

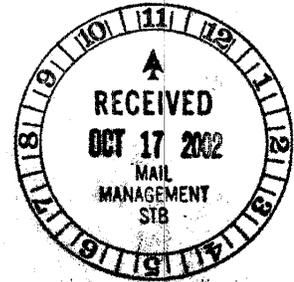
WISE & REEVES, P.C.

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October 3, 2002



The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K. Street, NW
Washington, DC 20423-0001

RECORDATION NO. 24188 FILED

OCT 28 '02 12-29 PM

SURFACE TRANSPORTATION BOARD

Re: New Recordation Number

Dear Secretary Williams:

Enclosed are the original and three (3) certified copies of the document described below, to be recorded pursuant to Section 11301 of Title 49 of the United States Code.

This document is a security agreement, a primary document dated September 18, 2002.

We request that this instrument be cross-indexed.

The equipment covered in the document is:

- (a) An EMD, SW1500 Switching Locomotive, # 2240; and
- (b) An EMD, SW1500 Switching Locomotive, # 2241; and
- (c) An EMD, SW1500 Switching Locomotive, # 2242.

Page 2
October 3, 2002

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

Lender:

BB&T
Post Office Box 10
Knoxville, Tennessee 37901-0010

Borrower:

Gulf & Ohio Railways Holding Co., Inc.
401 Henley Street, Suite 5
Knoxville, TN 37902

A fee of \$30.00 is enclosed. Please return any originals not needed by the Surface Transportation Board for recordation to:

Stephen R. Wise
Wise & Reeves, P.C.
625 S. Gay Street, Suite 160
Knoxville, TN 37902

Sincerely,



Stephen R. Wise

SRW:tj

Enclosures

OCT 28 '02 12-29 PM

SECURITY AND LOAN AGREEMENT

SURFACE TRANSPORTATION BOARD

THIS AGREEMENT, made and entered into this 17 day of September, 2002, by and between GULF & OHIO RAILWAYS HOLDING CO., INC., a Tennessee corporation with offices and place of business in Knox County, Tennessee, ("Debtor"), and BRANCH BANKING AND TRUST COMPANY, a North Carolina banking corporation with offices and place of business in Knoxville, Knox County, Tennessee, ("BB&T").

WITNESSETH

In consideration of the sum of One (\$1.00) Dollar and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Creation of Security Interest. Debtor hereby grants unto BB&T a security interest in and to the following described property of the Debtor wherever located (hereinafter called "Collateral").

- (a) An EMD, SW1500 Switching Locomotive, # 2240; and
- (b) An EMD, SW1500 Switching Locomotive, # 2241; and
- (c) An EMD, SW1500 Switching Locomotive, # 2242; and
- (d) All proceeds, products, replacements, additions to, substitutions for, accessions of, and property necessary for the operation of any of the foregoing, including, without limitation, insurance payable as a result of loss or damage to any of the foregoing.

2. Purpose of Security Interest. This security interest is granted for the purpose of securing payment of the following obligations of Debtor to BB&T (hereinafter called "Obligations"):

- (a) A promissory note in the original principal amount of \$400,000.00, dated September 17, 2002, executed by Debtor and made payable to the order of BB&T; and
- (b) Any and all other indebtedness or liabilities for which Debtor is now or may hereafter become liable to BB&T in any manner, whether under this Agreement or otherwise, primary or secondary, absolute or contingent, direct or indirect, and whether matured or unmatured, contractual or tortious, liquidated or unliquidated, and all loan agreements, documents and instruments evidencing any of the foregoing; and
- (c) Any and all extensions, modifications and/or renewals of or substitutions for any of the foregoing indebtednesses, obligations and/or liabilities or any part thereof; and
- (d) All interest, charges, expenses, attorney's or other fees and any other sums payable to or incurred by BB&T in connection with the execution, administration or enforcement of BB&T'S rights and remedies hereunder.

3. Payment Obligation. Debtor hereby agrees and promises to punctually pay the Obligations when due, and if any Obligation is not evidenced by writing specifying a due date, to pay the same upon demand, all Obligations being payable to BB&T at its address as hereinafter shown.

4. Financing Statements. Debtor hereby authorizes BB&T to execute and file one or more financing statements or continuations statements on Debtor's behalf. This grant of authority shall be irrevocable until all Obligations have been fully paid and performed, and this grant of authority shall be deemed a power coupled with an interest. Debtor's signature at the end of this instrument constitutes authentication of this Security Agreement and all loan documents and shall be deemed to authorize BB&T to file financing statements and continuation statements covering the Collateral described herein in accord with the laws of the State of Tennessee.

5. Covenants of Debtor. Debtor represents, warrants, and covenants that:

(a) Corporate Power. Debtor is duly organized and existing under the laws of the State of Tennessee and is qualified and in good standing in all states in which it does business. The execution, delivery and performance of this Agreement are within Debtor's corporate powers, have been duly authorized and are not in contravention of law or the terms of Debtor's charter, bylaws or other incorporation papers, or any indenture, agreement, judgment, or undertaking to which Debtor is a party or by which it is bound.

(b) Maintenance of Business and Corporate Existence. Debtor will maintain its corporate existence, shall comply with all valid and applicable statutes, ordinances, rules and regulations and shall keep in force and effect all licenses, permits, bonds and franchises necessary for the proper conduct of its business.

(c) Title. Debtor is sole owner of the Collateral and there exist no liens, encumbrances or adverse claims thereto except for the security interest created hereby.

(d) Location of Debtor and Collateral. The Collateral shall remain in Debtor's possession and control at all times, and at Debtor's risk of loss. Debtor's primary business office and Debtor's books and records concerning the Collateral are located at the address or location set forth in Paragraph 10 hereof.

(e) No Assignment. Debtor will not sell, assign, pledge, mortgage, hypothecate, lease, encumber, grant a security interest in, convey or otherwise dispose of, nor will Debtor suffer or permit any of the same to occur with respect to the Collateral, or any part thereof, without the prior written consent of BB&T, except for the sale from time to time in the ordinary course of business of Debtor of such items of Collateral as may constitute part of the business inventory of Debtor.

(f) Credit Information. All financial, credit and accounting information supplied and statements made by Debtor in connection with the Obligations have been prepared from Debtor's books and records, and are based on generally accepted accounting principles, consistently applied, and are true, correct, complete, valid, and genuine. There has been no material adverse change in any such information since the time it was supplied, except as disclosed in writing to BB&T.

Within thirty (30) days after request by BB&T, and at its own expense, Debtor shall supply to BB&T its latest financial statement and any other such financial information as BB&T may request, including audits by independent certified public accountants.

Notwithstanding any term or provision to the contrary herein or in the Note, or otherwise, in the event of a failure to provide financial statements or income tax returns as required herein, the effective interest rate to the loan, for a period beginning three (3) days after written notice of such failure and ending upon the curing of said noticed failure, shall increase one quarter of one percent (.25%) for the first thirty (30) days of said failure, and increase an additional one quarter of one percent (.25%) during each thirty (30) day period thereafter during which the noticed failure continues. Upon the remedy of the noticed failure, the interest rate on the Loan shall revert to the initially agreed-upon interest rate, effective on the date on which the failure is remedied. Debtor acknowledges that such increased interest rate is intended to compensate BB&T for the potentially higher credit risk and increased administrative costs associated with such failure to furnish timely financial information.

(g) Litigation. There is no litigation, proceeding, claim or dispute pending or threatened against Debtor, the adverse determination of which would materially affect Debtor's ability to repay the Obligations or otherwise preform hereunder.

(h) Business Records. Debtor shall at all times keep accurate and complete business records. BB&T may at any time examine and audit Debtor's records and Debtor shall assist therein if requested.

(i) Adverse Changes and Litigation. Debtor shall immediately inform BB&T of any material adverse change in its financial condition and shall promptly inform BB&T of any litigation or threatened litigation or of the occurrence of any other event or circumstance which might substantially affect the financial condition or business of Debtor.

(j) Use of Collateral. The Collateral is and will be used in Debtor's business and not for personal, family or household use. Debtor shall neither use the Collateral, or permit the use thereof, for any unlawful purpose. Debtor shall use, operate and control the Collateral in accordance with all laws, statutes, ordinances and regulations relating to the use, operation and control of the secured property. Unless in default under this Agreement, Debtor may sell its inventory in the ordinary course of business and may consume any raw materials or supplies, the use and consumption of which are necessary to carry on Debtor's business. Debtor may not otherwise sell or dispose of inventory, nor shall Debtor in any event sell or dispose of Collateral other than inventory, without the prior written consent of BB&T.

(k) Maintenance of Collateral. The Collateral is in good and operable condition and Debtor shall keep and maintain the Collateral in as good condition and repair as it now is, ordinary wear and tear excepted. The Collateral is now and shall remain personal property, and Debtor will not permit any of the Collateral to become a part of or affixed to real property without prior written notice to BB&T, and without making prior arrangements, and delivering to BB&T all instruments and documents necessary to preserve and protect BB&T'S primary security interest granted herein against all persons.

(l) Other Debts. Debtor shall not directly or indirectly incur, create, assume or permit to exist any obligation for payment of borrowed money, excepting only unsecured current liabilities incurred in the ordinary course of business and obligations contemplated by this Agreement, nor enter into any leases, nor initiate any new investments of its funds or assets without the express written consent of BB&T, which consent shall not be unreasonably withheld. Further, Debtor shall not guarantee the obligations of any person or entity, excepting only obligations contemplated by this Agreement.

(m) Sale of Collateral. Debtor shall not sell, lease, transfer or otherwise dispose of any of the Collateral as described in ARTICLE VII hereof, other than in the ordinary course of Debtor's business. If Debtor should desire to sell any of the Collateral, a release price therefore will be determined at the sole discretion of BB&T, and upon the sale of that Collateral, the release price will be paid over by Debtor to BB&T and applied by BB&T to payments due on the Note, in inverse order of the due dates, and BB&T shall thereupon release its lien or security interest upon the Collateral sold.

(n) Bulk Sale. The Debtor shall not, without the prior written consent of BB&T, sell, transfer or convey all or any part of its interest in its assets to another entity.

(o) Taxes and Insurance. Debtor shall pay when due all taxes and assessments, and shall discharge any liens upon the Collateral or its use and shall maintain such insurance thereon as BB&T may require. Copies of all policies shall be furnished to BB&T and shall contain such terms, be for such periods and be written by such companies as may be satisfactory to BB&T and shall name BB&T as a Loss Payee as its interest may appear. All policies shall provide for a minimum of ten (10) days' written cancellation notice to BB&T. Debtor shall deliver to BB&T the original or certified duplicate policies, or certificates or other evidence satisfactory to BB&T of compliance with the foregoing insurance provisions, and Debtor will promptly notify BB&T of any loss or damage to any of the Collateral or its use. All proceeds from and under any policy of insurance in respect to the Collateral, including refunded unearned premium, may be received by BB&T and, at the option of BB&T, and without regard to a breach or default as a condition precedent, and whether due or not, may be applied to the Obligations, or such proceeds may be held in trust for the payment of cost of repair or replacement of all or any portion of the Collateral. Any surplus of such proceeds remaining shall be paid to Debtor or whomever shall be lawfully entitled thereto. In the event proceeds are insufficient to pay the Obligations in full, or the cost of repair or replacement of all or any part of the Collateral, Debtor shall pay from Debtor's own funds a sufficient sum to repay the Obligations in full or cover the costs of repair or replacement.

If Debtor fails to pay any tax or assessment, discharge any lien or maintain insurance as required, BB&T may, at its option, pay, discharge or obtain the same, although not required to do so. Such payment shall become part of the Obligations secured by this Agreement, and Debtor shall reimburse BB&T on demand for any payment, together with interest thereon at the maximum contract rate permitted by law from date of payment.

(p) Notation of Assignment, Insurance, Information and Payment of Accounts. When and to the extent required by BB&T, Debtor shall (1) mark chattel paper, records of accounts, and contract rights in a manner satisfactory to BB&T to show BB&T'S interest therein; (2) furnish to BB&T satisfactory evidence of shipment and receipt of goods and performance of contracts; (3) give BB&T lists of account debtors showing names, addresses and accounts owing,

and such other data concerning its accounts, contract rights, chattel paper, general intangibles, collections and other data as BB&T may from time to time specify; and (4) pay BB&T the unpaid portion of any specifically assigned account, contract right or chattel paper if (i) such account or chattel paper is not paid promptly after its maturity, (ii) the goods are returned, lost, damaged or the contract cancelled or terminated, (iii) proceedings under any bankruptcy or insolvency laws are initiated by or against the account debtor, or (iv) BB&T at any time rejects the account, contract right or chattel paper as unsatisfactory for any reason.

(q) Bank Accounts. BB&T, at its option, at anytime and without notice to Debtor, may apply to payment of any Obligations, whether or not due, the balance of any deposit, checking, savings, collateral, reserve or other account of Debtor with BB&T. As additional security for payment of the Obligations, BB&T is hereby granted a security interest in any other funds or property of Debtor, now or hereafter in the possession of BB&T and with respect thereto, BB&T shall have all rights and remedies herein specified.

(r) ERISA. Debtor is in compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), has not incurred any material funding deficiency within the meaning of ERISA, and has not incurred any material liability to the Pension Benefit Guaranty Corporation in connection with any employee benefit plan established or maintained by Debtor.

(s) Dividends, Distributions, Redemptions and Salaries. Debtor will not declare or pay any dividend, purchase, redeem, or otherwise acquire for value any of its stock now or hereafter outstanding, return any capital to its stockholders, or make any distribution of its assets to its stockholders as such. Debtor shall not increase the aggregate compensation paid to its officers as of the date of this Agreement without the prior consent of BB&T.

(t) Additional Acts. Debtor, upon the request of BB&T, shall make, execute and deliver all such further acts, instruments and documents as BB&T may deem necessary to protect, perfect or continue BB&T'S secured interest in the Collateral at the expense of Debtor.

(u) Release and Waiver. Debtor hereby releases BB&T from any and all claims for loss or damage caused by any act or omission (except willful misconduct) on the part of BB&T, its officers, agents, servants, employees and/or contractors, including, without limitation, failure to collect any instrument, account, chattel paper or general intangible, to preserve rights against prior parties or to enforce any contract right. Debtor waives protest of all commercial paper at any time held by BB&T on which Debtor is in any manner liable, notice of nonpayment at maturity of any instrument, account or chattel paper, and notice of any action taken by BB&T, except where notice is expressly required by this Agreement.

6. Default. The occurrence of any one or more of the following events shall constitute an event of default ("Event of Default") hereunder;

(a) Debtor fails to make punctual payment due and owing pursuant to the Obligations or any indebtedness secured by this Agreement.

(b) Failure to observe and perform any obligation, covenant or undertaking of Debtor herein contained, or set forth in any document or instrument by and among the parties, whether now existing or hereafter arising.

(c) Any covenant, statement, representation, or warranty contained herein or made by or on behalf of Debtor to BB&T in connection herewith shall prove at any time to be untrue, incorrect or inaccurate in any material respect.

(d) Entry of a judgment, issuance of an injunction, order of attachment, or any other process against Debtor or any obligor, on the Collateral which in BB&T'S sole opinion impairs Debtor's ability to repay or perform the Obligations.

(e) The loss, theft, substantial damage to or destruction of the Collateral or of any material portion thereof, regardless of insurance coverage.

(f) Sale, assignment or use, except as authorized in this Agreement, loss, theft, substantial damage, destruction or encumbrance of or to any of the Collateral or the filing of suit for the purpose of or the making of any levy, seizure or attachment thereof or thereon.

(g) Termination or revocation of any guaranty or surety executed in connection with the Obligations.

(h) At any time, in the opinion of BB&T, the financial condition of Debtor becomes impaired or the Collateral becomes insufficient or unsafe.

(i) Debtor's dissolution or other termination of existence, merger or consolidation with another, insolvency, forfeiture of right to do business, business failure, appointment of a receiver for any part of the property, the calling of any meeting of, or the assignment for the benefit of, creditors by Debtor, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Debtor or any guarantor or surety for Debtor.

(j) Failure of Debtor to maintain its corporate existence in good standing.

(k) Any guarantor, surety or endorser for Debtor defaults in any Obligation or liability to BB&T.

7. Remedies Upon Event of Default. Should any Event of Default occur, BB&T shall have the following rights and remedies:

(a) Declare all or part of the indebtedness pursuant to the Obligations immediately due and owing, payable at once and without notice.

(b) All the rights and remedies of a secured party under the Uniform Commercial Code of Tennessee, including without limitation, the right to sell, lease or otherwise dispose of any or all of the Collateral and the right to take possession of the Collateral, and for that purpose, BB&T may enter upon any premises upon or within which the Collateral or any part thereof may be situated and removed the same to a place deemed appropriate by BB&T. BB&T may require Debtor to assemble the Collateral and to make it available at a place or places to be designated by BB&T.

(c) Take possession of all books and records of Debtor pertaining to the Collateral. BB&T shall have the authority to enter upon any real property or improvements thereon in order to obtain such books and records, or any Collateral located thereon, and remove the same without liability.

(d) Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, BB&T shall give Debtor notice of the time and place of public sale of the Collateral or of the time after which any private sale or other intended disposition is to be made, by sending notice, as provided below, at least ten (10) days before the sale or other disposition, which provisions for notice Debtor hereby expressly agrees are reasonable.

(e) Apply and set-off (i) any deposits of Debtor held by BB&T (ii) all claims of Debtor against BB&T now or hereafter existing and (iii) any other property, rights or interests of Debtor which comes into the possession or custody or control of BB&T. BB&T will notify Debtor promptly after any such set-off or application, provided, however, the failure to give such notice shall not affect the validity of such set-off or application.

(f) In connection with the foreclosure, liquidation or sale of the Collateral, BB&T shall have the right to apply the proceeds thereof in the following order:

(1) To the payment of any cost or expense incurred by BB&T incident to the default or breach of Debtor including the reasonable costs of possession, preservation, advertising, care or liquidation of the Collateral, including a reasonable attorney's fee, costs of repair and court costs.

(2) Payment of any outstanding and unpaid indebtedness owing pursuant to the Obligations.

(3) The surplus of any such proceeds to Debtor or whomever shall be lawfully entitled.

Debtor shall remain liable to BB&T for payment of any deficiency, with interest at the maximum contract rate permitted by law.

(g) Whenever an attorney is used to collect any Obligation or to enforce any right of BB&T against Debtor under this Agreement, whether by suit or other means, Debtor agrees to pay a reasonable attorney's fee. Debtor also agrees to pay BB&T'S attorneys a reasonable fee for enforcing against third parties any other rights of BB&T pertaining hereto, including BB&T'S undertaking collection of any Collateral and for defending against any claims pertaining to the Collateral.

8. Account Debtors. At any time, before or after any Event of Default, BB&T may in its name or that of Debtor, notify any account debtor or obligor of any account, contract instrument, chattel paper or general intangibles included in the Collateral to make payment directly to BB&T. BB&T may further take whatever steps it deems necessary or advisable in its sole discretion to collect any and all accounts or contract rights, or to sell, transfer, compromise, discharge or extend the whole or any part thereof, and apply the proceeds thereof to the Obligations.

9. Non-Waiver. No act, delay, omission or course of dealing between Debtor and BB&T will be a waiver of any of BB&T'S rights or remedies hereunder, and no waiver, change, modification or discharge, in whole or in part, of this Agreement or of any Obligation shall be effective unless in writing, signed by the parties. A waiver of BB&T of any rights or remedies under the terms of this Agreement or with respect to any Obligation on any occasion will not be a bar to the exercise of any right or remedy on any subsequent occasion. All rights and remedies of BB&T hereunder are cumulative and may be exercised singularly or concurrently, and the exercise of any one or more of them will not be a waiver of any other. The rights specified in this Agreement are in addition to those set forth in any other agreement or instrument executed in connection herewith or in connection with which this Agreement is executed, and are further in addition to such other rights and remedies as may be available to BB&T at law or in equity.

Debtor hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing any of the Obligations or the Collateral, and any and all other notices and demands whatsoever (except as expressly provided herein).

10. Notice. Notice required to be given hereunder or pursuant to law, unless waived, shall be given in writing and delivered to the addressee thereof through the United States Postal Service, postage prepaid, certified or ordinary, addressed as follows:

If to BB&T:

BB&T
Post Office Box 10
Knoxville, Tennessee 37901-0010

If to Debtor:

Gulf & Ohio Railways Holding Co., Inc.
401 Henley Street, Suite 5
Knoxville, TN 37902

11. Power of Attorney. Debtor hereby irrevocably designates and appoints any officer of BB&T designated from time to time by BB&T as Debtor's attorney-in-fact, with full power of substitution to sign any certificate of ownership, registration card, applications, affidavits, financing statements, or amendments, or documents necessary to transfer title to any of the Collateral or receive and receipt for all licenses, registration cards, certificates of ownership, and lease payments, to receive, change the address for delivery, open and dispose of mail addressed to Debtor, and to execute, assign, and endorse negotiable and other instruments for the payment of money, documents of title or other evidences of payment, to endorse any draft drawn by insurers of the Collateral, and to do all things necessary or incident to the powers granted to BB&T under this Agreement or to carry out and enforce this Security Agreement, in Debtor's place and stead; provided, however, that the power herein conferred shall not be construed as a power or right granted to BB&T to accept process or otherwise confess judgment on behalf of the Debtor.

12. Law Governing. This Agreement shall be construed in accordance with the laws of the State of Tennessee. Debtor has purposefully availed itself of the benefits of the laws of the State of Tennessee, and hereby waives any objection to in personam jurisdiction, waives any objection to venue, and waives any plea of forum non conveniens.

13. Construction and Effect of Agreement. Pronouns used herein shall include the masculine, the feminine and the neuter genders, and the singular shall include the plural and the plural, the singular, as required by the context.

14. Joint and Several Liability. If this Agreement is executed by more than one person as Debtor, all rights, obligations and representations herein set forth are and shall be joint and several.

15. Severable Provisions. The provisions hereof shall be severable, and if any provision hereof shall be found to be illegal, void or unenforceable, then and in that event, this Agreement shall be construed as if said provision was not herein contained, so as to give effect, as nearly as possible, to the original intent of the parties hereto.

16. Benefit. All rights and remedies of BB&T shall inure to the benefit of its successors and assigns, and Debtor may assert no claims or defenses against any assignee of BB&T which Debtor may have against BB&T, except those granted by this Agreement.

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

GULF & OHIO RAILWAYS HOLDING CO., INC.

By: 
H. PETER CLAUSSEN, PRESIDENT

BRANCH BANKING AND TRUST COMPANY

By: 
Title