

PAYMENT IN LIEU OF TAXES AGREEMENT

THIS PAYMENT IN LIEU OF TAXES AGREEMENT (this "Agreement") is made as of the 28 day of January, 2011 by and between **31 SHERMAN STREET INVESTORS LLC**, a New York limited liability company having an address c/o The Krog Corp., 4 Centre Drive, Orchard Park, NY 14127 (the "Lessee"), and the **COUNTY OF CHAUTAUQUA INDUSTRIAL DEVELOPMENT AGENCY**, a corporate government agency constituting a body corporate and politic and a public benefit corporation of the State of New York having an address at 200 Harrison Street, Jamestown, New York 14701 (the "Agency").

WITNESSETH:

WHEREAS, the New York State Industrial Development Agency Act, constituting Title I of Article 18-A of the General Municipal Law of the State of New York, Chapter 24 of the Consolidated Laws of the State of New York, as amended (the "Enabling Act") authorizes and provides for the creation of industrial development agencies in the several counties, cities, villages and towns in the State of New York and empowers such agencies, among other things, to acquire, expand, construct, reconstruct, lease, improve, maintain, equip, furnish, and dispose of one or more projects for the purpose of promoting, developing, encouraging, and assisting in the acquisition, expansion, construction, reconstruction, improvement, maintaining, equipping, and furnishing of industrial, manufacturing, warehousing, commercial, research, and recreational facilities, and thereby advance the job opportunities, general prosperity, and economic welfare of the people of the State of New York;

WHEREAS, pursuant to and in accordance with the provisions of the Enabling Act and Chapter 71 of the 1972 Laws of New York, as amended (together with the Enabling Act, hereinafter referred to as the "Act"), the Agency, which has been created and established pursuant thereto for the benefit of the County of Chautauqua, proposes to undertake the Project described below;

WHEREAS, the Agency on behalf of Lessee intends to (i) acquire certain land more particularly described on Schedule A hereto (the "Land"); (ii) construct certain improvements on the Land (the "Improvements"); and (iii) acquire the equipment more particularly described on Exhibit A to the Lease (as hereinafter defined) (the "Equipment") (the Land, Improvements and Equipment are hereinafter collectively referred to as the "Project");

WHEREAS, the Agency is or will be the owner in fee simple of the Land and the Improvements (collectively, the "Facility");

WHEREAS, the Agency proposes to undertake the Project as an authorized project under the Act and to lease the interest of the Agency to Lessee pursuant to an Agency Lease Agreement dated as of the date hereof entered into between the Agency, as lessor, and Lessee, as lessee (as amended, modified, restated or replaced from time to time, the "Lease"); and

WHEREAS, under the present provisions of the Act and under the present Section 412-a of the Real Property Tax Law of the State of New York, the Agency is required to pay no taxes or assessments upon any of the property acquired by it or under its jurisdiction or supervision or under its control.

NOW, THEREFORE, in consideration of the premises and the payments, agreements, and covenants hereinafter contained, Lessee and the Agency formally covenant and agree as follows:

Section 1. Tax-Exempt Status of Facility.

(a) Application. Lessee shall complete, and the Agency shall file, an application for tax exemption pursuant to Section 412-a of the Real Property Tax Law. Such application shall be filed with the assessor of each of the various taxing entities having jurisdiction over the Facility (such taxing entities, and any successors thereto, being hereinafter collectively referred to as the "Taxing Entities" and individually, as a "Taxing Entity"). The Facility shall not be entitled to exempt status on the tax rolls of any Taxing Entity until the first tax year of such Taxing Entity following the taxable status date of such Taxing Entity occurring subsequent to the Agency becoming the owner of record of the Facility, the filing by the Agency of the appropriate applications for tax exemption, and the acceptance of such applications by the appropriate tax assessors.

(b) Completion Date/Assessment. The Completion Date of the Project shall be the date on which (i) the Project is substantially completed in accordance with the requirements of the Lease, and (ii) a certificate of occupancy has been issued. Lessee estimates that the Completion Date will be July 31, 2011 ("Estimated Completion Date"). Lessee shall establish the Completion Date, which shall not be more than sixty (60) days following the Estimated Completion Date.

(c) Special Assessments. The parties hereto understand that the tax exemption extended to the Agency by Section 874 of the General Municipal Law and Section 412-a of the Real Property Tax Law does not entitle the Agency to exemption from special assessments and special ad valorem levies. Pursuant to the Lease, Lessee will be required to pay all special assessments and special ad valorem levies lawfully levied and/or assessed against the Facility.

(d) Other Charges. If any taxes, assessments, service charges or other governmental charges become payable by the Agency or Lessee on the rents under the Lease or the occupancy of or any interest of the Agency or Lessee in the Facility or any part thereof or any personal property used in connection with the business conducted and located therein, the amount of any tax, assessment or charges shall be paid by Lessee. Furthermore, water charges, sewer rentals, sewage treatment charges, solid waste charges and any other charges in the nature of utility charges shall be paid directly by Lessee and shall not be credited against nor affect in any manner any payment in lieu of general real estate taxes in any year and shall be computed pursuant to the formula adopted by the relevant Taxing Entity.

Section 2. Payments.

(a) Tax Payments. Prior to the Facility becoming entitled to exempt status as set forth in Section 1(a) above, the applicable real estate tax levies on the Facility shall be payable in full by Lessee to the applicable Taxing Entity.

(b) Pilot Payments During Construction. After the Facility becomes entitled to exempt status until the last day of the tax fiscal year of the applicable Taxing Entity in which the Completion Date occurs, Lessee shall pay to the Agency at its address set forth in the heading of this Agreement, for the account and benefit of each Taxing Entity, payments in lieu of the general real estate tax levies on the Facility ("PILOT Payments") in an amount equal to the amount of the tax levies which would be payable if the Facility were listed on the assessment rolls as fully taxable.

(c) Pilot Payments after Completion of Construction. Commencing with the first tax year for the applicable Taxing Entity following the Completion Date, Lessee shall pay to the Agency for the account and benefit of each Taxing Entity during the "Term of the PILOT" (as hereinafter defined), for each Taxing Entity, PILOT Payments in the amounts provided for under Schedule B attached hereto. The "Term of the PILOT" shall be the period of time from the first day of the first tax fiscal year of the applicable Taxing Entity following the Completion Date until the last day of the tax fiscal year of the applicable Taxing Entity following ten (10) annual PILOT Payments to such Taxing Entity. If the Term of the PILOT for any Taxing Entity shall have expired while the Term of the PILOT for any other Taxing Entity shall not have expired, Lessee shall pay to the Agency, until the termination of this Agreement, PILOT Payments in an amount equal to the amount of the tax levies which would be payable to such Taxing Entity if the Facility was listed on the assessment rolls as fully taxable.

(d) Maximum Payment. Notwithstanding anything to the contrary herein, the PILOT Payments under Section 2(c) above shall not exceed the amount Lessee would pay under normal calculations for any period. Hence, if the general real estate tax due (calculated as if Lessee were the record owner of the Facility, and the Facility were assessed at full value for purposes of taxation) otherwise due any Taxing Entity decreases due to a reduction in tax rates or otherwise below the PILOT Payments specified in Section 2(c) above, then the PILOT Payments due that Taxing Entity shall be decreased to equal the tax that would otherwise be due. If, however, a PILOT Payment has been so reduced, and the taxes that would otherwise be due subsequently increase, the PILOT Payment shall similarly increase, but not in excess of the amount specified in Section 2(c) above.

(e) Payments to Agency. All PILOT Payments shall be made by Lessee directly to the Agency promptly upon receipt of billings from the Agency. It is understood that the Agency shall receive the PILOT Payments in trust for each of the Taxing Entities, and the Agency shall forward such payments to each such Taxing Entity within thirty (30) days after receipt thereof.

(f) Due Dates; Interest; and Penalties. The Agency will bill Lessee for the respective PILOT Payments as if the Facility were on the tax rolls at the time when taxes for each Taxing Entity are due. All payments are net if paid on or before the due dates listed below. If any

PILOT Payment is not made on or before the due date, such payment shall be delinquent and Lessee shall pay, for the benefit of the applicable Taxing Entity, a late charge equal to five percent (5%) of the payment. For each month, or part thereof, that the payment is delinquent beyond the first month, Lessee shall pay an additional late charge equal to one and one-half percent (1-1/2%) per month of the total amount payable.

As of the date of this Agreement, the due dates for the PILOT Payments are as follows:

County and City Taxes:	January 30 th
School Taxes:	September 30 th

(g) Partial Sale; Transferee's Obligation; Apportionment of Reduction to Local Taxing Entities. During the term of this Agreement, in the event that any portion of the Land or the Improvements located thereon is sold or disposed of by the Agency, the transferees thereof will thereafter pay the real property taxes on such Improvements as may be located on the portion of the Land sold and on the portion of the Land sold as may be required by applicable law.

(h) Sale; Lessee's Obligation. In the event that the Agency sells the Facility to any party other than Lessee in accordance with the terms of the Lease, Lessee's obligation for PILOT Payments shall be prorated to the date of the closing of the transaction and thereupon all obligations of Lessee for PILOT Payments shall cease, but the Agency shall take such steps with the purchaser other than Lessee to assure that each of the Taxing Entities shall suffer no loss of revenue until such Facility can be placed back on the tax rolls and taxes levied and billed therefor.

Section 3. Jobs. Lessee covenants and agrees that, after the Completion Date, (i) Lessee shall, throughout the term of the Lease, use its best efforts to maintain, or create and thereafter maintain (or cause to be created and maintained, as the case may be) the number of permanent, private sector jobs at the site of the Project as and when set forth in the application submitted to the Agency with respect to the Project (the "Application"), and (ii) the foregoing to the contrary notwithstanding, Lessee shall maintain, or create and thereafter maintain (or cause to be created and maintained, as the case may be), throughout the term of the Lease, not less than twenty-six (26) permanent, full-time equivalent private sector jobs within one (1) year after the Completion Date (as defined in the Lease), all of which jobs shall be located at the Project site. Lessee agrees to deliver to the Agency on each annual anniversary of this Agreement a written report describing its compliance or noncompliance with the provisions of this Section 3 and to permit the Agency to audit the books and records of Lessee supporting such report.

Section 4. Effective Date; Duration of Agreement. This Agreement shall become effective upon the delivery of the Lease by Lessee and the Agency and shall continue in effect until the earlier of (i) last day prior to the taxable status date following the final tax fiscal year of a Taxing Entity in which a PILOT Payment is or would be payable pursuant to Section 2(c)

above, or (ii) the date on which title to the Facility is conveyed to Lessee pursuant to the Lease or this Agreement.

Section 5. Events of Default. The following shall constitute "Events of Default" under this Agreement:

(a) failure by Lessee to make any payment specified herein and the continuance of such failure for a period of ten (10) days following written notice from the Agency or any Taxing Entity;

(b) failure by Lessee to comply with or perform any provision of this Agreement other than the payment provisions hereof and the continuance of such failure for a period of thirty (30) days following written notice thereof;

(c) failure by Lessee to establish the Completion Date which date shall not be more than thirty (30) days following the Estimated Completion Date; and/or

(d) default in the terms of any agreement entered into between the Agency and Lessee (beyond any applicable grace period).

Upon the occurrence and continuance of an Event of Default hereunder, Lessee shall be required to make payments in lieu of general real estate taxes levied by the Taxing Entities on the Facility if it were owned by Lessee and the Agency held no interest therein, such amounts to commence to be paid for the period subsequent to the date it is determined by the Agency that there is an Event of Default hereunder. In such event, the tax rate, interest and penalties shall be those then in effect in the jurisdiction(s) in which the Facility is located.

Upon the occurrence and continuance of an Event of Default hereunder, the Agency shall be entitled to sue to enforce any provision of this Agreement and to recover the payments in default from Lessee, together with all the costs and expenses of the Agency, its successors or assigns, paid or incurred in such recovery (including court costs and attorney's fees and expenses) and interest at the rate specified in Section 2(f) above. In addition, the Agency shall have the right to reconvey the Facility to Lessee at any time, and Lessee shall accept any such tender of reconveyance.

The Agency, in enforcing payment by Lessee of said amounts, may take whatever action and exercise any or all of the rights and remedies specified in this Agreement or any other remedy provided by law.

Each and every Event of Default shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises. Lessee irrevocably agrees that any suit, action, or other legal proceeding arising out of this Agreement may be brought in the courts of record of the State of New York, or the courts of the United States located within the State of New York, consents to the jurisdiction of each such court in any such suit, action, or proceeding, and waives any objection which it may have to the laying of the venue of any such suit, action, or proceeding in any of such courts.

No delay or omission in exercising any right or power accruing upon the occurrence of any Event of Default hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the Agency.

In no event shall the Agency be liable to any of the Taxing Entities for the payments specified herein, whether or not Lessee makes such payments. Lessee hereby agrees to indemnify, defend (with counsel selected by the Agency) and hold harmless the Agency from and against any such liability for such payments and against all penalties, interest, and other charges resulting from the delinquency of such payments.

Section 6. Covenants by the Agency. The Agency covenants that, unless otherwise required by law, the Agency will not enact or adopt any laws, ordinances, rules, or regulations imposing any taxes, assessments, or other charges of payments on the Project or Lessee's leasehold interest or personal property therein, or its use or occupancy thereof or its gross receipts or income therefore, except as Lessee and the Agency have herein agreed, or may agree from time to time in the future.

Section 7. Notices. All notices, certificates and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given, if by delivery, when delivered and, if delivered by mail, on the second day following the day on which mailed by certified mail, postage prepaid, addressed as follows:

To the Agency: County of Chautauqua Industrial Development Agency
200 Harrison Street
Jamestown, New York 14701
Attention: Administrative Director

With a copy to: Phillips Lytle LLP
201 West Third Street, Suite 205
Jamestown, NY 14701
Attention: Jonathan P. Taber, Esq.

To Lessee: 31 Sherman Street Investors LLC
c/o The Krog Corp.
4 Centre Drive
Orchard Park, NY 14127
Attention: Peter L. Krog

The Agency or Lessee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates and other communications shall be sent.

Section 8. Assignment of Agreement. This Agreement shall be binding upon the successors and assigns of Lessee, but no assignment shall be effective to relieve Lessee of any of its obligations hereunder unless expressly authorized and approved in writing by the Agency.

Section 9. Independent Agreement. Notwithstanding any other provision of this Agreement, including the recitals hereof, the parties agree that the Lease executed between the parties hereto shall be a separate and independent document from this Agreement, and irrespective of whether any provision of this Agreement or the entirety hereof shall be held invalid or unenforceable by any court of competent jurisdiction, the Lease shall be construed, interpreted, and otherwise regarded separate and apart from this Agreement. The parties hereto specifically note that the considerations and terms provided for in this Agreement and provided for in the Lease are the only considerations and terms for which the parties hereto have executed this Agreement.

Section 10. Waivers. Lessee, in recognition of the benefits provided under this Agreement, and for so long as the Lease is in effect, hereby expressly waives any rights it may have for any exemption under Section 485-b of the Real Property Tax Law or any other exemption under any other law or regulation (except, however, for the exemption provided under Article 18-A of the General Municipal Law) with respect to the Facility.

Lessee, in recognition of the benefits provided under this Agreement and the Lease, hereby expressly waives the right to institute judicial or other review of an assessment of the real property with respect to the Facility, whether pursuant to the provisions of Article 7 of the Real Property Tax Law or other applicable law, as the same may be amended from time to time.

Section 11. Future Additions. If there shall be a future addition to the Facility constructed or added in any manner after the date of this Agreement that would otherwise change the assessed value of the Facility, Lessee shall notify the Agency of such future addition (the "Future Addition"). The notice to the Agency shall contain a copy of the application for a building permit, plans and specifications and any other relevant evidence that the Agency may reasonably request. Upon the earlier of substantial completion, or the issuance of a certificate of occupancy for any such Future Addition, Lessee shall become liable for payment of an increase in the total PILOT Payments as reasonably determined by the Agency. The Agency shall notify Lessee of any proposed increase in the total PILOT Payment resulting from such Future Addition. If Lessee shall disagree with the determination of Assessed Value for any Future Addition made by the Agency, then and in that event the Assessed Value for any such Future Addition shall be fixed by a court of competent jurisdiction. Notwithstanding any disagreement between Lessee and the Agency, Lessee shall pay the increased total PILOT Payment determined pursuant to this Section until a different total PILOT Payment shall be established. If a lesser Assessed Value for any such Future Addition is determined in any proceeding or by subsequent agreement of the parties, the total PILOT Payment shall be recomputed and any excess payment shall be refunded to Lessee, or in the Agency's sole discretion, such excess payment shall be applied as a credit against the next succeeding PILOT payment(s).

Section 12. Amendments. This Agreement may not be modified, amended, supplemented, or changed without the written consent of the Agency, Lessee and any Taxing Entity which is affected by the amendment.

Section 13. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 14. Prior Agreements; Counterparts. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, whether written or oral, among the parties with respect to the subject matter hereof and may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 15. Delivery of Agreement. The Agency agrees to use its best efforts to deliver to each Taxing Entity a copy of this Agreement within fifteen (15) days after its execution by the Agency.

Section 16. Applicable Law. This Agreement shall be governed and construed under the internal laws of the State of New York, as the same may be in effect from time to time, without regard to principles of conflicts of law.

Section 17. WAIVER OF JURY TRIAL. THE AGENCY AND LESSEE HEREBY WAIVE THE RIGHT EACH MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING IN CONNECTION WITH THIS AGREEMENT.

IN WITNESS WHEREOF, the Agency and Lessee have executed this Agreement as of the date first above written.

**COUNTY OF CHAUTAUQUA
INDUSTRIAL DEVELOPMENT AGENCY**

By: _____

Michael Metzger, Vice Chairman

31 SHERMAN STREET INVESTORS LLC

By: Graf/Krog Sherman St. LLC, its Manager

By: _____

Peter L. Krog, Member

By: G.H. Graf Realty Corporation, Member

By: _____

Daniel Reininga, President

Schedule A

LAND

SCHEDULE A

ALL THAT TRACT OR PARCEL OF LAND, situate in the City of Jamestown, County of Chautauqua and State of New York; being part of Lot No. 25, Town 2 and Range 11 of the Holland Land Company's Survey; and being more particularly bounded and described as follows:

BEGINNING at a point on the southerly boundary of Garfield Street at its intersection with the easterly boundary of Sherman Street; thence South $80^{\circ} 37' 20''$ East along said southerly boundary of Garfield Street, a distance of 397.28 feet to a point at the northwesterly corner of lands conveyed by The Woman's Christian Association of Jamestown, N.Y. to The City of Jamestown as described in a Quit Claim Deed dated April 11, 1983 and recorded in the Chautauqua County Clerk's Office on April 21, 1983 in Liber 1966 of Deeds at page 229; thence South $06^{\circ} 40' 00''$ West along the westerly boundary of said lands conveyed to The City of Jamestown, which is also the current westerly boundary of Maple Street, a distance of 168.11 feet to a set rebar; thence North $80^{\circ} 37' 20''$ West through the lands of The Woman's Christian Association of Jamestown, N.Y., hereinafter referenced, a distance of 378.70 feet to a set rebar on said easterly boundary of Sherman Street; thence North $00^{\circ} 24' 00''$ East along said easterly street boundary, a distance of 170.00 feet to the point or place of beginning.

SCHEDULE B

PILOT PAYMENTS

YEAR	PILOT	Amount
1		51,500
2		54,307
3		57,266
4		60,387
5		63,679
6		67,149
7		70,809
8		74,668
9		78,737
10		83,018