



New York State
ENVIRONMENTAL FACILITIES CORPORATION

Thomas J. Kelly, *President*



December 9, 2004

Vernon Williams, Secretary
Surface Transportation Board
1925 K Street NW
Washington, DC 20423

RECORDATION NO. 25352 FILED

DEC 17 '04 10-47 AM

Re: Catskill Revitalization Corporation a/k/a
Catskill Revitalization Corporation, Inc.

SURFACE TRANSPORTATION BOARD

Dear Mr. Williams:

I have enclosed an original and one copy of the document described below, to be recorded pursuant to Section 11301 of Title 49 of the U.S. Code.

This document is a Security Agreement dated December 9, 2004.

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

Secured Party: Catskill Watershed Corporation, P.O. Box 569, Margaretville, NY
12455

Debtor: Catskill Revitalization Corporation a/k/a Catskill Revitalization Corporation,
Inc., Railroad Avenue, Stamford, NY 12167

A description of the equipment covered by the document follows:

1948 Budd Vista Dome, Maroon Bells railroad dining car is known and
traceable as:

800023, EXMP891, EXIC2201

800023 signifies Amtrak certification, EX-Missouri Pacific Railroad #891, EX-
Illinois Central Railroad #2201.

Also, enclosed please find check No. 002257 in the amount of \$32.00 from New York State Environmental Facilities Corporation for the filing fees. Please record this document and return the acknowledgement back to my attention.

Very truly yours,

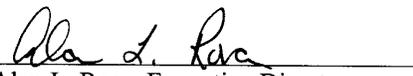
A handwritten signature in black ink, appearing to read 'M. P. Hale', written over a faint, large, stylized outline of a signature.

Michael Patrick Hale
Associate Counsel I

I, David Riordan, certify that I am Executive Director of Catskill Revitalization Corporation, Inc., that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that the instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the corporation. I further declare under penalty of perjury ("under the laws of the United States of America" if executed outside the United States of America) that the foregoing is true and correct. Executed on December 9, 2004.

By: 
David Riordan, Executive Director

I, Alan L. Rosa, certify that I am Executive Director of Catskill Watershed Corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that the instrument was signed and sealed on behalf of the corporation by authority of its Board of Directors, and that I acknowledge that the execution of the foregoing instrument was the free act and deed of the corporation. I further declare under penalty of perjury ("under the laws of the United States of America" if executed outside the United States of America) that the foregoing is true and correct. Executed on December 9, 2004.

By: 
Alan L. Rosa, Executive Director

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SURFACE TRANSPORTATION BOARD

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made and dated this 9th day of December, 2004, by and between Catskill Watershed Corporation, a corporation organized under and pursuant to the laws of the State of New York, having an address at P. O. Box 569, Margaretville, New York 12455 ("Secured Party"), and Catskill Revitalization Corporation a/k/a Catskill Revitalization Corporation, Inc., a Corporation organized and existing under and pursuant to the laws of the State of New York, having an address at 21 Railroad Avenue, Stamford, 12167 ("Debtor").

RECITALS

- A. Secured Party has agreed to make a loan to Debtor in the principal sum of \$210,000.00 (the "Loan"), to be evidenced by that certain promissory note in the amount of the Loan (the "Note") all dated the date hereof, as executed by Debtor in favor of Secured Party.
- B. To induce Secured Party to make the Loan, Debtor has agreed to grant to Secured Party a security interest in and lien upon certain property of Debtor described more particularly in this Security Agreement.

NOW THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Debtor hereby agrees as follows:

AGREEMENT

1. Grant of Security. Debtor hereby pledges and grants to Secured Party a security interest in and lien upon all of Debtor's right, title and interest in and to the property described below (collectively, the "Collateral") to secure payment and performance of the Obligations described and defined in Paragraph 2. The security interest created herein shall be first priority and constitute a Purchase Money Security Interest pursuant to New York Uniform Commercial Code §9-103.

(a) Railroad Dining Car. One 1948 Budd Vista Dome, Maroon Bells railroad dining car, Amtrak certification #800023, EX-Missouri Pacific Railroad #891, EX-Illinois Central Railroad #2201 and all additions, accessions and replacements thereto;

(b) General Intangibles, etc. All now existing or hereafter acquired general intangibles of every nature, including contract rights, permits, regulatory approvals, copyrights, patents, trademarks, service marks, trade names, customer lists and records, goodwill, licenses and any intellectual property owned by Debtor or used in Debtor's business;

(c) Books and Records. All now existing and hereafter acquired books and records relating to the foregoing Collateral and all equipment containing such books and records (including computer data and storage media); and

(d) Proceeds. All proceeds of the Collateral. For purposes of this Security Agreement, the term "proceeds" means anything receivable or received when Collateral or proceeds are sold, collected, exchanged or otherwise disposed of, whether voluntarily or involuntarily, and includes all rights to payment for loss, return premiums and other refunds and returns under any policies of insurance covering the Collateral.

2. Obligations. The obligations secured by this Security Agreement consist of any and all debts, obligations and liabilities of Debtor to Secured Party arising out of or related to the Loan for principal, interest, fees, charges or otherwise, whether now existing or hereafter arising, voluntary or involuntary, direct or indirect, absolute or contingent, and whether or not jointly owned with others (collectively, the "Obligations").

3. Representations and Warranties. Debtor hereby represents and warrants that:

(a) Authority. It is a Corporation duly organized, validly existing and in good standing under the laws of the State of New York; that it has due authority, and has completed all proceedings and obtained all approvals and consents necessary, to execute, deliver and perform this Security Agreement; and that it possesses all licenses, permits and franchises to conduct its business substantially as now conducted.

(b) No Default or Lien. The execution, delivery and performance of this Security Agreement will not contravene, constitute a default under or result in a lien upon any property of Debtor pursuant to, any applicable law, regulation or ordinance or any contract, agreement, judgment, order, decree or other instrument binding upon or affecting Debtor.

(c) Organizational Power. The execution, delivery and performance by Debtor of this Security Agreement and the other documents executed in connection with the Loan have been duly authorized by all necessary organizational action, do not and will not require any registration with, consent or approval of, notice to, or any action by, any person or entity, and will not result in a breach of any of the terms or conditions of or constitute a default (with due notice or lapse of time or both) or result in the occurrence of any event for which any holder of indebtedness of Debtor may declare the same due and payable under any indenture, agreement, order, judgment, or instrument to which Debtor is a party or by which Debtor may be bound or under any organizational documents of Debtor.

(d) Enforceability. This Security Agreement and the other documents executed by Debtor in connection with the Loan ("Loan Documents") constitute a legal, valid and binding obligation of Debtor, enforceable in accordance with its terms (except as enforceability may be affected by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors rights), and this Security Agreement grants to Secured Party a valid, perfected and enforceable first priority security interest in all of the Collateral.

(e) No Litigation. There is no action, suit or proceeding pending or threatened against Debtor that might adversely affect its property or financial condition, operations or business in any material respect.

(f) Ownership of Collateral. Debtor is the sole owner of and has good and marketable title to the Collateral; and in the case of after acquired Collateral, at the time the Debtor acquires rights in the Collateral, Debtor will be the sole owner of and will have good and marketable title to the after-acquired Collateral.

(g) Priority of Secured Party's Lien in Collateral. Except for the security interest in favor of Secured Party, no person has (or, in the case of after-acquired Collateral, at the time Debtor acquires rights in the Collateral, will have) any right, title, claim or interest (by way of security interest or other lien or charge) in, against or to the Collateral, and no financing statement covering any of the Collateral is on file in any public office or land or financing records except for financing statements in favor of Secured Party.

(h) Accuracy of Information. All information supplied to Secured Party by or on behalf of Debtor with respect to the Collateral is and will be true and correct.

(i) Delivery of Documents, Etc. Debtor has delivered to Secured Party all instruments, documents, chattel paper and other items of Collateral in which a security interest is or may be perfected by possession and any additional writings, such as assignments and stock powers, relating to the same requested by Secured Party.

(j) Enforceability Against Account Debtors. Each account, contract right, item of chattel paper, instrument or any other right to the payment of money constituting Collateral is genuine and enforceable in accordance with its terms against the party obligated to pay the same (an "Account Debtor") and those terms have not been modified or waived in any way.

(k) Amount Due From Account Debtors. Any amount represented by Debtor to Secured Party as owing by any Account Debtor is the correct amount actually and unconditionally owing by the Account Debtor.

(l) No Account Debtor Defense. No Account Debtor has any defense, set-off, claim or counterclaim against Debtor that can be asserted against Secured Party, whether in any proceeding to enforce Secured Party's rights in the Collateral or otherwise.

(m) Taxes. Debtor has filed or caused to be filed all federal, state and local tax returns and has paid, when due, all taxes, assessments, claims, fees and other charges lawfully levied or assessed against Debtor or the Collateral.

(n) Subordination of Other Indebtedness. Debtor, by its execution hereof, and notwithstanding any other term set within any Loan Document, agrees to the subordination of any and all loans made to the Debtor by any of its principals, members or any guarantor.

4. Covenants and Agreements of Debtor. Debtor hereby agrees:

(a) Preservation of Collateral. To do all acts that may be necessary to maintain, preserve and protect the Collateral and to maintain and preserve its current organizational existence and good standing, including, without limitation, Debtor's agreement not to change its name.

(b) Use of Collateral. Not to use or permit any Collateral to be used unlawfully or in violation of any provision of this Security Agreement, any other agreement with Secured Party or any applicable law, regulation or ordinance or any policy of insurance covering the Collateral.

(c) Payment of Taxes, etc. To pay promptly when due all taxes, assessments, charges, encumbrances and liens now or hereafter imposed upon or affecting any Collateral and to file when due all federal, state and local tax returns.

(d) Defense of Litigation. To appear in and defend any action or proceeding that may affect its title to or Secured Party's interest in the Collateral.

(e) Possession of Collateral. Not to surrender or lose possession of (other than to Secured Party), sell, encumber, lease, rent, or otherwise dispose or transfer any Collateral or any right or interest in any Collateral, except that so long as no Event of Default (as defined herein) has occurred, Debtor may sell or lease inventory in the ordinary course of business; and to keep the Collateral free of all levies and security interests or other liens or charges except those approved in writing by Secured Party.

(f) Compliance with Law. To comply with all laws, regulations and ordinances relating to the possession, operation, maintenance and control of the Collateral or otherwise applicable to Debtor.

(g) Standard of Care. That such care as Secured Party gives to the safekeeping of its own property of like kind will be deemed to constitute reasonable care of the Collateral when in Secured Party's possession.

(h) Delivery of After-Acquired Collateral. To account fully for and promptly deliver to Secured Party, in the exact form received, all documents, chattel paper, instruments and agreements constituting Collateral and all proceeds of Collateral received by Debtor, all endorsed to Secured Party or in blank, as requested by Secured Party, and accompanied by appropriate assignments or stock powers; and until so delivered to hold all such documents, instruments, agreements and proceeds in trust for Secured Party, separate from all other property of Debtor, and to identify the same as the property of Secured Party.

(i) Maintenance of Records.

1. Debtor shall keep proper books and records of account in a manner reasonably satisfactory to Secured Party. Debtor shall permit Secured Party, by its agents, accountants and attorneys, to visit and inspect the Collateral and examine and copy Debtor's books and records of account, and supporting vouchers, date and other documentation, and to discuss Debtor's affairs, finances and accounts with Debtor or such of its officers, partners, or other principals as Secured party may desire, at such reasonable times as Secured party may request.

2. Debtor shall submit to Secured party: (i) within sixty (60) days of the end of a fiscal quarter, financial statements, consisting of a balance sheet, a statement of cash

flow and a statement of income and expenses for Debtor with respect to the Debtor's operations as of the end of such year; (ii) within ninety (90) days after the end of the fiscal year, financial statements, consisting of a balance sheet, a statement of cash flow and a statement of income and expenses for Debtor with respect to the Debtor's operations as of the end of such year, reviewed by independent certified public accountants selected by the Debtor and acceptable to the Secured Party, as prepared in accordance with generally accepted accounting principles, consistently applied; and (iii) within thirty (30) days after filing, copies of the Debtor's federal, state and local income tax returns, or any other income tax that may be applicable now or hereafter certified by Debtor to be in all respects true, complete and correct. Each document submitted by Debtor pursuant to the previous sentence shall be accompanied by a certificate signed by a duly authorized representative of Debtor certifying on the date thereof that either there does (or does not) exist an event with constitutes, or which upon notice or lapse of time or both would constitute, a default or any Event of Default under the Note, this Security Agreement or any other Loan Document and if such default or Event of Default exists, the nature thereof and the period of time it has existed. Debtor shall retain all books and records of account, financial statements and other data and documentation which relate to the subject matter of this section for at least seven years after the expiration of the year to which each such items pertains. Debtor will furnish to Secured Party, within ten (10) days after request, such further detailed information concerning the operation of the Collateral and the financial affairs of Debtor, any affiliate of Debtor and any guarantor as may be requested by Secured Party.

3. The form and content of annual financial statements required by § 4 (i) (2) above shall be dependent on the size of the Loan secured by this Security Agreement, as well as other loans and liabilities of the Debtor. Accordingly, the following criteria shall govern in determining the form and content of annual financial statements Debtor must submit:

- a. Self prepared annual financial statements shall be submitted by Debtor if the beginning principal balance on the Loan secured by this Security Agreement is equal or less than \$100,000.00 and other loans and liabilities of Debtor are equal or less than \$200,000.
- b. Compiled annual financial statements shall be submitted by Debtor if the beginning principal balance on the Loan secured by this Security Agreement exceeds \$100,000.00 but is equal or less than \$300,000 or other loans and liabilities of Debtor exceed \$200,000.00 but are equal or less than \$400,000.00.
- c. Reviewed annual financial statements shall be submitted by Debtor if the beginning principal balance on the Loan secured by this Security Agreement exceeds \$300,000.00 but is equal or less than \$600,000.00 or other loans and liabilities of Debtor exceed \$400,000.00 but are equal or less than \$800,000.00.
- d. Audited annual financial statements shall be submitted by Debtor if the beginning principal balance on the Loan secured by this Security Agreement exceeds \$600,000.00 or other loans and liabilities of Debtor exceed \$800,000.00.

Reviewed and audited annual financial statements shall be prepared by a Certified Public Accountant and must comply with American Institute of Certified Professional Accountant (AICPA) Professional Standards.

4. Debtor, within five (5) days after a request is made in person or within ten (10) days after a request made by mail, shall sign, acknowledge and furnish to Secured Party a statement certifying the principal amount then outstanding on the Note, confirming that no offsets, claims, counterclaims, or defenses exist against the indebtedness secured by this Security Agreement, and containing such other matters as Secured Party shall reasonably require.

(j) Further Assurances.

1. To obtain, execute and deliver from time to time any endorsements, notifications, registrations, assignments, financing statements and other writings deemed necessary or appropriate by Secured Party to perfect, maintain or protect the validity, enforceability or priority of its security interest in the Collateral; and to take such other actions as Secured Party may request to protect the value of the Collateral and of Secured Party's security interest in the Collateral, including obtaining assurances from third parties regarding Secured Party's access to, right to foreclose on or sell the Collateral.

2. If Secured Party certifies to Debtor that the Note has been misplaced or lost and that Secured Party has not endorsed, assigned or otherwise transferred the Note, then: (a) Debtor shall, upon Secured Party's request, execute an original duplicate note in the same form as the Note; and (b) Secured Party hereby agrees to indemnify Debtor against any loss or expense (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Debtor as a consequence of Debtor's having delivered a duplicate note.

(k) Payment of Secured Party's Costs and Expenses. To reimburse Secured Party upon demand for any costs and expenses, including attorney's fees and disbursements Secured Party may incur while exercising any right, power or remedy provided by this Security Agreement or by law, all of which costs and expenses are included in the Obligations.

(l) Notification Regarding Certain types of Collateral. To notify Secured Party promptly of Debtor's acquisition after the date hereof of any rolling stock intended for use related to interstate commerce, trade names, trademarks, service marks, mask works, copyrights, patents, fixtures, or securities.

(m) Notice of Changes. To give Secured Party thirty (30) days' prior written notice of any change in Debtor's residence or chief place of business.

(n) Location of Records. To keep the records concerning the Collateral at Debtor's principal place of business and not to remove the records from those locations without the prior written consent of the Secured Party.

(o) Purchase Money Agreement. If Secured Party gives value to enable Debtor to acquire rights in or the use of any Collateral, to use that value only for that purpose.

(p) Care for Collateral by Debtor. To keep the Collateral in good condition and repair and not to cause or permit any waste or unusual or unreasonable depreciation of the Collateral.

(q) Inspection by Secured Party. At any reasonable time, upon demand by Secured Party, to exhibit and allow inspection of the Collateral by Secured Party (or persons designated by Secured Party).

(r) Location of Collateral. To keep the Collateral at the locations set forth on Schedule A (if other than the place of business of the Debtor) and, except for sales of inventory in the ordinary course of business, not to remove the Collateral from those locations without the prior written consent of Secured Party.

(s) Insurance:

1. Debtor shall give Secured Party prompt notice of any casualty affecting the Collateral. All insurance proceeds shall be paid over to Secured Party. Secured Party shall have the right to join Debtor in adjusting any loss in excess of Ten Thousand (\$10,000) Dollars. Whether or not replacement or repairs or restoration shall have been made to the Collateral, Secured Party shall have the right to apply such proceeds first to all its costs in the collection thereof, and second (except to the extent that Secured Party agrees otherwise in writing) to the prepayment in whole or in part of the principal of the Note, prepayment charge, if any, and all accrued interest thereon, and to the payment of any other amount payable under any Loan Document and/or secured by this Security Agreement, in such order and priority as the Secured Party in its sole discretion shall determine. The balance, if any, of such proceeds shall be paid to whoever may be legally entitled to the same.

2. If at any time Secured Party is not in receipt of written evidence that all insurance required hereunder is in full force and effect, Secured Party shall have the right

(but not the obligation), without notice to Debtor, to take such actions as Secured Party deems necessary to protect its interest in the Collateral, including obtaining such insurance coverage as Secured Party, in its sole and absolute discretion, deems appropriate, and all expenses incurred by Secured Party in connection with such action shall be paid by Debtor to Secured Party upon demand.

(t) Other Obligations. To comply in all respects as to the payment of any other indebtedness for borrowed money, including, without limitation, complying with any term, covenant, condition or agreement of the documents relating to any such indebtedness. Debtor shall not incur any additional indebtedness, either directly or indirectly, other than in the ordinary course of its business.

(u) No Change in Operation of Business. To maintain at all times during the term of this Agreement the operation of its business at its location and at no other location without the prior written consent of the Secured Party.

(v) No Change Of Ownership. To not sell, assign, transfer, encumber, deliver or otherwise dispose of any interest of the Debtor, or the assets of Debtor (other than in the ordinary course of business), or enter into a merger, consolidation or dissolution, without the prior written consent of Secured Party. In addition, Debtor agrees not to:

(1) effectuate or permit a reduction in the ownership interests in Debtor held by any Principal(s) of Debtor;

(2) effectuate or permit a transfer of the controlling interest in Debtor.

"Transfer of the controlling interest in Debtor" includes, without limitation, the following:

(i) the sale, assignment, issuance, redemption, diminution or pledge, whether through a single transaction or a series of transactions, of the direct or indirect ownership interest of or change in the principals in Debtor or of any entity that directly or indirectly owns or controls Debtor;

(ii) the modification of any organizational documents of Debtor or of any entity that directly or indirectly owns or controls Debtor, if the effect of such modification is to transfer ownership or control of such entity or to limit the liability of Debtor of any entity that directly or indirectly owns or controls Debtor;

(iii) the dissolution or termination, whether by operation of law or otherwise, of Debtor or of any entity that directly or indirectly owns or controls Debtor; or

(iv) any other transaction or series of transactions by which any person(s) other than the Principal(s) of Debtor obtain ownership or control of Debtor.

(w) Assembly of Collateral. After and during the continuance of an Event of Default (as hereinafter defined), to assemble all Collateral and make it available to Secured Party in accordance with the demands of Secured Party.

(x) Terms of Commitment Continue. As a condition precedent to making the Loan, Debtor represents and agrees that all of the terms and conditions set forth in the commitment letter from Secured Party to Debtor, dated November 1, 2004, as amended, have been complied with and that the Loan proceeds will be used in accordance with the representations of Mortgagor in connection with the issuance of such commitment letter.

5. Authorized Action by Secured Party

(a) Debtor hereby agrees that from time to time, without presentment, notice or demand, and without affecting or impairing in any way the rights of Secured Party with respect to the Collateral, the obligations of the Debtor hereunder or the Obligations, Secured Party may, but will not be obligated to and will incur no liability to Debtor or any third party for failure to, take any action which Debtor is obligated by this Security Agreement to do and to exercise those rights and powers as Debtor might exercise with respect to the Collateral, and Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-

fact, which appointment is coupled with an interest, and to exercise those rights and powers, including the right and power to: (i) collect by legal proceedings or otherwise and endorse, receive and give receipt for all dividends, interest payments, proceeds and other sums and property now or hereafter payable on account of the Collateral; (ii) enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or deposit, surrender, accept, hold, or apply other property in exchange for, the Collateral; (iii) insure, protect and preserve the Collateral; (iv) transfer the Collateral to its own or its nominee's name; (v) make any compromise or settlement and take any action it deems advisable, with respect to the Collateral; (vi) notify any Account Debtor on any Collateral to make payment directly to the Secured Party; and (vii) transfer the Collateral to its own or its nominee's name.

(b) Debtor hereby authorizes Secured Party to file Uniform Commercial Code financing statements (and any other filings required in connection with the perfection or preservation of any security interest granted hereunder) and amendments thereto and continuations thereof with regard to the Collateral without Debtor's signature.

6. Default. A default under this Security Agreement will exist upon the occurrence of any of the following events (each, an "Event of Default"):

(a) Default in Payment. Any of the Obligations are not paid when due in accordance with the Note.

(b) Default under Loan Documents. Debtor fails to observe any other term or condition of the Note or the Debtor fails to observe any term or condition of any Loan Documents of even date given to Secured Party by Catskill Revitalization Corporation, Inc., or any event which occurs which would permit Secured Party to accelerate amounts outstanding under the Note.

(c) Default under Guaranties. Any guarantor of the Obligations fails to observe or perform any term or provision of its guarantee or attempts to revoke or rescind its guarantee, with respect to future transactions or otherwise, including, without limitation, with respect to the guarantor.

(d) Material Adverse Change. Any change in the condition (financial or otherwise) of the Debtor which, in the reasonable opinion of Secured Party, (i) has any material adverse effect upon the validity, performance or enforceability of any documents executed in connection with the Loan; (ii) has any material adverse effect upon the financial condition or business operations of Debtor; or (iii) causes an Event of Default hereunder or under any of the documents executed in connection with the Loan.

(e) Misrepresentation, Etc. If any warranty, representation or other statement made either: (i) by or on behalf of Debtor or by any principal of Debtor in, pursuant to, or in connection with any Loan Document; (ii) in connection with any other loan made by Secured Party to Debtor or any principal of Debtor or any borrower of which a Principal of Debtor is a principal; (iii) by or on behalf of any guarantor in or pursuant to any guarantee delivered to Secured Party in connection with the Loan; or (iv) by or on behalf of the Debtor in the commitment letter issued in connection with the Loan or the application filed in connection therewith, is false, incorrect or misleading in any respect; or

(f) Nonpayment of Debts. If Debtor shall be generally not paying Debtor's debts as they become due or defaults in the payment of any other indebtedness

(g) Voluntary Adverse Financial Events. If Debtor shall make an assignment for the benefit of creditors, or shall institute any proceeding to seek relief on its behalf as debtor, or to adjudicate Debtor a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of Debtor or Debtor's debts under any law relating to bankruptcy, insolvency or reorganization or debtor relief, or seeking appointment of a receiver, trustee, custodian or other similar official for Debtor or for any substantial part of the Collateral, or shall consent by answer or otherwise to the institution of any such proceeding against Debtor, or shall take by itself, or by its partners, directors or shareholders, any action for the purpose of any of the foregoing.

(h) Involuntary Adverse Financial Events. If any proceeding is instituted against Debtor seeking to have an order of relief entered against Debtor as debtor or to adjudicate Debtor a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of Debtor or Debtor's debts under any law relating to bankruptcy, insolvency or reorganization or debtor

relief, or seeking appointment of a receiver, trustee, custodian or other similar official for Debtor or the Collateral or any portion thereof or any other substantial part of Debtor's property, that either (i) results, without Debtor's consent or acquiescence, in any such entry of an order of relief, adjudication of bankruptcy or insolvency or issuance or entry of any other order having a similar effect; or (ii) remains undismissed for thirty days.

(i) Appointment of Trustee, Etc. If a trustee, receiver or other custodian is appointed, without the consent or acquiescence of Secured Party, for any substantial part of the properties of Secured Party, which appointment is not vacated within thirty (30) days of the date of such appointment.

(j) Final Judgment - Liens, Etc. If a final judgment is entered against Debtor, or a lis pendens, mechanic's lien or other lien is filed against the Collateral, or any part thereof, and, within thirty (30) days after its entry, such judgment, lis pendens or lien has not been discharged or execution thereof stayed pending appeal, or if, within thirty (30) days after the expiration of any such stay, such judgment, lis pendens or lien has not been discharged.

(k) Prohibited Transfer. If any transfer of the Collateral, or any interest in Debtor, prohibited by this Security Agreement occurs without Secured Party's prior written consent.

(l) Other Instruments. If Debtor fails to perform or discharge any agreement, obligation or undertaking created or agreed to by Debtor in any Loan Document or any other note, mortgage or security agreement executed by Debtor with Secured Party and any applicable cure periods expire.

(m) Principal of Debtor; Guarantor. If any act, circumstance or event described in this Section 6 is taken by or occurs with respect to any principal of Debtor or any guarantor or any of the property of any such person or entity.

(n) Other Mortgages or Security Interests. If any fact or circumstance occurs that would permit the holder of any other mortgage or security agreement encumbering the Collateral, or any part thereof, senior or junior to this Security Agreement, to declare a default or exercise any other remedy available under such other mortgage or security agreement. If such other mortgage or security agreement provides for a grace period and opportunity to cure, an Event of Default shall not be deemed to have occurred hereunder unless and until such grace period has expired. Concurrently with the expiration of such grace period, an Event of Default shall be deemed to have occurred under this Security Agreement, and Debtor shall have no right under this Security Agreement to receive notice of or any opportunity to cure such Event of Default. Nothing hereunder shall limit in any way Debtor's obligations under this Security Agreement or Secured Party's rights and remedies under this Security Agreement.

(o) Cancellation of Insurance. If, after cancellation or termination by any existing insurer, or notice thereof, on the application of Secured Party, two (2) or more insurance companies, lawfully doing business in the state in which the Collateral is situated, refuse to issue any of the policies required by this Security Agreement.

(p) Default Under Other Indebtedness. If Debtor defaults in the payment of any indebtedness of borrowed money or in the performance of any term, covenant, condition or agreement of any such indebtedness, and the effect of such default would be to permit the holder of any such indebtedness to accelerate its maturity.

(q) Payment of other Indebtedness. If Debtor makes a principal payment of any loan made to the Debtor by any of its principals, members or any guarantor of the obligations without the prior written consent of Secured Party, then the act of making such payment shall be an Event of Default under this Security Agreement.

7. Remedies. Upon the occurrence of an Event of Default, Secured Party may, at its option, and without notice to or demand on Debtor and in addition to all rights and remedies available to Secured Party under any other agreement, at law, in equity, or otherwise, do any one or more of the following:

(a) General Enforcement. Foreclose or otherwise enforce Secured Party's security interest in any manner permitted by law, or provided for in this Security Agreement.

(b) Sale, etc. Sell, lease, or otherwise dispose of any Collateral at one or more public or private sales at Secured Party's place board or securities exchange, whether or not the

Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as Secured Party may determine in its sole discretion.

(c) Costs of Remedies. Recover from Debtor all costs and expenses, including reasonable attorneys' fees and disbursements, incurred or paid by Secured Party in exercising any right, power or remedy provided by this Security Agreement.

(d) Assembly of Collateral. Require Debtor to assemble the Collateral and make it available to Secured Party at a place and time designated by Secured Party.

(e) Take Possession of Collateral. Enter onto property where any Collateral is located and take possession of the Collateral with or without judicial process.

(f) Preparation of Collateral for Sale. Prior to the disposition of the Collateral, store, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent Secured Party deems appropriate in its sole discretion and in connection with the preparation of Collateral for disposition, use any trademark, trade name, copyright, patent or technical process used by Debtor, without charge.

(g) Manner of Sale of Collateral. Debtor will be given fifteen (15) business days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of Collateral will be made, which notice Debtor hereby agrees will be deemed reasonable notice, it being understood that Secured Party shall not be obligated to make any sale of Collateral regardless of any notice of sale having been given.

(h) Delivery to and Rights of Purchaser. Upon any sale or other disposition of Collateral pursuant to this Security Agreement, Secured Party will have the right to deliver, assign and transfer to the purchaser the Collateral so sold or disposed of. Each purchaser (including the Secured Party) at any sale or other disposition of Collateral will hold the Collateral free from any claim or right of Debtor, including any equity or right of redemption of Debtor and Debtor specifically waives (to the extent permitted by law) all equity and rights of redemption, stay or appraisal which it has or may have under any present or future rule of law, statute or judicial decision.

(i) Application of Proceeds of Sale. Upon any sale or other disposition of Collateral pursuant to this Security Agreement, Secured Party shall apply the proceeds thereof to the payment of the Obligations in such order and priority as Secured Party shall deem appropriate and to the payment of all other amounts which may from time to time be owing by Debtor to Secured Party pursuant to this Agreement and upon the payment in full of all such amounts, Secured Party shall pay over the balance, if any, of such proceeds or other monies to Debtor or to any other person or entity lawfully entitled to such surplus.

8. Cumulative Rights. The rights, powers and remedies of Secured Party under this Security Agreement are in addition to all rights, powers and remedies given to Secured Party by virtue of any statute or rule of law or any other agreement, all of which rights, powers and remedies will be cumulative and may be exercised successively or concurrently without impairing Secured Party's security interest in the Collateral.

9. Waiver. Any waiver, forbearance or failure or delay by Secured Party in exercising any right, power or remedy will not preclude the further exercise thereof, and every right, power or remedy of Secured Party will continue in full force and effect until the right, power or remedy is specifically waived in a writing executed by Secured Party. Debtor waives any right to require Secured Party to proceed against any person or to exhaust any Collateral or to pursue any remedy in Secured Party's power.

10. Setoff. Debtor agrees that Secured Party may exercise its rights of setoff with respect to the Obligations in the same manner as if the Obligations were unsecured.

11. Binding Upon Successors. All rights of Secured Party under this Security Agreement will inure to the benefit of its successors and assigns, and all obligations of Debtor will bind its heirs, executors, administrators, successors, and assigns.

12. Entire Agreement; Severability. This Security Agreement contains the entire security agreement between Secured Party and Debtor. If any of the provisions of this Security Agreement are held invalid or unenforceable, this Security Agreement shall be construed as if

not containing those provisions and the rights and obligations of the parties hereto shall be construed and enforced accordingly.

13. References. The singular includes the plural. If more than one Debtor executes this Security Agreement, the term Debtor will be deemed to refer to each of the undersigned Debtors as well as to all of them, and their obligations and agreements hereunder will be joint and several. If any of the undersigned is a married person, recourse may be had against his or her separate property for the Obligations.

14. Choice of Law. This Security Agreement shall be construed in accordance with and governed by the laws of the State of New York, without giving effect to its principles of conflicts or choice of law rules, and, where applicable and except as otherwise defined herein, terms used herein have the meanings given to them in the Uniform Commercial Code of such state.

15. Jurisdiction. The Debtor irrevocably and unconditionally consents and agrees that the courts of the State of New York in Delaware County or the Federal courts in the Northern District of New York in a case involving diversity of citizenship shall have jurisdiction over any action or proceeding involving any dispute under or relating to this Security Agreement (including any dispute as to any obligations of third parties with respect to which Debtor is liable hereunder); that the venue of any such action or proceeding in such courts shall be deemed proper; and such courts do not constitute an inconvenient forum for adjudication of any such dispute. Furthermore, the Debtor agrees that, at the option of the Secured Party, service of a summons and complaint or other process in any such court in any such action or proceeding shall be sufficient if made on the Debtor by certified mail at the address provided below (or at such other address as may be provided in writing by such Debtor to the Secured Party), the Debtor hereby waiving personal service thereof, and further agreeing that within 30 calendar days after such mailing, such Debtor shall be obligated to appeal or answer to any summons and complaint or other process and should such Debtor fail to appear or answer within the said 30 day period, such Debtor shall be deemed in default. The Debtor hereby irrevocably and unconditionally waives trial by jury in any legal action arising out of related to, or connected with this Agreement.

16. Actions and Proceedings. Secured Party shall have the right to appear in and defend any action or proceeding brought with respect to the security interests and to bring any action or proceeding, in the name and on behalf of Debtor, which Secured Party, in its discretion, determines should be brought to protect its interest in the collateral. Secured Party may take such action by attorneys selected by Secured Party. Debtor shall pay all expenses in connection therewith on demand, including attorney's fees and disbursements.

17. Amendment. This Security Agreement may not be amended or modified except by a writing signed by each of the parties hereto.

18. Addresses for Notices. All demands, notices and other communications to Debtor or Secured Party provided for hereunder must be given in writing or by telephone, promptly confirmed in writing, mailed, delivered or sent by fax, addressed or sent to it to the address or fax number, as the case may be, of Debtor or Secured Party set forth beneath its signature below, or to such other address as may be designated by a party in a written notice to the other party. All such demands, notices and other communications, when mailed, delivered or sent by fax, will be effective when deposited in the mails, delivered or so sent, as the case may be, addressed as specified above.

19. Watershed MOA Covenants. The Debtor represents and warrants to Secured Party, notwithstanding anything to the contrary in any of the Loan Documents, that:

(a) To the best of Debtor's knowledge, the anticipated application of monies pursuant to the Loan for the project complies with all applicable laws, rules and regulations, including, but not limited to, the "Watershed Regulations" (consisting of those federal, state and local laws, rules, regulations and orders, including rules and regulations for the protection from contamination, degradation and pollution of the New York City (the "City") water supply and its sources) and the provisions of the Memorandum of Agreement (MOA) and the Catskill Fund for the Future Program Contract ("Program Contract"), all restrictive covenants, declarations, agreements and other matters affecting the property or, in the case of zoning ordinances, appropriate variances have been obtained.

(b) The project shall be designed, constructed and implemented, as applicable, in accordance with this Security Agreement and the Watershed Regulations.

(c) The Debtor and its authorized representatives agree that neither it nor any contractor(s) or subcontractor(s) providing services for the project shall engage in any unlawful employment discrimination under this Loan and project based upon race, creed, color, national origin, sex, age, and that shall comply with all federal, state and local laws, ordinances, rules and regulations from time to time in effect prohibiting any such discrimination.

(d) Nothing contained in the Loan Documents shall impair the rights of the City or the New York State Environmental Facilities Corporation ("EFC") under the MOA or Program Contract.

(e) Nothing contained in the Loan Documents shall create any contractual relation between the Debtor and the City.

(f) The Debtor agrees that for any public work performed within the meaning of Section 220 of the New York State Labor Law wages paid shall not be less than the prevailing wage to laborers, workmen and mechanics performing such public work. Further, the Debtor agrees to comply with all other applicable provisions of Section 220 of the Labor Law.

(g) In order to induce Secured Party to enter into the Loan Documents, and to make the Loan, the Debtor acknowledges and agrees that Debtor shall indemnify Secured Party, EFC and the City in accordance with the provisions identified in Article 12 of the Program Contract. Such Article 12 is incorporated herein by this reference and the Debtor's obligations thereunder survive any cancellation, termination, or expiration of this Security Agreement.

(h) The Debtor agrees that at all times during the term of the Loan, it shall be in compliance with all applicable federal, State and local laws, rules, regulations and orders, and the Watershed Regulations, including the requirement that all projects, facilities or other measures funded with the Program Contract funds requiring review and approval by the NYCDEP under the Watershed Regulations or required to be designed, constructed or implemented in accordance with standards set forth in the Watershed Regulations are so designed, constructed or implemented.

(i) The Debtor will ensure that the project continues to be a Qualified Economic Development project as delineated in the application approved by the Secured Party and defined by the Catskill Fund for the Future Program Rules, employs good management practices and fulfills all federal and state requirements of the Loan Documents.

(j) In addition to, and not in lieu of any other provision of any Loan Document, the Debtor agrees that subcontractor(s) employed in any project construction or design exceeding Fifty Thousand Dollars (\$ 50,000) shall have liability insurance in sufficient amount and scope to protect the interest of the City, EFC and the Secured Party.

EXECUTED THIS 9th day of December, 2004.

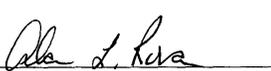
DEBTOR:

SECURED PARTY:

Catskill Revitalization Corporation
a/k/a Catskill Revitalization Corporation, Inc.

Catskill Watershed Corporation

By: 
Name: David Riordan
Title: Executive Director

By: 
Name: Alan L. Rosa
Title: Executive Director

State of New York :
 :
 : ss.:
County of Delaware :

On the 9th day of December in the year 2004 before me, the undersigned, personally appeared David Riordan, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person on behalf of which the individual acted, executed the instrument.


Notary Public

BARBARA A. PUGLISI
NOTARY PUBLIC, State of New York
No. 5001328
Qualified in Delaware County
Commission Expires Sept. 8, 20 06

State of New York :
 :
 : ss.:
County of Delaware :

On the 9th day of December in the year 2004 before me, the undersigned, personally appeared Alan L. Rosa, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person on behalf of which the individual acted, executed the instrument.


Notary Public

BARBARA A. PUGLISI
NOTARY PUBLIC, State of New York
No. 5001328
Qualified in Delaware County
Commission Expires Sept. 8, 20 06