

PITNEY, HARDIN, KIPP & SZUCH

163 MADISON AVENUE

CN 1945

MORRISTOWN, NEW JERSEY 07960-1945

ROBERT P. HAZLEHURST, JR.
JOHN BARKER
CHARLES R. HARDIN, JR.
ROGER C. WARD
JAMES C. PITNEY
WILLIAM D. HARDIN
CLYDE A. SZUCH
S. JOSEPH FORTUNATO
DAVID J. CONNOLLY, JR.
WILLIAM H. HYATT, JR.
LAWRENCE F. REILLY
MURRAY J. LAULICHT
EDWARD P. LYNCH
JOSEPH D. NEARY
JOSEPH LUNIN
RICHARD L. PLOTKIN
TIMOTHY R. GREINER
ROBERT L. HOLLINGSHEAD
FREDERICK L. WHITMER
GREGORY C. PARLIMAN
ROBERT G. ROSE
PATRICK J. MCCARTHY
JOSEPH H. KOTT
MARY LOU PARKER
PAUL E. GRAHAM
J. MICHAEL NOLAN, JR.
WARREN J. CASEY
KEVIN J. O'DONNELL
GLENN C. GEIGER
DENNIS R. LA FIURA

MORRISTOWN (201) 267-3333
NEW YORK (212) 926-0331

TELEX 642014

TELECOPIER (201) 267-3727

NEWARK OFFICE

33 WASHINGTON STREET

NEWARK, NEW JERSEY 07102

WRITER'S DIRECT DIAL NUMBER

(201) 631-4857

GAIL H. ALLYN
ELIZABETH C. FLANAGAN
SEAN R. KELLY
HENRY NELSON MASSEY
PATRICIA A. PICKREL
WILLIAM P. SHELLEY
JAMES H. FOSTER
WILLIAM J. FRIEDMAN
DAVID G. HARDIN
DENNIS T. KEARNEY
JANICE MONTANA
H. GLENN TUCKER
BARBARA E. BLACK
JANE H. HARDIN
HELEN E. HOENS
ROBERT W. IHNE
BETTY ANN MCWILLIAMS
BARBARA A. MOORE
LAWRENCE J. NAGY
KENNETH J. NORCROSS
CHARLES QUINN
ROBERT A. RECIO
EVELYN R. STORCH
CYNTHIA H. AUGUSTINE
DINAH H. BOURNE
DONALD W. KIEL
CYNTHIA B. LUPO
MARIE D. NARDINO
JOEL M. ROSEN
JOHN K. SKRYPAK
LORI J. BRAENDER
JEFF ELLENTUCK
THERESA DONAHUE EGLER
KATHY A. LAWLER

HARRIETT JANE OLSON
ELIZABETH J. SHER
LLOYD H. TUBMAN
VALERIE J. BAUMANN
ERNEST J. CICONI
ANN V. CONREY
MICHAEL J. DUNNE
JAMES H. FORTE
KATHLEEN A. GREEN
MARIE N. JACKSON
EILEEN A. LINDSAY
THOMAS J. MALMAN
DAVID NIU
KAREN M. PALMA
JAMES D. RAY
SCOTT A. SMITH
KENNETH E. THOMPSON
PETER G. VERNIERO
MILLIE E. WILLIAMS
IVETTE R. ALVAREZ
MATTHEW J. BROAS
JOSEPH W. COIRO
HOPE S. CONE
LAURAN S. D'ALESSIO
DAVID P. DOYLE
JENNIFER CHANDLER HAUGE
DEBORAH HENNIGAN KNAPP
STEVEN B. LARSEN
ALAN G. LESNEWICH
PATRICIA B. SANTELLE
JAMES A. SCHRAGGER
GREGG S. SODINI
BETSY L. WEISS
LAWRENCE H. WERTHEIM

RECORDATION NO. 11926-A

Filed & Recorded

JAN 6 1986 3-05 PM

INTERSTATE COMMERCE COMMISSION

December 22, 1986

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

Attn: Ms. Mildred Lee

Re: Document for Recordation

Dear Sir or Madam:

I have enclosed the original and three copies, certified to be true copies of the documents described below, to be recorded pursuant to Section 11303 of title 49 of the Code of Federal Regulations.

The first document is a Termination of Obligation under Term Loan Note, a secondary document dated December 23 1986 which is filed with respect to a certain Security Agreement which was filed March 24, 1986 and has received document number 4926 in your office. The names and addresses of the parties to the secondary document are as follows:

RECORDATION NO. 15145
Filed & Recorded
JAN 6 1986 3-05 PM
INTERSTATE COMMERCE COMMISSION

No. _____
Date JAN 6 1987
File # 2000

7-006A052

ICC Washington, D. C.

JAN 6 2 05 PM 1987
MORRISTOWN, NJ
TELEPHONE UNIT

Secretary, Interstate Commerce Commission
Page Two
December 22, 1986

Obligor: Morristown & Erie Railway, Inc.
P. O. Box 2206-R
Morristown, N.J. 07960

4956-A
revised

Guarantor: Benjamin J. Friedland
C/O Morristown & Erie Railway, Inc.
P. O. Box 2206-R
Morristown, N.J. 07960

Secured Party: John L. Ard, Trustee in Bankruptcy
for Morristown & Erie Railroad Company
McElroy, Deutsch and Mulvaney
218 Ridgedale Avenue
Morristown, N.J. 07960

A description of the equipment covered by the document is found on the attached Schedule A. The equipment includes motive power and rolling stock, track equipment and such other items as are described in the attached schedule.

A summary of this document is:

Release of a Security Agreement between Morristown & Erie Railway, Inc. and John L. Ard, Trustee in bankruptcy for the Morristown & Erie Railroad Company dated December 23, 1986 and covering certain motive power and rolling stock and track equipment, among other things.

The second document enclosed is a Security Agreement, a primary document dated December 23, 1986. The names and addresses of the parties to the document are as follows:

Borrower: Morristown & Erie Railway, Inc.
P. O. Box 2206-R
Morristown, New Jersey 07960

15145

Lender: The Howard Savings Bank
190 South Orange Avenue
Livingston, New Jersey 07039

Secretary, Interstate Commerce Commission
Page Three
December 22, 1986

18145

The document covers motive power and rolling stock and track equipment more fully described on the attached Schedule A.

A short summary of this document to appear in the Index is as follows:

Security Agreement between Morristown & Erie Railway, Inc., Borrower, and The Howard Savings Bank, Lender, dated December 23, 1986 and covering certain motive power, rolling stock and track equipment, among other things.

Our check in the amount of \$20.00 to cover the fee payable for recording both documents is enclosed. Please return the original and any extra copies not need for recordation by the Commission with a filing notation to Harriett Jane Olson, Pitney, Hardin, Kipp & Szuch, 163 Madison Avenue, Morristown, New Jersey 07960. Thank you for your attention to this request.

Very truly yours,


HARRIETT JANE OLSON

HJO:slw
Enclosures
27795/40043

JAN 6 1986 3-0 5 PM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT, dated December 23, 1986, by and between MORRISTOWN & ERIE RAILWAY, INC., a New Jersey corporation with offices off Abbett Avenue, Morristown, New Jersey 07960 ("Borrower") and THE HOWARD SAVINGS BANK, a New Jersey corporation with offices at 190 South Orange Avenue, Livingston, New Jersey 07039 (the "Bank").

In consideration of a loan to Borrower in the original principal amount of Five Hundred Fifty Thousand (\$550,000.00) Dollars or so much thereof as may be advanced, as evidenced by a certain Note of even date herewith (hereinafter called the "Note") with interest thereon as provided in the Note, providing for the payment of said sum to the Bank in accordance with the terms of the Note which are incorporated as if fully set forth herein and to secure payment by the Borrower of principal and interest under the Note and all other amounts now or hereafter owing pursuant to the Note or a certain mortgage (the "Mortgage") given by Borrower to the Bank as security for the Note and encumbering certain real property premises in Morris and Essex counties, New Jersey all as more particularly described in the Mortgage (the "Premises"), and to further secure performance of all other obligations of Borrower under the Note and Mortgage (all obligations secured hereby being hereinafter referred to as the "Obligations"), the Borrower hereby sells, assigns, conveys, mortgages, pledges, hypothe-

cates and transfers to the Bank and hereby grants to the Bank a first priority security interest in all the Borrower's right, title and interest in, to and under the following Collateral:

SEE SCHEDULE A ATTACHED

HERETO AND MADE A PART HEREOF

as collateral security for the payment and performance of all the Obligations. As used in this Security Agreement, the term "Collateral" shall mean the property described on Schedule A and all replacements and substitutions thereof as well as the Proceeds (as that term is defined in Section 9-306(1) of the Uniform Commercial Code) therefrom.

1. The Borrower hereby represents and warrants to the Bank that:

(a) It is or will be the owner of all the Collateral, whenever acquired, free and clear of all liens, claims, encumbrances, setoffs, defenses and counterclaims; that it will not do or permit anything to be done that may materially impair the value of the Collateral; that it will store and maintain the Collateral in good order and repair.

(b) No security agreement, financing statement, equivalent security or lien instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office, except as will be terminated of record within a reasonable time after closing;

(c) To the extent that value has been given by the Bank and upon the completion of the filings of UCC-1 financing statements this Security Agreement will constitute a valid and continuing first lien on and first security interest in the Collateral in favor of the Bank for the benefit of the Bank, prior to all other liens, encumbrances, security interests and rights of others, and is enforceable as such against creditors of and purchasers from the Borrower. Borrower shall take any action which is necessary or desirable to protect and perfect such security interest in each item of the Collateral, upon request by the Bank.

(d) The Borrower will keep and maintain, at its own cost and expense, satisfactory and complete records of the Collateral including, without limitation, a record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. The Borrower will mark its books and records pertaining to the Collateral to evidence this Security Agreement and the liens and security interest granted hereby. For the Bank's further security, the Borrower agrees that the Bank shall have a right to inspect all of the Borrower's books and records pertaining to the Collateral, and the Borrower shall deliver and turn over any such books and records to the Bank or its representatives at any time after the occurrence and during the continuation of an Event of Default, on demand by the Bank;

(e) At any time and from time to time, upon the Bank's request and at the expense of the Borrower, the Borrower will promptly and duly execute and deliver any and all such further instruments and documents and take such further action, as the Bank may reasonably deem desirable in obtaining the full benefits of this Security Agreement and of the rights and powers herein granted, including without limitation the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, except a check or similar payment order received in the ordinary course of Borrower's business, such note or instrument shall be immediately pledged to the Bank hereunder, duly endorsed in a manner satisfactory to the Bank;

(f) The Borrower agrees to keep all of the Collateral insured with coverage and in amounts not less than that usually carried by companies engaged in a business similar to that of the Borrower but in any event not less than that required by the Bank with loss payable to the Bank as its interest appears. All policies of insurance shall provide for at least ten (10) days written cancellation notice to the Bank. In the event of the Borrower's failure to provide and maintain insurance as herein provided, the Bank may at its option provide such insurance, and the amount of the premiums therefor shall be payable by the Borrower to the Bank upon demand, with inter-

est at a rate of five percent (5%) per annum over the BCLR (as that term is defined in the Note) and shall be a part of the Obligations.

(g) The Borrower will comply, in all material respects, with all acts, rules, regulations, orders, decrees and directions of any governmental authority applicable to the Collateral or any part thereof or to the operation of the Borrower's business; provided, however, that the Borrower may contest any such act, regulation, order, decree or direction in any reasonable manner which shall not adversely affect the Bank's rights or the first priority of its liens and security interests in the Collateral;

(h) The Borrower will pay promptly when due, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind (including claims for labor, materials and supplies), except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, (ii) such proceedings do not involve any danger of the sale, forfeiture or loss of any material portion of the Collateral or any interest therein and (iii) such charge is adequately reserved against in accordance with generally accepted accounting principles:

(i) The Borrower will not create, permit or suffer to exist, and will defend the Collateral against and take such

other action as is necessary to remove, any lien, security interest, encumbrance, claim or right, in or to the Collateral, and will defend the right, title and interest of the Bank in and to the Borrower's rights to the Collateral and in and to the Proceeds and products thereof against the claims and demands of all persons whatsoever;

(j) The Borrower will furnish to the Bank, from time to time, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Bank may reasonably request, all in reasonable detail;

(k) The Borrower will advise the Bank promptly, in reasonable detail, (i) of any lien, security interest, encumbrance or claim made or asserted against any of the Collateral, (ii) of any material change in the composition of the Collateral and (iii) of the occurrence of any other event which would have a material adverse effect on the aggregate value of the Collateral or on the liens and security interests created hereunder; and

2. The Borrower hereby irrevocably constitutes and appoints the Bank and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower and in the name of the Borrower or in its own name, from time to time in the Bank's discretion, for the

purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement and, without limiting the generality of the foregoing, hereby gives the bank the power and right, on behalf of the Borrower, without notice to or assent by the Borrower, to do the following:

(a) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral;

(b) upon the occurrence and during the continuance of any Event of Default, (i) to receive payment of and receipt for any and all monies, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral (ii) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other documents relating to the Collateral (iii) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (iv) to defend any suit, action or proceeding brought against the Borrower with respect to any Collateral; (v) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate; and (vi) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Bank were the absolute owner thereof for all purposes, and to do, at the Bank's option and the Borrower's expense, at any time or from time to time, all acts and things which the Bank reasonably deems necessary to protect, preserve or realize upon the Collateral and the Bank's security interest therein, in order to effect the intent of this Security Agreement, all as fully and effectively as the Borrower might do.

The Borrower hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable until such time as the Obligations secured hereby have been fully paid and performed.

3. The powers conferred on the Bank hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Bank shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act, except for its own gross negligence or willful misconduct or that of its officers, directors, employees or agents.

4. The Borrower also authorizes the Bank, at any time and from time to time, to execute, in connection with the sale provided for herein or at law or in equity, any endorsements, assignments, or other instruments of conveyance or transfer with respect to the Collateral.

6. If any Event or Default by Borrower shall occur and be continuing, uncured, under this Security Agreement, the Note, the Mortgage, or any other instrument or document delivered in connection herewith and therewith, the Bank may exercise in addition to all other rights and remedies granted to it in this Security Agreement, the Note, the Mortgage or in

any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies granted the Bank under the Note and Mortgage and all rights and remedies of a secured party under the Uniform Commercial Code. Without limiting the generality of the foregoing, the Borrower expressly agrees that in any such event, except as otherwise required by law, the Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Borrower or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase, or sell or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Bank's offices or elsewhere at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption in the Borrower. The Borrower further agrees, at the Bank's request, to assemble the Collateral, make it available to the Bank at places which the

Bank shall reasonably select, whether at the Borrower's premises or elsewhere. The Bank shall pay over, in satisfaction of all amounts owing to it by Borrower, the net proceeds of any such collection, recovery, receipt, appropriation or realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safe keeping or otherwise of any or all of the Collateral or in any way relating to the rights of the Bank hereunder, including reasonable attorneys' fees and legal expenses, and only after so paying over such net proceeds and after the payment by the Bank of any other amount required by any provision of law, including Section 9-504 (1) (c) of the Code, need the Bank account for the surplus, if any, to the Borrower. To the full extent permitted by applicable law, the Borrower waives all claims, damages, and demands against the Bank arising out of the repossession, retention or sale of the Collateral. The Borrower agrees that the Bank need not give more than 10 days' notice (which notification shall be deemed given when mailed, postage prepaid, addressed to the Borrower at its address set forth in paragraph 9 hereof) of the time and place of any public sale or of the time after which a private sale may be held, and that such 10 day notice shall conclusively be deemed to have been reasonable. The Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which the Bank is entitled, the Borrower also being liable for the rea-

sonable fees of any attorneys employed by the Bank to collect such deficiency.

The Borrower also agrees to pay all costs of the Bank, including reasonable attorneys' fees, incurred with respect to the collection of any of the Obligations and the enforcement of any of their respective rights hereunder.

7. The Borrower hereby waives presentment, demand, protest or any notice (to the extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

8. Beyond the safe custody thereof, the Bank shall not have any duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto.

9. Any notice to the Bank hereunder shall be deemed to have been duly given when mailed first class certified mail return receipt requested, postage prepaid, or when transmitted by a telecommunications device capable of creating a written record, to the Howard Savings Bank, 190 South Orange Ave., Livingston, New Jersey 07039, Attention: Stewart Haverbeck, Vice President, Commercial Loan Department. Any notice to the Borrower hereunder shall be deemed to have been duly given when mailed first class certified mail, return receipt requested,

postage prepaid, or when transmitted by a telecommunications device capable of creating a written record, addressed to the Borrower at Box 2206-R, Morristown, New Jersey 07960. The address of either party hereto may be changed by its giving notice to the other party.

10. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11. The Bank shall not, by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by the Bank, and then only to the extent therein set forth. A waiver by the Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Bank would otherwise have had on any future occasion. No failure to exercise nor any delay in exercising on the part of the Bank, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege. The rights

and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by both parties.

12. This Security Agreement and all obligations of the Borrower hereunder shall be binding upon the successors and assigns of the Borrower, and shall, together with the rights and remedies of the Bank hereunder, inure to the benefit of the Bank, and its successors, assigns and transferees. This Security Agreement shall be governed by, and be construed and interpreted in accordance with, the laws of the State of New Jersey.

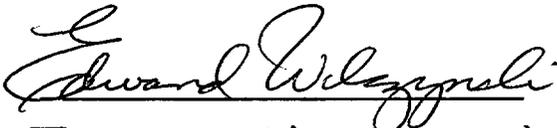
13. The Borrower agrees to pay, and to save the Bank harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales or other taxes which may be payable or determined to be payable

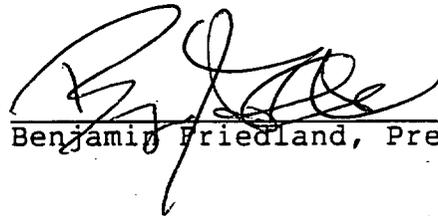
with respect to any of the Collateral or in connection with any of the transactions contemplated by this Security Agreement.

IN WITNESS WHEREOF, the Borrower and the Bank have caused this Security Agreement to be executed and delivered by their duly authorized officers on the date first set forth above.

ATTEST:

MORRISTOWN & ERIE RAILWAY, INC.


EDWARD WIKCZYNSKI

By: 
Benjamin Friedland, President

ATTEST:

THE HOWARD SAVINGS BANK

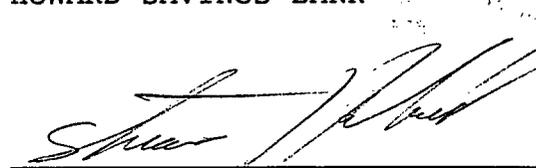
By: 
Stewart Haverbeck,
Vice President

EXHIBIT A

INVENTORY OF COLLATERAL TO BE PLEDGED

BY THE MORRISTOWN & ERIE RAILWAY, INC.

1.	Motive Power and Rolling Stock:	
	2 - 1967 Alco Century 430 Locomotives @ \$50,000. (R/N 16 & 17) R/N 16 - Serial No. 3494-5	\$ 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 and 332)	<u>12,000</u>
		\$ 202,000
2.	Track Equipment:	
	Plasser Minima - 1 Tamper	22,000
	Canron Section Gas Tie Inserter and Spiker	10,000
	Safetran Bolt Machine	7,000
	Racine Power Hacksaw)	
	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
	Repc Dimension Base Station	1,000
	3 - Motorola Syntor Locomotive Radio	
	@\$1,800	5,400
	4 - Repco 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.