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DELAWARE OTSEGO CORPORATION

1 Railroad Ave.
Cooperstown, New York 13326
Ph. 607 547-2555

1391.9

January 31, 1996

Vernon Williams
Secretary
Surface Transportation Board
Attn. Ms. Folt, Room 2311
12th and Constitution Ave, N.W.
Washington, DC 20423

RECEIVED
FEB 2 2 57 PM '96
SECRETARY

Dear Secretary,

Enclosed herewith is an original and one copy of the document(s) described below, to be recorded pursuant to Section 11301 of Title 49 of the U.S. Code.

The document is a Security Agreement (Chattel Mortgage), a primary document, dated January 31, 1996.

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

Debtor: The Toledo, Peoria and Western Railroad Corporation
Toledo, Peoria & Western Railway Corporation
1 Railroad Avenue
Cooperstown, NY 13326

Secured Party: Creditanstalt Corporate Finance, Inc., as Agent
2 Greenwich Plaza
Greenwich, CT 06830

Included in the property covered by the aforesaid Security Agreement and Chattel Mortgage are railroad cars, locomotives and other rolling stock intended for use related to interstate commerce, or interests therein, owned by Toledo, Peoria & Western Railway Corporation at the date of said Security Agreement (Chattel Mortgage) or thereafter acquired by it or its successors.

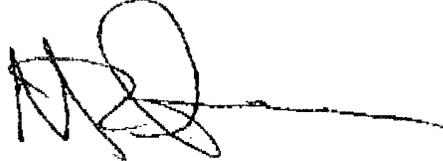
A fee of \$21.00 is enclosed. Please return the original and any extra copies not needed by the Board, together with your fee receipt, to the courier who is delivering the document.

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

Quintanilla

Security Agreement (Chattel Mortgage) between The Toledo, Peoria and Western Railroad Corporation and Toledo, Peoria & Western Railway Corporation as Debtors and Creditanstalt Corporate Finance, Inc., (as Agent) as Secured Party dated January 31, 1996 and covering all railroad cars, locomotives and other railroad rolling stock owned by the Debtors or thereafter acquired by them or their successors.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.



Interstate Commerce Commission
Washington, D.C. 20423-0001

2/2/96

Office Of The Secretary

Delaware Otsego Corporation
1 Railroad Avenue
Ciiperstown, New York 13326

Dear

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 2/2/96 at 2:40PM, and assigned recordation number(s). 19919.

Sincerely yours,

Vernon A. Williams
Secretary

Enclosure(s)

\$ 21.00 The amount indicated at the left has been received in payment of a fee in connection with a document filed on the date shown. This receipt is issued for the amount paid and in no way indicates acknowledgment that the fee paid is correct. This is accepted subject to review of the document which has been assigned the transaction number corresponding to the one typed on this receipt. In the event of an error or any questions concerning this fee, you will receive a notification after the Commission has had an opportunity to examine your document.

Signature

199/9

SECURITY AGREEMENT (CHATTEL MORTGAGE)

between

THE TOLEDO, PEORIA AND WESTERN RAILROAD CORPORATION
AND
TOLEDO, PEORIA & WESTERN RAILWAY CORPORATION,

AS
DEBTOR

and

CREDITANSTALT CORPORATE FINANCE, INC., AS AGENT

AS
SECURED PARTY,

Dated as of January __, 1996

Filed and recorded with the Surface Transportation Board pursuant
to Section 11301, Title 49, United States Code on _____,
at _____, Recordation No. _____

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SECURITY AGREEMENT (CHATTEL MORTGAGE) dated as of January 31, 1996 between THE TOLEDO, PEORIA AND WESTERN RAILROAD CORPORATION, a New York corporation ("Newco") and TOLEDO, PEORIA & WESTERN RAILWAY CORPORATION, a New Jersey corporation (together with Newco, the "Debtor"), and CREDITANSTALT CORPORATE FINANCE, INC., a Delaware corporation ("CCF"), as Agent (the "Agent") for certain Lenders (as hereinafter defined) (the "Secured Party").

RECITALS

WHEREAS, The Debtor, the Agent and certain lenders (including CCF, the "Lenders") have entered into a Credit Agreement dated as of the date hereof (as amended, modified and supplemented from time to time, the "Credit Agreement");

WHEREAS, it is a condition to the effectiveness of the Credit Agreement and to all extensions of credit thereunder that the Debtor shall have executed and delivered to the Agent this Security Agreement;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Debtor, and, in order to induce the Lenders to extend credit under the Credit Agreement, the Debtor agrees with the Agent as follows:

SECTION 1. DEFINED TERMS.

1.1 Defined Terms. Terms defined in the preamble hereof and the recitals hereto shall have their respective meanings when used herein and, unless otherwise defined herein, the terms defined in the Credit Agreement are used herein as therein defined and the following terms shall have the following meanings (such terms shall include in the singular number the plural and in the plural number the singular):

"Assigned Leases": as defined in subsection 2.3 hereof.

"Assigned Lease Proceeds": as defined in subsection 2.3 hereof.

"Board": the Surface Transportation Board or such other successor entity as shall be established with respect to interstate surface transportation.

"Casualty Loss": as defined in subsection 6.1(a) hereof.

"Casualty Loss Proceeds": as defined in subsection 6.2 hereof.

"Collateral": as defined in subsection 2.1 hereof.

"Damaged Unit": as defined in subsection 6.1(b) hereof.

"Equipment": as defined in subsection 2.2 hereof.

"ICA": the Interstate Commerce Act, as heretofore and as hereafter amended.

"Item of Equipment": as defined in subsection 2.2 hereof.

"Obligations": as defined in subsection 2.1 hereof.

"Permitted Lien": as defined in subsection 3.3(a) hereof.

"Proceeds": as defined in the UCC and, in any event, including, without limitation, (a) any and all proceeds of any insurance, indemnity, warranty or guarantee payable to the Debtor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to the Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of any of the Collateral by any governmental authority (or any person acting under color of governmental authority) and (c) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Replacement Unit": as defined in subsection 6.2 hereof.

"Security Agreement": this Security Agreement (Chattel Mortgage), as the same may be amended, supplemented or otherwise modified from time to time, together with all Supplements hereto.

"Supplement": a Security Agreement Supplement to be entered into between the Debtor and the Secured Party, or any other supplement entered into by the parties hereto with respect to the addition of collateral to the lien of the Agent hereunder, which Supplement shall be in form and substance satisfactory to the Agent.

"UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Value": with respect to an Item of Equipment subject to a Casualty Loss, the fair market value thereof at the time such Casualty Loss occurred with respect to such Item of Equipment.

SECTION 2. SECURITY.

2.1 Grant of Security. As collateral security for (a) the prompt and complete payment when due (whether at the stated maturity, by prepayment, by acceleration or otherwise) of the unpaid principal of, premium, if any, and interest on, the Notes, (b) the due and punctual payment and performance by the Debtor of all of its obligations and liabilities arising under, out of or in connection with the Loan Documents and any other document executed

and delivered in connection therewith or herewith, whether on account of principal, interest, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Secured Party) or otherwise, (c) the prompt and complete payment when due (whether at the stated maturity, by prepayment, by acceleration or otherwise) of the unpaid principal of, premium, if any, and interest on, each other promissory note of the Debtor held from time to time by the Secured Party and (d) the due and punctual payment and performance by the Debtor of all of its obligations and liabilities arising under, out of or in connection with any other loan document or credit agreement to which the Secured Party is or shall become a party and any other document executed and delivered in connection therewith, whether on account of principal, interest, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Secured Party) or otherwise (all of the foregoing, collectively, the "Obligations"), the Debtor does hereby transfer, convey, warrant, mortgage, deliver, pledge, assign and grant to the Secured Party a lien on and continuing security interest in all and of the Debtor's rights, title and interest in and to the properties, rights, interests and privileges, now or hereafter existing, set forth in subsections 2.2, 2.3, 2.4 and 2.5 hereof and any and all Proceeds thereof (all such properties and Proceeds thereof, collectively, the "Collateral").

2.2 Equipment Collateral. Collateral shall include the twenty-two locomotives, three trailer/container lift machines, twenty-five open top hopper cars, one tank car, one passenger car, two cabooses, three tampers, one ballast equalizer, one ballast regulator, one burrow crane, four hostler trucks, and other maintenance of way equipment described on Schedule I hereto (collectively, the "Equipment"; individually, an "Item of Equipment"), together with all accessories, equipment, parts and appurtenances appertaining or attached to such Equipment, whether now owned or at any time hereafter acquired by the Debtor, and all substitutions, renewals or replacements of, and additions, improvements, accessions and accumulations to, any and all of said Equipment, together with all rents, issues, income, profits and avails therefrom and any and all Proceeds thereof.

2.3 Rental Collateral. Collateral shall also include all right, title and interest of the Debtor in and to each and every lease (whether or not such lease is in writing or is for a term certain, including, without limitation, per diem leases), now or hereafter existing, relating to, but only to the extent relating to, the Equipment (each such lease, an "Assigned Lease"), and any and all payments due and to become due under any Assigned Lease, whether as contractual obligations, damages or otherwise (to the extent such payments are derived from the Equipment) and all Proceeds of any thereof (such payments, the "Assigned Lease Proceeds"); provided that the Secured Party shall be entitled to

collect and receive the Assigned Lease Proceeds only if an Event of Default shall have occurred and be continuing.

2.4 Cash Collateral. Collateral shall also include the Cash Collateral at any time and from time to time on deposit in the TPW Casualty Proceeds Account.

SECTION 3. COVENANTS.

The Debtor hereby covenants and agrees with the Secured Party that, until the Obligations are paid in full:

3.1 Maintenance of Equipment. (a) The Debtor shall maintain and keep, or cause to be maintained and kept, at its own cost and expense, each Item of Equipment in good repair, working order and condition (i) for its intended use, (ii) in accordance with industry standards and (iii) in accordance with the Interchange Rules Association of American Railroads and in full compliance with any applicable law, rules, regulations or standards which may be promulgated by the Department of Transportation, Federal Railway Administration, the Board or any other Federal governmental authority which shall at the time exercise such similar powers in regard to railroads, unless and until such Item of Equipment may become worn out, unsuitable for use, lost or destroyed; provided that any such Item of Equipment so worn out, obsolete, lost or destroyed shall be replaced with a Replacement Unit in accordance with the provisions of subsections 3.4 and 6.2 hereof.

3.2 Maintenance of Insurance. The Debtor shall, at its own expense, maintain insurance with respect to the Collateral in such amounts, against such risks, in such form and with such insurers, as is customary in the course of the Debtor's business and is satisfactory to the Agent from time to time. Each policy for (i) liability insurance shall provide that the Agent be named as an additional assured as its interests may appear and (ii) property damage insurance shall provide that after the occurrence of an Event of Default, and during its continuance, all losses shall be paid directly to the Agent for the benefit of the Lenders. Each such policy shall no later than 60 days after the execution of this Security Agreement (i) name the Debtor and the Agent as insured parties thereunder (without any representation or warranty by or obligation upon the Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to the Agent as provided in this Security Agreement notwithstanding any action, inaction or breach of representation or warranty by any Debtor, (iii) provide that there shall be no recourse against the Agent for payment of premiums or other amounts with respect thereto and (iv) provide that at least 10 days' prior written notice of cancellation or of lapse shall be given to the Agent by the insurer. The Debtor shall, if so requested by the Agent, deliver to the Agent original or duplicate policies of such insurance and, as often as the Agent may reasonably request, a

report of a reputable insurance broker, or an insurance company representative if an insurance broker is not involved, with respect to such insurance. Following an Event of Default and during its continuance, the Debtor shall, at the request of the Agent, duly execute and deliver instruments of assignment of such insurance policies and cause the respective insurers to acknowledge notice of such assignment.

Upon the occurrence and during the continuance of any Event of Default, all insurance payments in respect of such Collateral shall be held, applied and paid to the Agent as specified in Section 7 hereof.

3.3 Preservation of Collateral. (a) The Debtor shall not create, permit, assume or suffer to exist, and shall warrant and defend the title to and defend the Collateral against and take such other action as is necessary to remove, any Lien in or to the Collateral other than (all of the Liens described in clauses (i) and (ii) below, collectively, "Permitted Liens"):

(i) the lien and security interest created pursuant to this Security Agreement; and

(ii) Liens permitted under Section 6.02 of the Credit Agreement.

(b) The Debtor shall not sell, transfer, assign (by operation of law or otherwise) or otherwise dispose of any of the Collateral or attempt or offer to do so except as provided in the Credit Agreement.

(c) The Debtor shall advise the Secured Party promptly, in reasonable detail, of any Lien or claim made or asserted against any of the Collateral and of any event affecting the Secured Party's lien on and security interest in the Collateral.

(d) The Debtor shall cause the Collateral to remain in the United States of America at all times and shall not permit the Collateral to be used off-line in Canada or other locations outside the United States of America.

3.4 Further Assurances; Supplements. (a) The Debtor shall, at its sole cost and expense, do, execute, acknowledge and deliver all and every further acts, supplements, mortgages, security agreements, deeds, conveyances, transfers and assurances necessary or appropriate for the perfection and preservation of the security interest created hereby in the Collateral, whether now owned or hereafter acquired. The Debtor shall cause this Security Agreement, and all Supplements hereto, and financing and continuation statements and similar notices reasonably requested by the Secured Party or required by applicable law (and, if and only to the extent required by applicable law, the Assigned Leases) at

all times to be kept, recorded and filed at no expense to the Secured Party in such manner and in such places as may be required by law in order to fully preserve and protect the rights of the Secured Party in any or all of the Collateral hereunder or under any other Loan Document, including, without limitation, the filing of Uniform Commercial Code financing statements (and continuations thereof) and the filing, registration and recordation of this Security Agreement or any Supplement hereto (and if and only to the extent required by law, the Assigned Leases) with the Board. In any event, the Debtor shall, within 15 days after the purchase of any Rolling Stock, notify the Secured Party of such purchase and provide road, serial numbers and such other identifying information as the Secured Party shall reasonably request with respect to such acquired equipment. The Debtor shall, at its own expense, cause a supplement to be prepared and duly executed and acknowledged by the Debtor in form suitable for recording and delivered to the Secured Party within such 15 day period granting the Secured Party a security interest in such acquired equipment. The Secured Party shall execute such supplement and the Debtor shall cause such supplement to be filed, at the Debtor's expense, with the Board pursuant to 49 U.S.C. § 11301 as well as with or in other appropriate recording authorities or offices.

(b) Concurrently with the execution and delivery of any Supplement (whether pursuant to subsection 6.2 hereof or otherwise), the Debtor shall, at its own expense, furnish to the Secured Party (i) evidence in form and substance satisfactory to the Secured Party that (A) such Supplement shall have been duly filed, registered and recorded with the Board in accordance with Section 11301, Title 49 of the United States Code, (B) all Uniform Commercial Code financing statements deemed necessary or appropriate by the Secured Party shall have been filed and (C) all fees, expenses and taxes in connection therewith shall have been paid or otherwise provided for, (ii) the executed legal opinion of counsel to the Debtor, addressed to the Secured Party and dated the date of such Supplement, of Nathan Fenno, Esq. (or other commission counsel to the Debtor reasonably satisfactory to the Secured Party), which opinion shall cover the matters set forth in Exhibit H-3, to the Credit Agreement with respect to such Supplement and the Collateral covered by such Supplement, and (iii) such other corporate certificates or documents as the Secured Party shall reasonably request (including, without limitation, corporate resolutions and incumbency certificates), certified as of the date of such Supplement. On the date of any such Supplement, the provisions of Section 4.01(b) and (c) of the Credit Agreement shall be true and correct on and as of such date.

3.5 Marking of Equipment. The Debtor will keep and maintain, or cause to be kept and maintained, plainly, distinctly, permanently and conspicuously marked on each item of Equipment that consists of railroad cars, locomotives or other rolling stock (together with all accessories, equipment, parts and appurtenances

and superstructures pertaining or attached thereto, the "Rolling Stock") and any Rolling Stock that is hereafter acquired or obtained through the exercise of any purchase option under a lease in letters not less than seven-sixteenths of an inch in height:

"OWNERSHIP SUBJECT TO SECURITY AGREEMENT FILED WITH THE INTERSTATE COMMERCE COMMISSION"

or other appropriate words designated by the Secured Party with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the security interests of the Secured Party in such Rolling Stock and its rights hereunder. The Debtor will not place any item of Rolling Stock in operation or exercise any control or dominion over any item of Rolling Stock unless and until such markings have been made thereon and will replace promptly any such markings which may be removed, defaced or destroyed. The Debtor will cause all Rolling Stock to be kept numbered with the respective serial, running and other identifying numbers set forth in Schedule I hereto. The Debtor will not (a) change or authorize to be changed such serial, running or other identifying numbers or (b) place any item of Rolling Stock in service or otherwise exercise any control or dominion over any item of Rolling Stock if the serial, running or other identifying number of such item of Rolling Stock is not contained in Schedule I hereto, unless and until an amendment to this Security Agreement shall have been filed and recorded by the Debtor with the Board. If the Debtor fails to take any action specified in the immediately preceding sentence, the Debtor hereby authorizes the Secured Party to modify this Security Agreement by amending Schedule I hereto as applicable, to reflect such changes or additions to the serial, running or other identifying numbers contained therein and to record the same with the Board.

3.6 Indemnity. The Debtor agrees to indemnify, protect and hold the Secured Party harmless from and against all losses, damages, injuries, obligations, liabilities, claims, suits, demands, penalties, interest and expenses (including, without limitation, fees and disbursements of counsel to the Secured Party) (all of the foregoing losses, damages, etc., collectively, the "indemnified liabilities") arising out of, or resulting from the execution, delivery or performance of, this Security Agreement, the security interests granted hereby, the ordering, acquisition, use, operation, condition, purchase, delivery, rejection, storage or repossession of any Item of Equipment, any claim for personal injury or property damage arising from the operation, use, condition, possession, storage or repossession of any of the Collateral, or any claim relating to any laws, rules or regulations, including, without limitation, environmental control, noise and pollution laws, rules or regulations; provided that the Debtor shall have no obligation to so indemnify the Secured Party for any indemnified liabilities arising from the Secured Party's willful misconduct or gross negligence. The covenants contained in

this subsection 3.6 shall survive payment or other satisfaction of the Obligations and termination of this Security Agreement.

SECTION 4. POSSESSION AND USE OF EQUIPMENT; ASSIGNED LEASES.

4.1 Rights of the Debtor. Unless an Event of Default or Default has occurred and is continuing, (a) the Debtor and each lessee party to an Assigned Lease shall be suffered and permitted to remain in full possession, enjoyment and control of the Item of Equipment covered by such Assigned Lease, and to manage, operate and use such Item of Equipment and each part thereof, with the rights and franchises pertaining to such Item of Equipment and such Assigned Lease and (b) the Debtor may exercise all of its rights, powers, privileges and remedies under the Assigned Leases, including, without limitation, the right to receive, in accordance with its normal commercial practices, any and all monies due or to become due thereunder and to retain all copies (whether original or duplicates) thereof, so long as no such exercise by the Debtor shall materially impair the Secured Party's rights in the Collateral or hereunder.

4.2 Notices to Lessees. If an Event of Default or Default shall have occurred and be continuing (a) the Debtor shall, upon the request of the Secured Party, notify each lessee party to an Assigned Lease that such Assigned Lease has been assigned to the Secured Party and that all rental payments in respect thereof shall be made directly to the Secured Party and (b) the Secured Party may in its own name or in the name of others communicate with any such lessee and exercise any rights pursuant to any Assigned Lease that the Debtor would be entitled to exercise prior to the occurrence and continuance of an Event of Default.

SECTION 5. POWER OF ATTORNEY

5.1 Appointment. The Debtor hereby irrevocably constitutes and appoints the Secured Party, and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact, with full and irrevocable power and authority in the place and stead of the Debtor and in the name of the Debtor or its own name, if an Event of Default shall have occurred and be continuing, to ask, demand, collect, receive receipt for, sue for, compound and give acquittance for any and all of the Collateral, with full power to settle, adjust or compromise any claim thereunder as fully as the Debtor could itself do, and to endorse the name of the Debtor on all commercial paper given in payment or in part payment thereof, and in its discretion, to file any claim or take any other action or proceeding, in its own name or in the name of the Debtor or otherwise, and generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the

Secured Party's option and at the Debtor's expense, all acts and things that the Secured Party deems necessary or appropriate to protect, preserve and realize upon the Collateral and the Secured Party's interest therein and afforded hereby. The Debtor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

5.2 No Duty. The powers conferred on the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Debtor for any act or failure to act, except for its or their own willful misconduct or gross negligence.

5.3 Agent Appointed Attorney-in-Fact. The Debtor hereby irrevocably appoints the Agent the Debtor's attorney-in-fact (which appointment shall be irrevocable and deemed coupled with an interest), with full authority in the place and stead of the Debtor and in the name of the Debtor or otherwise, from time to time in the Agent's discretion, to take any action and to execute any instrument which the Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, upon the occurrence of an Event of Default:

(i) to obtain and adjust insurance required to be paid to the Agent pursuant to Section 3.2,

(ii) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(iii) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (i) or (ii) above, and

(iv) to file any claims or take any action or institute any proceedings which the Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Agent with respect to any of the Collateral.

SECTION 6. CASUALTY LOSSES; INSURANCE PROCEEDS.

6.1 Casualty Losses; Notice. (a) Any of the following events or conditions with respect to any Item of Equipment shall be a casualty loss hereunder (such event or condition, a "Casualty Loss"):

(i) such Item of Equipment shall become (A) lost for a period in excess of 30 consecutive days or (B) destroyed, stolen, or irreparably damaged; or

(ii) such Item of Equipment shall be taken, including, without limitation, condemned, confiscated, seized or forfeited of, or other requisition of, title to, or use by any governmental authority or any person acting under color of governmental authority; or

(iii) such Item of Equipment otherwise becomes unusable in the business of the Debtor.

(b) In the event of a Casualty Loss with respect to any Item of Equipment, the Debtor shall, promptly after receipt of notice of the same (and, in any event, not more than 10 days after the receipt of such notice), give the Secured Party written notice of such Casualty Loss, which notice shall (i) identify the Item of Equipment that has suffered the casualty loss (such Item of Equipment, the "Damaged Unit") and (ii) set forth the Value of such Damaged Unit (and the calculations used in the determination thereof), such Value and calculations to be certified by an authorized officer of the Debtor.

6.2 Replacement Unit; Casualty Loss Proceeds. Upon the occurrence of a Casualty Loss with respect to a Damaged Unit, the Debtor shall, at its option, either (a) replace such Damaged Unit with a replacement unit of the same type and which has a Value (so certified by an authorized officer of the Debtor) and utility at least equal to, and which is in as good condition as, the Damaged Unit immediately prior to such Casualty Loss (assuming that such Damaged Unit was then in the condition required to be maintained by subsection 3.1 hereof) and that is free and clear of all Liens other than Permitted Liens (such unit, the "Replacement Unit") or (b) pay or cause to be paid to the Secured Party any proceeds (in an amount not in excess of the Value of the Damaged Unit), whether in respect of insurance proceeds, condemnation awards or otherwise (collectively, the "Casualty Loss Proceeds"), for application to the Term Loans as provided in the Credit Agreement. If the Debtor elects to grant a lien on and a security interest in the Replacement Unit, the Debtor shall execute a Supplement with respect thereto and take all other steps necessary to subject such Replacement Unit to the lien and security interest of this Security Agreement in accordance with the provisions of subsection 3.4 hereof, following which the Debtor may retain all Casualty Loss Proceeds as reimbursement for the costs of such Replacement Unit. Upon compliance by the Debtor with the provisions of subsection 3.4 hereof and this subsection 6.2 with respect to any Replacement Unit, and so long as no Default or Event of Default shall have occurred and be continuing, the Secured Party shall, at the request of the Debtor, execute and deliver releases in a form reasonably satisfactory to the Debtor releasing such Damaged Unit so replaced

from the lien and security interest of this Security Agreement (without recourse to, or representation or warranty by, the Secured Party).

SECTION 7. REMEDIES.

7.1 Remedies. Subject to the provisions of Section 8.01 of the Credit Agreement, if an Event of Default shall have occurred and be continuing, the Secured Party shall have the following remedies:

(a) The Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it all the rights and remedies of a secured party on default under the Uniform Commercial Code and also may (i) require the Debtor to, and the Debtor hereby agrees that it will at its expense and upon request of the Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to the Agent at a place to be designated by the Agent which is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's offices or elsewhere, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as the Agent may deem commercially reasonable. The Debtor agrees that, to the extent notice of such sale shall be required by law, at least ten days' notice to the Debtor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash proceeds received by the Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Agent, be held by the Agent as collateral for, and then or at any time thereafter applied (after payment of any amounts payable to the Agent pursuant to Section 3.6) in whole or in part against, all or any part of the Obligations. Any surplus of such cash or cash proceeds held by the Agent and remaining after payment in full of all the Obligations shall be paid over to the Debtor or to whomsoever may be lawfully entitled to receive such surplus.

(c) In the event that the Secured Party shall request that the Equipment be collected as provided in subsection 7.1(a) hereof, the Debtor shall, at its own risk and expense, (i) forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to all railroads to which any Items of Equipment have been interchanged to

return the Items of Equipment so interchanged) place such Items of Equipment upon such storage tracks as the Secured Party reasonably may designate; (ii) permit the Secured Party to store such Items of Equipment on such tracks until such Items of Equipment have been sold, leased or otherwise disposed of by the Secured Party; and (iii) transport the same to any connecting carrier for shipment, all as directed by the Secured Party. The assembly, delivery, storage and transportation of the Equipment as herein before provided shall be at the expense and risk of the Debtor and are of the essence of this Security Agreement, and upon application to any court of equity having jurisdiction in the premises the Secured Party shall be entitled to a decree against the Debtor requiring specific performance of the covenants of the Debtor so to assemble, deliver, store and transport the Equipment. During any storage period, the Debtor shall, at its own cost and expense, maintain and keep the Equipment in good order and repair and will permit the Secured Party or any person designated by it, including the authorized representative or representatives of any prospective purchaser, lessor or manager of any Item of Equipment, to inspect the same. The Debtor hereby expressly waives any and all claims against the Secured Party and its agent or agents for damages of whatsoever nature in connection with any retaking of any Item of Equipment in any reasonable manner.

(d) Beyond the use of reasonable care in the custody thereof, the Secured Party shall not have any duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or as to any income thereon.

7.2 Application of Proceeds. The Secured Party shall apply the net proceeds of any collection, recovery, receipt, appropriation, realization or sale as follows:

(a) First, to the payment of all costs and expenses of every kind incurred therein or incidental to the care, safekeeping, or otherwise of any or all of the Collateral or in any way relating to the rights of the Secured Party hereunder, including attorneys' fees and expenses, and of all taxes, assessments or liens superior to the lien and security interest created hereby except any taxes, assessments or other superior liens subject to which any such collection, recovery, receipt, appropriation, realization or sale may have been made;

(b) Second, to the payment in whole or in part of the Obligations, in such order as the Secured Party may elect, the Debtor remaining liable for any deficiency remaining unpaid after such application;

(c) Third, only after so applying the net proceeds and after the payment made by the Secured Party of any other amount required to be made pursuant to any applicable law, including Section 9-504(1)(c) of the UCC, to the Debtor.

To the fullest extent permitted by applicable law, the Debtor waives all claims, damages and demands against the Secured Party arising out of the repossession, retention or sale of the Collateral. The Debtor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which the Secured Party is entitled, the Debtor also being liable for the fees of any attorneys employed by the Secured Party to collect such deficiency. The Debtor hereby waives presentment, demand, protest and any notice (to the fullest extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

7.3 Discontinuance of Remedies. In case the Secured Party shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then, and in every such case, the Debtor and the Secured Party shall be restored to their former positions and rights hereunder with respect to the Collateral.

SECTION 8. MISCELLANEOUS.

8.1 Binding Effect. This Security Agreement shall be binding upon and inure to the benefit of the Debtor and the Secured Party and their respective successors and assigns.

8.2 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Secured Party, any right, power or privilege under this Security Agreement, any Supplement or any of the Collateral shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and therein are cumulative and not exclusive of any rights or remedies provided by law.

8.3 Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired or affected.

8.4 Notices, etc. All notices, requests and demands to or upon the respective parties hereto unless otherwise expressly provided herein, shall be deemed to have been given or made when delivered by hand, in the case of mail, two Business Days after being sent, first-class mail, postage prepaid, or, in the case of telex or telecopy, when sent, addressed as set forth in Section 9.01 of the Credit Agreement.

8.5 Relation to Security Agreement and Mortgage. In the event of a conflict between the terms of this Security Agreement (Chattel Mortgage) and the terms contained in (i) that certain Security Agreement dated as of the date hereof between the Debtor and the Secured Party or (ii) the Real Property Mortgages, with respect to the Rolling Stock, the terms of this Security Agreement (Chattel Mortgage) shall control.

8.6 Release and Termination. At the sole expense of the Debtor, the Secured Party shall release the lien and security interest created pursuant to this Security Agreement by proper instrument or instruments upon payment in full, or other satisfaction of, the Obligations whereupon this Security Agreement shall terminate.

8.7 Governing Law. This Security Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York; provided that the parties hereto shall be entitled to all rights conferred by Section 11301, Title 49 of the United States Code and such additional rights arising out of the filing, registration, recording or deposit of this Security Agreement or any Supplement hereto pursuant thereto.

8.8 Counterparts. This Security Agreement may be executed in any number of counterparts, each executed counterpart constituting an original, but all of such counterparts all together shall be deemed to constitute one and the same instrument.

8.9 Headings. The headings of the sections of this Security Agreement are for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

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

**THE TOLEDO, PEORIA AND WESTERN
RAILROAD CORPORATION**

By: 

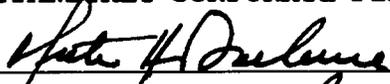
Title: PRESIDENT

**TOLEDO, PEORIA & WESTERN
RAILWAY CORPORATION**

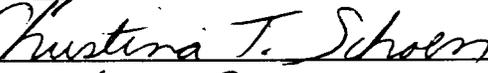
By: 

Title: President

CREDITANSTALT CORPORATE FINANCE, INC.

By: 

Title: v. Vice President

By: 

Title: Vice President

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 31st day of January, 1996, before me, personally appeared Gordon R. Fuller to me personally known, who being by me duly sworn, says that he resides at Plainfield, New Jersey and is President of Toledo, Peoria and Western Railway Corporation; that said instrument was signed on behalf of said corporation by authority of its Board of Directors on January 31, 1996; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Tom B. Johnson

Notary Public

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

I, the undersigned, a notary public in and for said county and said state, hereby certify that Dieter H. Boehme and Christina Schoen, whose names as Senior Vice President and Vice President of CREDITANSTALT CORPORATE FINANCE, INC., a Connecticut corporation, are signed to the foregoing instrument and who are known to me, acknowledged before me on this day that being informed of the contents of the said instrument, they, as such officers, and with full authority, executed the same voluntarily for and as the act of said corporation on the 31st day of January, 1996.

Given, under my hand and seal, on this the 31st day of January, 1996.

Ann B. Silva

(Notarial Seal)

ANN B. SILVA
NOTARY PUBLIC, State of New York
No. 4725878
County of New York
Commission expires May 31, 1996

Schedule I to Security Agreement (Chattel Mortgage)

LOCOMOTIVES

Model	Former Unit Number	Current Unit Number
EMD GP 20	ATSF 3074	TPW 2001*
EMD GP 20	ATSF 3039	TPW 2002
EMD GP 20	ATSF 3003	TPW 2003
EMD GP 20	ATSF 3071	TPW 2004
EMD GP 20	ATSF 3004	TPW 2005
EMD GP 20	ATSF 3073	TPW 2006
EMD GP 20	ATSF 3016	TPW 2007
EMD GP 20	ATSF 3051	TPW 2008
EMD GP 20	ATSF 3014	TPW 2009
EMD GP 20	ATSF 3040	TPW 2010
EMD GP 20	ATSF 3053	TPW 2011
EMD GP 20	ATSF 3019	TPW 2012
EMD GP 20	ATSF 3068	TPW 2013
EMD GP 20	ATSF 3022	TPW 2014
EMD GP 20	ATSF 3015	TPW 2015
EMD GP 20	ATSF 3013	TPW 2016
EMD GP 20	ATSF 3059	TPW 2017
EMD GP 20	ATSF 3034	TPW 2018
EMD GP 20	ATSF 3063	TPW 2019
EMD GP 7	CNW 4448	TPW 1601
EMD GP 7	CNW 4494	TPW 1602
EMD F 7A	BLE 720A	TPW 1500

* Unit has been scrapped.

Schedule I to Security Agreement (Chattel Mortgage)

LOCOMOTIVES

Model	Former Unit Number	Current Unit Number
EMD GP 20	ATSF 3074	TPW 2001*
EMD GP 20	ATSF 3039	TPW 2002
EMD GP 20	ATSF 3003	TPW 2003
EMD GP 20	ATSF 3071	TPW 2004
EMD GP 20	ATSF 3004	TPW 2005
EMD GP 20	ATSF 3073	TPW 2006
EMD GP 20	ATSF 3016	TPW 2007
EMD GP 20	ATSF 3051	TPW 2008
EMD GP 20	ATSF 3014	TPW 2009
EMD GP 20	ATSF 3040	TPW 2010
EMD GP 20	ATSF 3053	TPW 2011
EMD GP 20	ATSF 3019	TPW 2012
EMD GP 20	ATSF 3068	TPW 2013
EMD GP 20	ATSF 3022	TPW 2014
EMD GP 20	ATSF 3015	TPW 2015
EMD GP 20	ATSF 3013	TPW 2016
EMD GP 20	ATSF 3059	TPW 2017
EMD GP 20	ATSF 3034	TPW 2018
EMD GP 20	ATSF 3063	TPW 2019
EMD GP 7	CNW 4448	TPW 1601
EMD GP 7	CNW 4494	TPW 1602
EMD F 7A	BLE 720A	TPW 1500

* Unit has been scraped.

RAIL CARS

	Car Number	Car Number	Class
Open Top Hopper Cars:			
1	ATSF 80004	TP&W 80004	Ga-138
2	ATSF 80007	TP&W 80007	Ga-138
3	ATSF 80009	TP&W 80009	Ga-138
4	ATSF 80012	TP&W 80012	Ga-138
5	ATSF 80015	TP&W 80015	Ga-138
6	ATSF 80016	TP&W 80016	Ga-138
7	ATSF 80017	TP&W 80017	Ga-138
8	ATSF 80018	TP&W 80018	Ga-138
9	ATSF 80021	TP&W 80021	Ga-138
10	ATSF 80026	TP&W 80026	Ga-138
11	ATSF 80029	TP&W 80029	Ga-138
12	ATSF 80034	TP&W 80034	Ga-138
13	ATSF 80037	TP&W 80037	Ga-138
14	ATSF 80054	TP&W 80054	Ga-138
15	ATSF 80061	TP&W 80061	Ga-138
16	ATSF 80066	TP&W 80066	Ga-138
17	ATSF 80076	TP&W 80076	Ga-138
18	ATSF 80080	TP&W 80080	Ga-138
19	ATSF 80094	TP&W 80094	Ga-138
20	ATSF 80109	TP&W 80109	Ga-138
21	ATSF 80131	TP&W 80131	Ga-138
22	ATSF 80135	TP&W 80135	Ga-138
23	ATSF 80162	TP&W 80162	Ga-138
24	ATSF 80177	TP&W 80177	Ga-138
25	ATSF 80193	TP&W 80193	Ga-138
Other rail cars:			
		TP&W 3000	Tank Car
		TP&W 001	Passenger Car
		TP&W 999169	Caboose
		TP&W 999208	Caboose