



**VERMONT ECONOMIC
DEVELOPMENT AUTHORITY**

Vermont Agricultural Credit Corporation
Vermont Small Business Development Program
Vermont 501(c)(3) Corporation

REGISTRATION NO. 29991 FILED

NOV 17 11 -11 00 AM

November 8, 2011

SURFACE TRANSPORTATION BOARD

Hon. Anne K. Quinlan, Secretary
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423-0001

Dear Secretary Quinlan:

In accordance with the provisions of 49 U.S.C. §11301 and 49 C.F.R. §1177.3(c), I request, as an officer of the Vermont Small Business Development Corp., that the enclosed documents be recorded and filed with the Surface Transportation Board.

You will find enclosed herewith three (3) originals of three Security Agreements, dated October 19, 2011, by and between Vermont Railway, Inc., Railway Services, Inc. and Cheshire Railway Corporation (as Borrowers) and the Vermont Small Business Development Corp. (as Lender/Secured Party). These documents are primary documents. These Security Agreements are intended to secure the indebtedness of the Borrowers to the Lender under a term loan.

A description of the equipment covered by these documents is as follows:

Locomotives and railway rolling stock shall include the following:

- RSI locomotives and railcars: VTR 303, GMRC 306, VTR 307, VTR 308, VTR 309, VTR 310, VTR 311, VTR 301, GMRC 302, GMRC 304, GMRC 305, VTR 201, CLP 204, CLP 203, VTR 205, VTR 801, CLP 802, GMRC 804, GMRC 405, VTR 312, and MACINTRYE BUSINESS COACH #4.
- Vt. Rail locomotives and railcars: VTR 202, 15 railroad open top hopper cars: VTR 950, VTR 951, VTR 952, VTR 953, VTR 954, VTR 955, VTR 956, VTR 957, VTR 958, VTR 959, VTR 960, VTR 961, VTR 962, VTR 963, VTR 964
- CRC locomotives and railcars: GMRC Marked Passenger Railcars 1301, 1305, 1306, 1312, 1313, 1314, 1317, 1319, 280, 551, 260, Six (6) GMRC Silver Fleet Marked Passenger cars 3074, 3075, 3089, 3091, 9105, 3101

VEDA: TEL (802) 828-5627 • VACC: (866) 828-3276

FAX (802) 828-5474 • 58 EAST STATE STREET, SUITE 5, MONTPELIER, VERMONT 05602-3044

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An Equal Opportunity Provider and Employer

The parties to this Security Agreement are as follows:

Secured Party

/Lender: Vermont Small Business Development Corp.
58 East State Street, Suite 5
Montpelier, VT 05602
802-828-5468

Debtors:

Vermont Railway, Inc.
Railway Services, Inc.
Cheshire Railway Corporation
One Railway Lane
Burlington, VT 05401
802-658-2550

The fee of \$123.00 is enclosed. After recordation, please return an original of each to me at the address noted herein.

A short summary of the documents to appear in the index are as follows:

Security Agreement among Vermont Railway, Inc., Railway Services, Inc. and Cheshire Railway Corporation as Debtors with primary address of One Railway Lane, Burlington, Vermont 05401 and Secured Party of the Vermont Small Business Development Corporation with a primary address of 58 East State Street, Montpelier, Vermont 05602 providing security of the following assets: Locomotives and railway rolling stock shall include the following:

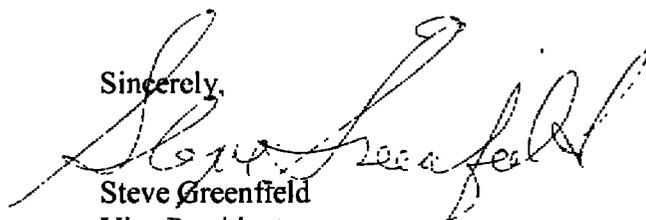
- RSI locomotives and railcars: VTR 303, GMRC 306, VTR 307, VTR 308, VTR 309, VTR 310, VTR 311, VTR 301, GMRC 302, GMRC 304, GMRC 305, VTR 201, CLP 204, CLP 203, VTR 205, VTR 801, CLP 802, GMRC 804, GMRC 405, VTR 312, and MACINTRYE BUSINESS COACH #4.
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Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Greenfield", written in a cursive style.

Steve Greenfield
Vice President

:la
encs.

SECURITY AGREEMENT

SURFACE TRANSPORTATION BOARD

THIS AGREEMENT made this 19th day of October, 2011, under the laws of the State of Vermont, between Vermont Railway, Inc. and Railway Services, Inc. and Cheshire Railway Corporation (collectively the "Debtor"), with a principal place of business in Burlington, Vermont and whose mailing address is One Railway Lane, Burlington, Vermont 05401, and Vermont Small Business Development Corp., a corporation organized and existing under the laws of the State of Vermont ("Secured Party"), whose address is 58 East State Street, Suite 5, Montpelier, Vermont 05602-3044;

W I T N E S S E T H

1. To secure the payment of an indebtedness in the amount of One Hundred Thousand Dollars (\$100,000) as evidenced by a note of even date in that principal amount having a term of five (5) years (the "Note"), and also to secure any other indebtedness or liability of the Debtor to the Secured Party, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including all future advances or loans which may be made at the option of the Secured Party, whether or not such advances or loan are given pursuant to commitment ("obligations"), Debtor hereby grants and conveys to the Secured Party a junior security interest in,

(a) the property described in the schedule herein ("collateral"), which collateral the Debtor represents will be used primarily for business;

(b) all property, goods and chattels of the same classes as those scheduled, acquired by the Debtor subsequent to the execution of this Agreement and prior to its termination;

(c) all proceeds and products thereof, if any;

(d) all increases, substitutions, replacements, additions and accessions thereto.

2. Debtor warrants, covenants and agrees as follows:

(a) Payment. To pay and perform all of the obligations secured by this Agreement according to their terms;

(b) Defend Title. To defend the title to the collateral against all persons and against all claims and demands whatsoever, which collateral is lawfully owned by the Debtor and is now free and clear of all liens, security interests, claims, charges, encumbrances, taxes and assessments except as may be set forth in the schedule;

(c) Assurance of Title. On demand of the Secured Party to:

i. furnish further assurance of title;

ii. execute any written agreement or do any other acts necessary to effectuate the purposes and provision of this Agreement;

iii. execute any instrument or statement required by law or otherwise in order to perfect, continue or terminate the security interest of the Secured Party in the collateral; and

iv. pay all costs of filing in connection therewith;

(d) Possession. To retain possession of and have clear title to the collateral during the existence of this Agreement and not to lease, sell, transfer, convey, mortgage or give a security interest in, or otherwise dispose of the collateral, without the prior written notice to the Secured Party and payment to the Secured Party, if any, in accordance with the terms of Paragraph 12 of the Loan Agreement..

(e) Location. To keep the collateral at the location specified in the schedule, if any, and not to remove same without the prior written consent of the Secured Party. Notwithstanding the foregoing the Secured Party acknowledges and agrees that the collateral, in part, comprises rolling stock on an active railroad that is interchanged with other railroads operating throughout North America and that the collateral at any given moment may be hundreds of miles away from the principal place of business of the Borrower;

(f) Liens. To keep the collateral free and clear of all liens, charges, encumbrances, taxes and assessments, except for security interests given in the ordinary course of business operations and except as set forth in the schedule or as expressly agreed to in writing by the Secured Party;

(g) Taxes. To pay, when due, all taxes, assessments and license fees relating to the collateral;

(h) Repairs, Maintenance and Inspection. To keep the collateral, at Debtor's own cost and expense, in good repair and condition and not to misuse, abuse or waste it or allow it to deteriorate except for normal wear and tear and to make it and the books of the Debtor available for inspection by the Secured Party at the location specified in the schedule at all reasonable times and upon reasonable notice;

(i) Insurance. To keep the collateral insured against loss by fire and extended coverage, theft and other hazards as the Secured Party may require. Policies shall be in such form and amounts as the Secured Party may designate and shall be obtained from responsible insurers authorized and licensed to engage in the insurance business in the State of Vermont. Certificates of Insurance of policies shall name the Secured Party as a Loss Payee as the holder of a security interest and copies shall be provided the Secured Party who is authorized, but under no duty, to obtain such insurance upon failure of the Debtor to do so. Policies shall provide that there will be no cancellation or nonrenewal without at least fifteen (15) days notice in writing to the Secured Party and that any defenses the Insurer may have against the Debtor will not be defenses against the Secured Party. Debtor will give immediate written notice to the Secured Party and to insurers of loss or damage to the collateral and shall promptly file proofs of loss with the insurers. At least twenty (20) days before the termination date of any fire and extended coverage insurance policies covering the secured property, Debtor shall provide Lender with evidence that the policies are being renewed or new policies will be in force on the termination date.

(j) Use of Loan Proceeds. To use the proceeds of the loan for the purposes stated in the loan agreement of even date between the Secured Party and Debtor (“the Loan Agreement”).

(k) Change of Address. To immediately notify the Secured Party in writing of any change in or discontinuance of Debtor’s place or places of business and/or residence;

(l) Affixed to Realty. If the collateral has been attached to or is to be attached to real estate, to provide a description of the real estate and the name and address of the record owner as set forth in the schedule herein; if the said collateral is attached to real estate prior to the perfection of the security interest granted hereby, Debtor will, on demand of the Secured Party, furnish the latter with a disclaimer or disclaimers, signed by all persons having an interest in the real estate, of any interest in the collateral which is prior to Secured Party’s interest.

3. General Provisions:

(a) Notes. Notes, if any, executed in connection with this Agreement, including any renewals, extensions or amendments thereto, are separate instruments and may be negotiated by the Secured Party without releasing Debtor, the collateral or any guarantor or co-maker. Debtor consents to any extension of time of payment. If there be more than one Debtor, guarantor or co-maker of this Agreement or of Notes secured hereby, the obligation of all shall be primary, joint and several;

(b) Non-Waiver. Waiver of, or acquiescence in, any default by the Debtor, or failure of the Secured Party to insist upon strict performance by the Debtor of any warranties or agreements in this Security Agreement, shall not constitute a waiver of any subsequent or other default or failure;

(c) Notices. Notices to either party shall be in writing and shall be delivered personally or by mail addressed to the party at the address herein set forth or otherwise designated in writing;

(d) Law Applicable. The Vermont Uniform Commercial Code shall govern the rights, duties and remedies of the parties, and any provisions herein declared invalid under any law shall not invalidate this Agreement or any other provision thereof;

(e) Default. The following shall constitute a default by Debtor:

i. Non-Payment. Failure to pay the principal or interest on the Note or any indebtedness owed to Secured Party when due;

ii. Violation. Failure by Debtor to comply with or perform any other provision of this Agreement, the Loan Agreement, the Note or mortgage between Secured Party and Debtor;

iii. Misrepresentation. False or misleading representations or warranties made by Debtor in connection with this Agreement;

iv. Levy. Subjection of the collateral to levy of execution or other judicial process;

v. **Bankruptcy or Other Insolvency Proceedings.** The Debtor making a general assignment for the benefit of creditors, or filing a petition in voluntary bankruptcy or seeking a reorganization or consenting to the appointment of a receiver of Debtor's property or allowing a petition against Debtor seeking declaration of bankruptcy or insolvency and the failure by Debtor to vacate same within sixty (60) days after the filing of said petition;

vi. **Liquidation/Death.** Liquidation or termination of the legal existence of the Debtor or death of the Debtor or the death of any guarantor of or surety for the Debtor's obligations;

vii. **Impairment of Security.** Any substantial reduction in the value of the collateral or any act of the Debtor which substantially imperils the prospect of full performance or satisfaction of the Debtor's obligations herein;

(f) **Remedies on Default.**

i. **Acceleration.** Upon default by the Debtor as defined herein, and if such default shall remain unremedied for twenty (20) days after notice of default is mailed to Debtor, then the Secured Party may at its option declare all of the obligations of the Note immediately due and payable. In the event of default and in the event of acceleration, the Secured Party shall have all the rights, remedies and privileges with respect to repossession, retention and sale of the collateral and disposition of the proceeds as are accorded to a secured party by the applicable sections of the Uniform Commercial Code respecting "Default" in effect as of the date of this Security Agreement;

ii. **Attorneys' Fees, etc.** Upon any default, the Secured Party may consult an attorney and Debtor agrees to reimburse Secured Party for all reasonable attorneys' fees and expenses as provided in the Loan Agreement and the legal and other expenses for pursuing, searching for, receiving, taking, keeping, storing, appraising, advertising and selling the collateral;

iii. **Deficiency.** The Debtor shall remain liable for any deficiency resulting from a sale of the collateral and shall pay any such deficiency forthwith on demand;

iv. **Monies Advanced.** If the Debtor shall default in the performance of any of the provisions of this Agreement on the Debtor's part to be performed, the Secured Party may perform same for the Debtor's account and any monies expended in so doing shall be chargeable with interest to the Debtor and added to the indebtedness secured hereby;

v. **Seizure, Assembling Collateral and Notice of Sale.** In conjunction with, addition to or substitution for those rights, the Secured Party, at its discretion, may: (1) enter upon Debtor's premises peaceably by the Secured Party's own means or with legal process and take possession of the collateral, or render it unusable, or dispose of the collateral on the Debtor's premises and the Debtor agrees not to resist or interfere; or (2) require Debtor to assemble the collateral and make it available to the Secured Party at a place to be designated by the Secured Party, reasonably convenient to both parties (Debtor agrees that the Secured Party's address as set forth above is a place reasonably convenient for such assembling). Unless the collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will give Debtor reasonable notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended

disposition thereof is to be made. The requirements of reasonable notice will be met if such notice is mailed, postage prepaid, to the address of the Debtor shown above, at least three (3) days before the time or sale or disposition;

(g) Assignment. The Secured Party may assign this Agreement and if assigned, the assignee shall be entitled, upon notifying the Debtor, to the performance of all of Debtor's obligations and agreements hereunder and the assignee shall be entitled to all of the rights and remedies of the Secured Party hereunder. Debtor will not assert against the assignee any claims or defenses which the Debtor may have against the Secured Party. The Debtor shall not assign this Agreement without the written consent of the Secured Party;

(h) Financing Statement. The Secured Party is hereby authorized to file a Financing Statement;

(i) Captions. The Captions are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Agreement nor the intent of any provision thereof.

(j) Binding and Benefit. The terms, warranties and agreements herein contained shall bind and inure to the benefit of the respective parties hereto, and their respective legal representatives, successors and assigns.

(k) Miscellaneous. The gender and number used in this Agreement are used as a reference term only and shall apply with the same effect whether the parties are of the masculine or feminine gender, corporate or other form, and the singular shall likewise include the plural. This Agreement shall be construed pursuant to the laws of the State of Vermont.

The Parties have respectively signed these presents the day and year first above written.

Vermont Small Business Development Corp.

SECURED PARTY:

By: *Louise Anair*
Its Duly Authorized Agent

State of Vermont
Washington County, ss.

At Montpelier in said County this 20th day of October, 2011, personally appeared Louise Anair duly authorized agent of Vermont Economic Development Authority and she acknowledged the foregoing instrument by her subscribed to be her free act and deed and the free act and deed of the Vermont Economic Development Authority.

Before me,

Ruth E. Tucker
Notary Public
My Commission Expires: 2/10/15

DEBTORS:

Vermont Railway, Inc.

By: *Lisa Wolfson*
Its Duly Authorized Agent

Railway Services, Inc.

By: *Lisa Wolfson*
Its Duly Authorized Agent

Cheshire Railway Corporation

By: *Lisa Wolfson*
Its Duly Authorized Agent

State of Vermont
Chittenden County, ss.

At Burlington in said County this 19 day of October, 2011, personally appeared *LISA WOLFSON* duly authorized agent of Vermont Railway, Inc., and *LISA WOLFSON* duly authorized agent of Railway Services, Inc. and *LISA WOLFSON* duly authorized agent of Cheshire Railway Corporation and they acknowledged the foregoing instrument by them subscribed to be their free act and deed and the free act and deed of Vermont Railway, Inc., Railway Services, Inc. and of Cheshire Railway Corporation

Before me,

Mary Anne Richard

Notary Public

My Commission Expires: 2/10/15

SCHEDULE
Vermont Railway, Inc. – Debtor
Railway Services, Inc. – Debtor
Cheshire Railway Corporation - Debtor
Vermont Small Business Development Corp. – Secured Party

A junior security interest in all of the Debtor's now owned and hereafter acquired business assets, including but not limited to all machinery, equipment, locomotives, railway, furniture and fixtures, all replacements, parts, accessories, substitutions, and accessions, including all products and proceeds thereof; all inventory, raw materials, work in process and supplies now owned or hereafter acquired, including all proceeds and products thereof; all accounts, deposit accounts, accounts receivable, contract rights, intangibles, rights and causes of action now owned or hereafter acquired, including all products and proceeds thereof and all insurance proceeds thereof. Said junior security interest being subordinate to all the Senior Security interests of record as of even date including, but not limited to the following: Merchants Bank, Canam Group, Inc., North Star Leasing, Irving Oil Terminals, Inc., Element Financial (US) Corp., Alter Moneta Corporation, Orix Financial Services, Inc.; TD Bank, and N.A., NBT Bank. N.A.,

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