

RECORDATION NO. 23723-A FILED

APR 21 '04 3-12 PM

SURFACE TRANSPORTATION BOARD

ALVORD AND ALVORD
ATTORNEYS AT LAW
1050 SEVENTEENTH STREET, N.W.
SUITE 301
WASHINGTON, D.C.
20036
(202) 393-2266
FAX (202) 393-2156
E-MAIL alvordlaw@aol.com

OF COUNSEL
URBAN A. LESTER

ELIAS C. ALVORD (1942)
ELLSWORTH C. ALVORD (1964)

April 21, 2004

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Chattel Mortgage and Security Agreement, dated April 14, 2004, a document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Debtor: Maryland Midland Railway, Inc.
40 North Main Street
Union Bridge, MD 21791

Secured Party: Westminster Union Bank
117 East Main Street
Westminster, MD 21157

A description of the railroad equipment covered by the enclosed document is:

Four locomotives:

- LTVX 4201 to be remarked and renumbered MMID 303.
- LTVX 4202 to be remarked and renumbered MMID 304.
- LTVX 4203 to be remarked and renumbered MMID 305.
- LTVX 4204 to be remarked and renumbered MMID 306.

Mr. Vernon A. Williams
April 21, 2004
Page Two

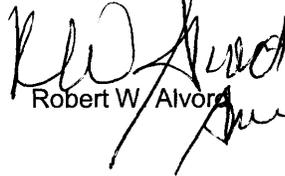
A short summary of the document to appear in the index is:

Chattel Mortgage and Security Agreement

Also enclosed is a check in the amount of \$30.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned.

Very truly yours,


Robert W. Alvord

RWA/anm
Enclosures

23723-A FILED

APR 21 '04 3-12 PM

6079696.RVW
040504

CHattel Mortgage and Security Agreement SURFACE TRANSPORTATION BOARD

THIS CHATTEL MORTGAGE AND SECURITY AGREEMENT (hereinafter called the "Security Agreement") is made as of the 14th day of April, 2004, by and between Maryland Midland Railway, Inc., a Maryland corporation (hereinafter referred to as the "Debtor"), and Westminster Union Bank (hereinafter called the "Secured Party").

1. Creation of Security Agreement. The Debtor does hereby execute this Security Agreement in order to secure from the Debtor to the Secured Party (a) the prompt payment of all indebtedness, liabilities and obligations of the Debtor to the Secured Party of any nature whatsoever which are evidenced by a certain Promissory Note of even date herewith in the amount of EIGHT HUNDRED THOUSAND DOLLARS (\$800,000.00) executed and delivered by Debtor in favor of Secured Party (the "Note"), with this Security Agreement and the Note and all documents described as "Loan Documents" in the Note, being hereinafter sometimes collectively called the "Loan Documents", and (b) the performance of all the terms, conditions and provisions of the Loan Documents, and of any note, other security agreement, pledge agreement, guaranty agreement, mortgage, loan agreement, hypothecation agreement, subordination agreement, mortgage or security agreement, letter of credit application, assignment or any other instrument or document previously, simultaneously or hereafter executed and delivered by the Debtor, evidencing, securing, guaranteeing or otherwise in connection with any of the abovementioned indebtedness, liabilities and obligations (with such instruments and documents being hereinafter considered part of the defined term "Loan Documents"). The indebtedness, obligations, and liabilities of the Debtor described in 1(a) and 1(b) above are hereinafter referred to as the "Obligations".

2. Creation of Security Interest. The Debtor does hereby grant to the Secured Party a security interest in the collateral set forth in paragraph 3. below, to secure the payment and performance of the Obligations.

3. Collateral. The collateral covered by this Security Agreement is as follows (the "Collateral"):

(a) Four (4) Rebuilt EMD GP 38 Locomotives described as:

- Locomotive LTVX 4201 to be remarked and renumbered MMID 303,
- Locomotive LTVX 4202 to be remarked and renumbered MMID 304,
- Locomotive LTVX 4203 to be remarked and renumbered MMID 305,
- Locomotive LTVX 4204 to be remarked and renumbered MMID 306,

along with all additions, improvements and accessions thereto at any time made.

(b) All proceeds of (including claims thereof or demands thereof and insurance proceeds in connection with) the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims.

4. Representations and Warranties of Debtor. To induce the Secured Party to make the loan secured hereby, the Debtor represents and warrants to the Secured Party that:

(a) The Debtor has no Subsidiaries.

(b) The Debtor (i) is a corporation duly organized, existing and in good standing under the laws of the State of Maryland, (ii) has the corporate power to own its property and to carry on its business as now being conducted, and (iii) is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it therein or in which the transaction of its business makes such qualification necessary.

(c) The Debtor has full corporate power and authority to execute and deliver this Agreement, the other Loan Documents to which it is a party, to obtain the loan evidenced by the Note and to incur and perform the Obligations whether under this Agreement, the other Loan Documents or otherwise, all of which have been duly authorized by all proper and necessary corporate action. No consent or approval of shareholders or any creditors of the Debtor, and no consent, approval, filing or registration with or notice to any governmental authority on the part of the Debtor, is required as a condition to the execution, delivery, validity or enforceability of this Agreement or the other Loan Documents.

(d) This Agreement and the other Loan Documents executed and delivered by the Debtor have been properly executed and delivered and constitute the valid and legally binding obligations of the Debtor and are fully enforceable against the Debtor in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and secured parties, and general principles of equity regardless of whether applied in a proceeding in equity or at law.

(e) Neither the execution, delivery and performance of the terms of this Agreement or of any of the other Loan Documents executed and delivered by the Debtor nor the consummation of the transactions contemplated by this Agreement will conflict with, violate or be prevented by (i) the Debtor's charter or bylaws, (ii) any existing mortgage, indenture, contract or agreement binding on the Debtor or affecting its property, or (iii) any state, local, or federal laws applicable to the Debtor and/or the operation of its business ("Laws").

(f) No event has occurred which constitutes an Event of Default hereunder or under any of the other Loan Documents nor has any event occurred which with the giving of notice, or the passage of time, or both would constitute an Event of Default hereunder or under any of the other Loan Documents.

(g) The Debtor is not in default under or with respect to any obligation under any existing mortgage, indenture, contract or agreement binding on it or affecting its property in any respect which could be materially adverse to the business, operations, property or financial condition of the Debtor, or which could materially adversely affect the ability of the Debtor to perform its obligations under this Agreement or the other Loan Documents, to which the Debtor is a party.

(h) The Debtor is not in violation of any applicable Laws (including, without limitation, any Laws relating to employment practices, to environmental, occupational and health standards and controls) or order, writ, injunction, decree or demand of any court, arbitrator, or any governmental authority affecting the Debtor or any of its properties, the violation of which, considered in the aggregate, could materially adversely affect the business, operations or properties of the Debtor.

(i) There are no proceedings, actions or investigations pending or, so far as the Debtor knows, threatened before or by any court, arbitrator or any governmental authority which, in any one case or in the aggregate, if determined adversely to the interests of the Debtor, would have a material adverse effect on the business, properties, condition (financial or otherwise) or operations, present or prospective, of the Debtor.

(j) The most recent financial statements of the Debtor which have been delivered to the Secured Party prior hereto are complete and correct and fairly present the financial position of the Debtor and the results of its operations and transactions in its surplus accounts as of the date and for the period referred to in said financial statements and have been prepared in accordance with generally accepted accounting principals applied on a consistent basis throughout the period involved. There are no liabilities, direct or indirect, fixed or contingent, of the Debtor as of the date of such financial statements which are not reflected therein or in the notes thereto. There has been no adverse change in the financial condition or operations of the Debtor since the date of such financial statements and to the Debtor's knowledge no such adverse change is pending or threatened. The Debtor has not guaranteed the obligations of, or made any investment in or advances to, any person or entity, except as disclosed in such financial statements.

(k) The statements, reports and certificates furnished by the Debtor in connection with obtaining the loan evidenced by the Note and in connection with the Loan Documents (i) do not contain any untrue statement of a material fact and (ii) when taken in their entirety, do not omit any material fact necessary to make the statements contained therein not misleading. There is no fact known to the Debtor which the Debtor has not disclosed to the Secured Party in writing prior to the date of this Agreement with respect to the transactions contemplated by the Loan Documents which materially and adversely affects or in the future could, materially adversely affect the condition, financial or otherwise, results of operations, business, or assets of the Debtor.

(l) The Debtor has filed all returns, reports and forms for taxes which are required to be filed, and has paid all taxes as shown on such returns or on any assessment received by it, to the extent that such taxes have become due, unless and to the only to the extent that such taxes, assessments and governmental charges are currently contested in good faith and by appropriate proceedings by the Debtor, such taxes are not the subject of any liens, and adequate cash reserves therefor have been established in a manner acceptable to the Secured Party. No tax liability has been asserted by the Internal Revenue Service or any state or local authority against the Debtor for taxes in excess of those already paid.

(m) With respect to any "pension plan" as defined in SECTION 3(2) of ERISA, which plan is now or previously has been maintained or contributed to by the Debtor and/or by any commonly controlled entity: (a) no "accumulated funding deficiency" as defined in Code 412 or ERISA 302 has occurred, whether or not that accumulated funding deficiency has been waived; (b) no Reportable Event has occurred; (c) no termination of any plan subject to Title IV of ERISA has occurred; (d) neither the Debtor nor any commonly controlled entity (as defined under ERISA) has incurred a "complete withdrawal" within the meaning of ERISA 4203 from any Multi-employer Plan; (e) neither the Debtor nor any commonly controlled entity has incurred a "partial withdrawal" within the meaning of ERISA 4205 with respect to any Multi-employer Plan; (f) no Multi-employer Plan to which the Debtor or any commonly controlled entity has an obligation to contribute is in "reorganization" within the meaning of ERISA 4241 nor has notice been received by the Debtor or any commonly controlled entity that such a Multi-employer Plan will be placed in "reorganization".

(n) The Debtor has good and marketable title to all of its properties, including, without limitation, the Collateral. The Debtor has legal, enforceable and uncontested rights to use freely such property and assets. All of such properties, including, without limitation, the Collateral which were purchased, were purchased for fair consideration and reasonably equivalent value in the ordinary course of business of both the seller and the Debtor and not, by way of example only, as part of a bulk sale.

(o) Neither the Debtor nor any of the Debtor's employees are subject to any collective bargaining agreement, no petition for certification or union election is pending with respect to the employees of the Debtor and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of the Debtor, there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of Debtor after due inquiry, threatened between the Debtor and its employees, and the Debtor is not subject to an employment contract, severance agreement, commission contract, consulting agreement or bonus agreement. Hours worked and payments made to the employees of the Debtor have not been in violation of the Fair Labor Standards Act or any other applicable law dealing with such matters. All payments due from the Debtor or for which any claim may be made against the Debtor, on account of wages and employee and retiree health and welfare insurance and other benefits have been paid or accrued as a liability on its books.

(p) To the best of the Debtor's knowledge, (a) no Hazardous Materials are located on any real property owned, controlled or operated by of the Debtor or for which the Debtor is, or is claimed to be, responsible, except for propane which is transported by the Debtor in the ordinary course of its business and reasonable quantities of necessary supplies for use by the Debtor in the ordinary course of its business, with such propane and supplies being stored, transported, used and disposed in accordance with applicable Laws; and (b) no property owned, controlled or operated by the Debtor or for which the Debtor has, or is claimed to have, responsibility has ever been used as a manufacturing, storage, or dump site for Hazardous

Materials nor is affected by Hazardous Materials Contamination at any other property.

(q) The Secured Party upon execution, delivery and recording of a this Agreement among the lien records of the Surface Transportation Board will have, and will continue to have as security for the Obligations, a valid and perfected first lien security interest in all Collateral, free of all other liens, security interests, claims and rights of third parties whatsoever.

(r) In the twelve (12) years preceding the date hereof, the Debtor has not changed its name, identity or corporate structure, has not conducted business under any name other than its current name, and has not conducted its business in any jurisdiction other than the State of Maryland and the Commonwealth of Pennsylvania.

5. Covenants of the Debtor.

(a) Collateral will be kept in good condition and in a good state of repair and will not be wasted, destroyed, misused or allowed to deteriorate, ordinary wear and tear excepted. The Secured Party may inspect the Collateral at any reasonable time.

(b) Debtor, as Secured Party may request and require, shall procure, execute and deliver to Secured Party any security agreement, financing statements or other writing necessary to create, preserve, protect or enforce Secured Party's rights and interests under this Security Agreement or the other Loan Documents to or in the Collateral described in paragraph 3, or in any other collateral agreed to by the parties at a later time.

(c) Debtor shall at all times maintain, at its sole cost and expense, insurance against casualty to the Collateral under a policy or policies covering such risks as are ordinarily insured against by similar businesses, but in any event including collision, train wreck, fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke, vandalism and malicious mischief. Unless otherwise agreed in writing by the Secured Party, such insurance shall be for the full replacement cost of the Collateral. The deductible amount under such policy or policies shall not exceed Five Thousand Dollars (\$5,000.00). Such policy shall entitle the Secured Party without contribution to collect any and all proceeds payable under such insurance and shall provide that such policy shall not be cancelled or modified without at least thirty (30) days prior written notice to the Secured Party and shall provide that any loss otherwise payable thereunder shall be payable notwithstanding any act or negligence of the Debtor which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment. No policy of insurance shall be written such that the proceeds thereof will produce less than the minimum coverage required by this Section by reason of co-insurance provisions or otherwise. The Debtor shall also at all times maintain, at its sole cost and expense, comprehensive general public liability insurance for injuries to persons and damage to property, in limits of not less than One Million Dollars (\$1,000,000.00) for any one occurrence and Three Million Dollars (\$3,000,000.00) for the aggregate of all occurrences during any given annual policy period, naming the Secured Party as an additional insured, and workers' compensation insurance for all employees of the Debtor in such amount as is required by law.

(d) Debtor shall not transfer, create or permit to be acquired any interest in or against the Collateral, or permit any charge, including taxes, to remain unpaid to or by any third person without first obtaining the written consent of the Secured Party. If the Debtor should dispose of or encumber the Collateral in the above manner without first receiving written consent, such action shall constitute an Event of Default by the Debtor under this Security Agreement.

(e) Debtor shall at all times keep the Collateral and the proceeds from any authorized disposition identifiable and separate from the property of any third person.

(f) Debtor shall deliver to the Secured Party as soon as available but in no event later than one hundred twenty (120) days after the end of each fiscal year of the Debtor, a balance sheet, income statement, and statement of cash flow prepared in detail acceptable to the Secured Party showing the

financial position, results of operations, and changes in cash flow of the Debtor as of and for the twelve (12)-month period ending on the last day of each fiscal year of the Debtor. All annual financial statements shall be reviewed in accordance with standards promulgated by the American Institute of Certified Public Accountants by a certified public accountant acceptable to the Secured Party and shall be certified in writing by the chief financial officer of the Debtor as being true and correct. In addition, Debtor shall deliver to the Secured Party, as soon as available, but in no event later than the due date therefor with the Internal Revenue Service, including any lawful extensions for filing granted to the Debtor, a complete copy of Debtor's Federal Income Tax Return and all supporting schedules covering each fiscal year of the Debtor that the Guaranteed Obligations remain outstanding. Furthermore, Debtor agrees to deliver to the Secured Party within thirty (30) days after the end of each calendar month, "in-house" prepared financial statements for the Debtor, which shall be certified in writing by the chief financial officer of the Debtor as being true and correct. Debtor shall also promptly provide to the Secured Party any and all other financial information that the Secured Party may request from time to time.

(g) Debtor warrants that it is the absolute owner of the Collateral, holding title to all of the Collateral free and clear of any lien, encumbrance, lease, security interest, or rights of third parties whatsoever, and that the security interest granted to the Secured Party herein is and shall at all times constitute a valid and enforceable first lien on the Collateral, until such time all of the Obligations and Loan Documents are fully paid and performed.

(h) Debtor shall pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or any of its income or properties prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a lien or charge upon any of its properties; provided, however, the Debtor shall not be required to pay any such tax, assessment, charge, levy or claim, the payment of which is being contested in good faith and by proper proceedings and for which cash reserves have been set aside in a manner acceptable to the Secured Party.

(i) Debtor shall maintain its existence in good standing and it shall not (i) merge, consolidate, transfer all or substantially all of its assets, liquidate, enter into a share exchange, or otherwise alter its capital structure in any manner whatsoever, (ii) issue any additional shares of stock of any class, or (iii) permit all or any portion of its corporate stock of any class to be transferred or encumbered, without in each case the prior written consent of the Secured Party. The Debtor shall provide written notice to Secured Party at least thirty (30) days prior to taking any action listed above in this Section 5(i). Upon receipt of such written notice, Secured Party shall have fifteen (15) business days to approve or reject said action by sending written notice to the Debtor. Failure by the Secured Party to timely approve or reject said action in writing shall be conclusively presumed to be a rejection by the Secured Party of such action. In the event that the Debtor desires to carry out said action after such action is rejected by Secured Party, the Debtor shall pay the Obligations in full prior to commencing any such action.

(j) Debtor shall furnish such other information as the Secured Party may from time to time reasonably request, and permit or cause to permit the duly authorized representatives of the Secured Party at all reasonable times to audit and examine the books and records of the Debtor, and take memoranda and extracts therefrom and to otherwise allow the Bank and its representatives upon the business premises of the Debtor for the purpose of taking a physical inventory of Debtor's assets which are encumbered hereby and to observe the Debtor's business operations from time to time.

(k) Debtor agrees to promptly notify the Secured Party of any condition or event that constitutes, or with the running of time and/or the giving of notice would constitute, an Event of Default under any of the Loan Documents, and promptly inform the Secured Party of any material adverse change in the financial condition of the Debtor.

(l) Debtor shall comply with all applicable federal, state and local laws, rules and regulations to which it is subject.

(m) Debtor shall promptly notify the Secured Party in the event that the Debtor receives any

notice, claim or demand from any governmental agency which alleges that the Debtor is in violation of any of the terms of, or has failed to comply with any applicable order issued pursuant to any federal or state statute regulating its operation and business, including, but not limited to, the Occupational Safety and Health Act and the Environmental Protection Act.

(n) Debtor shall give prompt notice in writing, with a full description to the Secured Party, of all litigation and of all proceedings before any court or any governmental or regulatory agency affecting the Debtor which, if adversely decided, would materially affect the conduct of the Debtor's business, the financial condition of the Debtor, or in any manner affect the Collateral secured by this Security Agreement.

(o) Debtor shall immediately notify the Secured Party of any change in the name under which it conducts its business.

6. Events of Default. If any of the following events shall occur, then such events shall be considered an Event of Default under the terms of this Security Agreement and an Event of Default under all other Loan Documents:

(a) If any representation or warranty made by the Debtor, in this Security Agreement, or in any other Loan Document, or in any written communication by it to the Secured Party, or in any request or certificate of the Debtor furnished to the Secured Party hereunder or hereafter shall prove to have been incorrect or misleading in any material respect.

(b) If there shall be a default in the payment of any amounts owing under the Note or any sum payable by the Debtor to the Secured Party under any of the Loan Documents.

(c) Except as otherwise set forth in this paragraph 6., if there shall be a failure in the performance or observance of any other obligation to be performed or observed by the Debtor as set forth in this Security Agreement and such failure continues (unless some other period of time is specifically set forth) for a period of thirty (30) days after notice of such failure is given by the Secured Party to the Debtor.

(d) If the Debtor shall (1) apply for, or consent to the appointment of a receiver, trustee or liquidator; (2) be unable, or admit in writing inability to pay debts as they fall due; (3) make a general assignment for the benefit of creditors; (4) be adjudicated a bankrupt or insolvent; (5) file a voluntary Petition in Bankruptcy; or (6) have a Petition in Bankruptcy filed for a reorganization, adjudication or otherwise against it, unless such involuntary petition shall be dismissed within a period of forty-five (45) days from its filing.

(e) If any creditor of the Debtor shall cause any final judgment or money decree for an amount in excess of Twenty-Five Thousand Dollars (\$25,000.00) to be entered by any Court as against the Debtor and such judgment is not discharged, bonded against, or otherwise disposed of in a manner satisfactory to the Secured Party within thirty (30) days of its entry.

(f) If any other event occurs or situation arises with respect to the Debtor, its business, and/or any guarantor under the Loan Documents, which constitutes a danger to or impairment of the security for the Note or the Secured Party's prospect for repayment, if such condition or situation is not remedied to the satisfaction of the Secured Party within fifteen (15) days after written notice to the Debtor thereof.

(g) Violation of paragraphs 5(c), 5(d), 5(g), 5(i), or 5(k) above.

(h) If an Event of Default occurs under any of the other Loan Documents and the same is not cured within any applicable cure period set forth therein, or if a default occurs under the terms of any other loan or indebtedness at any time owed by the Debtor to any creditor if the same is not cured within any applicable cure period set forth therein.

7. Remedies.

(a) If any of the above Events of Default shall occur and not be cured within any applicable cure period, then, and in that event, the Secured Party may without notice (i) exercise its rights and remedies as a Secured Party under the Maryland Uniform Commercial Code and as otherwise set forth in the Loan Documents, including, without limitation, the right to dispose of the Collateral through a public or private sale for the purpose of applying the proceeds thereof to, among other things, the Obligations secured hereby and/or (ii) declare all the rest or any portion of the Note and/or any other sums owed under the Loan Documents to the Secured Party and remaining unpaid, whether due or not, immediately due and payable **without notice or demand** to Debtor. After the occurrence of an Event of Default, the Secured Party, in addition to its other rights and remedies, shall have the right to setoff any amounts owing by the Secured Party to the Debtor or any property or bank accounts of the Debtor in the possession of the Secured Party, in any capacity, against amounts owing under hereunder or under the Note or the other Loan Documents.

(b) In the case of an Event of Default, Secured Party may enter upon Debtor's premises at any time, using such force as the Secured Party deems necessary (but in no event causing a breach of the peace), and seize the Collateral, removing it at Debtor's cost and expense, all without notice or judicial process. If an Event of Default has occurred, Secured Party may require Debtor at Debtor's expense to assemble the Collateral, as well as all of its books and records pertaining to the Collateral, and make it available to Secured Party at a place designated by the Secured Party, and it shall not be necessary for the Secured Party to remove the Collateral from Debtor's premises but the Debtor shall permit the Secured Party and hereby authorizes and empowers the Secured Party, without the need or necessity for any notice or court proceeding or the requirement that Secured Party resort to judicial process of any kind, to keep the Collateral in the places of business of the Debtor and to remove any locks thereon and put its own lock on such premises or on any other premises where such Collateral may be located, thereby denying access to Debtor, until five (5) days after the disposition of the Collateral. The Debtor waives and releases any and all claims and causes of action of any nature, kind, or description which it may have or may claim to have against the Secured Party or its representatives, by reason of taking possession of (with or without judicial process) or selling, maintaining and storing the Collateral on Debtor's property or otherwise, or any claims arising from damage done to Debtor's premises or other property in seizing the Collateral.

(c) INTENTIONALLY OMITTED.

(d) The Secured Party may remedy in any reasonable manner or waive any default of Debtor without waiving the default remedied or any other prior or subsequent default.

(e) Notice mailed to Debtor, at its address as it appears in this Security Agreement, ten (10) days before the date of public sale of the Collateral or ten (10) days before the date after which private sale of the Collateral will take place shall constitute reasonable notice to the Debtor.

8. Surplus or Deficiency After Default. If for any reason the Collateral herein set forth shall fail, upon disposal by the Secured Party, to satisfy the Note, the Obligations, and all other debts, loans, notes or other monies, payment of which is secured by this Security Agreement or allowable under the Maryland Uniform Commercial Code, then the Debtor shall pay the Secured Party the deficiency upon demand. However, if after disposal of the Collateral and after payment of all sums secured by this Security Agreement and otherwise payable under the Maryland Uniform Commercial Code there is a surplus of funds, then the Secured Party agrees to pay the same over to the Debtor, or to whomever may be legally entitled to the same.

9. Application of Law. Except with respect to creation, perfection, and priority of the security interest in the Collateral granted hereunder which shall be governed by Title 49, United States Code, Section 11301, the rights and obligations of each of the respective parties hereto shall be defined and governed under Title 9 of the Maryland Uniform Commercial Code.

10. Expenses in Case of Default. The Debtor agrees that after the occurrence of an Event of Default

under the terms of this Security Agreement that expenses incurred by the Secured Party with respect to collection and disposal of the Collateral to obtain payment for monies secured hereby shall include, but not be limited to, reasonable attorneys' fees as provided in the Note, and an amount payable for auctioneer's or broker's fees plus payment for advertising and labor performed under its direction. All other fees and charges rightfully chargeable to the Debtor under the Maryland Uniform Commercial Code and the other Loan Documents in Event of a Default shall be allowed to the Secured Party as long as reasonable, and shall be secured by this Security Agreement.

11. Other Security Interests. Except for the security interest created herein, there is no adverse lien, security interest or encumbrance of any kind affecting the Collateral.

12. Proceeds. All proceeds of whatever kind and whatever nature, generated from the disposition of any Collateral covered by this Security Agreement shall also act as Collateral under this Security Agreement. No dispositions of Collateral are authorized under this Security Agreement without the written consent of the Secured Party; and this provision, including proceeds as further Collateral hereunder, shall not be interpreted as an authorization to the Debtor to dispose of Collateral without written consent of the Secured Party.

13. Mutual Agreements.

(a) "Debtor" and "Secured Party" as used in this Security Agreement include the successors and assigns of those parties.

(b) This Security Agreement includes all amendments and supplements thereto (with all other Loan Documents being herein incorporated as a part hereof), and all assignments, instruments, documents and other writings submitted by Debtor to Secured Party pursuant to this Security Agreement, but neither Debtor nor Secured Party shall be bound by any undertaking not expressed in writing. Time is of the essence with respect to each and every provision contained herein.

(c) The Debtor hereby authorizes the Secured Party to file this Security Agreement with the Surface Transportation Board and among such other indices deemed necessary or desirable by the Secured Party in order to perfect the security interest in the Collateral granted pursuant to this Security Agreement, with all such filing to be carried out at the sole cost and expense of the Debtor.

14. Secured Party's Obligation. The Secured Party has, contemporaneous with execution of this Security Agreement, extended credit to the Debtor in the amount of EIGHT HUNDRED THOUSAND DOLLARS (\$800,000.00) as is evidenced by the Note.

15. Notices. Notices required herein shall be sent to the following addresses, unless written instructions to the contrary are given by the applicable party:

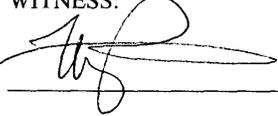
If to Debtor: Maryland Midland Railway, Inc.
40 North Main Street
P.O. Box 1000
Union Bridge, Maryland 21791

If to Secured Party: Westminster Union Bank
P.O. Box 29
Westminster, Maryland 21158-0929
Attention: M. Lynn Rill

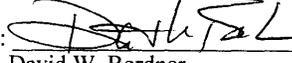
16. Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE DEBTOR AND THE SECURED PARTY MAY BE PARTIES, ARISING OUT OF OR IN ANY WAY PERTAINING TO THIS SECURITY AGREEMENT. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL

BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS SECURITY AGREEMENT. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY THE DEBTOR, AND THE DEBTOR HEREBY REPRESENTS THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT.

IN WITNESS WHEREOF, the parties hereto have executed these presents under seal, as a specialty, pursuant to Section 5-102 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland, on the day and year first above written.

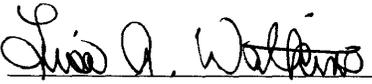
WITNESS:


MARYLAND MIDLAND RAILWAY, INC.,
a Maryland corporation

BY:  (SEAL)
David W. Bordner
Senior Vice President

DEBTOR

WESTMINSTER UNION BANK



BY:  (SEAL)
M. Lynn Rill
Executive Vice President

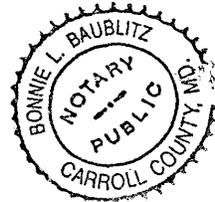
SECURED PARTY

STATE OF MARYLAND, COUNTY OF CARROLL, TO WIT:

I HEREBY CERTIFY that on this 14 day of April, 2004, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared David W. Bordner, Senior Vice President of Maryland Midland Railway, Inc., who acknowledged the foregoing instrument to be his act and deed in such capacity, and that he is authorized to make such acknowledgment.

WITNESS my hand and Notarial Seal.


NOTARY PUBLIC



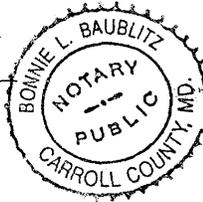
My Commission Expires:
8-1-04

STATE OF MARYLAND, COUNTY OF CARROLL, TO WIT:

I HEREBY CERTIFY that on this 14 day of April, 2004, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared M. Lynn Rill, Executive Vice President of Westminster Union Bank, who acknowledged the foregoing instrument to be his act and deed in such capacity, and that he is authorized to make such acknowledgment.

WITNESS my hand and Notarial Seal.


NOTARY PUBLIC



My Commission Expires:
8-1-04