

SALE / LEASE AGREEMENT

THIS AGREEMENT (the "Agreement"), made and entered into as of the ____ day of _____, 2001, between CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN SOUTHERN TIER EXTENSION RAILROAD AUTHORITY (the "Authority"), and PENNSYLVANIA LINES LLC ("PRR").

WITNESSETH; That

By letter dated May 29, 1998 (the "MOA"), Southern Tier West Regional Planning and Development Board, the New York State Department of Transportation, Norfolk Southern Railway Company ("NSR") and Consolidated Rail Corporation ("CRC") (on behalf of PRR) made certain agreements relating to the "Southern Tier Extension" railroad line, as defined therein; and

WHEREAS, the provisions of the MOA were adopted by the Authority on February 8, 2001, pursuant to an Agreement Adopting, Renewing and Amending Memorandum of Agreement dated May 29, 1998 (the "Adoption Agreement"); and

WHEREAS, pursuant to the provisions of the MOA and the Adoption Agreement, PRR, as successor to CRC, has conveyed the Southern Tier Extension to the Authority; and

WHEREAS, the Authority desires to lease the Southern Tier Extension to PRR simultaneously with the conveyance of the Southern Tier Extension from PRR to the Authority; and

WHEREAS, under an Operating Agreement dated June 1, 1999 (the "NSR Operating Agreement"), NSR leases and operates the Southern Tier Extension, and will continue to do so.

NOW, THEREFORE, the parties hereto agree as follows:

1. SALE/LEASE/PROPERTY COVERED. On even date herewith, PRR has conveyed to the Authority and the Authority hereby leases to PRR, effective on the Commencement Date hereinafter stated, on an exclusive basis, subject to the terms of the NSR Operating Agreement, the Southern Tier Extension, which includes railroad right-of-way, roadbed, track, turnouts, bridges, tunnels, culverts, structures, communication and signal facilities, fixtures and all other railroad appurtenances located upon the Southern Tier Extension, and the land thereunder, as more particularly described on the attached Exhibit A (copies of deeds from PRR to the Authority), together with all mineral rights, timber rights, rights to cross public roads, and air rights in any way appertaining to the Property and the right to grant easements and leases or licenses for communication systems (including, for example, fiber optic communication systems). The aforementioned track, turnouts, bridges, tunnels, culverts, structures communication and signal facilities, fixtures and all other railroad appurtenances and related track facilities will be called "Track". The Track and the aforementioned right-of-way, as noted heretofore, will be called the "Southern Tier Extension".

2. TERM. Subject to the provisions of the MOA, this Agreement shall be coterminous with the term of the MOA as amended by the Adoption Agreement.

3. CONTROL/THIRD PARTY ARRANGEMENTS. Pursuant to the provisions of the NSR Operating Agreement, but subject to the MOA and Adoption Agreement, NSR shall operate and maintain the Southern Tier Extension. NSR shall maintain all existing wire, road and pipeline crossing agreements, public and private, to the extent located on the Southern Tier Extension and to the standards required by the MOA, as amended by the Adoption Agreement, and shall also for the period of this Agreement enter into and be responsible for all new wire, road and pipeline agreements. The Authority shall have no right

to enter into any agreements concerning the ownership, operation, control and maintenance of the Southern Tier Extension without the written consent of PRR and NSR.

4. RENTAL AND ADDITIONAL RENTAL. PRR shall pay to the Authority rental in the amount of One Dollar (\$1.00) per year, as compensation for the lease of the Southern Tier Extension. In addition, pursuant to the provisions of the MOA and the Adoption Agreement, neither NSR nor PRR shall be responsible for the payment of property taxes and shall pay only those amounts specified as payments in lieu of taxes (PILOT payments).

5. ASSIGNMENT, SUBLEASE OR TRackage RIGHTS. Subject to the provisions of the MOA and the Adoption Agreement, PRR may assign this Agreement and the Track Facilities and the Southern Tier Extension may be sublet, subdivided, conveyed, sold, used or occupied by a third party with the written consent of NSR and PRR, and with the consent of the Authority, provided, however, that the consent of the Authority shall not be unreasonably withheld. A third party may receive trackage rights, with the written consent of NSR, PRR and the Authority, provided, however, that the consent of the Authority shall not be unreasonably withheld. The Authority shall not have the right to assign this Agreement, or lease or grant trackage rights or haulage rights over the Southern Tier Extension. This Agreement shall be binding upon and inure to the benefit of NSR, PRR and the Authority and their respective successors or assigns. Nothing in this Agreement is intended to nor shall it be construed to confer upon any other party other than NSR, PRR and the Authority and their respective successors and assigns any right or benefit under this Agreement.

6. INDEMNIFICATION.

A. By PRR and NSR: During the term of this Agreement and thereafter with regard to any claim made against the Authority for any act, omission or condition occurring within the term hereof, except for acts or omissions of the Authority, PRR and NSR shall indemnify and hold harmless the Authority and its members, officers, agents and employees from and against any and all liability, claims, costs (including attorney's fees), damages and expenses:

i. for personal injury (including death) and/or property damage occurring during or arising in any manner from the use, operation, existence, maintenance, removal or rehabilitation of the Track, the Southern Tier Extension, or any Improvement, except for improvements made by the Authority; and

ii. for all conditions or actions relating to the subject premises or to the use, operation or maintenance of the Southern Tier Extension that are alleged to be violative of any laws, statutes, rules or regulations, including without limitation the Comprehensive Environmental Response Compensation and Liability Act, the Resource Conservation and Recovery Act and the New York State Environmental Conservation Law.

B: By the Authority: During the term of this Agreement and thereafter, with regard to any claim made against PRR and/or NSR for any act, omission or condition created by the Authority within the term hereof, the Authority shall indemnify and hold harmless PRR, NSR, its parents, subsidiaries, affiliates, officers, directors and employees from and against any and all liability, claims, costs (including attorneys' fees), damages and expenses for personal injury (including death) and/or property damage occurring during or arising from the construction of any improvements or operations of any kind whatsoever relating to the subject property.

7. INSURANCE. PRR and NSR undertake to act and will continue to act as a self-insurer of their liabilities, if any and will pay all sums which they shall become legally obligated to pay in connection

with this agreement. PRR and NSR further certify that they maintain insurance coverage above their self-insured retention.

8. AFFILIATES. As a part of the consideration hereof, the parties hereby agree that each and all of its indemnity commitments in this Agreement in favor of the other party also shall extend to and indemnify the parent, subsidiaries and affiliated companies of the other party and their officers, agents and employees.

9. ARBITRATION. Any dispute, controversy or claim (or any failure by parties to agree on a matter as to which this Agreement expressly or implicitly contemplates subsequent agreement by the parties, except for matters left to the sole discretion of a party) arising out of or relating to this Agreement, or the breach, termination or validity hereof, shall be finally settled through binding arbitration by three (3), disinterested arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Each party shall select one arbitrator, and the third arbitrator shall be jointly selected by the parties but, if the parties do not agree on the third arbitrator within 30 days after demand for arbitration is made by a party, they shall request that the third arbitrator be designated by the American Arbitration Association. The award of the arbitrators shall be final and conclusive upon the parties. Each party to the arbitration shall pay the compensation, costs, fees and expenses of its own witnesses, experts and counsel. The compensation and any cost and expenses of the arbitrators shall be borne equally by the parties. The arbitrators shall have the power to require the performance of acts found to be required by this Agreement, and to require the cessation or nonperformance of acts found to be prohibited by this Agreement. The arbitrators shall not have the power to award consequential or punitive damages. Judgment upon the award rendered may be entered in any court having jurisdiction thereof, which court may award appropriate relief at or in equity. All proceedings relating to any such arbitration, and all testimony, written submissions and award of the arbitrators therein shall be private and confidential as among parties, and shall not be disclosed to any other party, except as required by law and except reasonably necessary to prosecute or defend any judicial action to enforce, vacate or modify arbitration award.

10. EMINENT DOMAIN. If during the term of this Agreement, the Southern Tier Extension or any part thereof other than an Improvement is appropriated or otherwise acquired by a governmental body or agency thereof or a quasi-public body, all awards or compensation for such appropriation will be paid solely to PRR.

11. NO ORAL MODIFIER/ENTIRE UNDERSTANDING. No provision of the Agreement shall be modified or waived without the written concurrence of the parties. This Agreement represents the entire understanding of the parties, and to that extent supersedes any prior understandings, written or oral. NSR, PRR and the Authority understand that no joint venture or fiduciary relationship between or among them is contemplated by NSR, PRR or the Authority in connection with this Agreement.

12. COMMENCEMENT DATE. PRR's lease of the Southern Tier Extension shall become effective at the exact date and time (the "Commencement Date") that the Southern Tier Extension is conveyed to PRR by the Authority.

13. NOTICE. Except as provided in Paragraph 24 of this Agreement, all notices required by or under this Agreement shall be given by registered or certified mail, return receipt requested, U.S. Postal Service, postage prepaid, as follows:

To PRR:
Pennsylvania Lines LLC
Two Commerce Square
2001 Market Street
Philadelphia, Pennsylvania 19102-1416

with a copy to:

Senior Vice President- Planning
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510

To NSR:
Norfolk Southern Railway Company
c/o Senior Vice President — Planning
Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510.

To the Authority:
Southern Tier Extension Railroad Authority
c/o Southern Tier West Regional Planning & Development Board
4039 Route 219, Suite 200
Salamanca, New York 14779

14. OPERATING AGREEMENT. Notwithstanding any other provision hereof, the Authority understands and agrees that PRR has leased the Southern Tier Extension to NSR under the NSR Operating Agreement, and the Authority is acquiring the Southern Tier Extension subject to such Agreement.

15. RECORDATION OF MEMORANDUM OF LEASE. PRR and the Authority agree to execute and deliver to PRR a memorandum of this Agreement in recordable form as soon as possible after the conveyance described herein, which PRR may, at its expense, file for record.

16. CHOICE OF LAW. This Agreement shall be interpreted in accordance with the laws of the State of New York

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in triplicate by their respective officers as of the date first above written.

WITNESS:

PENNSYLVANIA LINES LLC

_____ By:

_____ Title:

WITNESS:

NORFOLK SOUTHERN RAILWAY COMPANY

_____ By:

_____ Title:

WITNESS:

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY
& STEUBEN SOUTHERN TIER EXTENSION
RAILROAD AUTHORITY (the "Authority")**

_____ By:

_____ Title: