



RECORDATION NO. 26741 FILED

DEC 27 '06

11-50 AM

SURFACE TRANSPORTATION BOARD

John K. Fiorilla  
856.914.2054  
jfiorilla@capehart.com

December 27, 2006



**Via Hand Delivery**

Honorable Vernon A. Williams  
Secretary  
Surface Transportation Board  
Room 700  
1925 K Street N.W.  
Washington, DC 20423

Re: Morristown & Erie Railway - Recordation of Security Agreement  
Our File No. 6453-40607

Dear Secretary Williams:

This firm serves as General Counsel for Morristown & Erie Railway, Inc., a Class III rail carrier. Enclosed please find an original and five copies of the document described below to be recorded pursuant to § 11301 of Title 49 of the U.S. Code.

This document is a Security Agreement, a primary document dated December 20, 2006. I have also enclosed a certification by the undersigned that I have compared the copy to the original and it is true and correct.

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

Borrower: Morristown & Erie Railway, Inc.  
49 Abbett Avenue  
Morristown, NJ 07960

Lenders: David Mandelbaum  
c/o Mandelbaum & Mandelbaum  
80 Main Street  
West Orange, NJ 07052

Honorable Vernon A. Williams  
Our File No. 6453-40607  
December 27, 2006  
Page 2

Wesley Weis  
11 Old Tappan Road  
Old Tappan, NJ 07675

The equipment covered by this Security Agreement are eleven (11) locomotives and thirteen (13) passenger rail cars, all of which are described by number, name, and market value as listed on Exhibit A which is attached to the Security Agreement.

Pursuant 49 CFR § 1002.2 (f)(83), a fee of thirty-four dollars (\$34.00) for recording is enclosed.

Please return the original and any extra copies not needed by the Board for recordation to the undersigned at the following address:

John K. Fiorilla, Esq.  
Capehart & Scatchard P.A.  
Suite 300  
Laurel Corporate Center  
8000 Midlantic Drive  
Mount Laurel, NJ 08054

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

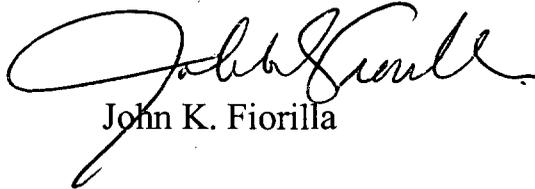
“ This is a Security Agreement which secures a loan of \$800,000.00 cash which has been borrowed by the Morristown & Erie Railway, Inc., A New Jersey Corporation. The railroads offices are at 49 Abbett Avenue, Morristown, New Jersey, 07960. The lenders of this amount are two individuals, David Mandelbaum whose address is 80 Main Street, West Orange, New Jersey, 07052 and Wesley Weis whose address is 11 Old Tappan Road, Old Tappan, New Jersey, 07675. The Security Agreement encumbers as collateral eleven (11) locomotives and thirteen (13) passenger rail cars currently owned by the Borrower. This collateral is more specifically described by number, name, condition, and market value in Exhibit A of the Security Agreement.”

Honorable Vernon A. Williams  
Our File No. 6453-40607  
December 27, 2006  
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Thank you for your time and attention.

Sincerely,

CAPEHART & SCATCHARD, P.A.



John K. Fiorilla

JKF/ajd  
Enclosure

cc: R. J. Contant, Esq. *(w/encl)*  
Thomas E. Cohn, Esq. *(w/encl)*  
Mr. Gordon R. Fuller *(w/encl)*  
Mr. David Mandelbaum *(w/encl)*  
Mr. Wesley Weis *(w/encl)*

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RECORDATION NO. 26741 FILED

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SURFACE TRANSPORTATION BOARD



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SECURITY AGREEMENT

by and between

Morristown and Erie Railway, Inc.  
("Borrower")

and

David Mandelbaum and Wesley Weis  
(individually and collectively, "Lender")

Amount: \$800,000.00

Dated: December 20, 2006

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT made the 20 day of December, 2006, between Morristown & Erie Railway, Inc. a New Jersey corporation having its principal business office at 49 Abbett Avenue, Morristown, NJ 07960 ("Borrower"), and David Mandelbaum having an address at c/o Mandelbaum and Mandelbaum, 80 Main Street, West Orange, NJ 07052 and Wesley Weis having an address at 11 Old Tappan Road, Old Tappan, NJ 07675 (individually and collectively, "Lender").

### WITNESSETH THAT:

Borrower has executed and delivered to Lender its Note ("Note") bearing even date herewith, by which Borrower promises to pay to Lender the principal sum of Eight Hundred Thousand Dollars (\$800,000.00), lawful money of the United States of America ("Principal"), advanced or to be advanced by Lender to Borrower, with interest thereon at the rate and times, in the manner and according to the terms and conditions specified in the Note ("Interest"), all of which are incorporated herein by reference.

NOW, THEREFORE, in consideration of the indebtedness evidenced by the Note, and as security for payment to Lender of:

1. The principal amount of the Note with interest at the rate or rates set forth in the Note and all other sums provided for in the Note and in this Security Agreement, according to their respective terms and conditions; and
2. Expenses incurred by reason of default of Borrower under the Note or this Security Agreement; and
3. Any future loans which Lender may elect to make hereafter to Borrower;

Borrower has granted, conveyed, bargained, sold, aliened, enfeoffed, and released, and by these presents does hereby grant, convey, bargain, sell, alien, enfeoff, and release unto Lender the following (collectively, the "Collateral"):

(a). All of the railroad equipment that is described in Exhibit "A" attached hereto and made a part hereof; and

(b) The Pledge of Stock Interest in Borrower by Gordon Fuller in favor of Lender set forth at Exhibit "B" and made a part hereof ("Pledge"); and

(c) Borrower's interest in and right to any net payments or proceeds received by Maker from any third party, including, without limitation, any governmental or quasi governmental entity, as consideration for the sale of any of Borrower's assets, including, without limitation, any real property.

TO HAVE AND TO HOLD the Collateral hereby conveyed or mentioned and intended so to be, unto Lender, to its own use forever.

PROVIDED ALWAYS, and this instrument is upon the express condition that, if Borrower pays to Lender the principal sum mentioned in the Note, the interest thereon and all other sums payable by Borrower to Lender as are secured by this Security Agreement, in accordance with the provisions of the Note, this Security Agreement and the other Loan Documents, as defined in the Note, at the times and in the manner specified, without offset, deduction, fraud or delay, and Borrower performs and complies with all the agreements, conditions, covenants, provisions and stipulations contained in the Note, this Security Agreement and the other Loan Documents, then this Security Agreement and the rights and interests of Lender hereby granted shall cease and become void.

BORROWER REPRESENTS, COVENANTS AND WARRANTIES to and with Lender that until the indebtedness and other sums secured hereby is fully repaid:

1. Representations and Warranties. Borrower represents and warrants to Lender, their successors and assigns, that, as of the date hereof:

(a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey, has been duly qualified to do business in the State of New Jersey and has all requisite power and authority to borrow the monies and otherwise assume and perform, as contemplated hereunder, under the Note and under any other Loan Documents, and is compliance with all laws, regulations, ordinances and orders of public authorities applicable to it;

(b) Neither the borrowing of the monies, nor the execution and delivery of this Security Agreement, the Note or any other Loan Documents, nor the performance of the provisions of the agreements therein contained on the part of Borrower will contravene, violate or constitute default under Borrower's Articles of Incorporation or By-Laws, or any agreement with any creditors of Borrower, or any law, ordinance governmental regulation, agreement or indenture to which Borrower is a party or by which the Collateral is bound; and

(c) This Security Agreement, the Note and all other Loan Documents have been duly executed and delivered by Borrower and constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their terms.

2. Payment and Performance. Borrower shall pay to Lender, in accordance with the terms of the Note and this Security Agreement, the Principal and Interest, and other sums set forth in the Note, this Security Agreement and the other Loan Documents. Borrower shall perform and comply with all the agreements, conditions, covenants, provisions and stipulations of the Note, this Security Agreement and the other Loan Documents.

3. Warranty of Title. Borrower warrants to Lender that Borrower possesses a good and marketable unencumbered title to the Collateral.

4. Maintenance of Collateral. Borrower shall keep and maintain the Collateral in the same order and condition as the date hereof, in compliance with all applicable laws and will make, as and when necessary, all repairs, renewals, replacements, alterations, additions and betterments, and same shall be completed with first class materials and workmanship. Borrower shall abstain from and shall not permit the commission of any further waste, from the date

hereof, in or about the Collateral without the prior written consent of Lender. Borrower shall not permit the Collateral to become deserted or abandoned. Borrower shall not change the use of the Collateral from its current use without first obtaining the prior written consent of Lender.

5. Insurance.

(a) Borrower shall maintain such insurance policies covering the Collateral as was in place as of December 1, 2006. All amounts and scope of coverage of all such policies, shall be equal to or greater than that which was in place as of December 1, 2006, and shall remain with the same insurer with whom such policies were then carried, unless Lender, in its reasonable discretion, requires otherwise.

(b) All insurance policies shall be maintained in full force and effect, shall be endorsed with a standard lender clause in favor of Lender, not subject to contribution, and shall provide for at least thirty (30) days' notice of cancellation to Lender. Certificates of Insurance, addressed to Lender, together with photostatic copies of the policies, may be delivered to Lender in lieu of the original policies therefor.

(c) In the event of loss, Borrower will give immediate notice thereof to Lender, and Lender may make proof of loss if not made promptly by Borrower. Each insurance company concerned is hereby authorized and directed to make payment under such insurance, including return of unearned premiums, directly to Lender instead of to Borrower and Lender jointly, and if notwithstanding the foregoing an insurance company pays any claim by a check payable jointly to Borrower and Lender, Borrower agrees to endorse the check over to Lender, and Borrower appoints Lender, irrevocably, as Borrower's attorney-in-fact to endorse any draft therefor. Such policies of insurance and all renewals thereof are hereby assigned to Lender as additional security for payment of the indebtedness hereby secured and Borrower hereby agrees that after default hereunder any values available thereunder upon cancellation or termination of any of said policies or renewals, whether in the form of return of premiums or otherwise, shall be payable to Lender as assignee thereof. If Lender becomes the owner of the Collateral or any part thereof by foreclosure or otherwise, such policies, including all right, title and interest of Borrower thereunder, shall become the absolute property of Lender.

(d) So long as no Event of Default exists hereunder, Lender shall permit Borrower to apply any insurance proceeds to restoration or repair of the Collateral so long as such proceeds, along with any other funds which Borrower makes available, are sufficient to complete the restoration or repair. If an Event of Default exists hereunder Lender may, in its sole discretion, apply any insurance proceeds to the Note or permit such proceeds to be used for the repair or restoration of the Collateral.

6. Compliance with Law and Other Matters.

(a) Borrower shall comply with all laws, ordinances, regulations and orders (collectively "Laws") of all Federal, State, municipal and other governmental authorities ("Governmental Authority") relating to the Collateral and the use and occupancy thereof.

(b) Borrower shall at all times maintain the legal existence of Borrower and, if and to the extent required by applicable law to enable it to own and operate the Collateral and to

perform its obligations under the Note and this Security Agreement, its qualification to do business in the state in which the Collateral is located and, from time to time, file and record such certificates or instruments as may be necessary or desirable to maintain such existence and qualification and to permit the continued operation of its business.

(c) Borrower will comply with all restrictive covenants, easement agreements and other recorded documents affecting the Collateral. Borrower will not record or permit to be recorded any document, instrument, agreement or other writing against the Collateral without the prior written consent of Lender.

7. Required Notices. Borrower shall notify Lender promptly of the occurrence of any of the following:

(a) the occurrence of any event or the existence of any fact or circumstance which with the giving of notice or the passage of time, or both, would constitute an Event of Default under this Security Agreement, or

(b) commencement of any litigation affecting the Collateral, or receipt of a notice of an affirmative claim against Borrower affecting or arising out of the Collateral which claim exceeds Ten Thousand Dollars (\$10,000.00).

8. No Other Financing or Liens. No lien, security interest, judgment or other encumbrance of any type, whether voluntary or involuntary (collectively called an "Encumbrance"), shall be permitted to be filed or entered against the Collateral without the prior written consent of Lender. If any Encumbrance is filed or entered, Borrower shall have it removed of record within seven (7) business days after it is filed or entered by either paying it in full, having it bonded in a manner which removes it of record, or otherwise having it removed of record. Failure to so discharge of record any such lien or encumbrance within such seven (7) business day period shall be an event of default under this Security Agreement, and shall entitle the Lender, at Lender's option and without further notice or cure period, to exercise any and all of the remedies of this Security Agreement for default provided hereunder or by law. In the event Borrower fails to so discharge of record such lien or encumbrance within such seven (7) business day period, Lender may in addition, but shall not be obligated to, advance funds, bond or otherwise provide security necessary to discharge of record such lien or encumbrance, and all sums so advanced, together with interest thereon from the date of advance to the date of payment thereof at the Default Rate, shall be payable by Borrower Lender on demand as an Additional Payment.

"Additional Payment" shall mean all sums, other than Principal and Interest, which may become payable by Borrower to Lender under the Note or this Security Agreement for any reason (whether or not specifically designated in this Security Agreement as an Additional Payment), including but not limited to (i) any late payment charge, liquidated damages or interest charge which may be assessed under the Note or this Security Agreement, (ii) any fees due to Lender, or expenses of Lender required to be paid by Borrower, under the Note or this Security Agreement, (iii) any funds advanced by Lender, a receiver, or any other person on Lender's behalf to satisfy any obligation of Borrower under the Note or this Security Agreement, (iv) any Supplemental Premium which may be due under the Note or this Security

Agreement, (v) any amount of damages, costs or expenses, including reasonable attorneys' fees and disbursements, which Lender may incur as a result of Borrower's failure to perform any of its obligations or pay any amount which it is required to pay under the Note or this Security Agreement, and (vi) any amount for which Lender is entitled to receive indemnity from Borrower under the Note or this Security Agreement. All Additional Payments shall be secured by this Security Agreement.

9. No Transfer.

(a) Without the prior written consent of Lender, Borrower will abstain from and will not cause or permit, whether by sale, exchange, conveyance, merger, consolidation or otherwise and whether voluntarily or by operation of law (i) any direct or indirect transfer of title to, beneficial interest in, or any estate or interest in, the Collateral or any part thereof; or (ii) any transfer of a controlling interest in Borrower.

(b) If Lender agrees to consent in writing to any transfer or issuance, such consent shall apply only to that specific transfer or issuance set forth in Lender's written consent. Lender may impose, as a condition to its consent to a transfer or issuance, such requirements as it desires, in its sole discretion, including, without limitation, that the proposed transferee satisfies Lender's then existing credit and other standards, and that the proposed transferee enter into a written assumption agreement with respect to the Note, this Security Agreement and the other Loan Documents, that an assumption fee, in an amount to be determined by Lender, be paid to Lender at the time of the transfer or issuance, and that the interest rate of the Note be increased to the current market interest rate, as determined by Lender. Nothing contained in this Paragraph is intended to require Lender to consent to any transfer or issuance.

10. Events of Default. Each of the following shall constitute an "Event of Default" under this Security Agreement:

(a) Failure of Borrower to pay any installment of Principal or Interest, or any other Additional Payment, on the date when it is due under the Note, this Security Agreement or any other Loan Document and Borrower's failure to cure such failure within ten (10) days after Borrower is given written notice of its default.

(b) Failure of Borrower to immediately pay to Payee, *pari passu* (which shall mean, for the purposes of this Security Agreement and the Loan Documents, as defined herein, for every one dollar of income or expense, David Mandelbaum shall be entitled to Thirty Seven and One Half Cents (\$0.37.5), and Wesley Weis shall be entitled to Sixty Two and One Half Cents (\$0.62.5)), one hundred (100%) per cent of any net payments or proceeds Maker receives from any third party, including, without limitation, a governmental or quasi governmental entity, in connection with the sale of any of Maker's assets, including, without limitation, any real property, to be applied in accordance with the terms of the Note and this Security Agreement.

(c) Failure of Borrower, in the event that there is "cash" (or its equivalent) which could or might be distributed to the shareholders of the Corporation, to immediately use all such sums to retire, or partially retire, the debt of \$800,000 pursuant to the terms of the Note and this Security Agreement.

(d) Appointment of a receiver, liquidator or trustee of Borrower or of any of the property of Borrower, or the commencement by Borrower of any bankruptcy, reorganization, dissolution, arrangement, insolvency, readjustment, receivership or other proceeding or case under the Federal Bankruptcy Code or under any similar federal or state statute (collectively, a "Bankruptcy Proceeding"), or the commencement of any Bankruptcy Proceeding against Borrower which is not stayed or dismissed within sixty (60) days of its commencement.

(e) Any assignment for the benefit of creditors made by Borrower.

(f) Borrower's or Gordon Fuller's non-performance of or noncompliance with any of the agreements, conditions, covenants, provisions or stipulations contained in the Note, this Security Agreement, or in any other Loan Document (excluding the failure to pay principal, interest or other sum due), and Borrower's or Gordon Fuller's failure to cure such default within thirty (30) days after Borrower or Gordon Fuller, as the case may be, is given written notice of its default; provided, however, that if such default is not reasonably curable within such thirty (30) day period, the same shall not constitute an Event of Default so long as Borrower or Gordon Fuller, as the case may be, has commenced its efforts to cure such default within such thirty (30) day period and is diligently attempting to cure such default.

(f) A default by Borrower under any of the Loan Documents.

(g) Failure by Borrower to cause this Security Agreement to be properly recorded with the United States Surface Transportation Board within ten (10) days of the date hereof.

Notwithstanding anything to the contrary in this Security Agreement or in the Loan Documents, any default under this Security Agreement, as set forth herein, or any of the other Loan Documents as set forth therein, shall be deemed to be a default under all of the Loan Documents, and shall entitle Lender to all of the rights and remedies available under the Loan Documents, including, without limitation, this Security Agreement.

Upon the occurrence of any Event of Default, and in the case of Events of Default for which a notice and/or cure period is expressly set forth, upon the expiration of such notice and/or cure period without the event of default having been cured, a default shall have occurred under this Security Agreement, and therefore, under all of the Loan Documents, which shall entitle Lender, without further notice required by Lender and without any further right to cure being allowed to Borrower, to immediately exercise any and all of its rights provided under the Loan Documents, including without limitation, this Security Agreement or by law for default. Borrower acknowledges and agrees that except where this Security Agreement expressly provides that Borrower and Gordon Fuller are entitled to notice and/or an opportunity to cure a specified event of default, each and every Event of Default provided in this Security Agreement shall, immediately upon its occurrence, constitute a default under all of the Loan Documents, entitling Lender to exercise all remedies thereunder. Borrower further acknowledges that wherever in this Security Agreement is provided that Borrower is entitled to notice and/or an opportunity to cure with respect to any Event of Default, then immediately following the satisfaction of any such notice requirement and/or the expiration of the specified cure period,

without further notice, the Event of Default shall become a default entitling Lender to exercise all of such remedies.

11. Remedies.

(a) Upon the occurrence of an Event of Default, the entire unpaid balance of the Principal, accrued Interest and all other Additional Payments due under the Note or this Security Agreement, shall, at the option of Lender, become immediately due and payable without further notice or demand and Lender shall have and may exercise all the rights and remedies permitted by law, and proceed thereon to final judgment and execution thereon for the entire unpaid balance of the Note, with interest at the Default Rate set forth in the Note, together with all other sums secured by this Security Agreement, all costs of suit, interest at the Default Rate set forth in the Note on any judgment obtained by Lender from and after the date of any Sheriff's Sale of the Collateral until actual payment is made by the Sheriff of the full amount due Lender, and reasonable attorney's fees, without further stay, any law, usage or custom to the contrary notwithstanding.

(b) No failure or delay on the part of the Lender in exercising any right, power or privilege under this Security Agreement, and no course of dealings between the Borrower and the Lender, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No notice to or demand on Borrower shall entitle Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of the Lender to any other or further action in the same or other circumstances without notice or demand.

(c) The rights and remedies of Lender expressed or contained in this Security Agreement are cumulative and no one of them shall be deemed to be exclusive of the others or of any right or remedy Lender may now or hereafter have at law or in equity. The covenants of this Security Agreement shall run with the Collateral and bind the Borrower and, unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, its successors and assigns and all subsequent owners or encumbrancers of the Collateral and shall inure to the benefit of Lender and its successors and assigns and all subsequent holders of this Security Agreement and the Note.

12. Rights and Remedies Cumulative.

(a) The rights and remedies of Lender as provided in this Security Agreement, the Note and the other Loan Documents and in the warrants attached thereto or contained therein shall be cumulative and concurrent; may be pursued separately, successively or together against Borrower or against the Collateral, or both, at the sole discretion of Lender, and may be exercised as the need to exercise them shall arise. The failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

(b) Any failure by Lender to insist upon strict performance by Borrower of any of the provisions of this Security Agreement, the Note or the other Loan Documents shall not be deemed to be a waiver of any of the terms or provisions of the Security Agreement, Note

or the other Loan Documents, and Lender shall have the right thereafter to insist upon strict performance by Borrower of any and all of them.

13. Counsel Fees. If Lender becomes a party to any suit or proceeding (including, without limitation, appellate and bankruptcy proceedings by or against Borrower) affecting Borrower, the Collateral or title thereto, the lien created by this Security Agreement or Lender's interest therein, or if Lender has engaged counsel to prepare or review the Note, this Security Agreement or any other Loan Documents as a condition precedent to the granting of the loan evidenced by the Note, or if Lender engages counsel to collect any of the indebtedness or to enforce performance of the agreements, conditions, covenants, provisions or stipulations of this Security Agreement or the Note, or if Lender engages counsel to review any request or submission made by Borrower subsequent to the date hereof or to advise Lender with respect to the provisions of the Loan Documents, Lender's costs, expenses and reasonable counsel fees, whether or not suit is instituted, shall be paid to Lender by Borrower, on demand, with interest at the then effective rate set forth in the Note, and until paid they shall be deemed to be part of the indebtedness evidenced by the Note and secured by this Security Agreement.

14. Severability Clause. If any provision of this Security Agreement is held to be invalid or unenforceable by a Court of competent jurisdiction, the other provisions of this Security Agreement shall remain in full force and effect and shall be liberally construed in favor of Lender in order to effect the remaining provisions of this Security Agreement.

15. Notices. All notices, demands or requests required or permitted under the terms of this Security Agreement to be given by or to Borrower or Lender (a) shall be in writing, and (b) unless and until otherwise specified in a written notice by the respective parties or any of them, shall be sent to the parties at their following respective address:

(a) If to the Borrower:

Morristown & Erie Railway, Inc.  
49 Abbett Avenue  
Morristown, New Jersey 07960

With a copy to:

Capehart & Scatchard, P.A.  
8000 Midlantic Drive Suite 300  
Mt. Laurel, N.J. 08054  
Attn: John K. Fiorilla, Esquire

(b) If to the Lender:

David Mandelbaum  
c/o Mandelbaum and Mandelbaum  
80 Main Street  
West Orange, NJ 07052

With a copy to:  
WolfBlock Brach Eichler  
101 Eisenhower Parkway  
Roseland, New Jersey 07068  
Attn: Thomas E. Cohn, Esquire

and

Wesley Weis  
11 Old Tappan Road  
Old Tappan, NJ 07675

With a copy to:  
Herten, Burstein, Sheridan, Cevasco, Bottinelli, Litt &  
Harz, LLC  
21 Main Street  
Court Plaza South - 3rd Floor  
Hackensack, NJ 07601  
Attn: Richard J. Contant, Esquire

Notices may be given by the aforesaid counsel on behalf of its client. Each such notice, demand or request shall be deemed to have been properly served for all purposes if (i) hand delivered with a written receipt of delivery, (ii) mailed by registered or certified mail of the United States Postal Service, return receipt requested, postage prepaid, or (iii) delivered to a nationally recognized overnight courier service for next business day delivery, to its addressee at its address as set forth hereinabove in this Paragraph. Each such notice, demand or request shall be deemed to have been received by its addressee upon the earlier of (A) actual receipt or (B) two (2) business days after deposit thereof at any main or branch United States Post Office if sent by mail, and one (1) business day after delivery to the courier if sent by courier service.

16. Jurisdiction. With respect to any suit, action or proceedings relating to any of the Loan Documents each party irrevocably (a) submits to the non-exclusive jurisdiction of the courts of the State of New Jersey; and (b) waives any objection which it may have at any time to the laying of venue of any proceedings brought in any such court, waives any claim that such proceedings have been brought in any inconvenient forum and further waives the right to object, with respect to such proceedings, that such court does not have jurisdiction over such party. Nothing in this Security Agreement shall preclude either party from bringing proceedings in any other jurisdiction nor will the bringing of proceedings in any one or more jurisdictions preclude the bringing of proceedings in any other jurisdiction.

17. Covenant Running with the Collateral. Any act or agreement to be done or performed by Borrower shall be construed as a covenant running with the Collateral, as defined herein and in the Note, and shall be binding upon Borrower and its successors and assigns as if they had personally made such agreement.

18. Amendment. This Security Agreement cannot be changed or amended except by agreement in writing signed by the party against whom enforcement of the change is sought.

19. Applicable Law. This Security Agreement and all questions relating to its validity, interpretation, performance and enforcement (including, without limitation, provisions concerning limitations of actions), shall be governed by and construed in accordance with the laws of the State of New Jersey, notwithstanding any conflict-of-laws doctrines of such state or other jurisdiction to the contrary, and without the aid of any canon, custom or rule of law requiring construction against the draftsman.

20. Definitions and Interpretation. Whenever used in this Security Agreement, unless the context clearly indicates a contrary intent:

(a) The word "Borrower" shall mean the person who executes this Security Agreement and any subsequent owner of the Collateral and its respective heirs, executors, administrators, successors and assigns;

(b) The word "Lender" shall mean the persons, individually and collectively, specifically named herein as "Lender" or any subsequent holder of this Security Agreement;

(c) The word "person" shall mean individual, corporation, partnership, joint venture or unincorporated association;

(d) The use of any gender shall include all genders;

(e) The singular number shall include the plural and the plural the singular as the context may require.

(f) If Borrower be more than one person, all agreements, conditions, covenants, provisions, stipulations, warrants of attorney, authorizations, waivers, releases, options, undertakings, rights and benefits made or given by Borrower shall be joint and several, and shall bind and affect all persons who are defined as "Borrower" as fully as though all of them were specifically named herein wherever the word "Borrower" is used.

(g) Any act which Borrower is required to perform under the Loan Documents shall be performed at Borrower's sole cost and expense.

(h) All Exhibits attached hereto are hereby incorporated by reference into, and made a part of, this Security Agreement.

(i) This Security Agreement may be executed in counterparts, each of which, together with all counterparts, shall be deemed the executed Security Agreement. This Security Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

21. Waiver of Trial by Jury. BORROWER AND LENDER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON THE LOAN SECURED BY THIS SECURITY AGREEMENT, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING,

STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTION OR BORROWER OR LENDER. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER'S MAKING OF THE LOAN SECURED BY THE LOAN DOCUMENTS.

22. Instruments of Further Assurance, Etc. At any time and from time to time, upon Lender's reasonable written request, Borrower shall make, execute and deliver or cause to be made, executed and delivered to Lender and, where appropriate, shall cause to be recorded or filed and from time to time thereafter to be re-recorded or refiled at such time and in such offices and places as shall be deemed desirable by Lender, without charge to Lender (but Lender shall bear the costs of filing or recording), any and all such further Security Agreements, instruments of further assurance, certificates, UCC financing statements, and other documents as Lender may consider necessary or desirable in order to effectuate, complete, or perfect, or to continue and preserve the obligations of Borrower under this Security Agreement, and the lien of this Security Agreement. Upon any failure by Borrower to do so, Lender may make, execute, record, file, re-record or refile any and all such Security Agreements, instruments, certificates and documents for and in the name of Borrower, and Borrower hereby irrevocably appoints Lender the agent and attorney-in-fact of Borrower to do so, and the cost of doing the same, including attorneys fees and disbursements, shall be payable by Borrower.

23. True Copy Received. Borrower has received a true copy of this Security Agreement.

IN WITNESS WHEREOF, Borrower has caused this Security Agreement to be duly executed as a sealed instrument the day and year first above written.

Borrower:

Morristown & Erie Railway, Inc., a New Jersey corporation

By: *Wesley*  
Title: *President*

STATE OF NEW JERSEY :  
: SS.  
COUNTY OF ESSEX :

On the 20 day of December, 2006, before me, the subscriber, a <sup>AN ATTORNEY of the STATE of NJ</sup> ~~Notary Public~~ in and for the State of New Jersey, personally appeared Wesley who who acknowledged himself to be the PRESIDENT of Morristown & Erie Railway, Inc., who, I am satisfied is the person who signed the foregoing instrument, and did acknowledge under oath that he signed and delivered the same in his capacity and that the foregoing instrument is the duly authorized, voluntary act and deed of such corporation.

WITNESS my hand and seal the day and year aforesaid.

*John K Fiorilla*  
~~Notary Public of the State of New Jersey~~  
*JOHN K FIORILLA*  
*AN ATTORNEY of the STATE of N.J.*

CORPORATE VERIFICATION

I GORDON R. FULLER, Chief Operating Officer of the Morristown & Erie Railway, Inc. certify that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that the instrument was signed and sealed of behalf of the corporation by the 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 verify under penalty of perjury that the foregoing is true and correct.

*Gordon Fuller*  
GORDON FULLER

Signature page for Security Agreement

EXHIBIT "A"

**M&E Rolling Stock Asset List**

11/19/2006

<u>Description</u>	<u>Number</u>	<u>Mfgr.</u>	<u>Name</u>	<u>Amtrak</u>	<u>Condition</u>	<u>Market Value</u>
Locomotive	265	EMD		Yes	SS	\$200,000.00
Locomotive	291	EMD		Yes	SS	\$200,000.00
Locomotive	18	Alco		No	Operating	\$65,000.00
Locomotive	19	Alco		No	Operating	\$55,000.00
Locomotive	20	EMD	Benjamin Friedland	No	Operating	\$250,000.00
Locomotive	22	EMD	John Fiorilla	No	OOS	\$50,000.00
Locomotive	4216	Alco		No	Operating	\$50,000.00
Locomotive	4231	Alco		No	Operating	\$50,000.00
Locomotive	4240	Alco		No	OOS	\$20,000.00
Locomotive	3573	Alco		No	Operating	\$55,000.00
Locomotive	3562	Alco		No	OOS	\$15,000.00
Coach	800545	Budd	Ash	No	Operating	\$50,000.00
Coach	800546	Budd	Elm	No	Operating	\$50,000.00
Coach	800500	Budd	Magnolia	Yes	Operating	\$100,000.00
Coach	800851	Budd	Pine	Yes	Operating	\$100,000.00
Coach	5646	Budd		No	OOS	\$25,000.00
Coach	5660	Budd		No	OOS	\$25,000.00
Coach	5663	Budd		No	OOS	\$25,000.00
Coach	5665	Budd		No	OOS	\$25,000.00
Lounge	800081	Budd	Morris County	90%	Operating	\$100,000.00
10-6 Sleeper	800796	Pullman	Royal Knight	No	OOS	\$30,000.00
10-6 Sleeper	800795	Pullman	Royal Court	No	OOS	\$30,000.00
Lounge	800853	Budd	Tech Training	90%	OOS	\$60,000.00
Coach	7015	Budd	Tunnel Coach	90%	OOS	\$80,000.00
						\$1,710,000.00
<b>Legend</b>	<b>SS</b>	Stored Serviceable				
	<b>OOS</b>	Out Of service				

EXHIBIT "B"

## STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (the "Agreement") is made this \_\_\_ day of December, 2006, by GORDON FULLER, having an address at 981 Central Avenue, Plainfield, New Jersey 07060 (the "Pledgor") in favor of DAVID MANDELBAUM, having an address at c/o Mandelbaum & Mandelbaum, 80 Main Street, West Orange, New Jersey 07052 and WESLEY WEIS, having an address at 11 Old Tappan Road, Old Tappan, New Jersey 07675 (individually and collectively, "Pledgee").

### Background

Reference is made to the financing arrangements between the Pledgee and Morristwon & Erie Railway, Inc. (the "Corporation"), pursuant to which Pledgee may extend loans, advances and other financial accommodations to the Corporation as set forth in a certain Note and a certain Security Agreement, each dated of even date herewith, between the Pledgee and the Corporation (as the same, individually or collectively, may from time to time be amended, restated or modified, the "Financing Agreement"), and various other agreements, documents and instruments now or at any time executed and/or delivered in connection therewith or otherwise related thereto, including, without limitation, this Agreement (all of the foregoing, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, being collectively referred to herein as the "Loan Documents").

For purposes of securing payment of the Obligations (as hereinafter defined) in the maximum amount of EIGHT HUNDRED THOUSAND and 00/100 DOLLARS (\$800,000.00), plus any interest and any other amount payable in accordance with the provisions of this Agreement, as well as payment of the personal and procedural costs of any eventual collection proceedings and all other obligations acquired by Pledgor under this Agreement, and in consideration for Pledgee entering into and making advances to the Corporation under the Financing Agreement, the Pledgor has agreed to further secure the Obligations by granting to Pledgee a first priority security interest and pledge in all of Pledgor's right, title and interest in the Pledged Stock (as hereinafter defined).

In addition to such other good and valuable consideration received by Pledgor in making this Agreement, the receipt of which is hereby acknowledged, Pledgor further acknowledges and understands, that, (i) but for his pledge of stock in the Corporation, as set forth herein, Pledgee, who is acting as Lender to the Corporation, would not have agreed to the loan ("Loan") contemplated by the Loan Documents; (ii) that such pledge is a material inducement to Pledgee to make the Loan; and (iii) that Pledgor is receiving a material benefit as the result of Pledgee's loan to the Corporation.

This Agreement shall not be subject to or conditioned upon any occurrence, and shall be immediately operative upon execution.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties intending to be legally bound, agree:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Financing Agreement. The following terms shall have the meanings set forth below, unless the context otherwise requires:

(a) "**Pledged Stock**" means those shares of stock in the Corporation, representing Pledgor's 10.568% interest in the Company, calculated as of the closing of the transactions contemplated by the Loan Documents, which Pledgor has an undivided interest in, together with all certificates, options, rights, dividends or other distributions, whether in cash, property or otherwise, issued as an addition to, in substitution or in exchange for, or on account of, any such shares, and all proceeds of all of the foregoing, now or hereafter owned or acquired by the Pledgor. Pledgor is not herewith pledging such other of his stock which represents an interest in eleven (11%) per cent of the Corporation, i.e., Pledgor's pre-existing stock ownership percentage interest in the Corporation as of December 1, 2006.

It is acknowledged and agreed that as soon after the date hereof as is reasonably practicable, the Corporation shall effectuate a "Stock Split" of all of its outstanding shares, in order to permit Pledgor to pledge only such stock as then represents 10.568% of the Corporation's outstanding shares.

(b) "**Obligations**" means the Corporation's obligations of payment of Principal, Interest and Additional Payment, as each is defined in the Financing Agreement.

(c) "**Event of Default**" means the occurrence of any one or more of the following:

(i) non-payment of any of the Obligations (or any portion thereof) when and in the manner due, whether non-payment exists by virtue of acceleration of the Obligations, or otherwise, subject to any applicable cure periods related thereto which are contained in the Financing Agreement;

(ii) failure by the Pledgor to observe or perform any covenant, agreement, condition or term of (or breach of any warranty contained in) this Agreement, or any other agreement, document or instrument executed or delivered to Pledgee by the Pledgor, subject to any applicable cure periods related thereto which are contained in the Financing Agreement;

(iii) failure by the Corporation to observe and perform any covenant, agreement, condition or term of (or breach of any warranty contained in) the Financing Agreement, or any other agreement, document or instrument executed or delivered to Pledgee by the Corporation, subject to any applicable cure periods related thereto which are contained in the Financing Agreement; and

(iv) the occurrence of any Event of Default under any of the Loan Documents.

2. Pledge and Grant of Security Interest; Remedies Upon Default.

(a) As security for the prompt payment when due, whether at stated maturity, by acceleration or otherwise, and performance and discharge of the Obligations, Pledgor pledges, assigns and transfers to Pledgee, *pari passu* (which shall mean, for the purposes of this Agreement and the Loan Documents, as defined herein, for every one dollar of income or expense, David Mandelbaum shall be entitled to Thirty Seven and One Half Cents (\$0.37.5), and Wesley Weis shall be entitled to Sixty Two and One Half Cents (\$0.62.5)), the Pledged Stock, and grants Pledgee a lien on and first priority security interest in the Pledged Stock.

(b) If the Pledgor becomes entitled to receive or shall receive, in connection with any of the Pledged Stock, any:

(i) stock certificates, including, without limitation, any certificates representing a stock dividend or issued in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off, or split-off;

(ii) options, warrants, or rights, whether as an addition to, or in substitution or in exchange for, any of the Pledged Stock, or otherwise; or

(iii) dividends or distributions of any sort;

then the Pledgor shall accept the same as Pledgee's agent and in trust for Pledgee, and shall deliver the same forthwith to Pledgee in the exact form received with, as applicable, the Pledgor's endorsement when necessary, or appropriate stock powers duly executed in blank, to be held by Pledgee, subject to the terms of this Agreement, as part of the Pledged Stock.

(c) At any time upon the occurrence of an Event of Default and until such time as it has been waived in writing by Pledgee, Pledgee, at its option, may have any part or all of the Pledged Stock registered in its name or that of its nominee, and the Pledgor agrees that, upon Pledgee's request, the Pledgor will cause the issuer, transfer agent or registrar of the Pledged Stock to effect this registration. Immediately and without further notice, upon the occurrence of an Event of Default and until such time as it has been waived in writing by Pledgee, whether or not the Pledged Stock shall have been registered in the name of Pledgee or its nominee, Pledgee or its nominee shall have, with respect to shares of Pledged Stock, the right to exercise all voting rights as to all shares and with respect to all of the Pledged Stock, all other corporate rights and all conversion, exchange, subscription or other rights, privileges or options pertaining to the Pledged Stock as if it were the absolute owner thereof, including, without limitation, the right to exchange any or all of the Pledged Stock upon the merger, consolidation, reorganization, recapitalization, or other readjustment of the issuer, or upon the exercise by such issuer of any right, privilege, or option pertaining to any of the Pledged Stock, and, in connection therewith, to deliver any of the Pledged Stock to any committee, depository, transfer agent, registrar, or other designated agency upon such terms and conditions as it may determine, all without liability except to account for property actually received by it; it being understood that (i) Pledgee shall have no duty to exercise any of the aforesaid rights, privileges, or options and shall not be responsible for any failure to do so or delay in so doing; and (ii) Pledgee may, by written notice to the Pledgor relinquish, either partially or completely in accordance with any

terms or conditions Pledgee may set forth in such notice, any or all voting rights Pledgee may acquire pursuant to this Section 2(c).

(d) Upon the occurrence of an Event of Default and until such time as it has been waived in writing by Pledgee, Pledgee may, without demand of performance or other demand, advertisement, or notice of any kind (except the notice specified below of the time and place of public or private sale) to or upon the Pledgor or any other person (all of which are, to the extent permitted by law, expressly waived), immediately realize upon the Pledged Stock or any part thereof, and may immediately sell or otherwise dispose of and deliver the Pledged Stock or any part thereof or interest therein, or agree to do so, in one or more places at public or private sale or sales, at any exchange, broker's board or at any of Pledgee's offices or elsewhere, at such prices and on such terms (including, but without limitation, a requirement that any purchaser of all or any part of the Pledged Stock purchase the shares constituting the Pledged Stock for investment and without any intention to make distribution thereof) as it may deem best, for cash or on credit, or for future delivery without assumption of any credit risk, with the right of Pledgee or any purchaser to purchase upon any such sale the whole or any part of the Pledged Stock free of any right or equity of redemption in the Pledgor, which right or equity is hereby expressly waived and released. All costs and expenses incurred by Pledgee in connection with the exercise of its remedies hereunder, together with interest thereon at the Default Rate (as such term is defined in the Loan Agreement) shall constitute part of the Obligations secured hereunder.

(e) The proceeds of any collection, sale or other disposition of or realization upon the Pledged Stock shall be applied: (i) first, to the costs and expenses incurred in connection with or incidental to the collection, sale, disposition or realization, or to the care or safekeeping of any of the Pledged Stock, or in any way relating to the rights and remedies of Pledgee in respect of the Pledged Stock (including, without limitation, attorneys' fees and legal expenses); (ii) second, to the satisfaction of the Obligations; (iii) third, to the payment of any other amounts required by applicable law; and (iv) fourth, to the Pledgor to the extent of any surplus. The Pledgor shall remain liable to Pledgee for all costs and expenses referred to in clause (i) of this paragraph (e) and all other Obligations remaining unpaid after the foregoing application of the proceeds of the Pledged Stock.

(f) Except as may otherwise be expressly required by applicable law, Pledgee need not give more than five (5) days' notice of the time and place of any public sale or of the time after which a private sale may take place, which notice the Pledgor deems reasonable; provided, however, that Pledgee at any time without any notice to the Pledgor, may sell any shares of Pledged Stock for which a public market exists at the market price for such shares.

3. Representations and Warranties. The Pledgor represents and warrants that:

(a) It has, and has fully exercised, all requisite power and authority to enter into this Agreement, to pledge the Pledged Stock for the purposes described in Section 2(a), above, and to carry out the transactions contemplated by this Agreement;

(b) It is the legal and beneficial owner of all of the Pledged Stock;

(c) The Pledged Stock constitutes 10.568% of all of the issued and outstanding shares (of any classes whatsoever) of the Corporation;

(d) All of the shares of the Pledged Stock have been duly and validly issued, are fully paid and nonassessable, and are owned by the Pledgor free of any pledge, mortgage, hypothecation, lien, charge, encumbrance, or security interest in the shares or their proceeds, except in favor of Pledgee or as granted under this Agreement;

(e) Upon delivery of the Pledged Stock to Pledgee or its agent, this Agreement shall create a valid first lien upon, and perfected security interest in, the Pledged Stock and its proceeds in favor of Pledgee, subject to no prior security interest, lien, charge, encumbrance, or agreement purporting to grant to any third party a security interest in the property or assets of the Pledgor which would include the Pledged Stock; and

(f) It is aware of the legal value of its waivers and representations made, and that there are no leases or any liens or encumbrances on the Pledged Stock, except in favor of Pledgee. In case of failure by the Pledgor to comply with any monetary or non-monetary obligation established in this Agreement, Pledgee can pursue the assets of the Pledgor by means of the enforcement for collection of this Agreement, in an independent manner, not related to any ordinary proceedings at Court. Pledgor declares that it is the owner of the Pledged Stock, and that the Pledged Stock is not otherwise encumbered, except in favor of Pledgee. Until the Obligations are indefeasibly paid in full, the Pledgor expressly and irrevocably authorizes Pledgee to keep the pledged stock certificates (together with endorsements in blank) in its possession or control.

#### 4. Covenants.

(a) The Pledgor hereby covenants that, until all of the Obligations have been satisfied in full, it shall not:

(i) sell, convey, or otherwise dispose of any of the Pledged Stock or any interest therein or create, incur, or permit to exist any pledge, mortgage, lien, charge, encumbrance, or any security interest whatsoever in, or with respect to, any of the Pledged Stock or its proceeds, other than that created by this Agreement;

(ii) consent to, or approve of, the issuance of any additional shares of any class of capital stock by the issuer of the Pledged Stock, or any stock convertible voluntarily by the holder or automatically upon the occurrence or nonoccurrence of any event or condition into, or exchangeable for, any such shares, or any warrants, options, rights, or other commitments entitling any person to purchase or otherwise acquire any such shares; or

(iii) consent to, approve, or cause any action or course of action that would impair or diminish Pledgee's rights, remedies, and security hereunder or under the other Loan Documents.

(b) The Pledgor warrants and shall, at its own expense, defend Pledgee's right, title, special property, and security interest in and to the Pledged Stock against the claims of any person, firm, corporation, or other entity.

5. Securities Laws Consideration.

(a) The Pledgor recognizes that Pledgee may be unable to effect a public sale of all or a part of the Pledged Stock and may be compelled or deem it best to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the Pledged Stock for their own account, for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges that any private sales may be at prices and on terms less favorable to Pledgee than those of public sales, and agrees that such private sales shall be deemed to have been made in a commercially reasonable manner and that Pledgee has no obligation to delay sale of any Pledged Stock to permit the issuer thereof to register it for public sale under the Securities Act of 1933, as amended.

(b) The Pledgor shall use its best efforts to cause any issuer, transfer agent, or registrar of the Pledged Stock to take all such actions and execute all such documents as may be necessary or appropriate, upon the request of Pledgee, to (i) remove any restrictive legends placed on the Pledged Stock that are not legally required for such Pledged Stock held by Pledgee, (ii) after an Event of Default, effect any sale or sales of Pledged Stock in accordance with Rule 144 under the Securities Act of 1933, as amended, if applicable and (iii) after an Event of Default, effect any sale or other disposition of the Pledged Stock in any lawful private sale or other disposition.

6. Delivery of Notices. The Pledgor shall promptly deliver to Pledgee all written notices and will promptly give Pledgee written notice of any other notices received by it with respect to Pledged Stock. The Pledgor shall deliver such notices to Pledgee's address specified in the Financing Agreement (or as otherwise changed pursuant to the provisions therein), and such notices shall be given effect or be deemed received pursuant to the provisions governing delivery or constructive delivery in the Financing Agreement.

7. Further Assurances. The Pledgor shall at any time, and from time to time, upon the written request of Pledgee, and at Pledgor's expense, execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request to effect the purposes of this Agreement, including, without limitation, delivering to Pledgee upon the occurrence of an Event of Default and until such time as it has been waived in writing by Pledgee, irrevocable proxies with respect to the Pledged Stock in form satisfactory to Pledgee. Until receipt of the foregoing items requested by Pledgee, this Agreement shall constitute the Pledgor's proxy to Pledgee or its nominee to vote all shares of Pledged Stock then registered in the Pledgor's name at any and all such times as Pledgee has the right to vote such shares pursuant to the terms of this Agreement, and to execute in the name of the Pledgor and on its behalf any such further documents. Such power of attorney granted hereby is coupled with an interest and is irrevocable.

8. Termination Upon Satisfaction. Upon the satisfaction in full of all Obligations of the Corporation and the satisfaction of all additional costs and expenses of Pledgee as provided in this Agreement, this Agreement shall terminate, and Pledgee shall deliver to the Pledgor, at the Pledgor's expense, such of the Pledged Stock as shall not have been sold or otherwise disposed of pursuant to this Agreement.

9. Reasonable Care; Waiver; Remedies Cumulative.

(a) Beyond the exercise of reasonable care to assure the safe custody of the Pledged Stock while held under this Agreement, Pledgee shall have no duty or liability to preserve rights pertaining to the Pledged Stock, or otherwise exercise any rights or remedies hereunder, and shall be relieved of all responsibility for the Pledged Stock upon surrendering it or tendering surrender of it to the Pledgor.

(b) No course of dealing between the Pledgor and Pledgee, nor any failure to exercise, nor any delay in exercising, any right, power or privilege of Pledgee hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(c) The rights and remedies provided in this Agreement and in all other agreements, instruments, and documents delivered pursuant to or in connection with this Agreement are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law, including, without limitation, the rights and remedies of a secured party under the Uniform Commercial Code of New Jersey.

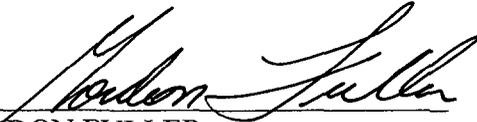
10. Successors and Assigns. This Agreement shall inure to the benefit of, and shall be binding upon, the heirs, successors, and assigns of the parties hereto; provided however, Pledgor shall make no assignment (whether by operation of law or otherwise) of its rights or obligations hereunder, without the prior written consent of Pledgee.

11. Applicable Law. This Agreement shall be construed in accordance with the substantive laws in effect in the State of New Jersey, and shall be enforced in the courts of the State of New Jersey, without regard to principles of conflicts of law.

12. Headings. The headings of the several sections of this Agreement are for convenience of reference only and do not constitute a part of this Agreement.

13. Independent Rights. The rights and recoveries of Pledgee under this Agreement shall be independent and exclusive of, and in addition to, any and all other rights, and recoveries of Pledgee under (i) any other agreements granting Pledgee a security interest, lien or other rights in or to the Pledged Stock, (ii) any of the other Loan Documents, (iii) any applicable law and (iv) all other legal or equitable rights to which Pledgee may be entitled; all of which shall be enforceable by Pledgee, in its sole discretion, alternatively, successively or concurrently on any one or more occasions and in any order Pledgee may determine.

IN WITNESS WHEREOF, the Pledgor has duly executed this Agreement as of the date and year first above written.

  
GORDON FULLER

STATE OF NEW JERSEY :

:ss.

COUNTY OF ESSEX :

Before me, a <sup>ATTORNEY of the STATE of N.J.</sup> ~~notary public~~, in and for the State and County aforesaid, on this 20 day of December, 2006, personally appeared Gordon Fuller who having first executed the foregoing instrument in my presence and having been by me first duly sworn, did acknowledge the foregoing instrument as his free deed and act, signed, sealed and delivered by his for the purposes herein stated and intending to be legally bound thereby.

  
~~Notary Public~~  
JOHN K. FIORELLA  
AN ATTORNEY of the STATE of N.J.

**EXHIBIT "A"**

**STOCK PLEDGE AGREEMENT  
FROM  
GORDON FULLER  
TO  
DAVID MANDELBAUM AND WESLEY WEIS**

Name of Issuer	Certificate Number	Shareholder	Number of Shares
Morristown & Erie Railway, Inc.		Gordon Fuller	<input type="text"/>

**CERTIFICATION OF COMPARISON OF COPY TO ORIGINAL**



1. My name is John K. Fiorilla, I serve as General Counsel of the  
Morristown & Erie Railway, Inc. the filer of a Security Agreement which involves  
eleven (11) locomotive and thirteen (13) passenger rail cars owned by the  
Morristown & Erie Railway, Inc.

2. I have compared the original Security Agreement with the five copies  
submitted to the Clerk of the Board and found the copies to be complete and  
identical in all respects of the original document.

I certify that the foregoing statements made by me are true. I understand  
that if any statements made by me are willfully false, I am subject to punishment  
for perjury.

December 26, 2006



JOHN K. FIORILLA

CAPEHART & SCATCHARD, P.A  
A Professional Corporation  
Laurel Corporate Center, Suite 300  
8000 Midlantic Drive  
Mount Laurel, N.J. 08054  
(856) 914-2054