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June 9, 1989

RECORDATION NO **16379** FILED 1423

JUN 12 1989 -4 40 PM

INTERSTATE COMMERCE COMMISSION

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

9-165A013

Attn: Ms. Mildred Lee
Room 2303

Dear Ms. Lee:

Enclosed are the original and one notarized copy of the Security Agreement between the following two entities:

Secured Party: CSX Transportation, Inc.
100 North Charles Street
Baltimore, Maryland 21201
Attn: Dan Burns

Debtor: Tuscola & Saginaw Bay
Railway Company, Inc.
308 W. Main, Matthews Building
Suite 303, P. O. Box 550
Owosso, Michigan 48867-0550
Attn: Lawrence R. Judd

The enclosed Security Agreement gives CSX Transportation, Inc. an interest in the two locomotives identified in said Security Agreement securing payment of a certain Secured Promissory Note in the amount of \$428,128.41 signed by Tuscola & Saginaw Bay Railway Company, Inc. on May 25, 1989. The debt was incurred as a result of Tuscola's failure to pay freight and related charges to CSX Transportation.

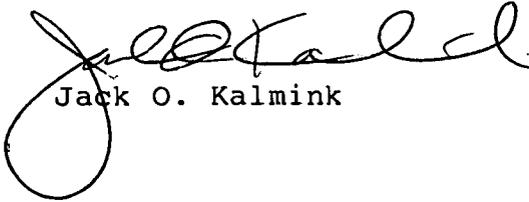
You will note that there is an Affidavit of Authenticity attached to the enclosed copy of the Security Agreement as well as a check in the amount of \$13 to cover the filing fee.

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Interstate Commerce Commission
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Please contact me immediately at (313) 259-1144 in the event you should have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jack O. Kalmink", written over a large, circular scribble or flourish.

Jack O. Kalmink

JOK/kd

Enclosures

Certified Mail, Return
Receipt Requested

Interstate Commerce Commission
Washington, D.C. 20423

6/14/89

OFFICE OF THE SECRETARY

Jack O. Kalmink

Cross Wrock

400Renaissance Center Suite 1900

Detroit Michigan 48243

Dear

Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 6/12/89 at 4:40pm, and assigned rec-
cordation number(s).
16379

Sincerely yours,

Nerita L. McGee

Secretary

Enclosure(s)

JUN 12 1989 -4 40 PM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

This Security Agreement is entered into this 25th day of May, 1989, by and between TUSCOLA & SAGINAW BAY RAILWAY CO., INC., whose chief executive office is located at 308 W. Main, Matthews Building, Suite 303, P. O. Box 550, Owosso, Michigan 48867-0550 ("Debtor"), and CSX TRANSPORTATION, INC., whose address is P. O. Box 1192, Baltimore, Maryland 21203 ("Secured Party").

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Debtor and Secured Party hereby agree as follows:

1. Creation and Nature of Security Interest

1.1 To secure the full and timely payment to Secured Party of all amounts owed to Secured Party pursuant to the terms of a certain Secured Promissory Note executed by Debtor on May 25, 1989, Debtor hereby grants to Secured Party a first and continuing security interest in the railroad locomotives described in Paragraph 1.2.

1.2 The railroad locomotives in which Secured Party is hereby granted a security interest are described as follows:

Locomotive Number	385
Locomotive Type	EMD GP-35
Year Built	1964
Year Rebuilt	1970
Diesel Model	#645 ED 3 A
Serial Number	70-E3-1022

Locomotive Number	390
Locomotive Type	EMD GP-35
Year Built	1964
Year Rebuilt	1978
Diesel Model	#645 ED 3 A
Serial Number	78-C3-1071

The afordescribed railroad locomotives are hereinafter referred to collectively as "the Collateral."

2. Debtor's Covenants, Representations and Warranties

Debtor covenants, represents and warrants as follows:

2.1 Debtor shall keep the Collateral insured, at its expense, against all risks to which they are exposed, with policies acceptable to Secured Party, and payable to both Debtor and Secured Party as their interests may appear. Each such policy shall provide for ten (10) days written minimum cancellation notice to Secured Party, and Secured Party shall be

furnished with duplicate policies or other evidence of compliance with the foregoing provisions. Secured Party may apply any proceeds of such insurance which may be received by Secured Party toward payment of Debtor's obligations to Secured Party, in such order of application as Secured Party may determine. If Debtor fails to obtain or maintain the required insurance, Secured Party may, but shall not be obliged to, insure the Collateral, and any premiums so paid shall be repaid to Secured Party by Debtor upon demand. Debtor shall not permit to be used any Collateral in any manner inconsistent with any policy of insurance thereon.

2.2 Debtor is the owner of the Collateral, free and clear of all liens or security interests, and will defend the Collateral against the claims and demands of all persons at any time claiming the same or any interest therein. No financing statement covering the Collateral or any part thereof, is on file in any public office, including the Interstate Commerce Commission, and, except for the security interest granted in this Security Agreement, there is no adverse lien, security interest, or encumbrance on or in the Collateral.

2.3 Debtor will not permit any liens or security interests (other than that created by this Security Agreement) to attach to any of the Collateral, and will not permit any of the Collateral to be levied upon under legal process. Neither the Collateral nor any part thereof will be sold, transferred, mortgaged, pledged or disposed of, or be subjected to any unpaid charge, including taxes, or to any subsequent interest of a third party created or suffered by Debtor voluntarily or involuntarily.

2.4 Debtor shall pay all expenses and reimburse Secured Party for any expenditures, including reasonable attorneys' fees in connection with Secured Party's exercise of any of its rights and remedies. Debtor will sign and execute, alone or with Secured Party, any financing statement or other document (and pay all connected costs) necessary to protect the security interest granted by this Security Agreement against the rights or interests of third persons.

2.5 Debtor hereby appoints Secured Party as Debtor's attorney-in-fact to perform, at Debtor's expense, all acts which Secured Party deems appropriate to perfect and continue the security interests and lien established hereby, and to protect and preserve the Collateral, including, but not limited to, the filing of financing statements without the signature of Debtor; but nothing herein shall require Secured Party to take any such action. Secured Party shall be under no duty to send notices, perform services, pay for insurance, taxes or other charges or take any other action of any kind in connection with the Collateral.

2.6 With respect to any security interest or lien herein or hereafter granted by Debtor to Secured Party, Debtor will do, file, make, accord, execute and deliver all such acts, deeds, things, notices, instruments and financing statements as may be necessary or desirable, in Secured Party's sole

discretion, in order to more completely vest in and assure to Secured Party its security interests and liens in the Collateral and the enforcement of, and the giving of effect to, its rights, remedies and powers relating to the Collateral.

2.7 Debtor will properly maintain and care for the Collateral and agrees to comply with any governmental regulation or statute affecting the use and maintenance of the Collateral.

2.8 Debtor's chief executive office and principal place of business is at 308 W. Main, Matthews Building, Suite 303, P. O. Box 550, Owosso, Michigan 48867-0550. Debtor will notify Secured Party in writing prior to any change in Debtor's principal place of business, or if Debtor has or acquires more than one place of business, prior to any change in Debtor's principal place of business, the office or offices where Debtor's books and records concerning the Collateral are kept or the place and places where the Collateral may be.

2.9 Debtor will immediately notify Secured Party of any proposed or actual change of Debtor's name, identity or corporate structure.

2.10 Debtor will promptly notify Secured Party in writing of any event which affects the value of the Collateral, the ability of Debtor or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation thereto, including, but not limited to, the levy of any legal process against the Collateral and the adoption of any marketing order, arrangement or procedure affecting the Collateral, whether governmental or otherwise.

2.11 Debtor is (a) a corporation duly organized, validly existing and in good standing under the laws of the State of Michigan; (b) is authorized to do and is conducting business under the name of Tuscola & Saginaw Bay Railway Co., Inc.; (c) has all requisite corporate power, authority and capacity to enter into this Security Agreement and to perform the obligations required of it hereunder and that this Security Agreement constitutes a valid, binding and enforceable obligation of Tuscola & Saginaw Bay Railway Co., Inc.; and (d) the execution and performance of this Security Agreement by Debtor and its compliance with the terms hereof do not and will not conflict with the terms of its Articles of Incorporation, By-Laws or any agreement to which Debtor is a party or by which it is bound.

2.12 Debtor shall pay, before delinquency, all taxes, duties or other governmental charges assessed against or which shall or may become a lien upon the Collateral or any part thereof.

3. Additional Requirements

Debtor agrees that Secured Party may at any time and at its option, whether or not Debtor is then in default:

3.1 Require Debtor to periodically deliver to Secured Party records and schedules which show the status, location and condition of the Collateral and such contracts or other items as may affect the Collateral.

3.2 Verify and inspect the Collateral and inspect the books and records of Debtor and make copies thereof or extracts therefrom and may for these purposes, at reasonable times and intervals, enter the building(s) or premises in which the Collateral are located.

4. Defaults

Any one or more of the following shall be a default hereunder:

4.1 Debtor shall fail to make any payments required by the Secured Promissory Note when due.

4.2 Debtor or its sureties or guarantors shall breach any term, provision, covenant, warranty or representation under this Security Agreement.

4.3 Any receiver or trustee of all or a substantial portion of the assets of Debtor shall be appointed.

4.4 Debtor shall become insolvent or unable to pay its debts as they mature, shall make a general assignment for the benefit of creditors, shall voluntarily file under the Federal Bankruptcy Code or any similar law or fails to maintain its corporate existence in good standing.

4.5 Any involuntary petition in bankruptcy shall be filed against Debtor and not be dismissed within thirty (30) days.

4.6 Any levies of attachment, executions, tax assessments or similar processes shall be issued against the Collateral and shall not be released within ten (10) days thereafter.

4.7 Any financial statements, profit and loss statements, certificates or schedules, or other statements furnished by Debtor or its sureties or guarantors to Secured Party shall prove false or incorrect in any material respect.

5. Secured Party's Remedies After Default

In the event of any default hereunder, Secured Party may do any one or more of the following:

5.1 Declare any obligations secured hereby immediately due and payable.

5.2 Enforce the security interest given hereunder pursuant to the Michigan Uniform Commercial Code or any other applicable law.

5.3 Require Debtor to assemble and gather the Collateral and the records pertaining to the Collateral and make them available to Secured Party at a place designated by Secured Party.

5.4 Enter the premises of Debtor, including any structures, and take possession of the Collateral and of the records pertaining to Collateral.

6. Miscellaneous

6.1 No waiver by Secured Party of any default shall operate as a waiver of any other default or of the same default on a future occasion. No delay or omission on the part of Secured Party in exercising any right or remedy shall operate as a waiver thereof, and no single or partial exercise by Secured Party of any right or remedy shall preclude any other or further exercise thereof or the exercise of any other right or remedy. Time is of the essence of this Security Agreement. The provisions of this Security Agreement are cumulative and in addition to the benefits, rights and remedies of and under any other instruments or documents relating to the Collateral or Debtor's obligations to Secured Party.

6.2 This Security Agreement shall be construed in accordance with the laws of Michigan. Whenever possible, each provision of this Security Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by or invalid under applicable law, that provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement.

6.3 Debtor and Secured Party, as used in this Agreement, include the successors and permitted assigns of those parties. Secured Party may transfer its interest in the Collateral to any assignee.

6.4 Debtor agrees to pay (or, if appropriate, reimburse Secured Party for) the reasonable attorneys' fees (including those incurred in appellate proceedings) and other costs and expenses incurred by Secured Party in enforcing this Security Agreement or in protecting its interests in the Collateral, whether suit be brought or not.

6.5 All notices required or permitted under this Agreement or required by any statute or law, shall be deemed to have been given when personally delivered or mailed by registered or certified mail, postage prepaid, addressed to the party to whom given at its last known address. Until Debtor is notified in writing to the contrary by Secured Party, all notices mailed to Secured Party shall be sent to:

3. Said President is authorized by Tuscola & Saginaw Bay Railway Co., Inc. to execute this Security Agreement on behalf of Tuscola & Saginaw Bay Railway Co., Inc.

4. Further Deponent sayeth not.

x M.T.W

Subscribed and sworn to before
me on June 1, 1989.

Diana S. Williamson
Notary Public, ~~Tuscola~~ Tuscola County, MI.
My Commission Expires: 10-1-90
Diana S. Williamson

