

CRUMMY, DEL DEO, DOLAN, GRIFFINGER & VECCHIONE

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138154

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INTERSTATE COMMERCE COMMISSION

March 21, 1986

FEDERAL EXPRESS

Interstate Commerce Commission
12th and Constitution Avenue, N.W.
Washington, D.C. 20423

Attention: Mildred Lee
Room 2303

RE: John L. Ard, Trustee in
Bankruptcy for the Morristown
& Erie Railroad Company

Dear Ms. Lee:

Enclosed is an original and one copy of the Security Agreement between the Debtor Party, Morristown & Erie Railway, Inc. with its principal office Off Abbett Avenue, P.O. Box 2206-R, Morristown, New Jersey 07960 and the Secured Party, John L. Ard, Trustee in Bankruptcy for the Morristown & Erie Railroad Co., having an office at McElroy, Deutsch & Mulvaney, 218 Ridgedale Avenue, P.O. Box 2075-R, Morristown, New Jersey 07960 for filing.

The ICC filing should cover certain Motive Power & Rolling Stock as more specifically described in Exhibit A attached hereto and made a part hereof.

3/24/86
10.00
100 Washington St. N. E.

CRUMMY, DEL DEO, DOLAN, GRIFFINGER & VECCHIONE

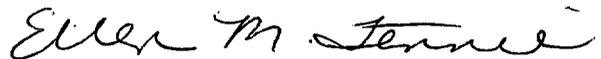
Interstate Commerce Commission
March 21, 1986
Page Two

Also enclosed is our check in the amount of \$10.00 to cover the filing fee.

Please file and stamp the copy as filed and return it to my office in the self-addressed stamped envelope enclosed.

Thank you.

Very truly yours,



Ellen M. Fennie,
Paralegal

EMF/vr
Enclosures

EXHIBIT A

INVENTORY OF COLLATERAL TO BE PLEDGED
BY THE MORRISTOWN & ERIE RAILWAY, INC.

1.	Motive Power & Rolling Stock:	
	2 - 1967 Alco Century 430 Locomotives @\$50,000. (R/N 16 & 17) R/N 16 - Serial No. 3494-5 R/N 17 - Serial No. 3494-4	\$100,000
	1 - 1964 Alco Century 424 Locomotive (R/N 18) Serial No. 3382-1	50,000
	1 - 1964 Alco Century 424 Locomotive (R/N 801)(Stored) Serial No. 3383-2	40,000
	2 - 70 Ton Open Top Hopper Car	<u>12,000</u>
		\$202,000
2.	1981 Chevrolet Hi Rail Pickup Truck Serial No. CTM 32A 330 7143	5,000

MAR 24 1986 -2 30 PM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

THIS AGREEMENT, dated this _____ day of March, 1986, by and between MORRISTOWN & ERIE RAILWAY, INC., a New Jersey Corporation, with its principal office ^{off Abbe Avenue} ~~at Lackawanna~~ P.O. Box 2206-R Plaza, Morristown, New Jersey (hereinafter referred to as "Debtor") and JOHN L. ARD, Trustee in Bankruptcy for the Morristown & Erie Railroad Co., having an office at McElroy, Deutsch & Mulvaney, 218 Ridgedale Avenue, P.O. Box 2075-R, Morristown, New Jersey 07960 (hereinafter referred to as "Secured Party").

WHEREAS, the Morristown & Erie Railroad Company (the "Railroad") has been in reorganization under Section 77 of the Bankruptcy Act, 11 U.S.C. §205, since January 9, 1978; and

WHEREAS, Secured Party was appointed as trustee of the Railroad, pursuant to Order of the United States District Court for the District of New Jersey (the "Court") entered on November 13, 1984; and

WHEREAS, Debtor is the Proponent of a Plan of Reorganization ("the Plan") certified by the Interstate Commerce Commission to the Court on May 20, 1982, approved by Order of the Court entered on August 12, 1982, and confirmed by the Court on December 14, 1982; and

WHEREAS, counsel to the Secured Party, by motion to the Court, sought entry of an Order authorizing the sale of certain unused portions of the Secured Party's right-of-way to

The Prudential Insurance Company of America ("Prudential") in accordance with the terms and conditions set forth in the Petition of counsel for the Trustee submitted in support of said motion; and

WHEREAS, the court has authorized the Trustee to consummate the sale of such unused portion of the right-of-way to Prudential in accordance with the terms and conditions of the Petition and to execute all documents necessary for the effectuation of such transaction by Order of the court dated February 27, 1986; and

WHEREAS, Debtor has executed simultaneously herewith a Term Loan Note (the "Note") payable to the Secured Party in the amount of ONE HUNDRED AND FIFTY THOUSAND DOLLARS (\$150,000) which Note is to be secured by a security interest in certain assets of the Debtor and by personal guaranty of Benjamin Friedland (the "Guaranty").

NOW THEREFORE in consideration of the premises and mutual covenants and representations hereinafter contained, the parties hereto agree as follows:

1. Collateral.

Debtor hereby grants to Secured Party a security interest in all of those assets of Debtor set forth in Exhibit A hereto, which is by this reference made a part hereof, (the "Collateral"), and all cash or non-cash proceeds of any of the foregoing Collateral, including insurance proceeds.

2. Obligations.

The obligations for which the Collateral is given are all obligations now owed or hereafter arising by Debtor to the Secured Party, of every kind and description, direct or indirect, secured or unsecured, joint or several, absolute or contingent, due or to become due, whether for payment or performance, whenever and however arising, including all amounts due on the Note in the total amount of ONE HUNDRED AND FIFTY THOUSAND DOLLARS (\$150,000) inclusive of interest at the rate stated therein, given to Secured Party pursuant to the approval of the Court including all costs incurred by the Secured Party to enforce his rights to receive payment pursuant to said obligations of Debtor including without limitation reasonable attorneys' fees.

3. Representations and Warranties. The Debtor hereby represents and warrants to the Secured Party as follows:

3.1 Debtor has full capacity, power, authority and right to enter into and execute this Agreement and all documents in connection herewith, to incur the obligations described herein and described in the Note and to grant the security interests in and assignments of the Collateral which are granted and made herein.

3.2 This Agreement constitutes the valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms.

3.3 The execution, delivery, and performance by the Debtor of this Agreement does not and will not violate any

provision of any existing law or regulation or of any order, judgment, award or decree of any court, arbitrator or governmental instrumentality or of the charter or by-laws of the Debtor, or of any existing mortgage, indenture, contract or agreement binding on the Debtor or affecting its property; and does not and will not result in the creation or imposition of any lien, charge or any other encumbrance on any of the properties or assets of the Debtor pursuant to the provisions of any such mortgage, indenture, contract or agreement.

3.4 The Debtor has good and marketable title to all of its properties and assets which constitute the Collateral hereunder.

3.5 The Collateral is located in Morris County, New Jersey. Debtor shall retain possession of the Collateral during the period of time that all or any part of the amount due on the Note remains unpaid, and/or any of the obligations hereunder or under the Note remain unsatisfied or unperformed.

4. Covenants.

Debtor hereby covenants and agrees with the Secured Party as follows:

4.1 Debtor has not and will not without the prior written consent of the Secured Party change the location of its business, or the location of any of the assets pledged hereunder as Collateral except in the usual course of business for temporary periods.

4.2 Debtor shall retain possession of the Collateral during the period of time that all or part of the amount due on

the Note remains unpaid and shall not transfer, sell, exchange, assign, loan, deliver, lease, mortgage or otherwise dispose of same without the prior written consent of Secured Party, ^{except that} Debtor may loan or lease the collateral in the ordinary course of Debtor's business.

4.3 Debtor shall adequately preserve and maintain in good condition all Collateral in which this security interest has been granted hereunder and shall make all necessary repairs thereto and replacement of parts thereof at Debtor's own cost and expense in order to assure that the Collateral is adequately maintained and preserved. Debtor shall make the Collateral available for inspection by the Secured Party at all reasonable times.

4.4 Debtor shall deliver to Secured Party upon request evidence of ownership of the Collateral.

4.5 Debtor shall not transfer, sell, assign, offer to sell or otherwise dispose of any of the Collateral, except in the normal course of its business and prior to any default hereunder.

4.6 Any proceeds from the Collateral received by Debtor shall be held in trust for the Secured Party pending satisfaction in full of all obligations secured hereby.

4.7 Debtor shall not incur, create, assume or permit to exist any lien, tax, charge, assessment, security interest or other encumbrance of any nature whatsoever on any property or asset now owned or hereafter acquired by the Debtor and pledged as Collateral under this Agreement.

4.8 Debtor shall pay promptly all taxes, judgments or charges of any kind levied or assessed on the Collateral, keep

current any rent due on any premises upon which the Collateral may be located, and maintain insurance on all Collateral against fire, theft and other hazards, and which insurance shall contain a Lender's Loss Payable clause naming Secured Party. Policies shall be obtained from responsible insurers authorized to do business in the State of New Jersey.

4.9 Debtor shall pay and perform all of the obligations secured by this Security Agreement according to its terms including all terms and obligations set forth in the Note.

4.10 Debtor shall aggressively and in good faith defend the title to the Collateral against all persons and against all claims and demands whatsoever, which Collateral is lawfully owned by the Debtor and is now free and clear of any and all liens, security interests, claims, charges, encumbrances, taxes and assessments, except those liens and encumbrances which are specifically described in Exhibit B which is attached hereto.

4.11 Debtor shall on demand of the Secured Party do the following: Furnish further assurance of title, execute any written agreement or do any other acts necessary to effectuate the purposes and provisions of this Security Agreement, execute any instrument or statement required by law or otherwise in order to perfect, continue or terminate the security interest of the Secured Party in the Collateral and pay all costs of filing in connection therewith.

5. Events of Default.

5.1 The following events shall each constitute an Event of Default hereunder:

5.1.1 Failure of the Debtor to pay any amount due or perform any obligations under this Security Agreement or the Note when due and payable as specifically set forth in such documents;

5.1.2 Failure of the Debtor to comply with, observe or perform any covenant, obligation or agreement herein set forth or set forth in the Note;

5.1.3 Falsity or misleading nature of any representation, warranty, financial statement, schedule or other information made or furnished by Debtor to Secured Party in connection with this Security Agreement or the Note;

5.1.4 The occurrence of a default under the Note;

5.1.5 The Debtor shall (1) apply for or consent to the appointment of a receiver, trustee or liquidator for the Debtor, (2) admit in writing Debtor's inability to pay its debts as they mature, (3) make a general assignment for the benefit of creditors, (4) be adjudicated bankrupt or insolvent or (5) file a voluntary petition in bankruptcy or a petition or an answer seeking an arrangement with creditors or to take advantage of any bankruptcy, insolvency, readjustment of debt, or liquidation law or statute, or an answer admitting the material allegations of a petition filed against Debtor in any proceeding under any such law or if action shall be taken by

any such person for the purpose of effecting any of the foregoing;

5.1.7 An order, levy of execution, judgment or decree shall be entered, without the application, approval or consent of the Debtor by any court of competent jurisdiction approving a petition appointing a trustee or liquidator of all or a substantial part of the assets of the Debtor and such order, judgment or decree shall continue unstayed, undismissed, and/or unsatisfied and in effect for a period of thirty (30) consecutive days;

5.1.8 The seizure or appropriation of all or a substantial part of the property of the Debtor by any governmental agency or any court of competent jurisdiction at the instance of any government agency which seizure or appropriation shall continue unstayed, undismissed and/or unsatisfied and in effect for a period of fifteen (15) days;

5.1.9 Dissolution or liquidation of Debtor or sale of all or substantially all of the assets of the Debtor;

5.1.10 This Security Agreement shall cease to be in full force and effect for any reason other than expiration in accordance with its terms;

5.1.11 Any material adverse change in the financial condition of the Debtor which, in the reasonable opinion of the Secured Party substantially impairs the collectibility of amounts due under the Note;

5.1.12 The Secured Party shall reasonably deem himself insecure.

6. Remedies.

6.1 In the event of any default hereunder, the Secured Party shall notify the Debtor thereof and the Debtor shall have seven (7) days to cure said default. Upon the failure of the Debtor to so cure, the Secured Party may, by written notice to Debtor, declare all amounts due under the Note in accordance with Section 6.2 herein. Upon such default and a failure by Debtor to cure said default, the Secured Party may proceed to enforce any or all of his remedies under this Security Agreement or the Note or any other related agreement, and to exercise such rights, remedies and privileges including without limitation those with respect to the repossession, retention and sale of the Collateral and disposition of the proceeds as are accorded to a Secured Party by the applicable sections of the Uniform Commercial Code in effect as of the date of this Security Agreement, as are available by statute, at law or in equity, or are provided pursuant to the aforesaid agreements, including but not limited to the right of the Secured Party or his agent to remove the Collateral from the premises of the Debtor in order to maintain, sell collect and/or liquidate the Collateral, and the right of the Secured Party to use the premises of the Debtor, together with materials, supplies, books and records of the Debtor, to

maintain possession and/or the condition of the Collateral and to prepare the Collateral for selling, liquidating or collecting, and the right of the Secured Party to require the Debtor to assemble the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties. Upon any default, the Secured Party's costs and expenses, including reasonable attorney's fees for pursuing, searching for, receiving, taking, keeping, storing, advertising and selling the Collateral shall be chargeable to the Debtor.

6.2 In the event of a default hereunder and a failure by Debtor, to cure said default as provided in Section 6.1 herein, the Secured Party may by written notice to Debtor declare all amounts due under the Note, both as to principal and interest, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Note to the contrary notwithstanding. In addition, all rights and remedies described in Section 6.1 hereof shall automatically apply.

7. Attorney-In-Fact.

Upon the occurrence of an Event of Default the Secured Party shall be constituted and appointed as true and lawful attorney-in-fact of Debtor, with the right to endorse the name of Debtor upon any instruments of payment (including payments made under any policy of insurance) that may come into the possession of the Secured Party in full or partial payment of

any amount owing to Secured Party: to obtain, adjust and cancel any insurance; to sign and endorse the name of Debtor upon any invoice, freight or express bill, bill of lading, storage or warehouse receipts; to notify post office authorities to change the address for delivery of mail of Debtor to an address designated by Secured Party and to receive, open and dispose of all mail addressed to Debtor; sell, assign, sue for, collect or compromise payment of all or any part of the Collateral in the name of Debtor or in its own name, or make any other disposition of the Collateral, or any part thereof, which disposition may be for cash, credit or any combination thereof; and the Secured Party may purchase all or any part of the Collateral at public, or, if permitted by law, private sale, and in lieu of actual payment of such purchase price, may set off the amount of such price against the obligations of Debtor to Secured Party.

Further, Debtor shall appoint the Secured Party as attorney-in-fact, with full power of substitution and full power to do any and all things necessary to be done in or about the premises upon which the Collateral is located, as fully and effectively as Debtor might or could do but for disappointment, and ratify all that said attorney-in-fact shall lawfully do or call to be done by virtue hereof.

Further, Debtor shall appoint the Secured Party its attorney-in-fact to execute, file and to record any and all documents necessary to perfect the security interest granted and assignments made herein, including but not limited to

financing statements to be filed with the appropriate authorities.

In conjunction with, addition to, or substitution for the rights described above, the Secured Party, at his discretion, may (1) enter onto Debtor's premises peaceably by the Secured Party's own means or with legal process and take possession of the Collateral, or render it unusable, or dispose of the Collateral on Debtor's premises and the Debtor agrees not to resist or interfere; (2) require Debtor to assemble the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party, reasonably convenient to both parties; (3) unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party will give Debtor reasonable notice of the time and place of any public sale thereof or at the time after which any private sale or any other intended disposition thereof is to be made. The requirements of reasonable notice will be met if such notice is mailed, with postage prepaid, to the address of the Debtor shown above, at least three (3) days before the time of sale or disposition.

Neither the Secured Party nor his agent shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law in his capacity as such attorney-in-fact. This power of attorney is coupled with an interest and shall be irrevocable so long as any obligation shall remain outstanding.

8. Miscellaneous Provisions.

8.1 No amendment, modification or waiver of any of the provisions of this Security Agreement, nor the consent to any departure by the Debtor therefrom shall be effective, unless the same shall be in writing and signed by the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Neither failure nor the delay on the part of the Secured Party in exercising any right or privilege hereunder or under any related documents shall operate as a waiver thereof.

8.2 The Debtor shall make, execute, acknowledge and make available all such reasonable and additional documents and data as the Secured Party may at any time and from time to time reasonably deem necessary or appropriate.

8.3 All representations, warranties and covenants herein shall survive the execution and delivery hereof.

8.4 This Security Agreement shall be binding upon and inure to the benefit of the Debtor and the Secured Party and his respective successors and assigns, except that the Debtor may not assign or transfer its rights hereunder without the prior consent of the Secured Party.

8.5 This Security Agreement and all other documents executed and delivered in connection herewith shall be interpreted under the laws of the State of New Jersey and for all purposes shall be governed by and construed in accordance with the laws of said State.

8.6 No remedy herein conferred upon or reserved to the Secured Party under this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every such remedy, now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Secured Party to exercise any remedy reserved to him in this Agreement, it shall not be necessary to give any notice other than such notice as herein may be expressly required.

8.7 All notices, requests, demands or other communications provided for hereunder shall be in writing and shall be deemed to have been given when sent by registered or certified mail, return receipt requested, as the case may be, at the addresses hereinabove set forth or to such other address as the parties to this Agreement shall designate to the others from time to time in writing forwarded in like manner.

8.8 Any security interest of the Secured Party shall be perfected by the filing of financing statements which fully comply with the Uniform Commercial Code, or any other applicable laws in the offices of such governmental authorities as may be required by all applicable laws in order to create

and preserve the security interest provided for herein. The parties further agree that all necessary continuation statements shall be filed within the time prescribed by the Uniform Commercial Code or any other applicable laws in order to continue the security interest created by this Security Agreement to the end that the rights of the Secured Party to the amounts payable under this Security Agreement shall be fully preserved.

8.9 This Security Agreement together with the Note and the Guaranty constitute the entire understanding of the parties with respect to the subject matter hereof and shall be superseded or cancelled or any or its terms, covenants, representations, warranties or conditions waived only by a document or documents signed by the Secured Party and then only in the specific instance and for the purpose for which given. This Security Agreement shall completely and fully supercede all other prior understandings or agreements, both written and oral, between the Debtor and the Secured Party relating to the security interests granted herein.

8.10 This Security Agreement shall remain in full force and be binding upon the parties hereto until such time as all amounts payable to the Secured Party pursuant to this Security Agreement and the Note, as well as any other documents relating thereto, are fully paid with interest. *or until the Note is otherwise terminated in accordance with the terms of such Note*

8.11 In the event any provision of this Security Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

8.12 This Security Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

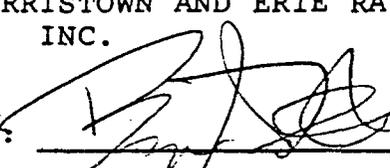
8.13 The Debtor irrevocably and unconditionally agrees that any suit, action or other legal proceeding arising out of this Security Agreement may be brought in the Courts of record of the State of New Jersey or the Courts of the United States located in the State of New Jersey, and the Debtor also irrevocably and unconditionally consents to the in personam jurisdiction of each such court in any suit, action or proceeding and waives any objection which it may have to the laying of venue in any such suit, action or proceeding in any of such courts. The Debtor also hereby agrees that any final judgment obtained against it as a result of any suit, action or other legal proceeding in any such court arising out of this Security Agreement will be a definitive, final and binding judgment upon it and not subject to jurisdictional attack by it.

IN WITNESS WHEREOF, the parties have hereto caused this Agreement to be duly executed as of the day and year first above written.

ATTEST:

DEBTOR:

MORRISTOWN AND ERIE RAILWAY,
INC.

BY: 

SECURED PARTY:

WITNESS:


ALICE E. HOEY

A NOTARY PUBLIC OF NEW JERSEY
My Commission Expires Oct. 12, 1988

CERTIFIED TO BE A TRUE COPY *A.E.H.*

- 16 -

William Del Deo Nolas Cappuccino & Vecchiom
Attorney for Trustee
by: *Rolant [Signature]*

EXHIBIT A

INVENTORY OF COLLATERAL TO BE PLEDGED
BY THE MORRISTOWN & ERIE RAILWAY, INC.

1.	Motive Power & Rolling Stock:	
	2 - 1967 Alco Century 430 Locomotives @\$50,000. (R/N 16 & 17) R/N 16 - Serial No. 3494-5 R/N 17 - Serial No. 3494-4	\$ 100,000
	1 - 1964 Alco Century 424 Locomotive (R/N 18) Serial No. 3382-1	50,000
	1 - 1964 Alco Century 424 Locomotive (R/N 801)(Stored) Serial No. 3382-2	40,000
	2 - 70 Ton Open Top Hopper Car (R/N 331 & 332)	<u>12,000</u>
		\$ 202,000
2.	Track Equipment:	
	Plasser Minima-1 Tamper	22,000
	Canron Section Gas Tie Inserter & Spiker	10,000
	Safetran Bolt Machine	7,000
	Racine Power Hackshaw)	
	Hayes Rail Drill)	
	Miller AC/DC Welder)	
	Stihl Chain Saw)	
	Stihl Brush Cutter)	
	Track Jacks (6))	
	Hand Tools)	6,000
3.	1981 Chevrolet Hi Rail Pickup Truck Serial No. CTM 32A 330 7143	<u>5,000</u>
		\$ 50,000

4. Radio System:

GE Master Mobile Relay	1,500
Recco Dimension Base Station	1,000
3 - Motorola Syntor Locomotive Radio @\$1,800	5,400
4 - Recco 10-8 Portable Radio @\$500	2,000
4 - TAD 15105 Portable Radio @\$400	1,600
Antennas, Remote Controls, Chargers	<u>500</u>
	\$ 12,000

5. Office Equipment:

Telrad Key BX Telephone System)	
Xerox 1025 R/E Copier)	
Xerox 295 Telecopier)	
Xerox 610 Typewriter)	
Xerox 620 Typewriter)	
Xerox 5600 P/C Computer)	\$ 4,200

6. Accounts Receivable:

All accounts receivables of the
Morristown & Erie Railway, Inc.

7. Contract Rights:

All of the contract rights of
Morristown & Erie Railway, Inc.
with the various shippers in
other third parties and the
right-of-way.