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GC&E GOLLATZ
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& EWING

RECORDATION NO. 24855 FILED ATTORNEYS - AT - LAW

MAR 17 2004 12:47 PM

SURFACE TRANSPORTATION BOARD

March 16, 2004
VIA: Overnight delivery

MAR 17 2004
RECEIVED

Hon. Vernon A. Williams, Secretary
Surface Transportation Board
Mercury Building, #711
1925 K Street, N.W.
Washington, DC 20423-0001

Re: Documents for Recordation

Dear Secretary Williams:

I have enclosed an original and one copy of the document described below, to be recorded pursuant to 49 USC §11301 and 49 CFR Part 1177.

The document is a Security Agreement, a primary document, dated March 15, 2004, effective as of March 10, 2004.

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

Borrower/Debtor:

Lehigh Valley Rail Management, LLC
Room 618, Martin Tower
1170 Eighth Avenue
Bethlehem, PA 18018

Secured Party:

Commonwealth of Pennsylvania, acting by and
through the Department of Community and
Economic Development
Commonwealth Keystone Building
400 North Street
Fourth Floor
Harrisburg, PA 17120

GOLLATZ, GRIFFIN & EWING, P.C.

WEST CHESTER

PHILADELPHIA

WILMINGTON

Hon. Vernon A. Williams, Secretary
March 16, 2004
Page 2

A description of the equipment covered by the document follows:

A first lien on a first lien on the 11 locomotives, 24 flat cars and 126 hopper cars identified in more detail on Exhibit A to this letter, and a second lien on the 31 locomotives identified in more detail on Exhibit B to this letter.

A fee of \$30.00 is enclosed. Please return the original and any extra copies not needed by the Board for recordation to:

Eric M. Hocky
Gollatz, Griffin & Ewing, P.C.
Four Penn Center
Suite 200
1600 John F. Kennedy Blvd.
Philadelphia, PA 19103-2808

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

Security Agreement between Lehigh Valley Rail Management, LLC, Room 618, Martin Tower, 1170 Eighth Avenue, Bethlehem, PA 18018, and Commonwealth of Pennsylvania, acting by and through the Department of Community and Economic Development, Commonwealth Keystone Building, 400 North Street, Fourth Floor, Harrisburg, PA 17120, dated March 15, 2004, effective as of March 10, 2004, and covering a first lien on 11 locomotives, 24 flat cars and 126 hopper cars, and a second lien on 31 locomotives.

Respectfully,


Eric M. Hocky

EMH/e

Enclosures

GOLLATZ, GRIFFIN & EWING, P.C.

WEST CHESTER

PHILADELPHIA

WILMINGTON

EXHIBIT "A"

The "A Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
CBL 100	EMD NW2	CBL 101	EMD NW2
CBL 102	EMD NW2	CBL 104	EMD SW7
CBL 110	EMD SW7	CBL 111	EMD SW7
CBL 112	EMD SW7	CBL 114	EMD SW7
CBL 116	EMD SW7	CBL 122	EMD NW2
CBL 125	EMD NW2		

Roadway Equipment

[redacted]

Shop Equipment

[redacted]

Miscellaneous Equipment

[redacted]

Flat Cars

Reporting Marks/Numbers

PBNE 500
PBNE 509 to 511

Reporting Marks/Numbers

PBNE 501 to 507
PBNE 513 to 525

Hopper Cars

Reporting Marks/Numbers

BSIX 1224
BSIX 1251
BSIX 1300
BSIX 1324
BSIX 1329 to 1331
BSIX 1357
BSIX 1363
BSIX 1374
BSIX 1399
PBNE 1203 to 1204
PBNE 1218
PBNE 1228 to 1231
PBNE 1238
PBNE 1246
PBNE 1261
PBNE 1270
PBNE 1277
PBNE 1281
PBNE 1286
PBNE 1291 to 1293
PBNE 1298
PBNE 1307 to 1310
PBNE 1320
PBNE 1327 to 1328
PBNE 1335 to 1337
PBNE 1343 to 1346
PBNE 1353 to 1356
PBNE 1360 to 1362
PBNE 1369 to 1373
PBNE 1378 to 1382
PBNE 1389 to 1393
PBNE 1400
PBNE 1407

Reporting Marks/Numbers

BSIX 1240
BSIX 1280
BSIX 1321
BSIX 1326
BSIX 1347 to 1348
BSIX 1359
BSIX 1368
BSIX 1376 to 1377
BSIX 1401
PBNE 1209 to 1210
PBNE 1225
PBNE 1233
PBNE 1241 to 1242
PBNE 1253
PBNE 1267
PBNE 1273 to 1275
PBNE 1279
PBNE 1284
PBNE 1288 to 1289
PBNE 1295
PBNE 1302 to 1304
PBNE 1315 to 1318
PBNE 1322 to 1323
PBNE 1332 to 1333
PBNE 1339 to 1341
PBNE 1349 to 1351
PBNE 1358
PBNE 1364 to 1366
PBNE 1375
PBNE 1384 to 1387
PBNE 1395 to 1397
PBNE 1402 to 1403
PBNE 1409

EXHIBIT "B"

The "B Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
PBNE 8	EMD MP15	PBNE 9	Slug
PBNE 10	Slug	PBNE 12	Slug
PBNE 13	Slug	PBNE 14	Slug
PBNE 19	EMD MP15	PBNE 20	EMD MP15
PBNE 22	EMD NW2	PBNE 23	EMD NW2
PBNE 24	EMD NW2	PBNE 25	EMD NW2
PBNE 26	EMD NW2	PBNE 27	EMD NW2
PBNE 31	EMD SW7	PBNE 32	EMD SW7
PBNE 33	EMD SW7	PBNE 35	EMD SW9
PBNE 36	EMD SW9	PBNE 37	EMD SW9
PBNE 39	EMD SW1200	PBNE 42	EMD SW1200
PBNE 43	EMD SW1200	PBNE 44	EMD SW7
PBNE 50	EMD SW900	PBNE 51	EMD SW900
PBNE 51A	EMD SW1200	PBNE 52	EMD SW1200
PBNE 53	EMD SW1200	PBNE 90	EMD SW7
PBNE 93	EMD SW9		

Roadway Equipment

[redacted]

Shop Equipment

[redacted]

Miscellaneous Equipment

[redacted]

KMK/03-08-04

MELF #23-9-539

RECORDATION NO. 24855 FILED

MAR 17 2004 12:47 PM

SURFACE TRANSPORTATION BOARD

SECURITY AGREEMENT

THIS AGREEMENT made this 15th day of March, 2004, effective as of March 10th, 2004 (the "Effective Date") between LEHIGH VALLEY RAIL MANAGEMENT LLC, a limited liability company organized and existing under the laws of the Commonwealth of Pennsylvania having its principal offices at Room 618 Martin Tower, 1170 Eighth Avenue, Bethlehem, Pennsylvania 18018 (the "Debtor") and the COMMONWEALTH OF PENNSYLVANIA, acting through the DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT with an office at 400 North Street, 4th Floor, Harrisburg, Pennsylvania 17120 (the "Department").

RECITALS

A. The Department and the Debtor have entered into a Loan Agreement dated the Effective Date (the "Loan Agreement"). Under the Loan Agreement, the Department has agreed to lend the Debtor the principal sum of Five Hundred Thousand Dollars (\$500,000) (the "Loan") upon the terms and subject to the conditions of the Loan Agreement.

B. As evidence of its obligation to repay the Loan, the Debtor has signed a Note dated the Effective Date (the "Note") which the Debtor has delivered to the Department. The Note describes the interest rate and the payment terms of the Loan. Capitalized terms which are used herein shall have the meanings ascribed to them in the Loan Agreement.

NOW THEREFORE, in consideration of the Loan and intending to be legally bound, the Debtor hereby grants, covenants and agrees with the Department as follows:

GRANTING CLAUSE

The Debtor grants to the Department a security interest in the machinery and equipment listed on Exhibit "A" and Exhibit "B" hereto and all parts, replacements and/or substitutions, accessions, equipment, tools and operating manuals and any proceeds and products thereof and all insurance proceeds therefrom (collectively, the "Collateral").

This Security Agreement secures payment and performance by the Debtor to the Department of the Debtor's obligations under the Loan Agreement and any other present or future obligations of the Debtor to the Department. Capitalized terms used in this Security Agreement will have the meanings defined in the Loan Agreement.

LOCATION AND USE OF COLLATERAL

Debtor has good, marketable and unencumbered title to the Collateral which it has acquired subject only to the Permitted Lien as defined below. Debtor covenants that the Collateral will be used primarily for Debtor's business. The Collateral, other than rolling stock, is or will be located at the properties commonly known as Iron Hill Road, Bethlehem, Northampton County, Pennsylvania and 825 Iron Street, Johnstown, Cambria County, Pennsylvania described in Exhibit "B" (collectively, the "Property"). Debtor will not permit any of the Collateral, other than rolling stock, to be removed from the Property without the prior written consent of the Department.

The Collateral may be attached to the Property in such a manner as to become a fixture and in that case the security interest created by this Security Agreement will attach to the fixtures. The Debtor is the record owner of the Property as evidenced by a copy of a Deed furnished to and reviewed by the Department. If requested by the Department, Debtor will furnish a written disclaimer of any interest in the Collateral by any encumbrancer of the Property.

The proceeds of the obligation secured hereby will be used to defray the cost of the Collateral and the security interest will create, upon filing of financing statements in the required offices and the Recordation with the Surface Transportation Board, a perfected first lien upon the roadway equipment, shop equipment, miscellaneous equipment and locomotives located in Johnstown and rolling stock wherever located (collectively, the "A Equipment") (a description of which is attached hereto as Exhibit "A") and a perfected second lien security interest in the roadway equipment, shop equipment, miscellaneous equipment and locomotives located in Bethlehem (collectively, the "B Equipment") (a description of which is attached hereto as Exhibit "B") subject only to \$1,777,090 of a lien in the original principal amount of \$5,800,000 in favor of KEYSTONE NAZARETH BANK AND TRUST COMPANY (the "Bank") dated December 30, 2003 (the "Permitted Lien") as set forth in a Lien Priority and Intercreditor Agreement dated of even date herewith among the Department, the Bank and the Debtor (the "Lien Priority Agreement"), a copy of which is attached as Exhibit "C".

DEBTOR'S DUTIES

1. Except for the Permitted Lien, Debtor will not permit any other lien or security interest to attach to the Collateral nor permit the Collateral to be levied upon, attached or seized, nor permit the Collateral to become an accession to other goods. Debtor will defend the Collateral against the claims and demands of all persons except the Department. Debtor will not lease or dispose of the Collateral without the prior written consent of the Department and the holder of the Permitted Lien.

2. Debtor agrees to comply with any governmental regulations or statute which apply to the Collateral and will not commit nor permit any act of waste or injury to the Collateral nor use or permit use of the Collateral in any unlawful manner. Debtor will keep the Collateral in good repair. Upon reasonable notice to the Debtor, the Department may inspect the Collateral at reasonable times and intervals and may for this purpose enter the Property.

3. Debtor will keep the Collateral continuously insured with such carriers, and in such amount, and against such risks as shall be reasonably satisfactory to the Department, with the loss payable clause in favor of the Department or, in lieu thereof, provide the Department with an irrevocable standby letter of credit in the amount of \$50,000. All policies of insurance shall provide for thirty days' written notice of cancellation to the Department, and the Debtor will furnish the Department with evidence of compliance with these requirements annually. If there is a casualty loss, the Department shall have full power to settle, adjust and collect any and all of the proceeds from the insurance coverage on the Collateral subject to the terms of the Lien Priority Agreement. The insurance proceeds shall be paid over to the Department and the Department will either apply such proceeds against the Loan or if reasonably requested by Borrower, to purchase new Collateral or repair or restore the Collateral.

4. Debtor will pay all taxes or governmental charges levied against the Collateral or its use before the taxes or governmental charges become delinquent and will provide the Department with evidence of payment upon request.

5. Debtor will be responsible for filing the necessary Recordation with the Surface Transportation Board to perfect the Department's security interest in the Collateral that is considered rolling stock. However, Debtor agrees that the Department may at any time and from time to time, file financing statements, continuation statements and amendments thereto in the proper filing offices (collectively, the "Financing Statements") and filings and any amendments thereto with the Surface Transportation Board (the "Recordation"). The Financing Statements may describe the Collateral in particular or in generic terms as "all equipment" of the Debtor or words of similar effect. Debtor further agrees that the Financing Statements may contain any information (including but not limited to whether the Debtor is an organization, the type of organization and the organization identification number issued to the Debtor) required by the Uniform Commercial Code as codified at 13 Pa.C.S.A. § 9101, et seq. (the "UCC") to be deemed sufficient and/or acceptable by any filing office (as defined in the UCC). The Debtor agrees to furnish any such information to the Department promptly upon request. Any such Financing Statements or Recordation may be signed by the Department on behalf of the Debtor or may be filed by the Department without the Debtor's signature and may be filed at any time in any jurisdiction whether or not Revised Article 9 of the UCC is then in effect in that jurisdiction to perfect or continue the Department's security interest in the Collateral. Debtor will do other reasonable acts considered by the Department to be appropriate to secure, maintain, perfect or protect and continue the Department's security interest in the Collateral and will pay all costs and expenses (including reasonable fees and expenses of outside counsel and filing fees) related to the preparation and filing of any financing statements, continuation statements, petitions or other documents related to the protection of the Department's security interest in the Collateral.

6. Debtor shall not change its name without the prior written consent of the Department, which will not be unreasonably withheld or denied.

7. At its option, and without any obligation to do so, the Department may pay any taxes, assessments, liens, security interest or other encumbrances at any time placed against the Collateral, and may pay for insurance, repair and preservation of the Collateral and any necessary expenses, including reasonable attorney fees, to protect the priorities of the Department's interests in the Collateral and in exercising its rights and remedies on default, provided Debtor fails

to pay such amounts as required. Any amount so paid shall be repaid by Debtor, together with interest at the rate of fifteen (15%) percent per annum, and shall be part of the obligations secured hereby.

8. Debtor agrees to indemnify and save harmless the Department from any loss, or damage caused by the Collateral or its use and to immediately give written notice to the Department of any loss or damage to, or loss of possession of, the Collateral, occasioned by any cause whatsoever.

9. If the Collateral should materially deteriorate in market or actual value, Debtor shall promptly after demand reduce the debt to the Department to the extent specified by it, or increase the Collateral in sufficient amounts to adequately collateralize the Department.

EVENTS OF DEFAULT

Time is of the Essence in the interpretation of this Security Agreement.

The Debtor will be in default upon the happening of any of the following events: (a) an Event of Default under the Loan Agreement or any of the other Loan Documents; (b) if the Debtor defaults in its compliance with any of the covenants contained in this Security Agreement and fails to cure such default within thirty (30) days after notice, or if the default cannot be cured within thirty (30) days, if Borrower has not commenced action to cure the default within thirty (30) days or does not continue to diligently pursue the cure; (c) if the Collateral is seized or levied upon under any legal or governmental process against the Debtor or against the Collateral and is not released within thirty (30) days; or (d) if the Collateral is lost, stolen, substantially damaged, destroyed, other than rolling stock, or moved from the Property without the consent of the Department.

REMEDIES ON DEFAULT

Upon default, in addition to the remedies provided in the Loan Agreement and the other Loan Documents, the Department will have the immediate right to pursue any or all of the of the remedies available to a secured party under Pennsylvania law. In furtherance of those remedies, the Department may require Debtor to assemble all or any part of the Collateral and make it available to the Department at any place designated in a notice sent to Debtor. The Debtor agrees that the Property as defined in the Security Agreement is a place reasonably convenient to it to assemble the Collateral. The Debtor agrees that a notice sent to it by first class mail thirty days before the time of any public sale or the time after which any private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition.

MISCELLANEOUS

No failure or delay of the Department in exercising any right or remedy shall be a waiver thereof. No single or partial exercise by the Department of any right or remedy hereunder will preclude any other or future exercise of any other right or remedy. Any notice required to be given may be given by mailing such notice by first class mail, postage Security Agreement

prepaid, to Debtor's address as it appears in this Security Agreement, or at such subsequent address of Debtor as may be shown in the Department's records from time to time. This Security Agreement shall be interpreted in accordance with the laws of the Commonwealth of Pennsylvania including its statutes of limitation but without regard to its rules regarding conflicts of laws. The venue of any action brought upon this agreement, shall be Dauphin County, unless the Department agrees in writing to another location. All the terms of the Security Agreement will inure to the benefit of and bind the successors and assignees of the parties. This Security Agreement may be amended in writing only. Such amendment must be executed by any party against whom enforcement of any waiver, modification or discharge is sought. The recitals set forth herein constitute a material part of this agreement and are expressly incorporated herein.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of this 15TH day of March, 2004, effective as of March 10, 2004.

WITNESS:

J. M. O'Malley

J. M. O'Malley

J. M. O'Malley

J. M. O'Malley

LEHIGH VALLEY RAIL MANAGEMENT LLC

By August N. Fix, Jr.
August N. Fix, Jr., Member

By Patrick R. Loughlin
Patrick R. Loughlin, Member

By Patrick A. Sabatino
Patrick A. Sabatino, Member

By J. Michael Zaia
J. Michael Zaia, Member

EXHIBIT "A"

The "A Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
CBL 100	EMD NW2	CBL 101	EMD NW2
CBL 102	EMD NW2	CBL 104	EMD SW7
CBL 110	EMD SW7	CBL 111	EMD SW7
CBL 112	EMD SW7	CBL 114	EMD SW7
CBL 116	EMD SW7	CBL 122	EMD NW2
CBL 125	EMD NW2		

Roadway Equipment

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
CBL 8	Fairmont Gang Car	CBL 21	Sullair Air Compressor
CBL 34	Miller Welder	CBL 56	RMC Jet Snow Blower

Shop Equipment

<u>Number</u>	<u>Type</u>
M147-150	(4) 35 ton Whiting Locomotive Jacks (CBL)
CBL 86	Hyster Fork Lift
n/a	CBL Sand Tower
n/a	CBL Landa Pressure Washer

Miscellaneous Equipment

<u>Number</u>	<u>Type</u>
CBL 37	1991 GMC Crew Cab Truck
CBL 45	1999 GMC Pickup Truck
CBL 39	1991 GMC Boom Truck

Flat Cars

<u>Reporting Marks/Numbers</u>	<u>Reporting Marks/Numbers</u>
PBNE 500	PBNE 501 to 507
PBNE 509 to 511	PBNE 513 to 525

Hopper Cars

Reporting Marks/Numbers

BSIX 1224
BSIX 1251
BSIX 1300
BSIX 1324
BSIX 1329 to 1331
BSIX 1357
BSIX 1363
BSIX 1374
BSIX 1399
PBNE 1203 to 1204
PBNE 1218
PBNE 1228 to 1231
PBNE 1238
PBNE 1246
PBNE 1261
PBNE 1270
PBNE 1277
PBNE 1281
PBNE 1286
PBNE 1291 to 1293
PBNE 1298
PBNE 1307 to 1310
PBNE 1320
PBNE 1327 to 1328
PBNE 1335 to 1337
PBNE 1343 to 1346
PBNE 1353 to 1356
PBNE 1360 to 1362
PBNE 1369 to 1373
PBNE 1378 to 1382
PBNE 1389 to 1393
PBNE 1400
PBNE 1407

Reporting Marks/Numbers

BSIX 1240
BSIX 1280
BSIX 1321
BSIX 1326
BSIX 1347 to 1348
BSIX 1359
BSIX 1368
BSIX 1376 to 1377
BSIX 1401
PBNE 1209 to 1210
PBNE 1225
PBNE 1233
PBNE 1241 to 1242
PBNE 1253
PBNE 1267
PBNE 1273 to 1275
PBNE 1279
PBNE 1284
PBNE 1288 to 1289
PBNE 1295
PBNE 1302 to 1304
PBNE 1315 to 1318
PBNE 1322 to 1323
PBNE 1332 to 1333
PBNE 1339 to 1341
PBNE 1349 to 1351
PBNE 1358
PBNE 1364 to 1366
PBNE 1375
PBNE 1384 to 1387
PBNE 1395 to 1397
PBNE 1402 to 1403
PBNE 1409

EXHIBIT "B"

The "B Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
PBNE 8	EMD MP15	PBNE 9	Slug
PBNE 10	Slug	PBNE 12	Slug
PBNE 13	Slug	PBNE 14	Slug
PBNE 19	EMD MP15	PBNE 20	EMD MP15
PBNE 22	EMD NW2	PBNE 23	EMD NW2
PBNE 24	EMD NW2	PBNE 25	EMD NW2
PBNE 26	EMD NW2	PBNE 27	EMD NW2
PBNE 31	EMD SW7	PBNE 32	EMD SW7
PBNE 33	EMD SW7	PBNE 35	EMD SW9
PBNE 36	EMD SW9	PBNE 37	EMD SW9
PBNE 39	EMD SW1200	PBNE 42	EMD SW1200
PBNE 43	EMD SW1200	PBNE 44	EMD SW7
PBNE 50	EMD SW900	PBNE 51	EMD SW900
PBNE 51A	EMD SW1200	PBNE 52	EMD SW1200
PBNE 53	EMD SW1200	PBNE 90	EMD SW7
PBNE 93	EMD SW9		

Roadway Equipment

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
PBNE 41	Caterpillar IT28 Front End Loader	PBNE 193	Plasser Track Tamper
PBNE 46	Case Backhoe	PBNE 205	Pettibone 360 Speedswing
PBNE 35	Kershaw Yard Cleaner		

Shop Equipment

<u>Number</u>	<u>Type</u>
n/a	(4) 35 ton Whiting Locomotive Jacks (PBNE)
n/a	PBNE Sand Tower

Miscellaneous Equipment

<u>Number</u>	<u>Type</u>
PBNE 132	1995 Ford F150 Van
PBNE 215	1989 Ford F700 Truck
PBNE 142	2000 GMC Pickup Truck
PBNE 209	1988 Ford F700 Dump

EXHIBIT "C"

Lien Priority and Intercreditor Agreement

THIS AGREEMENT, made this ____ day of March, 2004, effective as of March 10, 2004, by and between KEYSTONE NAZARETH BANK AND TRUST COMPANY ("Keystone"), a state banking institution, having offices at 90 Highland Avenue, Bethlehem, Pennsylvania 18017; and THE COMMONWEALTH OF PENNSYLVANIA, acting by and through the DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, MACHINERY AND EQUIPMENT LOAN FUND (the "Department"), having an office at Commonwealth Keystone Building, 400 North Street, Fourth Floor, Harrisburg, Pennsylvania 17120 (the Department and Keystone are herein collectively referred to as the "Creditors" and sometimes individually referred to as a "Creditor").

BACKGROUND

WHEREAS, pursuant to that certain Loan and Security Agreement dated December 30, 2003, (the "Keystone Loan Agreement"), Keystone provided to LEHIGH VALLEY RAIL MANAGEMENT LLC (the "Borrower") a loan facility (the "Keystone Loan") to help finance the Borrower's purchase of certain assets of ISG Railways, Inc.; and

WHEREAS, the Keystone Loan Agreement provided for a loan of \$5,800,000 to the Borrower and was evidenced by a promissory note in the principal amount of \$5,800,000 dated the same date as amended, supplemented or otherwise modified (the "Keystone Note"); and

WHEREAS, to secure Borrower's payment of the Keystone Note, the Borrower delivered to Keystone that certain Open-End Mortgage and Security Agreement granting Keystone a mortgage on the Borrower's facility located at Iron Hill Road, Bethlehem, Northampton County, Pennsylvania (the "Keystone Mortgage") and a Security Agreement as amended, supplemented or otherwise modified (the "Keystone Security Agreement") granting Keystone a security interest (the "Keystone Security Interest") in, among other things, all of the machinery and equipment then-owned or thereafter acquired by the Borrower (the "Keystone Collateral"); and

WHEREAS, for the purpose of perfecting its security interests under the Keystone Security Agreement, Keystone caused financing statements on form UCC-1 to be filed with the Pennsylvania Department of State on _____, and the Recorder of Deeds of Northampton County on _____ and Cambria County on _____ and will cause the appropriate forms to be filed with the Surface Transportation Board; and

WHEREAS, the Borrower has purchased machinery, equipment and locomotives from ISG Railways, Inc. for use at its facilities located at Bethlehem Commerce Center, Iron Hill Road, Bethlehem, Pennsylvania and at 825 Iron Street, Johnstown, Pennsylvania; and

WHEREAS, as of March 10, 2004, the outstanding principal balance of the Keystone Note is approximately \$ _____ (the "Keystone Principal Balance"); and

WHEREAS, pursuant to that certain loan agreement by and between the Borrower and the Department, of even date herewith (the "Department Loan Agreement"), the Department provided a loan to Borrower in the amount of \$500,000 (the "Department Loan"); and

WHEREAS, the obligations of the Borrower under the Department Loan Agreement are evidenced by that certain promissory note, dated March 10, 2004, made payable to the Department by the Borrower in the original principal amount of \$500,000 (the "Department Note"); and

WHEREAS, to secure the Borrower's obligations to the Department under the Department Loan Agreement and the Department Note, the Borrower has executed and delivered to the Department that certain security agreement, of even date herewith (the "Department Security Agreement"), pursuant to which the Borrower granted to the Department a first lien security interest in and to the machinery, equipment, and locomotives described at Exhibit A attached hereto (the "A Equipment") and a second lien security interest in the machinery, equipment and locomotives described at Exhibit B hereto (the "B Equipment") (the A Equipment and B Equipment are collectively referred to herein as the "Equipment"); and

WHEREAS, the Department Security Interest will be perfected by the filing of financing statements on form UCC-1 in the appropriate offices in Lehigh and Cambria County and with the Commonwealth of Pennsylvania, Department of State and by filing the appropriate form with the Surface Transportation Board; and

WHEREAS, the Creditors are entering into this Lien Priority and Intercreditor Agreement to: (i) establish the priorities of the security interests of the Creditors in the Equipment; (ii) provide for the orderly sharing among the Creditors, in accordance with the priorities set forth herein, upon the foreclosure, sale, casualty loss, or other disposition of the Equipment; and (iii) agree to other matters related to the foregoing.

NOW, THEREFORE, in consideration of these mutual benefits accruing to the Creditors hereunder and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. **Priority of Interests.** Notwithstanding the date, manner or order of attachment, or the order, time or manner of perfection of their respective interests and liens, or the order or time of filing or recording of any document or instrument, or other method of perfecting a security interest in favor of either Creditor in the Equipment, and notwithstanding any conflicting term or condition which may be contained in any of the Creditors' agreements, the following shall be the relative priority of the security interests and liens of the Creditors in the Equipment:

(a) Keystone shall have a first priority lien on the B Equipment to secure the payment and performance of the Keystone Note in an amount not to exceed One Million Seven Hundred Seventy Seven Thousand Ninety Dollars (\$1,777,090) as such amount shall be reduced by repayment from time to time as set forth in the Keystone loan documents (the "Permitted Lien"). To the extent that any indebtedness owing from the Borrower to Keystone and secured by the B Equipment exceeds, at any time, the amount of the Permitted Lien (such excess hereinafter referred to as the "Subordinated Indebtedness"), Keystone's Security Interest in the B Equipment, for the purpose of satisfying the obligations of the Borrower shall be subordinate in lien, payment and priority to the Department Security Interest. Keystone agrees for itself, its successors and assigns that the Department, its successors and assigns shall have the rights, benefits and priorities to which it would have been entitled had the Department Security Interest in the B Equipment been executed, delivered and perfected prior to the Subordinated Indebtedness portion of Keystone's Security Interest.

In furtherance of the foregoing, to the extent that there are proceeds from the sale or other disposition of the B Equipment ("B Proceeds") before the Department is paid in full under the Department Loan Agreement and the Department Note, such B Proceeds shall be applied as follows: (i) to the then-outstanding principal balance of the Permitted Lien; (ii) the next \$500,000 of the Proceeds shall be applied to the Department Security Interest against the Borrower's obligations under the Department Loan Agreement and the Department Note; and (iii) any remaining B Proceeds shall, then, be applied to any remaining unpaid amount of the Keystone Note.

(b) The Department shall have a first priority lien on the A Equipment to secure the payment and performance of the Department Note as such amount shall be reduced by repayment from time to time as set forth in the Department loan documents. Keystone shall have a second priority lien on the A Equipment subordinate in lien, payment and priority to the Department Security Interest in the A Equipment. Keystone agrees for itself, its successors and assigns that the Department, its successors and assigns shall have the rights, benefits and priorities to which it would have been entitled had the Department Security Interest in the A Equipment been executed, delivered and perfected prior to the Keystone Security Interest.

In furtherance of the foregoing, to the extent that there are proceeds from the sale or other disposition of the A Equipment ("A Proceeds") before the Department is paid in full under the Department Loan Agreement and the Department Note, such A Proceeds shall be applied as follows: (i) to any unpaid amounts under the Department Note including the then-outstanding principal balance of the Department Note and any accrued and unpaid interest, fees or costs to which the Department is entitled under the Department loan documents and (ii) any remaining A Proceeds shall, then, be applied to any remaining unpaid amount of the Keystone Note.

(c) Without intending to affect the rights (if any) of the Borrower in any proceeds of property or casualty insurance, as may be set forth in any loan documents existing between either of the parties hereto and the Borrower, insurance proceeds in respect of loss, damage or destruction of any Equipment received by either Creditor shall be applied as set forth above.

2. **Notice of Default.** The Creditors agree that each will use its best efforts to provide the other with a copy of all notices of default or delinquency sent by them to the Borrower at the time and in the manner sent to the Borrower. All notices and other communications required or permitted hereunder must be in writing and will be effective upon receipt if delivered personally to such party, or if sent by facsimile transmission with confirmation of delivery, or by nationally recognized overnight courier service, to the address set forth above or to such other address as any party may give to the other in writing for such purpose. However, failure to provide such notice shall not prejudice any rights of either Creditor under this Agreement.

3. **Right to Cure.** The Creditors agree that each shall have the right, but not the obligation, to cure the default of the Borrower under either Creditor's respective loan documents, under the same terms and conditions which govern the right of the Borrower to cure a default as specified in the relevant Agreement.

4. **No Impairment.** Except as expressly set forth herein, nothing contained herein shall impair or otherwise affect the Department Security Agreement, the Keystone Security Agreement or the liens thereof.

5. **No Waiver**. No waiver shall be deemed to be made by the Creditors of any of their rights hereunder, unless the same shall be in writing signed on behalf of that Creditor. Each waiver shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of that Creditor in any other respect at any other time.

6. **Defaults**. Nothing contained in this Agreement shall restrict or impair the right of the Creditors to declare an event of default when such Creditor deems it appropriate and has the right to do so under the terms of the Department Security Agreement, the Keystone Security Agreement, or other loan documents referenced therein; provided, however, that any Creditor declaring an event of default shall immediately notify the other Creditors in writing at the address stated herein in accordance with the terms and conditions of Section 2 of this Agreement.

7. **No Benefit to Third Parties**. The terms and provisions of this Agreement shall be for the sole benefit of the Creditors and their respective successors and assigns. No other person, firm, entity or corporation shall have any right, benefit, priority or interest under or because of this Lien Priority and Intercreditor Agreement.

8. **Limitation of Liability**. None of the Creditors nor any of their respective officers, employees, agents or assigns shall be liable to the other Creditor for any waiver, release, consent or approval given or action taken or omitted to be taken in good faith under this Agreement or under any documentation pertaining to their respective Loan.

9. **Governing Law**. This Agreement shall be governed by, and shall be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, including its statutes of limitations but without regard to its rules regarding conflict of laws.

10. **Entire Agreement**. This Agreement contains the entire understanding of the Creditors with respect to the subject matter hereof, and shall not be modified, amended or terminated orally but only in writing, signed by the Creditor or Creditors against whom such modification, amendment or termination is sought to be enforced.

11. **Term**. This Agreement shall remain in effect for as long as the Borrower remains indebted to the Department under the terms of any of its obligations to the Department.

12. **Successors and Assigns**. This Agreement binds and inures to the benefit of the Creditors and their successors and assigns. The Department represents and warrants to Keystone that the Department has not assigned any of its interest in the Equipment, and Keystone represents and warrants to the Department that Keystone has not assigned any of its interest in the Equipment.

13. **Cross-Collateralization**. Keystone agrees, notwithstanding any provision to the contrary in the loan documents executed in connection with the Keystone Loan (the "Keystone Loan Documents"), that the lien of the Keystone Security Interest, as regards the Department, shall not be enforced against the Equipment for sums secured thereby other than the principal balance due on the Keystone Note.

14. **No Defaults**. To the best of Keystone's knowledge, information and belief, there are presently no defaults or events of default under the Keystone Loan Documents on the part of any party thereto nor any condition, event or act, which with the giving of notice or the lapse of time or both would constitute such a default or event of default.

15. **Severability**. The provisions of this Agreement are independent of and separable from each other. If any provision of this Agreement is held invalid or unenforceable in whole or in part, the provision will be ineffective to

the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability of the remaining provisions of this Agreement.

16. **Captions**. The captions preceding the text of each of the sections of this Agreement are inserted for convenience of reference and shall not constitute a part of this Agreement nor shall any such captions in any way affect the meaning, construction or effect of any of the terms or provisions of this Agreement.

17. **Counterparts**. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be a single instrument.

18. **Recitals Incorporated**. The recitals appearing under the caption "Background" constitute a material part of this Agreement and are expressly incorporated herein.

IN WITNESS WHEREFORE, the parties have executed this Agreement the day and year first above written.

ATTEST:

THE COMMONWEALTH OF PENNSYLVANIA,
acting by and through THE DEPARTMENT OF
COMMUNITY AND ECONOMIC
DEVELOPMENT

Secretary

By _____
Deputy Secretary

ATTEST:

KEYSTONE NAZARETH BANK AND TRUST
COMPANY

Title:

By _____
Title:

ACKNOWLEDGMENT & CONSENT

The undersigned hereby acknowledges and agrees, for itself, its successors and assigns, to be bound to the foregoing terms and provisions. The undersigned further acknowledges and agrees that: (a) although it is signing this Lien Priority and Intercreditor Agreement it is not a party hereto and does not and will not receive any right, benefit, priority or interest under or because of the existence of the foregoing Lien Priority and Intercreditor Agreement, and (b) it will execute and deliver such additional documents and take such additional action as may be necessary or desirable in the opinion of any Creditor to effectuate the provisions and purposes of the foregoing Lien Priority and Intercreditor Agreement.

WITNESS:

LEHIGH VALLEY RAIL MANAGEMENT LLC

By _____
August N. Fix, Jr., Member

By _____
Patrick R. Loughlin, Member

By _____
Patrick A. Sabatino, Member

By _____
J. Michael Zaia, Member

EXHIBIT "A"

The "A Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
CBL 100	EMD NW2	CBL 101	EMD NW2
CBL 102	EMD NW2	CBL 104	EMD SW7
CBL 110	EMD SW7	CBL 111	EMD SW7
CBL 112	EMD SW7	CBL 114	EMD SW7
CBL 116	EMD SW7	CBL 122	EMD NW2
CBL 125	EMD NW2		

Roadway Equipment

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
CBL 8	Fairmont Gang Car	CBL 21	Sullair Air Compressor
CBL 34	Miller Welder	CBL 56	RMC Jet Snow Blower

Shop Equipment

<u>Number</u>	<u>Type</u>
M147-150	(4) 35 ton Whiting Locomotive Jacks (CBL)
CBL 86	Hyster Fork Lift
n/a	CBL Sand Tower
n/a	CBL Landa Pressure Washer

Miscellaneous Equipment

<u>Number</u>	<u>Type</u>
CBL 37	1991 GMC Crew Cab Truck
CBL 45	1999 GMC Pickup Truck
CBL 39	1991 GMC Boom Truck

Flat Cars

<u>Reporting Marks/Numbers</u>	<u>Reporting Marks/Numbers</u>
PBNE 500	PBNE 501 to 507
PBNE 509 to 511	PBNE 513 to 525

Hopper Cars

Reporting Marks/Numbers

BSIX 1224
BSIX 1251
BSIX 1300
BSIX 1324
BSIX 1329 to 1331
BSIX 1357
BSIX 1363
BSIX 1374
BSIX 1399
PBNE 1203 to 1204
PBNE 1218
PBNE 1228 to 1231
PBNE 1238
PBNE 1246
PBNE 1261
PBNE 1270
PBNE 1277
PBNE 1281
PBNE 1286
PBNE 1291 to 1293
PBNE 1298
PBNE 1307 to 1310
PBNE 1320
PBNE 1327 to 1328
PBNE 1335 to 1337
PBNE 1343 to 1346
PBNE 1353 to 1356
PBNE 1360 to 1362
PBNE 1369 to 1373
PBNE 1378 to 1382
PBNE 1389 to 1393
PBNE 1400
PBNE 1407

Reporting Marks/Numbers

BSIX 1240
BSIX 1280
BSIX 1321
BSIX 1326
BSIX 1347 to 1348
BSIX 1359
BSIX 1368
BSIX 1376 to 1377
BSIX 1401
PBNE 1209 to 1210
PBNE 1225
PBNE 1233
PBNE 1241 to 1242
PBNE 1253
PBNE 1267
PBNE 1273 to 1275
PBNE 1279
PBNE 1284
PBNE 1288 to 1289
PBNE 1295
PBNE 1302 to 1304
PBNE 1315 to 1318
PBNE 1322 to 1323
PBNE 1332 to 1333
PBNE 1339 to 1341
PBNE 1349 to 1351
PBNE 1358
PBNE 1364 to 1366
PBNE 1375
PBNE 1384 to 1387
PBNE 1395 to 1397
PBNE 1402 to 1403
PBNE 1409

EXHIBIT "B"

The "B Equipment" – the machinery, equipment and other tangible personal property listed below, and all parts, replacements and/or substitutions, additions and accessions, equipment, tools and operating manuals thereto, any proceeds of sale or disposition thereof and any proceeds of insurance thereon or condemnation thereof.

Locomotives

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
PBNE 8	EMD MP15	PBNE 9	Slug
PBNE 10	Slug	PBNE 12	Slug
PBNE 13	Slug	PBNE 14	Slug
PBNE 19	EMD MP15	PBNE 20	EMD MP15
PBNE 22	EMD NW2	PBNE 23	EMD NW2
PBNE 24	EMD NW2	PBNE 25	EMD NW2
PBNE 26	EMD NW2	PBNE 27	EMD NW2
PBNE 31	EMD SW7	PBNE 32	EMD SW7
PBNE 33	EMD SW7	PBNE 35	EMD SW9
PBNE 36	EMD SW9	PBNE 37	EMD SW9
PBNE 39	EMD SW1200	PBNE 42	EMD SW1200
PBNE 43	EMD SW1200	PBNE 44	EMD SW7
PBNE 50	EMD SW900	PBNE 51	EMD SW900
PBNE 51A	EMD SW1200	PBNE 52	EMD SW1200
PBNE 53	EMD SW1200	PBNE 90	EMD SW7
PBNE 93	EMD SW9		

Roadway Equipment

<u>Number</u>	<u>Type</u>	<u>Number</u>	<u>Type</u>
PBNE 41	Caterpillar IT28 Front End Loader	PBNE 193	Plasser Track Tamper
PBNE 46	Case Backhoe	PBNE 205	Pettibone 360 Speedswing
PBNE 35	Kershaw Yard Cleaner		

Shop Equipment

<u>Number</u>	<u>Type</u>
n/a	(4) 35 ton Whiting Locomotive Jacks (PBNE)
n/a	PBNE Sand Tower

Miscellaneous Equipment

<u>Number</u>	<u>Type</u>
PBNE 132	1995 Ford F150 Van
PBNE 215	1989 Ford F700 Truck
PBNE 142	2000 GMC Pickup Truck
PBNE 209	1988 Ford F700 Dump

COMMONWEALTH OF PENNSYLVANIA :
 : SS
COUNTY OF LEHIGH :

ON THIS, the ____ day of March, 2004, before me, the undersigned officer, personally appeared _____, who acknowledged him/herself to be the _____ of KEYSTONE NAZARETH BANK AND TRUST COMPANY and that he/she as such officer being authorized to do so, executed the foregoing instrument for the purpose therein contained by signing the name of the corporation by him/herself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Notary Public

My Commission Expires:

COMMONWEALTH OF PENNSYLVANIA :
 : SS
COUNTY OF DAUPHIN :

ON THIS, the ____ day of March, 2004, before me, the undersigned officer, personally appeared Emily J. White, who acknowledged herself to be the Deputy Secretary of Community and Economic Development, and that she as such public official being authorized to do so, executed the foregoing instrument for the purpose therein contained by signing the name of the Pennsylvania Department of Community and Economic Development by herself as such public official.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Notary Public

My Commission Expires:

