

0100829043

CONNELL FINANCE COMPANY, INC.

A SUBSIDIARY OF THE CONNELL COMPANY

45 CARDINAL DRIVE

WESTFIELD, N. J. 07090-1099 U.S.A.

TELEPHONE
(908) 233-0700

TELEFAX (908) 233-1070

TELEX 219258

October 26, 1995

Vernon A. Williams
Secretary of the Interstate Commerce Commission
Interstate Commerce Commission
12th Street and Constitution Avenue
Washington, D.C. 20423

RECORDED NO. 19610-A
FILED 1425
OCT 26 1995 - 12 25 PM
INTERSTATE COMMERCE COMMISSION
LICENSING BRANCH
RECEIVED
OFFICE OF THE
SECRETARY
OCT 26 12 21 PM '95

Dear Mr. Williams:

I have enclosed one original and two counterparts of the primary document described below, to be recorded pursuant to Section 11303 of Title 49 of the United States Code.

The enclosed document is a Security Agreement, a primary document, dated as of October 20, 1995 (the "Security Agreement"), between Connell Finance Company, Inc., as Debtor (the "Debtor") and State Farm Life Insurance Company, as Secured Party (the "Secured Party"). The enclosed document has been redacted with respect to certain confidential information.

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

- Debtor:** Connell Finance Company, Inc.
45 Cardinal Drive
Westfield, New Jersey 07090-1099
- Secured Party:** State Farm Life Insurance Company
One State Farm Plaza
Bloomington, Illinois 61710

The Security Agreement grants a security interest in favor of Secured Party in certain of Debtor's right, title and interest in the equipment described below and in the lease of such equipment to Sierra Pacific Power Company and Idaho Power Company, collectively as Lessee (the "Lessee"). A Memorandum of Lease dated as of September 14, 1995 between Debtor and Lessee summarizing such lease was filed with the Interstate Commerce Commission on September 21, 1995 and assigned recordation number 19610.

Sharon J. Williams
2 counterparts

A description of the equipment covered by the Security Agreement follows:

Ninety two (92) bottom-dump aluminum coal cars, constructed by Thrall Car Manufacturing Company, bearing identification numbers VALX 95095 through VALX 95186, both inclusive.

A check in the amount of \$21.00 is enclosed to cover the fee for filing the Security Agreement. Please return the counterpart of the Security Agreement and the extra copy of this letter, time and date stamped as to filing and return any extra copies of the Security Agreement or this letter not needed by the Commission for recordation to the representative of Morgan, Lewis & Bockius who has delivered the enclosed and has been instructed by us to receive such filed copies.

A short summary of the document follows:

1. A Security Agreement dated as of October 20, 1995, between Connell Finance Company, Inc., 45 Cardinal Drive Westfield, New Jersey 07090-1099, as Debtor, and State Farm Life Insurance Company, One State Farm Plaza, Bloomington, Illinois 61710, as Secured Party, covering certain of Debtor's right, title and interest in 92 Thrall Car Manufacturing Company bottom-dump aluminum coal cars and the lease of such coal cars to Sierra Pacific Power Company and Idaho Power Company, collectively as Lessee.

If you have any questions please do not hesitate to call the undersigned.

Sincerely,

CONNELL FINANCE COMPANY, INC.



Richard E. Bartok
Assistant General Counsel

Enc.

RECORDATION NO. 19680-A
FILED 1425

OCT 20 1995 - 12 25 PM

INDIAN STATE COMMERCE COMMISSION

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this *Security Agreement*) is made as of October 20, 1995 between Connell Finance Company, Inc., a New Jersey corporation, with offices at 45 Cardinal Drive, Westfield, New Jersey 07090-1099 (*Debtor*) and State Farm Life Insurance Company, an Illinois corporation, with its principal place of business at One State Farm Plaza, Bloomington, Illinois 61710 (*Lender*).

RECITALS

- A. Debtor, as Lessor, has entered into a Equipment Lease Agreement (the *Equipment Lease Agreement*) dated as of September 14, 1995 with Sierra Pacific Power Company, a Nevada corporation with its principal place of business located at 6100 Neil Road, Reno, Nevada 89520-3150 (Sierra) and Idaho Power Company, an Idaho corporation with its principal place of business located at 1221 West Idaho Street, Boise, Idaho 83702 (*Idaho Power*), each individually as a co-lessee and collectively as lessee (Sierra and Idaho Power are referred to herein collectively as the *Lessee*). Annexed to the Equipment Lease Agreement and incorporated therein is Lease Supplement No. 1 dated as of September 14, 1995 (*Supplement One*; Supplement One and the Equipment Lease Agreement are collectively referred to herein as the *Lease*). Pursuant to the Lease, a certain 92 coal cars, as designated in Supplement One and described on Exhibit B annexed hereto (the *Equipment*) have been leased by the Debtor to the Lessee.
- B. Lender intends to make a loan to Debtor in the aggregate original principal amount of \$ _____ and, as evidence of such loan, Debtor intends to issue its _____ % Secured Note Due September 14, 2015 (the *Note*), which shall be substantially in the form annexed hereto as Exhibit A to Lender, the due and punctual payment of which is to be secured by this Security Agreement;
- C. Debtor intends to use the proceeds of such loan to refinance the Equipment. Capitalized terms used in this Security Agreement and not otherwise defined herein shall have the meanings set out in Exhibit B annexed hereto.

NOW THEREFORE, in consideration of the mutual covenants contained herein, and in order to secure the payment of the principal and interest and all other sums due under the Note, Lender and Debtor hereby agree as follows:

SECTION 1. ISSUANCE AND SALE OF THE NOTE.

- 1.1 Purchase by Lender. Debtor agrees to sell to Lender and, subject to fulfillment of the conditions specified in this Section 1, Lender shall purchase from Debtor on the Closing Date the Note in the aggregate original principal amount of \$ _____ (the *Purchase Price*) and payable to the order of Lender or the order of such nominee of Lender as Lender may specify by written notice delivered to Debtor.

- 1.2. **Closing.** Closing shall take place on the Closing Date at Chapman and Cutler, 111 W. Monroe Street, Chicago, Illinois. On the Closing Date, Lender shall pay to Debtor the Purchase Price of the Note in immediately available funds. Upon receipt of such amount, Debtor shall deliver to Lender the Note. Debtor shall give Lender at least three business days prior notice of the scheduled Closing Date.
- 1.3. **Conditions Precedent to Purchase of Note: Closing Date.** The obligation of Lender to purchase the Note hereunder on the Closing Date shall be subject to fulfillment of the following conditions on or prior to the Closing Date to the satisfaction of Lender:
- (a) A fully executed original of this Security Agreement, true copies of the executed Lease (marked to show its assignment to Lender) and the "original" Lease counterpart delivered for chattel paper purposes and an executed original of the Lessee Consent and Assignment Letter shall have been delivered to Lender.
 - (b) The Memorandum of Lease and this Security Agreement shall have been duly filed and recorded in conformity with 49 USC Section 11303 of the Interstate Commerce Act and in such other place or places within the United States as may be necessary for the protection of the title of Debtor, as lessor of, and the security interest of Lender in, the Equipment. Evidence of such filings and recordings shall be provided to Lender by Lessor on the Closing Date. This Security Agreement as filed shall be redacted so as to eliminate the amounts of the Note rates.
 - (c) Lender shall have received certificates of such insurance, if any, as Lessee is required to maintain pursuant to Section 14 of the Lease.
 - (d) Lender shall have received a Secretary's Certificate certifying copies of (a) the appropriate corporate proceedings of the board of directors of Debtor with respect to the authorization of this Security Agreement and the Note, (b) the Debtor's Certificate of Incorporation and (c) the Debtor's By-Laws. Such certificate shall be dated the Closing Date.
 - (e) The representations and warranties of Debtor contained herein shall be true and correct on and as of the Closing Date; on the Closing Date there shall be no default hereunder or by Debtor under the Lease or, to the best of Debtor's knowledge, by Lessee under the Lease, or, to the best of Debtor's knowledge, the occurrence of any event which, but for the lapse of time or the giving of notice or both, would be such a default; and Lender shall have received on the Closing Date from Debtor a certificate to such effect respecting the representations, warranties and nondefault, dated the Closing Date and signed by a duly authorized representative of Debtor.
 - (f) Lender shall have received signed opinions, dated the Closing Date, from counsel to Debtor and counsel to Lessee, each in the form of Exhibit D and Exhibit E respectively, annexed hereto.
 - (g) Lender shall have received a certificate, dated the Closing Date, of Debtor showing the incumbency and the specimen signatures of the officers of Debtor who will execute this Security Agreement and the Note.

- (h) Lender shall have received the fully executed Note to be purchased by Lender.
- (i) Lender shall have received a copy of the bill of sale from the seller of each item of Equipment to Debtor evidencing the transfer of title thereto to Debtor.
- (j) Lender shall have received true copies of an executed Certificate of Acceptance with respect to each item of Equipment.
- (k) Rent and Stipulated Loss Values, as indicated on the schedules thereof, shall at all times be equal to, or greater than, payments of principal and interest due on the Note.
- (l) Lender shall have received such Uniform Commercial Code financing statements, executed by Debtor, as debtor, and Lender, as secured party, as are necessary to perfect all of the security interests created hereunder and precautionary Uniform Commercial Code financing statements executed by Lessee, as debtor, Debtor, as secured party, and Lender, as assignee of the secured party, as are necessary to perfect all of the security interests of Lender as assignee of Debtor in the Equipment.
- (m) No change shall have occurred after the date of the execution and delivery of this Security Agreement in applicable law or in the interpretation thereof by regulatory authorities that, in the opinion of Debtor or Lender or their counsel, would make it illegal for Debtor or Lender to enter into any transaction contemplated by the Operative Agreements. The Note shall on such Closing Date qualify as a legal investment for Lender under any laws regulating investments to which Lender shall be subject (without recourse to provisions in any such law permitting limited investments without restriction as to the character of the particular investment).

SECTION 2. GRANT OF SECURITY INTEREST.

- 2.1. As security for the payment and performance of obligations of the Debtor under the Note and this Security Agreement, Debtor hereby gives, grants and assigns to Lender and its successor and assigns a security interest in and lien on , which shall constitute a lien which outranks in priority any lien which can be perfected by filing or notice, all of Debtor's estate, right, title and interest in the following described property (but excluding in all cases Excluded Payments, as hereinafter defined, and the rights to enforce and collect the same, and subject to the rights of Debtor under Section 6 hereof) now owned by Debtor or to be purchased by Debtor with the proceeds of the Note (hereinafter called the *Collateral*):
- (a) The Lease and all rights, title and interest of Debtor as lessor thereunder, including, without limitation, the right to receive notices and give consents under the Lease, and all Rent due or to become due under the Lease; all rights, claims and causes of action, if any, which Debtor may have thereunder or under statute or at law or in equity; all bills of sale, invoices and other documents (and all right, title and interest of Debtor thereunder) delivered by the manufacturer or seller with respect to any item or items of Equipment, including (without

limitation) any documents transferring any interest in any warranty, together with, in each and every case, all proceeds thereof.

- (b) The Equipment including all additions, accessions, replacements and substitutions therefor, and all proceeds thereof and therefrom, including all sums realized upon the sale or other disposition of the Equipment, and all sums (including insurance proceeds) payable in connection with any loss, damage or destruction of an item or items of Equipment.

- 2.2. Limitations to Security Interest. So long as Lessee is not in default of any of its obligations under the Lease, the interest of Lender in the Lease and the Equipment shall be subject and subordinate to Lessee's leasehold estate in the Equipment and Lender shall not disturb Lessee's quiet use and possession of the Equipment.

The following is expressly excepted from the security interest granted hereunder and the operation of the Security Agreement, and Lender shall promptly pay over to the Debtor, and Debtor may receive and retain, the following (collectively, *Excluded Payments*): (i) any payments made by Lessee which are due Debtor for the sole benefit of Debtor pursuant to Sections 15, 18 and 31 of the Lease, (ii) any proceeds payable to Debtor under any liability insurance policy carried by Lessee payable as a result of insurance claims made or losses suffered by Debtor, (iii) proceeds of any insurance carried by or through Debtor pursuant to the last sentence of Section 14(d) of the Lease, (iv) so long as no Event of Default shall have occurred and be continuing, repayments of advances made by Debtor pursuant to Section 16 of the Lease, (v) so long as no Event of Default shall have occurred and be continuing, all amounts of interest or late charges due and payable with respect to the Excluded Payments and (vi) any right to demand, collect or otherwise receive and enforce the payment (by action at law or in equity) of any of the foregoing.

- 2.3. Duration of Security Interest. The Lender, its successors and assigns shall have and hold the Collateral forever; provided, always, however, that such security interest is granted upon the express condition that if the Debtor shall pay all the indebtedness hereby secured, then these presents and the estate hereby granted and conveyed shall cease and this Security Agreement shall become null and void, otherwise to remain in full force and effect.

SECTION 3. REPRESENTATIONS AND WARRANTIES.

- 3.1. Representations and Warranties of Debtor. Debtor hereby represents and warrants as follows:

- (a) Debtor is a New Jersey corporation duly organized, validly existing and in good standing, and has the corporate power to enter into and perform its obligations under the Security Agreement, the Note, the Lease and the Memorandum of Lease.
- (b) This Security Agreement, the Lease, the Memorandum of Lease, and the Note have been duly authorized, executed and delivered by Debtor, and each constitutes a legal, valid and binding agreement and obligation of Debtor, enforceable against Debtor in accordance with its terms, and the Lease, and Lessee's Consent and Assignment Letter acknowledging the assignment made

hereby constitute the entire agreement between Debtor and Lessee pertaining to the leasing of Equipment by Debtor to Lessee.

- (c) The execution and delivery of the Note, this Security Agreement, the Lease and the Memorandum of Lease, the consummation of the transactions contemplated herein or in the Lease and the fulfillment of and compliance with the terms and provisions hereof do not and will not conflict with or result in a breach of any of the terms, conditions or provisions of Debtor's Certificate of Incorporation or By-laws or of any bond, debenture, note, mortgage, indenture, agreement or other instrument to which Debtor is a party or by which it or its property may be bound, and will not constitute (with the giving of notice or the passage of time or both) a default thereunder, or result in the creation of imposition of any lien, charge, security interest or other encumbrance of any nature whatsoever upon the Collateral pursuant to the terms of any such agreement or instrument.
- (d) Debtor has such title to and ownership of the Equipment as was conveyed to it by the vendor thereof, if any, or owner thereof, free and clear of all security interests, liens and encumbrances created by Debtor, except for the respective interests of Lender hereunder and Lessee under the Lease (including such as are required to be discharged by Lessee pursuant to the Lease) and no other assignment or security interest other than as contemplated hereby has been granted by Debtor generally or specifically with respect to the Collateral. Subject to the interest of the Lessee under the Lease, and assuming due authorization and execution of the Security Agreement by Lender, and upon filing of this Security Agreement pursuant to Section 1.3(b) hereof, Lender shall have a first priority security interest in the Collateral.
- (e) To the best of Debtor's knowledge, no Event of Default under the Lease has occurred or event which, with the passing of time or the giving of notice, or both, would constitute such an Event of Default.
- (f) Debtor has made its investment in the Equipment and has not acquired its interest in the Lease directly or indirectly with the assets of or in connection with any arrangements or understanding by it in any way involving any employee benefit plan (or its related trust) all within the meaning of the Employee Retirement Income Security Act of 1974.
- (g) Neither Debtor nor any other person acting on behalf of Debtor has directly or indirectly offered the Note or any similar securities for sale to or solicited officers to buy any therefrom, or otherwise approached or negotiated with respect thereto with, other than Lender and not more than six other institutional investors, each of whom was offered a portion of the Notes at a private sale for investment. Neither Debtor nor any person acting on behalf of Debtor has directly or indirectly offered or will solicit an offer to acquire the Notes or any similar security or has solicited or will solicit an offer to acquire the Notes or any similar security from any person in any manner so as to bring the issuance and sale of the Notes within the provisions of Sections 5 of the Securities Act of 1933, as amended.
- (h) No Rent Payment adjustments have been made pursuant to Section 33 of the Lease or otherwise, and Debtor shall not make any Rent Payment adjustments after the Closing Date without the prior written consent of Lender.

- 4.1. All payments due Lender to be made by Lessee under the Lease and by Debtor hereunder shall be made on the payment date by bank wire transfer or intra-bank transfer of Federal or other immediately available funds (identifying each payment as Sierra Pacific/Idaho Power Lease Financing; % Secured Notes due September 14, 2015,) to: Bank of New York (ABA # 021000018) IOC 111063, for credit to State Farm Life Insurance Company, Account Number 342924, with confirmations to (i) State Farm Life Insurance Company, One State Farm Plaza, Bloomington, Illinois 61710, Attention: Investment Accounting Department D-2 and (ii) CTC Illinois Trust Company, Corporate Custody Services, 209 W. Jackson, Chicago, Illinois 60606-6907, or to such other bank account, or address as Lender may otherwise direct in writing.
- 4.2. All right, title and interest of Debtor in and to the Collateral and any payments with respect thereto shall be expressly subject and subordinate to all of the right, title and interest of Lender therein.
- 4.3 Debtor shall not transfer or assign its interest in the Lease or the Equipment unless each and all of the following conditions have been satisfied:
- (a) the transferee or assignee (the Transferee) shall have executed and delivered a written agreement in form and substance reasonably satisfactory to Lender, whereby the Transferee confirms that it shall be deemed a party to the Lease and the other Operative Agreements to which Debtor is a party and agrees to be bound by all the terms of and to undertake all the obligations of the transferring Debtor under the Operative Agreements arising after the date of transfer;
 - (b) the Transferee is a corporation, limited liability company, insurance company, institutional investor, partnership or a national association which is organized under the laws of the United States of America or any state thereof which, at the time of such transfer, is not the subject of any bankruptcy, insolvency or other similar proceedings;
 - (c) no Event of Default shall have occurred and be continuing or shall occur by reason of the proposed transfer; and
 - (d) the Transferee shall have a tangible net worth of at least \$50,000,000, or if the Transferee has a tangible net worth of less than \$50,000,000, either (i) the transferring Debtor shall have entered into a written agreement pursuant to which the transferring Debtor agrees that, without affecting the primary liability of Transferee assumed as provided in this Section, the transferring Debtor shall be and remain secondarily liable for any loss or damage or for any reduction in the value of the Collateral resulting from any failure by the Transferee to perform and observe its obligations under the Operative Agreements to which it is a party, or (ii) an affiliate of the Transferee having a tangible net worth of at least \$50,000,000 shall have entered into a guaranty agreement pursuant to which such affiliate shall have absolutely and unconditionally guaranteed performance of all obligation of the Transferee under the Operative Agreements to which it is a party.

Debtor shall (i) at least ten (10) days prior to making any transfer pursuant to this Section 4.3, provide written notice thereof to Lender specifying the name and address of the Transferee and specifying the facts necessary to determine whether the conditions of this Section 4.3 have been satisfied and (ii) within fifteen (15) days following any transfer pursuant to this Section 4.3, provide copies of all agreements required by this Section to Lender. Upon such transfer or assignment, the Transferee shall be deemed a "Lessor" for all purposes of the Operative Agreements and shall be deemed to have made all payments made by the transferring Debtor; and each reference in the Operative Agreements to Lessor shall thereafter be deemed to include the Transferee, and the transferring or assigning Debtor shall be relieved of all obligations and liabilities of Debtor arising subsequent to such transfer or assignment; *provided, however*, that in no event shall any such transfer or assignment waive or release the transferor or assignor from any liability on account of any breach existing immediately prior to the transfer of any of its representations, warranties covenants or obligations set forth in this Security Agreement or any fraudulent or willful misconduct engaged by it prior to such transfer. Any transfer or assignment in violation of this Section 4.3 shall be void and of no effect.

- 4.4. Debtor shall keep the Collateral free and clear of all mortgages, pledges, liens, charges, security interests and other encumbrances whatsoever, except those created by this Security Agreement and the rights of Lessee under the Lease. Debtor shall pay all charges, including without limitation, all taxes and assessments levied or assessed against Debtor, which if unpaid would constitute a lien on the Collateral or any portion thereof; *provided, however*, that Debtor shall pay charges required to be paid or discharged by Lessee under the terms of the Lease only to the extent that Debtor shall have received funds from Lessee allocable to such charges. Debtor shall not be required to pay or discharge any such charges, taxes or assessments so long as it shall in good faith and by appropriate legal proceedings being diligently prosecuted, contest the validity thereof in any reasonable manner which will not affect or endanger Lessee's right of quiet enjoyment and use of the Equipment under the Lease or Lender's security interest in the Collateral pursuant to this Security Agreement. Subject to the foregoing provisions of this Section 4.4, Debtor, at its own cost and expense, shall promptly take such action as may be necessary to discharge any and all liens on any part of the Collateral which result from claims against it, other than the interest of the Lender under this Security Agreement and the Lessee under the Lease, arising out of events or conditions not related to its interest in the Collateral.
- 4.5. Debtor shall duly fulfill or cause to be fulfilled all of the obligations to be performed or assumed by Debtor under the Lease.
- 4.6. Debtor shall have filed, or cause to be filed, the Memorandum of Lease and the Security Agreement with the Interstate Commerce Commission in conformity with 49 USC Section 11303 of the Interstate Commerce Act.
- 4.7. Debtor shall notify Lender in writing immediately upon obtaining knowledge of any Lessee default in the payment or performance of any of Lessee's obligations under the Lease.

4.8. Debtor shall allow Lender and its representatives free access and right of inspection, as provided for in the Lease, of the Equipment at any convenient location, and in the event of loss or damage to the Equipment of which Debtor has knowledge, send prompt written notice thereof to Lender, all to the extent provided for in the Lease. For purposes of Sections 4.7 and 4.8 hereof, "knowledge" shall mean actual knowledge of an authorized officer of the Debtor.

SECTION 5. RIGHTS OF LENDER.

5.1 Debtor hereby irrevocably constitutes and appoints Lender, and an officer thereof responsible for enforcing the terms of this Security Agreement, Debtor's agent and attorney-in-fact, upon the occurrence of an Event of Default under the Lease and while the same is continuing, to do the following (in each case including the right to take any and all appropriate action and to execute any and all documents and instruments which may be necessary in connection therewith):

- (a) Receive directly from Lessee all payments of Rent, Stipulated Loss Value and other sums due and to become due under the Lease (other than Excluded Payments or sums not payable to Lessor under the Lease) and to exercise all rights, privileges and remedies of Lessor under the Lease, subject to Section 6 hereof.
- (b). Endorse any loss payment or returned premium check due Lender and to make, settle and release any claim made on behalf of Lender under an insurance policy with respect to the Equipment (so long as such settlement and release does not purport to include or affect Excluded Payments).
- (c). File and claim or take any other action or proceeding in any court of law or equity for the purpose of collecting any and all monies due under the Lease (other than Excluded Payments), including all remedies as provided in Section 12 hereof.

SECTION 6. RESERVED RIGHTS.

Notwithstanding any other provisions of this Security Agreement, including Sections 2 and 5 hereof, the following rights shall be reserved to Debtor to the extent described herein:

- (a) So long as no Event of Default shall have occurred and be continuing hereunder or under the Lease, (1) Debtor shall have the right, to the exclusion of Lender (i) to take any action allowable by it pursuant to paragraphs (b), (c) and (d) of Section 22 of the Lease, and to otherwise exercise all rights of Lessor upon the return of the Equipment under the Lease, (ii) to exercise the rights, elections and options of Lessor, to make any decision or determination and to give any notice, consent, waiver or approval with respect to any adjustments of Rent Payments or Stipulated Loss Value under Section 33 of the Lease and (iii) to amend the Lease to increase Lessee's obligations and (2) Debtor shall have the right, acting jointly with Lender, to enter into, execute and deliver any other amendments, modifications, waivers or consents in respect of the Lease.

(b) At all times Debtor shall have the right (1) together with Lender, (a) to inspect the Equipment pursuant to the Lease, (b) to receive copies of all notices, financial statements, opinions of counsel and other documents and information to be furnished to Debtor under any of the Operative Agreements, (c) to retain all rights with respect to the insurance maintained for its own account which Section 14(d) of the Lease specifically confers to Lessor, (d) to exercise, to the extent necessary to enable it to exercise its rights under Section 13 hereof, Lessor's rights under Section 16 of the Lease, and (e) to exercise the rights with respect to Lessee's use and operation, modification or maintenance of the Equipment which the Lease confers to Lessor and to preserve and maintain any insurance policies necessary to protect the Equipment from loss and damage and (2) to the exclusion of Lender, (a) to exercise any election or option or make any decision or determination or to give or receive any notice, consent, waiver or approval in respect of any Excluded Payment and (b) to demand, collect, sue, (at law or in equity) for or otherwise receive and enforce the payment of Excluded Payments due and payable to it.

(c) Debtor shall have the right, as Lessor, together with Lender, to seek specific performance of the covenants of Lessee under the Lease relating to the protection, insurance, maintenance, possession and use of the Equipment and to maintain separate insurance with respect to the Equipment pursuant to Section 14(d) of the Lease.

(d) If an Event of Default shall have occurred, Lender shall have the right, without the consent of Debtor, to modify, amend, supplement or waive any provision under the Lease, or give any consent or authorization thereunder; *provided, however,* that (i) Lender shall not, without the consent of Debtor, consent to any amendment of any provision of the Lease that increases any obligation of Debtor thereunder and (ii) if the Event of Default shall have resulted from an Event of Default under the Lease and no other Event of Default has occurred and is continuing, Lender shall not, without the consent of Debtor, agree to any such modification, amendment, supplement or waiver or give any such consent, waiver or authorization with respect to Sections 4, 6, 9, 10, 11, 13, 14, 18, 19, 20, 21, 23, 24, 31 or 33 of the Lease, or any other Section of the Lease (to the extent the same would, directly or indirectly, affect the amount or timing of any amounts payable by Lessee under the Lease).

SECTION 7. APPLICATION OF ASSIGNED RENT AND CERTAIN OTHER MONEYS RECEIVED BY THE LENDER.

7.1. So long as no Event of Default as defined in Section 11 hereof has occurred and is continuing:

(a) The amounts from time to time received by the Lender pursuant to Sections 2.1(a) and 5.1(a) hereof which constitute payment by the Lessee of Rent under the Lease, shall be applied first, to the payment of the installments of principal and interest (and in each case first to interest and then to principal) on the Notes which are due and payable on or before the due date of the installments of Rent which are received by the Lender, and then, the balance, if any, of such amounts shall be paid to or upon the order of the Debtor on the same day as such amounts are received by the Lender;

- (b) The amounts from time to time received by the Lender which constitute settlement by the Lessee of the Stipulated Loss Value for any item of Equipment pursuant to Section 13 of the Lease shall be applied by the Lender on the date such Stipulated Loss Value payment is received as follows:
- (i) **First**, to the payment of an amount equal to the accrued and unpaid interest (including any interest calculated at the Late Payment Rate) on that portion of the Note to be prepaid pursuant to the following subparagraph (ii);
 - (ii) **Second**, the portion of the unpaid principal balance of the Note allocable to the affected item of Equipment shall be prepaid in an amount obtained by multiplying (a) the outstanding principal balance of the Note by (b) a "Prepayment Factor" which shall be determined by dividing the Equipment Cost for the item or items of Equipment suffering the Event of Loss by the Equipment Cost for all items of Equipment which are then subject to the Lease immediately prior to such Event of Loss. Each remaining installment of principal and interest due under the Note shall be reduced by an amount equal to the amount obtained by multiplying (a) the debt service payment due on the Note before the application of such prepayment by (b) the Prepayment Factor.
 - (iii) **Third**, the balance, if any, of such amounts held by the Lender after making the applications provided for by the preceding subparagraphs (i) and (ii) shall be released to or upon the order of the Debtor on the date of payment of the amounts provided in the preceding clauses (i) and (ii).
- (c) Payments required to be made to Debtor under Section 7.1 (a) and (b) hereof (i) shall be made promptly by Lender and (ii) so long as Debtor shall have provided written notice to Lender as to the required payment, shall bear interest at the rate equal to 1% above the rate per annum being charged on the Note, from the date following the later of (A) ten (10) business days following Lender's receipt of such payments or (B) ten (10) business days following Lender's receipt of the notice described above, to the date of payment to Debtor; *provided, however*, that, so long as no Event of Default has occurred and is continuing, Debtor may seek to arrange for (1) a paying agent (at Debtor's expense) to make such payments to Debtor, or (2) Lessee to make such payments directly to Debtor, and in any such case under clauses (1) or (2) above, Lender shall cooperate with Debtor's reasonable requests to accomplish the foregoing.
- (d) The amounts received by the Lender from time to time which constitute proceeds of casualty insurance maintained by the Lessee in respect of the Equipment shall be held by the Lender as a part of the Collateral and shall be applied by the Lender from time to time to any one or more of the following purposes:

- (i) So long as no Event of Default, or any event which, with the lapse of time or the giving of notice, or both, would constitute such an Event of Default, has occurred and is continuing to the knowledge of the Lender, the proceeds of such insurance shall, if the item of Equipment is to be repaired, be released to the Debtor to reimburse the Lessee for expenditures made for such repair upon receipt by the Lender of a certificate of an authorized officer of the Lessee to the effect that any damage to such item in respect of which such proceeds were paid has been fully repaired; and
- (ii) If the insurance proceeds shall not have been released to the Debtor pursuant to the preceding paragraph (i) within 180 days from the receipt thereof by the Lender, or if within such period the Lessee shall have notified the Lender that the item of Equipment is a total loss, then so long as no Event of Default hereunder has occurred and is continuing to the knowledge of the Lender, the insurance proceeds shall be applied by the Lender as follows:
 - (A) First, to the prepayment of the Note, in the manner and to the extent provided for by clauses (i) and (ii) of Section 7.1(b) hereof; and
 - (B) Second, the balance, if any, of such insurance proceeds held by the Lender after making the applications provided for by the preceding subparagraph (A) shall be released to or upon the order of the Debtor on the date of such prepayment of the Note.

7.2 If an Event of Default referred to in Section 11 hereof has occurred and is continuing, all amounts received by the Lender pursuant to Sections 2.1(a) and 5.1(a) hereof and any amounts received by the Lender pursuant to Section 13 of the Lease shall be applied in the manner provided for in Section 12 hereof in respect of proceeds of any sale of the Collateral. If any sum is held by the Lender under this Security Agreement as a result of an Event of Default caused solely by a default by Lessee under the Lease, or an event which with notice or lapse of time would become such an Event of Default, such sum shall be distributed as if no such Event of Default, or such other event, had occurred if (i) within 180 days of Lender's receipt of such sum Lender has not accelerated the Note or if all Events of Default and such other events are cured or (ii) within 180 days of Lender's receipt of such sum Lender has not declared the Lease to be in default.

SECTION 8. LATE PAYMENT RATE.

All payments not made when due under the Note shall bear interest at a rate (the *Late Payment Rate*) equal to 1% above the rate of interest per annum being charged on that Note. In any event, the Late Payment Rate shall not be higher than the maximum legally enforceable rate.

SECTION 9. RIGHT OF LENDER TO PERFORM FOR DEBTOR.

If Debtor defaults in its obligations hereunder, Lender may, at its option, effect insurance and pay all taxes, assessments, and charges levied on the Equipment or for the

storage, maintenance or repair thereof. Any insurance premiums, taxes, assessments and charges so paid shall be secured by this Security Agreement and shall be payable by the Debtor on demand as obligations independent hereof with interest at the Late Payment Rate.

SECTION 10. LIMITATIONS OF LIABILITY.

Anything in this Security Agreement to the contrary notwithstanding, neither Lender nor the holder of the Note nor the successors or assigns of any of said persons, shall have any claim, remedy or right to proceed against Debtor or any affiliate of Debtor or any past, present or future subscriber to the capital stock of, or stockholder, officer or director of, Debtor or affiliate of Debtor, whether by virtue of any constitutional provision, statute or rule of law or by enforcement of any penalty or assessment or otherwise, for the payment of any deficiency or any other sum owing on account of the indebtedness evidenced by the Note or for the payment of any sum secured hereby or, except as otherwise provided in this Section 10, for the payment of any liability resulting from the breach of any representation, covenant, agreement or warranty of any nature whatsoever in this Security Agreement, or in the Note, the Lease, or in any instrument or certificate executed by Debtor in connection herewith or therewith, from any source other than the Collateral and the income and proceeds thereof; and Lender, by the execution of this Security Agreement, and the holder of the Note by its acceptance thereof, agrees to look solely to the Collateral and income and proceeds thereof, and waives and releases any personal liability of Debtor, and any incorporator or any past, present or future subscriber to the capital stock of, or stockholder, officer or director of, Debtor for or on account of any such deficiency, indebtedness or, except as otherwise provided in this Section 10, any such liability; provided, however, that (a) nothing herein contained shall limit, restrict or impair the rights of Lender and the holder of the Note to accelerate the maturity thereof upon an Event of Default under this Security Agreement, to bring suit and obtain a judgment against Debtor (provided execution thereof shall be limited to the Collateral and any income and proceeds in respect thereof) on the Note, or to exercise all rights and remedies provided under this Security Agreement or otherwise realize upon the Collateral, (b) Debtor shall be liable for, and to the extent of, any monetary damages actually incurred or sustained by Lender or by any other holder of the Note solely and directly as a result of the breach of any covenant, representation or warranty made by Debtor in Section 3.1 hereof (other than the last sentence of paragraph (d) thereof) and Sections 4.3, 4.4 and 4.6 hereof (it being understood and agreed that the liability of Debtor in such event shall be limited to the extent actual damages resulting from such breach suffered by the party making a claim with respect thereto); and (c) Lender shall have all of its rights and remedies against Lessee under the Lease.

SECTION 11. EVENTS OF DEFAULT.

Any of the following events shall constitute an Event of Default hereunder:

- 11.1. Debtor shall fail to make any payment due on the Note when and as the same shall become due and payable whether at the due date thereof or at the date fixed for prepayment or by acceleration or otherwise, and such default continues unremedied for 10 days after Debtor receives written notice thereof from the Lender.

- 11.2. An Event of Default under and as defined in the Lease shall have occurred and be continuing under the Lease, other than as a result of a failure to make an Excluded Payment due to Debtor.
- 11.3. There shall be imposed upon the Collateral or any part thereof any claim, lien, security interest, encumbrance or charge which is prior to or on parity with the security interest granted hereunder and which Debtor is obligated to discharge hereunder.
- 11.4. Debtor shall fail to perform or observe any other covenant, condition or agreement to be performed or observed by Debtor hereunder or under the Notes and such failure shall continue unremedied for a period of 30 days after Debtor receives written notice thereof from the Lender.
- 11.5. Any representation or warranty made by Debtor herein shall have been incorrect in any material respect when made and shall not have been corrected within 30 after Debtor receives written notice thereof from the Lender.
- 11.6. Debtor shall (a) file, or consent by answer or otherwise to the filing against it of, a petition for relief seeking liquidation or reorganization in bankruptcy, or take advantage of any bankruptcy or insolvency law of any jurisdiction, (b) make an assignment for the benefit of its creditors, or (c) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers over itself or over any substantial part of its property.
- 11.7. Any petition for any relief under any bankruptcy or insolvency law of any jurisdiction shall be filed against Debtor and such petition shall not be stayed or dismissed within 90 days of the date of filing.
- 11.8. A court or governmental authority of competent jurisdiction shall enter an order, judgment or decree (a) appointing, without consent by Debtor, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property; or (b) approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction; or (c) ordering the dissolution, winding-up or liquidation of Debtor, and, in each case in clauses (a), (b) and (c) above, the same shall not be stayed or dismissed within 90 days after such appointment, approval or order.

SECTION 12. REMEDIES.

If an Event of Default hereunder shall have occurred, then, or at any time thereafter while such Event of Default is continuing, Lender may, subject to Section 13 hereof, declare the entire outstanding principal balance of the Note to be immediately due and payable at par and thereupon all such unpaid balance, together with all accrued interest thereon to the date of such payment shall be and become immediately due and payable without notice or demand. After an Event of Default hereunder shall have occurred, subject to Section 13 hereof, it shall then be lawful for Lender (and Debtor hereby authorizes and empowers Lender with the aid and assistance of any persons) to exercise any one or more of the following remedies:

- (a) Subject to the rights of Lessee under the Lease, to enter upon such place as the Equipment may be found and take possession of, remove, keep and store or use and operate or lease until sold, any or all of the Equipment, at any time or times, and to dispose of the Equipment at a public or private sale and apply the proceeds thereof to the balance hereof or any other obligation arising hereunder, all to the extent permitted by and in accordance with law.
- (b) If any Event of Default has occurred and is continuing under the Lease, as assignee of Debtor's interest in the Lease, to exercise any or all of the rights and powers and pursue any or all of the remedies provided for in the Lease (except with respect to the collection of Excluded Payments and subject to Section 6 hereof).
- (c) To exercise any or all of the rights and powers and pursue any or all of the remedies that are available to a secured party under the Uniform Commercial Code or any other applicable law or in equity with respect to the Collateral.

If any Event of Default shall have occurred and be continuing hereunder that is the result solely of the occurrence of a default under the Lease, Lender may foreclose the lien of this Security Agreement and otherwise exercise remedies hereunder only if Lender shall proceed (to the extent it has not already done so) to exercise one or more comparable remedies referred to in Section 24 of the Lease; *provided, however*, that if Lender shall have been stayed or otherwise prevented by operation of law from exercising such remedies under the Lease for a continuous period of 180 days (or such longer period, not in excess of 365, during which all installments of principal and interest due under the Note shall have been paid), Lender may proceed to foreclose the lien of this Security Agreement.

Debtor will reimburse Lender for all reasonable fees of attorneys or collection agencies and all reasonable expenses, costs and charges paid or payable to third persons or suffered or incurred by Lender in attempting or effecting protection or preservation of its security interest in the Collateral or the enforcement of any provision of the Security Agreement. Costs of collecting the amounts secured hereby shall be added to the principal amount due hereunder and shall be secured by, and payable out of, the Collateral.

The proceeds of any sale of the Collateral or any part thereof or any interest therein and the proceeds of the exercise of any other remedy with respect to the Collateral, shall be applied by Lender, first, to the repayment of any costs and expenses reasonably incurred by Lender or any person or party acting on behalf of Lender in connection with the exercise of remedies hereunder, second, to the payment of any amount due under the Note other than principal and interest, third, to the payment of accrued but unpaid interest on the Note, fourth, to the repayment of the outstanding principal balance of the Note and fifth, the balance, if any, of such proceeds remaining thereafter shall be distributed to Debtor.

All rights, remedies and options conferred upon Lender hereunder or by law shall be cumulative and may be exercised successively or concurrently and are not alternative or exclusive of any other such rights, remedies or options. No express or implied waiver by Lender of any default or event of default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent default or event of default. The failure or delay of Lender in exercising any rights granted it hereunder shall not constitute a waiver of any such rights in the future and any single or partial exercise of any particular right by Lender shall not exhaust such rights or constitute a waiver of any other right provided herein.

SECTION 13. CURE RIGHTS AND OTHER RIGHTS OF DEBTOR.

The Lender shall give the Debtor prompt written notice of any Event of Default (or event or condition which with the giving of notice or lapse of time would constitute an Event of Default) of which the Lender has knowledge. If an Event of Default under the Lease of which the Lender has knowledge shall have occurred and be continuing, the Lender shall give the Debtor not less than 20 days prior written notice of the date on which the Lender then intends to commence the exercise of any remedy or remedies pursuant to Section 12 hereof or otherwise modify the obligations of the Lessee under the Lease in any respect (the *Remedy Notice*), and shall not exercise any such remedy or modify the obligations of the Lessee under the Lease in any respect until at least the expiration of such 20-day period.

- 13.1. In the case of an Event of Default by Lessee in respect of the payment of any installment of Rent due under the Lease, Debtor may, without the consent of Lender, no more than 20 days after receipt of the Remedy Notice, pay a sum equal to the amount of all (but not less than all) such overdue Rent, including all such principal and interest as shall then be due and payable on the Note, for application in accordance with the terms hereof. This Section 13.1 shall not apply with respect to any default in the payment of Rent due under the Lease if the Lessee itself shall have theretofore failed to pay Rent in the manner provided in the Lease (i) on each of the three Rent Payment Dates immediately preceding such default or (ii) on six or more Rent Payment Dates in the aggregate during the term of the Lease.
- 13.2. In the event of any default by Lessee in the performance of any obligation under the Lease other than the payment of an installment of Rent, Debtor may, without the consent of Lender, pay or perform such obligation for the account of Lessee at any time prior to the exercise of any remedies by Lender hereunder, but subject to the Remedy Notice.
- 13.3. Full payment by the Debtor pursuant to Section 13.1 hereof shall be deemed to cure any Event of Default under the Lease which would otherwise have arisen as a result of any non-payment of any installment of Rent due under the Lease and any Event of Default hereunder attributable thereto. Full payment or performance by the Debtor pursuant to Section 13.2 hereof shall be deemed to cure any Event of Default under the Lease which would otherwise have arisen as a result of failure by the Lessee to perform any obligation under the Lease (other than the payment of an installment of Rent).
- 13.4. So long as no other Event of Default has occurred and is continuing hereunder, Debtor may demand that Lessee reimburse Debtor, or Debtor may sue (at law or in equity) Lessee, for sums expended by Debtor pursuant to Sections 13.1, 13.2 and 13.3 hereof.
- 13.5. Upon payment to the Lender by or on behalf of the Debtor of all the indebtedness secured by this Security Agreement, Lender, upon written request from Debtor, shall forthwith notify the Lessee (with a copy to Debtor) that (a) Lender has no further interest in the Lease or the Equipment; (b) any future payments of Rent and other sums due and to become due under the Lease are to be made to Lessor; (c) Lender has no further entitlement to exercise rights,

privileges and remedies of the Lessor under the Lease, and to receive financial reports and other notices under the Lease and that all such entitlement now rests with the Lessor. Upon such payment Lender shall also mark the Note "paid in full" and return same, along with the original of the Lease, to Debtor, and shall, upon written request from Debtor, execute a UCC Termination Statement and such other documents as Debtor shall reasonably request so as to remove the Lender's security interest from the record under the UCC and with the Interstate Commerce Commission.

SECTION 14. OPTIONAL PURCHASE.

At any time (i) after the acceleration of the Note, (ii) after an Event of Default under the terms of the Lease shall have occurred and be continuing for a period of 180 days during which Lender has not declared the Lease to be in default as a consequence thereof and commenced the exercise of remedies under the Lease or (iii) after Lender has given to Debtor, to the extent required, the notice regarding, or has otherwise commenced, exercise of remedies referred to in Section 12 hereof, Debtor shall have the right to purchase the Note outstanding hereunder, in whole but not less than whole, and without premium.

Upon receipt by Lender of written notice of such election by Debtor, the principal balance of the Note elected to be prepaid, together with accrued interest (including interest at the Late Payment Rate, if applicable) thereon to the date of such purchase shall be immediately due and payable without premium.

SECTION 15. REGISTRATION, REPLACEMENT AND TRANSFER OF NOTE.

Debtor shall cause to be kept at its principal office a register (the *Register*) in which Debtor shall provide for the registration of the Note and of transfers of the Note. Upon surrender for transfer of the Note at the principal office of Debtor, Debtor shall execute and deliver, in the name of the designated transferee a new Note of a like principal amount. Such new Note shall have attached thereto an amortization schedule indicating the payments of interest and principal previously made on the Note for which it was exchanged. The Note presented or surrendered for transfer shall (if so required by Debtor) be duly endorsed or be accompanied by a written instrument of transfer, duly executed by the registered owner thereof or its attorney duly authorized in writing. No service charge shall be made for any transfer of the Note, but Debtor may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed on Debtor in connection with a transfer of the Note. Debtor shall not be required to register any transfer of the Note within 10 days prior to or after any date for the making of a payment hereunder. In connection with a transfer of the Note, Debtor may require verification that such transfer will not require the registration of the Note under the Securities Act of 1933, as amended, which verification may be in the form of an opinion of counsel for the registered owner of the Note.

If the Note is lost, stolen or destroyed, or upon the surrender and cancellation of the Note, if mutilated, Debtor will, without charge and upon the written request of the registered owner hereof, deliver to the registered owner hereof, within five business days after such request and in lieu of such lost, stolen, destroyed or mutilated Note, a new Note (a) of the same tenor, (b) in a principal amount equal to the unpaid principal amount thereof, (c) dated such date as will result in no gain or loss of interest or principal, and (d) bearing a legend that such Note is a new Note and Security Agreement and the reason or reasons why the prior Note and Security Agreement was replaced. If the Note was lost,

stolen or destroyed, the registered owner thereof will deliver, prior to receiving a replacement Note, to Debtor an affidavit stating that the Note was lost, stolen or destroyed, as the case may be and any other evidence thereof reasonably requested by Debtor.

Any new Note issued pursuant to this Section 15 shall evidence this same indebtedness as the Note so replaced.

Debtor may deem and treat the registered owner of the Note as the absolute owner hereof (whether or not the Note shall be overdue) for the purpose of receiving payments of principal and interest on the Note and for all other purposes, and Debtor shall not be affected by any notice to the contrary.

SECTION 16. MISCELLANEOUS.

This Security Agreement may not be amended, waived, or discharged, except by an agreement in writing by the party against which or whom enforcement of the amendment, waiver or discharge is sought. In case any one or more of the provisions contained in this Security Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall be, as to such jurisdiction, 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 provisions in any other jurisdiction.

If Debtor shall be a party to a merger, combination or consolidation or other comparable reorganization and if it shall not be the surviving entity, then the surviving entity shall promptly assume the obligations under the Note and this Security Agreement in writing and shall comply with all requirements of Section 4 hereof.

All notices to be made hereunder shall be in writing and (a) if to Debtor, addressed to it at 45 Cardinal Drive, Westfield, New Jersey 07090-1099, Attention: Mr. Grover Connell, President and (b) if to Lender, addressed to State Farm Life Insurance Company, One State Farm Plaza, Bloomington, Illinois 61710, Attention: Investment Department Corporate Fixed Income, except with respect to payment, and written confirmation of each such payment, to be addressed as set forth in Section 4.1 hereof. Either party hereto may change the address to which notice to such party shall be sent by giving written notice of such change to the other party to this Security Agreement. All notices shall be deemed to have been given when received by Debtor or Lender, as appropriate.

All amounts to be paid to the Lender hereunder are to be paid by bank wire or intra-bank transfer pursuant to Section 4.1 hereof.

All amounts to be paid to the Debtor hereunder are to be paid by wire transfer to The Bank of New York, 48 Wall Street, New York, New York 10286, Attention: Ms. Linda Mae Coppa 10286, (ABA No. 021000018), for credit to the account of Connell Finance Company, Inc., A/C No.890-0176-873.

It is the intention of the parties that the provisions of this Security Agreement shall be governed by the laws of the State of New Jersey.

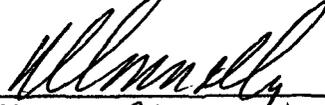
This Security Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but altogether only one Security Agreement

Section headings and captions are inserted for convenience only and shall not affect any construction or interpretation of this Security Agreement. The words "herein", "hereof", "hereby", "hereto", "hereunder", and words of similar import refer to this Security Agreement as a whole and not to any particular section, subsection, paragraph, clause or other subdivision hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed by their duly authorized representatives as of the date first above written:

DEBTOR:

CONNELL FINANCE COMPANY, INC.

By: 
Printed Name: R.C. Connolly
Title: Ex. V.P.
Date: 10/25/95

LENDER:

STATE FARM LIFE INSURANCE COMPANY

By: _____
Printed Name: _____
Title: _____
Date: _____

By: _____
Printed Name: _____
Title: _____
Date: _____

It is the intention of the parties that the provisions of this Security Agreement shall be governed by the laws of the State of New Jersey.

This Security Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but altogether only one Security Agreement

Section headings and captions are inserted for convenience only and shall not affect any construction or interpretation of this Security Agreement. The words "herein", "hereof", "hereby", "hereto", "hereunder", and words of similar import refer to this Security Agreement as a whole and not to any particular section, subsection, paragraph, clause or other subdivision hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed by their duly authorized representatives as of the date first above written.

DEBTOR:

CONNELL FINANCE COMPANY, INC.

By: _____
Printed Name: _____
Title: _____
Date: _____

LENDER:

STATE FARM LIFE INSURANCE COMPANY

By: William C. Gale
Printed Name: William C. Gale
Title: Investment Officer
Date: October 24, 1995

By: John S. Concklin
Printed Name: John S. Concklin
Title: Vice President - Fixed Income
Date: October 24, 1995

STATE OF NEW JERSEY)
) ss.
COUNTY OF UNION)

On this 25th day of October, 1995 before me personally appeared R.C. Connolly, to me personally known, who being by me duly sworn, says that he is the Ex. V.P. of Connell Finance Company, Inc., that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Karen Kulinich

Signature of Notary Public
My Commission expires _____

KAREN KULINICH
NOTARY PUBLIC OF NEW JERSEY
Registered in Middlesex & Union Counties
My Commission Expires Sept. 30, 1997.

STATE OF _____)
COUNTY OF _____) ss.:

On this ____ day of October, 1995 before me personally appeared _____, to me personally known, who being by me duly sworn, says that (s)he is the _____ of State Farm Life Insurance Company, that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and (s)he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Signature of Notary Public
My Commission expires _____

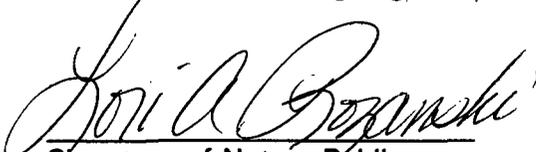
STATE OF NEW JERSEY)
) ss
COUNTY OF UNION)

On this ____ day of October, 1995 before me personally appeared _____, to me personally known, who being by me duly sworn, says that he is the _____ of Connell Finance Company, Inc., that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Signature of Notary Public
My Commission expires

STATE OF Illinois)
COUNTY OF McLean) ss.:

On this 24th day of October, 1995 before me personally appeared William C. Gale to me personally known, who being by me duly sworn, says that (s)he is the Investment Officer of State Farm Life Insurance Company, that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and (s)he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.



Signature of Notary Public
My Commission expires

"OFFICIAL SEAL"
Lori A. Rozanski
Notary Public, State of Illinois
My Commission Expires 2/28/99

STATE OF Illinois)
COUNTY OF McLean) ss.:

On this 24th day of October, 1995 before me personally appeared John S. Concklin, to me personally known, who being by me duly sworn, says that (s)he is the Vice President of Fixed Income of State Farm Life Insurance Company, that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and (s)he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.



Signature of Notary Public
My Commission expires

"OFFICIAL SEAL"
Lori A. Rozanski
Notary Public, State of Illinois
My Commission Expires 2/28/99

95-0274I

EXHIBIT A TO SECURITY AGREEMENT

FORM OF NOTE

Not included in copy filed with the Interstate Commerce Commission.

EXHIBIT B TO SECURITY AGREEMENT

DEFINITIONS

The terms defined in the Lease when used herein shall have the same meanings as so defined in the Lease unless otherwise defined in this Security Agreement or the context otherwise requires.

Closing Date shall mean the date on which Lender shall pay the purchase price of the Note to Debtor and Debtor shall deliver the Note to Lender.

Collateral shall have the meaning set forth in Section 2.1 of this Security Agreement.

Debtor shall have the meaning set forth in the first paragraph of this Security Agreement.

Equipment shall mean the ninety two (92) bottom-dump aluminum coal cars, constructed by Thrall Manufacturing Company, bearing identification numbers VALX 95095 through VALX 95186, both inclusive (such equipment also being described on Supplement One to the Lease).

Equipment Cost shall have the meaning set forth on Supplement One to the Lease.

Equipment Lease Agreement shall have the meaning set forth in Recital A to this Security Agreement.

Excluded Payments shall have the meaning set forth in Section 2.2 of this Security Agreement.

Event of Loss shall have the meaning set forth in Section 13 of the Lease.

Event of Default shall have the meaning set for in Section 11 of this Security Agreement.

Late Payment Rate shall have the meaning set for in Section 8 of this Security Agreement.

Lease shall have the meaning set forth in Recital A to this Security Agreement.

Lease Supplement shall have the meaning set forth in Section 1 of the Lease.

Lender shall have the meaning set forth in the first paragraph of this Security Agreement.

Lessee shall have the meaning set forth in Recital A to this Security Agreement.

Lessee Consent and Assignment Letter shall mean that letter executed by Lessee consenting to the transactions contemplated hereby, substantially in the form annexed hereto as Exhibit C.

Memorandum of Lease shall have the meaning set forth in Section 2 of the Lease.

Note shall have the meaning set forth in Recital B to this Security Agreement and shall include any Note issued by Debtor pursuant to Section 15 of this Security Agreement.

Operative Agreements shall mean collectively, this Security Agreement, the Note and the Operative Agreements as defined in Section 3(b) of the Lease, .

Purchase Price shall have the meaning set forth in Section 1.1 of this Security Agreement.

Remedy Notice shall have the meaning set for in Section 13 of this Security Agreement.

Rent shall have the meaning set forth in Section 6 of the Lease.

Rent Payments shall have the meaning set forth in Section 6 of the Lease.

Rent Payment Dates shall mean the date on which Rent is due and payable under the terms of the Lease and Lease Supplement.

Supplement One shall have the meaning set forth in Recital A to this Security Agreement.

Security Agreement shall have the meaning set forth in the first paragraph of this Security Agreement.

Stipulated Loss Value shall have the meaning set forth in Section 13 of the Lease.

Transferee shall have the meaning set forth in Section 4.3 of this Security Agreement.

95-02761

EXHIBIT C TO SECURITY AGREEMENT
FORM OF LESSEE CONSENT AND ASSIGNMENT LETTER

Not included in copy filed with the Interstate Commerce Commission.

**EXHIBIT D TO SECURITY AGREEMENT
FORM OF OPINION OF COUNSEL TO DEBTOR**

Not included in copy filed with the Interstate Commerce Commission.

EXHIBIT E TO SECURITY AGREEMENT
FORM OF OPINION OF COUNSEL TO LESSEE

Not included in copy filed with the Interstate Commerce Commission.