

AMENDMENT NO. 1 TO MEMORANDUM OF AGREEMENT DATED MAY
29, 1998 AND TO SALE-LEASE AGREEMENT
DATED FEBRUARY 27, 2001

This Amendment No. 1 (“Amendment”) to Memorandum of Agreement Dated May 29, 1988 (“MOA”) and to Sale-Lease Agreement dated February 27, 2001 (“Lease Agreement”) is made effective February 27, 2007 by and between Chautauqua, Cattaraugus, Allegany and Steuben Southern Tier Extension Railroad Authority (the “Authority”), and Norfolk Southern Railway Company (“NS”).

RECITALS

A. Under the terms of the MOA, Southern Tier West Regional Planning and Development Board, the New York State Department of Transportation, NS, Consolidated Rail Corporation and Pennsylvania Lines LLC made certain agreements relating to the Southern Tier Extension (“STE”) railroad line, as that term is defined in the MOA.

B. By Agreement Adopting, Renewing and Amending Memorandum of Agreement dated May 29, 1998 (the “Adoption Agreement”), the MOA was modified by NS and the Authority, and amended as more particularly described therein.

C. The transactions described in the Recitals of the MOA have been consummated.

D. By the Lease Agreement, PRR conveyed the STE to the Authority and the Authority leased the STE to PRR.

E. Pennsylvania Lines LLC has been merged into NS. As a result, Consolidated Rail Corporation is no longer a party to the MOA or the Adoption Agreement and neither Consolidated Rail Corporation nor Pennsylvania Lines LLC remain a party to the Lease Agreement of February 27, 2001, and are succeeded by NS in that regard.

F. The parties wish to further amend the MOA by agreeing that certain terms of the MOA and Adoption Agreement will apply to the Buffalo Line, as that term is defined below, by agreeing to extend the time for property tax abatement for the STE (as that term is defined in the MOA), and by establishing a property tax abatement and payment in lieu of tax schedule for the Buffalo Line.

G. The parties wish to amend the Lease Agreement by agreeing that certain terms of that agreement will apply to the Buffalo Line, as that term is defined below.

THE PARTIES THEREFORE AGREE AS FOLLOWS:

1. The MOA is amended as follows:

1.1. By adding the following as Section 1A:

“1A. Buffalo Line. The term “Buffalo Line” refers to NS’s line of railroad located in Cattaraugus County, New York between Machias Junction, NY milepost BR44.6 +/- and the New York/Pennsylvania state line, together with its associated side tracks, yard tracks, other facilities, and real estate.

1.2. By adding the following as Section 2A:

2A. During the term of this Agreement, NS agrees to maintain the main track of the Buffalo Line at an FRA Class 2 standard, with no more than 10 miles of main track slow-ordered. Ancillary trackage will be maintained at a standard adequate to support as-needed service.

1.3. By adding the following as Section 3A:

“3A. Sale/Leaseback of Buffalo Line: Property Tax Abatement. NS and the Authority will enter into a sale/leaseback transaction for the Buffalo Line providing property tax abatement for NS and required PILOT payments by NS as follows:

- 100% property tax abatement for the first ten years as is shown in Exhibits 1 and 2 of this Agreement.
- The schedule of payments-in-lieu-of-taxes (“PILOT payments”) shown in Exhibits 1 and 2 of this Agreement will apply.

2. The terms of section 4(a) and 4(b) of the MOA, but not Section 4(c), will apply to the Buffalo Line,

3. The Addendum to the MOA is hereby amended as follows:

3.1. Section A thereof is hereby amended by adding the following:

A. “Not more than 120 days after March 1, 2007, NS will sell the Buffalo Line for \$1.00 to the Authority. In the event the sale is delayed until after the spring 2007 taxable status date, the Authority

will use its best efforts to obtain property tax abatements for NS as if such sale had occurred before the taxable status date. In the event the Authority is unable to obtain property tax abatement for the initial year contemplated herein, NS shall pay the amount of taxes levied in such year and then the schedule of PILOT payments shown in Exhibit A shall be adjusted to provide for 100% tax abatements in each of year 8 and 9, plus the \$40,000 PILOT payment, and NS shall not be responsible for the payment of \$165,000 referenced in Exhibit No. 1.”

3.2. The annual abatement fee referred to in Exhibits A and B to the Addendum will be raised from \$20,000 to \$40,000 effective with the PILOT due December 31, 2006. In addition, NS will pay \$165,000 to the Authority in lieu of property taxes, \$16,500 of which will be payable April 15, 2007, \$95,000 of which will be payable September 15, 2007, with the remaining \$53,500 payable January 15, 2008.

4. Section 2.6 of the Adoption Agreement, which modified Sections 4 and 7 of the MOA, the Addendum to the MOA and Exhibits A and B to the MOA is amended by adding six years to each calendar year (so that, for example, a reference to “December 31, 2010” shall now read “December 31, 2016”. The amended PILOT schedule will be as shown in Exhibits 1 and 2 of this Agreement.

5. The Lease Agreement is amended by the addition of the following Section 1A:

“This Agreement shall also cover the “Buffalo Line,” which refers to NS’s line of railroad located in Cattaraugus County, New York between Machias Junction, NY milepost BR44.6 +/- and the New York/Pennsylvania state line, together with its associated side tracks, yard tracks, other facilities, and real estate. “

SIGNATURES

The parties have executed this Amendment by their respective duly authorized officers.

CHAUTAUQUA, CATTARAGUS, ALLEGANY AND
STEUBEN SOUTHERN TIER EXTENSION RAILROAD
AUTHORITY (the “Authority”)

By: _____

Name: _____

Title: _____

NORFOLK SOUTHERN RAILWAY COMPANY ("NS")

By: _____

Name: _____

Title: _____

EXHIBIT 1

(Replaces Exhibit A in MOA)

Payment in Lieu of Taxes (PILOT)

Year (1)	Total PILOT Due (2)				
1	0%	+	\$40,000	+	\$165,000
2	0%	+	\$40,000		
3	0%	+	\$40,000		
4	0%	+	\$40,000		
5	0%	+	\$40,000		
6	0%	+	\$40,000		
7	0%	+	\$40,000		
8	33%	+	\$40,000		
9	66%	+	\$40,000		
10	100%	+	\$40,000		

Notes

1. “Year” refers to the year of the ten-year abatement period, running from 2007 through and including 2016.
2. The total Payment in Lieu of Taxes (PILOT) percentage figure indicates an amount which is a percentage of taxes for which NS would become liable as of the current year’s tax status date, if NS owned the line, plus the annual abatement fee, plus, in year 1 only, the transition fee of \$165,000 as shown above.

EXHIBIT 2

(Replaces Exhibit B in MOA)

Year	PILOT Due	Based on Tax Status as of	Replaces School Taxes Due	Replaces Town/County Taxes Due
1	12/31/07	spring 2007	September 2007	January 2008
2	12/31/08	spring 2008	September 2008	January 2009
3	12/31/09	spring 2009	September 2009	January 2010
4	12/31/10	spring 2010	September 2010	January 2011
5	12/31/11	spring 2011	September 2011	January 2012
6	12/31/12	spring 2012	September 2012	January 2013
7	12/31/13	spring 2013	September 2013	January 2014
8	12/31/14	spring 2014	September 2014	January 2015
9	12/31/15	spring 2015	September 2015	January 2016
10	12/31/16	spring 2016	September 2016	January 2017

Notes

1. Due dates for City and Villages taxes vary with municipality.
2. Agreement term ends December 31, 2016.
3. In each year, excepting the first year, the total PILOT payments due to the Authority shall consist of the percentage-based PILOT component and an annual abatement fee of \$40,000. In the first year, the total PILOT payments due to the Authority shall consist of the percentage-based PILOT component plus an annual abatement fee of \$40,000 plus a one-time transitional PILOT fee of \$165,000.
4. In years one, eight nine and ten, all payments, due excepting the \$40,000 annual abatement fee, shall be paid on the following dates and in the following percentages of the amounts listed in Exhibit 1: April 15 of years one, eight, nine, and ten, 10%; September 15 of years one, eight nine and ten, 58%; January 15 of years one, eight nine and ten, 32%.

