date to such quarterly payment date. The Commitment Fees provided in this subsection shall accrue at all times after the above-mentioned commencement date, including at any time during which one or more conditions in Article IV are not met.

(c) Compensation for Letters of Credit.

(1) Letter of Credit Fees. Borrower agrees to pay to the Agent, for the ratable account of the Lenders, (i) for each stand-by Letter of Credit, a fee calculated at a per annum rate equal to the Applicable Margin on the undrawn amount of each such stand-by Letter of Credit issued for the Borrower's account and (ii) for each commercial or documentary Letter of Credit, a fee calculated at a one-time flat rate equal to the Applicable Margin multiplied by the stated amount of each such commercial or documentary Letter of Credit issued for the Borrower's account. The Letter of Credit fees for stand-by Letters of Credit shall be payable in arrears on the last Business Day of each calendar quarter during which each such Letter of Credit remains outstanding, and the Letter of Credit fees for all commercial or documentary Letters of Credit issued during each calendar quarter will be payable in arrears on the last Business Day of each calendar quarter and at maturity. The Letter of Credit Fee for stand-by Letters of Credit shall be computed on the basis of a 360-day year for the actual number of days elapsed.

(2) Issuer Fees and Charges. The Borrower shall pay to the Issuing Bank of any Letter of Credit issued for the benefit of or on behalf of the Borrower or its Borrowing Subsidiaries solely for such Issuing Bank's account (i) a one-time fronting fee of 1/8 of 1% of the face amount of such Letter of Credit payable upon issuance; provided, however, that BofA will if it is the Issuing Bank with respect to any Letter of Credit set forth

on Schedule 2.01(c) attempt in good faith to obtain any necessary internal approvals or satisfy any regulatory concerns to permit any such Letters of Credit which have been issued by BofA under the Existing Loan Agreement to continue as outstanding Letters of Credit under this Agreement without requiring a reissuance of such Letters of Credit which would necessitate paying or otherwise require the payment of an additional fronting fee, and (ii) such other standard charges as are assessed by such Issuing Bank for letters of credit issued by it, including, without limitation, its standard fees for documenting, administering, amending, renewing, negotiating, paying and canceling letters of credit and all other fees associated with issuing or servicing letters of credit, as and when assessed.

2.11 Computation of Fees and Interest. (a) All computations of interest for Base Rate Loans when the Base Rate is determined by BofA's "reference rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). Interest and fees shall accrue during each period during which interest or such fees are computed from and including the first day thereof to and excluding the last day thereof.

(b) Each determination of an interest rate by the Agent shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error.

2.12 Payments by the Borrower. (a) All payments to be made by the Borrower shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Borrower shall be made

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to the Agent for the account of the Lenders at the Agent's Payment Office, and shall be made in Dollars and in immediately available funds, no later than 12:00 noon. (Chicago time) on the date specified herein. The Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as expressly provided herein) of such payment in like funds as received. Any payment received by the Agent later than 12:00 noon (Chicago time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Subject to the provisions set forth in the definition of "Interest Period" herein, whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(c) Unless the Agent receives notice from the Borrower prior to the date on which any payment is due to the Lenders that

the Borrower will not make such payment in full as and when required, the Agent may assume that the Borrower has made such payment in full to the Agent on such date in immediately available funds and the Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower has not made such payment in full to the Agent, each Lender shall repay to the Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Lender until the date repaid.

2.13 Payments by the Lenders to the Agent.

(a) Unless the Agent receives notice from a Lender on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least one (1) Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to the Agent for the account of the Borrower the amount of that Lender's Pro Rata Share of the Borrowing, the Agent may assume that each Lender has made such amount available to the Agent in immediately available funds on the Borrowing Date and the Agent may (but shall not be so required), in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Agent in immediately available funds and the Agent in such circumstances has made available to the Borrower such amount, that Lender shall on the Business Day following such Borrowing Date make such amount available to the Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Agent submitted to any Lender with respect to amounts owing under this subsection (a) shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Agent shall constitute such Lender's Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Agent on the Business Day following the Borrowing Date, the Agent will notify the Borrower of such failure to fund and, upon demand by the Agent, the Borrower shall pay such amount to the Agent for the Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

(b) The failure of any Lender to make any Loan on any Borrowing Date shall not relieve any other Lender of any obligation hereunder to make a Loan on such Borrowing Date, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on any Borrowing Date.

2.14 Sharing of Payments, Etc. If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of the Obligations in its favor any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share

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contemplated hereunder), such Lender shall immediately (a) notify the Agent of such fact, and (b) purchase from the other Lenders such participations in the Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment pro rata with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender, such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to Section 10.10) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation. The Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments.

2.15 Security and Guaranty. All Obligations of the Borrower, the Guarantors and the Borrowing Subsidiaries under this Agreement, the Notes and all other Loan Documents shall be secured in accordance with the Collateral Documents.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes. (a) Any and all payments by the Borrower to each Lender or the Agent under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for any Taxes. In addition, the Borrower shall pay all Other Taxes.

(b) The Borrower agrees to indemnify and hold harmless each Lender and the Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by the Lender or the Agent and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes

were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date the Lender or the Agent makes written demand therefor.

(c) If the Borrower shall be required by law to deduct or withhold any Taxes or Other Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, then:

(i) the sum payable shall be increased as necessary so that after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section) such Lender or the Agent, as the case may be, receives an amount equal to the sum it would have received had no such deductions or withholdings been made;

(ii) the Borrower shall make such deductions and withholdings;

(iii) the Borrower shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Borrower shall also pay to each Lender or the Agent for the account of such Lender, at the time interest is paid, all additional amounts which the respective Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) Within 30 days after the date of any payment by the Borrower of Taxes or Other Taxes, the Borrower shall furnish the Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Agent.

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(e) If the Borrower is required to pay additional amounts to any Lender or the Agent pursuant to subsection (c) of this Section, then such Lender shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Borrower which may thereafter accrue, if such change in the judgment of such Lender is not otherwise disadvantageous to such Lender.

(f) Nothing in this Section 3.01 shall override the terms of any Specified Swap Contract relating to the subject matter hereof.

3.02 Illegality. (a) If any Lender determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central

bank or other Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make Offshore Rate Loans, then, on notice thereof by the Lender to the Borrower through the Agent, any obligation of that Lender to make Offshore Rate Loans shall be suspended until the Lender notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist.

(b) If a Lender determines that it is unlawful to maintain any Offshore Rate Loan, the Borrower shall, upon its receipt of notice of such fact and demand from such Lender (with a copy to the Agent), prepay in full such Offshore Rate Loans of that Lender then outstanding, together with interest accrued thereon and amounts required under Section 3.04, either on the last day of the Interest Period thereof, if the Lender may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if the Lender may not lawfully continue to maintain such Offshore Rate Loan. If the Borrower is required to so prepay any Offshore Rate Loan, then concurrently with such prepayment, the Borrower shall borrow from the affected Lender, in the amount of such repayment, a Base Rate Loan.

(c) If the obligation of any Lender to make or maintain Offshore Rate Loans has been so terminated or suspended, the Borrower may elect, by giving notice to the Lender through the Agent that all Loans which would otherwise be made by the Lender as Offshore Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Agent under this Section, the affected Lender shall designate a different Lending Office with respect to its Offshore Rate Loans if such designation will avoid the need for giving such notice or making such demand and will not, in the judgment of the Lender, be illegal or otherwise disadvantageous to the Lender.

3.03 Increased Costs and Reduction of Return. (a) If any Lender determines that, due to either (i) the introduction of or any change (other than any change by way of imposition of or increase in reserve requirements included in the calculation of the Offshore Rate or in respect of the assessment rate payable by any Lender to the FDIC for insuring U.S. deposits) in or in the interpretation of any law or regulation or (ii) the compliance by that Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining any Offshore Rate Loans, then the Borrower shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Agent), pay to the Agent for the account of such Lender, additional amounts as are sufficient to compensate such Lender for such increased costs.

(b) If any Lender shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental

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Authority charged with the interpretation or administration thereof, or (iv) compliance by the Lender (or its Lending Office) or any corporation controlling the Lender with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by the Lender or any corporation controlling the Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines that the amount of such capital is increased as a consequence of its Commitments, loans, credits or obligations under this Agreement, then, upon demand of such Lender to the Borrower through the Agent, the Borrower shall pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender for such increase.

3.04 Funding Losses. The Borrower shall reimburse each Lender and hold each Lender harmless from any loss or expense which the Lender may sustain or incur as a consequence of:

(a) the failure of the Borrower to make on a timely basis any payment of principal of any Offshore Rate Loan;

(b) the failure of the Borrower to borrow, continue or convert a Loan after the Borrower has given (or is deemed to have given) a Notice of Borrowing or a Notice of Conversion/ Continuation;

(c) the failure of the Borrower to make any prepayment in accordance with any notice delivered under Section 2.06;

(d) the prepayment (including pursuant to Section 2.07) or other payment (including after acceleration thereof) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period; or

(e) the automatic conversion under Section 2.04 of any Offshore Rate Loan to a Base Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.04 and under Section 3.03(a), each Offshore Rate Loan made by a Lender (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the LIBOR used in determining the Offshore Rate for such Offshore

Rate Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Offshore Rate Loan is in fact so funded.

3.05 Inability to Determine Rates. If the Agent determines that for any reason adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan or that the Offshore Rate applicable pursuant to Section 2.09(a) for any requested Interest Period with respect to a proposed Offshore Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain Offshore Rate Loans hereunder shall be suspended until the Agent revokes such notice in writing. Upon receipt of such notice, the Borrower may revoke any Notice of Borrowing or Notice of Conversion/Continuation then submitted by it. If the Borrower does not revoke such Notice, the Lenders shall make, convert or continue the Loans, as proposed by the Borrower, in the amount specified in the applicable notice submitted by the Borrower, but such Loans shall be made, converted or continued as Base Rate Loans instead of Offshore Rate Loans.

3.06 Reserves on Offshore Rate Loans. The Borrower shall pay to each Lender, as long as such Lender shall be required under regulations of the FRB to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional costs on the unpaid principal amount of each Offshore Rate Loan equal to the actual costs of such reserves allocated to such Loan by the Lender (as determined by the Lender in good faith, which determination shall be conclusive), payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least 15 days' prior written notice (with a copy to the Agent) of such additional interest from the Lender. If a Lender fails to give notice 15 days prior to the relevant Interest Payment Date,

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such additional interest shall be payable 15 days from receipt of such notice.

3.07 Certificates of Lenders. Any Lender claiming reimbursement or compensation under this Article III shall deliver to the Borrower (with a copy to the Agent) a certificate setting forth in reasonable detail the amount payable to the Lender hereunder and such certificate shall be conclusive and binding on the Borrower in the absence of manifest error.

3.08 Substitution of Lenders. Upon the receipt by the Borrower from any Lender (an "Affected Lender") of a claim for compensation under Section 3.03, the Borrower may: (i) request the Affected Lender to use commercially reasonable efforts to

obtain a replacement bank or financial institution satisfactory to the Borrower and to the Agent (a "Replacement Lender") to acquire and assume all or a ratable part of all of such Affected Lender's Loans and Commitment;(ii) request one or more of the other Lenders to acquire and assume all or part of such Affected Lender's Loans and Commitment; or (iii) designate a Replacement Lender. Any such designation of a Replacement Lender under clause (i) or (iii) shall be subject to the prior written consent of the Agent (which consent shall not be unreasonably withheld).

3.09 Survival. The agreements and obligations of the Borrower in this Article III shall survive the payment of all other Obligations.

ARTICLE IV

CONDITIONS PRECEDENT

4.01 Conditions of Initial Closing. The obligation of each Lender to agree to enter into this Agreement and to purchase the existing loans and other obligations of the Existing Borrowers from BABC is subject to the condition that the Agent has received on or before the Closing Date all of the following, in form and substance satisfactory to the Agent and with sufficient copies for each Lender:

(a) Credit Agreement and Notes. This Agreement (together with the Exhibits and Schedules substantially in the form of the Exhibits and Schedules attached hereto, together with such supplements thereto as the Agent shall approve) and the Notes executed by the Borrower;

(b) Resolutions; Incumbency. The following documents:

(i) Copies of the resolutions of the board of directors of the Borrower, MotivePower Investments and each Guarantor authorizing the transactions contemplated hereby, certified as of the Closing Date by the Secretary or an Assistant Secretary of such Person; and

(ii) A certificate of the Secretary or Assistant Secretary of the Borrower, MotivePower Investments and each Guarantor certifying the names and true signatures of the officers of the Borrower, MotivePower Investments or such Guarantor authorized to execute, deliver and perform, as applicable, this Agreement, and all other Loan Documents to be delivered by it hereunder;

(c) Organization Documents; Financials and Solvency; Good Standing. Each of the following documents:

(i) the articles or certificate of incorporation and the bylaws of the Borrower, MotivePower Investments and each Guarantor as in effect on the Closing Date, certified by the Secretary or Assistant Secretary of the Borrower, MotivePower Investments or such Guarantor as of the Closing Date;

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(ii) a good standing certificate for the Borrower, MotivePower Investments and each Guarantor from the Secretary of State (or similar, applicable Governmental Authority) of its state of incorporation and each state where the Borrower, MotivePower Investments or such Guarantor is qualified to do business as a foreign corporation as of a recent date, together with a bring-down certificate by facsimile, dated the Closing Date;

(iii) evidence satisfactory to the Agent and the Lenders that the Borrower had consolidated EBITDA (excluding MK Gain) of not less than $25 million for the immediately preceding four quarters ending December 31, 1996; provided, however, that this calculation of EBITDA may exclude from consideration certain cost items to be identified by the Borrower and acceptable to the Agent in its sole discretion; and

(iv) a certificate from the Borrower, MotivePower Investments and each Guarantor certifying that each such Person is Solvent on a stand-alone basis as of the Closing Date, together with such evidence or financial statements as the Agent may request to document such certification.

(d) Legal Opinions. An opinion of Doepken Keevican & Weiss, counsel to the Borrower and the Guarantors and addressed to the Agent and the Lenders, substantially in the form of Exhibit I together with such local counsel opinions as may be requested by the Agent;

(e) Payment of Fees. Evidence of payment by the Borrower of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Closing Date, together with Attorney Costs of BofA to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute BofA's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Borrower and BofA); including any such costs, fees and expenses arising under or referenced in Sections 2.10 and 10.04;

(f) Collateral Documents. The Guaranty, the Security Agreement (Borrower), the Security Agreement (Guarantors) and the other Collateral Documents, executed by the Borrower and/or the

Guarantors, as appropriate, in appropriate form for recording, where necessary, together with

(i) acknowledgment copies of all UCC-1 financing statements filed, registered or recorded to perfect the security interests of the Agent for the benefit of the Lenders, or other evidence satisfactory to the Agent that there has been filed, registered or recorded all financing statements and other filings, registrations and recordings necessary and advisable to perfect the Liens of the Agent for the benefit of the Lenders in accordance with applicable law;

(ii) written advice relating to such Lien and judgment searches as the Agent shall have requested, and such termination statements or other documents as may be necessary to confirm that the Collateral is subject to no other Liens in favor of any Persons (other than Permitted Liens);

(iii) all certificates and instruments representing the Pledged Collateral, stock transfer powers executed in blank in such form as the Agent may specify;

(iv) evidence that all other actions necessary or, in the opinion of the Agent, desirable to perfect and protect the first priority security interest created by the Collateral Documents have been taken;

(v) funds sufficient to pay any filing or recording tax or fee in connection with any and all UCC-1 financing statements and the Mortgages;

(vi) with respect to the Mortgaged Property, an A.L.T.A. Form B (or other form acceptable to the Agent mortgagee policy

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of title insurance or a binder issued by a title insurance company satisfactory to the Agent and the Lenders) insuring (or undertaking to insure, in the case of a binder) that such Mortgage creates and constitutes a valid first Lien against the Mortgaged Property in favor of the Agent, on behalf of the Lenders, subject only to exceptions acceptable to the Agent, with such endorsements and affirmative insurance as the Agent or any Lender may reasonably request;

(vii) evidence that the Agent, on behalf of the Lenders, has been named as loss payee under all policies of casualty insurance, and as additional insured under all policies of liability insurance, required by the Mortgage;

(viii) flood insurance and earthquake insurance on terms satisfactory to the Agent;

(ix) current ALTA surveys and surveyor's certification as to all real property and all land covered by

a lease in respect of which there is delivered a Mortgage, or as may be reasonably required by the Agent, each in form and substance satisfactory to the Agent and the Lenders;

(x) proof of payment of all title insurance premiums, documentary stamp or intangible taxes, recording fees and mortgage taxes payable in connection with the recording of any Mortgage or the issuance of the title insurance policies (whether due on the Closing Date or in the future) including sums due in connection with any future advances;

(xi) such consents, estoppels, subordination agreements and other documents and instruments executed by landlords, tenants and other Persons party to material contracts relating to any Collateral as to which the Agent shall be granted a Lien for the benefit of the Lenders, as requested by the Agent; and

(xii) evidence that all other actions necessary or, in the opinion of the Agent, desirable to perfect and protect the first priority Lien created by the Collateral Documents, and to enhance the Agent's ability to preserve and protect its interests in and access to the Collateral, have been taken;

(g) Insurance Policies. Standard lenders' payable endorsements with respect to the insurance policies or other instruments or documents evidencing insurance coverage on the properties of the Borrower in accordance with Section 6.06;

(h) Environmental Review. An environmental site assessment with respect to any real property as to which the Agent is granted a Lien for the benefit of the Lenders, dated as of a recent date prior to the Closing Date, prepared by a qualified firm acceptable to the Agent, stating, among other things, that such real property is free from Hazardous Materials and that operations conducted thereon are in compliance with all Environmental Laws and showing any Estimated Remediation Costs;

(i) Certificate. A certificate signed by a Responsible Officer, dated as of the Closing Date, stating that:

(i) the representations and warranties contained in Article V are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default exists or would result from the initial Borrowing; and

(iii) there has occurred since December 31, 1995, no event or circumstance that has resulted or could

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reasonably be expected to result in a Material Adverse Effect; and

(j) Borrower Reorganization. The Reorganization of the Borrower and its Subsidiaries shall have been consummated in accordance with Schedule 1.1A hereto, and otherwise on terms and conditions and pursuant to documents acceptable to the Agent (and certified copies of all such documents shall have been provided to the Agent and the Lenders), including, without limitation, evidence that all outstanding loans and letter of credit obligations under the Existing Loan Agreement shall have been repaid by the Existing Borrowers (other than the Borrower) or assumed by the Borrower, except to the extent any such obligations remain under the other Loan Documents;

(k) Repayment of Eurodollar Loans to BABC. Any loans under the Existing Loan Agreement with BABC bearing interest at or with reference to any type of Offshore, LIBOR, Eurodollar or other similar rate shall have been converted into base rate or reference rate loans in a manner satisfactory to the Agent;

(l) Assignment of BABC Loans. BABC, the Lenders and the Agent shall have entered into Assignment and Assumption Agreements in form and substance acceptable to all such Persons pursuant to which the loans, commitments and rights of BABC as agent and lender under the Existing Loan Agreement and the Existing Loan Documents shall have been assigned and assumed by the Agent and the Lenders hereunder;

(m) <u>Documentation of Borrowing Subsidiary Loans.</u> The Borrower shall have provided the Agent with original copies of the documents and promissory notes (together with pledge agreements and assignments collaterally assigning such instruments to the Agent, on behalf of the Lenders) evidencing the intercompany loans to be made from time to time by the Borrower directly to the Borrowing Subsidiaries, which intercompany loans will be unsecured, payable on a demand basis, subordinated to the obligations and otherwise in form and substance acceptable to the Agent;

(n) Termination of PTRA and HBTC Liens. Evidence that the Liens in favor of the PTRA and the HBTC have been terminated pursuant to documents and termination statements in form and substance acceptable to the Agent; and

(o) Other Documents. Such other approvals, opinions, documents or materials as the Agent may reasonably request.

4.02 Conditions to All Borrowings. The obligation of each Lender and/or the Agent to make any Loan to be made by it (including its initial Loan), to cause any Letter of Credit to be issued or to continue or convert any Loan under Section 2.04 is

subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date or Conversion/Continuation Date:

(a) Notice of Borrowing or Conversion/Continuation. The Agent shall have received (with, in the case of the initial Loan only, a copy for each Lender) a fully completed and signed a Notice of Borrowing, a request for a Letter of Credit (together with an appropriate letter of credit application) or a Notice of Conversion/Continuation, as applicable;

(b) Continuation of Representations and Warranties. The representations and warranties in Article V shall be true and correct on and as of such Borrowing Date or Conversion/ Continuation Date with the same effect as if made on and as of such Borrowing Date or Conversion/Continuation Date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date);

(c) No Existing Default. No Default or Event of Default shall exist or shall result from such Borrowing, Letter of Credit issuance or continuation or conversion;

(d) Availability. The amount of Availability at such time

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(taking into account such proposed Loan or Letter of Credit) shall be sufficient to permit the making of such Revolving Loan, provided, however, that the foregoing conditions precedent are not conditions to each Lender participating in or precedent are not conditions to each Lender participating in or reimbursing the Agent for such Lenders' Pro Rata Share of any Letter of Credit which is drawn at any time; and

Each Notice of Borrowing, request for a Letter of Credit and Notice of Conversion/Continuation submitted by the Borrower hereunder shall constitute a representation and warranty by the Borrower hereunder, as of the date of each such notice and as of each Borrowing Date or Conversion/Continuation Date, as applicable, that the conditions in Section 4.02 are satisfied.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Agent and each Lender that:

5.01 Corporate Existence and Power. The Borrower and each of its Subsidiaries:

(a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation;

(b) has the power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, carry on its business and to execute, deliver, and perform its obligations under the Loan Documents to which it is a party;

(c) is duly qualified as a foreign corporation and is licensed and in good standing under the laws of each jurisdiction where in any material respect its ownership, lease or operation of property or the conduct of its business requires such qualification or license.

5.02 Corporate Authorization; No Contravention. The execution, delivery and performance by the Borrower and its Subsidiaries of this Agreement and each other Loan Document to which the Borrower and its Subsidiaries is party, and the consummation of the Reorganization, have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of any of that Person's Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject; or

(c) violate any Requirement of Law.

5.03 Governmental Authorization. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority (except for recordings or filings in connection with the Liens granted to the Agent under the Collateral Documents) is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any of the Guarantors of the Agreement or any other Loan Document or the consummation of the Reorganization.

5.04 Binding Effect. This Agreement and each other Loan Document to which the Borrower or any of its Subsidiaries is a party and the other agreements in connection with the Reorganization constitute the legal, valid and binding obligations of the Borrower and any of its Subsidiaries to the extent it is a party thereto, enforceable against such Person in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

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5.05 Litigation. Except as specifically disclosed in Schedule 5.05, there are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Borrower, or its Subsidiaries or any of their respective properties which:

(a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) if determined adversely to the Borrower or its Subsidiaries, would reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

5.06 No Default. No Default or Event of Default exists or would result from the incurring of any Obligations by the Borrower or from the grant or perfection of the Liens of the Agent and the Lenders on the Collateral. As of the Closing Date, neither the Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date, create an Event of Default under Section 8.01(e).

5.07 ERISA Compliance. Except as specifically disclosed in Schedule 5.07:

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Borrower, nothing has occurred which would cause the loss of such qualification. The Borrower and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to

any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

5.08 Use of Proceeds; Margin Regulations. The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by Section 6.12 and Section 7.07. Neither the Borrower nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

5.09 Title to Properties. The Borrower and its Subsidiaries have good record and marketable title in fee simple to, or valid leasehold interests in,

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all real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as could not, individually or in the aggregate, have a Material Adverse Effect. As of the Closing Date, the property of the Borrower and its Subsidiaries is subject to no Liens, other than Permitted Liens.

5.10 Taxes. The Borrower and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed, and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP, or if such taxes are due by MK Gain to a Mexican taxing authority then in accordance with Mexican GAAP. There is no proposed tax assessment against the Borrower or any Subsidiary that would, if made, have a Material Adverse Effect.

5.11 Financial Condition. (a) The audited consolidated financial statements of the Borrower and its Subsidiaries dated December 31, 1995 and the unaudited consolidated and consolidating financial statements of the Borrower and its Subsidiaries dated December 31, 1996 (which are attached hereto as Schedule 5.11(A)), and the related consolidated and consolidating statements of income or operations, shareholders'

equity and cash flows for the fiscal years then ended on such dates:

(i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, subject to ordinary, good faith year-end audit adjustments;

(ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(iii) except as specifically disclosed in Schedule 5.11(B), show all material indebtedness and other liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Contingent Obligations.

(b) Since December 31, 1995, there has been no Material Adverse Effect.

(c) The pro forma delivered on the date hereof and attached hereto as Schedule 5.11(C) is the unaudited consolidated and consolidating balance sheet of the Borrower and its Subsidiaries, and was prepared by the Borrower assuming the consummation of the transactions contemplated by this Agreement as of the Closing Date (including, without limitation the Reorganization) and based on the unaudited consolidating balance sheet of the Borrower dated December 31, 1996 and was prepared in accordance with GAAP (subject to the exceptions set forth on Schedule 5.11(C) hereof), with only such adjustments thereto as would be required in accordance with GAAP.

(d) The projections delivered on the Closing Date and attached hereto as Schedule 5.11(D) represent the Borrower's best estimate of the future financial performance of the Borrower and its consolidated Subsidiaries (other than MK Gain) for the periods set forth therein. These projections have been prepared on the basis of the assumptions set forth therein, which the Borrower believes are fair and reasonable in light of current and reasonably foreseeable business conditions.

5.12 Environmental Matters. (a) Except as specifically disclosed in Schedule 5.12, the ongoing operations of the Borrower and its Subsidiaries comply in all respects with all Environmental Laws, except such noncompliance which would not (if enforced in accordance with applicable law) result in liability in excess of $500,000 in the aggregate (or with respect to MK Gain, which could have a Material Adverse Effect).

(b) Except as specifically disclosed in Schedule 5.12, the Borrower and its Subsidiaries have obtained all licenses,

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permits, authorizations and registrations required under any Environmental Law ("Environmental Permits") and necessary for their respective ordinary course operations, all such Environmental Permits are in good standing, and the Borrower and each of its Subsidiaries are in compliance with all material terms and conditions of such Environmental Permits.

(c) Except as specifically disclosed in Schedule 5.12, none of the Borrower, its Subsidiaries or any of their respective present property or operations, is subject to any outstanding written order from or agreement with or investigation by any Governmental Authority, nor subject to any judicial or docketed administrative proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Material, nor subject to any claim, proceeding or notice from any Person regarding Environmental Laws, Environmental Claims or Hazardous Materials.

(d) Except as specifically disclosed in Schedule 5.12, there are no Hazardous Materials or other conditions or circumstances existing with respect to any property of the Borrower or any Subsidiary, or arising from operations prior to the Closing Date, of the Borrower or any of its Subsidiaries that would reasonably be expected to give rise to Environmental Claims with a potential liability of the Borrower and its Subsidiaries in excess of $500,000 in the aggregate for any such condition, circumstance or property (or with respect to MK Gain, which could have a Material Adverse Effect). In addition, (i) neither the Borrower nor any Subsidiary has any underground storage tanks (x) that are not properly registered or permitted under applicable Environmental Laws, or (y) that are leaking or disposing of Hazardous Materials off-site, and (ii) the Borrower and its Subsidiaries have notified all of their employees of the existence, if any, of any health hazard arising from the conditions of their employment and have met all notification requirements under Title III of CERCLA and all other Environmental Laws.

5.13 Collateral Documents. (a) The provisions of each of the Collateral Documents are effective to create in favor of the Agent for the benefit of the Lenders, a legal, valid and enforceable first priority security interest in all right, title and interest of the Borrower and the Guarantors in the collateral described therein; and financing statements have been filed in the offices in all of the jurisdictions listed on Schedule 5.13, which is also a schedule to the Security Agreement and each patent and trademark assignment included as part of the Collateral Documents has been filed in the U.S. Patent and Trademark Office and the U.S. Copyright Office.

(b) Each Mortgage when delivered will be effective to grant to the Agent for the benefit of the Lenders a legal, valid and enforceable mortgage lien on all the right, title and interest of the mortgagor under such Mortgage in the Mortgaged

Property described therein. When each such Mortgage is duly recorded in the offices listed on the schedule to such Mortgage and the mortgage recording fees and taxes in respect thereof are paid and compliance is otherwise had with the formal requirements of state law applicable to the recording of real estate mortgages generally, each such mortgaged property, subject to the encumbrances and exceptions to title set forth therein and except as noted in the title policies delivered to the Agent pursuant to Section 4.01, is subject to a legal, valid, enforceable and perfected first priority deed of trust; and when financing statements have been filed in the offices specified in such Mortgage, such Mortgage also creates a legal, valid, enforceable and perfected first Lien on, and security interest in, all right, title and interest of the Borrower or any Guarantor under such Mortgage in all personal property and fixtures which is covered by such Mortgage, subject to no other Liens, except the encumbrances and exceptions to title set forth therein and except as noted in the title policies delivered to the Agent pursuant to Section 4.01, and Permitted Liens.

(c) All representations and warranties of the Borrower and the Guarantors party thereto contained in the Collateral Documents are true and correct.

5.14 Regulated Entities. None of the Borrower, any Person controlling the Borrower, or any Subsidiary, is an "Investment Company" within the meaning

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of the Investment Company Act of 1940. The Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

5.15 No Burdensome Restrictions. Neither the Borrower nor any Guarantor is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which could reasonably be expected to have a Material Adverse Effect.

5.16 Copyrights, Patents, Trademarks and Licenses, etc. The Borrower and the Guarantors own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any Subsidiary (other than MK Gain) infringes upon any rights held by any other Person. Except as specifically disclosed in Schedule 5.05, no claim or litigation regarding any of the foregoing is pending or threatened, and no patent, invention, device, application,

principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Borrower, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

5.17 Capitalization and Subsidiaries. As of the Closing Date, the Borrower has no Subsidiaries other than those specifically disclosed in part (a) of Schedule 5.17 hereto and has no equity investments in any other corporation or entity other than those specifically disclosed in part (b) of Schedule 5.17. The amount of the Borrower's and each of its Subsidiaries' authorized and issued capital stock and the ownership of every block representing 5% or more thereof is as set forth on Schedule 5.17 including, without limitation, after implementation of the Reorganization.

5.18 Insurance. Except as specifically disclosed in Schedule 5.18, the properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or such Subsidiary operates, and all such insurance policies in effect on the Closing Date are described on Schedule 5.18.

5.19 Solvency. The Borrower and each of its Subsidiaries are Solvent.

5.20 Swap Obligations. On the Closing Date, neither the Borrower nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contracts.

5.21 Full Disclosure. None of the representations or warranties made by the Borrower or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Borrower or any Subsidiary in connection with the Loan Documents (including the offering and disclosure materials delivered by or on behalf of the Borrower to the Lenders prior to the Closing Date), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

ARTICLE VI

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So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Majority Lenders waive compliance in writing:

6.01 Financial Statements and Borrowing Base Certificate. The Borrower shall deliver to the Agent, in form and detail satisfactory to the Agent and the Majority Lenders, with sufficient copies for each Lender:

(a) as soon as available, but not later than 90 days after the end of each Fiscal Year (commencing with the Fiscal Year ended December 31, 1996, a copy of the (i) audited consolidated balance sheet of the Borrower and its Subsidiaries, (ii) unaudited consolidated balance sheet of the Borrower and its Subsidiaries (excluding MK Gain and its Subsidiaries), and (iii) unaudited consolidated and consolidating balance sheet of the Borrower and its Subsidiaries, all as at the end of such year, and the related audited consolidated and unaudited consolidated (excluding MK Gain and its Subsidiaries) and consolidating statements of income or operations, shareholders' equity and cash flows for such year for the Borrower and its Subsidiaries, setting forth in each case in comparative form the figures for the previous Fiscal Year, and accompanied by the opinion of Deloitte & Touche, L.L.P. or another nationally-recognized independent public accounting firm ("Independent Auditor") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Borrower's or any Subsidiary's records and shall be delivered to the Agent pursuant to a reliance agreement between the Agent and Lenders and such Independent Auditor in form and substance satisfactory to the Agent;

(b) as soon as available, but not later than 45 days after the end of each Fiscal Quarter of each Fiscal Year (commencing with the Fiscal Quarter ending in March 1997), a copy of the unaudited consolidated and consolidating balance sheet of the Borrower and its Subsidiaries (including an additional consolidated balance sheet of the Borrower and its Subsidiaries excluding MK Gain and its Subsidiaries) as of the end of such Fiscal Quarter and the related consolidated, consolidated (excluding MK Gain and its Subsidiaries) and consolidating statements of income, shareholders' equity and cash flows for the Borrower and its Subsidiaries for the period commencing on the first day and ending on the last day of such Fiscal Quarter, and certified by a Responsible Officer as fairly presenting, in

accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Borrower and its Subsidiaries;

(c) as soon as available, but not later than 30 days after the end of each Fiscal Month (commencing for the Fiscal Month ending in February 1997), a copy of the unaudited consolidated and consolidating balance sheet of the Borrower and its Subsidiaries (including an additional consolidated balance sheet of the Borrower and its Subsidiaries excluding MK Gain and its Subsidiaries) as at the end of such Fiscal Month and the related consolidated, consolidated (excluding MK Gain and its Subsidiaries) and consolidating statement of income, shareholders' equity and cash flows for such Fiscal Month, and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Borrower and its Subsidiaries;

(d) as soon as available, but not later than fifteen (15) days after the end of each Fiscal Month (commencing with the Fiscal Month ending February 21, 1997): (a) a Borrowing Base Certificate for the Borrower, the Borrowing Subsidiaries and Clark (on a consolidated basis) in the form of Exhibit J attached hereto; and (b) a statement of the balance of each of the intercompany loans between the Borrower and each Borrowing Subsidiary in accordance with Section 7.04. If the Borrower's records or reports of the Collateral are prepared by an accounting service or other agent, the Borrower hereby authorizes such service or agent to deliver such records, reports, and related documents to the Agent, for distribution to the Lenders.

6.02 Certificates; Other Information. The Borrower shall furnish to the Agent, with sufficient copies for each Lender:

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(a) concurrently with the delivery of the financial statements referred to in Section 6.01(a), a certificate of the Independent Auditor stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b), a Compliance Certificate executed by a Responsible Officer;

(c) as soon as available, but not later than five (5) days of filing with the SEC, copies of all financial statements and reports that the Borrower sends to its shareholders, and copies of all financial statements and regular, periodical or special reports (including Forms 10K, 10Q and 8K) that the Borrower or any Subsidiary may make to, or file with, the SEC;

(d) on or before December 1 of each year, a budget and projections for the next Fiscal Year on a month by month and consolidated and consolidating basis and otherwise in form and substance reasonably acceptable to the Agent; and

(e) promptly, such additional information regarding the business, financial or corporate affairs of (I) the Borrower or any of its Subsidiaries (other than MK Gain) as the Agent, at the request of any Lender, may from time to time request, and (II) MK Gain or its Subsidiaries as the Agent, at the request of any Lender, may from time to time request after the occurrence of a Default or Event of Default or if MK Gain or any of its Subsidiaries shall breach, default or violate any terms or conditions of any Contractual Obligations of such person evidencing Indebtedness with a principal amount in excess of $1,000,000 which breach, default or violation would with notice or the passage of time cause or permit the acceleration of the maturity of such Indebtedness or a failure to pay any amounts due and owing thereon.

6.03 Notices. The Borrower shall promptly notify the Agent, and if requested by the Agent, all the Lenders:

(a) of the occurrence of any Default or Event of Default, and of the occurrence or existence of any event or circumstance that foreseeably will become a Default or Event of Default;

(b) of (i) any breach or nonperformance of, or any default under, any Contractual Obligation of the Borrower or any of its Subsidiaries which could result in a Material Adverse Effect; and (ii) any dispute, litigation, investigation, proceeding or suspension which may exist at any time between the Borrower or any of its Subsidiaries and any Governmental Authority involving amounts in excess of $250,000 or which could result in a Material Adverse Effect;

(c) of the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary (i) in which the amount of damages claimed is $2,500,000 (or its equivalent in another currency or currencies) or more, (ii) in which injunctive or similar relief is sought and which, if adversely determined, would reasonably be expected to have a Material Adverse Effect, or (iii) in which the relief sought is an injunction or other stay of the performance of this Agreement or any Loan Document;

(d) upon, but in no event later than 10 days after, becoming aware of (i) any and all enforcement, investigation, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against the Borrower or any Subsidiary or any of their respective properties pursuant to any applicable Environmental Laws, (ii) all other Environmental

Claims, and (iii) any environmental or similar condition on any real property adjoining or in the vicinity of the property of the Borrower or any Subsidiary that could reasonably be anticipated to cause such property or any part thereof

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to be subject to any restrictions on the ownership, occupancy, transferability or use of such property under any Environmental Laws;

(e) of any other litigation or proceeding affecting the Borrower or any of its Subsidiaries which the Borrower would be required to report to the SEC pursuant to the Exchange Act, within four (4) days after reporting the same to the SEC;

(f) of any of the following events affecting the Borrower, together with a copy of any notice with respect to such event that may be required to be filed with a Governmental Authority and any notice delivered by a Governmental Authority to the Borrower with respect to such event:

(i) an ERISA Event;

(ii) if any of the representations and warranties in Section 5.07 ceases to be true and correct;

(iii) the adoption of any new Pension Plan or other Plan subject to Section 412 of the Code;

(iv) the adoption of any amendment to a Pension Plan or other Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability; or

(v) the commencement of contributions to any Pension Plan or other Plan subject to Section 412 of the Code;

(g) of any material change in accounting policies or financial reporting practices by the Borrower or any of its consolidated Subsidiaries;

(h) of the entry by the Borrower or any of its Subsidiaries (other than MK Gain) into any Swap Contract, together with the details thereof;

(i) of the occurrence of any default, event of default, termination event or other event under any Swap Contract that after the giving of notice, passage of time or both, would permit either counterparty to such Swap Contract to terminate early any or all trades relating to such contract; and

(j) upon the request from time to time of the Agent, termination or unwind amounts, together with a description of the method by which such amounts were determined, relating to any

then-outstanding Swap Contracts to which the Borrower or any of its Subsidiaries (other than MK Gain) is party.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein, and stating what action the Borrower or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under Section 6.03(a) shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been (or foreseeably will be) breached or violated.

6.04 Preservation of Corporate Existence, Etc. The Borrower shall, and shall cause each Subsidiary to:

(a) preserve and maintain in full force and effect its corporate existence and good standing under the laws of its state or jurisdiction of incorporation;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except in connection with transactions permitted by Section 7.03 and sales of assets permitted by Section 7.02;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

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(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.05 Maintenance of Property; Locomotives. (a) The Borrower shall maintain, and shall cause each Subsidiary to maintain, and preserve all its property which is used or useful in its business in good working order and condition, ordinary wear and tear and make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, except as permitted by Section 7.02.

(b) All railroad locomotives which are owned by the Borrower or Boise Locomotive as of the Closing Date are listed on Schedule 6.05, and all such locomotives and any other owned locomotives acquired after the Closing Date are currently and during the term of this Agreement shall only be located and used within the 48 contiguous states of the United States.

6.06 Insurance. In addition to insurance requirements set forth in the Collateral Documents, the Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, with

financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons; including workers' compensation insurance, public liability and property and casualty insurance, which amount shall not be reduced by the Borrower in the absence of 30 days' prior notice to the Agent. All such insurance (other than for MK Gain) shall name the Agent as loss payee/mortgagee and as additional insured, for the benefit of the Lenders, as their interests may appear. All casualty and key man insurance maintained by the Borrower and the Guarantors shall name the Agent as loss payee and all liability insurance shall name the Agent as additional insured for the benefit of the Lenders, as their interests may appear. Upon request of the Agent or any Lender, the Borrower shall furnish the Agent, with sufficient copies for each Lender, at reasonable intervals (but not more than once per calendar year) a certificate of a Responsible Officer of the Borrower (and, if requested by the Agent, any insurance broker of the Borrower) setting forth the nature and extent of all insurance maintained by the Borrower and its Subsidiaries in accordance with this Section or any Collateral Documents (and which, in the case of a certificate of a broker, were placed through such broker).

6.07 Payment of Obligations. The Borrower shall, and shall cause each Subsidiary (excluding MK Gain for purposes of paragraphs (b) and (c) below) to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including:

(a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary or if such taxes are due by MK Gain to a Mexican taxing authority then in accordance with Mexican GAAP;

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and

(c) all indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.08 Compliance with Laws. The Borrower shall comply, and shall cause each Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist.

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6.09 Compliance with ERISA. The Borrower shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

6.10 Inspection of Property and Books and Records. The Borrower shall maintain and shall cause each Subsidiary to maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP (or in the case of MK Gain, Mexican GAAP) consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower and such Subsidiary. The Borrower shall permit, and shall cause each Subsidiary (including MK Gain only to the extent an event specified in Section 6.02(e)(II) has occurred and is continuing) to permit, representatives and independent contractors of the Agent or any Lender to visit and inspect (including taking and removing samples) any of their respective properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, when a Default or an Event of Default exists the Agent or any Lender may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

6.11 Environmental Laws. (a) The Borrower shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in compliance in all material respects with all Environmental Laws.

(b) Upon the written request of the Agent or any Lender, the Borrower shall submit and cause each of its Subsidiaries to submit, to the Agent with sufficient copies for each Lender, at the Borrower's sole cost and expense, at reasonable intervals, a report providing an update of the status of any environmental, health or safety compliance, hazard or liability issue identified in any notice or report required pursuant to Section 6.03(d), that could, individually or in the aggregate, result in liability in excess of $500,000.

6.12 Use of Proceeds. The Borrower shall use the proceeds of the Loans solely (i) to refinance all Obligations under the Existing Loan Agreement, (ii) to fund Permitted Acquisitions, (iii) for other working capital needs of the Borrower not in contravention of any Requirement of Law or of any Loan Document

or (iv) to loan such proceeds directly to the Borrowing Subsidiaries (on an unsecured and demand repayment basis pursuant to documents and promissory notes acceptable to the Agent and the Lenders, which documents and promissory notes are subordinated to the Obligations and pledged to the Agent on behalf of the Lenders) provided that such Borrowing Subsidiaries shall likewise only be permitted to use the proceeds of such intercompany loans in accordance with paragraphs (i) through (iii) above.

6.13 Location and Perfection of Collateral. The Borrower represents and warrants to the Agent and the Lenders that: (a) Schedule 6.3 is a correct and complete list of the Borrower's and each Guarantor's chief executive office, the location of its books and records, the locations of the Collateral with respect to that Person, and the locations of all of its other places of business; and (b) Schedule 6.3 correctly identifies any of such facilities and locations that are not owned by the Borrower or a Guarantor and sets forth the names of the owners and lessors or sublessors of and, to the best of the Borrower's knowledge, the holders of any mortgages on, such facilities and locations. The Borrower covenants and agrees that it will not and will cause the Guarantors not to (i) maintain any Collateral at any location other than those locations listed for the Borrower or any Guarantor on Schedule 6.3, (ii) otherwise change or add to any of such locations, or (iii) change the location of their chief executive office from the location identified in Schedule 6.3, unless it gives the Agent at least thirty (30) days' prior written notice thereof and executes any and all financing statements and other documents that the Agent requests in connection therewith. Without limiting the foregoing, Borrower represents that all Inventory is, and covenants that all of its Inventory will be, located either (a) on premises owned by the Borrower or a Guarantor, (b) on premises leased by

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the Borrower, provided that the Agent has received an executed landlord waiver from the landlord of such premises in form and substance satisfactory to the Agent, (c) in a public warehouse, provided that the Agent has received an executed bailee letter from the applicable public warehouseman in form and substance satisfactory to the Agent or (d) up to $5,000,000 in the aggregate may be held by a consignee of the Borrower or any of its Subsidiaries for sale on consignment with no landlord waiver. The Borrower agrees and agrees to cause each Guarantor to, take all steps necessary to maintain the perfection and priority of the Agent's Lien and security interest (on behalf of the Lenders) in the Collateral.

6.14 Further Assurances. (a) The Borrower shall ensure that all written information, exhibits and reports furnished to the Agent or the Lenders do not and will not contain any untrue statement of a material fact and do not and will not omit to state any material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and will promptly disclose to the Agent and the Lenders and correct any defect or error that may be

discovered therein or in any Loan Document or in the execution, acknowledgment or recordation thereof.

(b) Promptly upon request by the Agent or the Majority Lenders, the Borrower shall (and shall cause each Guarantor to) execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register, any and all such further acts, deeds, conveyances, security agreements, mortgages, assignments, estoppel certificates, financing statements and continuations thereof, termination statements, notices of assignment, transfers, certificates, assurances and other instruments the Agent or such Lenders, as the case may be, may reasonably require from time to time in order (i) to carry out more effectively the purposes of this Agreement or any other Loan Document, (ii) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests covered by any of the Collateral Documents, (iii) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (iv) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Agent and Lenders the rights granted or now or hereafter intended to be granted to the Lenders under any Loan Document or under any other document executed in connection therewith.

ARTICLE VII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Majority Lenders waive compliance in writing:

7.01 Limitation on Liens. The Borrower shall not, and shall not suffer or permit any Subsidiary (other than MK Gain) to, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any part of its property, whether now owned or hereafter acquired, other than the following ("Permitted Liens"):

(a) any Lien (other than a Lien on the Collateral) existing on property of the Borrower or any Guarantor on the Closing Date and set forth in Schedule 7.01 securing Indebtedness outstanding on such date;

(b) any Lien created under any Loan Document;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that nonpayment thereof is permitted by Section 6.07, provided that no notice of lien has been filed or recorded under the Code;

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(d) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens (other than any Lien imposed by ERISA and other than on the Collateral) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(f) Liens (other than Liens on the Collateral) on the property of the Borrower or the Guarantors securing (i) the nondelinquent performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, (ii) contingent obligations on surety and appeal bonds, and (iii) other nondelinquent obligations of a like nature; in each case, incurred in the ordinary course of business, provided all such Liens in the aggregate would not (even if enforced) cause a Material Adverse Effect;

(g) Liens (other than Liens on the Collateral) consisting of judgment or judicial attachment liens, provided that the enforcement of such Liens is effectively stayed and all such liens in the aggregate at any time outstanding for the Borrower and the Guarantors do not exceed $250,000;

(h) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Borrower and its Subsidiaries;

(i) Liens on assets of corporations which become Subsidiaries after the date of this Agreement; provided, however, that such Liens existed at the time the respective corporations became Subsidiaries and were not created in anticipation thereof;

(j) purchase money security interests on any property acquired or held by the Borrower or its Borrowing Subsidiaries in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided that (i) any such Lien attaches to such property concurrently with or within 20 days after the acquisition thereof, (ii) such Lien attaches solely to the property so acquired in such transaction, (iii) the principal amount of the debt secured thereby does not exceed 100% of the cost of such property, and (iv) the principal amount of the Indebtedness secured by any and all such purchase money security

interests shall not at any time exceed, together with Indebtedness permitted under Section 7.05(d), $5,000,000;

(k) Liens securing obligations in respect of capital leases on assets subject to such leases; provided that such capital leases are otherwise permitted hereunder;

(l) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Borrower in excess of those set forth by regulations promulgated by the FRB, and (ii) such deposit account is not intended by the Borrower or any Subsidiary to provide collateral to the depository institution; and

(m) Liens on certain limited assets of Boise Locomotive in favor of the issuer of a performance bond on behalf of Boise Locomotive in connection with the issuance of performance bonds as expressly permitted by Section 7.08(e).

7.02 Disposition of Assets. The Borrower shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, sell, assign, lease, convey, transfer or otherwise permit a Disposition of (whether in one or a series of transactions) any property (including accounts and notes receivable, with or without recourse) or enter into any agreement to do any of the foregoing, except the following transactions to the extent they are arms-length

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transactions with Persons who are not Affiliates of the Borrower or its Subsidiaries for pricing reflecting the fair market value of any assets or property being sold:

(a) Dispositions of inventory, or used, worn-out or surplus equipment, all in the ordinary course of business;

(b) the sale of equipment in the ordinary course and in accordance with past practices to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are reasonably promptly (and in any event within ninety (90) days of such sale) applied to the purchase price of such replacement equipment;

(c) Dispositions (other than by MK Gain and its Subsidiaries) not otherwise permitted hereunder which are made for fair market value; provided, that (i) at the time of any Disposition, no Default or Event of Default shall exist or shall result after giving effect to such Disposition, (ii) the aggregate sales price from such Disposition shall be paid in cash, and (iii) the aggregate value of all assets so sold by the

Borrower and its Subsidiaries, together, shall not exceed the lesser of (i) $3,000,000 in any Fiscal Year (plus the amount of the proceeds from the sale of the Borrower's Mountaintop, PA facility during the Fiscal Year it is sold, if ever) and (ii) $10,000,000 in the aggregate during the term of the Agreement; and

(d) Dispositions by MK Gain and its Subsidiaries of assets with a value not in excess of twenty percent (20%) of the aggregate value of the assets of MK Gain and its Subsidiaries (on a consolidated basis) as shown on MK Gain's consolidated financial statements in any Fiscal Year, and in any event not in excess of $20,000,000 in the aggregate.

7.03 Restriction on Fundamental Changes; Acquisitions. Neither Borrower nor any of its Subsidiaries will: (a) enter into any transaction of merger or consolidation; (b) liquidate, windup or dissolve itself (or suffer any liquidation or dissolution); (c) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, or the capital stock of or other equity interests in any of its Subsidiaries, whether now owned or hereafter acquired; or (d) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other evidence of beneficial ownership of, any Person; provided, however, (i) the Borrower may make Capital Expenditures used for the purchase of assets permitted under Section 7.15 and Investments permitted under Section 7.04; (ii) any Subsidiary (other than MK Gain) of Borrower may be merged with or into Borrower (provided that Borrower is the surviving entity) or any other Subsidiary of Borrower (other than MK Gain); (iii) notwithstanding any prohibition on MK Gain or its wholly-owned Subsidiaries making any such purchases or acquisitions referenced above, and so long as no Default or Event of Default has occurred and is continuing hereunder after giving effect thereto, MK Gain and its wholly-owned Subsidiaries may enter into future acquisitions that are not hostile in nature to acquire all or substantially all of the assets or capital stock of any corporation, entity or division (collectively, "MK Gain Acquisitions") if: (A) the aggregate consideration to be paid by MK Gain and its wholly-owned Subsidiaries, whether in the form of cash payments, promissory notes or other deferred purchase price, or assumed debt and liabilities and Indebtedness, in connection with all such MK Gain Acquisitions and howsoever evidenced, shall not exceed $25,000,000 in the aggregate (less the amount of any Investments by MK Gain in Joint Ventures pursuant to Section 7.04(g)); (B) such MK Gain Acquisitions shall only be of businesses and assets related or similar to the Borrower's current lines of business and satisfying the restrictions in Section 7.13, and which businesses would not subject the Agent or any Lender to regulatory or third party approval in connection with the exercise of their rights and remedies under this Agreement or any other Loan Documents; and (C) other than as

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permitted by Section 7.05(f), no new Indebtedness for borrowed money to finance such acquisition will be incurred in connection with such MK Gain Acquisitions; (iv) notwithstanding any prohibition on the Borrower making any such purchases or acquisitions referenced above, and so long as no Default or Event of Default has occurred and is continuing hereunder after giving effect thereto, the Borrower may enter into future acquisitions that are not hostile in nature to acquire all or substantially all of the assets or capital stock of any corporation, entity or division (collectively, "Permitted Acquisitions") if:

(A) the aggregate consideration to be paid by the Borrower, whether in the form of cash payments, promissory notes or other deferred purchase price, or assumed debt and liabilities and Indebtedness, in connection with all such Permitted Acquisitions and howsoever evidenced, shall not exceed $15,000,000 in the aggregate during the first twelve (12) months after the Closing Date or $45,000,000 in the aggregate at any time;

(B) such Permitted Acquisitions shall only be of businesses and assets related or similar to the Borrower's current lines of business and satisfying the restrictions in Section 7.13, and which businesses would not subject the Agent or any Lender to regulatory or third party approval in connection with the exercise of their rights and remedies under this Agreement or any other Loan Documents;

(C) the assets so acquired shall be transferred free and clear of any liens and encumbrances (other than Permitted Liens), and any assumed debt and liabilities and Indebtedness (excluding purchase money debt and Capital Leases otherwise permitted under Section 7.05) shall be repaid prior to or simultaneously with any such Permitted Acquisition;

(D) other than under the Agreement, no new Indebtedness for borrowed money to finance such acquisition will be incurred in connection with such Permitted Acquisitions;

(E) environmental audits, pro forma financial statements and a pro forma borrowing base certificate (in the form of Exhibit J and showing the pro forma borrowing base of the Borrower after consummation of the Permitted Acquisition), appraisals and any other testing or due diligence investigation reasonably required by Agent shall have been completed in a satisfactory manner and shows that the Borrower shall continue to be in compliance with this Agreement after the consummation of such Permitted Acquisition including, without limitation, its pro forma compliance with Sections 7.16, 7.17 and 7.18;

(F) Agent, on behalf of Lenders, will be granted a first and prior perfected security interest (subject to Permitted Liens) in any assets being so acquired including, without

limitation, a pledge of any capital stock together with a guarantee from any new Subsidiary (if such Permitted Acquisition is an acquisition of stock) and a pledge of the underlying assets to secure such Subsidiary guarantee; and

(G) Agent and the Lenders shall have received at least 15 days advance written notice of any proposed acquisition together with each of the following documents in form and substance reasonably satisfactory to the Agent:

(I) pro forma balance sheets of the Borrower (the "Acquisition Pro Forma") on a consolidated and consolidating basis, based on financial data as of a recent date, which shall be complete and shall accurately and fairly represent Borrower's assets, liabilities, financial condition and results of operations in accordance with GAAP consistently applied, but taking into account such Permitted Acquisition and the transactions contemplated by any purchase agreement documenting such Permitted Acquisition, and such Acquisition Pro Forma shall establish that the maximum Revolving Loans shall exceed the outstanding principal balance on the Revolving Loan by at least $5,000,000 and the Acquisition Projections (as hereinafter defined) shall establish that such minimum availability shall continue for at least 30 days after the consummation of such Future Acquisition;

(II) Projections prepared in accordance with Section 7.03(iv)(G)(I) (the "Acquisition Projections") hereof and based upon historical financial data of a recent date satisfactory to Agent, taking into account such Future Acquisition on a pro forma basis for the prior four (4) quarters and for the next three (3) years; and

(III) a certificate of the chief financial officer of Borrower to the effect that: (x) Borrower will be Solvent upon the consummation of the

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transactions contemplated by the Acquisition; (y) the Acquisition Pro Forma fairly presents the financial condition of the Borrower (on a consolidated basis) as of the date thereof after giving effect to the transactions contemplated by such Permitted Acquisition; (z) the Acquisition Projections are reasonable estimates of the future financial performance of Borrower subsequent to the date thereof based upon the historical performance of Borrower after taking into account the consummation of the Permitted Acquisition and in addition show that on that basis the Borrower would have been in compliance with the financial covenants set forth in Sections 7.16, 7.17 and 7.18 for the four (4) quarter period immediately prior to such Permitted Acquisition; and

(H) Agent, on behalf of Lenders, shall have received Lien searches (reasonably satisfactory to Agent) with respect to any assets being acquired.

7.04 Loans and Investments. The Borrower shall not purchase or acquire, or suffer or permit any of its Subsidiaries to purchase or acquire, or make any commitment therefor, any capital stock, equity interest, or any obligations or other securities of, or any interest in, any Person, or make or commit to make any Acquisitions, or make or commit to make any advance, loan, extension of credit or capital contribution to or any other investment in, any Person including any Affiliate of the Borrower (together, "Investments"), except for:

(a) Investments held by the Borrower or its Subsidiaries in the form of cash equivalents or short-term marketable securities;

(b) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(c) extensions of credit by the Borrower in cash directly to any of its Borrowing Subsidiaries in the form of intercompany loans; provided that such intercompany loans shall be subject to the following terms and conditions:

(i) such loans shall be unsecured and payable on demand, and the Borrower and the Borrowing Subsidiaries hereby agree that all such Indebtedness shall be subordinated in right of payment to the final payment in full in cash of the Obligations;

(ii) no Default or Event of Default shall then exist and be continuing or would result after giving effect thereto, and after giving effect to each such intercompany loan, both the Borrower making such loan and the recipient thereof shall be Solvent;

(iii) each recipient of such a loan shall use the proceeds thereof solely for its own working capital requirements and other general corporate purposes arising in the ordinary course of its business or as permitted by Section 6.12; and

(iv) such loans shall be evidenced by subordinated promissory notes in form and substance acceptable to the Agent and pledged to and delivered to the Agent pursuant to documentation in form and substance acceptable to the Agent granting the Agent (on behalf of the Lenders) a first perfected security interest therein;

(d) Investments by the Borrower in its Borrowing Subsidiaries satisfying the terms and conditions of paragraph (c) above and incurred in order to consummate Permitted Acquisitions otherwise permitted under Section 7.03;

(e) Investments by the Borrower in Joint Ventures not exceeding $2,500,000 in any Fiscal Year as to all such

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investments in the aggregate;

(f) Investments by the Borrower in its wholly-owned Subsidiaries (other than MK Gain and its Subsidiaries and/or the Borrowing Subsidiaries) not in excess of $2,500,000 in the aggregate;

(g) Investments by MK Gain in (i) its wholly-owned Subsidiaries from time to time or (ii) in Joint Ventures in amounts not in excess of $10,000,000 in the aggregate (less the aggregate amount of MK Gain Acquisitions in excess of $15,000,000), provided that in either case the funds, monies, properties or consideration constituting such Investment or Joint Venture was not received from or provided by (directly or indirectly) the Borrower or its other Subsidiaries at any time on or after the Closing Date provided that at such time no Default or Event of Default shall then have occurred and be continuing or would result after giving effect thereto;

(h) Investments by the Borrower in Boise Locomotive in the form of asset drop downs and assignments of title to owned railroad locomotives or rights with respect to leased railroad locomotives, provided that the Borrower shall have (i) obtained all consents with respect to Contractual Obligations and otherwise required to consummate such transactions without violating any Contractual Obligations of the Borrower or any of its Subsidiaries, (ii) provided the Agent with ten (10) Business Days prior written notice of such transactions (including a certification that all consents as required by paragraph (i) above have been obtained), (iii) with respect to owned railroad locomotives, provided the Agent (on behalf of the Lenders) with such documents as may be reasonably requested by the Agent and in form and substance reasonably acceptable to the Agent including, without limitation, properly recorded assignments of all locomotives mortgages and assignments of leases with respect to such locomotives and a legal opinion from legal counsel in form and substance reasonably satisfactory to the Agent opining as to the continuing prior perfected security interest of the Agent (on behalf of the Lenders) in such owned railroad locomotives and the corporate power and authority, and enforceability of the transfer documents and mortgages with respect thereto; and (iv) no Default or Event of Default shall then have occurred and be continuing or would result after giving effect thereto;

(i) Investments by the Borrower in any purchaser of its Mountaintop, Pennsylvania facility in the form of a promissory note with a principal amount not in excess of $500,000 in the aggregate which promissory note represents the deferred portion of the purchase price from the sale of such Mountaintop, Pennsylvania facility; and

(j) Investments by the Borrower in MK Gain in the form of that certain promissory note in the original principal amount of $16,551,001.67 and dated June 30, 1995, provided that the Borrower may not extend any further funds or loans under such promissory note, but the Borrower may (so long as no Default or Event of Default has then occurred or would result after giving effect thereto) elect to make a further capital contribution to MK Gain by converting such promissory note to equity, and after written notice thereof the Agent may present the original of such promissory note which has been pledged to Agent (on behalf of the Lenders) for cancellation.

7.05 Limitation on Indebtedness. The Borrower shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement;

(b) Indebtedness consisting of Contingent Obligations permitted pursuant to Section 7.08;

(c) Indebtedness existing on the Closing Date and set forth in Schedule 7.05;

(d) Indebtedness incurred in connection with leases permitted pursuant to Section 7.10(c);

(e) Indebtedness consisting of purchase money loans permitted pursuant to Section 7.01(j); and

(f) Indebtedness of MK Gain (including and not in addition to

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any Indebtedness permitted under paragraphs (a) through (e) above) not in excess of $65,000,000 in aggregate principal amount at any time outstanding; provided, however, that in no event may the Borrower or any Guarantor be liable in any way or have any Contingent Obligation with respect to any such Indebtedness of MK Gain.

7.06 Transactions with Affiliates. The Borrower shall not, and shall not suffer or permit any Subsidiary to, enter into any transaction with any Affiliate of the Borrower, except upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would obtain in a comparable arm's-length transaction with a Person not an Affiliate of the Borrower or such Subsidiary (which shall include, without limitation, not permitting their outstanding trade credit being extended to, or accounts or accounts receivable due from MK Gain and its Subsidiaries to exceed, the payment terms provided to other creditors generally, and in any event to not be outstanding for more than 90 days) except that (a) the Borrower and its Subsidiaries may make travel advances or other loans to their employees in connection with relocations provided that all such

loans and advances are less than $75,000 in the aggregate, (b) the Borrower's Subsidiaries may make payments to the Borrower, (i) to satisfy the Federal, state and local income tax obligations to the extent such obligations are the result of the net consolidated income of the Borrower's Subsidiaries being attributed to the Borrower for tax purposes, (ii) as permitted under Section 9.10 hereof or (iii) to pay such other amounts as are described on Schedule 7.06.

7.07 Use of Proceeds. (a) The Borrower shall not, and shall not suffer or permit any Borrowing Subsidiary to, use any portion of the Loan proceeds, directly or indirectly, (i) to purchase or carry Margin Stock, (ii) to repay or otherwise refinance indebtedness of the Borrower or others incurred to purchase or carry Margin Stock, (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock, or (iv) to acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

(b) The Borrower shall not, directly or indirectly, use any portion of the Loan proceeds (i) knowingly to purchase Ineligible Securities from the Arranger during any period in which the Arranger makes a market in such Ineligible Securities, (ii) knowingly to purchase during the underwriting or placement period Ineligible Securities being underwritten or privately placed by the Arranger, or (iii) to make payments of principal or interest on Ineligible Securities underwritten or privately placed by the Arranger and issued by or for the benefit of the Borrower or any Affiliate of the Borrower. The Arranger is a registered broker-dealer and permitted to underwrite and deal in certain Ineligible Securities; and "Ineligible Securities" means securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. ss. 24, Seventh), as amended.

7.08 Contingent Obligations. The Borrower shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume or suffer to exist any Contingent Obligations or to have any surety or performance bond obligation used on its behalf except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) Contingent Obligations of the Borrower and its Subsidiaries existing as of the Closing Date and listed in Schedule 7.08;

(c) Contingent Obligations under the Loan Documents;

(d) Contingent Obligations of MK Gain and its wholly-owned Subsidiaries in the form of guaranties with respect to any Indebtedness permitted under Section 7.05(f);

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(e) Contingent Obligations of the Borrower with respect to performance bonds or surety contracts of any kind provided that such performance bonds or surety contracts are issued in connection with Contractual Obligations to reconstruct railroad locomotives which provide aggregate total consideration and payments to the Borrower and its Subsidiaries not in excess of $10,000,000 in the aggregate (whether or not progress payments have been made thereunder or such amounts are then due and owing) and are issued pursuant to contracts and agreements in form and substance and from an issuer or surety reasonably satisfactory to the Agent, and in any event such issuer or surety shall not be permitted to take a Lien on any property or assets of the Borrower or its Subsidiaries other than the Inventory and Accounts (excluding cash payments not made directly to such issuer or surety) directly identifiable to the contract being supported by such surety or performance bond; and

(f) Contingent Obligations of the Borrower in the form of unsecured guaranties of (i) the Indebtedness of any Borrowing Subsidiary with respect to Indebtedness permitted under Section 7.05(a) through (e), (ii) the obligations of Boise Locomotive being assumed by Boise Locomotive from the Borrower pursuant to the transactions permitted under Section 7.04(h), and (iii) up to $1,000,000 of other obligations or liabilities of any Borrowing Subsidiaries which are permitted by the terms of this Agreement, but in any event excluding any guaranty or other Contingent Obligation of any kind of the Indebtedness, obligations and/or liabilities of MK Gain and its Subsidiaries or Joint Ventures.

7.09 Joint Ventures; Subsidiaries. The Borrower shall not, and shall not suffer or permit any Subsidiary to (a) form a new Subsidiary after the Closing Date, except that MK Gain may form additional Wholly-Owned Subsidiaries, and the Borrower may form a new Wholly-Owned Subsidiary to serve as a Mexican holding company called MPI de Mexico, S.A. de C.V. provided that such corporation shall not hold any assets except that all of the assets or stock of MK Gain (as it exists on the Closing Date) may be contributed to such company provided that (i) no Default or Event of Default then exists and is continuing or would result after giving effect thereto, (ii) such transaction can be completed on a tax-free basis to the Borrower and the Guarantors, (iii) MPI de Mexico, S.A. de C.V. will be only a holding company and not conduct any business or operations of any kind and (iv) the Borrower provides the Agent with at least ten (10) Business Days prior written notice of such transaction providing reasonable details on the terms and structure thereof and reaffirming the treatment of and pledge to the Agent (on behalf of the Lenders) of any Indebtedness owing by MK Gain to the Borrower or any Guarantor or (b) enter into any Joint Venture, other than in the ordinary course of business and in accordance with past practices, except that MK Gain may enter into Joint Ventures with Persons (other than the Borrower and/or any Guarantors) as permitted by Section 7.04(g)(ii).

7.10 Lease Obligations. The Borrower shall not, and shall not suffer or permit any Subsidiary to, (i) create or suffer to exist any obligations for the payment of rent for any property under lease or agreement to lease or (ii) directly or indirectly, enter into any arrangement with any Person providing for the Borrower or such Subsidiary to lease or rent property that the Borrower or such Subsidiary has sold or will sell or otherwise transfer to such Person, except for:

(a) leases of the Borrower and its Subsidiaries in existence on the Closing Date and any renewal, extension or refinancing thereof;

(b) operating leases entered into by the Borrower and its Subsidiaries in the ordinary course of business (including any in existence on the Closing Date) for which the aggregate amount of Rentals (as hereinafter defined) payable by (i) the Borrower and its Subsidiaries (other than MK Gain) on a consolidated basis in any Fiscal Year in respect of such lease and all other such leases would exceed Fifteen Million Dollars ($15,000,000) or (ii) MK Gain and its Subsidiaries (on a consolidated basis) in any Fiscal Year in respect of such lease and all other such leases would exceed Four Million Dollars ($4,000,000); where the term "Rentals" means all payments due from the lessee or sublessee under a lease, including, without limitation, basic rent, percentage rent, property taxes, utility or maintenance costs, and insurance premiums;

(c) capital leases other than those permitted under clause (a) of this Section, entered into by the Borrower or any Subsidiary after the Closing Date to finance the acquisition of equipment; provided that the aggregate rental payments for all such capital leases shall not exceed

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$5,000,000 less the amount of any outstanding purchase money Indebtedness permitted under Section 7.05(e); and

(d) sale-leasebacks of locomotives by the Borrower or Boise Locomotive in the ordinary course of its business, which sale-leaseback transactions are otherwise done in compliance with Section 7.02(c) above.

7.11 Restricted Payments; No Permitted Restrictions for Subsidiaries. (a) The Borrower shall not, and shall not suffer or permit any Subsidiary to, declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of its capital stock, or purchase, redeem or otherwise acquire for value any shares of its capital stock or any warrants, rights or options to acquire such shares, now or hereafter outstanding; except that:

(i) the Borrower may declare and make dividend payments or other distributions payable solely in its common stock;

(ii) the Borrower may purchase, redeem or otherwise acquire shares of its common stock or warrants or options to acquire any such shares with the proceeds received from the substantially concurrent issue of new shares of its common stock;

(iii) any Subsidiary may declare and pay cash dividends to the Borrower;

(iv) so long as no Default or Event of Default shall have occurred or would result after giving effect thereto, the Borrower may make cash dividend payments on its common stock not in excess of $3,000,000 in any Fiscal Year; and

(v) Motor Coils or Touchstone may declare and pay dividends to MotivePower Investments in the form of promissory notes which otherwise satisfy the terms and conditions for loans under Section 7.04(c) (as if such dividend constituted a loan from MotivePower Investments instead of the Borrower).

(b) The Borrower shall not permit any of its Subsidiaries (other than MK Gain) to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Subsidiary to (I) pay dividends or make any other distributions to the Borrower or any of its other Subsidiaries (1) on its capital stock or (2) with respect to any other interest or participation in, or measured by, its profits, (II) pay any indebtedness owed to the Borrower or any of its other Subsidiaries, (III) make loans or advances to the Borrower or any of its other Subsidiaries, or (IV) transfer any of its properties or assets to the Borrower or any of its other Subsidiaries (collectively, "Encumbrances"), except for such Encumbrances existing under or by reason of (1) this Agreement, (2) applicable law, (3) customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices, or (4) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in paragraph (b)(IV) above on the property so acquired.

7.12 ERISA. The Borrower shall not, and shall not suffer or permit any of its ERISA Affiliates to: (a) engage in a prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in liability of the Borrower in an aggregate amount in excess of $500,000; or (b) engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

7.13 Change in Business; Holding Companies; FSC Operations. The Borrower shall not, and shall not suffer or permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on

by the Borrower and its Subsidiaries on the date hereof. Both the Borrower and

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MotivePower Investments shall only act as holding companies to own the capital stock of their Subsidiaries and shall not own other assets or conduct business operations except in accordance with past practices as in effect immediately after the Reorganization. The FSC will only be permitted to engage in business as a foreign sales corporation on a commission basis, being commissioned for foreign sales on an acceptable basis within the IRS guidelines, and will not have any assets or property of any kind other than Accounts then due and owing in the ordinary course of business from foreign Persons in aggregate amounts not in excess of $5,000,000 (and provided that an equivalent account receivable is created in favor of one of the Guarantors or the Borrower) and a minimal amount in a bank account which may be maintained in Barbados.

7.14 Accounting Changes. The Borrower shall not, and shall not suffer or permit any Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the fiscal year of the Borrower or of any Subsidiary.

7.15 Capital Expenditures. The Borrower shall not, and shall not permit any Subsidiary to make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the Borrower and its Subsidiaries on a consolidated basis would exceed during any Fiscal Year the amount of $15,000,000 plus an amount equal to the proceeds of equipment sales which are made and reinvested in replacement equipment in accordance with Section 7.02(b) during any Fiscal Year.

7.16 Maximum Ratio of Funded Debt to Cash Flow. The Borrower (on a consolidated basis with its subsidiaries other than MK Gain) shall not permit the ratio as of the last day of each Fiscal Quarter after the Closing Date of its (A) Funded Debt as of such date to (B) Cash Flow for the immediately preceding four Fiscal Quarters ending on such date, to be greater than (i) 3.50:1.00 for Fiscal Quarters ending during Fiscal Year 1997, (ii) 3.25:1.00 for Fiscal Quarters ending during Fiscal Year 1998, and (iii) 3.00:1.00 thereafter.

7.17 Minimum Tangible Net Worth. The Borrower (on a consolidated basis with its Subsidiaries other than MK Gain) shall not permit its Tangible Net Worth at any time to be less than the sum of (i) 90% of actual Tangible Net Worth as of December 31, 1996 (which excludes MK Gain), plus (ii) 75% of the Borrower's cumulative net income (which excludes MK Gain, and shall not in any event be reduced by losses) commencing January 1, 1997.

7.18 Minimum Fixed Charges Coverage Ratio. The Borrower (on a consolidated basis with its Subsidiaries other than MK

Gain) shall not permit the ratio of its (A)(i) EBITDA, plus (ii) rent expense pursuant to all operating leases to (B) Fixed Charges, as of the last day of each Fiscal Quarter after the Closing Date for the immediately preceding four Fiscal Quarters ending as of the last day of each such Fiscal Quarter, to be less than 1.25:1.00.

ARTICLE VIII

EVENTS OF DEFAULT

8.01 Event of Default. Any of the following shall constitute an "Event of Default":

(a) Non-Payment. The Borrower fails to make, (i) when and as required to be made herein, payments of any amount of principal of any Loan, or (ii) within 3 days after the same becomes due, payment of any interest, fee or any other amount payable hereunder or under any other Loan Document including, without limitation, any Specified Swap Contract; or

(b) Representation or Warranty. Any representation or warranty by the Borrower or any of its Subsidiaries made or deemed made herein, in any other Loan Document, or which is contained in any certificate, document or financial or other statement by the Borrower, any Borrowing Subsidiary, or any Responsible Officer, furnished at any time under this Agreement, or in or under any other Loan Document is incorrect in any material respect on or as of the date made or deemed made; or

(c) Specific Defaults. The Borrower fails to perform or observe any term, covenant or agreement contained in (i) any of Section 6.01, 6.02, 6.03 for a period of five (5) days or (ii) in any of Section 6.06 or 6.13 or in Article VII; or

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(d) Other Defaults. The Borrower or any of its Subsidiaries fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document to which it is a party, and such default shall continue unremedied for a period of 20 days after the earlier of (i) the date upon which a Responsible Officer knew or reasonably should have known of such failure or (ii) the date upon which written notice thereof is given to the Borrower by the Agent or any Lender; or

(e) Cross-Default. The Borrower or any of its Subsidiaries (other than MK Gain) (A) fails to make any payment in respect of any Indebtedness, preferred stock or Contingent Obligation, having an aggregate principal amount or redemption price (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than $1,000,000 when due

(whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure; or (B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness, preferred stock or Contingent Obligation, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or preferred stock or beneficiary or beneficiaries of such Indebtedness or preferred stock (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness or preferred stock to be declared to be due and payable prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or

(f) Insolvency; Voluntary Proceedings. The Borrower or any of its Subsidiaries (i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

(g) Involuntary Proceedings. (i) Any involuntary Insolvency Proceeding is commenced or filed against the Borrower or any of its Subsidiaries, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of the Borrower's or any of its Subsidiary's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the Borrower or any of its Subsidiaries admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the Borrower or any of its Subsidiaries acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) ERISA. (i) An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess

of $1,000,000; or (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds $1,000,000; or (iii) the Borrower or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate

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amount in excess of $1,000,000; or

(i) Monetary Judgments. One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Borrower or any Guarantor involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of $500,000 or more, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 10 days after the entry thereof; or

(j) Non-Monetary Judgments. Any non-monetary judgment, order or decree is entered against the Borrower or any of its Subsidiaries which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) Change of Control. There occurs any Change of Control; or

(l) Loss of Licenses. Any other Governmental Authority revokes or fails to renew any license, permit or franchise of the Borrower or any Subsidiary, or the Borrower or any Subsidiary for any reason loses any material license, permit or franchise, or the Borrower or any Subsidiary suffers the imposition of any restraining order, escrow, suspension or impound of funds in connection with any proceeding (judicial or administrative) with respect to any license, permit or franchise and the result is a Material Adverse Effect; or

(m) Adverse Change. There occurs a Material Adverse Effect; or

(n) Guarantor Defaults. Any Guarantor fails in any material respect to perform or observe any term, covenant or agreement in the Guaranty; or the Guaranty is for any reason partially (including with respect to future advances) or wholly revoked or invalidated, or otherwise ceases to be in full force and effect, or the Guarantor or any other Person contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder; or any event described at subsections (f) or (g) of this Section occurs with respect to any Guarantor; or

(o) Collateral.

(i) any provision of any Collateral Document shall for any reason cease to be valid and binding on or enforceable against the Borrower or any of its Subsidiaries party thereto or the Borrower or any of its Subsidiaries shall so state in writing or bring an action to limit its obligations or liabilities thereunder; or

(ii) any Collateral Document shall for any reason (other than pursuant to the terms thereof) cease to create a valid security interest in the Collateral purported to be covered thereby or such security interest shall for any reason cease to be a perfected and first priority security interest subject only to Permitted Liens; or

(p) Cross-Acceleration to MK Gain Debt. A default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness of MK Gain or any of its Subsidiaries (or any Guaranty Obligation of MK Gain or any of its Subsidiaries), whether such Indebtedness or Guaranty Obligation now exists or shall be created after the date hereof, which default (a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness or Guaranty Obligation prior to the expiration of the grace period provided in such Indebtedness (a "Payment Default") or (b) results in the acceleration of such Indebtedness or Guaranty Obligation prior to its express maturity and, in each case, the principal amount of such Indebtedness or Guaranty Obligation, together with the principal amount of any other Indebtedness or Guaranty Obligation as to which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $1,000,000 or more; or

(q) Locomotive Leases. Any default, violation or breach shall occur in any covenants or agreements contained in any lease documents pursuant to which the Borrower or Boise Locomotive leases railroad locomotives from any other Person, and such locomotive lease shall be terminated, or such default,

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violation or breach shall continue, for more than the applicable grace period (and shall not have been waived in writing), and shall give the lessor thereunder the right to terminate such locomotive lease or otherwise bring suit of any kind against the Borrower or Boise Locomotive for injunctive relief, damages or other penalties or costs of any kind; or

8.02 Remedies. If any Event of Default occurs, the Agent shall, at the request of, or may, with the consent of, the Majority Lenders,

(a) declare the commitment of each Lender to make Loans to be terminated, whereupon such commitments shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and

(c) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

provided, however, that upon the occurrence of any event specified in subsection (f) or (g) of Section 8.01 (in the case of clause (i) of subsection (g) upon the expiration of the 60-day period mentioned therein), the obligation of each Lender to make Loans shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Agent or any Lender.

8.03 Specified Swap Contract Remedies. Notwithstanding any other provision of this Article VIII, each Specified Swap Provider shall have the right, with prior notice to the Agent, but without the approval or consent of the Agent or the other Lenders, with respect to any Specified Swap Contract of such Specified Swap Provider, (a) to declare an event of default, termination event or other similar event thereunder, (b) to determine net termination amounts in accordance with the terms of such Specified Swap Contract, and (c) to prosecute any legal action against the Borrower to enforce net amounts owing to such Specified Swap Provider.

8.04 Rights Not Exclusive. (a) The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

(b) If an Event of Default exists: (i) the Agent shall have for the benefit of the Lenders, in addition to all other rights of the Agent and the Lenders, the rights and remedies of a secured party under the UCC; (ii) the Agent may, at any time, take possession of the Collateral and keep it on the applicable Borrower's or any Guarantor's premises, at no cost to the Agent or any Lender, or remove any part of it to such other place or places as the Agent may desire, or the Borrower shall, upon the Agent's demand, at the Borrower's cost, assemble the Collateral and make it available to the Agent at a place reasonably convenient to the Agent; and (iii) the Agent may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as the Agent deems advisable, in its sole discretion, and may, if the Agent

deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, the Borrower agrees that any notice by the Agent of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable

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notice to the Borrower if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or is delivered personally against receipt, at least five (5) Business Days prior to such action to the Borrower's address specified in or pursuant to Section 10.12. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Agent or the Lenders receive payment, and if the buyer defaults in payment, the Agent may resell the Collateral without further notice to the Borrower or any other Person. In the event the Agent seeks to take possession of all or any portion of the Collateral by judicial process, the Borrower and the Guarantors irrevocably waive: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required; (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (c) any requirement that the Agent retain possession and not dispose of any Collateral until after trial or final judgment. The Borrower and the Guarantors agree that the Agent has no obligation to preserve rights to the Collateral or marshal any Collateral for the benefit of any Person. The Agent is hereby granted a license or other right to use, without charge, the Borrower's and the Guarantors' labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter, or any similar property, in completing production of, advertising or selling any Collateral, and the Borrower's and the Guarantors' rights under all licenses and all franchise agreements shall inure to the Agent's benefit. The proceeds of sale shall be applied in accordance with this Agreement and the Borrower shall remain liable for any deficiency.

(c) Supporting Letter of Credit; Cash Collateral. If any Letter of Credit is outstanding upon the termination of this Agreement, then upon such termination the Borrower shall deposit with the Agent, for the ratable benefit of the Lenders, with respect to each Letter of Credit then outstanding, as the Majority Lenders, in their sole discretion shall specify, either (A) a standby letter of credit (a "Supporting Letter of Credit") in form and substance satisfactory to the Agent, issued by an issuer satisfactory to the Agent and in an amount equal to the greatest amount for which such Letter of Credit may be drawn, under which Supporting Letter of Credit the Agent is entitled to draw amounts necessary to reimburse the Agent and the Lenders for payments made by the Agent and the Lenders under such Letter of Credit or under any credit support or enhancement provided through the Agent with respect thereto, or (B) cash in amounts

necessary to reimburse the Agent and the Lenders for payments made or to be made (including, without limitation, the amount that the Agent estimates will be necessary to cover its expenses and legal fees in connection therewith) by the Agent or the Lenders under such Letter of Credit or under any credit support or enhancement provided through the Agent with respect thereto. Such Supporting Letter of Credit or deposit of cash shall be held by the Agent, for the ratable benefit of the Lenders, as security for, and to provide for the payment of, the aggregate undrawn amount of such Letters of Credit remaining outstanding.

8.05 Certain Financial Covenant Defaults. In the event that, after taking into account any extraordinary charge to earnings taken or to be taken as of the end of any fiscal period of the Borrower (a "Charge"), and if solely by virtue of such Charge, there would exist an Event of Default due to the breach of any of Sections 7.16, 7.17, or 7.18 as of such fiscal period end date, such Event of Default shall be deemed to arise upon the earlier of (a) the date after such fiscal period end date on which the Borrower announces publicly it will take, is taking or has taken such Charge (including an announcement in the form of a statement in a report filed with the SEC) or, if such announcement is made prior to such fiscal period end date, the date that is such fiscal period end date; and (b) the date the Borrower delivers to the Agent its audited annual or unaudited quarterly financial statements in respect of such fiscal period reflecting such Charge as taken.

ARTICLE IX

THE AGENT

9.01 Appointment and Authorization; "Agent". Each Lender hereby irrevocably (subject to Section 9.09) appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties

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as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to the Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of

market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

9.02 Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.03 Liability of Agent. None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by the Borrower or any Subsidiary or Affiliate of the Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or for the value of or title to any Collateral, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of the Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower or any of the Borrower's Subsidiaries or Affiliates.

9.04 Reliance by Agent. (a) The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Majority Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in

refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Majority Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

(b) For purposes of determining compliance with the conditions specified in Section 4.01, each Lender that has executed this Agreement shall be

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deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either (i) if it is in substantially the form sent by the Agent to such Lender for consent, approval, acceptance or satisfaction, or (ii) required to be consented to or approved by or acceptable or satisfactory to such Lender on the Closing Date, to the extent not so delivered to such Lender but available at Closing.

9.05 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Agent for the account of the Lenders, unless the Agent shall have received written notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Agent will notify the Lenders of its receipt of any such notice. The Agent shall take such action with respect to such Default or Event of Default as may be requested by the Majority Lenders in accordance with Article VIII; provided, however, that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Lenders.

9.06 Credit Decision. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries, the value of and title to any Collateral, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and has made its own decision to enter into this Agreement and to extend credit to the Borrower and its Borrowing Subsidiaries hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to

make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders by the Agent, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Borrower which may come into the possession of any of the Agent-Related Persons.

9.07 Indemnification of Agent. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of the Borrower and without limiting the obligation of the Borrower to do so), pro rata, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including, without limitation, Attorney Costs) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent is not reimbursed for such expenses by or on behalf of the Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Agent.

9.08 Agent in Individual Capacity. BofA and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in, engage in Swap Contracts and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Borrower and its Subsidiaries and Affiliates as though BofA were not the Agent hereunder and without notice to or consent of the Lenders. The Lenders

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acknowledge that, pursuant to such activities, BofA or its Affiliates may receive information regarding the Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Borrower or such Subsidiary) and acknowledge that the Agent shall be under no obligation to provide such information to them. With respect to its Loans, BofA shall have the same rights and powers under this Agreement as any other Lender and may exercise

the same as though it were not the Agent, and the terms "Lender" and "Lenders" include BofA in its individual capacity.

9.09 Successor Agent. The Agent may, and at the request of the Majority Lenders shall, resign as Agent upon 30 days' notice to the Lenders. If the Agent resigns under this Agreement, the Majority Lenders shall appoint from among the Lenders a successor agent for the Lenders which successor agent shall be approved by the Borrower. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Lenders and the Borrower, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent, and the term "Agent" shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article IX and Sections 10.04 and 10.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is 30 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Agent hereunder until such time, if any, as the Majority Lenders appoint a successor agent as provided for above.

9.10 Withholding Tax. (a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the Code and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Lender agrees with and in favor of the Agent, to deliver to the Agent:

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms 1001 and W-8 before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form 4224 before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement, and two copies of IRS Form W-9; and

(iii) such other form or forms as may be required under the Code or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees to promptly notify the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form 1001 and

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such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Lender, such Lender agrees to notify the Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Borrower to such Lender. To the extent of such percentage amount, the Agent will treat such Lender's IRS Form 1001 as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form 4224 with the Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, the Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to the Agent, then the Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify the Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Agent under this Section, together with all costs and expenses (including Attorney Costs). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

9.11 Collateral Matters. (a) The Agent is authorized on behalf of all the Lenders, without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any Collateral or the Collateral Documents which may be necessary to perfect and maintain perfected the security interest in and Liens upon the Collateral granted pursuant to the Collateral Documents.

(b) The Lenders irrevocably authorize the Agent, at its option and in its discretion, to release any Lien granted to or held by the Agent (on behalf of the Lenders or otherwise) upon any Collateral (i) upon termination of the Commitments and payment in full of all Loans and all other Obligations known to the Agent and payable under this Agreement or any other Loan Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; (iii) constituting property in which the Borrower or any Subsidiary owned no interest at the time the Lien was granted or at any time thereafter; (iv) constituting property leased to the Borrower or any Subsidiary under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by the Borrower or such Subsidiary to be, renewed or extended; (v) consisting of an instrument evidencing Indebtedness or other debt instrument, if the indebtedness evidenced thereby has been paid in full; or (vi) if approved, authorized or ratified in writing by the Majority Lenders or all the Lenders, as the case may be, as provided in Section 10.01(f). Upon request by the Agent at any time, the Lenders will confirm in writing the Agent's authority to release particular types or items of Collateral pursuant to this Section 9.11(b), provided that the absence of any such confirmation for whatever reason shall not affect the Agent's rights under this Section 9.11.

(c) Each Lender agrees with and in favor of each other (which agreement shall not be for the benefit of the Borrower or any Subsidiary) that the Borrower's obligation to such Lender under this Agreement and the other Loan Documents is not and shall not be secured by any real property collateral now or hereafter acquired by such Lender other than the real property described in the Mortgages.

ARTICLE X

MISCELLANEOUS

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10.01 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Borrower or any Subsidiary therefrom, shall be effective unless the same shall be in writing and signed by the Majority Lenders (or by the Agent at the written request of the Majority Lenders) and the Borrower and

acknowledged by the Agent, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Lenders and the Borrower and acknowledged by the Agent, do any of the following:

(a) increase or extend the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02);

(b) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document;

(c) reduce the principal of, or the rate of interest specified herein on any Loan, or (subject to clause (ii) below) any fees or other amounts payable hereunder or under any other Loan Document;

(d) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans which is required for the Lenders or any of them to take any action hereunder; or

(e) amend this Section, or Section 2.14, or any provision herein providing for consent or other action by all Lenders; or

(f) discharge any Guarantor, or release any portion of the Collateral except as otherwise may be provided in the Collateral Document or this Agreement or except where the consent of the Majority Lenders only is specifically provided for;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Majority Lenders or all the Lenders, as the case may be, affect the rights or duties of the Agent under this Agreement or any other Loan Document, and (ii) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed by the respective parties thereto.

10.02 Notices. (a) All notices, requests, consents, approvals, waivers and other communications shall be in writing and mailed, faxed or delivered, to the address or facsimile number specified for notices on Schedule 10.02 (including, unless the context expressly otherwise provides, by facsimile transmission, provided that any matter transmitted by the Borrower by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on Schedule 10.02, and (ii) shall be followed promptly by delivery of a hard copy original thereof) or, if directed to the Borrower (at the address set forth below), or, in the case of any Person

to such other address as shall be designated by such Person in a written notice to the other parties, and as directed to any other party, at such other address as shall be designated by such party in a written notice in compliance with this Section 10.02.

Notices to the Borrower should be addressed as follows:

MotivePower Industries, Inc.
200 Reedsdale Street
Pittsburgh, PA 15233
Attention: General Counsel and Treasurer

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Telecopy No.: (412) 237-2269

with a copy to:

Doepken Keevican & Weiss
Professional Corporation
37th Floor, USX Tower
600 Grant Street
Pittsburgh, PA 15219
Attention: James F. Bauerle
Telecopy No.: (412) 355-2609

(b) All such notices, requests and communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the U.S. mail, or if delivered, upon delivery; except that notices pursuant to Article II or IX shall not be effective until actually received by the Agent.

(c) Any agreement of the Agent and the Lenders herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Borrower. The Agent and the Lenders shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Borrower to give such notice and the Agent and the Lenders shall not have any liability to the Borrower or other Person on account of any action taken or not taken by the Agent or the Lenders in reliance upon such telephonic or facsimile notice. The obligation of the Borrower to repay the Loans and other obligations hereunder shall not be affected in any way or to any extent by any failure by the Agent and the Lenders to receive written confirmation of any telephonic or facsimile notice or the receipt by the Agent and the Lenders of a confirmation which is at variance with the terms understood by the Agent and the Lenders to be contained in the telephonic or facsimile notice.

10.03 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or

partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

10.04 Costs and Expenses. The Borrower shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse BofA (including in its capacity as Agent) within five Business Days after demand (subject to Section 4.01(e)) for all costs and expenses incurred by BofA (including in its capacity as Agent) in connection with the development, preparation, delivery, syndication, administration and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including reasonable Attorney Costs incurred by BofA (including in its capacity as Agent) with respect thereto; and

(b) pay or reimburse the Agent, the Arranger and each Lender within five Business Days after demand (subject to Section 4.01(e)) for all costs and expenses (including, without limitation, Attorney Costs) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans, and including in any Insolvency Proceeding or appellate proceeding); and

(c) pay or reimburse BofA (including in its capacity as Agent) within five Business Days after demand (subject to Section 4.01(e)) for all appraisal (including the allocated cost of internal appraisal services), audit, environmental inspection and review (including the allocated cost of such internal services), search and filing costs, fees and expenses, incurred or sustained by BofA (including in its capacity as Agent) in connection with the matters referred to under subsections (a) and (b) of this Section.

10.05 Borrower Indemnification. (a) Whether or not the transactions

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contemplated hereby are consummated, the Borrower shall indemnify, defend and hold the Agent-Related Persons, and each Lender and each of its respective officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including, without limitation, Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans and termination of all Specified Swap Contracts and the termination, resignation or replacement of

the Agent or replacement of any Lender) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement or any Specified Swap Contracts or the Loans or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, that the Borrower shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting solely from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

(b) (i) The Borrower shall indemnify, defend and hold harmless each Indemnified Person, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses or disbursements (including, without limitation, Attorney Costs and the allocated cost of internal environmental audit or review services), which may be incurred by or asserted against such Indemnified Person in connection with or arising out of any pending or threatened investigation, litigation or proceeding, or any action taken by any Person, with respect to any Environmental Claim arising out of or related to any property, whether or not subject to a Mortgage in favor of the Agent or any Lender, or arising out of or related to any operations of the Borrower. No action taken by legal counsel chosen by the Agent or any Lender in defending against any such investigation, litigation or proceeding or requested remedial, removal or response action shall vitiate or in any way impair the Borrower's obligation and duty hereunder to indemnify and hold harmless the Agent and each Lender.

(ii) In no event shall any site visit, observation, or testing by the Agent or any Lender (or any contractee of the Agent or any Lender) be deemed a representation or warranty that Hazardous Materials are or are not present in, on, or under, the site, or that there has been or shall be compliance with any Environmental Law. Neither the Borrower nor any other Person is entitled to rely on any site visit, observation, or testing by the Agent or any Lender. Neither the Agent nor any Lender owes any duty of care to protect the Borrower or any other Person against, or to inform the Borrower or any other party of, any Hazardous Materials or any other adverse condition affecting any site or property. The Agent or any Lender may in its discretion disclose to the Borrower or any other Person any report or findings made as a result of, or in connection with, any site visit,

observation, or testing by the Agent or any Lender. The Borrower understands and agrees that the Agent and the Lenders make no warranty or representation to the Borrower or any other Person regarding the truth, accuracy or completeness of any such report or findings that may be disclosed. The Borrower also understands that, depending on the results of any site visit, observation or testing by the Agent or any Lender and disclosed to the Borrower, the Borrower may have a legal obligation to notify one or more environmental agencies of the results, that such reporting requirements are site-specific, and are to be

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evaluated by the Borrower without advice or assistance from the Agent or any Lender.

(c) The obligations in this Section shall survive payment of all other Obligations. At the election of any Indemnified Person, the Borrower shall defend such Indemnified Person using legal counsel satisfactory to such Indemnified Person in such Person's sole discretion, at the sole cost and expense of the Borrower. All amounts owing under this Section shall be paid within 30 days after demand.

10.06 Marshalling; Payments Set Aside. Neither the Agent nor the Lenders shall be under any obligation to marshall any assets in favor of the Borrower or any other Person or against or in payment of any or all of the Obligations. To the extent that the Borrower makes a payment to the Agent or the Lenders, or the Agent or the Lenders exercise their right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) 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 set-off had not occurred, and (b) each Lender severally agrees to pay to the Agent upon demand its pro rata share of any amount so recovered from or repaid by the Agent.

10.07 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Agent and each Lender.

10.08 Assignments, Participations, etc. (a) Any Lender may, with the written consent of the Borrower at all times other than during the existence of a Default or an Event of Default, and the written consent of the Agent, which consents of the Borrower and the Agent shall not be unreasonably withheld, at any time assign

and delegate to one or more Eligible Assignees (provided that no written consent of the Borrower or the Agent shall be required in connection with any assignment and delegation by a Lender to an Eligible Assignee that is an Affiliate of such Lender) (each an "Assignee") all, or any ratable part of all, of the Loans, the Commitments and the other rights and obligations of such Lender hereunder, in a minimum amount of $5,000,000; provided, however, that (i) the Borrower and the Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (A) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Borrower and the Agent by such Lender and the Assignee; (B) such Lender and its Assignee shall have delivered to the Borrower and the Agent an Assignment and Acceptance in the form of Exhibit K ("Assignment and Acceptance") and (C) the assignor Lender or Assignee has paid to the Agent a processing fee in the amount of $3,500, (ii) if the assignor Lender or any of its Affiliates is a Specified Swap Provider with respect to any Specified Swap Contract, such Lender shall not assign all of its interest in the Loans and the Commitments to an Assignee unless such Assignee, or an Affiliate of such Assignee, shall also assume all obligations of such assignor Lender or Affiliate with respect to all such Specified Swap Contracts, and (iii) for purposes of clarification, if the Borrower is entitled to consent to any assignment, it shall be deemed to be reasonable for the Borrower to withhold such consent if the proposed assignee is a Person primarily engaged in, a parent corporation or Subsidiary of, or under common control with a Person primarily engaged in the manufacture of railroad locomotives.

(b) From and after the date that the Agent notifies the assignor Lender that it has received (and provided its consent with respect to) an executed Assignment and Acceptance and payment of the above-referenced processing fee (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents.

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(c) Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender pro tanto.

(d) Any Lender may at any time sell to one or more commercial banks or other Persons not Affiliates of the Borrower (a "Participant") participating interests in any Loans, the Commitment of that Lender and the other interests of that Lender (the "originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the originating Lender's obligations under this Agreement shall remain unchanged, (ii) the originating Lender shall remain solely responsible for the performance of such obligations, (iii) the Borrower and the Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Loan Documents, and (iv) no Lender shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment, consent or waiver would require unanimous consent of the Lenders as described in the first proviso to Section 10.01. In the case of any such participation, the Participant shall be entitled to the benefit of Sections 3.01, 3.03 and 10.05 as though it were also a Lender hereunder, and if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement.

(e) Notwithstanding any other provision in this Agreement, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Lender in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 C.F.R. ss.203.14, and such Federal Reserve Lender may enforce such pledge or security interest in any manner permitted under applicable law.

10.09 Confidentiality. Each Lender agrees to take and to cause its Affiliates to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information identified as "confidential" or "secret" by the Borrower and provided to it by the Borrower or any Subsidiary, or by the Agent on such Borrower's or Subsidiary's behalf, under this Agreement or any other Loan Document, and neither it nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with any other business now or hereafter existing or contemplated with the Borrower or any Subsidiary; except to the extent such information (i) was or becomes generally available to the public other than as a result of disclosure by the Lender, or (ii) was or becomes available on a non-confidential basis from a source other than the Borrower,

provided that such source is not bound by a confidentiality agreement with the Borrower known to the Lender; provided, however, that any Lender may disclose such information (A) at the request or pursuant to any requirement of any Governmental Authority to which the Lender is subject or in connection with an examination of such Lender by any such authority; (B) pursuant to subpoena or other court process; (C) when required to do so in accordance with the provisions of any applicable Requirement of Law; (D) to the extent reasonably required in connection with any litigation or proceeding to which the Agent, any Lender or their respective Affiliates may be party; (E) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (F) to such Lender's independent auditors and other professional advisors; (G) to any Participant or Assignee, actual or potential,

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provided that such Person agrees in writing to keep such information confidential to the same extent required of the Lenders hereunder; (H) as to any Lender or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Borrower or any Subsidiary is party or is deemed party with such Lender or such Affiliate; and (I) to its Affiliates.

10.10 Set-off. In addition to any rights and remedies of the Lenders provided by law, if an Event of Default exists or the Loans have been accelerated, each Lender is authorized at any time and from time to time, without prior notice to the Borrower, any such notice being waived by the Borrower to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the Borrower against any and all Obligations owing to such Lender, now or hereafter existing, irrespective of whether or not the Agent or such Lender shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Lender agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

10.11 Intentionally Omitted.

10.12 Notification of Addresses, Lending Offices, Etc. Each Lender shall notify the Agent in writing of any changes in the address to which notices to the Lender should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it hereunder and of such other administrative information as the Agent shall reasonably request.

10.13 Counterparts. This Agreement may be executed in any number of separate counterparts, each of which, when so executed,

shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument.

10.14 Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

10.15 No Third Parties Benefited. This Agreement is made and entered into for the sole protection and legal benefit of the Borrower, the Lenders, the Agent and the Agent-Related Persons, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

10.16 Governing Law and Jurisdiction. (a) THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF ILLINOIS; PROVIDED THAT THE AGENT AND THE LENDERS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY, THE AGENT AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE BORROWER, THE AGENT AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE BORROWER, THE AGENT AND THE LENDERS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY ILLINOIS LAW.

(c) Nothing contained in this Section shall override any contrary provision contained in any Swap Contract.

10.17 Waiver of Jury Trial. THE BORROWER, THE LENDERS AND THE AGENT EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION,

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PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE BORROWER, THE LENDERS AND THE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE

TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

10.18 Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Borrower, the Lenders and the Agent, and supersedes all prior or contemporaneous agreements and understandings (including, without limitation, that certain Commitment Letter dated December 30, 1996 among the Borrower, the Arranger, BofA and Bank of America Illinois) of such Persons, verbal or written, relating to the subject matter hereof and thereof except as otherwise set forth in Section 1.04 and the Fee Letter.

* * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in Chicago by their proper and duly authorized officers as of the day and year first above written.

MOTIVEPOWER INDUSTRIES, INC., as Borrower

By:

Title:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Agent and a Lender

By:

Title:

ABN AMRO BANK, N.V., as a Lender

By:

Title:

THE BANK OF NEW YORK, as a Lender

By:

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Title:

CORESTATES BANK, N.A., as a Lender

By:

Title:

CREDIT LYONNAIS NEW YORK BRANCH, as a Lender

By:

Title:

DG BANK DEUTSCHE GENOSSENSCHAFTS BANK, as a Lender

By:

Title:

MELLON BANK, N.A., as a Lender

By:

Title:

NATIONAL BANK OF CANADA, as a Lender

By:

Title:

NATIONAL CITY BANK, as a Lender

By:

Title:

PNC BANK, N.A., as a Lender

By:

Title:

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IN WITNESS WHEREOF, the undersigned have accepted and agreed to this Agreement as of the date first above written.

Motor Coils Manufacturing Company

By:
Title:

Engine Systems Company, Inc.

By:
Title:

Clark Industries Company

By:
Title:

Power Parts Company

By:
Title:

Touchstone Company

By:
Title:

MotivePower Investments Limited

By:
Title:

Boise Locomotive Company

By:
Title:

MotivePower Foreign Sales Corporation

By:
Title:

SCHEDULE 2.01

<TABLE>
<CAPTION>

COMMITMENTS
AND PRO RATA SHARES

Lender	Commitment	Term Commitment	Revolving Commitment	Pro Rata Share
<S>	<C>	<C>	<C>	<C>
Bank of America NT & SA	$12,000,000	$ 3,199,999.97	$ 8,800,000.03	16.0003%
ABN AMRO Bank, N.A.	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%

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The Bank of New York	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
Corestates Bank, N.A.	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
Credit Lyonnais New York Branch	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
DG Bank Deutsche Gennossenschafts Bank	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
Mellon Bank, N.A.	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
National Bank of Canada	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
National City Bank of Pennsylvania	$ 7,000,000	$ 1,866,666.67	$ 5,133,333.33	9.3333%
PNC Bank, N.A.	$ 7,000,000	$ 1,866,666.67	$ 5,133.333.33	9.3333%
TOTAL	$75,000,000	$20,000,000.00	$55,000,000.00	100%

</TABLE>

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Exhibit 10.60

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made as of July 1, 1996, between MK RAIL CORPORATION, a Delaware corporation ("Company"), and MICHAEL A. WOLF ("Employee").

In consideration of the covenants and agreements herein contained, the parties agree as follows:

1. EMPLOYMENT TERM

The Company shall employ Employee as President and Chief Executive Officer of the Company and Employee hereby accepts such employment with the Company, from the date hereof for a period of twenty-four (24) months. After the first calendar month of employment under this Agreement and each succeeding calendar month through June 30, 1999, this Agreement will be extended by one month, so that there remains a twenty-four (24) month term at all times through June 30, 1999. Thereafter, this Agreement shall be for a term expiring on July 1, 2001, unless sooner terminated in accordance with the terms hereof.

2. DUTIES

During the term of this Agreement, Employee shall devote his full business time and energies to the business and affairs of the Company and shall not accept other employment or permit his personal business interests to interfere with the performance of his duties hereunder. Employee agrees to use his reasonable best efforts, skills and abilities to promote the interests of the Company, to serve as President and Chief Executive Officer of the Company and to perform such duties consistent with this appointment as may be assigned to him, and shall be supervised by the Chairman of the Company's Board of Directors ("Chairman") and the Company's Board of Directors (the "Board"). Employee will be nominated to fill the vacant seat on the Board formerly held by Michael J. Farrell, formerly the Company's Chief Executive Officer, for the remaining term thereof (until the 1997 annual meeting of stockholders). During the term of this Agreement, the Company will use all reasonable best efforts to support and recommend the Employee for the Board, including placing his name on management's list of nominees for the Board in the Company's proxy statements, and if requested by the Chairman or the Board, the Employee shall serve as a member of the board of directors and as an officer of any of the Company's subsidiaries.

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3. COMPENSATION

3.1 Salary

In consideration for Employee's services hereunder, the Company will pay to Employee, beginning July 1, 1996, a base salary at the annual gross rate of $375,000, which will be paid in accordance with the Company's normal payroll practice in arrears, less normal payroll deductions, and less any deferrals under the terms of the Deferred Compensation Plan for Michael A. Wolf (as described in Section 3.5 hereof). The Company's Compensation Committee shall review Employee's salary periodically in accordance with its customary salary review practices not less often than it conducts salary reviews of other executives of the Company. From time to time, the Company may, but shall not be obligated to, award Employee cost of living or merit increases, or other additional amounts as the Compensation Committee determines, in its discretion.

3.2 Lump Sum Signing Bonus

The Company will also pay Employee a single lump sum payment of $100,000 upon execution of this Agreement. However, if Employee voluntarily terminates his employment before July 1, 1997, Employee agrees to repay to the Company the amount of $100,000 within thirty (30) days of the date of termination.

3.3 Incentive Bonus Plan

The Company intends to prepare (with the assistance of the Employee) a bonus plan for the Company's senior management, under which a bonus may be earned by Employee with respect to 1997 and subsequent calendar years. The performance objectives, criteria and formulae that will be used to determine the amount of bonus payable for each year will be determined by the Compensation Committee of the Board as soon as administratively practicable after the approval of the bonus plan.

3.4 Restricted Stock and Stock Options

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As an additional material inducement for the Employee's entering into this Agreement and his undertaking to perform the services referred to herein, the Employee will receive upon his commencement of employment hereunder:

(a) 100,000 shares of common stock restricted as to their ability to be sold (the "Restricted Stock"), the restrictions to lapse at the close of business on June 30, 2001, so long as the Employee is still in the employ of the Company on that date, unless otherwise expressly provided in this Agreement. On the date on which the restrictions lapse or as soon as thereafter as reasonably

practicable, all legends will be removed and fully registered and freely transferrable stock certificates for the shares for which the restrictions have lapsed shall be issued to the Employee. The grant of the Restricted Stock shall be made under the Company's Stock Incentive Plan ("Stock Incentive Plan"), a copy of which has been provided to the Employee.

(b) Stock appreciation rights ("SARs") entitling the Employee to the appreciation in the value of 400,000 shares of common stock of the Company from the May 13, 1996 to the date of exercise. Due to the current insufficiency of stock available under the Stock Incentive Plan, SARs in respect of all 400,000 shares shall be issued pursuant to a Stock Appreciation Right Agreement (the "SAR Agreement"), a copy of which is attached hereto as Exhibit A. The terms of the SARs shall be governed solely by the SAR Agreement attached hereto as Exhibit A. The SAR Agreement is not part of the Stock Incentive Plan, but provides, in effect, that an option granted under the Stock Incentive Plan (the "Plan Option") may be partially substituted for the SARs, all as set forth in the SAR Agreement. The exercise price of the Plan Option, if issued, shall be as set forth in paragraph 2(d) of the SAR Agreement, and the terms thereof shall otherwise be as set forth in the form of Stock Option Agreement under Stock Incentive Plan attached as Exhibit 1 to the SAR Agreement (the "Option Agreement").

(c) The Company will accurately, correctly and timely

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prepare and file or caused to be prepared and filed all reports required to be filed by the Employee pursuant to Section 16 of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory or common law, including without limitation Forms 3, 4 and 5 required to be filed with the Securities and Exchange Commission. The Employee will cooperate with the Company in assisting it in preparing and filing the reports.

3.5 Deferred Compensation Plan

Employee is entitled to participate in the Deferred Compensation Plan for Michael A. Wolf and the Trust Agreement related thereto, copies of which are attached as Exhibit B hereto.

3.6 Fringe Benefits

(a) Employee shall, during the term of this Agreement, be entitled to participate in all perquisites and health and welfare benefits consistent with the Company's policies for other executive personnel.

(b) In addition to any policies of life insurance obtained on the life of Employee in accordance with the Company's customary policies and practices, to the extent commercially available at standard rates, the Company shall purchase a policy of one-year renewable term life insurance on the life of Employee, naming as beneficiary or beneficiaries such person or persons as may be designated by Employee, with a death benefit of $1 million; provided, however, that if the cost of such insurance now or at any time during the term of this Agreement exceeds the cost of insuring a person of the same age as Employee who is in generally good health (the cost of insuring such a person is referred to as the "Standard Policy Cost"), the Company shall so advise Employee, who shall have the option of (i) paying the premiums in excess of the Standard Policy Cost, in which case the Company shall purchase a one- year renewable term life insurance policy on the life of Employee with a $1 million death benefit, or (ii) declining to pay the premiums in excess of the Standard Policy Cost, in which case the Company shall purchase a one-year renewable

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term life insurance policy on the life of Employee with a death benefit of such amount as can be purchased for the Standard Policy Cost. Any policy purchased by the Company shall provide that Employee will be able to continue the coverage, at Employee's sole option and expense, on termination of his employment under this Agreement with no additional physical examination after issuance of such policy for a period of at least 12 years.

3.7 Expenses

Employee shall, during the term of this Agreement, be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in the performance of his duties hereunder in accordance with the policies and procedures of the Company in effect as of the date thereof.

In addition, Employee's cost of relocating to the Pittsburgh, Pennsylvania area will be reimbursed to him in accordance with the Company's relocation benefit policy, any exceptions to be agreed upon in advance with the Chairman. The Company will reimburse the Employee for reasonable temporary living expenses incurred in the greater Pittsburgh, Pennsylvania area for 30 days following the commencement of his employment hereunder.

4. DISCHARGE FOR CAUSE

4.1 The Company shall have the right to terminate this Agreement and to discharge Employee for cause at any time without prior notice (except as provided below). Any termination notice sent to Employee shall be accompanied by a written statement of the reasons.

4.2 As used in this Agreement, the term "cause" shall mean and be limited to the following events:

(a) Employee's conviction with respect to any crime or offense involving money or other property of the Company, or of any other crime (whether or not involving the Company) that constitutes a felony in the jurisdiction involved; or

(b) A determination by a licensed physician that Employee is

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a chronic alcoholic or a narcotics addict; or

(c) Employee's (1) material and repeated failure to perform his duties in accordance with Section 2 of this Agreement, (2) material and repeated breach of any other provision of this Agreement, or (3) material violation of specific written directions of the Chairman or the Board, which directions are reasonably consistent with the provision of this Agreement; provided, however, that no discharge shall be deemed for cause under this Section 4.2(c) unless Employee shall have first received written notice from the Chairman or the Board advising Employee of the specific acts or omissions alleged to constitute a failure to perform his duties, and Employee has thereafter failed to correct the acts or omissions so complained of within a reasonable time, not to exceed 30 days, thereafter.

4.3 If terminated for cause as defined at Sections 4.2(a)-(c), Employee will not be entitled to receive any compensation or benefits with respect to any period after the effective date of such termination.

5. OTHER TERMINATION

5.1 In addition to a termination for cause as set forth in Section 4 of this Agreement, this Agreement and Employee's employment may be terminated as follows:

(a) This Agreement and the Company's obligation to pay salary and benefits hereunder shall terminate immediately upon Employee's death. In such event, net salary owed to Employee for work performed through the date of his death shall be paid by the Company to Employee's surviving wife; if Employee dies without a wife surviving, said payment will be made by the Company to Employee's legal heirs in accordance with relevant law. If Employee dies with a wife surviving, any health and dental insurance which was being provided to her per Section 3.6 at the time of Employee's death shall be continued at the Company's cost for a period of one year following the Employee's death.

(b) If, during the period of employment under this

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Agreement, Employee, in the opinion of a certified physician acceptable to the Company and Employee, becomes mentally or physically disabled so that Employee is unable to perform the regular duties of his employment on a full-time basis, Employee's salary will thereupon cease, and he shall be entitled to participate in the Company's salary continuation and long-term disability plans, in accordance with their terms and subject to their eligibility requirements.

(c) By the Company, without cause, upon prior written notice to Employee.

(d) By Employee, without cause, upon written notice to the Company.

5.2 (a) If terminated by the Company other than for cause pursuant to Section 5.1(c) hereof, Employee as his sole remedy (in lieu of all other rights and remedies) shall receive, at the option of the Company, either (i) continuation of his salary for the period, if any, that, absent such termination, would otherwise be remaining under the term of this Agreement, at the rate in effect immediately prior to such termination, or (ii) an amount equal to the present value of such salary continuation payments, payable within thirty (30) days following such termination, in each case subject to all normal payroll deductions. The present value shall be determined based on the prime or base rate of BankAmerica Business Credit, Inc. most recently announced as of the date the computation is made, or if BankAmerica Business Credit, Inc. ceases to announce such rate, as most recently reported in The Wall Street Journal as of the date the computation is made. If Employee dies before all such payments are made, they will be made instead to his surviving wife, or if his wife does not survive him, to his legal heirs in accordance with relevant law.

(b) If Employee dies, is terminated by disability pursuant to Section 5.1(b) hereof or is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof, Employee will retain any rights with respect to the SARs and, if provided, Plan Options, which have been awarded to him pursuant to this Agreement, and all shares not previously exercised will be exercisable as of the date of termination to the extent provided in the SAR Agreement and, if provided, in the Option Agreement.

(c) If Employee dies, is terminated by disability pursuant to Section 5.1(b) hereof or is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof,

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Employee will be immediately vested in the grant of 100,000 shares of the Company's common stock provided for in this Agreement.

(d) If Employee is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof, all employee benefits plans provided to Employee under Section 3.6(b) and (c) will continue for twelve months or until Employee finds new employment (whichever is sooner).

. (e) If Employee dies, is terminated by disability pursuant to Section 5.1(b) hereof or is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof or if this Agreement expires by its own terms on July 1, 2001, Employee and his spouse (or, in the event of Employee's death, either while employed or after termination, his surviving spouse alone) may continue to receive benefits under any group health care insurance plan, at Employee's (or his surviving spouse's) expense, to the extent permitted by the Consolidated Omnibus Budget Reconciliation Act of 1985 and, thereafter, for so long as Employee (or his surviving spouse) may desire and as may be permitted by the Company's health insurance provider. The Company will take reasonable measures to cause such coverage to be continued for so long as Employee (or his surviving spouse) may desire, provided that the Company shall not be obligated to incur any costs whatsoever to continue such coverage.

(f) If Employee is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof, the Company will pay expenses up to an amount equal to fifteen percent (15%) of Employee's annual salary at the time of such termination, reasonably incurred by Employee for legitimate commercial out placement service mutually acceptable to the parties. Promptly upon being advised of the name and address of any such service as has been selected by Employee, the Company will send that service written confirmation of the foregoing maximum commitment.

(g) If Employee is terminated by the Company other than for cause pursuant to Section 5.1(c) hereof, he shall

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receive a lump sum payment as compensation for his costs of relocating from Pittsburgh in an amount equal to $50,000 less $10,000 for each full year of employment with the Company.

5.3 Change of Control

(a) For purposes of this Agreement, the term "Change of Control" shall mean the occurrence of any of the following events:

(1) The Company is merged, consolidated or reorganized into or with another corporation or other entity, and as a result of the merger, consolidation or reorganization less than a majority of the combined voting power of the then-outstanding securities of the corporation

or entity immediately after the transaction is held in the aggregate by the holders of Voting Stock immediately prior to the transaction;

(2) The Company sells or otherwise transfers all or substantially all of its assets to another corporation or other entity and, as a result of the sale or transfer, less than a majority of the combined voting power of the then-outstanding securities of the other corporation or entity immediately after the sale or transfer is held in the aggregate by the holders of Voting Stock immediately prior to the sale or transfer;

(3) There is a report filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report or item therein), each as promulgated pursuant to the Exchange Act, disclosing that any Person, other than an Existing Stockholder or an MK Creditor Stockholder, has become the beneficial owner (as the term "beneficial owner" is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing 25% or more of the combined voting power of the Voting Stock;

(4) If, during any period of two consecutive years commencing on the date of this Agreement, individuals who at the beginning of that period constitute the Board of Directors of the Company cease for any reason to

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constitute at least two-thirds (2/3rds) thereof; provided, however, that for purposes of this clause (4) each Director of the Company who is first elected, or first nominated for election by the Company's stockholders, by a vote of at least a majority of the Directors of the Company (or a committee of the Board) then still in office who were Directors of the Company at the beginning of that period shall be deemed to have been a Director of the Company at the beginning of that period; or

(5) If Morrison Knudsen Corporation becomes the direct or indirect beneficial owner of Voting Stock which constitutes at least 75% of the voting power of all of the Voting Stock outstanding by reason of a tender offer made pursuant to Rule 13e-3 or 14d-1 of the rules under the Exchange Act as to which the Board of Directors of the Company has recommended that the Company's stockholders accept.

(b) For purposes of Section 5.3(a) the following terms shall have the following meanings:

(1) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(2) "Existing Stockholder" shall mean any Person who is the beneficial owner (as the term "beneficial owner" is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing 25% or more of the combined voting power of the Voting Stock as of the date hereof.

(3) "MK Creditor Stockholder" shall mean any Person who has acquired Voting Stock directly or indirectly from Morrison Knudsen Corporation in full or partial satisfaction of any indebtedness or obligation of Morrison Knudsen Corporation owed to such Person.

(4) "Person" means any "person" as used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act.

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(5) "Voting Stock" means stock of the Company of any class or series entitled to vote generally in the election of Directors.

(c) If such Change of Control occurs and Employee fully cooperates and assists with such Change of Control as reasonably requested by the Company, and:

(1) If after such Change of Control the purchaser/conveyee does not hire Employee and assume all obligations of this Agreement; or

(2) Employee is terminated other than for cause as defined at Sections 4.2(a)-(c), of this Agreement, either after such Change in Control occurs or in contemplation of or within ninety (90) calendar days prior to the occurrence of such Change in Control,

then the Company shall provide to Employee salary, stock options, stock grant, deferred compensation, benefit continuations, and benefits provided in Section 5.2.

6. CONFIDENTIAL INFORMATION

6.1 Beginning on the date hereof and at all times hereafter, Employee shall treat as confidential any proprietary, confidential or secret information. relating to the

business or interests of the Company, including information relating to its organizational structure, operations, business plans, research data or results, inventions, customer lists or other work product, whether developed by or for the Company and whether developed on the premises of the Company or elsewhere ("Confidential Information"). Beginning on the date hereof and at any time hereafter, Employee shall not, without the prior written consent of the Company, disclose or make use of in any manner or in any form Confidential Information, except to the extent necessary to perform the services required of him under this Agreement.

Within, a reasonable time after the termination of this Agreement, all Company records, information documents and

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other property of the Company in the possession of Employee, shall be returned by Employee to the Company.

6.2 The provisions of this section shall not apply to any proprietary, confidential or secret information which is, at the commencement of this Agreement or at some later date, known to the general public under circumstances involving no breach of this Agreement, or is lawfully and in good faith made available to Employee without restriction as to disclosure by a third party entitled to such information.

6.3 In consideration of the Company's payments to Employee under Section 5.1 or 5.2, and his employment hereunder, Employee agrees that, for a period of two (2) years from termination of employment, Employee will not:

(a) Contact, with a view towards selling any product or service competitive with any product or service sold by the Company at the time of the termination of Employee's employment with the Company (or within the preceding three years), or sell any such product or service to, any person, firm, association or corporation

(1) to which the Company sold any product or service during the 24 months immediately preceding the termination of Employee's employment with the Company; or

(2) which Employee solicited, contacted or otherwise dealt with on behalf of the Company during the 24 months immediately preceding the termination of Employee's employment with the Company;

(b) Make any such contact or sale either for the benefit of himself or for the benefit of any person, firm, association or corporation;

(c) In any manner, directly or indirectly, assist any person, firm, association or corporation to make any such contact or sale;

(d) Participate, engage or be interested, directly or indirectly, whether as director, officer, employee, advisor, consultant, stockbroker, partner, joint

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venture, owner, agent or in any other capacity, in any business, in whole or in part, in the nature of or competitive with the business of the Company in any geographic territory served by the Company at the time of termination of Employee's employment with the Company; or

(e) Directly or indirectly, employ or solicit for employment (by any person, firm, association or corporation other than the Company), or engage in any manner any employees of the Company, without the prior written consent of the Company.

The Company agrees to furnish to Employee a reasonable listing of competitors and customers within 90 days of termination.

6.4 Employee acknowledges that the restrictions contained in this Section 6 are reasonable in view of the nature of the business in which the Company is engaged, Employee's critical role in the Company's operations and Employee's detailed knowledge of the Company's Confidential Information, its business, customers, employees and suppliers and that such restrictions will not prevent Employee from earning a livelihood hereafter.

6.5 The parties acknowledge that any breach of this Section 6 will cause the Company irreparable harm for which the Company will have no adequate remedy at law. As a result, the Company will be entitled to the issuance by an arbitrator or court of competent jurisdiction of an injunction, restraining order or other equitable relief prohibiting Employee from committing or continuing any such violation. Any right to obtain an injunction, restraining order or other equitable relief hereunder will not be deemed a waiver of any right to assert any other remedy the Company may have under this Agreement or otherwise at law or in equity. The obligations of Employee pursuant to this Section 6 shall survive any termination of this Agreement.

7. OTHER OBLIGATIONS

Employee represents and warrants to the Company that he is not now under any obligation to any person, firm, corporation or other entity, and has no other interest which is known to be in conflict with his duties and obligations, and the terms and conditions of which would prevent, limit or impair in any way the performance by him of any of the covenants or duties set forth herein.

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8. NOTICES

All notices which either party hereto is required or permitted to give to the other will be given by certified mail or by personal delivery. The certified date of receipt of any such notice will deemed to be the date of delivery thereof.

9. WAIVERS

No waiver by either party of any breach of nonperformance of any provision or obligation of this Agreement shall be deemed to a waiver of any preceding or succeeding breach of the same or any other provision of this Agreement.

10. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between the parties and there are no representations, warranties, covenants or obligations except as set forth herein. This Agreement supersedes all prior and, contemporaneous agreements, understandings, negotiations and discussions, written or oral, between the parties hereto, relating to any transaction contemplated by the Agreement.

11. AMENDMENTS

This Agreement may be amended only in writing executed by the parties hereto.

12. RECITALS; ENUMERATION AND HEADINGS

The enumeration and headings contained in this Agreement are for convenience of reference only and are not intended to have any substantive significance in interpreting this Agreement.

13. GENDER AND NUMBER

Unless the context otherwise requires, whenever used in this Agreement the singular shall include the plural, the plural shall include the singular, and the masculine gender shall include the neuter or feminine gender and vice versa.

14. COMPUTATION OF TIME

Whenever any determination is to be made or action to be taken on a date specified in this Agreement, if such date shall fall upon a Saturday, Sunday or a legal holiday, the date for such determination or

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action shall be extended to the first business day immediately thereafter.

15. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterpart each of which when so executed and delivered shall be an original document, but all of which counterparts shall together constitute one and the same instrument. This Agreement shall not be effective unless and until executed by all parties hereto.

16 NONASSIGNABILITY

This Agreement and the benefits hereunder are personal to Employee and are not assignable or transferable by Employee to any person, firm or corporation. The Company may only assign this Agreement and the benefits hereunder to an affiliated person, firm or corporation.

17. MISCELLANEOUS

Should any of the provisions of this Agreement require judicial interpretation, it is agreed that the court or arbitrator interpreting or construing the Agreement shall not apply a presumption that any provision shall be more strictly construed against one party by reason of the rule of construction, that a document is to be construed more strictly against the party who itself or through its agents prepared the same, it being agreed that both parties and their respective agents have participated in the preparation of this Agreement,.

18. PARTIAL INVALIDITY

If any provision of this Agreement shall for any reason be held invalid or unenforceable by any court, governmental agency or arbitrator of competent jurisdiction, such invalidity or unenforceability shall be construed as if such invalid or unenforceable provision had never been contained herein.

19. GOVERNING LAWS

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

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20. ARBITRATION

With the exception of the exercise by the Company of its injunctive rights hereunder, all disputes arising under the agreement shall be submitted to binding arbitration in, Pittsburgh, Pennsylvania, to a single arbitrator chosen in accordance with the rules of the American

Arbitration Association as to the selection of the arbitrators and the procedures for the conduct of the arbitrator. Such arbitrator's decision shall be final and binding upon the parties, and shall be entitled to enforcement in any court of competent jurisdiction. The costs and expenses of the arbitrator shall be shared equally by the parties.

IN WITNESS WHEREOF, the parties have Agreement as of the day and year first above written.

BY:________________________________ DATE:____________
Michael A. Wolf

By: MK RAIL CORPORATION

BY:________________________________ DATE:____________
John C. Pope
Its Chairman

MK RAIL CORPORATION

STOCK APPRECIATION RIGHT AGREEMENT

This Stock Appreciation Right Agreement ("Agreement") dated as of July 1, 1996 is entered into between MK Rail Corporation ("Company") and Michael A. Wolf (the "Holder").

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THE PARTIES HERETO AGREE AS FOLLOWS:

1. Grant of Stock Appreciation Right. In consideration of the Holder's acceptance of employment as President and Chief Executive Officer of the Company, effective as of July 1, 1996, the Company hereby grants to the Holder a Stock Appreciation Right ("Right") as to 400,000 Shares of the Company's common stock, $0.01 par value ("Shares" or "Common Stock"), all upon the terms and conditions hereinafter set forth.

(a) Upon exercise of the Right, the Company shall pay to the Holder, in cash or Shares at the sole and absolute discretion of the Committee (as hereinafter defined), the Settlement Price (as hereinafter defined), less any tax withheld as provided in paragraph 4 hereof. Subject to the provisions of 2(d) hereof, the Settlement Price for each Share exercised shall be equal to the amount determined by the difference of (i) the greater of (A) any tender or exchange offer price per Share in connection with any tender offer or merger or consolidation of the Company with another Company, or (B) the closing price of the Shares as reported on Nasdaq as of the trading day last ended as of the time the Right is exercised, over (ii) $5.25 per Share, the closing price of the Shares as reported on Nasdaq on May 13, 1996, the date upon which the parties hereto agreed to the granting of the Right as part of the compensation arrangement to be offered to the Holder upon his acceptance of employment as the Company's President and Chief Executive Officer.

(b) The Right shall terminate on May 12, 2006, unless earlier terminated as provided in this Agreement.

2. Exercise Rights.

The Holder's exercise of the Right shall be subject to the following additional conditions and limitations:

(a) Subject to 100% of the Right becoming earlier exercisable as provided in paragraph 2(b), (c) or (d) hereof, the Right shall become exercisable in 20 percent increments,

with the first 20 percent increment exercisable on or after July 1, 1997 and each remaining 20 percent increment exercisable on or after July 1, 1998, July 1, 1999, July 1, 2000 and July 1, 2001, respectively, provided that the Holder has not voluntarily terminated his employment with the Company before any of those dates. Vesting under this Section 2(a) terminates once the Holder voluntarily terminates his employment with the Company.

(b) Except as otherwise provided in paragraph 2(c) or (d), (i)

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if the Company terminates Holder's employment with the Company for any reason other than Cause (as that term is defined in paragraph 4.2 of the Employment Agreement between the Company and the Holder dated as of July 1, 1996 ("Employment Agreement")), 100% of the Right shall become immediately exercisable and will continue to be exercisable by the Holder or his beneficiaries or legal representatives until the later to occur of (A) the date three months after the termination or (B) the January 15th next following the termination; (ii) if the Holder's employment with the Company is terminated due to his death or disability, 100% of the Right shall become immediately exercisable and will continue to be exercisable by the Holder or his beneficiaries or legal representatives until one year after the date of termination; (iii) if the Holder's employment with the Company shall be terminated by the Company for Cause, vesting shall cease and the Right shall immediately cease to be exercisable; and (iv) if the Holder's employment is terminated for any reason other than those set forth in Paragraphs 2(b)(i), (ii) or (iii), vesting shall cease, and any then vested and exercisable portion of the Right will continue to be exercisable by the Holder until the later to occur of (A) the date three months after the termination or (B) the January 15th next following the termination.

(c) Notwithstanding anything to the contrary set forth herein, in the event that (1) the Company shall propose to enter into an arrangement or a transaction which shall constitute or result in a Change of Control (as defined under Section 5.3(a) of the Employment Agreement), and (2) the Holder proposes to exercise the Right on or before July 1, 1997 and, prior to the exercise of the Right, either the Holder or the Company shall terminate or be deemed to have terminated the Holder's employment with the Company (including a termination of Holder's employment by the Company for Cause), then the Right shall become immediately exercisable, on a provisional basis, as to any shares as to which the Right had not previously become exercisable as provided above (the "Provisional Shares") from the date ten (10) business days prior to the scheduled date of the Change of Control until the time immediately prior to the occurrence thereof; provided, however that (i) if made by the Holder, the exercise of the Right as to any Provisional Shares shall be deemed to occur immediately prior to the time of the Change of Control (and shall be ineffective if the Change of Control does not occur); and (ii) if the Company announces that it does not intend to proceed with any previously proposed arrangement or transaction which would constitute or result in a Change of Control, the Right shall thereupon cease to be immediately exercisable as to any Provisional Shares (and the Holder's prior election to exercise the Right shall be deemed to be withdrawn), but shall again become immediately exercisable on a provisional basis as described above if the arrangement or transaction or another arrangement or transaction which would constitute or result in a Change of Control is thereafter

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proposed to be consummated. The Right shall terminate upon the occurrence of a Change of Control.

(d) Notwithstanding anything to the contrary set forth herein, in the event that (i) the Shareholders of the Company approve an increase in the number of Shares which may be awarded under the Company's Stock Incentive Plan effective April 1, 1994 (the "Plan"), which increase is sufficient to enable the Company to issue to Holder the Plan Option (as hereinafter defined) to purchase 400,000 shares of the Common Stock, and (ii) the Company issues to the Holder within sixty (60) days after such approval an option under the Plan (the "Plan Option") to purchase 400,000 shares of the Common Stock for an exercise price equal to the closing price of the Common Stock as reported on Nasdaq on the first trading day ended following the Shareholders' approval of an increase in the number of Shares which may be awarded under the Plan, all on such terms as are set in an option agreement in the form attached hereto as Exhibit 1, the Settlement Price of the Right shall be the lesser of (i) the exercise price of the Plan Option over $5.25 per Share or (ii) the Settlement Price determined as provided in paragraph 1(a). The Right shall be exercisable independently of the Plan Option, and shall survive the earlier exercise of the Plan Option.

3. The Committee.

The plan created by this Agreement shall be administered by a committee (the "Committee"), which shall be comprised of two or more members of the Board of Directors, each of whom shall be a "disinterested person" as defined in Rule 16b-3 under the Exchange Act (or any successor provision) promulgated by the Securities and Exchange Commission. A majority of the members of the Committee shall constitute a quorum for the transaction of business, and any determination or action may be taken at a meeting by a majority vote or may be taken without a meeting by a written resolution signed by all members of the Committee. Members of the Committee acting under the plan created by this Agreement shall be fully protected in relying in good faith upon the advice of counsel and shall incur no liability except for willful misconduct in the performance of their duties.

4. Taxes.

Neither the Company nor the Committee nor any of their representatives or agents has made any representations or warranties to the Holder with respect to the amount of tax or other consequences of the transactions contemplated by this Agreement, and the Holder is in no manner relying on the Company, the Committee or any of their representatives or agents for an assessment of the tax or other consequences. The Company's payment of the Settlement Price shall be subject to the Company's obligation to withhold taxes in accordance with its interpretation of applicable Federal and state tax laws.

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5. Miscellaneous.

(a) The Right may not be assigned, encumbered or transferred, except, in the event of death of the Holder, by will or the laws of descent and distribution.

(b) This Agreement shall bind and inure to the benefit of the Company and its successors and assigns, and the Holder and any heir, legatee, or legal representative of the Holder.

(c) This Agreement shall be governed by and construed in accordance with the law of the state of Delaware, regardless of the law that might otherwise govern under applicable principles of conflicts of laws.

(d) All disputes arising under this Agreement, including any questions regarding the interpretation of any provisions hereof, shall be submitted to binding arbitration in Pittsburgh, Pennsylvania, to a single arbitrator chosen in accordance with the rules of the American Arbitration Association as to the selection of the arbitrators and the procedures for the conduct of the arbitrator. Such arbitrator's decision shall be final and binding upon the parties, and shall be entitled to enforcement in any court of competent jurisdiction. The costs and expenses of the arbitrator shall be shared equally by the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement in duplicate as of the day and year first above written.

MK RAIL CORPORATION

John C. Pope
Chairman

HOLDER:

Michael A. Wolf

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EXHIBIT 1

MK RAIL CORPORATION

STOCK OPTION AGREEMENT
UNDER STOCK INCENTIVE PLAN

This Stock Option Agreement ("Agreement") dated and effective as of ____[the date of the Shareholders' approval of an increase in the number of Shares which may be awarded under the Plan], the date on which the Option evidenced hereby was granted, is entered into between MK Rail Corporation ("Company") and Michael A. Wolf (the "Optionee"), pursuant to the MK Rail Corporation Stock Incentive Plan ("Plan") as approved by Company shareholders on March 29, 1994 and last amended on the date hereof.

THE PARTIES HERETO AGREE AS FOLLOWS:

1. Grant of Option

In consideration of the Optionee's acceptance of employment as President and Chief Executive Officer of the Company, effective as of July 1, 1996 and the services performed or to be performed by the Optionee the Company hereby grants to the Optionee an Option ("Option") under the Plan to purchase a total of 400,000 Shares of the Company's common stock, $0.01 par value ("Shares" or "Common Stock"), all upon the terms and conditions hereinafter set forth.

(a) The Option is granted under and pursuant to the Plan, a copy of which is attached hereto and incorporated herein by reference, and, except as modified or limited hereby, is subject to all of the provisions thereof. The Optionee represents and warrants that he has read the Plan and is fully familiar with all the terms and conditions of the Plan and agrees to be bound thereby.

(b) The Exercise Price per share of the Common Stock exercisable under the Option shall be $___ per share [the closing price of the Common Stock as reported on Nasdaq on the first trading day ended following the Shareholders' approval of an increase in the number of Shares which may be awarded under the Plan].

(c) The Option shall terminate on May 12, 2006, unless earlier terminated as provided in this Agreement.

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2. Exercise Rights

In addition to the terms and conditions for exercise of the Option set forth in the Plan, the Optionee's right to exercise the Option shall be subject to the following additional conditions and limitations:

(a) Subject to 100% of the Option becoming earlier exercisable as provided in paragraph 2(b) or (c) hereof, the Option shall become exercisable in 20 percent increments, with the first 20 percent increment exercisable on or after July 1, 1997 and each remaining 20 percent increment exercisable on or after July 1, 1998, July 1, 1999, July 1, 2000 and July 1, 2001, respectively, provided that the Optionee has not voluntarily terminated his employment with the Company before any of those dates. Vesting under this Section 2(a) terminates once the Optionee voluntarily terminates his employment with the Company.

(b) Except as otherwise provided in paragraph 2(c) hereof, (i) if the Company terminates Optionee's employment with the Company for any reason other than Cause (as that term is defined in paragraph 4.2 of the Employment Agreement between the Company and the Optionee dated as of July 1, 1996 ("Employment Agreement")), 100% of the Option shall become immediately exercisable and will continue to be exercisable by the Optionee or his beneficiaries or legal representatives until the later to occur of (A) the date three months after the termination or (B) the January 15th next following the termination; (ii) if the Optionee's employment with the Company is terminated due to his death or disability, 100% of the Option shall become immediately exercisable and will continue to be exercisable by the Optionee or his beneficiaries or legal representatives until one year after the date of termination; (iii) if the Optionee's employment with the Company shall be terminated by the Company for Cause, vesting shall cease and the Option shall immediately cease to be exercisable; and (iv) if the Optionee's employment is terminated for any reason other than those set forth in Paragraphs 2(b)(i), (ii) and (iii), vesting shall cease, and any then vested and exercisable portion of the Option will continue to be exercisable by the Optionee until the later to occur of (A) the date three months after the termination or (B) the January 15th next following the termination.

(c) Notwithstanding anything to the contrary set forth herein, in the event that (1) the Company shall propose to enter into an arrangement or a transaction which shall constitute or result in a Change of Control (as defined under Section 5.3(a) of the Employment Agreement), and (2) the Optionee proposes to exercise the Option on or before July 1, 1997 and, prior to the exercise of the Option, either the Optionee or the Company shall terminate or be deemed to have terminated the Optionee's employment with the Company (including a termination of Optionee's employment by the Company for Cause), then the

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Option shall become immediately exercisable, on a provisional basis, as to any shares as to which the Option had not previously become exercisable as provided above (the "Provisional Shares") from the date ten (10) business days prior to the scheduled date of the Change of Control until the time immediately prior to the occurrence thereof; provided, however that (i) if made by the Optionee, the exercise of the Option as to any Provisional Shares shall be deemed to occur immediately prior to the time of the Change of Control (and shall be ineffective if the Change of Control does not occur); and (ii) if the Company announces that it does not intend to

proceed with any previously proposed arrangement or transaction which would constitute or result in a Change of Control, the Option shall thereupon cease to be immediately exercisable as to any Provisional Shares (and the Optionee's prior election to exercise the Option shall be deemed to be withdrawn), but shall again become immediately exercisable on a provisional basis as described above if the arrangement or transaction or another arrangement or transaction which would constitute or result in a Change of Control is thereafter proposed to be consummated. The Option shall terminate upon the occurrence of a Change of Control.

(d) The Option shall be exercisable independently of the Stock Appreciation Right (the "Right") granted to the Optionee under that certain Stock Appreciation Right Agreement dated as of July 1, 1996 between the Company and Optionee, and shall survive the earlier exercise of the Right.

3. Taxes

Neither the Company nor the Committee nor any of their representatives or agents has made any representations or warranties to the Optionee with respect to the amount of tax or other consequences of the transactions contemplated by this Agreement, and the Optionee is in no manner relying on the Company, the Committee or any of their representatives or agents for an assessment of the tax or other consequences. The Company's payment of the Settlement Price shall be subject to the Company's obligation to withhold taxes in accordance with its interpretation of applicable Federal and state tax laws.

4. Miscellaneous

(a) The Option may not be assigned, encumbered or transferred, except, in the event of death of the Optionee, by will or the laws of descent and distribution.

(b) This Agreement shall bind and inure to the benefit of the Company and its successors and assigns, and the Optionee and any heir, legatee, or legal representative of the Optionee.

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(c) This Agreement shall be governed by and construed in accordance with the law of the state of Delaware, regardless of the law that might otherwise govern under applicable principles of conflicts of laws.

IN WITNESS WHEREOF, the parties have executed this Agreement in duplicate as of the day and year first above written.

MK RAIL CORPORATION

John C. Pope
Chairman

OPTIONEE:

Michael A. Wolf

EXHIBIT B

MK RAIL CORPORATION
DEFERRED COMPENSATION PLAN
FOR MICHAEL A. WOLF

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MK RAIL CORPORATION
DEFERRED COMPENSATION PLAN
FOR MICHAEL A. WOLF

ARTICLE I
PURPOSE AND BACKGROUND

The purpose of this Deferred Compensation Plan (the "Plan") is to provide current tax planning opportunities as well as supplemental funds for the retirement or death of Michael A. Wolf, the President and CEO of MK Rail Corporation ("Company"). The Plan shall be effective as of July 1, 1996 ("Effective Date").

ARTICLE II
DEFINITIONS

For the purposes of the Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise.

2.1 Account. "Account" means the Account as maintained by the Employer in accordance with Article IV with respect to any deferral of Compensation pursuant to the Plan. The Participant's Account shall be utilized solely as a device for the determination and measurement of the amounts to be paid to the Participant pursuant to the Plan. Separate subaccounts shall be maintained to properly reflect the Participant's balance and earnings thereon. The Participant's Account shall not constitute or be treated as a trust fund of any kind.

2.2 Administrative Committee. "Administrative Committee" means the committee appointed to administer the employee benefit plans of the Company.

2.3 Beneficiary. "Beneficiary" means the person, persons or entity entitled under Article VI to receive any Plan Benefits payable after the Participant's death.

2.4 Cause. "Cause" is defined as provided in the Participant's Employment Agreement.

2.5 Code. "Code" means the Internal Revenue Code of 1986, as amended.

2.6 Compensation. "Compensation" means the salary and all bonuses payable to the Participant during the calendar year and considered to be "wages" for purposes of federal income tax withholding, before reduction for amounts deferred under the Plan, salary reduction contributions under Section 401 (k) of the Code, or any other deferral arrangements. For purposes of the Plan, the term "bonus" includes cash payments made to the Participant upon the exercise of SARS. Compensation does not include expense reimbursements, any form of noncash Compensation or benefits, group life insurance premiums, or any other payments or benefits other than salary or bonuses (as described above).

2.7 Compensation Committee. "Compensation Committee" means the

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Compensation Committee of the Employer's Board of Directors.

2.8 Deferral Commitment. "Deferral Commitment" means an election to defer Compensation made by the Participant pursuant to Article III and for which a separate Participation Agreement has been submitted by the Participant to the Administrative Committee.

2.9 Deferral Period. "Deferral Period" means the period over which the Participant has elected to defer a portion of his Compensation. Each calendar year shall be a separate Deferral Period, provided that the Deferral Period may be modified pursuant to Section 3.4. The initial Deferral Period shall be from July 1, 1996 through December 31, 1996.

2.10 Determination Date. "Determination Date" means the last day of each calendar month.

2.11 Earnings Index. "Earnings Index" means a portfolio or fund selected by the Participant to be used in calculating the Rate of Return. The portfolio may include stocks, bonds and other types of securities that are traded on a national securities exchange. Employer shall have no responsibility for the Earnings Indices selected by the Participant.

2.12 Elective Deferred Compensation. "Elective Deferred Compensation" means the amount of Compensation that the Participant elects to defer pursuant to a Deferral Commitment.

2.13 Employer. "Employer" means MK Rail Corporation or any successor to the business thereof.

2.14 ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

2.15 Financial Hardship. "Financial Hardship" means an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship if an early withdrawal from the Plan were not permitted.

2.16 Participant. "Participant" means Michael A. Wolf, the President and CEO of the Employer.

2.17 Participation Agreement. "Participation Agreement" means the agreement submitted by the Participant to the Administrative Committee prior to the beginning of the Deferral Period, with respect to a Deferral Commitment made for such Deferral Period.

2.18 Plan Benefit. "Plan Benefit" means the benefit payable to the Participant as calculated in Article V.

2.19 Rate of Return. "Rate of Return" means the amount credited to the Participant's Account under Section 4.6 to be determined by the

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Administrative Committee based upon the net performance of the Earnings Indices selected by the Participant. If the Employer elects, in its sole discretion, to make investments that correspond to the Earnings Indices periodically elected by the Participant, the Rate of Return shall be determined after subtracting any transaction costs (e.g., commissions).

2.20 SARS. "SARS" means stock appreciation rights provided by the Employer to the Participant.

ARTICLE III
PARTICIPATION AND DEFERRAL COMMITMENTS

3.1 Eligibility and Participation. Michael A. Wolf, the President and CEO of the Employer, shall be the only Participant. His participation begins as of July 1, 1996.

3.2 Form of Deferral. The Participant may elect Deferral Commitments in the Participation Agreement as follows:

(a) Salary Deferral Commitment. A salary Deferral Commitment shall apply to the salary payable by the Employer to the Participant during the Deferral Period. The amount to be deferred shall be stated as a percentage or dollar amount.

(b) Bonus Deferral Commitment. A bonus Deferral Commitment shall apply to the bonus Compensation payable to the Participant during the Deferral Period. If the bonus is cash payable upon the exercise of SARS, the Deferral Commitment shall apply to SARs that are exercised during the Deferral Period. The amount to be deferred shall be stated as a percentage or dollar amount.

3.3 Limitations on Deferral Commitment. The following limitations shall apply to Deferral Commitments:

(a) Minimum. The minimum salary deferral amount shall be one hundred dollars ($100) for each pay period. There shall be no minimum deferral amount for bonus in a bonus Deferral Commitment.

(b) Maximum. The maximum deferral amount shall be fifty percent (50%) of salary in a salary Deferral Commitment and one hundred percent (1 00%) of bonus in a bonus Deferral Commitment.

3.4 Modification of Deferral Commitment. A Deferral Commitment shall be irrevocable except that the Administrative Committee may permit the Participant to reduce the amount to be deferred, or waive the remainder of the Deferral Commitment, upon a finding that the Participant has suffered a Financial Hardship.

ARTICLE IV
DEFERRED COMPENSATION ACCOUNT

4.1 Account. For record keeping purposes only, an Account

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shall be maintained for the Participant. Separate subaccounts shall be maintained to the extent necessary to properly reflect the Participant's election of Earnings Indices and total vested or nonvested Account balance.

4.2 Elective Deferred Compensation. The Participant's Elective Deferred Compensation shall be credited to the Participant's Account as the corresponding nondeferred portion of the Compensation becomes or would have become payable. Any withholding of taxes

or other amounts with respect to deferred Compensation which is required by state, federal or local law shall be withheld from the Participant's nondeferred Compensation to the maximum extent possible with any excess being withheld from the Participant's Account.

4.3 Allocation of Elective Deferred Compensation. The Participant shall allocate the Account among the Earning Indices. The initial allocation shall be made in the Participation Agreement. If the Participant has not made an allocation election, the Participant's Account shall be allocated to a money market or equivalent Earnings Index. The Participant may change his allocation among the Earning Indices as of the first day of each month by prior notice to the Administrative Committee.

The Employer shall be under no obligation to make investments that correspond to the Earnings Indices elected by the Participant, even though the Participant's elections are used to determine the Rate of Return.

4.4 Makeup Contributions.

(a) The Participant shall receive a makeup contribution equal to two percent (2%) of the Participant's Compensation, less the matching contribution to the 401 (k) plan required to be allocated to Employer stock. The Participant is not required to defer any amounts into the Plan in order to receive a makeup contribution under this subsection.

(b) If the Participant defers into the Employer's 401 (k) plan an amount equal to the limit as set forth in Section 402(g) of the Code, the Participant shall receive an additional makeup contribution equal to fifty percent (50%) of the first six percent (6%) deferred into the 401 (k) plan and the Plan. This makeup amount shall be reduced by the

matching contribution to the 401 (k) plan which is directed by the Participant. This makeup contribution shall be allocated as elected by the Participant.

The total Employer contribution under this Section may never

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exceed five percent (5%) of Compensation. All makeups under this Section shall be credited to the Participant's Account no later than forty-five (45) days after the end of the calendar year they would have been credited to the underlying qualified plans if not for the limitations contained in the Code.

4.5 Employer Discretionary Contributions. The Employer may make Discretionary Contributions to the Participant's Account. Discretionary Contributions shall be credited at such times and in such amounts as the Administrative Committee in its sole discretion shall determine. The amount of the Discretionary Contributions shall be evident in a special Participation Agreement approved by the Administrative Committee.

4.6 Rate of Return. The Participant's Account shall be credited monthly with the Rate of Return specified in Section 2.19.

4.7 Determination of Account. The Participant's Account as of each Determination Date shall consist of the balance of the Participant's Account as of the immediately preceding Determination Date, plus the Participant's Elective Deferred Compensation credited, any makeup contributions and the applicable Rate of Return., minus the amount of any distributions made since the immediately preceding Determination Date.

4.8 Vesting of Account. The Participant shall be vested in the amounts credited to the Participant's Account and earnings thereon as follows:

(a) Amounts Deferred. The Participant shall be one hundred percent (100%) vested at all times in the amount of Compensation elected to be deferred under the Plan and Rate of Return thereon.

(b) Employer Makeups. The Employer makeups contributed to the Participant's Account, and Rate of Return thereon, shall be vested to the same extent that contribution in the underlying qualified plans are vested.

(c) Employer Discretionary Contributions. The Employer Discretionary Contributions and Rate of Return thereon shall be vested as set forth in the special Participation Agreement.

4.9 Statement of Account. The Administrative Committee shall submit to the Participant, within one hundred twenty (1 20) days after the close of each calendar year, or at such other time as determined by the Administrative Committee, a statement setting forth the balance to the credit of the Participant's Account.

ARTICLE V

PLAN BENEFITS

5.1 Distributions Prior to Termination of Employment. The Participant's Account may be distributed to the Participant prior to termination of employment with the Employer as follows:

(a) Early Withdrawals. The Participant may elect in a Participation Agreement to withdraw all or any portion of the amount deferred by that Participation Agreement as of a date specified in the election. Such date shall not be sooner than seven (7) years after the date the Deferral

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Period commences. The amount withdrawn shall not

exceed the amount of Compensation deferred, without earnings, and shall not include any makeup contribution. Such election shall be made at the time the Deferral Commitment is made and shall be irrevocable.

(b) Hardship Withdrawals. Upon a finding that the Participant has suffered a Financial Hardship, the Administrative Committee may, in its sole discretion, make distributions from the Participant's Account. The amount of such a withdrawal shall be limited to the amount reasonably necessary to meet the Participant's needs resulting from the Financial Hardship. If payment is made due to Financial Hardship under the Plan, the Participant's deferrals under the Plan shall cease for a twelve (12) month period. Any resumption of the Participant's deferrals under the Plan after such twelve (12) month period shall be made only at the election of the Participant in accordance with Article III herein.

(c) Form of Payment and Time. Any distribution pursuant to Sections 5.1(a) or 5.1 (b) shall be payable in a lump sum. The distribution shall be paid in the case of a partial withdrawal, as provided in the Participation Agreement, and in case of a Financial Hardship, within thirty (30) days after the Administrative Committee approves the Financial Hardship.

5.2 Distributions Following Termination of Employment. Upon the Participant's termination of employment with the Employer for any reason (which termination shall be for a period of at least five (5) days), the Employer shall pay the Participant or, in the case of death, the Participant's Beneficiary, benefits equal to the vested balance in the Participant's Account.

5.3 Form of Benefit Payment Following Termination of Employment.

(a) Subject to Section 5.3(b), benefits shall be paid in the form selected by the Participant in the Participation Agreement. Options include:

(i) A lump sum payment.

(ii) Equal annual installments of the Account and Rate of Return amortized over a period of five (5), ten (1 0), or

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fifteen (1 5) years. The Account shall be amortized with an assumed Rate of Return of seven percent (7%) unless the Participant selects, and the Administrative Committee approves, an alternative assumed Rate of Return. The Account shall be reamortized annually based upon the actual Rate of Return.

(b) Small Account(s). Notwithstanding Section 5.3(a), if the Partici pant's Account is less than fifty thousand dollars ($50,000) on the date of termination, the benefit shall be paid in a lump sum.

5.4 Commencement of Deferral Payment.

(a) Subject to Section 5.4(b), benefits that are payable upon the Participant's termination of employment with the Employer shall commence as elected by the Participant in the Participation Agreement. Options are:

(i) Payments to commence as soon as practical after termination but in no case more than sixty (60) days after termination.

(ii) Payment to commence as soon as practical in the calendar year following termination but in no case more than ninety (90) days after the beginning of the calendar year.

(iii) Payments to commence as soon as practical in the calendar year following the later of the Participant's termination or attainment of an age selected by the Participant which shall not exceed age sixty-five (65). If the Participant has selected this option and has an Account balance less than fifty thousand dollars ($50,000) at termination, the benefit shall commence as if the Participant had selected Section 5.4(a)(ii) above.

(b) Notwithstanding Section 5.4(a), if the Participant is a "covered employee" as defined in Section 162(m)(3) of the Code, the Participant shall receive his first benefit payment as if the Participant had elected option Section 5.4(a)(ii) above, unless the Participant has elected Section 5.4(a)(iii) above and such commencement date is after the date payable under Section 5.4(a)(ii).

5.5 Death Benefit. Upon the death of the Participant, the Employer shall I pay to the Participant's Beneficiary an amount equal to the remaining unpaid balance of the Participant's Account in a lump sum.

5.6 Accelerated Distribution. Notwithstanding any other provision of the Plan, at any time the Participant shall be entitled to receive, upon written request to the Administrative Committee, a lump sum distribution equal to ninety percent (90%) of the vested Account balance as of the Determination Date

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immediately preceding the date on which the Administrative Committee receives the written request. The remaining balance shall be forfeited by the Participant. The amount payable under this Section shall be paid in a lump sum within thirty (30) days following the receipt of the notice by the Administrative Committee from the Participant.

If the Participant receives a distribution under this Section, his Deferral Commitments for the remaining portion of that calendar year shall be revoked and he shall not be permitted to make Deferral Commitments for the next succeeding calendar year.

5.7 Withholding for Taxes. To the extent required by the law in effect at the time payments are made, the Employer shall withhold from the payments made hereunder any taxes required to be withheld by federal, state or local government, including any amount which the Employer determines is reasonably necessary to pay any generation-skipping transfer tax which is or may become due. A Beneficiary, however, may elect not to have withholding of federal income tax pursuant to Section 3405(a)(2) of the Code, or any successor provision thereto.

5.8 Valuation and Settlement. The amount of a lump sum payment and the initial amount of installments shall be based on the value of the Participant's Account on the Determination Date immediately preceding the payment or commencement of installment payments.

5.9 Payment to Guardian. The Administrative Committee may direct payment to the duly appointed guardian, conservators or other similar legal representative of the Participant or Beneficiary to whom payment is due. In the absence of such a legal representative, the Administrative Committee may, in it sole and absolute discretion, make payment to a person having the care and custody of a minor, incompetent or person incapable of handling the disposition of property upon proof satisfactory to the Administrative Committee of incompetency, minority, or incapacity. Such distribution shall completely discharge the Administrative Committee from all liability with respect to such benefit.

ARTICLE VI
BENEFICIARY DESIGNATION

6.1 Beneficiary Designation. Subject to Section 6.3, the Participant shall have the right, at any time, to designate one (1) or more persons or an entity as Beneficiary (both primary as well as secondary) to whom benefits under the Plan shall be paid in the event of the Participant's death

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prior to complete distribution of the Participant's Account. Each Beneficiary designation shall be in a written form prescribed by the Administrative Committee and shall be effective only when filed with the Administrative Committee during the Participant's lifetime.

6.2 Changing Beneficiary. Subject to Section 6.3, any Beneficiary designation may be changed by the Participant without the consent of the previously named Beneficiary by the filing of a new designation with the Administrative Committee. The filing of a new designation shall cancel all designations previously filed.

6.3 Community Property. If the Participant resides in a community property state, the following rules shall apply:

(a) If the Participant is married, the designation of a Beneficiary other than the Participant's spouse shall not be effective unless the spouse executes a written consent that acknowledges the effect of the designation, or it is established the consent cannot be obtained because the spouse cannot be located.

(b) If the Participant is married, the Participant's Beneficiary designation may be changed with the consent of the Participant's spouse as provided for in Section 6.3(a) by the filing of a new designation with the Administrative Committee.

(c) If the Participant's marital status changes after the Participant has designated a Beneficiary, the following shall apply:

(i) If the Participant is married at the time of death but was unmarried when the designation was made, the designation shall be void unless the spouse has consented to it in the manner prescribed in Section 6.3(a).

(ii) If the Participant is unmarried at the time of death but was married when the designation was made:

a) The designation shall be void if the spouse was named as Beneficiary.

b) The designation shall remain valid if a nonspouse Beneficiary was named.

(iii) If the Participant was married when the designation was made and is married to a different spouse at death, the designation shall I be void unless the new spouse has consented to it in the manner prescribed above.

6.4 No Beneficiary Designation. If the Participant fails to designate a Beneficiary in the manner provided above, if the designation is void, or if the Beneficiary designated by the Participant dies before the Participant or before complete distribution of the Participant's benefits, the Participant's Beneficiary shall be the person in the first of the following classes in which there is a survivor:

(a) The Participant's spouse;

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(b) The Participant's children in equal shares, except that if any of the children predecease the Participant but leaves issue surviving, then such issue shall take by right of representation the share the parent would have taken if living;

(c) The Participant's estate.

ARTICLE VII
ADMINISTRATION

7.1 Committee; Duties. The Plan shall be administered by the Administrative Committee. The Administrative Committee shall consist of at least three (3) individuals appointed by the Compensation Committee. The Administrative Committee shall have the authority to amend (but not terminate) the Plan (subject to Section 9.1), interpret and enforce all appropriate rules and regulations for the administration of the Plan and decide or resolve any and all questions, including interpretations of the Plan, as may arise in such administration. A majority vote of the Administrative Committee members shall control any decision.

7.2 Agents. The Administrative Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

7.3 Binding Effect of Decisions. The decision or action of the Administrative Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

7.4 Indemnity of Administrative Committee. The Company shall indemnify and hold harmless the members of the Administrative Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to the Plan on account of such person's service on the Administrative Committee, except in the case of gross negligence or willful misconduct.

ARTICLE VIII
CLAIMS PROCEDURE

8.1 Claim. The Administrative Committee shall establish rules and procedures to be followed by the Participant and Beneficiaries in (a) filing claims for benefits, and (b) for furnishing and verifying proofs necessary to

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establish the right to benefits in accordance with the Plan, consistent with the remainder of this Article. Such rules and procedures shall require that claims and proofs be made in writing and directed to the Administrative Committee.

8.2 Review of Claim. The Administrative Committee shall review all claims for benefits. Upon receipt by the Administrative Committee of such a claim, it shall determine all facts which are necessary to establish the right of the claimant to benefits under the provisions of the Plan and the amount thereof as herein provided within ninety (90) days of receipt of such claim. If prior to the expiration of the initial ninety (90) day period, the Administrative Committee determines additional time is needed to come to a determination on the claim, the Administrative Committee shall provide written notice to the Participant, Beneficiary or other claimant of the need for the extension, not to exceed a total of one hundred eighty (1 80) days from the date the application was received.

8.3 Notice of Denial of Claim. In the event that the Participant, Beneficiary or other claimant claims to be entitled to a benefit under the Plan, and the Administrative Committee determines that such claim should be denied in whole or in part, the Administrative Committee shall, in writing, notify such claimant that the claim has been denied, in whole or in part, setting forth the specific reasons for such denial. Such notification shall be written in a manner reasonably expected to be understood by such claimant and shall refer to the specific sections of the Plan relied on, shall describe any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary, and where appropriate, shall include an explanation of how the claimant can obtain reconsideration of such denial.

8.4 Reconsideration of Denied Claim.

(a) Within sixty (60) days after receipt of the notice of the denial of a claim, such claimant or duly authorized representative may request, by mailing or delivery of such written notice to the Administrative Committee, a reconsideration by the Administrative Committee of the decision denying the claim. If the claimant or duly authorized representative fails to request such a reconsideration within such sixty (60) day period, it shall be conclusively determined for all purposes of the Plan that the denial of such claim by the Administrative Committee is correct. If such claimant or duly authorized representative requests a reconsideration within such sixty (60) day period, the claimant or duly authorized representative shall have thirty (30) days after filing a request for reconsideration to submit additional written material in support of the claim, review pertinent documents, and submit issues and comments in writing.

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(b) After such reconsideration request, the Administrative Committee shall determine within sixty (60) days of receipt of the claimant's request for reconsideration whether such denial of the claim was correct and shall notify such claimant in writing of its determination. The written notice of decision shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions on which the decision is based. In the event of special circumstances determined by the Administrative Committee, the time for the Administrative Committee to make a decision may be extended by an additional sixty (60) days upon written notice to the claimant prior to the commencement of the extension.

8.5 Arbitration. Any decision of the Administrative Committee may be appealed to arbitration, pursuant to the arbitration procedure provided for in the Participant's Employment Agreement.

8.6 Employer to Supply Information. To enable the Administrative Committee to perform its functions, the Employer shall supply full and timely information to the Administrative Committee and to the Participant of all matters relating to the retirement, death or other cause for termination of employment of the Participant, and such other pertinent facts as the Administrative Committee or the Participant may require.

ARTICLE IX

AMENDMENT AND TERMINATION OF PLAN

9.1 Amendment. The Administrative Committee may at any time amend the Plan by written instrument with the Participant's written consent and the written consent of any Beneficiaries to whom a benefit is due, subject to the following:

(a) Preservation of Account Balance. No amendment shall reduce the amount accrued in the Participant's Account to the date such notice of the amendment is given.

(b) Changes in Earnings Rate. No amendment shall reduce the Rate of Return to be credited after the date of the amendment to the amount already accrued in the Account and any Deferred Compensation credited to the Account under Deferral Commitments already in effect on that date.

9.2 Termination. The Compensation Committee may at any time partially or completely terminate the Plan with the Participant's written

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consent, if, in the Compensation Committee's judgment, the tax, accounting or other effects of the continuance of the Plan, or potential payments thereunder would not be in the best interests of the Employer and the Participant.

(a) Partial Termination. With the Participant's written consent, the Compensation Committee may partially terminate the Plan by instructing the Administrative Committee not to accept any additional Deferral Commitments. If such a partial termination occurs, the Plan shall continue to operate and be effective with regard to Deferral Commitments entered into prior to the effective date of such partial termination.

(b) Complete Termination. With the Participant's written consent, the Compensation Committee may completely terminate the Plan by instructing the Administrative Committee not to accept any additional Deferral Commitments, and by terminating all ongoing Deferral Commitments. If such a complete termination occurs, the Plan shall cease to operate and the Employer shall pay out the Account. Payment shall be made in substantially equal annual installments over the following period, based on the Account balance:

Account Balance	Payout Period
Less than $1 00,000	Lump Sum
$100,000 but less than $500,000	3 Years
More than $500,000	5 Years

Payments shall commence within sixty (60) days after the Compensation Committee terminates the Plan and earnings shall continue to be credited on the unpaid Account balance.

ARTICLE X

MISCELLANEOUS

10.1 Unfunded Plan. The Plan is an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly compensated employees" within the meaning of Sections 201, 301 and 401 of ERISA, and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA.

10.2 Unsecured General Creditor. The Participant and his Beneficiaries shall be unsecured general creditors, with no secured or preferential right to any assets of the Employer or any other party for payment of benefits under the Plan. Any life insurance policies, annuity contracts or other property purchased by the Employer in connection with the Plan shall remain

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its general, unpledged and unrestricted assets. The Employer's obligation under the Plan shall be an unfunded and unsecured promise to pay money in the future.

10.3 Trust Fund. At its discretion, the Employer may establish one (1) or more trusts, with such trustees as the Compensation Committee may approve, for the purpose of providing for the payment of benefits owed under the Plan. Although such a trust shall be irrevocable, its assets shall be held for payment of all the Company's general creditors in the event of insolvency or bankruptcy. To the extent any benefits provided under the Plan are paid from any such trust, the Employer shall have no further obligation to pay them. If not paid from the trust, such benefits shall remain the obligation of the Employer.

10.4 Nonassignability. Neither the Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by the Participant or any other person, nor be transferable by operation of law in the event of the Participant's or any other person's bankruptcy or insolvency.

10.5 Not a Contract of Employment. The Plan shall not constitute a contract of employment between the Employer and the Participant. Nothing in the Plan shall give the Participant the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge the Participant pursuant to the Participant's Employment Agreement.

10.6 Protective Provisions. The Participant will cooperate with the Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as the Employer may deem necessary and taking such other action as may be requested by the Employer.

10.7 Governing Law. The provisions of the Plan shall be construed and interpreted according to the laws of the Commonwealth of Pennsylvania, except as preempted by ERISA or other federal law.

10.8 Validity. In case any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

10.9 Notice. Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered or sent by registered or certified mail. Such notice shall be deemed as given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the

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receipt for registration or certification. Mailed notice to the Administrative Committee shall be directed to the Company's address. Mailed notice to the Participant or Beneficiary shall be directed to the individual's last known address in the Employer's records.

10.10 Successors. The provisions of the Plan shall bind and inure to the benefit of the Employer and its successors and assigns. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise, acquire all or substantially all of the business and assets of the Employer, and successors of any such corporation or other business entity.

MK RAIL CORPORATION

Dated , 1996

By

Its

EXHIBIT B (Cont.)

TRUST AGREEMENT

TRUST UNDER DEFERRED COMPENSATION PLAN FOR

MICHAEL A. WOLF

(a) This Agreement made this day of 1996 by and ---------------------------------- between M. K. RAIL CORPORATION ("Company") and ("Trustee");

(b) WHEREAS, Company has adopted a nonqualified deferred compensation plan (the "Deferred Compensation Plan") for Michael A. Wolf (the "Participant");

(c) WHEREAS, Company has incurred or expects to incur liability under the terms of such Deferred Compensation Plan with respect to the Participant;

(d) WHEREAS, Company wishes to establish a trust (hereinafter called "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to the Participant and his beneficiaries in such manner and at such times as specified in the Deferred Compensation Plan;

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(e) WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Deferred Compensation Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974; and

(f) WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Deferred Compensation Plan;

NOW THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust

(a) Company hereby deposits with Trustee in trust $, which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust of which Company is the grantor, within the meaning of subpart E, part 1, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of the Participant and general creditors as herein set forth. The Participant and his beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Deferred Compensation Plan and this Trust Agreement shall be mere unsecured contractual rights of the Participant and his beneficiaries against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with

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Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor the Participant or his beneficiaries shall have any right to compel such additional deposits.

(f) Upon a Change in Control, Company shall, as soon as possible, but in no event longer than 30 days following the Change in Control, as defined herein, make an irrevocable contribution to the Trust in an amount that is sufficient to pay the Participant or his beneficiary the benefits to which the Participant or his beneficiaries would be entitled pursuant to the terms of the Deferred Compensation Plan as of the date on which the Change in Control occurred.

For purposes of this Trust, the term Change in Control shall have the same meaning as in the Participant's Employment Agreement with Company.

Section 2. Payments to the Participant and His Beneficiaries

(a) Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of the Participant (and his beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Deferred Compensation Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Participant and his beneficiaries in accordance with such Payment Schedule. Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld

with respect to the payment of benefits pursuant to the terms of the Deferred Compensation Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company.

(b) The entitlement of the Participant or his beneficiaries to benefits under the Deferred Compensation Plan shall be determined by Company or such party as it shall designate under the Deferred Compensation Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Deferred Compensation Plan.

(c) Company may make payment of benefits directly to the Participant or his beneficiaries as they become due under the terms of the Deferred Compensation Plan. Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to the Participant or his beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Deferred Compensation Plan, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

Section 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When Company Is Insolvent

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(a) Trustee shall cease payment of benefits to the Participant and his beneficiaries if Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section l(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

(1) The Board of Directors and the Chairman of the Board of Company shall have the duty to inform Trustee in writing of Company's Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to the Participant or his beneficiaries.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

(3) If at any time Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to the Participant or his beneficiaries and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of the Participant or his beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Deferred Compensation Plan or otherwise.

(4) Trustee shall resume the payment of benefits to the Participant or his beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee

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discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to the Participant or his beneficiaries under the terms of the Deferred Compensation Plan for the period of such discontinuance, less the aggregate amount of any payments made to the Participant or his beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments to Company

Except as provided in Section 3 hereof, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payments of benefits have been made to the Participant and his beneficiaries pursuant to the terms of the Deferred Compensation Plan.

Section 5. Investment Authority

(a) The assets of the Trust may be invested and reinvested in common and preferred stocks, shares, or certificates of participation issued by investment companies, investment trusts, and mutual funds, common or pooled investment funds, bonds, debentures, insurance and annuity contracts, limited partnership interests, obligations of governmental bodies, both domestic and foreign, notes, commercial paper, certificates of deposit, and other securities or evidences of indebtedness, secured or unsecured, including variable amount notes, convertible

securities of all types and kinds, interest-bearing savings or deposit accounts with any federally insured bank or trust company (including Trustee), or any federally insured savings and loan association, and-any other property permitted as trust investments under applicable law.

(b) Trustee has the power to hold any or all securities or property in Trustee's name, as Trustee, or in the name of a nominee or nominee of an affiliate, and in accounts or deposits administered in any location by Trustee or any affiliate of Trustee. In the event the same are held in its own name or in the name of a nominee or nominees, suitable designation is to be made upon the books and records of Trustee that said securities or property are so held as part of any trusts hereunder.

(c) In no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by Company, other than a de minimis amount held in common investment vehicles in which Trustee invests. All rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with the Participant.

Section 6. Disposition of Income

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During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7. Accounting by Trustee

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within 30 days following the

close of each calendar year and within 30 days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such 'purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 8. Responsibility of Trustee

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Deferred Compensation Plan or this Trust and is given in writing by Company. In the event of a dispute between Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(c) Trustee shall have, without exclusion, all powers conferred on Trustees by applicable law, unless expressly provided otherwise herein; provided, however, that if an insurance policy is held as an asset of the Trust Trustee shall have no power to name a

beneficiary of the policy other than the Trust to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such

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policy.

(d) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

(e) Trustee, its affiliates, their officers, directors, employees and agents, shall not be liable for any act or omission of Company, any investment manager (other than an investment manager affiliated with Trustee), or any officer, director, employee or agent of any of them (other than an officer, director, employee or agent of an investment manager affiliated with Trustee).

Section 9. Compensation and Expenses of Trustee

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Trustee shall be entitled to receive compensation for its services hereunder, to be determined from time to time by the application of the schedule of fees as published by Trustee and in effect at the time such fees are charged for trusts of a similar size and character, and in the event that Trustee shall be called upon to render any extraordinary services, it shall be entitled to additional compensation therefor.

Section 10. Resignation and Removal of Trustee

(a) Trustee may resign at any time by written notice to Company, which shall be effective 30 days after receipt of such notice unless Company and Trustee agree otherwise.

(b) Trustee may be removed by Company on 30 days notice or upon shorter notice accepted by Trustee.

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 30 days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 1.1 hereof, by the effective date of resignation or removal under paragraph(s) (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor

If Trustee resigns or is removed in accordance with Section I 0(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. 'Me

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appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership

rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

Section 12. Amendment or Termination

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Deferred Compensation Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section I (b) hereof.

(b) The Trust shall not terminate until the date on which the Participant and his beneficiaries are no longer entitled to benefits pursuant to the terms of the Deferred Compensation Plan. Upon termination of the Trust, any assets remaining in the Trust shall be returned to Company.

(c) Upon written approval of the Participant or his beneficiaries entitled to payment of benefits pursuant to the terms of the Deferred Compensation Plan, Company may terminate this Trust prior to the time all benefit payments under the Deferred Compensation Plan have been made. All assets in the Trust at termination shall be returned to Company.

Section 13. Miscellaneous

(a) Any provisions of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions thereof.

(b) Benefits payable to the Participant and his beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged,

encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of Michigan.

Section 14. Effective Date

The effective date of this Trust Agreement shall be_____ 1996.

IN WITNESS OF WHICH, Company and Trustee have executed this Trust Agreement by their duly authorized officers.

MK RAIL CORPORATION

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By

Its

PNC BANK, NATIONAL ASSOCIATION

By

Its: Trustee

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Exhibit 10.61

AMENDMENT TO THE CREDIT AGREEMENT

BANCOMER, S.A., MULTIPLE BANKING INSTITUTION,
BANCOMER FINANCIAL GROUP

(BANCOMER)

MK GAIN, S.A. DE C.V.

(BORROWER)

Translated from Spanish by
Latin American Trade Finance, Ltd.

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AMENDMENT TO THE CREDIT AGREEMENT

Amendment Agreement to the Credit Agreement signed on December 13, 1996 by and between:

(i) Bancomer, S.A., Multiple Banking Institution, Bancomer Financial Group, a credit institution constituted and existing under the laws of the United Mexican States (identified hereinafter as "Bancomer"), and

(ii) MK Gain, S.A. de C.V., a corporation constituted and existing under the laws of the United Mexican States (identified hereafter as the "Borrower").

in accordance with the following declarations and clauses:

DECLARATIONS

I. Borrower's Recitals. Borrower states that:

a) It is a corporation organized under the laws of the United Mexican States with full capacity under its by-laws to execute this Agreement and to undertake its obligations as established hereunder, as evidenced by Public Deed No. 23 granted on January 26, 1994, before Mr. Jose Luis Cardenas Davila, Notary Public No. 12 in and for Sabinas, Coahuila, whose first public deed was inscribed in the Public Property Registry of Sabinas, State of Coahuila, under number 1,771, 10th volume, 3rd book, commercial section, on January 27, 1994, and the Public Deed No. 22,796 granted on July 5, 1995 before Mr. Carlos A. Duran Loera, Public Notary No. 11 of the Federal District, whose first public deed was inscribed in the Public Registry of Commerce of Mexico City, D.F. on page number 20,849 dated June 24, 1996.

b) Its representatives are duly empowered and have full legal capacity to execute this Agreement on its behalf and representation, without modification, restriction or revocation as of the date of this Agreement, as evidenced by a copy, certified by the Secretary of the Board of Directors of the Borrower, of the minutes dated December 11, 1996, of the resolution taken by the Board of Directors of the Borrower to grant the necessary powers of attorney to enter into this Amendment Agreement.

c) That on July 6, 1995 it entered into a credit agreement with

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Bancomer (hereinafter referred to as the Credit Agreement) of which a copy is attached hereto as Annex "A".

d) It has requested from Bancomer a Loan Disbursement (as such term is defined in the Credit Agreement) for an amount greater than the Credit Agreement allows to be made in one Disbursement of the Credit.

II. Bancomer's Recitals. Bancomer states that:

a) It is a credit institution duly organized and validly existing under the laws of the United Mexican States and is fully empowered to execute this Agreement, as evidenced by Public Deed No. 8525 granted on October 8, 1945, before Mr. Tomo s O'Gorman, Notary Public No. 1 of the Federal District with first public deed written under Folio No. 53, Page 310, Volume 207, Book 3 of the Public Registry of Commerce, Federal District.

b) That its representative has the sufficient legal capacity and authorization to enter into this Agreement on its behalf and representation, without having been modified, restricted or revoked as of the date of execution of this Agreement, as evidenced by (i) Public Deed No. 20,373, granted on April 21, 1994, before Mr. Rogelio Magana Luna, Notary Public No. 56 of the Federal District, whose first public deed was inscribed under number 23,900, page 12 of volume 268 of the Public Registry of Property and Commerce of the city of San Luis Potasi, San Luis Potasi.

c) That for the purpose of clarifying some terms used in the Credit Agreement and some of the obligations of the parties thereto, it wishes to enter into this Amendment Agreement to the Credit Agreement.

d) That it has received from the borrower a request to make a Loan Disbursement for an amount greater than as permitted by the Credit Agreement in one Loan Disbursement.

NOW THEREFORE, in consideration of the foregoing declarations, the parties hereto agree to the following:

CLAUSES

Clause 1. Modification to the Credit Agreement. Bancomer and the Borrower, by means of this Amendment Agreement expressly agree to modify and hereby do modify the Credit Agreement, under the terms established in this Amendment Agreement.

Clause 2. Validity and Legal Effect of the Credit Agreement. Bancomer and the Borrower expressly provide and agree that with respect to all terms and conditions of the Credit Agreement not expressly modified by this Amendment, all such terms and conditions will continue to be in full force and effect in the manner that they were initially agreed. Furthermore, the parties expressly agree that under no circumstances should this Amendment be interpreted as a novation of the obligations of the parties under the Credit Agreement, and therefore the

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parties ratify in all aspects the provisions of the Credit Agreement not modified by means of this Amendment.

Clause 3. Definition of Terms. The terms that are used in the present Amendment Agreement and that related to the Credit Agreement have the meanings attributed to them in the Credit Agreement.

Clause 4. Modifications to the Credit Agreement.

A. Modifications to Paragraph N. of Clause 1. Bancomer and the Borrower agree to modify and hereby do modify Paragraph N. of Clause 1 of the Credit Agreement, in order to read as follows:

> "N. "Maintenance Contract" means the Contract for the Maintenance of Traction and Haulage Equipment entered into between the Borrower and Ferrocarriles on March 15, 1994, and the amending agreement to the contract dated August 30, 1996."

B. Modifications to Paragraph U. of Clause 1. Bancomer and the Borrower agree to modify and hereby do modify Paragraph U. of Clause 1 of the Credit Agreement, in order to read as follows:

> "U. "Loan Disbursement", means the disbursements of the Credit made by the Borrower in accordance with the terms of this Agreement; provided however that: (i) the borrower may make only Loan Disbursement for each calendar month during the duration of the Disbursement period; (ii) the first Loan Disbursement may be made for up to the amount of U.S. $3,000,000.00 (Three Million and 00/100 Dollars); (iii) each one of the second and subsequent Loan Disbursements shall be in an amount not greater than $U.S. $1,540,000.00 (One Million Five Hundred Forth Thousand and 00/100 Dollars); (iv) the dates and amounts of the Loan Disbursements may only be modified with the prior approval of Bancomer; and (v) any Loan Disbursement may not be for less than U.S. $100,000.00 (One Hundred Thousand and 00/100 Dollars).

C. Modifications to Paragraph DD. of Clause 1. Bancomer and the Borrower agree to modify and hereby do modify Paragraph DD. of Clause 1 of the Credit Agreement, in order to read as follows:

"DD. "Maximum Risk Amount" means the amount of U.S. $27,100,000.00 (Twenty Seven Million One Hundred Thousand and 00/100 Dollars).

D. Modifications to Paragraph FF. of Clause 1. Bancomer and the Borrower agree to modify and hereby do modify Paragraph FF. of Clause 1 of the Credit Agreement, in order to read as follows:

"FF. "Financial Ratios", mean the financial ratios set forth in Annex F to this Agreement and which are to be complied with by the Borrower during the term of this Agreement."

E. Modifications to Clause 5. Bancomer and the Borrower agree to modify

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and hereby do modify Clause 5 of the Credit Agreement, in order to read as follows:

"Clause 5. Loan Disbursements. During the Loan Disbursement Period provided in Clause 4 above, the Borrower shall notify Bancomer in writing with five (5) Business Days Notice of its intention to make a Loan Disbursement, specifying (i) the amount of the Loan Disbursement, and (ii) the Disbursement Date. Provided that all the conditions precedent set forth in (i) of this Agreement, for the first Loan Disbursement and (ii) in Clause 8, for subsequent Loan Disbursements, have been duly satisfied and the Note or Notes referred to in Clause 6 of this Agreement are in terms and conditions which are satisfactory to Bancomer, Bancomer shall disburse to the Borrower the Loan Disbursement on the Disbursement Date requested by the Borrower, by means of depositing the respective funds precisely in Dollars to the bank account and in accordance with the instructions provided to the bank by Bancomer for such purpose in the notice referred to in this Clause".

F. Modifications to Paragraph H. of Clause 7. Bancomer and the Borrower agree to modify and hereby do modify Paragraph H. of Clause 7 of the Credit Agreement, in order to read as follows:

"H. That Bancomer shall have received, to its complete satisfaction the Ferrocarriles certificate with respect to the first Loan Disbursement, confirming that Farrocarriles has (i) received and inspected the works and services mentioned therein, and (ii) agrees that the works and services mentioned therein shall serve as a basis for determining One Hundred Percent of the termination value to be calculated in accordance with Annex B of the Ferrocarriles Agreement."

G. Modifications to Paragraph F. of Clause 8. Bancomer and the Borrower agree to modify and hereby do modify Paragraph F. of Clause 8 of the Credit Agreement, in order to read as follows:

"F. That Bancomer shall have received, to its complete satisfaction the Ferrocarriles certificate with respect to the second and subsequent Loan Disbursements, confirming that Farrocarriles has (i) received and inspected the works and services mentioned therein, and (ii) agrees that the works and services mentioned therein shall serve as a basis for determining One Hundred Percent of the termination value to be calculated in accordance with Annex B of the Ferrocarriles Agreement."

H. Modifications to Paragraph C. of Clause 12. Bancomer and the Borrower agree to modify and hereby do modify Paragraph C. of Clause 12. of the Credit Agreement, in order to read as follows:

"C. The Success Commission in an amount totaling US$950,000 (Nine Hundred Fifty Thousand and 00/100 Dollars) payable in 12 semiannual installments, (i) the first of which is to be paid in the amount of US$90,000.00 (Ninety Thousand Dollars), and (ii) the 11 (eleven) remaining payments of this commission, each of which will be in the amount of US$75,000.00 (Seventy Five Thousand Dollars) will be paid on

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the 15th day of the months of August and February of each calendar year; with the understanding that:

(I) the first payment of the Success Fee will be made on the date which occurs on the later of: (y) the 30th of December, 1996, or (z) the date on which the Borrower disburses part or all of the amount of US$2,720,000.00 (Two Million Seven Hundred Twenty Thousand 00/100 Dollars) in one single Loan Disbursement in accordance with the prior authorizations and waivers that Bancomer requires under the Contract; provided, however, that if the Loan Disbursement in the amount of US$2,720,000.00 (Two Million Seven Hundred Twenty Thousand 00/100 Dollars) is not made on the respective Drawdown Date for reasons caused by the Borrower, the Borrower shall pay the first payment of the Success Fee on December 30, 1996 provided that the Line of Credit is open and available to Bancomer;

(ii) the last payment of the Success Fee will be on August 15, 2002;

(iii) if the Borrower elects to prepay the Loan in full in accordance of Clause 10 of this Agreement, then the Borrower shall prepay to Bancomer on such date and in one lump sum an amount equal to the sum of all amounts relating to the Success Fee payable after the date on which the Borrower makes the full prepayment of the Loan, calculated in accordance with Annex I of this Agreement;

(iv) if Bancomer accelerates the term for payment of the Loan in accordance with Clause 10 of this Agreement, then it shall be understood that the Success Fee shall not be paid by the Borrower; except that if Bancomer shall accelerate the term for payment for the Loan because of (y) any Event of Acceleration whose existence has been caused intentionally caused by the Borrower with the intent of avoiding payment of the Success Fee, or (z) whose existence could be have been reasonably avoided by the Borrower, then the Borrower shall pay to Bancomer, on the date on which Bancomer accelerates the term for payment of the Loan in one lump sum, an amount equal to the sum of all amounts relating to the Success Fee payable subsequent to the date on which the Borrower makes full prepayment of the Loan calculated in accordance with Annex I of this Agreement;

(v) any dispute which arises with respect to the determination by Bancomer as to whether (y) the Borrower has intentionally caused an Event of Acceleration in order to avoid payment of the Success Fee, or (z) the Borrower could have reasonably avoided an Event of Acceleration, the same shall be resolved in a definitive and final manner through an arbitration carried out under the Rules of Conciliation and Arbitration of the International Chamber of Commerce of Paris. This Arbitration shall be carried out three (3) arbitrators designated by the parties within ten (10) calendar days after the date on which either of the parties shall notify the other of its request that the dispute be submitted to arbitration and shall specify the

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subject matter of the dispute and any other relevant fact. The party in whose favor the arbitration award shall be made shall have the right to receive from the other party payment of all costs and expenses that have been incurred in relation to the arbitration.

Bancomer shall designate one (1) of the arbitrators, the Borrower shall designate an additional arbitrator and these two (2) arbitrators shall designate a third arbitrator. If the first two arbitrators designated doe not agree on the designation of a third arbitrator within a period of ten (10) calendar days after their designation, or if either of the parties does not designate an arbitrator, then the arbitrator or arbitrators who have not been designated in this manner shall be designated by the International Chamber of Commerce of Paris.

The arbitration procedure shall be carried out in Mexico, shall be held in English and in accordance with the laws of Mexico;

(vi) if any day on which payment of the Success Fee is to be made shall be on a day which is not a business day, then the respective payment of the Success Fee shall be made on the immediately preceding business day, and

(vii) in case of delay in the prompt and full payment of any amount of the Success Fee on the date when due and payable under this Clause, the amount not paid shall bear penalty interest from the date it is due until the date on which it is paid in full, payable on demand at the Penalty Interest Rate.

I. Modifications to Paragraph T. of Clause 18. Bancomer and the Borrower agree to modify and hereby do modify Paragraph T. of Clause 18 of the Credit Agreement, in order to read as follows:

"T. Maintain the Reserve Fund during the term of this Agreement with a minimum average monthly balance equal to the greater of (i) ten percent (10%) of the unpaid principal balance of the Loan on the date on which the balance of the Reserve Fund is to be determined, and (ii) the sum of all amounts of principal and interest under the Loan due and payable by the Borrower to Bancomer on the Interest Payment Dates and Principal Payments Dates falling within one hundred fifty (150) calendar days after the date on which the balance in the Reserve Fund is to be determined, times one point twenty five (1.25)."

J. Modifications to Paragraph W. of Clause 18. Bancomer and the Borrower agree to modify and hereby do modify Paragraph W. of Clause 18 of the Credit Agreement, in order to read as follows:

"W. Fails to:

(I) pay dividends without the prior written consent of

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Bancomer;

(ii) make payments in any amount with respect to the MK Rail Debt, without the prior written consent of Bancomer;

(iii) reduce its paid in capital;

(iv) modify its by-laws or change its business purpose;

(v) enter into liquidation or dissolution;

(vi) take or fail to take any action when such taking or failure to take shall result in the acceleration for the compliance with any of its contractual obligations;

(vii) acquire Indebtedness for (i) an amount greater than individually or in the aggregate amounts to U.S. $1,000,000.00 (One Million and 00/100 Dollars) or its equivalent in any other currency, or (ii) has a term greater than the one (1) year, without the prior written approval of Bancomer except for obligations generated by law or in the normal course of business;

(viii) modify or waive any right granted by the Maintenance Contract and/or the Trust, without the prior written consent of Bancomer which consent shall not be unreasonably withheld by Bancomer; except for modifications to the Maintenance Agreement that the Borrower shall agree with Ferrocarriles in terms which are substantially similar to the terms of the document attached to this Agreement as Annex J and as long as such modifications are formalized in a legal manner.

(ix) setoff in any way any amount which is owed to it under the Maintenance Agreement; provided that (i) if Ferrocarriles shall make a setoff against any of the Borrower's invoices for an amount greater than ten percent (10%) of such invoice, the Borrower shall obtain from Bancomer within thirty (30) calendar days after the date on which such setoff has occurred, Bancomer's approval in writing for this setoff, and (ii) if the Borrower shall not obtain the authorization from Bancomer specified in clause (i) above within such period, Bancomer may declare the existence of an Event of Acceleration."

K. Addition of Paragraph X. to Clause 18. Bancomer and the Borrower agree to modify and hereby do modify Paragraph X. of Clause 18 of the Credit Agreement, in order to read as follows:

"X. Maintain a commercial credit account with MK Rail, with respect to the purchase of materials and equipment from MK Rail or any of its subsidiaries or affiliates, with a minimum balance equal to the greater of (i) the sum of U.S. $1,500,000.00 (One Million Five Hundred Thousand and 00/100 Dollars), and (ii) the amount which corresponds to purchases of material and equipment from MK Rail in the normal course of its operation during a period of 45 (forty-five) calendar days; provided however that if the minimum balance in this account shall be reduced

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for any purpose then the Borrower shall be obligated to increase the minimum balance in the reserve fund up to the amount equal to the sum of amounts of principal and interest under the Loan due and payable to the Borrower to Bancomer on the Interest Payment Dates and Principal Payment Dates, multiplied by one point five (1.5) times; provided, however, that the commercial credit account shall not be considered as part of the MK Rail Debt."

L. Modifications to Paragraph I. of Clause 20. Bancomer and the Borrower agree to modify and hereby do modify Paragraph I. of Clause 20 of the Credit Agreement, in order to read as follows:

"I. If the Borrower pays dividends, makes payments with respect to the MK Rail Debt, reduces its paid-in capital, modifies its corporate purpose or changes its commercial direction, enters into dissolution or liquidation or merges with another company without the prior written consent of Bancomer."

M. Modifications to Paragraph O. of Clause 20. Bancomer and the Borrower agree to modify and hereby do modify Paragraph O. of Clause 20 of the Credit Agreement, in order to read as follows:

"O. If deviations with respect to the Investment Program of fifteen percent (15%) with respect to the advancement of investments plus costs, as set forth in the Investment Program, calculated on a quarterly basis, and if the same are not clarified by the Borrower within a period of fifteen (15) Business Days following a request is made by Bancomer for this purpose; provided, however, that if Ferrocarriles shall accept these deviations for a difference percentage then such percentage shall be accepted by Bancomer provided that it should not be greater than fifteen percent (15%)."

N. Modifications to Paragraph R of Clause 20. Bancomer and the Borrower agree to modify and hereby do modify Paragraph R. of Clause 20 of the Credit Agreement, in order to read as follows:

"R. If the Borrower (i) fails to comply with its obligation to maintain the "availability factor" in accordance with the terms of the Maintenance Contract, or (ii) fails to comply with any other of its obligations under the Maintenance Contract for a period of two (2) consecutive months, in such a way, in the opinion of the Technical Committee that the respective noncompliance may give to Ferrocarriles the right to cancel or rescind the Maintenance Contract."

O. Addition of Paragraphs Z., AA. and BB. to Clause 20. Bancomer and the Borrower agree to modify and hereby do modify Clause 20 of the Credit Agreement by adding new Paragraphs Z., AA., and BB. to read as follows:

"Z. If the funding of the CIBC Line of Credit is suspended, for any reason not attributable to Bancomer, for a period greater than 60

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(sixty) calendar days and such funding is not renewed."

"AA. If the Borrower does not comply with its obligation to immediately increase the balance of the Reserve Fund referred to in paragraph X. of Clause 18 of this Agreement."

"BB. If Ferrocarriles shall make a setoff of any amount which it is to pay under the Maintenance Agreement against any amount owed in its favor under any other obligation of the Borrower apart from those resulting from the Maintenance Agreement."

P. Modifications to Paragraph B of Clause 30. Bancomer and the Borrower agree to modify and hereby do modify Paragraph B. of Clause 30 of the Credit Agreement, in order to read as follows:

"B. The Borrower shall pay to Bancomer or to the party designated by Bancomer, as sight, and without any requirement by Bancomer: (i) up to the sum of U.S. $80,000.00 (Eight Thousand and 00/100 Dollars) for the cost of technical supervision of the shops and the income of the Trust during the first year of this Agreement, and (ii) up to the sum of U.S. $80,000.00 (Eight Thousand and 00/100 Dollars) for the same purposes for the following years as long as their exists an unpaid balance of the Loan; provided, however, that the Technical Committee shall review the quotations and scopes of services of the Technical Supervisor and the Financial Supervisor in respect to the period being quoted at least four (4) months before the beginning of the period for which the quotation is made, for the purpose of deciding on its acceptance or the contracting of different providers for similar services in a less expensive manner for the Borrower. If there is no Agreement on a less expensive contract as described above, the Borrower shall pay the amount first written in this paragraph.

The Borrower agrees that in case of delay in the punctual and full payment of all amounts relating to costs and expenses referred to in this clause on the date on which they are due and payable in accordance with the provisions of this clause, the unpaid amount shall accrue penalty interest from its due date up to the date it is paid in full at the Penalty Interest Rate."

Q. Modifications to Annex "F" Financial Ratios. Bancomer and the Borrower agree to modify and hereby do modify Annex "F" Financial Ratios to the effect that the same shall read as contained in Annex "B" to this Amendment Agreement.

R. Modifications to Annex "H" Shop Improvements. Bancomer and the Borrower agree to modify and hereby do modify Annex "H" Shop Improvements to the effect that the same shall include the 1997 Investment Program in accordance with the document attached as Annex "C" to this Amendment Agreement.

S. Modifications to Annex "I" Success Commission. Bancomer and the Borrower agree to modify and hereby do modify Annex "I" Success Commission to

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the effect that the same shall read as contained in Annex "D" to this Amendment Agreement.

T. Modifications to Annex "J" Maintenance Contract. Bancomer and the Borrower agree to modify and hereby do modify Annex "J" Maintenance Contract to the effect that the same is edited in the manner contained in Annex "E" to this Amendment Agreement.

Clause 5. Commissions. The Borrower shall be obligated by means of this Amendment Agreement to pay to Bancomer a structuring fee in the amount of U.S. $45,000 (Forty Five Thousand and 00/100 Dollars), payable on the date which is the earlier of: (i) December 30, 1996, and (ii) the date on which the Borrower disperses all or a portion of the sum of U.S. $2,720,000.00 (Two Million Seven Hundred Twenty Thousand and 00/100 Dollars) in accordance with the authorizations and waivers by Bancomer under the Credit Agreement.

Clause 6. Governing Law. This Amendment Agreement is to be interpreted in accordance with the laws of the United Mexican States.

Clause 7. Jurisdiction. To all that relates to the interpretation and compliance of the obligations derived from this Amendment Agreement, the parties submit irrevocably to the jurisdiction of any competent court or courts in Mexico City, Federal District, United Mexican States, or any competent court or courts in the city of San Luis Potosi, San Luis Potosi, United Mexican States, expressly renouncing any other forum to which they have rights or possess by virtue of domicile or any other reason.

In witness whereof, the parties to this Agreement have given their approval and the duly authorized representatives sign as of the date mentioned in the preamble to this Agreement.

Bancomer:

Bancomer, S.A., Multiple Banking Institution,
Grupo Financiero Bancomer

By:
Title:

By:
Title:

Borrower:

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MK Gain, S.A. de C.V.

By:
Title:

ANNEX "A"

MODIFICATIONS TO ANNEX "F" FINANCIAL RATIOS

ANNEX "B"

MODIFICATIONS TO ANNEX "H" SHOP IMPROVEMENTS

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ANNEX "C"

MODIFICATIONS TO ANNEX "I" SUCCESS COMMISSION

ANNEX "D"

MODIFICATIONS TO ANNEX "J" MAINTENANCE CONTRACT

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Exhibit 10.62

LOAN AGREEMENT

BANCOMER, S.A., MULTIPLE BANKING INSTITUTION,
BANCOMER FINANCIAL GROUP

(BANCOMER)

MK GAIN, S.A. DE C.V.

(BORROWER)

U.S.$3,500,000.00

Translated by
Latin American Trade Finance, Ltd.

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EXHIBIT "A" FERROCARRILES' AGREEMENT

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EXHIBIT "B" COMFORT LETTER
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LOAN AGREEMENT

BANCOMER, S.A., MULTIPLE BANKING INSTITUTION,
BANCOMER FINANCIAL GROUP

(BANCOMER)

MK GAIN, S.A. DE C.V.

(BORROWER)

U.S.$3,500,000.00

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Translated by
Latin American Trade Finance, Ltd.

Bancomer, S.A.
MK GAIN, S.A. de C.V.
US$3,500,000 Loan Agreement

LOAN AGREEMENT

Loan Agreement, dated as of December 13, 1996, by and among:

(i) Bancomer, S. A., Multiple Banking Institution, Bancomer Financial Group, a credit institution organized and existing under the laws of the United Mexican States (hereinafter referred to as "Bancomer"); and

(ii) MK Gain, S. A. de C. V., a corporation organized and existing under the laws of the United Mexican States (hereinafter referred to as the "Borrower").

RECITALS

I. Borrower's Recitals. Borrower states that:

a) It is a corporation organized under the laws of the United Mexican

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States with full capacity under its by-laws to execute this Agreement and to undertake its obligations as established hereunder, as evidenced by Public Deed No. 23 granted on January 26, 1994, before Mr. Jose Luis Cardenas Davila, Notary Public No. 12 in and for Sabinas, Coahuila, whose first public deed was inscribed in the Public Property Registry of Sabinas, State of Coahuila, under number 1,771, 10th volume, 3rd book, commercial section, on January 27, 1994, and the Public Deed No. 22,796 granted on July 5, 1995 before Mr. Carlos A. Duran Loera, Public Notary No. 11 of the Federal District, whose first public deed was inscribed in the Public Registry of Commerce of Mexico City, D.F. on page number 20,849 dated June 24, 1996.

b) Its representatives are duly empowered and have full legal capacity to execute this Agreement on its behalf and representation, without modification, restriction or revocation as of the date of this Agreement, as evidenced by a copy, certified by the Secretary of the Board of Directors of the Borrower, of the minutes dated December 11, 1996, of the resolution taken by the Board of Directors of the Borrower to grant the necessary powers of attorney to enter into this amending agreement.

c) That on July 6, 1995 it entered into a Loan Agreement with Bancomer for up to US$30,000,000 (Thirty Million Dollars United States Currency) with funds guaranteed by the Export-Import Bank of the United States (the "Eximbank Loan Agreement").

d) Has incorporated the Trust (as such term is hereinafter defined) to guarantee its obligations hereunder and under this Loan and the Eximbank Loan Agreement.

e) It has requested from Bancomer the granting of an additional loan for the financing of improvements to the Ferrocarriles shops (as such term is hereinafter defined) in accordance with the Maintenance Agreement (as such term is hereinafter defined).

II. Bancomer's Recitals. Bancomer states that:

a) It is a credit institution duly organized and validly existing under the laws of the United Mexican States and is fully empowered to execute this Agreement, as evidenced by Public Deed No. 8525 granted on October 8, 1945, before Mr. Tomas O'Gorman, Notary Public No. 1 of the Federal District with first testimony written under Folio No. 53, Page 310, Volume 207, Book 3 of the Public Registry of Commerce, Federal District.

b) That its representative has the sufficient legal capacity and authorization to enter into this Agreement on its behalf and representation, without having been modified, restricted or revoked as of the date of execution of this Agreement, as evidenced by (i) Public Deed No. 20,373, granted on April 21, 1994, before Mr. Rogelio Magana Luna, Notary Public No. 56 of the Federal District, whose first deed was inscribed under number 23,900, page 12 of volume 268 of the Public Registry of Property and Commerce of the city of San Luis Potasi, San Luis Potasi.

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c) That it is negotiating with the Canadian Imperial Bank of Commerce, New York office ("CIBC"), a line of credit for the purpose of granting to the Borrower the requested loan in accordance with this Agreement, which can be contracted with Bancomer with CIBC or any other financial institution at the option of Bancomer (herein after defined as the "Line of Credit"); provided, however, if Bancomer negotiates the Line of Credit with a financial institution different from CIBC, then all references to CIBC in this agreement shall be understood as referring to such other financial institution provided that such negotiation does not alter terms and conditions as provided in this Agreement, and subject to the provisions of Clause 31 of this Agreement.

d) That based on the Borrower's declarations, statements and warranties, it is willing to grant the loan requested by the Borrower, under the terms and conditions set forth in this Agreement.

NOW THEREFORE, in consideration of the foregoing declarations, the parties hereto agree to the following:

SECTIONS

Section 1. Certain Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

A. "Additional Income", means any and all of the Borrower's rights to collect any kind of fees, consideration or payment for any other services rendered to any third party in connection with the overhaul of locomotives and maintenance of other rail equipment, different than the Rights for Collection, and/or income for any other concept.

B. "Agreement", means this Loan Agreement entered into by Bancomer, as lender, and the Borrower, as borrower along with its Exhibits.

C. "Bancomer CDs", means certificates of deposit issued by Bancomer, S.A., London Branch and offered on the London market, as negotiable bearer instruments transferable without endorsement, which conform to the Bank of England's guidelines and the British Banker's Association market guidelines for certificates of deposit on the London market.

D. "Bancomer CDs Rate", means, with respect to any failure to pay on the part of the Borrower, the average rate, as determined by Bancomer, at which Bancomer CDs with maturities of ninety (90) days are quoted in the London market at 11:00 a.m. (London Time) two Business Days prior to the date on which the Borrower fails to make any payment to Bancomer in accordance with this Agreement.

E. "Business Day", means any day in which dealings for the deposit of Dollars are carried out in the London interbank market, and on which banks are open for business in Mexico City, Federal District, United Mexican States, the

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City of New York, New York and in London, England and accept deposits in Dollars in the London interbank market.

F. "CIBC", will have the meaning ascribed in Declaration II.C of this Agreement.

G. "Comfort Letter", means the comfort letter dated July 6, 1995, signed by MK Rail for the benefit of Bancomer, a copy of which is attached to this Agreement as Exhibit "B".

H. "Consolidation Date", means July 15, 1997 or any other date agreed by the parties with CIBC.

I. "Construction and Refurbishing Program", means the program for the construction and refurbishing of Ferrocarriles' workshops and supply centers for 1997 in accordance with the terms and conditions of the Maintenance Agreement, a copy of which is attached hereto as Exhibit "J".

J. "Cost of Funds", means, with respect to any failure to pay on behalf of the Borrower, the cost of funds in Dollars to Bancomer, for amounts similar to the amount created as a result of the failure to pay by the Borrower, for terms of thirty (30) days, including, but not limited to, costs derived by virtue of Bancomer's failure to comply with tax reserves for any competent authority, calculated by Bancomer precisely from the date on which the Borrower fails to make any payment to Bancomer.

K. "Default Rate", means, with respect to the Loan Disbursements, the interest rate that results from the higher of: (i) the Bancomer CD's Rule multiplied by two (2) , and (ii) the Cost of Funds multiplied by two (2). Once the applicable Default Rate is determined, Bancomer will notify the Borrower of such Default Rate which will, in the absence of manifest error, be final, conclusive and obligatory for the Borrower.

L. "Debts", means, with respect to the Borrower, : (i) debts for amounts of money in Pesos, Dollars or any other currency; (ii) all contingent liabilities that result from discounting with recourse negotiable instruments; and (iii) all contingent liabilities that result from any performance bond or other similar instrument by which contingent responsibilities are assumed for obligations to third parties.

M. "Disbursement Date", means with respect to each of the Disbursements of the Loan, the Business Day on which Bancomer disburses the respective Disbursement of the Loan.

N. "Disbursement Period", shall have the meaning ascribed to such term in Clause 4 hereto.

O. "Dollars" and "U.S.$", means the legal currency in the United States of America.

P. "Event of Default", shall have the meaning ascribed to such term in

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Section 18 hereof.

Q. "Exhibit", means any writing, list, catalog, drawing, graphic and/or other document attached to this Agreement, which when referred to by this Agreement and attached, forms part of this Agreement as if it were inserted completely in the place of places referenced.

R. "Eximbank Loan Agreement", has the meaning ascribed to it in Declaration I.c. of this Agreement.

S. "Ferrocarriles", means Ferrocarriles Nacionales de Mexico.

T. "Ferrocarriles Agreement", means the document issued by Ferrocarriles substantially in the form of the document attached to this Agreement as Annex A, under which Ferrocarriles confirms, among other things, its consent to assign the Rights for the Collection of Payments derived from the Maintenance Contract.

U. "Financial Ratios", means those financial ratios established in Exhibit "H" to this Agreement and which must be complied with by the Borrower during the life of this Agreement.

V. "Financial Supervisor" shall have the meaning ascribed to such term in the Trust.

W. "Funding Rate" means LIBOR plus two and eleven sixteenths percent (2.6875%).

X. "Interest Payment Dates", means, with respect to each Loan Disbursement, the 15th day of each of the months of February and August of every calendar year or any other dates agreed by the parties with CIBC, commencing from the date of the first Loan Disbursement is made; provided, however that: (i) the first Interest Payment Date shall be with respect to Loan Disbursements made prior to the Consolidation Date shall be the Consolidation Date; (ii) the last Interest Payment Date shall be the last Principal Payment Date, and (iii) if any of these dates falls on a date which is not a Business Day, then the corresponding Interest Payment Date shall be the next succeeding Business Day.

Y. "Interest Period", means, with respect to each Disbursement of the Loan (i) the period that begins on the respective Disbursement Date and ends on, but does not include, the following Interest Payment Date and (ii) subsequently, the period that begins on each Interest Payment Date and ends on, but does not include, the following Interest Payment Date.

Z. "Interest Rate", means, with respect to each Loan Disbursement and for each Interest Period, the Funding Rate plus the Spread. Once the Interest Rate applicable for an Interest Period is determined, Bancomer will notify the Borrower of such Interest Rate, which will, in the absence of manifest error, be final, conclusive and obligatory for the Borrower.

AA. "Libor", means, (i) for any Interest Period occurring within the

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period which begins on the date of signing of this Agreement and ends on the Consolidation Date and with respect to the unpaid balance of the Loan during such period, the arithmetic mean (rounded upward, if necessary, to the nearest 1/16 of 1%), as determined by the London CIBC office, of the rates per annum offered by prime banks in the London interbank market of Dollar deposits for terms equal to or similar to such Interest Period and in amounts approximately equal or similar to the principal amount of the respective Loan Disbursement, payable during such Interest Period at approximately 11:00 am (London time) two Business Days before the first day of such Interest Period, and (ii) for any Interest Period occurring from the Consolidation Date and with respect to the unpaid balance of the Loan from such date, the fixed rate of interest which results from a determination of the arithmetic average (rounded upward, if necessary, to the nearest 1/16 of 1%), as determined by the London CIBC office, of the rates per annum offered by prime banks in the London interbank market of Dollar deposits for terms equal or similar to 39 (thirty nine) months and in amounts approximately equal or similar to the unpaid principal balance of the Loan at approximately 11:00 am (London time) two Business Days before the Consolidation Date.

BB. "Line of Credit", shall have the meaning ascribed to it in Declaration II.c) of this Agreement.

CC. "Loan", means up to the full amount of the Loan made by Bancomer to the Borrower as established in Section 2 of this Agreement under the terms hereof.

DD. "Loan Disbursements", means the disbursements of the Loan that the Borrower makes in accordance with the terms of this Agreement; with the understanding, however, that: (i) the Borrower can only make one disbursement of the Loan for each calendar month during the Disbursement Period; (ii) the total amount of the loan shall be disbursed in 3 (three) Loan Disbursements, and (iii) each of the Loan Disbursements cannot be less than US$1,000,000 (One Million Dollars).

EE. "Loan Repayment Dates", means, with respect to each Loan Disbursement, the 15th day of the months of February and August of each calendar year, or any other date which the parties may agree with CIBC, commencing from the date on which the first Loan Disbursement is made; provided, however that: (i) the first Loan Repayment Date shall be August 15, 1997; (ii) the last Loan Repayment Date cannot fall on a date later than the fifth anniversary of the Consolidation Date, and (iii) if any of those dates falls on a day other than a Business Day, then the corresponding Loan Repayment Date shall be the next succeeding Business Day.

FF. "Maintenance Agreement", means the Maintenance Agreement of Tractive and Hauling Equipment entered into by and between the Borrower and Ferrocarriles on March 15, 1994 and the amending agreement thereto dated August 30, 1996, copies of which are attached hereto as Exhibit E.

GG. "MK Rail", means MK Rail Corporation, a Delaware corporation, United States of America.

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HH. "MK Rail Debt", means the financing that as of the present date equals US$16,551,000.67 (Sixteen Million Five Hundred Fifty One Thousand and One 67/100 Dollars) extended by MK Rail in favor of the Borrower and for which payment is subordinated to the payment of the Loan and the Eximbank Loan in accordance with the Subordination Agreement.

II. "PCGA", means the generally accepted Mexican accounting principles, applied on a basis consistent with the individual and/or, in its case, consolidated financial information of the Borrower.

JJ. "Pesos" and the sign "$" means the legal currency of the United Mexican States.

KK. "Promissory Notes", means the Promissory Notes to be subscribed by the Borrower in favor of Bancomer to evidence each Loan Disbursement in terms substantially similar to the form of Promissory Notes attached hereto as Exhibit "I".

LL. "Regulatory Change", shall have the meaning as defined in paragraph C, Clause 14 of this Agreement.

MM. "Reserve Fund", means the "Fondo de Reserva" as such term is defined in the Trust.

NN. "Rights for Collection", means the Borrower's rights to collect the maintenance fees from Ferrocarriles pursuant to the Maintenance Agreement, as well as any other right for collection the Borrower has from Ferrocarriles pursuant to the Maintenance Agreement, including, without limiting to, the rights the Borrower has to receive from Ferrocarriles any amount that Ferrocarriles must pay the Borrower in the event of default or early termination of the Maintenance Agreement, pursuant to the Maintenance Agreement and the Ferrocarriles Agreement.

OO. "Spread", means three (3.00) percentage points.

PP. "Subordination Agreement", means the subordination agreement dated July 6, 1995 between Bancomer and MK Rail, a copy of which is attached to this Agreement as Exhibit "F", through which MK Rail agrees to subordinate the payment of MK Rail Debt to the payment of the Loan and the Eximbank Loan.

QQ. "Taxes", means whatever taxes, tributes, contributions, charges, deductions or retention of any nature that are imposed or made at any time by any authority.

RR. "Technical Assistance Agreement", means the Technical Assistance Agreement dated January 1, 1995 between the Borrower and MK Rail, and under which MK Rail will provide technical assistance to the Borrower in order for it to comply with the terms and conditions of the Maintenance Agreement, a copy of which is attached to this Agreement as Exhibit D.

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SS. "Technical Committee", means the "Comite Tecnico" as such term is defined in the Trust.

TT. "Technical Supervisor", shall have the meaning ascribed in the Trust Agreement.

UU. "Technical Supervisor's Certificate", means each of the certificates issued by the Technical Supervisor with respect to the work and services performed by the Borrower in accordance with the Maintenance Contract, substantially in the form of Exhibit "C" to this Agreement.

VV. "Trust", means the administration, guaranty and payment trust dated July 6, 1995 and amended by means of an amending agreement dated December 13, 1996, incorporated by the Borrower, copy of which is attached hereto as Exhibit "G", under which the Borrower contributed the Rights for Collection and, when applicable, the Additional Income in accordance with the terms of this agreement and the Eximbank Agreement, to guarantee its payment obligations derived hereunder and under the Eximbank Agreement.

The terms defined in accordance with this Agreement are expressed in singular as well as plural and they refer to generic as well as all generics. The references in this Agreement to Recitals, Sections, Paragraphs or Exhibits means the Recitals, Sections, Paragraphs or Exhibits of or in reference to this Agreement.

Section 2. Amount of the Loan. Bancomer hereby establishes the Loan, upon the terms and conditions set forth in this Agreement, in favor of the Borrower in an amount of up to U.S.$3,500,000.00 (Three Million Five Hundred 00/100 Dollars), which amount does not include interest, commissions, nor expenses derived thereof.

Section 3. Use of Proceeds. The Loan shall be applied by the Borrower only for financing of up to 75% (seventy five percent) of cost of investments in shops and supply centers owned by Ferrocarriles' in accordance with the Maintenance Contract and the Construction and Refurbishing Program subsequent to October 31, 1996, but prior to the Consolidation Date.

Section 4. Disbursement Period. The Borrower may disburse all of the Loan, in up to three Loan Disbursements, during the period that shall begin on the date hereof and shall end on the Consolidation (hereinafter referred to as the "Disbursement Period").

Section 5. Loan Disbursement. During the Disbursement Period established in Section 4 above, the Borrower shall notify Bancomer in writing five (5) Business Days in advance, of its intention to make a Loan Disbursement, specifying (i) the amount of such Loan Disbursement, and (ii) the date on which the Loan Disbursement is to be made. In the event all of the conditions precedent established in (i) Section 7 of this Agreement for the first Loan Disbursement, and (ii) Section 8 for subsequent Loan Disbursements, have been satisfied and that the Promissory Notes referred to in Section 6 hereof is under

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terms and conditions satisfactory to Bancomer, then Bancomer will disburse to the Borrower the Loan Disbursement on the date requested by the Borrower, by deposit of the corresponding proceeds in the bank account indicated by the borrower to Bancomer for such purpose in the notification mentioned in this section.

Section 6. Promissory Notes. Simultaneously with the notice referred to in Section 5 hereof, the Borrower shall furnish Bancomer with Promissory Notes in order to evidence the Loan Disbursement, which: (i) shall be in an amount of principal equal to the Loan Disbursement; (ii) shall include as interest payment dates the Interest Payment Dates; and (iii) shall have as a maturity date the Consolidation Date.

Similarly, and subsequent to the Consolidation Date, the Borrower shall be obligated to document the Loan Disbursements with new Promissory Notes such that said notes reflect the Interest Rate and Loan Repayment Dates applicable to the Interest Periods subsequent to the Consolidation Date. The parties agree that the documentation of the Loan Disbursements with new Promissory Notes shall in no event be interpreted as a novation of any of the obligations of the parties to this Agreement.

Section 7. Conditions Precedent for the First Loan Disbursement. The obligation of Bancomer to disburse the first Loan Disbursement shall be subject to the prior satisfaction of the following conditions precedent, or to Bancomer's waiver in writing thereof:

A. Bancomer and CIBC have received from the Borrower the documentation required in conformance with the policies and guidelines of CIBC for the first disbursement of the loan and such documentation shall be satisfactory to Bancomer and CIBC. In any case, Bancomer will inform the Borrower within ten (10) Business Days that the Borrower has furnished Bancomer with the documentation that is requested in accordance with the policies and guidelines of CIBC and if such documentation complies with the policies and guidelines of CIBC.

B. The Line of Credit is open and available in favor of Bancomer.

C. Bancomer has received from CIBC the Funds from the first Loan Disbursement with the understanding, however, that if CIBC suspends funding for whatever and such funding is not renewed within the Disbursement Period, Bancomer will not be obliged to make the first Loan Disbursement without any responsibility on the part of Bancomer, except as provided in the first paragraph of Clause 12 of this Agreement.

D. Bancomer shall have received, to its entire satisfaction, a copy, certified by the Secretary of the Board of Directors of the Borrower, of (i) the current by-laws of the Borrower and, (ii) the power of attorney granted by the Borrower to its corresponding representative in order to legally enter into this Agreement and execute the Promissory Notes.

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E. Bancomer has received from the Borrower a certificate executed by the Corporate Secretary in which is specified the name and shows the signatures of the person(s) authorized by the Borrower to sign this Agreement and the Promissory Notes for the first and subsequent Loan Disbursements.

F. Bancomer shall have received to its entire satisfaction the notification referred to in Section 5 of this Agreement and the Promissory Note evidencing the first Loan Disbursement.

G. Bancomer has received to its entire satisfaction: (i) the Comfort Letter duly signed by MK Rail and (ii) the Subordination Agreement.

H. Bancomer shall have received to its entire satisfaction the certificate issued by the Technical Supervisor pursuant to the first Loan Disbursement which certifies that the Technical Supervisor has: (i) reviewed and inspected the works and services in question; (ii) confirmed that the works and services in question comply with the terms and conditions of the Maintenance Contract; and (iii) certifies the amount of the costs eligible for works to be financed with the first Loan Disbursement.

I. The Trust and its amendments shall have been duly incorporated and be in full force and effect to Bancomer's satisfaction.

J. The Maintenance Contract and the Ferrocarriles Agreement should be validly existing and on terms and conditions satisfactory to Bancomer.

K. The amount of the first Loan Disbursement to be disbursed should not exceed the maximum amount
of the Loan.

L. The representations and warranties of the Borrower contained in Section 17 of this Agreement hereof shall continue to be true and correct as of the date when the first Loan Disbursement shall occur, as if they were made on such date, and the Borrower shall so certify in writing in the event Bancomer requests the Borrower to do so.

M. No Event of Default and no event which but for the giving of notice or the lapse of time or both would constitute an Event of Default exists or will exist after giving effect to the Loan Disbursement.

N. Bancomer shall have received to its entire satisfaction the documentation for the Technical Assistance Agreement and such Agreement is in full force and effect and will continue to exist for a term at least equal to the Maintenance Contract.

O. Bancomer has received the Program of Construction and Refurbishing on terms satisfactory to Bancomer.

P. The Borrower has paid all commissions due to be paid before the date of the first Loan Disbursement in accordance with Section 12 of this Agreement

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as well as the costs and expenses that are referred to in Section 30 of this Agreement.

Q. The Borrower shall have evidenced, to Bancomer's satisfaction, that the Maintenance Agreement has a minimum duration of at least eight (8) years from the date of its commencement, and that the Borrower shall evidence to Bancomer's satisfaction that there is no breach caused by the Borrower or Ferrocarriles under the Maintenance Agreement.

R. Bancomer shall have received to its entire satisfaction a copy of the insurance policies which the Borrower must maintain in accordance with Section 19 of this Agreement.

Section 8. Conditions Precedent for Subsequent Loan Disbursements. The obligation of Bancomer to disburse the subsequent Loan Disbursements shall be subject to the prior satisfaction of the following conditions precedent, or to Bancomer's waiver in writing thereof:

A. Bancomer and CIBC have received from the Borrower whatever documentation is required in conformance with the policies and guidelines of CIBC for the subsequent disbursements of the loan and such documentation shall be satisfactory to Bancomer and CIBC. In any case, Bancomer will inform the Borrower within ten (10) Business Days that the Borrower has furnished Bancomer with the documentation that is requested in accordance with the policies and guidelines of CIBC and if such documentation complies with the policies and guidelines of CIBC.

B. The Line of Credit is open and available in favor of Bancomer.

C. Bancomer has received from CIBC the Funds for the subsequent Loan Disbursements: with the understanding, however, that if CIBC suspends funding of the Loan for whatever reason, Bancomer will not be obliged to make the subsequent Loan Disbursements without any responsibility on the part of Bancomer, except as provided in the first paragraphs of Section 12 of this Agreement.

D. Bancomer shall have received to its entire satisfaction each one of the Promissory Note evidencing the subsequent Loan Disbursements.

E. The amount of the Loan Disbursements to be disbursed does not exceed the maximum amount of the Loan, and that this disbursement will not create as a consequence that the total balance of all the Loan Disbursements from the date of the first disbursement through to the subsequent disbursements should not exceed the maximum amount of the Loan.

F. Bancomer shall have received to its entire satisfaction, the certificate issued by the Technical Supervisor pursuant to the subsequent Loan Disbursements which certifies that the Technical Supervisor has: (i) reviewed and inspected the works and services in question in accordance with the applicable terms and condition of the Maintenance Contract; (ii) confirmed that

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the works and services in question comply with the terms and conditions of the Maintenance Contract; and (iii) certifies the amount of the costs eligible for works to be financed with the subsequent Loan Disbursements.

G. The Borrower has paid all commissions due to be paid before the date of the first Loan Disbursement in accordance with Section 12 of this Agreement and which should be paid during the term of this Agreement, as well as the costs and expensed referred to in Section 30 of this Agreement,

H. The representations and warranties of the Borrower contained in Section 17 of this Agreement hereof shall continue to be true and correct as of the date of the subsequent Loan Disbursements, as if they were made on such date, and the Borrower shall so certify in writing in the event Bancomer requests the Borrower to do so.

I. No Event of Default and no event which but for the giving of notice or the lapse of time or both would constitute an Event of Default exists or will exist after giving effect to the Loan Disbursement.

Section 9. Payments of Principal. The Loan shall be paid to Bancomer in ten (10) semi-annual and successive installments of principal, payable on each Principal Payment Date, each of such installments in the amounts set forth in Exhibit "K" attached hereto; provided, however, that the Borrower shall pay the total amount outstanding on the Loan on the last Principal Payment Date.

Section 10. Prepayment. The Borrower may not prepay the Loan in full or in part without Bancomer's prior written consent. In the event the Borrower wishes to obtain such consent, and unless Bancomer otherwise agrees in writing: (i) the Borrower shall deliver to Bancomer in writing an irrevocable notice to prepay the Loan, at least thirty (30) Calendar Days before the date on which it intends to prepay the Loan; (ii) any prepayment of the Loan shall be made on an Interest Payment Date; (iii) the Borrower shall pay all interest due and accrued on the Loan's unpaid principal amount; (iv) the Borrower shall pay all commissions owing and payable on the date on which the Borrower wishes to make a prepayment; (v) any prepayment must be in an amount equal to or in any multiple of US$100,000.00 (One Hundred Thousand 00/100 Dollars), and (vi) partial prepayments shall be applied by Bancomer, at its sole discretion, to the payment of installments of principal in inverse order of maturity.

At any time Bancomer agrees to receive from the Borrower a partial or total prepayment as referred to in this Section, the Borrower shall pay to Bancomer a commission or premium to be determined by applying to said amount, the following percentages:

A. Two and one half percent (2.5%) in the event the prepayment is made during the period between (i) the date on which the first Loan Disbursement is made and, (ii) the last Calendar Day of the period ending two years from the date of the first Loan Disbursement; or

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B. Two percent (2%) in the event the prepayment is made during the period between (i) the Calendar Day immediately succeeding the last Calendar Day of a period of two (2) calendar years as from the date of the first Loan Disbursement and, (ii) the last day of a calendar period of five (5) years counted from the first Loan Disbursement date; and

C. All and each of the commissions that are charged by CIBC to Bancomer in relation to the prepayment of the CIBC Line of Credit which Bancomer notifies to the Borrower.

Section 11. Interest. From and after the Loan Disbursement and until the last Principal Payment Date is made, the Borrower shall pay to Bancomer ordinary interest on the unpaid principal amount of Loan on each Interest Payment Date for each Interest Period, at a rate equal at all times during each Interest Period to the Interest Rate; provided, however, that if any amount of principal is not paid in full when due, the unpaid amount of principal shall bear interest from the date on which payment should have been made until said amount is paid in full, at a rate equal to the Default Rate, and shall be payable upon demand.

Ordinary and delinquent interest rates shall be calculated based on a year of 360 days and the actual number of days elapsed.

Section 12. Commissions. The Borrower shall be obligated under this Agreement to pay the following commissions; provided, however, that if for any reason CIBC shall suspend the Line of Credit, and as a result, the Borrower is not able to make Loan Disbursements, then Bancomer shall reimburse the Borrower the amounts which represent commissions paid to Bancomer as mentioned below on a proportional basis to the amounts which the Borrower has effectively not disbursed; and if no Loan Disbursements have been made, Bancomer shall reimburse to the Borrower the commissions which have been paid:

A. An opening commission equivalent to zero point fifty percent (0.50%) on the total amount of the Loan, payable to Bancomer on December 30, 1996.

B. A structuring commission equivalent to one percent (1.00%) on the total amount of the Loan,
payable to Bancomer on December 30, 1996.

C. An opening commission to be charged by CIBC equal to zero point fifty percent (0.50%) of the total amount of the Loan, payable on the dates indicated by CIBC.

D. A commitment fee to be charged by CIBC which shall be equal to zero point fifty percent (0.50%) per annum on the undisbursed balance of the Loan, payable on the dates indicated by CIBC.

The commissions described in paragraphs C and D of this section shall be paid by the Borrower only if they are charged by CIBC.

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Section 13. Alternate Interest Rate.

A. If prior to the commencement of any Interest Period, Bancomer receives notice from CIBC that (i) in CIBC's ordinary course of business there is no London interbank market for deposits in Dollars available to CIBC in amounts and for terms sufficient to make any Loan Disbursement; or (ii) due to circumstances affecting the London interbank market, adequate methods do not exist to determine Libor for the respective Interest Period; or (iii) Libor does not reflect CIBC's actual cost for funding the Loan or disbursement or maintenance of the respective Loan disbursement; and (iv) that for any of the above-mentioned reasons CIBC uses the rate determined by CIBC in such notice to substitute for Libor in determining the Funding Rate (the "Substitute Funding Rate"), then Bancomer shall notify the Borrower of such circumstances and the Borrower agrees to pay to Bancomer, during the entire period for which the circumstances indicated by CIBC persist, interest on the unpaid balance of the Loan at the Substitute Funding Rate plus the Spread.

B. If at any time during the term of this Agreement Bancomer receives notification from CIBC that in the reasonable judgment of CIBC, it is illegal to disburse or maintain any Loan Disbursement based upon Libor, and for this reason, CIBC shall use the Substitute Funding Rate as set forth in such notice, then Bancomer, accordingly, shall notify the Borrower of these circumstances, and the Borrower agrees to pay to Bancomer, during the entire time during which the circumstances indicated by CIBC continue, interest on the unpaid balance of the Loan at the Substitute Funding Rate plus the Spread.

C. Within ten (10) Calendar Days after the notice referred to in the previous Paragraph A and/or B above, the Borrower may give notice (which shall be irrevocable) to Bancomer, of its decision to prepay the Loan, together with the accrued and unpaid interest as of such date, which will be calculated at the Interest Rate in effect as of the date on which the Borrower receives the notice referred to in Paragraph A and/or B above, in which case the Borrower shall pay the total unpaid principal amount of the Loan accrued interest thereon and other unpaid amounts payable to Bancomer as provided hereof and as provided under the Promissory Notes in a term that shall not exceed twenty (20) Calendar Days as from the date of the notice.

D. In any of the events referred to in Paragraphs A and/or B above, once the Borrower receives notice in writing from Bancomer and/or CIBC that the circumstances referred to in said Paragraphs A and/or B have ceased to exist, at the end of the then current Interest Period, interest on the Loan shall cease to be calculated using the Substitute Funding Rate and shall be calculated at the Interest Rate during the immediately succeeding Interest Period for the Loan.

E. In any of the events referred to in Paragraphs A and/or B above, the Borrower shall substitute the Promissory Notes evidencing the Loan Disbursements, in order to reflect the terms and conditions of interest rates and other conditions applicable to the Loan from then on.

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Section 14. Increased Costs and Funding Losses.

A. If by virtue of any Regulatory Change which (i) changes the taxable basis of any amount under the Loan payable to Bancomer by the Borrower and/or by Bancomer to CIBC (except for taxes charged on the total net income of Bancomer and/or CIBC); (ii) imposes or modifies any reserves, deposits, taxes or other conditions affecting Bancomer and/or CIBC; or (iii) imposes any other condition which affects this Agreement or the Promissory Notes, or there is an increase in the cost to Bancomer and/or CIBC of opening, maintaining, or disbursing the Loan, the Borrower shall pay to Bancomer upon demand by means of prior notice from Bancomer, reasonable and documentable additional amounts which are required to compensate Bancomer and/or CIBC for such increase in the cost of opening, maintaining or disbursing the Loan.

B. Notwithstanding the provisions of Paragraph A above, if CIBC at any time notifies Bancomer that Bancomer must pay to CIBC any increase in the cost of opening, disbursing or maintaining the Line of Credit from CIBC, which CIBC determines under the Line of Credit, then Bancomer shall so notify the Borrower and the Borrower agrees to reimburse Bancomer upon demand the amount which Bancomer is obligated to pay to CIBC in accordance with this notification.

C. For the purposes of this Section, "Regulatory Change" shall mean any change or modification to, or the introduction of, any law, regulation, circular or other provision issued by any authority of the United States of America and/or the United Mexican States applicable to Bancomer and/or CIBC or to any of their respective offices charges with administering and funding the Loan.

D. Bancomer shall use its best efforts to avoid an increase in costs due to Regulatory Changes if possible by changing the office charges with administering the Loan and if by doing so, Bancomer does not incur any additional cost or expense.

E. Any request for payment or reimbursement notified to the Borrower under this Section shall be delivered together with a certificate issued by CIBC and/or Bancomer setting forth in reasonable detail the bases for calculation of the amounts to be paid or reimbursed, and such certificate, absent manifest error shall be conclusive and binding upon the Borrower.

F. Any increase in the cost to Bancomer and/or CIBC of opening, maintaining or disbursing the Loan which due to reasons attributable to Bancomer results in the imposition by Banco de Mexico on Bancomer of any fine for the failure of Bancomer to comply with any law or with the regulations issued by Banco de Mexico shall not be considered an increase in cost to Bancomer.

Section 15. Taxes.

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A. All amounts that the Borrower shall pay for amortization of principal of the Loan, ordinary and default interest as the case may be, commissions, expenses and costs, and whatever other amount to be paid by the Borrower to Bancomer in accordance with this Agreement and the Promissory Notes will be paid without deduction for and free of any Taxes, except for Taxes on the Mexican income that is charged on the total net income of Bancomer and that Bancomer must pay directly under applicable law.

B. In the case that the Borrower is obliged to make any withholding on the payments of principal, ordinary or default interest as the case may be, commissions, expenses and costs and any other quantity to be paid to Bancomer in accordance with this Agreement and the Promissory Notes for reason of Taxes or any other reason, the Borrower will pay to Bancomer the additional amounts that are required so that Bancomer receives the amount that it would have received if there had not been such withholding.

C. All Taxes will be paid by the Borrower for its own account and not later than the date on which such corresponding Taxes are due and payable. The Borrower will also furnish to Bancomer the original receipts that evidence the payment of such Taxes within five (5) working days following the date on which such Taxes were due and payable.

D. The Borrower will indemnify Bancomer for all charges to Bancomer which arise because of such Taxes and will be obliged to reimburse Bancomer on demand for any quantity that Bancomer will be obligated to pay for reason of such Taxes caused by the transaction contemplated in this Agreement and the Promissory Notes.

E. The obligations of the Borrower derived from this Section will continue to exist for a period determined by the Taxes independent of whether the Loan is totally paid prior to the term of such period.

Section 16. Place and Form of Payment.

The Loan shall be repaid by the Borrower precisely on the Loan Repayment Dates and interest on the Loan shall be paid by the Borrower to Bancomer on each Interest Payment Date.

All amounts of principal, ordinary interest, penalty interest, commissions and any other amount payable by the Borrower to Bancomer hereunder and under the Promissory Notes shall be paid exclusively in Dollars in immediately available funds, without any deduction, retention or setoff of any nature whatsoever by crediting the account No. 400 019042 of Bancomer, S.A., at Chase Manhattan Bank, N.A. ABA No. 021 000 128 New York, New York, United States of America (or in any other place that Bancomer indicates to the Borrower with prior notice) no later than 11:00 (eleven) o'clock (New York time) on the date on which the corresponding payment is due.

Section 17. Representations and Warranties of the Borrower. The

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Borrower represents and warrants to Bancomer that:

A. The Borrower is a corporation duly organized and validly existing under the laws of the United Mexican States.

B. The execution, delivery and performance by the Borrower of this Loan Agreement, the Promissory Notes and the Trust and the Maintenance Contract (i) do not and will not violate any provision of any applicable law of the United Mexican States or of any political subdivision thereof; (ii) do not and will not result in the breach of, or constitute a default under, or require any consent under the charter and by-laws of the Borrower, or any indenture, bank loan or credit agreement, mortgage, or other agreement or instrument to which the Borrower is a party or by which the Borrower or any of its respective properties may be bound or affected, and (iii) when duly executed and delivered by the Borrower, will constitute the valid, binding and enforceable obligations of the Borrower in accordance with its respective terms, except as limited by the laws relating to insolvency or bankruptcy.

C. All authorizations, registrations and approvals of, or filings or registrations with the United Mexican States, or of any governmental agency thereof or therein which are necessary or advisable (i) for the execution, delivery and performance of this Agreement and the Promissory Notes, and (ii) the validity, binding effect and enforceability of this Agreement and the Promissory Notes have been obtained and are binding and enforceable and in full force and effect.

D. The Borrower is in compliance with the payment of all taxes and legal and contract liabilities, which non-compliance would affect substantially and adversely its financial standing.

E. There is no action, suit or proceeding at law by or before any governmental agency or authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower, or any of its respective properties or rights, which if adversely determined would substantially impair the right of the Borrower to carry on its business substantially as now conducted, or would materially adversely affect the financial condition of the Borrower.

F. The audited financial statements of the Borrower as of December 31, 1995, reflect in an accurate and complete manner, its financial standing as of such date, were prepared in accordance with PCGA, and there has been no important adverse change in its financial standing since the date of those financial statements and until the date of this Agreement.

Section 18. Covenants of the Borrower. Until payment in full of the Loan and the Promissory Notes and performance of all other obligations of the Borrower hereunder and under the Promissory Notes, the Borrower agrees that, unless Bancomer shall otherwise consent in writing:

A. To furnish Bancomer within sixty (60) Calendar Days following the

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end of every quarter of each accounting period, quarterly financial statements (balance sheet, statement of profits and losses and surplus) duly certified by its Director General and/or Finance Director.

B. To furnish Bancomer within one hundred twenty (120) Calendar Days following the end of their respective fiscal year, annual financial statements (balance sheet, statement of profits and losses and surplus) duly audited by an independent auditor.

C. To provide Bancomer within forty five (45) Calendar Days after the closing of each one of its accounting period, an annual certificate granted by its insurance agent acceptable to Bancomer, confirming that their assets are duly insured pursuant hereof.

D. To provide Bancomer within forty-five (45) calendar days after the end of each quarter with a comparison of the actual costs of operation and administration of the Borrower against the budgeted costs of operation and administration through which the Technical Committee authorized the payments from the Trust for such matters.

E. To provide Bancomer with prompt notice, under no circumstances later than ten (10) days after it has had itself knowledge of, of any event that represents, or with the lapse of time may represent an Event of Default, together with a declaration including the details of such event, and the action proposed to be taken by the Borrower with respect thereto.

F. Maintain its accounting information and statements in accordance with PCGA.

G. To provide Bancomer with all of the relevant information pursuant to its business and financial standing as may be reasonably requested by Bancomer, in the understanding that Bancomer might inspect its business, request for balance sheets or accounting statements, data or documents, and to make or cause to make appraisals of its assets whenever it deems it necessary to verify compliance of the obligations of the Borrower derived hereof, the Borrower being obligated to provide all of the facilities necessary to such effect.

H. Provide to Bancomer within forty-five (45) calendar days after the end of each quarter, a Financial Supervisor report which indicates the manner for calculation during the quarter of the corresponding Reserve Fund and Financial Ratios.

I. To preserve and maintain its corporate status in full force and effect, as well as all of its rights, licenses, permits, authorizations, certifications, registrations and approvals required for the operation of all of its business in each and every jurisdiction where it operate.

J. To upkeep all of the necessary assets for its business' operations and to procure and provide said assets with all the services, maintenance, repairs, substitutions, additions and/or upgrading deemed necessary or convenient.

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K. To obtain all of the licenses, authorizations, permits, certifications, registrations or approvals required hereinafter to allow for the adequate performance of its obligations derived hereunder, the Promissory Notes, and all laws, regulations, decrees, agreements and applicable decrees issued by any governmental authority.

L. To pay on time all of the fiscal debts of its business and the quotas of the Mexican Social Security Institute and of the National Institute for Workers Housing Development, except for those that are in dispute in good faith by the Borrower, through the right procedures and by previously establishing the corresponding reserves.

M. To duly comply with all of their respective contractual obligations including, without being limited to, the Maintenance Agreement.

N. To furnish Bancomer with this Agreement duly ratified before a Notary Public, within ten (10) Business Days after execution hereof.

O. To furnish Bancomer, within sixty (60) calendar days following the end of each semester of each and every fiscal year, a letter signed by the Director General or Director of Finance which certifies that the Borrower is not under breach of contract pursuant to the Maintenance Agreement.

P. To provide Bancomer, within fifteen (15) calendar days after the end of each calendar month, financial information with respect to the Trust and the business of the Borrower, so that Bancomer may determine if the Borrower is complying with the Financial Ratios that are referred to in Exhibit "H" hereto.

Q. To provide to Bancomer, within fifteen (15) calendar days after the end of each quarterly financial reporting period, a report prepared by the Technical Supervisor covering the progress of the Program of Construction and Remodeling and the services carried out on the equipment in accordance with the Maintenance Contract.

R. To secure the insurance policies referred to in Section 19 hereof.

S. Maintain the Financial Ratios referred to in Exhibit "H" attached hereto, for the periods referred in said Exhibit.

T. Maintain the Reserve Fund, during the entire term of the Agreement, at an average monthly balance equal to the greater of (i) ten percent (10%) of the sum of the outstanding balance of principal of the Loan and the principal of the Eximbank Loan at the time when the Reserve Fund balance is calculated, and (ii) the sum of the amounts of interest and principal of the Loan and the and Eximbank Loan due and payable by the Borrower to Bancomer on the Interest Payment Date and the Principal Payment Date which falls within one hundred and fifty (150) calendar days after the date on which the Reserve Fund balance is calculated, multiplied by one point twenty-five (1.25) times; provided that during the first six (6) months following the last Loan Disbursement, the

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amounts of the debt service under this Agreement shall be included in the calculation of the required levels of the Reserve Fund, and that following the end of such six (6) month period, such amounts shall not be included in this calculation. However, if the Borrower does not comply with the Financial Ratios in such non-compliance is not cured within a period of thirty (30) calendar days from the date on which Bancomer notifies the Borrower of such non-compliance, the Borrower shall be obligated to include such debt service in the calculation referred to above until the Borrower is able to demonstrate, to Bancomer's satisfaction, that it is again in compliance with the Financial Ratios.

U. Commit to the Trust Additional Income within five (5) calendar days after the date that Bancomer notifies the Borrower, in case that, at whatever time during the term of this Agreement, the Borrower does not comply with the financial ratios that are referred to in paragraph S of Section 18, or does not comply with the maintenance of the Reserve Fund minimum balance referred to in paragraph T of Section 18.

V. Comply with the obligations relating to the utilization of goods financed under this Agreement as may be specified by CIBC and requested of the Borrower by Bancomer.

W. To refrain from:

(i) paying dividends, without the prior written consent of Bancomer.

(ii) making payments of whatever amount with respect to the MK Rail Debt without the prior written consent of Bancomer.

(iii) reducing its capital stock.

(iv) modifying its corporate purpose or change its line of business.

(v) filing for liquidation or dissolution.

(vi) performing, or refraining from any action, whenever the consequence of it is to waive in advance the term for the fulfillment of any of its contract liabilities.

(vii) incurring Debt for its charge for (i) an aggregate amount greater than US$1,000,000 (One Million Dollars) or its equivalent in any other currency, or (ii) terms greater than one (1) year, without the prior written consent of Bancomer, except for indebtedness mandated by law or in the normal course of business.

(viii) agree to any amendment to or modification of, waive any material right under, or terminate the Maintenance Agreement and/or the Trust, without the prior written authorization of Bancomer, which authorization shall not be unreasonably denied.

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(ix) setoff in any way any amount which is owed to it under the Maintenance Agreement; provided that (i) if Ferrocarriles shall make a setoff against any of the Borrower's invoices for an amount greater than ten percent (10%) of such invoice, the Borrower shall obtain from Bancomer within thirty (30) calendar days after the date on which such setoff has occurred, Bancomer's approval in writing for this setoff, and (ii) if the Borrower shall not obtain the authorization from Bancomer specified in clause (i) above within such period, Bancomer may declare the existence of an Event of Acceleration."

X. Maintain a commercial credit account with MK Rail, with respect to the purchase of materials and equipment from MK Rail or any of its subsidiaries or affiliates, with a minimum balance equal to the greater of (i) the sum of U.S. $1,500,000.00 (One Million Five Hundred Thousand and 00/100 Dollars), and (ii) the amount which corresponds to purchases of material and equipment from MK Rail in the normal course of its operation during a period of 45 (forty-five) calendar days; provided however that if the minimum balance in this account shall be reduced for any purpose then the Borrower shall be obligated to increase the minimum balance in the reserve fund up to the amount equal to the sum of amounts of principal and interest under the Loan due and payable to the Borrower to Bancomer on the Interest Payment Dates and Principal Payment Dates, multiplied by one point five (1.5) times; provided, however, that the commercial credit account shall not be considered as part of the MK Rail Debt."

Section 19. Insurance.

A. The Borrower shall evidence to Bancomer, to Bancomer's satisfaction, within a thirty (30) Calendar Day term as from the date of this Agreement, that the Borrower has secured the insurance policies referred to in the Maintenance Agreement, and that such insurance policies are in full force and effect.

B. The Borrower shall evidence to the satisfaction of Bancomer the payment of the premiums for such insurance with the corresponding receipts of payment, within two (2) Business Days after the day it receives the corresponding request from Bancomer.

C. Notwithstanding the provisions of Section 20 of this Agreement, in the event that for any reason the Borrower fails to comply with any of its obligations established under this Section, Bancomer shall be expressly authorized to contract such insurance on behalf of the Borrower, and pay for all of the amounts required to keep in effect said insurance, in which case the Borrower shall pay, on demand, for the amounts spent by Bancomer for such concepts, in the understanding that such amounts shall cause interest at the Default Interest Rate calculated at the CPP rate multiplied by three (3), from the date such payment is made by Bancomer and until such payment when they are

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totally paid for; provided, however, that the authorization to Bancomer to contract insurance as set forth in this Section is not an obligation and in the case that such insurance is not contracted, Bancomer shall have no responsibility therefore. In any case, Bancomer shall notify the Borrower as to any contraction of insurance referred to in this Section within five (5) Business Days after such insurance has been contracted for.

For the purposes of this Paragraph C of this Section 19, "Tasa CPP" shall mean the last Costo Percentual Promedio de Captacion for purposes of the rate and, in its turn, the spread of interest on the liabilities in national currency corresponding to loans to companies and individuals, deposited for terms (except savings), as if appropriate, bank bonds issued by the Central Bank of Mexico that the Central Bank of Mexico publishes in the Official Diary of the Federation with a date prior to when the Borrower fails to make its payment obligation that is referred to in the previous paragraph; with the understanding that if at any time the Central Bank of Mexico does not publish said Costo Porcentual Promedio de Captacion, then the last Costo Porcentual Promedio de Captacion published by the Central Bank of Mexico in the Official Diary of the Mexican Federation will be used or the index which replaces it.

Section 20. Events of Default. Bancomer may declare an event of default during the term of the payment of the Loan, its principal, ordinary interest, commissions, costs and expenses and whatever amount is to be paid by the Borrower to Bancomer in accordance with this Agreement and the Promissory Notes, without demand, presentment, notice of dishonor and protest, in which case all such amounts will be due and payable on demand if any of the following events (identified in this Agreement as "Events of Default") shall occur and any curing period available to the Borrower to remedy such Events of Default has transpired:

A. Default by the Borrower in the payment, when due, of any installment of principal or interest or any commissions whatsoever, costs or expenses in connection with the Loan or the Promissory Notes, and such event is not remedied within a term of five (5) calendar days as from the date any such payment is due.

B. If the Borrower shall fail to comply with any of its respective obligations derived hereunder, under the Agreement, Promissory Notes or under the Trust, including those set forth in this Section or in Section 18 of this Agreement within a term of forty-five (45) Business Days following the date on which Bancomer notifies the Borrower of such noncompliance.

C. If any of the representation and/or warranties of, or any information provided to Bancomer by the Borrower under the terms of this Agreement shall prove to be untrue, incorrect or incomplete.

D. If the Loan's proceeds shall totally or partially be used for purposes different to those established under this Agreement, or if the Borrower's fixed assets shall be disposed in any way different to those provided under this Agreement.

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E. If fixed assets of the Borrower, with a value equal or higher to ten percent (10%) of the total value of its respective fixed assets, shall be condemned, seized or appropriated in full or in part by legal, administrative or any other authorities, except for when such seizure or appropriation, in Bancomer's sole judgment, is contrary to law, or could be contested by the Borrower in good faith with possibilities for success through rightful procedures.

F. If the Borrower's fixed assets are not insured as provided for in this Agreement, or if the Borrower fails to comply with any of its obligations under Section 19 of this Agreement.

G. If the Borrower shall fail to pay without cause any fiscal debt of its respective business or the corresponding fees to the Mexican Social Security Institute or the Institute for Workers National Housing Development, or if the business of the Borrower shall be disrupted or shall present conflicts or conditions of any sort that in Bancomer's reasonable sole judgment affect the good performance of the business of the Borrower or put in danger its respective economic or financial standing.

H. If any Event of Default occurs on any other loan authorized by Bancomer for the Borrower, including the Loan authorized under the Eximbank Loan Agreement, or if there is an Event of Default authorized by any other creditor to the Borrower in an amount equal to or greater to US$500,000 (U.S. Dollar Five Hundred Dollars), or its equivalent in any other currency.

I. If the Borrower shall pay dividends, make a payment with respect to the MK Rail debt, decrease its respective capital stock, modify its respective corporate purpose or change its respective line of business, file for dissolution or liquidation, or merge with another corporation, without the prior written authorization of Bancomer.

J. If there shall be instituted a judicial procedure for involuntary bankruptcy against the Borrower or if any judicial authority shall designate a custodian, under the applicable provisions of any bankruptcy law and such proceeding or designation is not declared improper within the periods which are applicable under the respective laws or judicial procedures.

K. If the Borrower begins voluntary proceedings in order to obtain a suspension of payments, in accordance with any applicable law on such matters, or consents to institute or proceed with the declaration of the suspension of payments that would lead to any cessation of any substantial part of its assets for the benefit of creditors or does not comply in a general manner with any payment of its debts or obligations, or takes any action that would lead to any of the above mentioned situations.

L. If the shareholders of the Borrower, which on the date hereof owning more than fifty percent (50%) of the voting shares of the Borrower and having the capacity to appoint the majority of the members of the Board of Directors of the Borrower, shall change or cease to hold direct control over the majority of

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the stock with right to vote and/or would cease to have the right to appoint the majority of the members of the Board of Directors of the Borrower, except if any of the above causes shall occur with the prior written approval of Bancomer.

M. If the Borrower shall fail to comply to maintain the Financial Ratios and/or the balance in the Reserve Fund as provided in paragraph S of Section 18 hereof for a term of three (3) successive calendar months or during a term that in total sums six (6) months during any calendar year.

N. If Ferrocarriles shall early terminate or rescind the Maintenance Agreement, in accordance with the provisions thereof.

O. If deviations with respect to the Investment Program of fifteen percent (15%) with respect to the advancement of investments plus costs, as set forth in the Investment Program, calculated on a quarterly basis, and if the same are not clarified by the Borrower within a period of fifteen (15) Business Days following a request is made by Bancomer for this purpose; provided, however, that if Ferrocarriles shall accept these deviations for a difference percentage then such percentage shall be accepted by Bancomer provided that it should not be greater than fifteen percent (15%)."

P. If the Borrower shall incur in indebtedness without the prior written consent of Bancomer for (i) an amount greater than US$1,000,000 (U.S. Dollar One Million) in individual or in aggregate, or its equivalent in any other currency, or (ii) terms greater than one (1) year, except for those indebtedness generated by legal mandate or during the normal course of its business transactions.

Q. If Ferrocarriles shall fail to make the payments corresponding to the Right to Collection for more than two (2) consecutive occasions.

R. If the Borrower (i) shall fail to comply with its obligations to maintain the "availability factor" in accordance with the Maintenance Agreement or (ii) fails to comply with any other of its obligations under the Maintenance Agreement for a term of two(2) successive months, in such a way that in the opinion of the Technical Committee, the noncompliance could give Ferrocarriles the right to terminate or rescind the Maintenance Agreement.

S. If the Technical Assistance Agreement is terminated for any reason.

T. If the Trust and/or Maintenance Agreement shall cease to be in full force and effect for any reason whatsoever or if the Borrower agrees to any amendment to or modification of, waives any material right under, or terminates the Maintenance Agreement, without the prior written authorization of Bancomer which consent shall not be unreasonably withheld by Bancomer.

U. If the Borrower does not comply with the Reserve Fund balance that is referred to paragraph T of Section 18 of this Agreement.

V. If the Borrower fails to give to the Trust Additional Income within

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the term established in paragraph U of Section 18, or if MK Rail does not comply with its obligations established in the Comfort Letter within a term of five (5) calendar days following the date on which Bancomer notifies them of its request.

W. If the Borrower does not pay on time the expenses that are referred to in Section 30 of this Agreement.

X. Under all those other cases contemplated in this Agreement and by the applicable laws.

Y. If CIBC requires Bancomer for any reason beyond Bancomer's control to pay any amount with respect to any disbursement of the Loan.

Z. If the funding of the Line of Credit is suspended for any reason not attributable to Bancomer for a period greater than sixty (60) calendar days, in which case the provisions of the first paragraph of Section 12 of this Agreement shall also be applicable.

AA. If the Borrower does not comply with its obligation to immediately increase the balance in the Reserve Fund referred to in Paragraph X of Section 18 of this Agreement.

BB. If the Borrower does not comply with its obligation to obtain the written authorization of Bancomer as provided in clause (ix) of Paragraph W of Section 18 of this Agreement.

CC. If Ferrocarriles shall make a setoff of any amount which it is to pay under the Maintenance Agreement against any amount owed in its favor under any other obligation of the Borrower apart from those resulting from the Maintenance Agreement."

Section 21. Trust Guaranty. In order to guarantee the punctual payment when due of each and every one of the obligations of the Borrower hereunder, under the Eximbank Loan Agreement, under the Promissory Notes and under the Promissory Notes executed in accordance with this Agreement, the Eximbank Loan Agreement, and especially to guarantee the punctual payment when due of the Loan, the Eximbank Loan, its principal, both ordinary and default interest as well as commissions, costs and expenses, and any and all other amounts payable by the Borrower to Bancomer including court costs and expenses, if any, and all other legal consequences and accessories thereon, the Trust is incorporated by the Borrower in accordance with which contributes the Rights for Collection, in order to apply such resources to the punctual payment when due of each and every one of the obligations of the Borrower hereunder and under the Promissory Notes, and especially to guarantee the punctual payment when due of the Loan, the Eximbank Loan, its principal, both ordinary and default interest as well as commissions, costs and expenses interest, and any and all other amounts payable by the Borrower to Bancomer, court costs and expenses, if any, and all other legal consequences and accessories thereon.

Section 22. Monetary Conversion.

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A. If for the purpose of obtaining a judgment in any court it is necessary to convert any amount of Dollars owed under this Agreement or the Promissory Notes into any other currency, the rate of exchange to be used shall be that which, in accordance with normal banking practices, Bancomer may acquire Dollars with such currency on the Business Day immediately preceding the day on which the judgment is obtained.

B. The payment obligations of the Borrower with respect to any amount owed by the Borrower to Bancomer under the Loan in accordance with this Agreement and the Promissory Notes will be complied with and satisfied, notwithstanding any judgment in any other currency, only to the extent that on the Business Day succeeding the day on which Bancomer receives any amount which has been declared due and payable in any other currency under the respective judgment, Bancomer may acquire Dollars with such other currency under normal banking practices. If the amount of Dollars acquired in this manner is less than the amount originally owed to Bancomer by the Borrower in accordance with this Agreement and the Promissory Notes, the Borrower shall be obligated to, as a separate obligation independent and irrespective of any judgment, indemnify Bancomer for any loss which it may have incurred as a result of the Borrower's obligations under this Agreement and the Promissory Notes.

Section 23. Restriction. In accordance with the provisions of article 294 of the General Law of Securities and Credit Operations of the United Mexican States, the parties may agree, that Bancomer may be entitled to restrict the disbursement period of the Loan and the principal amount of the Loan, or such disbursement period of the Loan and the principal amount of the Loan at the same time due to force majeure.

Section 24. Successors and Assigns. The Borrower cannot seed its rights or obligations under this Agreement or the Promissory Notes.

Bancomer may at any time grant to one or more banks or other institutions (each a "Participant") participating interests in the Loan; provided however, that Bancomer cannot grant interest participations with respect to the Loan (i) to any person or entity that competes in the same market of goods or services as the Borrower, or (ii) when so prohibited by CIBC. In the event of any such grant by Bancomer of a participating interest to a Participant, whether or not upon notice to the Borrower, (i) Bancomer shall remain responsible for negotiating, discounting or any other form of assigning the Promissory Notes and will continue to act under this Agreement as holder of the Promissory Notes; (ii) the Participant(s) will be obliged to assume the obligations of Bancomer in writing that arise from this Agreement; (iii) Bancomer will remain responsible for complying with its obligations under this Agreement and the Borrower will continue to deal directly with Bancomer with respect to the rights and obligations of Bancomer under this Agreement, and (iv) the Borrower will continue to be obligated to give Bancomer the necessary materials to review the investment of the Funds provided under the Loan and to care for the authorized warranties granted by the Borrower.

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Section 25. No Waiver. No failure on the part of Bancomer to exercise, and no delay in exercising, any right hereunder or under the Promissory Notes shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder or under the Promissory Notes, preclude any other or further exercise thereof or the exercise of any other right.

Section 26. Amendments. No amendment or waiver to any provision under this Agreement or under the Promissory Notes, and no consent granted to the Borrower to divert from the terms and conditions of this Agreement or of the Promissory Notes, shall have any effect unless it is in writing and is subscribed by Bancomer and, even in such an event, such waiver or consent shall have effect only in the event and for the specific purpose for which it was granted.

Section 27. Notices. For purposes of this Agreement, each of the Parties provides as its principle headquarters for the receipt of any kind of notice, the following:

If to Bancomer:

Bancomer, S.A.
Direccion Regional
Banca Impresarial
A.Los Torres #113
Colonia El Paseo
San Luis Potosi, San Luis Potosi
MExico

Attention: Regional Director

Fax #: (48) 18-74-05

with a copy to:

Bancomer, S.A.
Direccion
Banca Corporativa
Proyectos e Infraestructura
Bancomer, S.A.
Montes Urales 470 - 2 Piso
Lomas de Chapultepec
11000 MExico, D.F.

Attention: Director
Fax#: 226-9276

Borrower:

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MK Gain, S.A. de C.V.
Av. 20 de Noviembre
No. 1200
78030 San Luis Potosi, San Luis Potosi

Attention: Director of Finance
Fax#: (48) 12-6699

All notices, requests and demands shall be given in writing and (except as otherwise expressly specified herein) by telegram, telex, facsimile or other similar means of communication or through certified or registered mail and must be directed to the addresses given above. It is understood that a notice will have been given if it has been sent by telegram, telex, facsimile or other similar means of communication with confirmation on the date that the notice was sent and if it is sent by certified or registered mail on the date that the notice was received. Even if the parties do not notify in writing of a change in address in accordance with this Section, the notices and judicial proceedings that are sent to the addresses indicated will be in full force and effect.

Section 28. Governing Law. This Agreement is registered and will be interpreted in accordance with the laws of the United Mexican States.

Section 29. Jurisdiction. In case of any judicial proceeding in relation to any matter arising under this Agreement, the parties hereto irrevocably agree that any such matter may be adjudged or determined in any court or courts of competent jurisdiction sitting in Mexico City, Federal District, United Mexican States, or in any court or courts of competent jurisdiction sitting in San Luis Potosi, San Luis Potosi, United Mexican States, and the parties hereto irrevocably submit generally and unconditionally to the jurisdiction of such courts and of any of them in relation to such matters, expressly waiving any other jurisdiction to which they may be entitled by reason of present or future domicile or otherwise.

Section 30. Costs and Expenses.

A. The Borrower will pay to Bancomer without notice from Bancomer within thirty (30) calendar days within the signing of this Agreement up to the amount of US$20,000.00 (Twenty Thousand Dollars) in respect of legal fees and expenses incurred by Bancomer in connection with the negotiation, preparation and documentation of this Agreement and the Promissory Notes.

B. The Borrower will pay to Bancomer without notice from Bancomer within thirty (30) calendar days within the signing of this Agreement up to the amount of US$3,000.00 (Three Thousand Dollars) in respect of legal fees and expenses incurred by Bancomer in connection with modification of the Trust.

C. The Borrower will pay to Bancomer without notice from Bancomer

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within thirty (30) calendar days within the signing of this Agreement up to the amount of US$35,000.00 (Thirty Five Thousand Dollars) in respect of expenses for issuance of the Technical Supervisor's Certificate in accordance with the provisions of Sections 7 and 8 of this Agreement.

The Borrower agrees that it will pay punctually for all the amounts that are discussed and the costs and expenses that are referred in this Section on the date when they are due and payable in accordance with the terms of this Section, and any amounts not paid will incur default interest from the date that they are due up to the time that they are paid in full on sight including the default interest rate.

Section 31. Condition Precedent for Validity of this Agreement.

This Agreement shall have no effect until the Borrower shall have received from Bancomer written notice that (i) it has contracted for the Line of Credit under terms and conditions which do not change the terms and conditions for the Loan, or (ii) it has contracted for an alternative line of credit which permits Bancomer to extend the Loan in terms which are satisfactory to the Borrower; provided, however, that (y) if Bancomer does not deliver either of these confirmations in writing no later than December 29, 1996, or the Borrower does not accept the confirmation mentioned in sub clause (ii) of this Section, then this Agreement shall terminate on such date, without any requirement for notification and with no responsibility for either of the parties, and (z) if Bancomer confirms to Borrower that it has contracted for the Line of Credit under terms and conditions equal to those set forth in this Agreement, then it is agreed that this Agreement shall enter into effect automatically of the date on which Bancomer issues such confirmation.

In witness whereof, the parties hereto have caused this Agreement to be executed by their duly authorized officers and representatives as of the date first written above.

Bancomer:
Bancomer, S.A., Institucion de Banca Multiple,
Grupo Financiero Bancomer

By:
Position:

By:
Position:

The Borrower:

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MK GAIN, S.A. DE C.V.

By:
Position:

EXHIBIT "A"

FERROCARRILES' AGREEMENT

EXHIBIT "B"

COMFORT LETTER

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EXHIBIT "C"

FORM OF TECHNICAL SUPERVISOR'S CERTIFICATE

EXHIBIT "D"

SUBORDINATION AGREEMENT

EXHIBIT "E"

TRUST

EXHIBIT "F"

FINANCIAL RATIOS

EXHIBIT "G"

FORM OF PROMISSORY NOTE

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EXHIBIT "H"

CONSTRUCTION AND REFURBISHING PROGRAM

EXHIBIT "I"

AMOUNT OF INSTALLMENTS

EXHIBIT "J"

AMENDMENT TO THE FNM MAINTENANCE AGREEMENT

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Exhibit 23.01

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-78660, 33-80702 and 33-80704 of MotivePower Industries, Inc. (formerly MK Rail Corporation) on Form S-8 of our reports dated February 10, 1997 (except for Note 7, as to which the date is February 27, 1997 and Note 18, as to which the date is March 6, 1997), appearing in this Annual Report on Form 10-K of MotivePower Industries, Inc. for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
March 13, 1997

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This schedule contains summary financial information extracted from the consolidated financial statements for the year ended December 31, 1996 and is qualified in its entirety by reference to such financial statements

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