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A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

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May 27, 1994

RECORDATION NO. **18825** FILED 1425

MAY 31 1994 - 11 05 AM

INTERSTATE COMMERCE COMMISSION

Sidney L. Stickland, Jr.  
Secretary  
Interstate Commerce Commission  
Washington, D.C. 20423

Dear Sir:

I have enclosed an original and one counterpart of the document described below, to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a Security Agreement - Locomotives, Rolling Stock, and Track Equipment, a primary document, dated as of May 27, 1994.

The names and addresses of the parties to the documents are as follows:

Debtor: Delaware Otsego Corporation  
One Railroad Avenue  
Cooperstown, New York 13326

Grantors: The New York Susquehanna and Western Railway Corporation  
One Railroad Avenue  
Cooperstown, New York 13326

Delaware Otsego Equipment Corporation  
One Railroad Avenue  
Cooperstown, New York 13326

Staten Island Railway Corporation  
One Railroad Avenue  
Cooperstown, New York 13326

ROC12:49034



Nixon, Hargrave, Devans & Doyle

- 2 -

Susquehanna Bulk Systems, Inc.  
One Railroad Avenue  
Cooperstown, New York 13326

Secured Party: Manufacturers and Traders Trust Company  
One Fountain Plaza  
Buffalo, New York 14203

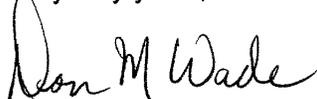
A general description of the equipment covered by the document is set forth in Schedule A attached hereto.

A fee of \$18.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to Don M. Wade, Nixon, Hargrave, Devans & Doyle, Clinton Square, P.O. Box 1051, Rochester, New York 14603.

A short summary of the documents to appear in the index follows:

The primary document is a Security Agreement - Locomotives, Rolling Stock, and Track Equipment among Delaware Otsego Corporation ("Debtor"), having its principal place of business at One Railroad Avenue, Cooperstown, New York 13326, The New York Susquehanna and Western Railway Corporation, Delaware Otsego Equipment Corporation, Staten Island Railway Corporation, Susquehanna Bulk Systems, Inc. (collectively "Grantors"), all having their principal places of business at One Railroad Avenue, Cooperstown, New York 13326 and Manufacturers and Traders Trust Company ("Secured Party"), having an office at One Fountain Plaza, Buffalo, New York 14203 and dated as of May 27, 1994. This document grants to Secured Party a security interest in all of the Locomotives, Rolling Stock and Track Equipment listed on Schedule A attached thereto.

Very truly yours,



Don M. Wade  
Attorney for Manufacturers and  
Traders Trust Company

DMW/saw  
Enclosure

ROC12:49034

**SCHEDULE A**

**LOCOMOTIVES, ROLLING STOCK, TRACK EQUIPMENT AND MOTOR VEHICLES**

**Locomotives and Rolling Stock**

**Delaware Otsego Corporation**

ID Number 505                      NYSW #505 Great Sacandaga Dome

**Delaware Otsego Equipment Corporation**

Road Number 3000                  ALCO Model C430 Built 1967

Road Number 3006                  ALCO Model C430 Built 1967

ID Number 507                      NYSW #507 Budd Dining Car

**The New York, Susquehanna and Western Railway Corporation**

Road Number 1800                  EMD Model GP18                  Built 1962

Road Number 1802                  EMD Model GP18                  Built 1962

Road Number 1804                  EMD Model GP18                  Built 1962

Road Number 2012                  EMD Model GP38                  Built 1967

Road Number 3636                  EMD Model F45                      Built 1970

ID Number 500                      NYSW #500 Gift Shop

ID Number 509                      NYSW #509 Dome Lounge Inspection

ID Number 510                      NYSW #510 O.Kuhler Business Car

ID Number 530                      NYSW #530 LIRR

ID Number 531                      NYSW #531 LIRR

ID Number 532                      NYSW #532 LIRR

ID Number 533                      NYSW #533 LIRR

ID Number M5                      RDC Budd Car                  M5

ID Number M6                      RDC Budd Car                  M6

ID Number M7                      RDC Budd Car                  M7

ID Number M8                      RDC Budd Car                  M8

ID Number 534                      NYSW #534 LIRR

ID Number 501                      NYSW #501 LIRR

ID Number 512                      NYSW #512 Sleeper Car

**Staten Island Railway Corporation**

Road Number 120                  EMD Model SW9                  Built 1953

**Track Equipment**

**Delaware Otsego Equipment Corporation**

Pettibone Speedswing - ID Number E1011

**Delaware Otsego Corporation**

1977 Scarifier - ID Number E1016

**Susquehanna Bulk Systems, Inc.**

1989 Diesel Transfer Machine - ID Number E1080

1989 Electric Transfer Machine - ID Number E1081

**New York, Susquehanna and Western Railway Corporation**

1981 Loram Tie Inserter - ID Number E1013  
1982 Portech Brush Cutter - ID Number E1014  
1982 Mark III Tamper - ID Number E1015  
1984 Stork - ID Number E1021  
1984 Ditch Witch - ID Number E1033  
1985 Pettibone Speedswing - ID Number E1036  
1986 Hydra Spiker B - ID Number E1041  
1986 Easy Lift #2 - ID Number E1043  
1986 Canron Production Tamper - ID Number E1048  
1986 RTW Tie Handler - ID Number E1051  
1987 Ballast Regulator - ID Number E1053  
1987 Ford 555 Backhoe - ID Number E1058  
1981 RTW Tie Crane - ID Number E1059  
1990 Mark III Tamper - ID Number E1096  
Tamper Regulator - ID Number E1097  
15 Ton Crane - ID Number E1098  
Lift Truck - ID Number E0906  
1981 Spike Puller - ID Number E0909  
1982 Spike Puller - ID Number E0910  
1980 Track Geometry Car (Ford) - ID Number M1237

**Interstate Commerce Commission**  
Washington, D.C. 20423

5/31/94

OFFICE OF THE SECRETARY

Don M. Wade  
Nixon, Hargrave Devans & Doyle  
1600 Main Place Tower  
Buffalo, New York 14202

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 5/31/94 at 11:05am, and assigned  
recording number(s). 18825 & 17053-0 Thru. 17053-W

Sincerely yours,

Secretary  
SIDNEY L. STRICKLAND, JR.

Enclosure(s)

SECURITY AGREEMENT - LOCOMOTIVES, ROLLING STOCK  
AND TRACK EQUIPMENT

RECORDATION NO. **18825** FILED 1425  
MAY 31 1994 -11 05 AM  
INTERSTATE COMMERCE COMMISSION

This Security Agreement is dated as of this 27th day of May, 1994 and is granted by DELAWARE OTSEGO CORPORATION, a New York corporation having its principal office at 1 Railroad Avenue, Cooperstown, New York 13326 (the "Debtor"), THE NEW YORK, SUSQUEHANNA AND WESTERN RAILWAY CORPORATION, a New Jersey corporation ("NYS&W"), DELAWARE OTSEGO EQUIPMENT CORPORATION, a New York corporation ("DOE"), SUSQUEHANNA BULK SYSTEMS, INC., a New Jersey corporation ("SBS") and STATEN ISLAND RAILWAY CORPORATION, a New York corporation ("SIRC") (NYS&W, DOE, SBS and SIRC are referred to collectively herein as, "Grantors") to MANUFACTURERS AND TRADERS TRUST COMPANY, a New York banking corporation having an office at One Fountain Plaza, Buffalo, New York 14203 (the "Secured Party").

Statement of the Premises

Debtor and Secured Party entered into a Credit Agreement dated April 29, 1994 (the "Original Credit Agreement") pursuant to which Secured Party agreed to make available to Debtor a Line of Credit in an amount up to Four Million Dollars (\$4,000,000)(the "Line of Credit"). Debtor and Secured Party are concurrently herewith amending and restating the Original Credit Agreement to provide for a Term Loan from Debtor to Secured Party in the amount of Six Million Five Hundred Thousand Dollars (\$6,500,000)(the "Term Loan") and to provide for additional collateral to secure the Line of Credit and the Term Loan (as amended from time to time, the "Credit Agreement"). The obligations of Debtor under the Credit Agreement are guaranteed by Susquehanna Properties, Inc., a New York corporation ("SPI"), Fonfulco, Inc., a New York corporation ("Fonfulco"), Lackawaxen and Stourbridge Railroad Corporation, a Pennsylvania corporation ("LASB"), Syracuse, Binghamton and New York Railroad Corporation, a New York corporation formerly known as Fonda, Johnstown and Gloversville Railroad Company ("SBNY"), NYS&W, Cooperstown and Charlotte Valley Railway Corporation, a New York corporation ("CACV"), Delta Warehousing Corporation, a New Jersey corporation ("DWC"), Central New York Railroad Corporation, a New York corporation ("CNY"), DOE, SBS, SIRC, Rahway Valley Company, Lessee, a New Jersey corporation ("RVC-L") and Rahway Valley Railroad Company, a New Jersey corporation ("RVRC") (SPI, Fonfulco, LASB, SBNY, NYS&W, CACV, DWC, CNY, DOE, SBS, SIRC, RVC-L and RVRC are referred to collectively herein as, "Guarantors") pursuant to certain Guarantees made by Guarantors to Secured Party (the "Guarantees").

It is a condition precedent to the effectiveness of the Credit Agreement that, among other things, Debtor and Grantors shall have executed and delivered this Agreement as security for the obligations of Debtor under the Credit Agreement and the obligations of Guarantors under the Guarantees.

Statement of Consideration

To induce Secured Party to enter into the Credit Agreement and in consideration for the Line of Credit and the Term Loan and any loans and extensions of credit which may now or hereafter be extended by Secured Party to Debtor which will benefit Grantors, Debtor and Grantors hereby grant this Security Agreement to Secured Party.

1. Definitions.

In addition to the terms defined above and the terms defined in Schedule A annexed hereto, the following terms shall have the following meanings for purposes of this Security Agreement (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Collateral" shall mean, collectively, all of the personal property of Debtor and Grantors described on Schedule A annexed hereto (which is made a part hereof).

"Event of Default" shall have the meaning given such term in the Credit Agreement.

"Financing Documents" shall have the meaning given such term in the Credit Agreement.

"ICC" shall mean the United States Interstate Commerce Commission.

"Permitted Liens" shall have the meaning given such term in the Credit Agreement.

"Secured Obligations" shall mean all debts, liabilities and obligations of Debtor and Guarantors to Secured Party of every nature, whether now existing or hereafter incurred at any time or times, absolute or contingent, secured or unsecured by any other grant of security, and any and all renewals or extensions thereof or of any portion thereof, including without limitation all principal, all interest, all prepayment premiums (if any), all late charges and all penalties and all expenses of collection or enforcement or attempted collection or enforcement thereof and of this Security

Agreement and of every other Financing Document, including all reasonable fees and disbursements of Secured Party's counsel in connection therewith, whether within or apart from any legal action or proceeding.

"UCC" shall mean the Uniform Commercial Code of the State of New York, as amended and in effect as of the date hereof.

2. Security Interest.

2.1 Debtor and Grantors each hereby grant to Secured Party a security interest in all of the Collateral owned by each of them as security for the payment of all Secured Obligations. Debtor and Grantors further agree that the Collateral secures the payment of any amounts received by Secured Party for payment of any of the Secured Obligations which are repaid by Secured Party or recovered from Secured Party in any bankruptcy or insolvency proceeding, whether by court order or any agreement, and the Collateral shall remain as security for such amounts to the same extent as if Secured Party had never received such amounts.

2.2 Debtor and Grantors irrevocably appoint Secured Party as their lawful attorney and agent to execute (i) any notices of lien or security interest or other documents necessary or advisable to be executed and/or filed with the ICC to protect Secured Party's first priority interest in the Collateral and any renewals, continuations or amendments thereof and (ii) any UCC-1 Financing Statements or UCC-3 Renewals, Continuations or Amendments, and on their behalf to file such documents signed by Secured Party alone in any appropriate public office including the office of the ICC.

2.3 This Security Agreement is in addition to and without limitation of any right of Secured Party under any of the Financing Documents or any other security agreement, mortgage or guaranty granted by Debtor, any Guarantor or any other person to Secured Party.

2.4 This Security Agreement is absolute and without any conditions. Secured Party can enforce its rights in the Collateral immediately upon an Event of Default without having first to attempt any collection from Debtor, any Grantor or any Guarantor.

2.5 Secured Party shall be subrogated to the rights of Debtor and Grantors under Debtor's and Grantors' Security.

3. Representation and Warranties.

Debtor and each Grantor represent and warrant that:

3.1 Basic Representations.

3.1.1 Debtor and each Grantor is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified to do business in each jurisdiction where the ownership of its property or the conduct of its business requires such qualification;

3.1.2 Debtor and each Grantor has the power to execute, deliver and perform this Security Agreement and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance;

3.1.3 The execution, delivery and performance of this Security Agreement do not violate or conflict with any law applicable to Debtor or any Grantor, any provision of their organizational documents, any order or judgment of any court or other agency of government applicable to them or any of their assets or any material contractual restriction binding on or materially affecting them or any of their assets;

3.1.4 All governmental and other consents that are required to have been obtained by Debtor or any Grantor with respect to this Security Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

3.1.5 This Security Agreement has been duly executed and delivered by Debtor and Grantors and constitutes their legal, valid and binding obligations, enforceable in accordance with its terms.

3.2 Debtor's and Grantors' exact legal names are correctly set forth at the beginning of this Security Agreement and, except as noted on Schedule B hereto, Debtor and Grantors conduct no business, whether directly or indirectly or through any subsidiary or division, under any name or trade name other than the names first recited above.

3.3 The office location(s) of Debtor and Grantors set forth on Schedule B hereto as Debtor's and Grantors' principal places of business and chief executive offices and all other places of business are true and correct.

3.4 Debtor and Grantors have good title to the items set forth below their respective names on Attachments 1 and 2 to Schedule A hereto and each such item is in good operating condition.

3.5 Except as noted on Schedule B hereto, Debtor and Grantors have granted no currently effective security interest in the Collateral to any person other than to Secured Party, and no financing statement, notice of lien, security agreement, mortgage or assignment in favor of any such other person as a secured party covering any of the Collateral or any proceeds thereof is on file in any public office, including the office of the ICC and the Collateral is free and clear of any charge or encumbrance, except pursuant to and under this Security Agreement.

3.6 All information with respect to the Collateral set forth in any schedule, certificate, or other writing at any time heretofore or hereafter furnished by or on behalf of Debtor or Grantors, and all other information heretofore or hereafter furnished by or on behalf of Debtor or Grantors to Secured Party, is and will be true, correct and complete in all material respects as of the date furnished and does not and will not omit any material fact necessary to make the statements not misleading.

3.7 Each item set forth on Attachments 1 and 2 to Schedule A hereto is a railroad car, locomotive or other item of rolling stock and is intended for a use related to interstate commerce.

4. Covenants and Agreements of Debtor and Grantors.

Debtor and Grantors covenant and agree that:

4.1 Secured Party may examine and inspect the Collateral on reasonable notice at any reasonable time during normal business hours and wherever located and, promptly upon Secured Party's request, Debtor or any Grantor will provide Secured Party with the current location of any one or more items of the Collateral.

4.2 Debtor and Grantors will from time to time upon demand furnish to Secured Party such further information and will execute, acknowledge and deliver to Secured Party such financing statements, including UCC financing statements, notices of liens, security agreements, mortgages and assignments and other papers, pay any costs of title searches, including UCC searches and searches in the office of

the ICC and filing fees, and will do all such other acts and things as Secured Party shall reasonably request to establish, perfect and maintain a valid security interest in the Collateral as security for the Secured Obligations.

4.3 Debtor and Grantors will defend the Collateral against all claims and demands of all other persons at any time claiming the same or an interest therein. Debtor and Grantors shall not encumber any Collateral to any person other than Secured Party except for Permitted Liens. Neither Debtor nor any Grantor shall sell, assign or transfer the Collateral owned by it on the date hereof or any right, title or interest therein.

4.4 If any action or proceeding shall be commenced, other than any action to collect the Secured Obligations, to which action or proceeding Secured Party is made a party and in which it becomes necessary to defend or uphold Secured Party's security interests hereunder, all costs incurred by Secured Party for the expenses of such litigation (including reasonable counsel fees and expenses) shall be deemed part of the Secured Obligations secured hereby, which Debtor and Grantors agree to pay or cause to be paid.

4.5 All records of the Collateral will be located at Debtor's principal place of business. Debtor or Grantors shall not change any location of any records pertaining to any Collateral unless Debtor gives Secured Party 14 days prior written notice.

4.6 Debtor and Grantors will have and maintain Insurance at their expense at all times in such amounts, in such form, containing such terms and written by such companies as may be reasonably satisfactory to Secured Party. All policies of Insurance shall be payable to Secured Party or Debtor or Grantor as their interests may appear and shall provide for thirty (30) days' written cancellation notice to Secured Party. Secured Party is authorized by Debtor and Grantors to act as their attorney in collecting, adjusting, settling or cancelling such Insurance and endorsing any drafts drawn by insurers. Secured Party may apply any proceeds of Insurance received by it to the Secured Obligations, whether due or not; provided, however, that Secured Party will hold such proceeds as a special deposit for use by Debtor or Grantors in replacing any damaged Collateral which gave rise to such proceeds, so long as Debtor or such Grantor is taking steps to replace such Collateral with due diligence and in good faith and so long as no Event of Default shall have occurred. Debtor and Grantors will immediately notify Secured Party of any damage to or loss of the Collateral in excess of \$50,000. Not later than the expiration date of each policy of Insurance then in effect, Debtor and Grantors shall deliver to Secured Party a certificate of insurance certifying as to (i) the extension of such policy or the issuance of a renewal policy therefor, describing the same in reasonable detail

satisfactory to Secured Party and (ii) the payment in full of the portion of the premium therefor then due and payable (or accompanied by other proof of such payment satisfactory to Secured Party). Debtor and Grantors shall be required forthwith to notify Secured Party (by telephone, confirmed in writing) if Debtor or any Grantor shall determine at any time not to, or at any time be unable to, extend or renew any such policy then in effect.

4.7 Debtor and Grantors will use the Collateral for business purposes and not in violation of any statute or ordinance.

4.8 Debtor and Grantors will pay promptly when due all taxes and assessments upon the Collateral or upon its use or sale ("Taxes"), except for any Taxes which are being contested in good faith and for which adequate reserves under GAAP have been established.

4.9 Debtor and Grantors will at all times keep accurate and complete records with respect to the Collateral and will deliver such information about the Collateral and such reconciliation reports and other financial information to Secured Party as Secured Party may at any time reasonably request. Secured Party, or any of its agents shall have the right to call at Debtor's and Grantor's place or places of business at reasonable intervals and upon reasonable notice to inspect, audit and otherwise check and make extracts from the books, records, journals, orders, receipts, correspondence and other data relating to any of the Collateral.

4.10 Upon the occurrence of an Event of Default, Debtor and Grantors agree to stamp all books and records (and/or enter a notation in its computer records) pertaining to the Collateral to evidence Secured Party's security interest therein in form satisfactory to Secured Party immediately upon Secured Party's written demand.

4.11 In the event that Debtor or any Grantor does not fulfill its obligations hereunder, at its option Secured Party may discharge taxes, liens or other encumbrances at any time levied against or placed on the Collateral which have not been stayed as to execution and contested with due diligence in appropriate legal proceedings, and Secured Party may pay for Insurance on the Collateral and may pay for maintenance and preservation of the Collateral. Debtor or any Grantor will, upon demand, remit to Secured Party forthwith:

- 4.11.1 The amount of any such taxes, assessments, Insurance or other expenses which Secured Party shall have been required or elected to pay; and
- 4.11.2 The amount of any and all out-of-pocket expenses which Secured Party may reasonably incur in connection with the exercise by Secured Party of any of the powers conferred upon it hereunder; and
- 4.11.3 Interest on any amounts expended under Subsections "4.11.1" and "4.11.2" of this Section 4.11 from the date of such expenditure to the date of repayment in full to Secured Party at a rate per annum equal to the Default Rate, as defined in the Credit Agreement.

4.12 Debtor and Grantors will notify Secured Party in writing at least thirty (30) days prior to changing its principal place of business or chief executive office, creating any corporate subsidiary or division, opening any new place of business or closing any existing place of business, or changing its name or conducting business under any name or tradename other than as warranted under Sections 3.2, and 3.3 hereof, in each case specifying the places or names involved.

5. Remedies Upon Events of Default.

5.1 Upon the occurrence of an Event of Default, Secured Party shall have all of the rights, powers and remedies set forth in the Financing Documents and this Security Agreement and the rights and remedies of a secured party under the UCC, including without limitation, the right to sell, lease or otherwise dispose of any or all of the Collateral, and to take possession of the Collateral, and for that purpose Secured Party may enter peaceably any premises on which the Collateral or any part thereof may be situated and remove the same therefrom and Debtor and Grantors will not resist or interfere with such action. Secured Party may require Debtor and Grantors to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties. Debtor and Grantors hereby agree that all places of location of the Collateral, as such places may change from day to day, are places reasonably convenient to it to assemble the Collateral. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will send Debtor and Grantors reasonable notice of the time and place of any public sale or reasonable notice of the time after which any private sale or any other disposition thereof is to be made. The requirement of sending reasonable notice shall be met if

such notice is mailed, postage prepaid, to Debtor and Grantors at least five (5) days before the time of the sale or disposition.

5.2 Upon demand by Secured Party after an Event of Default, Debtor and Grantors will immediately deliver to Secured Party all proceeds of Collateral, including without limitation all checks, drafts, cash and other remittances, notes, trade acceptances or other instruments or contracts for the payment of money, appropriately endorsed to Secured Party's order or, if requested by Secured Party, assigned to Secured Party, and, regardless of the form of such endorsement or assignment, Debtor and Grantors hereby waive presentment, demand, notice of dishonor, protest and notice of protest and all other notices with respect thereto; and Debtor and Grantors hereby appoint Secured Party as such Debtor's and Grantors' agent and attorney-in-fact to make such endorsement or assignment on behalf of and in the name of Debtor and Grantors. Pending such deposit, Debtor and Grantors agree that they will not commingle any such checks, drafts, cash and other remittances with any of Debtor's, Grantors' or any Guarantors' funds or property, but will hold them separate and apart therefrom and upon an express trust for Secured Party until delivery thereof is made to Secured Party.

5.3 Effective immediately upon the occurrence of an Event of Default, Debtor and Grantors hereby appoint Secured Party to be Debtor's and Grantors' true and lawful attorney, with full power of substitution, in Secured Party's name or Debtor's or Grantors' name or otherwise, for Secured Party's sole use and benefit, but at Debtor's and Grantors' cost and expense, to exercise at any time all or any of the following powers with respect to all or any of the Collateral:

- 5.3.1 to sell, transfer, assign or otherwise deal in or with the Collateral or the proceeds or avails of the Collateral, as fully and effectually as if Secured Parties were the absolute owner thereof.
- 5.3.2 to receive, take, endorse, assign and deliver any and all checks, notes, money orders, drafts and other negotiable and non-negotiable instruments taken or received by Secured Parties in connection therewith;
- 5.3.3 to sign Debtor's or any Grantor's name on notices of assignment, financing statements under the UCC, filings to be made with the ICC and other public records;

- 5.3.4 to file or record in any public office financing statements, a copy of this Agreement, notices of lending, notices of assignment, or any other public notice required to effect this Agreement;
- 5.3.5 to discharge taxes, liens or other encumbrances at any time levied against or placed thereon;
- 5.3.6 to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto;
- 5.3.7 to extend the time of payment of any or all thereof, to make any allowances and other adjustments with reference thereto;
- 5.3.8 to operate, drive and move the Collateral on and over properties owned or leased by Debtor or any Grantor or upon which Debtor or any Grantor has rights to operate; and
- 5.3.9 do all other things Secured Party deems reasonably necessary or desirable to carry out the purposes of this Agreement.

5.4 After deducting all expenses reasonably incurred by Secured Party in protecting or enforcing its rights in the Collateral, the residue of any proceeds of collection or sale of the Collateral shall be applied to the payment of principal, interest or other charges comprising the Secured Obligations in such order as Secured Party may determine, and any excess shall be returned to Debtor and Grantors. Until so applied, Secured Party shall retain such proceeds in a special, non-interest bearing account maintained by Secured Party and over which Secured Party alone shall have the power of withdrawal. All surplus shall be remitted to Debtor and Grantors, and Debtor and Grantors shall remain liable for any deficiency.

5.5 Secured Party may exercise its rights with respect to Collateral without resorting to or regard to other collateral or sources of reimbursement for the Secured Obligations.

5.6 The exercise by Secured Party of or failure to so exercise any authority granted under this Security Agreement shall in no manner affect any liability of Debtor, Grantors or Guarantors to Secured Party, and provided, further, that Secured Party shall be under no obligation or duty to exercise any of the powers hereby conferred upon it and it shall be without liability for any act or failure to act in connection with the collection of, or the preservation of any rights under any of the Collateral, except gross negligence or intentional misconduct.

6. Waivers.

6.1 Secured Party shall have no duty as to the collection or protection of Collateral not in Secured Party's possession, and Secured Party's duty with reference to Collateral in its possession shall be to use reasonable care in the custody and preservation of such Collateral, but such duty shall not require Secured Party to do any of the following (although Secured Party is authorized to reasonably undertake any such action if Secured Party deems such action appropriate):

6.1.1 protect any of the Collateral against the claims of others;

6.1.2 notify Debtor or Grantors of any maturities or other similar matters concerning the Collateral;

6.1.3 act upon any request Debtor or any Grantor may make; or

6.1.4 preserve or protect Debtor's or Grantors' rights in the Collateral.

6.2 With respect both to Secured Obligations and Collateral, Debtor and Grantors assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payments thereon and the settlement, compromising or adjusting of any thereof, all in such time or times as Secured Party may deem advisable.

6.3 If any Debtor or Grantor is an "insider", as such term is defined in Section 101 of the Federal Bankruptcy Code, of Debtor or any other Grantor, such Debtor or Grantor hereby irrevocably waives any and all rights to which it may be entitled, by operation of law, in equity or otherwise, to subrogation, reimbursement, indemnity and any and all similar rights and claims against Debtor and Grantors or their property which arise out of, under, or in connection with this agreement or any Financing Documents which would, if not waived, render such Debtor or Grantor a "creditor" of Debtor or any Grantor, as such term is defined in Section 101 of the Federal Bankruptcy Code.

6.4 Debtor and each Grantor waive all rules of suretyship law and any other law whatsoever which is legally permitted to be waived and which would, if not waived, impair Secured Party's enforcement of its security interests hereunder. By way of example, but not in limitation of Secured Party's rights under this Security Agreement, Secured Party may do any of the following without notice to Debtor or

any Grantor, except to the extent that notice to Debtor or such Grantor is required under another Financing Document or in each case in which the agreement of Debtor or such Grantor is required because Debtor or such Grantor is a principal party to a Secured Obligation and, as a matter of contract, the agreement of such Debtor or Grantor is required:

6.4.1 change, renew or extend the time for repayment of all or any part of the Secured Obligations;

6.4.2 change the rate of interest or any other provisions with respect to all or any part of the Secured Obligations;

6.4.3 release, surrender, sell or otherwise dispose of any money or property which is in Secured Party's possession as collateral security for the Secured Obligations;

6.4.4 fail to perfect a security interest in any property which is pledged or mortgaged as security for payment of the Secured Obligations;

6.4.5 release or discharge any party liable to Secured Party in whole or in part for the Secured Obligations, or accept any additional parties or guarantors;

6.4.6 delay or refrain from exercising any of Secured Party's rights;

6.4.7 settle or compromise any and all claims pertaining to the Secured Obligations and the Collateral; and

6.4.8 apply any money or property of Debtor, any Grantor or any Guarantor or that of any other party liable to Secured Party for any part of the Secured Obligations in any order it chooses.

7. Address for Notices and Service of Process.

All notices, requests and demands or other communications to or upon Debtor, any Grantor or Secured Party shall be effective if made in writing and shall be deemed to be delivered (A) upon receipt (i) if delivered by hand or by Federal Express or other national overnight courier, or (ii) if sent by telegraph, or (B) when sent, answerback or similar automatic confirmation received, in the case of notice by telex or telecopier (fax), or (C) five (5) days after deposited in the mail if sent by certified mail, return receipt requested, in each such case to the following address of Debtor, Grantors or Secured Party or to such other address of Debtor, Grantors or

Secured Party as may be hereafter notified by Debtor, Grantors or Secured Party to the other:

if to Debtor or any Grantor:

1 Railroad Avenue  
Cooperstown, New York 13326  
Attention: William B. Blatter  
Chief Financial Officer  
Telecopy: (607) 547-9834

if to Secured Party:

One Fountain Plaza  
Buffalo, New York 14203  
Attention: WNY Commercial Banking Department  
Geoffrey R. Fenn  
Vice President  
Telecopier: (716) 848-7318

8. Costs of Collection and Legal Fees.

Debtor and each Grantor shall be liable to Secured Party and shall pay to Secured Party immediately on demand as part of their liability under this Security Agreement all reasonable costs and expenses of Secured Party, including all reasonable fees and disbursements of Secured Party's counsel incurred in the collection or enforcement or attempted collection or attempted enforcement of Secured Party's rights under this Security Agreement, whether within or apart from any legal action or proceeding. Secured Party acknowledges that the purpose of this Section 8 is to make certain of the existence of Debtor's and Grantors' obligation to pay such costs and expenses and that such obligation is not incurred more than once by reason of its inclusion as a Secured Obligation hereunder.

9. No Waiver of Remedies.

No failure to exercise and no delay in exercising, on the part of Secured Party, any right, remedy, power or privilege under this Security Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under this Security Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided under this Security Agreement are

cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10. New York Law.

Pursuant to Section 5-1401 of the New York General Obligations Law, the whole of this Security Agreement and the rights and obligations of Debtor and Secured Party hereunder shall be governed, construed and interpreted in accordance with, the laws of the State of New York without regard to any conflicts-of-laws rules which would require the application of the laws of any other jurisdiction.

11. Entire Agreement; Modifications.

This Security Agreement together with the Financing Documents contains the entire agreement between Secured Party, Debtor and Grantors with respect to all subject matters contained therein. This Security Agreement cannot be amended, modified or changed in any way except by a written instrument executed by Secured Party, Debtor and Grantors.

12. Assignment; Successors and Assigns.

This Security Agreement may not be assigned or transferred in any way by Debtor or any Grantor without the prior written consent of Secured Party. The covenants, representations, warranties and agreements herein set forth shall be binding upon Debtor and Grantors, their legal representatives, successors and permitted assigns and shall inure to the benefit of Secured Party, its successors and assigns. Any successor or assign of Secured Party shall forthwith become vested with and entitled to exercise all the powers and rights given by this Security Agreement to Secured Party, as if such successor or assign were originally named as the secured party herein.

13. Severability.

The unenforceability or invalidity of any provision or provisions of this Security Agreement or any of the other Financing Documents shall not render any other provision or provisions herein or therein contained unenforceable or invalid.

14. Actions and Proceedings.

IN THE EVENT OF ANY ACTION OR PROCEEDING WITH RESPECT TO ANY MATTER PERTAINING TO THIS SECURITY AGREEMENT, DEBTOR, GRANTORS AND SECURED PARTY HEREBY WAIVE THE RIGHT TO A TRIAL BY JURY. DEBTOR AND GRANTORS HEREBY IRREVOCABLY CONSENT TO THE NONEXCLUSIVE JURISDICTION AND VENUE OF THE COURTS OF THE STATE OF NEW YORK, OF ANY FEDERAL COURT, IN EITHER CASE LOCATED IN ERIE COUNTY, NEW YORK OR IN ANY COURT IN WHICH SECURED PARTY SHALL INITIATE SUCH ACTION, TO THE EXTENT SUCH COURT HAS JURISDICTION, IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE FINANCING DOCUMENTS. DEBTOR AND GRANTORS HEREBY WAIVE PERSONAL SERVICE OF ANY PROCESS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING AND AGREE THAT THE SERVICE THEREOF MAY BE MADE BY CERTIFIED OR REGISTERED MAIL DIRECTED TO DEBTOR AND GRANTORS AT THEIR ADDRESS SET FORTH IN SECTION 7 HEREIN.

15. Venue.

Debtor and each Grantor hereby expressly waive any claim that Buffalo, New York or the Western District of New York is an inconvenient forum or an improper forum based on lack of venue.

16. Counterparts.

This Security Agreement may be executed in one or more counterparts, each of which shall be an original and all of which together shall constitute one and the same document.

IN WITNESS WHEREOF, Debtor and Grantors have each caused this Security Agreement to be executed by their respective duly authorized officers or representatives as of the date and year first above written.

DELAWARE OTSEGO CORPORATION

By   
William B. Blatter  
Senior Vice President

THE NEW YORK, SUSQUEHANNA AND WESTERN  
RAILWAY CORPORATION

By   
William B. Blatter  
Senior Vice President

DELAWARE OTSEGO EQUIPMENT CORPORATION

By   
William B. Blatter  
Senior Vice President

STATEN ISLAND RAILWAY CORPORATION

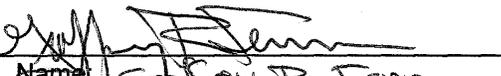
By   
William B. Blatter  
Senior Vice President

SUSQUEHANNA BULK SYSTEMS, INC.

By   
William B. Blatter  
Senior Vice President

Accepted as of the date and year first  
above written:

MANUFACTURERS AND TRADERS TRUST COMPANY

By   
Name: Geoffrey R. Fenn  
Title: Vice President

STATE OF NEW YORK     )  
                                  ) SS.  
COUNTY OF ERIE

On the 27 day of May, 1994, before me personally appeared William B. Blatter to me known, who, being by me duly sworn did depose and say that he resides at New Hartford, NY; that he is the Senior Vice President of Delaware Otsego Corporation, The New York, Susquehanna and Western Railway Corporation, Delaware Otsego Equipment Corporation, Staten Island Railway Corporation and Susquehanna Bulk Systems, Inc., the corporations described in and which executed the above instrument; and that he signed his name thereto by order of the board of directors of each said corporation.

  
\_\_\_\_\_  
Notary Public

NATHAN P. PENNO  
Notary Public, State of New York  
Erie County, No. 4706561  
My Term Expires 3/30/95

SCHEDULE A  
to Security Agreement - Locomotives, Rolling Stock and Track Equipment  
granted by  
DELAWARE OTSEGO CORPORATION  
as "Debtor" and certain other corporations as "Grantors"  
to MANUFACTURERS AND TRADERS TRUST COMPANY  
as "Secured Party"

- (i) All locomotives and railroad rolling stock listed on Attachment 1 hereto wherever located, together with any and all substitutions, parts, fittings, additions, attachments, accessories, special tools, accessions or replacements, and together with all insurance, including liability insurance, and licenses necessary or desirable to operate the same, and all proceeds and general intangibles arising from any of the foregoing (including all warranties and indemnities pertaining thereto, the "Locomotives and Rolling Stock")
- (ii) All items of track equipment listed on Attachment 2 hereto wherever located, together with any and all substitutions, parts, fittings, additions, attachments, accessories, special tools, accessions or replacements, and together with all insurance, including liability insurance, and licenses necessary or desirable to operate the same, and all proceeds and general intangibles arising from any of the foregoing (including all warranties and indemnities pertaining thereto, the "Track Equipment")
- (iii) All documents or certificates of title covering any Locomotives and Rolling Stock or Track Equipment wherever located, now owned or hereafter acquired, and all proceeds and general intangibles arising therefrom (the "Documents").
- (iv) All insurance covering the Locomotives and Rolling Stock or Track Equipment against risks of fire, flood, theft, loss or any other physical damage against any risk of any damage or loss whatsoever, now owned or hereafter acquired, and all proceeds and general intangibles arising therefrom (the "Insurance").
- (v) All of Debtor's and Grantors' right, title and interest in all of their books, records, ledger sheets, files and other data and documents, including records in any form (digital or other) and recorded in or through any medium (magnetic, lasergraphic or other) and all machinery and processes (including computer programming instructions) required to read and print such records, now or hereafter existing relating to all types of personal property described in this Schedule A (the "Records").
- (vi) All guarantees, mortgages or security interests on real or personal property, leases or other agreements or property now or hereafter securing or relating to any of the items referred to above in favor of Debtor or any Grantor, or now or hereafter acquired for the purpose of securing and enforcing any of such items in favor of Debtor or any Grantor, and all proceeds and general intangibles arising from any of the foregoing (the "Debtor's and Grantors' Security").

Attachment 1 to Schedule A

Delaware Otsego Corporation

ID Number 505                    NYSW #505 Great Sacandaga Dome

Delaware Otsego Equipment Corporation

Road Number 3000            ALCO Model C430            Built 1967  
Road Number 3006            ALCO Model C430            Built 1967

ID Number 507                    NYSW #507 Budd Dining Car

The New York, Susquehanna and Western Railway Corporation

Road Number 1800            EMD Model GP18            Built 1962  
Road Number 1802            EMD Model GP18            Built 1962  
Road Number 1804            EMD Model GP18            Built 1962

Road Number 2012            EMD Model GP38            Built 1967  
Road Number 3636            EMD Model F45            Built 1970

ID Number 500                    NYSW #500 Gift Shop  
ID Number 509                    NYSW #509 Dome Lounge Inspection  
ID Number 510                    NYSW #510 O.Kuhler Business Car  
ID Number 530                    NYSW #530 LIRR  
ID Number 531                    NYSW #531 LIRR  
ID Number 532                    NYSW #532 LIRR  
ID Number 533                    NYSW #533 LIRR  
ID Number M5                    RDC Budd Car            M5  
ID Number M6                    RDC Budd Car            M6  
ID Number M7                    RDC Budd Car            M7  
ID Number M8                    RDC Budd Car            M8  
ID Number 534                    NYSW #534 LIRR  
ID Number 501                    NYSW #501 LIRR  
ID Number 512                    NYSW #512 Sleeper Car

Staten Island Railway Corporation

Road Number 120            EMD Model SW9            Built 1953

Attachment 2 to Schedule A

Delaware Otsego Equipment Corporation

Pettibone Speedswing - ID Number E1011

Delaware Otsego Corporation

1977 Scarifier - ID Number E1016

Susquehanna Bulk Systems, Inc.

1989 Diesel Transfer Machine - ID Number E1080

1989 Electric Transfer Machine - ID Number E1081

The New York, Susquehanna and Western Railway Corporation

1981 Loram Tie Insertter - ID Number E1013

1982 Portech Brush Cutter - ID Number E1014

1982 Mark III Tamper - ID Number E1015

1984 Stork - ID Number E1021

1984 Ditch Witch - ID Number E1033

1985 Pettibone Speedswing - ID Number E1036

1986 Hydra Spiker B - ID Number E1041

1986 Easy Lift #2 - ID Number E1043

1986 Canron Production Tamper - ID Number E1048

1986 RTW Tie Handler - ID Number E1051

1987 Ballast Regulator - ID Number E1053

1987 Ford 555 Backhoe - ID Number E1058

1981 RTW Tie Crane - ID Number E1059

1990 Mark III Tamper - ID Number E1096

Tamper Regulator - ID Number E1097

15 Ton Crane - ID Number E1098

Lift Truck - ID Number E0906

1981 Spike Puller - ID Number E0909

1982 Spike Puller - ID Number E0910

1980 Track Geometry Car (Ford) - ID Number M1237

SCHEDULE B  
to  
Security Agreement  
granted by  
DELAWARE OTSEGO CORPORATION ("Debtor")  
and certain other corporations ("Grantors") to  
MANUFACTURERS AND TRADERS TRUST COMPANY ("Secured Party")

All names, if any, other than the name of "Debtor" and "Grantors" set forth above, under which Debtor or any Grantor conduct business (§ 3.2) (if none, insert "None"):

None

Principal place of business of Debtor and Grantors (§ 3.3):

1 Railroad Avenue  
Cooperstown, New York 14226

The chief executive office of Debtor and Grantors if different from the principal place of business (§ 3.3) (if the same, insert "Same"):

Same

All other places of business of Debtor and Grantors (§ 3.3) (if none, insert "None"):

Schedule 4.12 of the Credit Agreement is, by this reference, incorporated herein in its entirety.

All existing security interests in the Collateral, if any, other than security interest created in Secured Party's favor (§ 3.5):

Security Interest granted to General Electric Credit Corp. in 1993 Fairmont Tamper Tie Exchanger/Inserter to secure indebtedness in the principal amount of \$127,000 on 3/31/94.

Security Interest granted to General Electric Credit Corp. in 1993 Ford Tractor - Loader Backhoe to secure indebtedness in the principal amount of \$127,000 on 3/31/94.