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INTERSTATE COMMERCE COMMISSION

CHATTEL MORTGAGE

(Railroad Equipment Security Agreement)

THIS CHATTEL MORTGAGE dated as of August 8, 1979, from HON FINANCIAL CORPORATION II, an Iowa corporation, with its principal offices at 414 East Third Street, Muscatine, Iowa 52761, (herein called the Mortgagor) to CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO, a national banking association organized and existing under the laws of the United States of America with its principal offices at 231 South LaSalle Street, Chicago, Illinois (herein called the Mortgagee or the Bank).

W I T N E S S E T H:

WHEREAS, HON FINANCIAL CORPORATION I (herein called HFC 1) and the Mortgagor are both wholly owned Subsidiaries of Hon Industries, Inc.; and

WHEREAS, the Bank has, subject to the satisfaction of certain conditions precedent, agreed to make a term loan in the principal amount of \$2,250,000 to HFC 1, an Iowa corporation, pursuant to a Term Loan Agreement dated or to be dated as of August 8, 1979 (herein as the same may be amended from time to time called the Loan Agreement) among HFC 1, Mortgagor and Mortgagee, such term loan to be evidenced by the promissory note of HFC 1 (herein called the Note) payable to the order of the Bank; and

WHEREAS, certain of such conditions precedent to the granting of such credit by the Bank to HFC 1 are the execution and delivery by the Mortgagor of a guaranty in substantially the form of Exhibit D to the Loan Agreement (hereinafter the Guaranty) and this Mortgage; and

WHEREAS, the Liabilities, as defined in the Guaranty, are hereinafter referred to as "indebtedness hereby secured"; and

WHEREAS, Rex Railways, Inc. (herein called Rex) has executed leases (herein called the Leases) as agent for the Mortgagor, and has assumed duties with respect to the leases and the mortgaged property (as hereinafter defined) pursuant to the Management Agreement dated November 3, 1978 between Rex and the Mortgagor (herein called the Management Agreement).

*Amended
HFCT Loan*

NOW, THEREFORE, the Mortgagor, to secure the payment of all the indebtedness hereby secured and the performance and observance of all its covenants and agreements in the Loan Agreement, the Guaranty and in this Mortgage provided to be performed or observed by the Mortgagor, does hereby grant, bargain, sell, convey, confirm, transfer, mortgage and set over unto the Mortgagee, its successors and assigns, forever, and does hereby grant to the Mortgagee a security interest in, all and singular the following described properties, rights and interests, and all of the estate, right, title and interest of the Mortgagor therein, whether now owned or hereafter acquired (all of which property, rights and interests hereby transferred, conveyed and mortgaged or intended so to be is hereinafter collectively referred to as the "mortgaged property") that is to say:

DIVISION I

All railroad cars bearing, respectively, the car reporting marks and being leased by Mortgagor under the leases (herein called Leases) delivered to the respective lessees (herein called Lessees), all as set forth and more fully described in Schedule A attached hereto.

DIVISION II

All accessories, equipment, parts and appurtenances appertaining or attached to any of the equipment hereinabove described, whether now owned or hereafter acquired, all substitutions, renewals and replacements of and additions, improvements, accessions and accumulations to any and all of said equipment, including all additions thereto which are now or shall hereafter be incorporated therein, together with all the rents, issues, income, profits and avails thereof.

SUBJECT, HOWEVER, to all the rights, powers, title and interest of the respective Lessees under the Leases.

TO HAVE AND TO HOLD said mortgaged property unto the Mortgagee, its successors and assigns, forever, for the uses and purposes herein set forth; provided, however, that if the Mortgagor performs the covenants herein and pays to the Mortgagee, its successors or assigns, the full amount of both principal of and interest on the indebtedness hereby secured at a time when the Credit (as defined in the Loan Agreement) has expired, then this instrument shall be and become void and of no further force and effect; otherwise this Mortgage to remain in full force and effect.

Amended HFCT Loan

SECTION 1 COVENANTS AND WARRANTIES:

The Mortgagor covenants, warrants and agrees as follows:

1.1 The Mortgagor is the owner and is lawfully seized and possessed of the mortgaged property and has good right, full power and authority to convey, transfer and mortgage the same to the Mortgagee; and such property is free from any and all liens and encumbrances prior to, on a parity with, or junior to the lien of this Chattel Mortgage (excepting only any lien for ad valorem taxes not now in default, and the right, title and interest of Lessees under the Leases) and the Mortgagor will warrant and defend the title thereto against all claims and demands whatsoever (except those of the Lessees or parties claiming by or through the Lessees under the Leases).

1.2 The mortgaged property complies with all the requirements, specifications and standards of the Association of American Railroads, the Interstate Commerce Commission and the United States Department of Transportation.

1.3 The Mortgagor will do, execute, acknowledge, and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the better assuring, conveying, assigning and confirming unto the Mortgagee all of the mortgaged property, or property intended so to be, whether now owned or hereafter acquired.

1.4 The Mortgagor will promptly pay the indebtedness hereby secured as and when the same or any part thereof becomes due (whether by lapse of time, declaration, demand or otherwise).

1.5 Subject to the rights and obligations of the Lessees under the Leases to maintain the equipment covered thereunder the Mortgagor will maintain, preserve and keep, will cause Rex to maintain, preserve and keep (pursuant to the Management Agreement), or will cause the mortgaged property and each and every part thereof to be maintained, preserved and kept in safe and good repair, working order and condition, and will from time to time make or cause Rex to make or cause to be made all necessary and proper repairs, renewals, and replacements so that the value and efficiency of such property shall not be impaired.

1.6 The Mortgagor will from time to time duly pay and discharge or cause to be paid and discharged all taxes, assessments and governmental charges lawfully imposed upon or against the mortgaged property or any part thereof, will pay all charges required by Rex pursuant to the Management Agreement, and will not suffer to exist any mechanics', laborers', statutory or other lien on the mortgaged property or any part thereof;

provided, however, that nothing herein contained shall be deemed to require the Mortgagor to pay any tax, assessment, charge or lien, or any claim or demand of mechanics, laborers, Rex or others, prior to the due date thereof, or to require the Mortgagor to pay or discharge any tax, assessment, lien, claim or charge (whether or not due or delinquent) the validity or amount of which is being contested in good faith by appropriate proceedings and which has been adequately reserved against.

1.7 The Mortgagor will endorse to the order of Mortgagee, in a form acceptable to Mortgagee, any insurance purchased by Mortgagor or by Rex as its agent on or in connection with the mortgaged property.

1.8 The Mortgagor will at its own expense duly comply with and perform all the covenants and obligations of the Mortgagor under the Leases and will at its own expense seek to cause the Lessees to comply with and observe all the terms and conditions of the Leases and, without limiting the foregoing, at the request of the Mortgagee, the Mortgagor will at its own expense take such action with respect to the enforcement of the Leases, and the duties and obligations of the Lessees thereunder, as the Mortgagee may from time to time direct; provided that the Mortgagor shall not settle, adjust, compound or compromise any claim against the Lessees under the Leases without the prior written consent of the Mortgagee, which consent shall not be unreasonably withheld or delayed. Mortgagor at its sole cost will appear and defend every action or proceeding arising under, growing out of or in any manner connected with the obligations, duties or liabilities of Mortgagor as lessor under the Leases. The Mortgagor's duty under this section shall include, but is in no way limited to, causing Rex as its agent to perform Mortgagor's obligations and enforce its rights and remedies as Lessor under the Lease.

1.9 The Mortgagor shall not, without the prior consent of the Mortgagee, take any action to terminate, modify or accept a surrender of any Lease or consent to the creation or existence of any mortgage, security interest, or other lien on the Lease, the rentals due thereunder, or any of the mortgaged property.

1.10 If the Mortgagor shall fail to observe and perform any of the covenants set forth in this Section 1, the Mortgagee may perform the same and may but need not advance sums to perform same, and all advances made by the Mortgagee shall, with interest thereon at the rate then provided in the Note or 10% per annum, whichever is higher, constitute part of the indebtedness hereby secured and shall be payable forthwith; but no such act or expenditure by the Mortgagee shall relieve the Mortgagor from the consequence of any default.

1.11 It shall be lawful for the Mortgagor to retain possession of the mortgaged property and at its own expense

to keep and use the same, until an Event of Default shall occur hereunder as hereinafter defined.

1.12 Forthwith upon receipt thereof, the Mortgagor shall pay to the Mortgagee the amount by which the aggregate insurance proceeds received by the Mortgagor on account of the loss or destruction of any Car or Cars or the interruption of any business connected with the use of such Cars during any calendar year ending on or after December 31, 1979 exceeds \$100,000.

SECTION 2 ASSIGNMENTS OF LEASE AND APPLICATION OF PROCEEDS OF LEASES:

2.1 The Mortgagor has or will have executed and delivered to Mortgagee an Assignment of Lease in the form and text attached hereto as Schedule B (herein called an Assignment of Lease), with respect to each of the Leases, under which the Mortgagor assigns or transfers unto Mortgagee, its successors and assigns, as further security for the indebtedness hereby secured, each such Lease and all rentals and other sums due and to become due thereunder; provided that, unless and until an Event of Default has occurred and is continuing, all rentals and other sums from time to time payable on account of such Lease shall be paid to and be received by Mortgagor. If an Event of Default has occurred and is continuing, all rentals and other sums from time to time payable on the Leases shall be paid to and received by the Mortgagee pursuant to the Assignment, and shall be applied in the manner set forth in Section 3.3 hereof.

SECTION 3 DEFAULTS AND OTHER PROVISIONS:

3.1 The term "Event of Default" for the purposes hereof shall mean "an Event of Default" as defined in the Loan Agreement and an "Unmatured Event of Default" as defined in and arising pursuant to Section 10.1.4 of the Loan Agreement.

3.2 When any such Event of Default has happened and is continuing, the Mortgagee may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies; but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute:

- (a) Subject always to then existing rights, if any, of the Lessees under the Leases, the Mortgagee, personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the mortgaged property, or any portion

thereof, and for that purpose may cause Mortgagor to assemble the mortgaged property in one location chosen by Mortgagee, pursue the same wherever it may be found, and may enter any of the premises of the Mortgagor, with or without notice, demand, process of law or legal procedure, and search for, take possession of, remove, keep and store the same, or use and operate the same until sold; it being understood, without limiting the foregoing, that the Mortgagee may, and is hereby given the right and authority to, keep and store said mortgaged property, or any part thereof, on the premises of the Mortgagor, and that the Mortgagee shall not thereby be deemed to have surrendered, or to have failed to take, possession of such mortgaged property;

- (b) Subject always to then existing rights, if any, of the Lessees under the Leases, the Mortgagee may, if at any time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of such sale by registered mail to the Mortgagor once at least 20 days' prior to the date of such sale, and any other notice which may be required by law, sell and dispose of said mortgaged property, or any part thereof, at public auction or private sale to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Mortgagee may determine, and at any place (whether or not it be the location of the mortgaged property or any part thereof) designated in the notice above referred to. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice; and the Mortgagee or the holder or holders of the Note, or of any interest therein, may bid and become the purchaser at any such sale;
- (c) The Mortgagee may proceed to protect and enforce this Mortgage and the Notes by suit or suits or proceedings in equity, at law or in pending bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted, or for foreclosure hereunder, or for the appointment

of a receiver or receivers for the mortgaged property or any part thereof, for the recovery of judgment for the indebtedness hereby secured, or for the enforcement of any other proper legal or equitable remedy available under applicable law;

(d) The Mortgagee may proceed to exercise in respect of the Leases and the property covered thereby all the duties, obligations and liabilities of the Lessor thereunder, all rights, privileges and remedies in said Leases (including, but not limited to, the right to terminate and the right to renew) or by applicable law permitted or provided to be exercised by the Mortgagor, and may exercise all such rights and remedies either in the name of the Mortgagee or in the name of the Mortgagor for the use and benefit of the Mortgagee. Without limiting any of the other terms of this Mortgage or of the Assignment of Leases, it is acknowledged and agreed by the Mortgagor that the Assignment of Leases shall be deemed to give and assign to and vest in the Mortgagee all the rights and powers in this paragraph (d) provided for;

(e) The Mortgagee may sell (including, without limitation, on credit) the rentals reserved under any or all of the Leases, and all right, title and interest of the Mortgagee as assignee thereof, at public auction to the highest bidder and either for cash or on credit, the Mortgagee to give the Mortgagor 10 days' prior written notice of the time and place of holding any such sale, and provided always that the Mortgagee shall also comply with any applicable mandatory legal requirements in connection with such sale.

3.3 If the Mortgagee shall be receiving or shall have received monies pursuant to the Assignment of Leases, it may from time to time, but no less frequently than on the next succeeding semi-annual interest payment date, apply such monies first against any costs or expenses of any and all kinds it may have incurred pursuant to exercising its rights under subsection 3.2(e) hereof and thereafter against accrued and unpaid interest and then against principal due on the Note, or, if proceedings have been commenced for the sale of the mortgaged property, then all sums so received and the purchase money proceeds and avails of any sale of the mortgaged property or any part thereof, and the proceeds and avails of any other remedy hereunder, or other realization of the security hereby given, and the proceeds of any sale pursuant to subparagraph (e) of Section 3.2 hereof, shall be applied:

- (a) First, to the payment of the reasonable costs and expenses referred to in the introductory paragraph of this subsection 3.3 above and the costs and expenses of the sale, proceeding or other realization, including all costs and expenses and charges for pursuing, searching for, taking, removing, keeping, storing, advertising and selling such mortgaged property or, as the case may be, said rentals, the reasonable fees and expenses of the attorneys and agents of the Mortgagee in connection therewith, and to the payment of all taxes, assessments, or similar liens on the mortgaged property which may at that time be superior to the lien of this Mortgage (unless such sale or other realization is subject to any such superior lien);
- (b) Second, to the payment of all advances made hereunder by the Mortgagee pursuant to Section 1.10 hereof, together with all interest therefor;
- (c) Third, to the payment of the whole amount remaining unpaid on the Note, both for principal and interest, and to the payment of any other indebtedness of the Mortgagor hereunder or secured hereby, so far as such proceeds may reach;
- (d) Fourth, to the payment of the surplus, if any, to the Mortgagor, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

The Mortgagee shall not be liable for interest on any sums held by it pursuant to this Paragraph 3.3. If there be a deficiency, the Mortgagor shall remain liable therefor and shall forthwith pay the amount of any such deficiency to the Mortgagee.

3.4 Any sale or sales pursuant to the provisions hereof, whether under the power of sale granted hereby or pursuant to any legal proceedings, shall operate to divest the Mortgagor of all right, title, interest, claim and demand whatsoever, either at law or in equity, of, in and to the mortgaged property so sold, and shall be free and clear of any and all rights of redemption by, through or under the Mortgagor. The receipt by the Mortgagee, or by any person authorized under any judicial proceeding to make any such sale, shall be a sufficient discharge to any purchaser of the mortgaged property, or of any part thereof, sold as aforesaid; and no such purchaser shall be bound to see to the application of such purchase money, or be bound to inquire as to the authorization, necessity or propriety of

any such sale. In the event at any such sale the holder of the Guaranty is the successful purchaser, such holder shall be entitled, for the purpose of making settlement or payment, to use and apply said Guaranty by crediting thereon the amount apportionable and applicable thereto out of the net proceeds of such sale.

SECTION 4 MISCELLANEOUS:

4.1 Any notice provided for hereby or by any applicable law to be given to the Mortgagor shall be in writing and shall be deemed to have been given when delivered personally or when deposited in the United States mail, registered, postage prepaid, addressed to the Mortgagor at its address set forth at the beginning of this Mortgage.

4.2 The failure or delay of the Mortgagee to insist in any one or more instances upon the performance of any of the terms, covenants or conditions of this Mortgage, or to exercise any right, remedy or privilege herein conferred, shall not impair, or be construed as thereafter waiving any such covenants, remedies, conditions or provisions; but every such term, condition and covenant shall continue and remain in full force and effect. Nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the indebtedness secured under this Mortgage operate to prejudice, waive or affect the security of this Mortgage or any rights, powers or remedies hereunder; nor shall the Mortgagee be required to first look to, enforce or exhaust such other or additional security, collateral or guaranties.

4.3 The unenforceability or invalidity of any provision or provisions of this Mortgage shall not render any other provision or provisions herein contained unenforceable or invalid.

4.4 All the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind and inure to the benefit of its successors and assigns, whether so expressed or not.

IN WITNESS WHEREOF, the Mortgagor has caused its corporate name to be hereunto subscribed by its officers thereunto duly authorized all as of the day and year first above written.

HON FINANCIAL CORPORATION II

By: S. M. Howe
Vice President

ATTEST:

John L. Carl
Assistant Secretary

ACCEPTED:

CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO

By: E. J. Mianzon
Vice President

ATTEST:

J. B. Blos
Operations Officer

STATE OF IOWA)
) SS.
COUNTY OF MUSCATINE)

On this 21st day of August, 1979, before me personally appeared Stanley M. Howe and Robert L. Carl to me personally known, who being by me duly sworn, say that they are, respectively the ~~Vice~~ President and ~~Assistant~~ Secretary of HON FINANCIAL CORPORATION II, an Iowa corporation, that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Karen Padgett
Notary Public

My Commission expires September 30, 1979.

STATE OF ILLINOIS)
) SS.
COUNTY OF C O O K)

On this 17th day of August, 1979, before me personally appeared E. S. Williamson and J. Bigelow to me personally known, who being by me duly sworn, say that they are, respectively, the Vice President and Operations Officer of CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO, a national banking association, that the seal affixed to the foregoing instrument is the corporate seal of said association, that said instrument was signed and sealed on behalf of said association by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said association.

Debra J. Hendrick
Notary Public

My Commission expires My Commission Expires April 24, 1982.

SCHEDULE A

Description of Cars and Leases.

<u>Type of Car</u>	<u>Quantity</u>	<u>Lessee</u>	<u>Lease Dates*</u>	<u>Term (Years)</u>	<u>Car Numbers (Both Inclusive)</u>	<u>Total Cost</u>
70-ton, 50'6" XM Boxcar	100	Vermont Railway, Inc.	11/9/78 thru 11/17/78	10	VPR 12001 thru 12056, incl; 12058; 12059 12061 thru 12074, incl; 12076 thru 12083, incl; 12086; 12087; 12089 thru 12095, incl; 12098 thru 12107, incl; 12109	\$3,990,716

* Date of Master Lease is May 24, 1978. Term of lease for each Car runs from date Car is delivered to Rex (listed below).