

DID # 0102165001

TROUTMAN SANDERS LLP

ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

401 9TH STREET, N.W. - SUITE 1000
WASHINGTON, D.C. 20004-2134
www.troutmansanders.com
TELEPHONE: 202-274-2950

207572

William A. Mullins
william.mullins@troutmansanders.com

Direct Dial: 202-274-2953
Fax: 202-654-5621

April 9, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

ENTERED
Office of Proceedings

APR 10 2003

Part of
Public Record

FILED

APR 10 2003

RE: Finance Docket No. 34335
*Keokuk Junction Railway Company--Feeder Railroad Development Application--
Line Of Toledo, Peoria & Western Railway Corporation Between La Harpe And
Hollis, IL*

Dear Secretary Williams:

Enclosed please find an original and thirteen copies of the feeder railroad development program application of Keokuk Junction Railway Company ("KJRY") to acquire the rail line of Toledo, Peoria & Western Railway Corporation ("TP&W") extending between milepost 194.5 at La Harpe and milepost 118.5 at Hollis, in Hancock, McDonough, Fulton and Peoria Counties, IL. A filing fee check in the amount of \$2,600.00 is enclosed, pursuant to 49 C.F.R. § 1002.2(f)(13) (2002). An original and eleven copies of discovery requests pursuant to 49 C.F.R. § 1151.2(d), seeking discovery of information primarily or exclusively in possession of the owning carrier, is also enclosed. Copies of these documents are contained on each of the three enclosed diskettes in WordPerfect format.

Please acknowledge receipt of the enclosed pleadings by date stamping the extra copies of the application and discovery requests and returning them to the individual making this filing to return to me. If there are any questions about this matter, please contact me.

Sincerely,

William A. Mullins
William A. Mullins

FILE RECEIVED

APR 9

Enclosures

SURFACE

cc: Required Parties INFORMATION BOARD

**BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.**

FINANCE DOCKET NO. 34335

**KEOKUK JUNCTION RAILWAY COMPANY--
FEEDER RAILROAD DEVELOPMENT APPLICATION--
LINE OF TOLEDO, PEORIA & WESTERN RAILWAY CORPORATION
BETWEEN LA HARPE AND HOLLIS, IL**

**WILLIAM A. MULLINS
DAVID C. REEVES
TROUTMAN SANDERS LLP
401 NINTH STREET, N.W.
SUITE 1000
WASHINGTON, D.C. 20004-2134
TELEPHONE: (202) 274-2950
FACSIMILE: (202) 654-5621**

DATED: April 9, 2003

**BEFORE THE
SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.**

FINANCE DOCKET NO. 34335

**KEOKUK JUNCTION RAILWAY COMPANY--
FEEDER RAILROAD DEVELOPMENT APPLICATION--
LINE OF TOLEDO, PEORIA & WESTERN RAILWAY CORPORATION
BETWEEN LA HARPE AND HOLLIS, IL**

Comes now the Keokuk Junction Railway Company (“KJRY” or “Applicant”) and files this feeder railroad development program (“feeder line”) application pursuant to 49 U.S.C. Section 10907 (2000) and 49 C.F.R. Part 1151 (2002), to acquire the line of railroad currently owned by Toledo, Peoria & Western Railway Corporation (“TP&W”) extending between the line’s junction with KJRY at La Harpe, IL and Hollis, IL, at or near the junction with Union Pacific Railroad Company (“UP”). As part of its application, KJRY offers to grant TP&W trackage rights over the portion of the track east of Milepost 123.0 to continue serving existing shippers, at a trackage rights fee of \$2.50 per loaded or empty car.¹ In support of its application, KJRY shows the following.

¹ See generally *Caddo Antoine and Little Missouri Railroad Company-Feederline Acquisition-Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR*, 2000 STB LEXIS 252 (served May 5, 2000).

IDENTIFICATION OF APPLICANT AND LINE AT ISSUE

(1) Identification of the line to be purchased including:

(i) The name of the owning carrier -

The line to be purchased is owned by the Toledo, Peoria and Western Railway Corporation ("TP&W"); and

(ii) The exact location of the line, including milepost designations, origin and termination points, stations located on the line, and cities, counties and States traversed by the line -

The line extends from TP&W's interchange with applicant Keokuk Junction Railway Company ("KJRY"), at Milepost 194.5 (near La Harpe, IL) east to Milepost 118.5 at Hollis, including the Mapleton Industrial Spur, covering the complete ownership of the TP&W between Mileposts 194.5 and 118.5 (altogether, the "Line").² The stations located on the Line³ are:

La Harpe
Blandinsville
Sciota
Good Hope
Bushnell
Blair Jct.
New Philadelphia
Marietta
Seville
Smithfield
Cuba
He Siding
Canton
Rawalts
Breeds
Glasford

² For convenience, the portion of the Line west of Milepost 123.0 will sometimes be referred to herein as the West End, while points at and east of Milepost 123.0 will be referred to as the Mapleton Segment.

³ Listing taken from OPSL 6000-U, issued March 1, 2000, at 760.

Mapleton
Kolbe
Sommer

The line lies in Hancock, McDonough, Fulton and Peoria Counties, IL. The largest community located in proximity to the Line and between the two end points is the City of Macomb.

(2) Identification of applicant including:

(i) The applicant's name and address;

Keokuk Junction Railway Company
1318 South Johanson Road
Peoria, IL 61607

(ii) The name, address, and phone number of the representative to receive correspondence concerning this application;

All correspondence, pleadings, etc., directed to Applicant in this matter should be sent to:

William A. Mullins
David C. Reeves
Troutman Sanders LLP
401 Ninth Street, N.W.
Suite 1000
Washington, D.C. 20004-2134
Phone: (202) 274-2950
Facsimile: (202) 654-5621

(iii) A description of applicant's affiliation with any railroad;

KJRY is a Class III railroad subsidiary of Pioneer Railcorp ("Pioneer"), a railroad holding company. KJRY operates a common carrier rail line within the City of Keokuk, Iowa; from Keokuk to La Harpe, Illinois, and a branch line from Hamilton to Warsaw, Illinois, a total of approximately 38 miles. In addition, KJRY owns 100% of the common stock of Keokuk Union Depot Company, an Iowa corporation that owns the former Keokuk Union Depot building, along with surrounding track and real estate. On December 19, 2001, the KJRY

purchased 12.1 miles of track from La Harpe to Lomax, Illinois, and obtained trackage rights over The Burlington Northern and Santa Fe Railway Company (“BNSF”) from Lomax, Illinois to Fort Madison, Iowa, a distance of approximately 15.5 miles. Via these trackage rights, KJRY is able to interchange traffic with UP at Ft. Madison. KJRY also interchanges traffic with the BNSF at Keokuk, Iowa. By this application, KJRY seeks to establish an interchange with TP&W at Hollis, IL and with UP at or near Sommer, IL. The principal commodities KJRY hauls are corn, corn germ, corn syrup, meal, gluten feed, and railroad wheels.

Pioneer’s other rail subsidiaries, and the approximate number of miles of track each operates, are as follows:

West Michigan Railroad Co. (WMI)	15 miles
Michigan Southern Railroad Company (MSO)	15 miles
Fort Smith Railroad Co. (FSR)	18 miles
Alabama Railroad Co. (ALAB)	60 miles
Mississippi Central Railroad Co. (MSCI)	51 miles
Alabama & Florida Railway Co., Inc. (AF)	43 miles
Decatur Junction Railway Co. (DT)	38 miles
Vandalia Railroad Company (VRRC)	3.5 miles
Shawnee Terminal Railway Company (STR)	2.5 miles
Pioneer Industrial Railway Co. (PRY)	8.5 miles
The Garden City Western Railway, Inc. (GCW)	40 miles
Indiana Southwestern Railway Co. (ISW)	23 miles
Kendallville Terminal Railway Co. (KTR)	1.1 miles
Elkhart & Western Railroad Co. (EWR)	10 miles
Gettysburg & Northern Railroad Co. (GET)	25 miles

Applicant and all of its affiliated railroad companies are Class III railroads. None is a Class I or Class II carrier.

Pioneer Railroad Services, Inc., Pioneer Resources, Inc., and Pioneer Air, Inc., are wholly-owned subsidiaries of Pioneer Railcorp which provide corporate support operations to Pioneer’s subsidiary railroads. Pioneer Railroad Services provides accounting, management, marketing, operational and agency services to Pioneer's subsidiary railroads. Pioneer Resources

manages real estate and auxiliary resources for Company subsidiaries. Pioneer Air owns a Cessna 421B aircraft which is used by Pioneer Railcorp subsidiaries exclusively for company business travel.

and

(iv) If the applicant is a corporation, the names and addresses of its officers and directors.

The officers and directors of KJRY are as follows:

Guy L. Brenkman	Director; President
J. Michael Carr	Director; Treasurer
Orvel L. Cox	Director; Secretary

Officers and directors of Pioneer are as follows:

Guy L. Brenkman	Director (Chairman); President
J. Michael Carr	Director; Treasurer
Orvel L. Cox	Director
Clifton T. Lopez	Director
John S. Fulton	Director
Scott Isonhart	Secretary

FINANCIAL INFORMATION ABOUT THE APPLICANT

(3) Information sufficient to demonstrate that the applicant is a financially responsible person. In this regard, the applicant must demonstrate its ability:

- (i) To pay the higher of the net liquidation value (NLV) or going concern value (GCV) of the line;⁴ and**
- (ii) To cover expenses associated with providing services over the line (including, but not limited to, operating costs, rents, and taxes) for at least the first 3 years after acquisition of the line.**

KJRY can meet the costs of acquiring and operating the Line through its access to the financial resources of Pioneer. Pioneer is committed to the funding of KJRY's acquisition of the Line and to supporting the cost of operating the Line so as to allow the Line to be operated for at least three years following its acquisition by KJRY. *See* Verified Statement of Guy L.

Brenkman, President and principal shareholder and President of KJRY ("V.S. Brenkman"),

⁴ *See* Section 4 below for KJRY's analysis of the net liquidation value ("NLV") and going concern value ("GCV") of the Line.

Appendix 1 hereto, at 37. Through Pioneer's commitment to this project and access to Pioneer's retained earnings, line of credit and other financial resources, KJRY is clearly able to pay the \$3,393,363 net liquidation value ("NLV") of the Line⁵ and to operate the Line for a minimum of three years following acquisition. Accordingly, KJRY should be found to be a "financially responsible person" in making its offer for the Line.

Pioneer is a financially sound railroad holding company, fully capable of providing KJRY with the resources needed for KJRY to acquire and operate the Line. Pioneer's Annual Report Form 10K as filed with the Securities and Exchange Commission demonstrates Pioneer's ability to provide this support.⁶ The report contains audited financial statements and balance sheets for Pioneer and its subsidiaries, reported on a consolidated basis. The filing, dated March 25, 2003, accurately represents the current financial position of Pioneer and its subsidiaries. *See* Verified Statement of J. Michael Carr, Chief Financial Officer of Pioneer ("V.S. Carr"), Appendix 2 hereto at 49.

Pioneer has substantial financial resources available to finance KJRY's purchase and operation of the Line. Pioneer ordinarily uses cash generated from operations to fund working capital needs, while relying significantly on long-term financing for the purchase of equipment and other significant capital expenditures. To meet the purchase cost for the Line, Pioneer has available retained earnings in excess of \$5.0 million. *See* V.S. Carr, Appendix 2 at 50.

Moreover, as in past acquisitions, Pioneer expects to be able to rely on its strong and continuing relationship with its banks to obtain financing to support the acquisition. Pioneer has

⁵ As explained in Section 4 below, the interest in the Line that KJRY proposes to acquire has no GCV for TP&W. Accordingly, KJRY offers to purchase the Line for NLV.

⁶ A copy of Pioneer's 2002 Form 10K Annual Report is attached hereto as Exhibit A to Appendix 2.

a solid history of acquiring short lines and short line properties and operating them profitably.

Pioneer's short line railroad acquisitions include the following:

Subsidiary	Date Acquired

Vandalia Railroad Company	10/07/94
Minnesota Central Railroad Co.	12/12/94
West Michigan Railroad Co.	07/11/95
Columbia & Northern Railway	02/21/96
Keokuk Junction Railway Co.	03/12/96
Rochelle Railroad Co	03/25/96
Shawnee Terminal Railway Co.	11/13/96
Michigan Southern Railroad	12/19/96
Pioneer Industrial Railway Co.	02/18/98
The Garden City Western Railway Co.	04/29/99
Indiana Southwestern Railway Co.	04/01/00
Gettysburg & Northern Railroad Co.	02/20/01

This series of successful acquisitions clearly demonstrates Pioneer's ability to obtain financial backing for its purchases. This history of success has made Pioneer the second largest short line railroad holding company in the country. Should it choose to obtain financing for all or part of this acquisition, the record shows that Pioneer's officers have the ability to put together successful financing arrangements, like those that built the company. Indeed, Pioneer's principal bank, National City Bank, Peoria, Illinois, has already expressed interest in providing up to \$5.0 million in financing for KJRY's acquisition of the Line. *See V.S. Carr at Exhibit B.*

To meet working capital needs for rehabilitation and operation of the Line, Pioneer has the income available from its operations, plus working capital facilities. Pioneer's Annual Report shows that Pioneer is a profitable, well-managed company. Pioneer's net income in 2002 increased to \$1,246,000, all of which was attributable to normal, ongoing operations. Overall company revenue increased 4% in 2002 to \$14,970,000, while operating expenses decreased by 7%, to \$12,133,000. Operating expense reductions resulted from Pioneer's ongoing efforts to eliminate and control costs.

Pioneer's railroad operations increased operating income by approximately \$953,000 in 2002. The increase in operating income from railroad operations resulted from increased revenues of \$668,000 and a decrease in operating expenses of \$285,000.

Pioneer's working capital credit facilities total \$1,100,000, all of which was available for use at the end of 2002. The same remains true as of the date of the date of Mr. Carr's verified statement. V.S. Carr at 50. Pioneer anticipates that this amount will be more than adequate to allow it to provide the funds necessary to rehabilitate the Line sufficiently to restore the traffic base, which, in conjunction with a vigorous marketing campaign, will allow the Line to generate sufficient traffic and cash flow to become self-sustaining. *See* Verified Statement of Catherine Busch ("V.S. Busch"), Appendix 3 hereto at 120 (projecting \$2.4 million in revenues over the first three years of operation) and Verified Statement of B. Allen Brown ("V.S. Brown"), Appendix 4 at 165 (projecting operating expenses of \$1.9 million over 3 years).

Pioneer's commitment to this acquisition gives KJRY access to Pioneer's retained earnings and financing expertise to fund the acquisition, plus access to Pioneer's working capital facilities and strong cash flow to finance bringing the Line back to its full service capacity. Together, these resources are more than adequate to support acquisition of the Line and its operation for a minimum of three years. Accordingly, the Board should hold that Pioneer is a "financially responsible person" with respect to this proposed acquisition.

(4) An estimate of the NLV and the GCV of the line and evidence in support of these estimates.

KJRY estimates the net liquidation value ("NLV") of the Line to be \$3,393,363, based on the analyses attached to the Verified Statement of John W. Gohmann ("V.S. Gohmann"), Appendix 5 hereto, Exhibits A and B, and the confirming analysis contained in Exhibit B to V.S. Brown. Further, KJRY believes that the rights and interests that KJRY seeks to acquire from

TP&W have no GCV to TP&W because TP&W will continue to have access to shippers on the Mapleton Segment via trackage rights. Accordingly, KJRY bases its application and offer to purchase on NLV.

NLV. KJRY estimates the NLV of the Line at \$3,393,363, comprised of \$3,283,504 for rail and track materials, and \$109,859 for real estate.⁷ This is the higher of two net liquidation valuations which KJRY has had done and represents a sound analysis of the NLV of the Line.

Initial, Internal Evaluation. KJRY has had several discussions with TP&W's parent RailAmerica about the possibility of KJRY purchasing the West End of the Line. During those discussions, Al Sauer of RailAmerica gave Allen Brown, Chief Operating Officer of Pioneer, a list of the quality and quantity of rail and track materials that RailAmerica asserted were in place in the West End segment. The list included materials in the westernmost 12 miles of that property, which KJRY subsequently purchased from TP&W.⁸

That same list of materials, edited to exclude the 12 miles covered by KJRY's earlier purchase, later re-appeared. In seeking to set up interchange with SF&L, KJRY requested a set of SF&L's Operating Rules. Upon reviewing those rules, Mr. Brown discovered an addendum to the rules that contained the same listing of rail and track materials he had earlier received from RailAmerica, though the list apparently had been edited to exclude the 12 miles of line that KJRY had already purchased.

⁷ Because information on the nature and extent of TP&W's interests in real estate underlying the Line is predominantly or exclusively within TP&W's possession and has not been made available to KJRY, KJRY uses the estimated real estate value contained in the valuation study prepared by Gohmann and Associates, Inc., which is appended to the V.S. Gohmann. KJRY has also requested information about the nature and extent of TP&W's interest in real estate underlying the Line in its discovery requests, filed concurrently with this application.

⁸ *Keokuk Junction Railway Co.—Acquisition and Operation Exemption—West End of the Toledo, Peoria and Western Railway Corporation*, STB Finance Docket No. 34143 (served Jan. 11, 2002).

After the Board ordered SF&L to convey the West End segment back to TP&W, Mr. Brown used RailAmerica's listing of materials to prepare a valuation of the Line in order to try to bridge the gap between KJRY and TP&W in discussing a purchase. Despite believing that the quality of the materials indicated in RailAmerica's inventory was probably overstated, Mr. Brown applied current market prices obtained from discussions with a number of vendors to those quantities to develop a gross value for rail and other track materials (spikes, tie plates, joint bars, etc.) of \$4,863,683. Turnouts in the line were valued at relay or scrap values, depending on quality, and given a total value at \$35,713. Due to the large proportion of ties in the line with no value for relay or landscape, Mr. Brown found that the cost of disposal of scrap ties would exceed the value of relay or landscape ties by \$177,549. Altogether, based on his experience in buying and selling rail materials for Pioneer's various subsidiaries and his conversations with various dealers in rail and scrap materials, and with a landfill, Mr. Brown concluded that the gross salvage value of the West End would be \$4,721,848. *See Exhibit B to V.S. Brown.*

To determine NLV of that segment, Mr. Brown estimated costs to dismantle rail, transport the rail and track materials to market, remove and transport ties either for relay use or for disposal, to remove relay turnouts and to restore 89 grade crossings following removal of the track. Again, unit costs were based upon Mr. Brown's discussions with various companies familiar with rail salvage operations, as well as upon Mr. Brown's own experience as the Chief Operating Officer of Pioneer. Mr. Brown did not assign any cost for bridge removal or for inventory carrying cost, though some such costs reasonably could be expected were the West End assets were to be removed and liquidated. Total removal costs equaled \$2,385,887. When removal costs were subtracted from gross liquidation value, the remainder - NLV - was

\$2,335,961.⁹ It is important to note that this value is about 7% above the price for which TP&W sold the West End to SF&L, indicating the reasonableness of this valuation conclusion.

Outside Evaluation. Not content to rely simply on a single analysis of the Line's NLV, Pioneer engaged an outside consultant to perform a separate NLV analysis of the Line. That analysis was performed by John W. Gohmann and Richard J. Lane of Gohmann and Associates, Inc., Libertyville, IL.

Though using a somewhat different methodology than that used by Mr. Brown, Messrs. Gohmann and Lane came to an NLV for the entire Line - including the Mapleton Segment and including real estate value - which was somewhat higher but still generally consistent with Mr. Brown's analysis. By including the additional track between Mileposts 123 and 118.5, and estimating real estate value for the right-of-way, Messrs. Gohmann and Lane concluded that the entire Line would have an NLV of \$3,393,363. As explained below, the Gohmann analysis is consistent in a number of respects with Mr. Brown's analysis and thus is supported by Mr. Brown's analysis as well.

Mr. Gohmann and his associate Richard Lane, each highly-experienced in rail line assessment, performed their valuation analysis based on TP&W track charts for the Line, in conjunction with conversations with rail materials dealers who provided values for different types and qualities of materials. These values for materials as delivered to a dealer were then reduced on a per ton basis to account for the cost of removal and transportation. In addition, for

⁹ Mr. Brown did not have available to him in preparing his valuation analysis any information concerning the Mapleton Segment of the Line. Neither did he have any information on the nature or extent of TP&W's interests in real estate underlying the Line, though his conversations with TP&W concerning KJRY's interest in purchasing the Line or the West End have led him to believe that TP&W's real property interests in the right-of-way are largely easement interests, inasmuch as TP&W never offered to sell KJRY the real estate underlying the Line when discussing a possible purchase with Mr. Brown.

relay 115# and 131# rail, an additional 10% reduction in relay tonnage was calculated to account for cropping of the rail for welding. That 10% was valued as scrap.

Mr. Gohmann's calculation of net liquidation value of rail for the West End segment was \$1,914,420, based on 13,081 tons of relay rail at average net price of \$140 per ton, plus 2,077 tons of scrap material at \$40 net price per ton. OTM tonnage was estimated at 20% of rail tonnage for an additional value of \$382,884, bringing total rail and OTM net salvage value for the West End to \$2,297,304. Based on records of tie renewal as shown on the track charts, Messrs. Gohmann and Lane estimated that 40% of 235,290 main line ties would have value as relay materials, with only 10% usable for landscaping and the remainder being scrap. Ten percent of siding ties were believed to be relay quality, with an additional 10% having value as landscape timbers. Valuing relay ties at \$7.00 apiece and landscape ties at \$3.00 apiece, and subtracting disposal costs of \$3.00 for each scrap tie yielded total net value for ties of \$343,308.

Mr. Gohmann also accounted for the recovery of a portion of the ballast on the line for reuse in roads or the like. Although unable to ascertain from the track charts the character of the ballast (*i.e.*, granite or some softer, less usable material), Messrs. Gohmann and Lane estimated recovery of 348,221 cubic yards of ballast, having a net delivered value of \$1.00 per cubic yard.

Bridges and trestles on the line were each assessed individually by Messrs. Gohmann and Lane with respect to whether a positive net salvage value was achievable. While a few structures were determined as likely to contain reusable materials, in general the cost of removal of those structures made recovery uneconomical, so Messrs. Gohmann and Lane assigned a zero net salvage value to bridges. However, they did point out that there are some bridges, such as the bridge over State Highway 41, which the state could require be removed. Should that occur, a significant added removal cost would be incurred, reducing net liquidation value of the property.

Based on their experience, Messrs. Gohmann and Lane anticipate that removal costs for a single major rail bridge such as the bridge over State Highway 41 could reach \$250,000 to \$500,000. Again, however, no deduction from net salvage value was made for this cost, absent a showing that removal of the bridge would be required. Similarly, signals were assigned a zero net salvage value based on the difficulty of removal and the likelihood that at least a portion of any recovered materials would be required to be returned to the state because their installation was financed by the state.

An estimate of \$100,000 for the value of the right-of-way was assigned by Messrs. Gohmann and Lane, in the absence of any concrete evidence of the amount of acreage to which TP&W may hold marketable title. This value was assigned with consideration given to an assumed total acreage of 864, based on an assumed 100 foot right-of-way throughout, and considering the rural nature of the surrounding area.

Altogether, based on the foregoing data and assumptions, Messrs. Gohmann and Lane estimated the NLV of the West End segment at \$3,088,833. Subsequently, using similar calculations and valuation methods, they assessed the value of the Mapleton Segment, including the Mapleton Spur, at \$304,530, bringing their total estimated NLV of the entire Line to \$3,393,363. *See* Exhibit B to V.S. Gohmann.

Several differences between the raw data available to Messrs. Brown and Gohmann account for much of the difference in their valuations of the Line. First, Mr. Gohmann had information available about the characteristics of the track east of Milepost 123, while Mr. Brown did not. Second, Mr. Gohmann's data showed a total of 80 miles of track - 71.3 miles of main line and 8.7 miles of sidings, while Mr. Brown's analysis contemplated only three miles of non-mainline track. Finally, Mr. Gohmann estimated a value for the right-of-way while Mr.

Brown did not. In general, therefore, while the analyses by Messrs. Brown and Gohmann result in significantly different bottom line values, much of that difference is accounted for by differences in the basic information available to each, not by significant methodological differences. For example, while Messrs. Gohmann and Lane did not set out a separate removal cost for each element of the track structure as did Mr. Brown, their unit valuation of each item includes that cost.

In recognition of the Board's mandate that it order sale of a feeder rail line for not less than constitutional minimum value, and in light of the variance in the NLV estimates by Messrs. Brown and Gohmann, KJRY conservatively chose the higher of those two NLV estimates as the basis of its offer in this proceeding.

GCV. According to TP&W's own filings with the Board, the West End has a negative GCV to TP&W. By according TP&W trackage rights to serve the Mapleton Segment, KJRY's offer allows TP&W the opportunity to retain the economic benefit of operating the Mapleton Segment. Accordingly, the rights that KJRY seeks to acquire have no GCV to TP&W.

KJRY views the Line as a valuable property. That value can be derived from the Line's utility both for local traffic and as a through route.

As shown later in this application, TP&W effectively abandoned the local shippers on this Line in December 2000, if not before, by selling the West End to SF&L Railway, Inc. ("SF&L"). As the Board later concluded, SF&L did not intend to operate the West End; rather, SF&L intended to downgrade service in order to eliminate local traffic to enable it to scrap the Line.¹⁰ SF&L succeeded in driving off most of the local traffic, by high rates, block rates,

¹⁰ *SF&L Railway, Inc.-Acquisition and Operation Exemption-Toledo, Peoria and Western Railway Corporation Between La Harpe and Peoria, IL*, STB Finance Docket No. 33995, *et al.*, served October 17, 2002, slip op. at 18-19.

unresponsiveness and finally by embargoing the Line from October 2002 through February 2003. KJRY, on the other hand, will restore that value to the Line by providing service that meets the needs of local shippers.

The Line historically has had tremendous value as a through route. Appendix 6 contains copies of advertisements from 1878 and 1887 by TP&W and its predecessor, referring to this line from Keokuk through Peoria as “The Great Short Line Route East and West,” and stressing it as the connection between “all Eastern Cities” and “All Points West.”

The Line continues this historic character as a through route for east-west traffic to the present day. Advertising materials issued by TP&W in the 1960’s refer to this Line with the Phrase “Transcontinental Peoria Way,” and say “Toledo, Peoria & Western Railroad Company by passes big-city yards . . . provides a ‘time-cushion’ against delay.” See Exhibit A to V.S. Brenkman. In the 1980 decision in which The Atchison, Topeka and Santa Fe Railway (“Santa Fe”) acquired control of TP&W, the ICC recited that traffic west of Peoria consisted of a local train to Keokuk, a through train to Santa Fe and a local switcher at Peoria. “Testimony of public and shipper witnesses contained in the verified pleadings of both the Santa Fe and the TP&W clearly demonstrate the value of and need for TP&W’s local and bridge rail line service,” the Commission said.¹¹ A 1997 *Trains* article on the TP&W (see Exhibit B to V.S. Brenkman) stresses the importance to TP&W of maintaining its western connection with BNSF. Even as recently as 2002, SF&L complained that the principal reason that it wanted to abandon the West End was the loss of overhead traffic interchanged with KJRY.¹²

¹¹ *The Atchison, Topeka and Santa Fe Railway Company-Control-Toledo, Peoria and Western Railroad Company*, 366 I.C.C. 715 (1980).

¹² Verified Petition for Exemption of SF&L Railway, Inc., in STB Docket No. AB-448 (Sub-No. 2X), *SF&L Railway, Inc.--Abandonment Exemption--In Hancock, McDonough, Fulton and Peoria Counties, IL*, at 1-2 and 13. However, as shown by KJRY, that loss of traffic stemmed

The GCV of the Line to KJRY is derived from both of these types of traffic - local and overhead. KJRY is committed to doing what is necessary to bring back both types of traffic to restore the Line's value as a part of the national rail system. As shown by information contained in Exhibit D to V.S. Busch, there have been significant amounts of overhead traffic on this line in the past. KJRY will bend every effort to recapture such traffic.

TP&W, on the other hand, has already abandoned the value of the Line as a through route or as a means of serving shippers west of Mapleton, and has focused exclusively on the Mapleton Segment, where TP&W continues to serve shippers. TP&W abandoned the value of the Line as an overhead route by diverting its own traffic to other routes and by selling the West End to SF&L. As the Board has determined, SF&L was intent upon abandoning, not serving the West End. TP&W knew this, yet sold the segment to SF&L anyway. When KJRY illuminated SF&L's plans to the Board and the Board ordered the West End conveyed back to TP&W, TP&W instead sought to be substituted as the petitioner in SF&L's planned abandonment of the West End. In doing so, TP&W projected that it would incur losses of similar to those of SF&L, amounting to more than \$138,000 from a mere 8 months of operation, as well as incurring costs to bring the line back to at least Class I track condition.¹³ Faced with the prospect of denial of its substitution request, TP&W stated that it would serve the West End until it could sell or abandon

from SF&L's unwillingness to enter into rate and service arrangements with shippers and with KJRY that would allow economical and efficient interchange of such traffic for movement over the Line. *See* Verified Statement of Catherine Busch Supporting Keokuk Junction Railway Company's Reply to Verified Petition for Exemption of SF&L Railway, Inc., dated September 13, 2002 and submitted in STB Docket No. AB-448 (Sub-No. 2X). A true and correct copy of this statement is attached as Exhibit D to V.S. Busch. KJRY respectfully requests the Board to consider the filing as evidence in this proceeding as well. With KJRY as owner of the Line, efficient and economical overhead movements will be possible.

¹³ Motion to Substitute the Toledo, Peoria and Western Railway Corporation for SF&L Railway, Inc., filed in STB Docket No. AB-448 (Sub-No. 2X), *SF&L Railway, Inc.--Abandonment Exemption--In Hancock, McDonough, Fulton and Peoria Counties, IL* (dated October 30, 2002).

it.¹⁴ In short, TP&W has already told the Board that TP&W believes that the West End has a negative GCV to TP&W.

Thus, the trackage rights offered TP&W in this proceeding will allow TP&W the opportunity to retain traffic from the only portion of the Line that TP&W believes has any value, the Mapleton Segment of the Line. By retaining access to shippers on the Mapleton Segment at reasonable trackage rights terms, TP&W will retain the only rights on the Line to which TP&W ascribes any positive GCV.¹⁵ Accordingly, the rights and interests that KJRY seeks in this proceeding will not deprive TP&W of anything to which TP&W would ascribe GCV.

While KJRY believes that the Line as a whole is valuable, TP&W has treated the Line in recent years as being comprised of two different segments - the West End and the Mapleton Segment. By allowing TP&W trackage rights to serve shippers on the Mapleton Segment, KJRY's purchase offer allows TP&W to retain what TP&W views as the GCV of the Line. Accordingly, the interest in the Line that KJRY intends to acquire - *i.e.*, full ownership of the Line but subject to TP&W's the right to provide service to currently existing shippers on the portion of the Line beginning at Mapleton (including the Mapleton Industrial Spur) and points east of that at a rate of \$2.50 per empty or loaded car moved by TP&W - has no going concern value ("GCV") to TP&W. Accordingly, KJRY submits its offer for the Line based on the NLV thereof.

¹⁴ *Id.* at 6-8.

¹⁵ Information about the volumes and types of traffic tendered by shippers on the Mapleton Segment is not available to KJRY. KJRY has therefore sought this information in its discovery requests filed concurrently with this application.

(5) An offer to purchase the line at the higher of the two estimates submitted pursuant to paragraph (a)(4) of this section.

KJRY hereby offers to purchase all of TP&W's right title and interest in the Line (subject to granting TP&W trackage rights to serve currently existing shippers on the Mapleton Segment at \$ 2.50 per empty or loaded car and other standard terms and conditions), between Mileposts 194.5 and 118.5, for \$ 3,393,363, the Line's NLV. V.S. Brenkman at 37.

PROPOSED OPERATION

(6) The dates for the proposed period of operation of the line covered by the application.

KJRY intends to close on its purchase of the Line as soon as possible following the Board's approval of this application, hopefully within 30 days after that approval is received. KJRY intends to operate the line on a continuing basis, being not less than three years from the date KJRY acquires the Line.

(7) An operating plan that identifies the proposed operator; attaches any contract that the applicant may have with the proposed operator; describes in detail the service that is to be provided over the line, including all interline connections; and demonstrates that adequate transportation will be provided over the line for at least 3 years from the date of acquisition.

KJRY will be the operator of the line. In addition to its current interchanges with other carriers, KJRY will, as a result of this application, interchange with UP at or near Sommers, IL, and with TP&W at Hollis, IL.

KJRY will provide service that meets the service needs described by the shippers on the line, as related in the shipper letters attached to V.S. Busch and in the Verified Statement of Catherine Busch, Director of Marketing of KJRY. Initially, that will mean service on a 3-4 day-per-week basis. As traffic levels are restored, KJRY anticipates being able to provide service 6 or 7 days per week on the Line.

Based on current traffic levels, KJRY estimates that it will cost \$45,000 per month for the first 12 months to operate the Line. Additionally, during that time, \$200,000 will be required to restore the track structure to safe Class 1 track condition, to provide efficient and safe operating conditions on the Line. After the first 12 months of operation, KJRY anticipates the need to increase service frequency to 6 or 7 times per week. While this will increase operating costs, there will also be a resulting increase in revenue.

Altogether, KJRY estimates the cost of rehabilitating the Line and operating it at the service levels discussed in the preceding paragraph to be \$1.9 million for the first three years. V.S. Brown at 165. These operations are anticipated to yield revenues of approximately \$2.4 million. V.S. Busch at 120.

(8) A description of the liability insurance coverage carried by applicant or any proposed operator. If trackage rights are requested, the insurance must be at a level sufficient to indemnify the owning railroad against all personal and property damage that may result from negligence on the part of the operator in exercising the trackage rights.

The Company maintains insurance that covers claims arising from personal injury and property damage in the event of derailments or other accidents or occurrences.

(9) Any preconditions (such as assuming a share of any subsidy payments) that will be placed on shippers in order for them to receive service, and a statement that if the application is approved, no further preconditions will be placed on shippers without Board approval. (This Statement Will Be Binding Upon Applicant if the Application is Approved.)

Absent Board approval, no preconditions will be placed upon shippers in order to receive service. Applicant is not seeking Board approval for any such conditions at this time.

(10) The name and address of any person(s) who will subsidize the operation of the line.

No person is expected to subsidize operation of the Line. KJRY anticipates that any future funding needs will be satisfied from revenues generated by operations, financing from its parent company or commercial loans.

THE LINE MEETS THE REQUIREMENTS OF 49 U.S.C. SECTION 10907

(11) A statement that the applicant will seek a finding by the Board that the public convenience and necessity (“PC&N”) permit or require acquisition, or a statement that the line is currently in category 1 or 2 of the owning railroad’s system diagram map.

KJRY seeks a finding by the Board that the public convenience and necessity requires or permits that sale of the Line to KJRY.

(i) If the applicant seeks a finding of public convenience and necessity, the application must contain detailed evidence that permits the Board to find that:

(A) The rail carrier operating the line refused within a reasonable time to make the necessary efforts to provide adequate service to shippers who transport traffic over the line;

TP&W has clearly and persistently refused to make the necessary efforts to provide adequate service to shippers who transport traffic on the Line. Two prime examples are obvious. First, knowing that SF&L intended to downgrade service on the West End in order to scrap that portion of the Line, TP&W nevertheless sold the West End to SF&L for that purpose. In doing so, TP&W subjected shippers on the West End to operation by a carrier that increased rates and surcharged traffic to drive it away, and failed to provide adequate service availability. Shippers complained loudly to the Board in supporting KJRY’s petition to revoke the SF&L’s exemption to acquire the Line from TP&W. *See* Exhibit B to V.S. Busch. In revoking that exemption, the Board recognized not only that SF&L did not intend or attempt to provide adequate service on the Line, but also that TP&W was not guiltless in selling the Line to SF&L for that purpose. Moreover, once SF&L was ordered to convey the West End back to TP&W, not only did SF&L drag its feet about doing so for nearly four months, but it also unjustifiably embargoed service on the West End during that entire time. A number of shippers submitted complaints to the Board in connection with TP&W’s sale of the West End to SF&L. Because TP&W knew SF&L’s

intent and was complicit in SF&L's plan, SF&L's default in meeting the needs of shippers is properly attributable to TP&W.

Second, since repurchasing the West End from SF&L in mid-February, TP&W has imposed vastly increased rates which, like SF&L's rates and surcharges, have dried up traffic on the line. From discussions with shippers on the Line, Catherine Busch, Director of Marketing for Pioneer and KJRY, has found that a large number of shippers believe that this is simply part of TP&W's effort to drive off traffic in order to pursue abandonment of the West End in its own name. Letters evidencing shippers' complaints about TP&W's supposed restoration of service on the West End are included in Exhibit A to V.S. Busch.

Having suffered for more than two years under the neglect and abuse that TP&W facilitated by selling the West End to SF&L as an expedient means to raise end-of-the-year cash, without considering the needs of shippers on the West End or requiring SF&L to serve those shippers in good faith, TP&W has effectively abandoned service to shippers on the West End of the Line for nearly two years. Though SF&L would like to blame KJRY for SF&L's failure to carry through,¹⁶ SF&L and TP&W must take responsibility for the problems that they created for shippers using the West End. TP&W's desertion and betrayal of the shippers utilizing the West End of the Line is clearly and emphatically inadequate service. TP&W has failed to correct that situation for more than two years.

¹⁶ As shown in the September 13, 2002 Verified Statement of Catherine Busch submitted in STB Docket No. AB-448 (Sub-No. 2X), the loss of overhead traffic on the Line was the result of closure of one or more former shippers and diversion of traffic to other routes or other modes, due to poor to non-existent service by SF&L or for other reasons. *See* Exhibit D to V.S. Busch. The loss of that traffic was not the result of some deliberate re-routing, as SF&L's pleadings before the Board implied.

(B) The transportation over the line is inadequate for the majority of shippers who transport traffic over the line;

V.S. Busch lists shippers and receivers known to have used the Line. V.S. Busch at __. Appended to Ms. Busch's statement are letters from many of those shippers. Each of those letters shows that service currently available on the Line is not adequate for their needs. These letters establish that TP&W's service on the Line is inadequate for a majority of the shippers that use the line.

(C) The sale of the line will not have a significantly adverse financial effect on the rail carrier operating the line;

KJRY's offer will not harm TP&W's finances. Rather, it will allow TP&W to raise cash and to dispose of an asset that it does not want, while preserving TP&W's access to the largest concentrated portion of the traffic base on the Line, that at Mapleton.

In February 2003, RailAmerica, stated that it intends to shed \$100 million in non-core assets by the end of 2004. The investor relations section of RailAmerica's website says the following: "In February 2003, RailAmerica, as part of its long-term strategy to reduce debt, improve margins and enhance earnings, announced its plan to sell more than \$100 million in non-strategic/non-core/non-operating assets by year-end 2004."

Clearly, TP&W's ownership interest in the Line will be one of those non-core assets to be disposed of. In October 2002, TP&W requested to be substituted as the petitioner in SF&L's abandonment exemption proceeding. When that relief was denied by the Board, TP&W, apparently somewhat grudgingly, agreed to repurchase the West End segment from SF&L, stating that it would "continue to operate the Line until it sells the Line or determines that the market will not allow it to profitably operate the Line, at which time it will seek abandonment

authority from the Board.”¹⁷ However, TP&W’s earlier statement to the Board that “Based on TP&W’s analysis of the Line’s potential traffic weighed against the costs of operating and maintaining the Line, TP&W plans to rationalize the Line, either through possible sale or abandonment,” there is little doubt that TP&W intends to dispose of the West End segment as quickly as possible. Indeed, the pricing contained in its grain tariff for the West End segment (see Exhibit C to V.S. Busch), which sometimes more than doubles previous pricing, is a clear indication that TP&W does not want to attract traffic over the Line. In short, TP&W does not want or need the West End; rather, it wants to rid itself of that portion of the track.¹⁸ The only thing it wants on the Line is to serve the shippers at Mapleton.

KJRY’s offer preserves that ability to TP&W. KJRY has offered to allow TP&W continued access to currently existing shippers east of Milepost 123 under a trackage rights arrangement, for a fee of \$2.50 per empty or loaded car. In this way, TP&W will preserve its opportunity to serve the largest concentrated traffic base on the Line. Accordingly, because KJRY’s offer will allow TP&W to shed an asset it does not want, raise cash and maintain access to the principal concentrated traffic base on the Line - the only shippers on the Line in which TP&W has shown any interest - TP&W will not be harmed financially by a grant of this application.

¹⁷ Toledo, Peoria and Western Railway Corporation Response to Petition to Reopen Administrative Action, for Reconsideration, and/or for Clarification of Decision and to Hold in Abeyance Order to Reconvey of SF&L Railway, Inc., Kern W. Schumacher and Morris H. Kulmer, submitted in STB Finance Docket Nos. 33995 and 33996, dated January 2, 2003, at 11-12.

¹⁸ See also Toledo, Peoria and Western Railway Corporation Response to Petition for Stay Pending Review, submitted in STB Finance Docket Nos. 33995 and 33996 and in STB Docket No. AB-448 (Sub-No. 2X), dated February 6, 2003, at 9 (“TP&W knew, and if they had performed due diligence, Petitioners should have known, that the Line was a marginal investment at best.”)

(D) The sale of the line will not have an adverse effect on the overall operational performance of the rail carrier operating the line; and

For the reasons set forth under paragraph (C) immediately above, and because TP&W's principal operations and future focus are clearly on handling traffic east of Peoria, rather than over the Line, a grant of this application will have no negative impact on TP&W's operations. As TP&W stated in its February 6, 2003, filing opposing SF&L's petition to stay the Board's order to convey the West End back to TP&W, "TP&W has limited manpower and is involved in operating a line of railroad between west of Peoria, IL and Logansport, IN. It cannot afford to engage in an on-again-off-again effort to prepare for the reconveyance of the Line and the operation of the Line."¹⁹

(E) The sale of the line will be likely to result in improved railroad transportation for shippers who transport traffic over the line.

Pioneer believes that it offers advantages to shippers it serves due to the company's acquisition and operation of multiple railroads, yielding economies of scale; the company's experienced management team; the company's proficiency with industry-trend technologies desired by Class I Railroads, such as Electronic Data Interchange (EDI), and the quality of the company's employees. KJRY will bring all of these advantages to shippers on the Line.

KJRY will also bring an aggressive, forward thinking approach to service on the Line, and will bring new competition for shippers at Mapleton. A principal difference between KJRY and TP&W with respect to the Line is that KJRY wants to operate the Line; TP&W does not. KJRY by this application is committing itself to work to develop traffic, provide service needed by shippers, to engage in industrial development efforts, and to upgrade the Line. All of these will lead to better service to shippers.

The shippers at Mapleton will also benefit from the addition of competitive service, new routes, and other advantages that access to a second carrier bring. While allowing TP&W continued access to shippers at Mapleton, those shippers will no longer be captive to TP&W after the grant of this application. New routes and new pricing opportunities will be available to them. In short, they will have the benefit of competition which they have not had before. Mapleton shippers, like shippers along the remainder of the Line, will benefit from the grant of this application.

Finally, community support for KJRY's operation of this Line shows that shippers will be better served by KJRY than they have been by TP&W or SF&L. Such support has been exhibited throughout the proceedings relating to this Line. Attached as Appendix 7 hereto is a copy of a petition, signed by over 100 residents of the communities surrounding the West End of the Line, citing the need for continued service on the Line. Community support for KJRY is also evidenced by the continuing participation before the Board in cases about this Line by the City of Macomb, which has consistently sought restoration of full and adequate service on the Line. Only KJRY is offering to provide such service.

(ii) If the applicant seeks a finding that the line is currently in category 1 or 2 of the owning carrier's system diagram map, the relevant portion of the current map must be attached to the application.

Applicant does not seek a finding that the line is shown in Category 1 or 2 on TP&W's system diagram map. Board staff advises KJRY's counsel that no system diagram map or set of line descriptions in lieu thereof filed by TP&W can be located.

¹⁹ *Id.*, at 10.

ADDITIONAL INFORMATION

- (12) A statement detailing applicant's election of exemption from the provisions of Title 49, United States Code, and a statement that if the application is approved, no further exemptions will be elected. (This Statement Will Be Binding Upon the Applicant if the Application is Approved.)**

KJRY does not choose to be exempt from of Title 49 of the U.S. Code pursuant to authority available under 49 U.S.C. Section 10907(g).

- (13) A description of any trackage rights sought over the owning railroad that are required to allow reasonable interchange or to move power equipment or empty rolling stock between noncontiguous feeder lines operated by the applicant, and an estimate of the reasonable compensation for such rights, including full explanation of how the estimate was reached. The description of the trackage rights shall include the following information: Milepost or other identification for each segment of track; the need for the trackage rights (interchange of traffic, movement of equipment, etc.); frequency of operations; times of operation; any alternative to the use of trackage rights; and any other pertinent data. Trackage rights that are necessary for the interchange of traffic shall be limited to the closest point to the junction with the owning railroad's line that allows the efficient interchange of traffic. A statement shall be included that the applicant agrees to have its train and crew personnel take the operating rules examination of the railroad over which the operating rights are exercised.**

KJRY is not requesting trackage rights over TP&W for purposes of interchange or to move equipment between noncontiguous feeder lines. KJRY seeks to interchange with TP&W on the Line at Hollis, and to interchange with UP at or near Sommer.

- (14) If applicant requests Board prescribed joint rates and divisions in the feeder line proceeding, a description of any joint rate and division agreement that must be established. The description must contain the following information:**

- (i) The railroad(s) involved;**
- (ii) The estimated revenues that will result from the division(s);**
- (iii) The total costs of operating the line segment purchased (including any trackage rights fees).**
- (iv) Information sufficient to allow the Board to determine that the line sought to be acquired carried less than 3 million gross ton-miles of traffic per mile in the preceding calendar year; and**
- (v) Any other pertinent information.**

KJRY does not request the establishment of joint rates and divisions at this time.

(15) The extent to which the owning railroad's employees who normally service the line will be used.

It is not anticipated that KJRY will require additional operating employees in the near term in order to provide service on the Line.²⁰ To the extent that rehabilitation of the Mapleton to La Harpe segment is required, KJRY intends to perform that work with its own forces or to use outside contractors.

Because KJRY is offering to allow TP&W to continue to access shippers as far west as Mapleton, including the Mapleton Industrial Spur, and because TP&W has not operated the Line west of Mapleton for more than a year, it is not anticipated that this transaction will result in any displacement of current TP&W operating employees. Similarly, TP&W has performed little or no maintenance on the track west of Mapleton, while the approximately 4.5 miles between Mapleton and Hollis has required only limited maintenance. Accordingly, KJRY does not anticipate that any TP&W employees have spent a majority of their working time performing labor that would be discontinued as a result of selling the Line to KJRY.

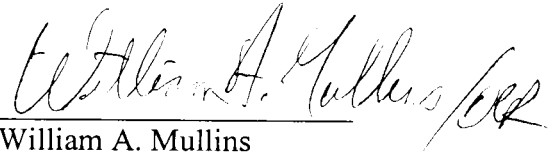
Should current TP&W employees be displaced as a direct result of this transaction and should KJRY require additional employees in order to conduct operations on the Line, KJRY is willing to accept employment applications from former TP&W employees and to accord such persons priority over other, equally-qualified applicants. To be hired, all applicants must be qualified by training and other capabilities to fill an available position and be willing to accept employment under the terms and conditions available to KJRY's employees.

²⁰ KJRY does not anticipate exceeding by more than 100% the traffic levels that moved on the line prior to the West End segment coming under SF&L's ownership. Therefore, KJRY has treated this application for environmental reporting purposes as effectively just a change of operators. Should the Board believe that an environmental report is required, KJRY is willing to prepare and file one along with any modifications to its application based on responses to KJRY's accompanying discovery requests.

(16) A certificate stating that the service requirements of § 1151.2(a) have been met.

See Certificate of Service attached hereto.²¹

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William A. Mullins", followed by a stylized flourish or initials.

William A. Mullins
David C. Reeves
TROUTMAN SANDERS LLP
401 Ninth Street, N.W.
Suite 1000
Washington, D.C. 20004-2134
Telephone: (202) 274-2950
Facsimile: (202) 654-5621

Dated: April 9, 2003

²¹ Amtrak does not operate on this line and therefore has not been served a copy of the application. TP&W's employees are not unionized; therefore, copies of this application have not been served on offices of national railway unions.

CERTIFICATE OF SERVICE

I, David C. Reeves, hereby certify that on April 9, 2003, I caused a copy of the foregoing Keokuk Junction Railway Company--Feeder Railroad Development Application--Line Of Toledo, Peoria & Western Railway Corporation Between La Harpe And Hollis, IL, to be served by first class mail, postage prepaid, or by more expeditious service upon each of the following persons or entities, as required by 49 C.F.R. § 1151.2(a):

Owning carrier:

Toledo, Peoria & Western Railway
Corporation
1990 East Washington Street
East Peoria, IL 61611-2961

United Paving
29265 N. Illinois 78
Canton, IL 61520

Louis E. Gitomer
Ball Janik LLP
1455 F Street, N.W. Suite 225
Washington, DC 20005

Rogers Group/Newton County Stone
Company
Highway 24 East
P.O. Box 147
Kentland, IN 47951

Rail patrons/potential patrons:

CF Industries
West Route 24
Mapleton, IL 61547

Archer Daniels Midland
160 East Main St.
Bushnell, IL 61422

Caterpillar Foundry
West Route 24
Mapleton, IL 61547

West Central FS
294 W. Davis St.
Bushnell, IL 61422

Degussa
8300 W. Route 24
Mapleton, IL 61547

William W. Edwards
Farmers Elevator Company
101 East Douglas Street
Sciota, IL 61475

Lonza Group
8316 W. Route 24
Mapleton, IL 61547

West Central FS
2841 East Highway State 9
Sciota, IL 61450

Hitchcock Scrap Yard
22501 North Illinois 78
Canton, IL 61520

Blandinsville Elevator
201 North Bushnell Street
Blandinsville, IL 61420

United Feed
1100 E. Washington Street
Blandinsville, IL 61420

Elkem Carbon - Keokuk
385 Carbide Lane
Keokuk, IA 52632-6003

Roquette America
1417 Exchange Street
P.O. Box 6647
Keokuk, IA 52632-6647

Griffin Wheel
416 Carbide Lane
Keokuk, IA 52632

Central Iron & Metals
701 South 14th St.
Hamilton, IL 62341

LaHarpe Elevator
P.O. Box 559
La Harpe, IL 61450

Designated state agency:
Illinois Commerce Commission,
Transportation Division
(Attention: Mike Stead)
427 East Capitol Avenue
Springfield IL 62701

County governments:
Hancock County Government
Hancock County Courthouse
Carthage, IL 62321

David T. Williams
Peoria County Board Chairman
County Administration
324 Main Street, Room 401
Peoria, IL 61602

William E. Poncin, Esquire
County of McDonough
County Courthouse
MaComb, IL 61455

Fulton County Clerk
100 North Main Street
Lewistown, IL 61542

Linda A. O'Brien, Esquire
City of Macomb
P.O. Box 377
232 East Jackson Street
Macomb, IL 61455

Unions representing TP&W employees:

Daniel R. Elliott, II
United Transportation Union
14600 Detroit Avenue
Cleveland, OH 44107-4250

Brotherhood of Maintenance of Way Employees
26555 Evergreen Road, Suite 200
Southfield, MI 48076

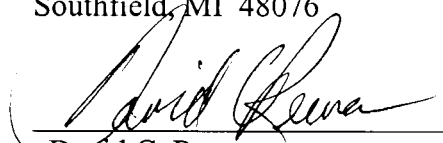

David C. Reeves

TABLE OF APPENDICES AND EXHIBITS

Appendix 1 - VERIFIED STATEMENT OF GUY L. BRENKMAN

- Exhibit A Historical TP&W Advertising
- Exhibit B *Trains* magazine article, March 1997

Appendix 2 - VERIFIED STATEMENT OF J. MICHAEL CARR

- Exhibit A Pioneer Railcorp's 2002 Form 10K
- Exhibit B Letter of interest in financing acquisition, National City Bank

Appendix 3 - VERIFIED STATEMENT OF CATHERINE BUSCH

- Exhibit A Copies of shipper letters of dissatisfaction with TP&W's service
- Exhibit B Copies of prior shipper correspondence with the Board expressing dissatisfaction with TP&W's service
- Exhibit C TP&W's grain rate tariff for the Line
- Exhibit D September 13, 2002 verified statement of Catherine Busch, Docket No. AB-448 (Sub-No. 2X)

Appendix 4 - VERIFIED STATEMENT OF B. ALLEN BROWN

- Exhibit A RailAmerica rail materials inventory, Mileposts 194.5 to 123.0
- Exhibit B Net liquidation value analysis by B. Allen Brown

Appendix 5 - VERIFIED STATEMENT OF JOHN W. GOHMANN

- Exhibit A Net liquidation value analysis
- Exhibit B Addendum to net liquidation value analysis covering Mapleton Segment

Appendix 6 - HISTORIC MAP AND ADVERTISEMENT OF TP&W THROUGH ROUTE

Appendix 7 - PETITION OF AREA RESIDENTS SUPPORTING KJRY OPERATION OF LINE

VERIFIED STATEMENT OF GUY L. BRENKMAN

My name is Guy L. Brenkman. I am the founder, President and CEO of Pioneer Railcorp. I am also the President of Keokuk Junction Railway Company (“KJRY”), the applicant in this matter. The purposes of this statement are to briefly describe Pioneer’s vision for restoring the La Harpe to Hollis, IL rail line (the “Line”) now owned by Toledo, Peoria & Western Railway Corporation (“TP&W”) to its full service capabilities, and to assure the Surface Transportation Board (“STB”) of KJRY’s commitment and ability to acquiring and operating the Line.

Witness Qualifications

I am the Chairman of the Board of Directors and President of Pioneer Railcorp and its subsidiaries. I am the original incorporator of the company, and have been a member of the Board of Directors and President of the Company since its formation. I hold the largest block of Pioneer’s stock, amounting to slightly less than 40% of issued stock when options and warrants available to me are included.

I have been integrally involved in all of Pioneer’s major rail acquisitions since the company’s inception. Those include a series of acquisitions over a sustained period of time which has built Pioneer into the second largest short line railroad holding company in the United States. Acquisitions in the past several years have included the following:

Subsidiary	Date Acquired

Vandalia Railroad Company	10/07/94
Minnesota Central Railroad Co.	12/12/94
West Michigan Railroad Co.	07/11/95
Columbia & Northern Railway	02/21/96
Keokuk Junction Railway Co.	03/12/96
Rochelle Railroad Co	03/25/96
Shawnee Terminal Railway Co.	11/13/96

Michigan Southern Railroad	12/19/96
Pioneer Industrial Railway Co.	02/18/98
The Garden City Western Railway Co.	04/29/99
Indiana Southwestern Railway Co.	04/01/00
Gettysburg & Northern Railroad Co.	02/20/01

Prior to taking over the day-to-day operation of Pioneer in 1988, my business experience included real estate sales and management, securities sales, and seven years of operational railroad industry experience. I acted as agent of the issuer in conducting the public offering of Pioneer Railcorp, which raised its initial capital, and secondary capital for expansions.

Vision for The Line

I wanted to remark briefly on Pioneer's vision for use of this Line. TP&W has approached the Line as having value only for local traffic. Pioneer believes this is a tremendous oversight on TP&W's part. Historically, this Line has been part of a through route for transcontinental and regional traffic.

The Line historically has operated as a single unit owned by a single entity, and has functioned as a bridge between eastern and western Class I carriers. For example, I have attached as Exhibit A hereto copies of materials published by TP&W in the 1960's, touting this route as "Transcontinental Peoria Way," and saying "Toledo, Peoria & Western Railroad Company by passes big-city yards . . . provides a 'time-cushion' against delay." The importance of this Line as a route for overhead traffic was reiterated in decisions in the 1980's when TP&W changed ownership. A 1997 *Trains* article (Exhibit B hereto) stressed the importance to TP&W of through traffic interchanged with the BNSF. Even SF&L Railway, Inc. ("SF&L"), the company to which TP&W hurriedly sold most of the Line in December 2000, complained that

the principal reason that it wanted to abandon the West End was the loss of overhead traffic interchanged with KJRY.

The Line has real value as a through route. KJRY anticipates that the Line will reacquire that function, now that SF&L has been eliminated as an unwilling middleman and KJRY acquires the Line to effect interchange with TP&W near Hollis. By relieving TP&W of its apparently unwanted responsibility of maintaining service on the West End, this application will facilitate restoration of the historic nature and true value of the Line as a through route for traffic.

Financial Responsibility

While this subject is addressed by others as well, I want to state for the record that I have complete confidence that Pioneer and KJRY are fully capable of financing the acquisition and operation of the Line. I have been in the railroad business for over 20 years. Most of that time has been spent in building Pioneer into one of the leading short line operators in America. That growth has occurred through acquisitions of rail properties, financed by various means, but principally by long term commercial loans. I have been intimately involved in each of those transactions.

This proposed purchase is like the others which Pioneer has undertaken in the past dozen years - a financially sound decision to purchase an underutilized asset to in order to fully realize the public service and profit potential of that asset. I am confident, based on my investigation of this project, that Pioneer is fully able to bear the costs of this proposed transaction, and can expect backing in that project from a commercial banking institution as has occurred in the past. Indeed, our principal bank has already expressed interest in the project. Accordingly, there is no question that Pioneer and KJRY can accomplish this transaction.

Offer

As president and the largest individual stockholder of Pioneer, I commit Pioneer's financial resources, including available cash reserves, lines of credit and ability to obtain financing through banks and by other means, to pay the Line's NLV of \$3,393,363 and to support KJRY's operation of the Line for a minimum of three years following acquisition of the Line. I also offer, as part of KJRY's acquisition of the Line, to allow TP&W continued access to existing shippers east of Milepost 123.0 at a trackage rights fee of \$2.50 per empty or loaded car, pursuant to an agreement to be completed by TP&W and KJRY under normal commercial terms in the railroad industry.

Verified Statement Exhibit A

WASHINGTON - NEW YORK - CHICAGO - NASHVILLE - SAN FRANCISCO

TICKETS • MAPS • TIME TABLES

PUBLISHED
MONTHLY

1960
JULY

93D YEAR
No. 2

The Standard Time in use in various important cities is shown in the columns on the left and right.

Anchorage, Alaska
7:00 a.m.

Atlanta, Ga.
12:00 noon.

Baltimore, Md.
12:00 noon.

Berlin, Germany
6:00 p.m.

Birmingham, Ala.
11:00 a.m.

Boston, Mass.
12:00 noon.

Buenos Aires, Arg.
1:00 p.m.

Buffalo, N.Y.
12:00 noon.

Calgary, Alta.
10:00 a.m.

Charleston, S.C.
12:00 noon.

Charlotte, N.C.
1:00 p.m.

Chicago, Ill.
11:00 a.m.

Cincinnati, O.
12:00 noon.

Cleveland, O.
12:00 noon.

Columbia, S.C.
12:00 noon.

Columbus, O.
12:00 noon.

Denver, Colo.
10:00 a.m.

Detroit, Mich.
12:00 noon.

El Paso, Tex.
10:00 a.m.

Galveston, Tex.
11:00 a.m.

Halifax, N.S.
1:00 p.m.

Hamilton, Ber.
1:00 p.m.

Hamilton, Ont.
12:00 noon.

Havana, Cuba
12:00 noon.

Honolulu, Hawaii
7:00 a.m.

Houston, Tex.
11:00 a.m.

Indianapolis, Ind.
11:00 a.m.

Jacksonville, Fla.
12:00 noon.

Juneau, Alaska
9:00 a.m.

Kansas City, Mo.
11:00 a.m.

Knoxville, Tenn.
12:00 noon.

Little Rock, Ark.
11:00 a.m.

London, Eng.
5:00 p.m.

Los Angeles, Cal.
9:00 a.m.

Louisville, Ky.
11:00 a.m.

Macon, Ga.
12:00 noon.

Manila, P.I.
1 a.m. next day

Memphis, Tenn.
11:00 a.m.

Mexico City,
11:00 a.m.

Milwaukee, Wis.
11:00 a.m.

Minneapolis,
11:00 a.m.

Mobile, Ala.
11:00 a.m.

Moncton, N.B.
1:00 p.m.

Montreal, Que.
12:00 noon.

Nashville, Tenn.
11:00 a.m.

New Haven, Ct.
12:00 noon.

New Orleans, La.
11:00 a.m.

New York,
12:00 noon.

Oklahoma, City,
11:00 a.m.

Omaha, Neb.
11:00 a.m.

Ottawa, Ont.
12:00 noon.

Paris, France
6:00 p.m.

Pensacola, Fla.
11:00 a.m.

Philadelphia, Pa.
12:00 noon.

Pittsburgh, Pa.
12:00 noon.

Port Huron, Mich.
12:00 noon.

Portland, Me.
12:00 noon.

Portland, Ore.
9:00 a.m.

Providence, R.I.
12:00 noon.

Quebec, Que.
12:00 noon.

Richmond, Va.
12:00 noon.

Rio de Janeiro, Br.
2:00 p.m.

St. John, N.B.
1:00 p.m.

St. Louis, Mo.
11:00 a.m.

St. Paul, Minn.
11:00 a.m.

Salt Lake City,
10:00 a.m.

San Antonio, Tex.
11:00 a.m.

San Francisco, Cal.
9:00 a.m.

San Juan, P.R.
1:00 p.m.

Santiago, Chile
1:00 p.m.

Savannah, Ga.
12:00 noon.

Seattle, Wash.
9:00 a.m.

Toledo, O.
12:00 noon.

Toronto, Ont.
12:00 noon.

Vancouver, B.C.
9:00 a.m.

Washington, D.C.
12:00 noon.

Wilmington, N.C.
12:00 noon.

Winnipeg, Man.
11:00 a.m.

THE

OFFICIAL GUIDE

STANDARD

NAVIGATORS

TIME

OF THE

RAILWAYS

AND

STEAM NAVIGATION LINES

OF THE

UNITED STATES

PORTO RICO

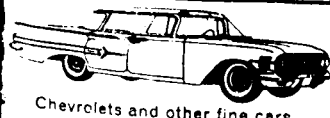
CANADA MEXICO AND CUBA

ALSO TIME-TABLES OF RAILROADS IN CENTRAL AMERICA

AIR-LINE SCHEDULES

TRANS-ATLANTIC SAILINGS

PUBLISHED BY
NATIONAL RAILWAY PUBLICATION CO.
424 West Thirty-Third Street, New York 1, N.Y.



Chevrolets and other fine cars

H

39

Z

puts you in the driver's seat!

One call to
HERTZ Rent A Car
does it all!



Toledo, Peoria & Western Railroad Company

GENERAL OFFICE • PEORIA, ILLINOIS
Phone Peoria 9 3941 — TWX PE 8593

J. RUSSEL COULTER, President

CHARLES L. PATTISON, Vice-President,
Controller and Secretary
ROGER A. FISCHER, Vice-President—Sales and Service
PATRICK J. BICE, General Manager—Rates and Divisions
ELMER F. ALBERTS, Manager—Rates and Divisions

R. H. EGBERT, Assistant to President and Chief Engineer
R. M. HESLINER, General Manager—Operations
W. W. MILLER, Superintendent
W. A. GREEN, Treasurer
W. J. NELSON, General Accountant and Assistant Treasurer
I. V. COHEN, General Purchasing Agent
Chief Surgeon
Attorneys
Attorneys

DR. CHARLES D. BRANCH, Peoria, Ill.
CASSIDY & CASSIDY, Peoria, Ill.
BOYD, WALKER & CONNOR, Keokuk, Iowa

SALES & SERVICE

Chicago 4, Ill.—Central 6-4035—TWX CG-1136
Room 133, 208 South La Salle Street—
EUGENE L. POTTER, Central Sales Manager.
JAMES J. CRAIG, Sales Manager.

Cincinnati 2, Ohio—DUNBAR 1-1775—TWX CI-407.
133 Enquirer Building—
FRANK H. SANDERS, Sales Manager.

Cleveland 14, Ohio—SUPERIOR 1-4848—TWX CV-446.
607 Williamson Building—
J. P. CHRISTIE, Sales Manager.

Detroit 26, Mich.—Woodward 5-2254—
1218 Lafayette Building—
LEONARD E. BURNICK, Sales Manager.

Kansas City 6, Mo.—Grand 1-4009—
330 Railway Exchange Building—
GEORGE A. LEE, Sales Manager.

Keokuk, Iowa—225 and 125—
127 South Water Street—
MALLOY J. CRAIG, Sales Manager.

Los Angeles 14, Calif.—MADISON 3-2945—TWX LA-1350.
Room 1220-30 New Story Building,
620 South Broadway—
ROBERT HUNNICH, Western Sales Manager.
ROBERT A. PEPPER, Sales Manager.
F. A. MARSH, Assistant Sales Manager.

Minneapolis 1, Minn.—Federal 5-7710—TWX MP-775.
833-35 Metropolitan Building—
ROBERT L. RUSSELL, Sales Manager.

New York 17, N.Y.—YUkon 6-2390—TWX NY 1-487.
Room 1809, 110 East 42nd Street—
GERARD F. MILLER, Eastern Sales Manager.
J. J. DONNELLY, Sales Manager.

Omaha 2, Neb.—Jackson 0878—
2850 Farnam Street—
WILL J. KUTILEK, Sales Manager.

Peoria, Ill.—3-3441, General Office—
CHARLES E. ZEMAN, Sales Manager.
COLLINS C. MILLER, Assistant Sales Manager.
ALVIN D. GERHARDT, Assistant Sales Manager.
R. K. MCCOY, Assistant Manager—Rates.

Philadelphia 7, Pa.—LOCUST 3-9069—TWX PH-147.
1138 Philadelphia National Bank Building,
N. E. Corner Broad and Chestnut Streets—
ARTHUR W. CHANDLER, Sales Manager.

Pittsburgh 22, Pa.—Atlantic 1-1736 and 1-1737—TWX PG
893, 1502 Oliver Building—
GEORGE E. MARSH, Sales Manager.

Portland, Ore.—Capitol 7-0998—
137 Pittcock Block—
ANTHONY J. CHARLTON, Sales Manager.

San Francisco 5, Calif.—Douglas 4-1463—
708 Monadnock Building—
BEN C. SIMPSON, Sales Manager.

Seattle 1, Wash.—Hellevo Exchange Olenecourt 4-6079—
TWX Bellevue, Wash. 954.
208-A The Carlson Building—
GEORGE F. HILLMAN, Sales Manager.

Tulsa 3, Okla.—Diamond 3-6477—
201 Kennedy Building—
H. E. REEVES, Sales Manager.

CONNECTIONS

A. T. & S. F......Lomas, Ill., Eureka, Ill.
C. B. & Q......Keokuk, Ia., Peoria, Canton, Bush
nell and Cuba, Ill.
C. R. I. & P......Keokuk, Ia., Peoria, Ill.
C. & E. I......Wataska, Ill.
C. & I. M......Peoria, Ill.
C. M. St. P. & P......Webster, Ill.
C. & N. W......Peoria and Sommer, Ill.
Federal Harge Lines......Peoria, Ill.
G. M. & O......Chenoa, Ill., Peoria, Ill.

I. C......Gilman, El Paso and Peoria, Ill.
I. T......Peoria, Ill.
M. & St. L......Peoria, Ill.
N. Y. C......Sheldon, Ill., Peoria, Ill.
N. Y. C. & St. L......Peoria, Ill., Farmdale, Ill.
Pennsylvania......Edgar, Ind., Peoria, Ill.
P. & P. U......Peoria, Ill.
P. T. Co......Peoria, Ill.
Wabash......Forrest, Fairbury and Elvasos, Ill.

STATIONS.			STATIONS.			STATIONS.		
Mile.						Mile.		
0	Elmer	92	Eureka	178	New Philadelphia	160	Bushnell	
2	Sheldon	96	Cruger	175	Scottsburg	175	Good Hope	
4	Webster	100	Washington	180	Sciota	181	Hamlet	
6	Wataska	106	Farmdale	186	Hamlet	186	La Harpe	
11	Crescent City	108	Peoria Yard	196	Disco	200	Lomas	
17	Gilman	111	Peoria	206	La Harpe	206	Burnside	
25	La Harpe	118	Keystone Switch	206	Ferris	206	Elvasos	
30	Piner City	119	Hollis	206	Hamlet	206	Keokuk	
35	Chatsworth	120	Sommer	206	Hamlet	206	Hamlet	
40	Forrest	121	Kolbe	206	Hamlet	206	Hamlet	
46	Fairbury	123	Mapleton	206	Hamlet	206	Hamlet	
52	Weston	127	Glasford	206	Hamlet	206	Hamlet	
58	Chenoa	134	Breads	206	Hamlet	206	Hamlet	
63	Meadow	137	Ramona	206	Hamlet	206	Hamlet	
67	Gridley	140	Canton	206	Hamlet	206	Hamlet	
71	El Paso	140	Cuba	206	Hamlet	206	Hamlet	
76	Secor	149	Seville	206	Hamlet	206	Hamlet	
85		158						



Transcontinental Peoria Way

Verified Statement Exhibit B

The new Toledo, Peoria & Western

A venerable shortline makes the most of its Midwest connections

BY MARK OTTESEN
PHOTOS BY THE AUTHOR

IT'S 2 A.M. ON AUGUST 10, 1995, and the two crew members of Toledo, Peoria & Western Railway train No. 121 have just reported to work at the East Peoria (Ill.) yard office. The modest concrete block building is the nerve center of the new TP&W, 262 miles of single-track railroad between Kenneth, Ind. (5 miles west of Logansport) and Lomax, Ill., where TP&W trains enter 15.9 miles of Santa Fe trackage rights to Fort Madison, Iowa.

The larger and more attractive brick office building of the old TP&W is just north of the yard office, fronting on East Washington Street (Illinois Route 8). When the Santa Fe absorbed the original TP&W on December 31, 1983, the building was sold. TP&W President Gordon Fuller, whose company bought the line back from Santa Fe on February 3, 1989, moved the railroad's corporate headquarters to Bound Brook, N.J. He says many of the decision-makers in the intermodal business are located nearby.

For a small, regional railroad, TP&W has significant intermodal traffic. Fuller says it amounts to 55 percent of volume, although he wishes it could bring in 55 percent or more of the railroad's revenue. Profit margins on intermodal remain less than desired.

Tonight's No. 121 to the Santa Fe at Fort Madison is mostly five-unit stack cars and piggyback trailers. Tacked on the rear are a covered hopper and a flatcar hauling a new Caterpillar bulldozer manufactured in East Peoria. Since TP&W counts each five-pack as one car, the train is much longer than the 17 loads and no empties indicated on the wheel report. The consist is bound for a variety of destinations on the Santa Fe including Alliance, Texas; San Bernardino, Los Angeles, and Richmond, Calif.

At 3:10 a.m., engineer Larry Burklett and conductor Mike Culpepper get an O.K. from the carman, and No. 121 departs the yard. The power tonight is 3 of the railroad's 18 ex-Santa Fe GP20's: 2016, 2002, and 2013. The first two are in TP&W's New York Central-style lightning-stripe gray, while 2013 remains in the fading "Kodachrome" red and yellow of the aborted Santa Fe-Southern Pacific merger. Over the next six hours, they will be pulling 2991 tons over the up-and-down profile of the west end of the "Tip-Up" (the origin of the nickname is uncertain, but probably relates to the initials or early wrecks). TP&W is most often thought of as a flat, straight railroad across central Illinois, and east of the Peoria area, it is, once you leave the Illinois River valley and ascend the 0.8-percent grade of Washington Hill. From Washington to Logansport, the railroad is constantly within sight of U.S. 24. But west of Peoria, between the Illinois River community of

Mapleton, and Lomax on the Mississippi, there are eight significant grades, including four that exceed 1 percent.

Watching 121, and later that morning No. 120 back to East Peoria, you see the TP&W is persevering in its second incarnation, although the railroad faces significant challenges stemming from the debt incurred when it was purchased from Santa Fe. Fuller won't reveal how much was paid for the property, but says the railroad is profitable from an operations standpoint. Much of the income goes to paying off a loan from Toronto Dominion Bank.

Fuller, who has the controlling interest in the privately held company, recently sold a 40 percent share to Delaware Otsego Corporation for \$2.25 million, and TP&W's headquarters now are in Delaware Otsego's Cooperstown, N.Y., offices. TP&W's train dispatchers are in Cooperstown, along with those of DO's New York, Susquehanna & Western.

Fuller is an executive vice president with Delaware Otsego with an office in Rochelle Park, N.J. He says the TP&W name will not change under new ownership.

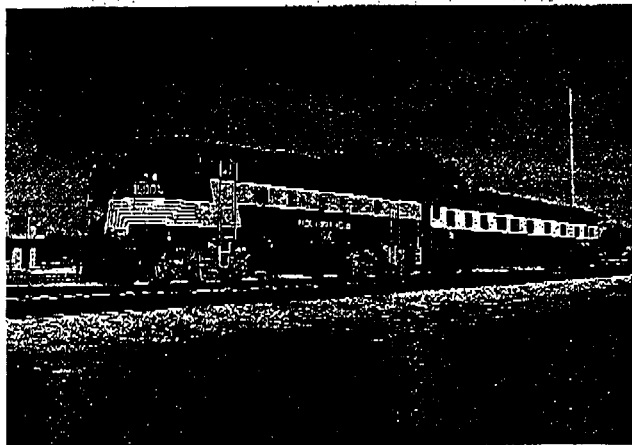
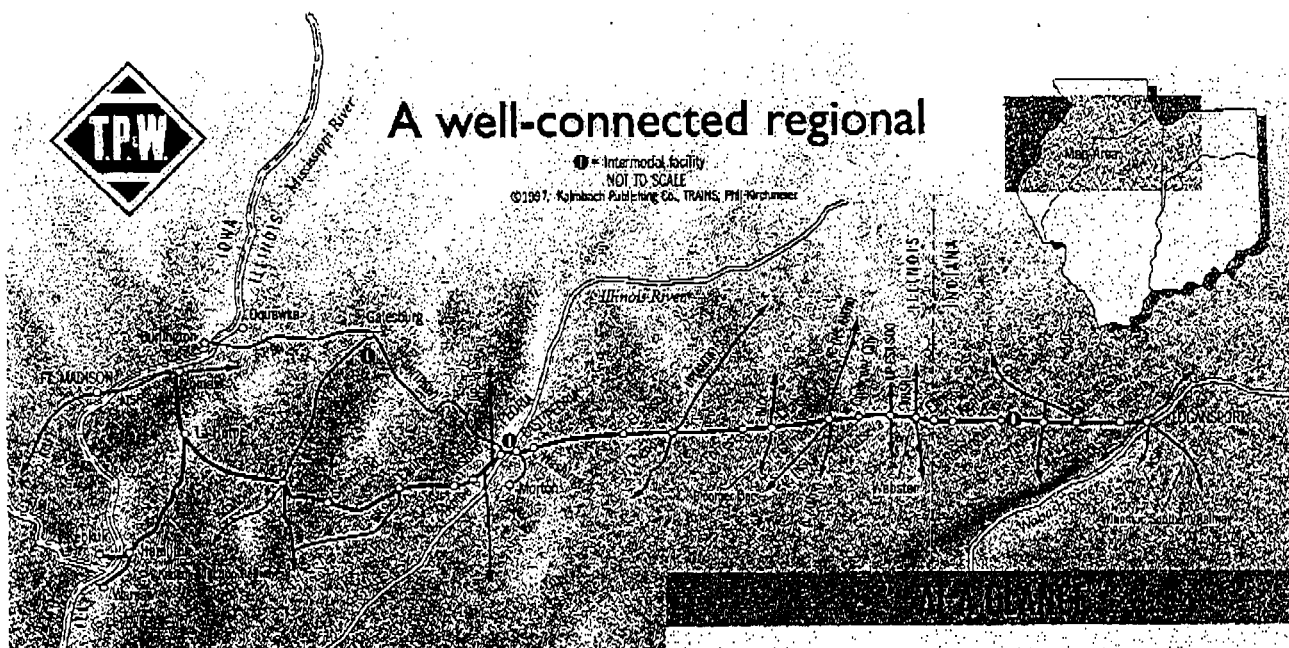
No doubt the founders of the Toledo, Peoria & Western's predecessor lines nearly 140 years ago would be astounded at the stacked shipping containers that travel the railroad today. TP&W, which despite the name has never had a link to Toledo, Ohio, traces its roots to the Peoria & Oquawka, completed in 1857 from Peoria to East Burlington, Ill., across the Mississippi from Burlington, Iowa. Oquawka, a few miles to the north, was bypassed. Within two years, the P&O was bankrupt and its trackage taken over by the Chicago, Burlington & Quincy.

The TP&W connection to the Peoria & Oquawka stems from the P&O's building of the Peoria & Oquawka Eastern Extension to the Indiana state line at Effner. This line opened to traffic in 1860 and is part of the present-day TP&W. In 1864, a sale resulted in the creation of the Toledo, Peoria & Warsaw Railway. The Mississippi & Wabash Railroad at this time was building east from Warsaw, Ill., on the Mississippi, and was absorbed into the TP&W. In 1871, a bridge was built across the Mississippi between Hamilton, Ill., and Keokuk, Iowa. Also in 1871, the TP&W built a branch from La Harpe to Lomax, not to connect with the Santa Fe (which hadn't been built yet), but with the Chicago, Burlington & Quincy branch which ran along the east side of the river (abandoned 30 or more years ago). The TP&W was granted trackage

The Hoosierlift Local, which originates at the intermodal facility near Remington, Ind., rambles eastbound through the woods west of Logansport. Intermodal traffic accounts for 55 percent of TP&W's traffic volume.



A well-connected regional



STEVE PANZA

The pride of TP&W's stable is the F7, 1500. It serves double duty, pulling the railroad's business car, in addition to helping with freight consists.

rights over CB&Q tracks from Lomax to Burlington.

The Toledo, Peoria & Warsaw soon ran into financial problems, and in 1880, the bankrupt railroad changed hands and became the Toledo, Peoria & Western.

For a small railroad, the Tip-Up has a rich history which includes two major train wrecks and the murder of one of its presidents.

More than 80 people were killed August 10, 1887, when an excursion passenger train bound for Niagara Falls derailed at a smoldering trestle east of Chatsworth, Ill. The Tip-Up's other major accident occurred June 21, 1970, at Crescent City, Ill., when eight cars of liquefied petroleum gas exploded in a train derailment, destroying much of the town but, miraculously, killing no one (the accident set the stage for current standards for tank-car couplers and ends, and hazardous material accident reporting). Also in 1970, a barge knocked down part of the railroad's Illinois River bridge in Peoria, resulting in a trackage-rights agreement with terminal carrier Peoria & Pekin Union through East Peoria which continues to this day.

The murder of controversial TP&W President George McNear on March 10, 1947, was never solved, although it was believed connected to a lengthy strike which had shut

Railroad: Toledo, Peoria and Western Railway

Headquarters address: 1 Railroad Ave., Cooperstown, NY 13326. (607) 547-2555.

Territory: Ft. Madison, Iowa, to Logansport, Ind.

Rolling stock: 20 Geeps and an F7; 35 freight cars

Special interest group: TP&W Historical Society, 308 S. Fifth St., Chenoa, IL 61726.

Radio frequencies: 161.400 (road), 161.310 (yard)

Top track speed: 40 mph.

Daily average train frequency: Two through trains daily plus extras west of Peoria.

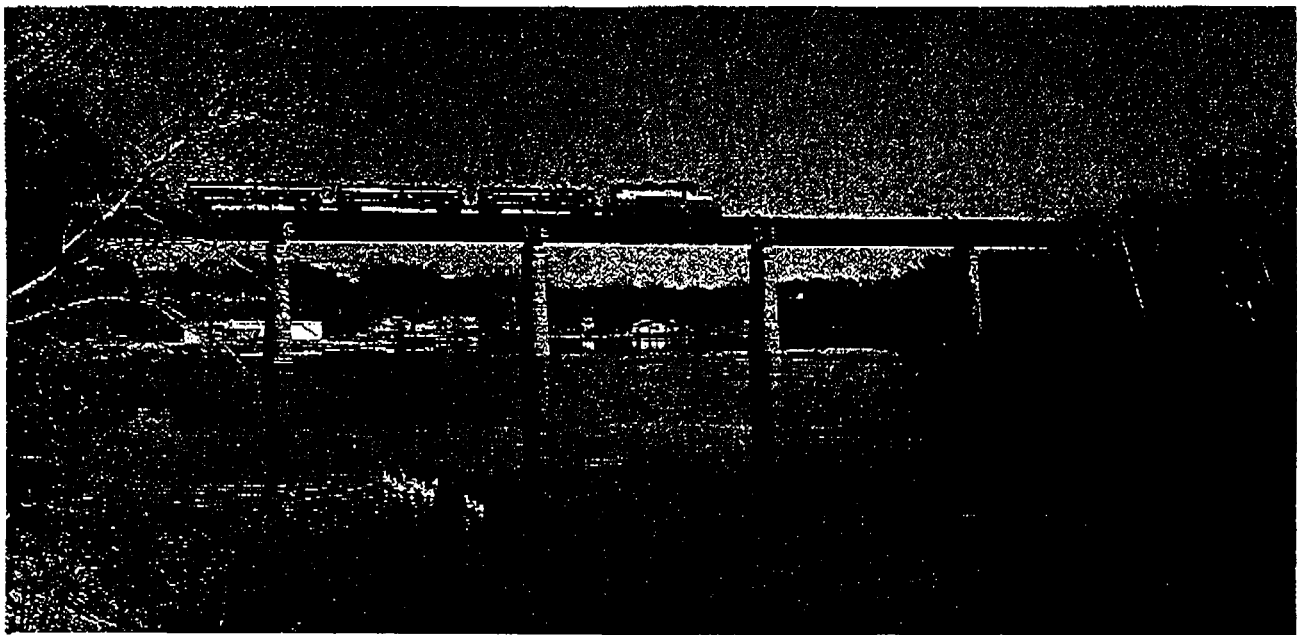
Major traffic: Double-stack containers, agricultural commodities, auto parts, coal, steel, and chemicals.

For Further Reading: "Toledo, Peoria & Western: Tried, Proven & Willing," by Paul Stringham (Deller Archive, Peoria, 1993); "The Peoria Way," by Joe McMillan and Robert P. Olmsted (McMillan Publications, 1984).

down the railroad. McNear was shot while walking home from a basketball game. Earlier during the walkout, on February 6, 1946, two strikers were shot and killed at Gridley, Ill., by armed guards employed by the railroad.

McNear, who had purchased the TP&W for \$1.3 million in 1926, is credited with reviving the railroad's fortunes by severing the CB&Q connection at Lomax and opening a new interchange with the Santa Fe. The Tip-Up became a bridge route to the Pennsylvania Railroad at Effner, resulting in a downstate bypass around the congestion of Chicago; PRR and Santa Fe jointly purchased the carrier in 1960. However, when Conrail was created in 1976, the giant railroad began to downgrade its former Pennsy routes into Logansport, and put the branch to Effner up for sale or abandonment. TP&W purchased the Effner line to preserve an Eastern connection, upping its mileage from 240 to 302. But with enactment of the Staggers Rail Act in 1981, Conrail canceled the tariffs that encouraged the Logansport interchange with TP&W. "Big Blue" preferred its former New York Central connection with Santa Fe at Streator, Ill., and TP&W's traffic took a precipitous drop.

Santa Fe had purchased PRR successor Penn Central's 50 percent share of TP&W in 1979, but it wasn't until December 31, 1983, that the railroad lost its identity and was absorbed into Santa Fe. Meantime, Santa Fe's interest in TP&W had resulted in its only "new" branch, a 2-mile spur into Morton.



Above, a TP&W local to Logansport makes a scenic crossing of the Tippecanoe River bridge near Monticello, Ind. Right, railroad president Gordon Fuller checks on operations with dispatcher LaVerne Oesch.

By having TP&W step in, Santa Fe was able to abandon most of its 58-mile Pekin Branch, which ambled southwest from Streator and used TP&W trackage rights for 4 miles between Cruger and Pekin Junction, near Washington. TP&W obtained trackage rights on Norfolk Southern's old Nickel Plate line from East Peoria to Crandall (the Pekin branch crossing), and the new TP&W still serves customers in Morton on an as-needed basis. The branch is gone north of Crandall and south of Morton.

"Uncle John" Santa Fe saw potential for intermodal traffic from northern Indiana westward over TP&W, and in 1983 TP&W opened its Hoosierlift Intermodal Terminal east of Remington, Ind., next to Interstate 65. Traffic was slow to develop, but in recent years the overhead crane has been busy lifting auto parts containers for a new Isuzu Motors plant at Lafayette, Ind. Isuzu is one of the new TP&W's biggest customers, along with the huge Mitsubishi auto plant at Normal, Ill., containers for which are unloaded at East Peoria.

In response to customers' concerns about sometimes-missed connections with Santa Fe at Fort Madison, TP&W in 1995 added two additional trains on the west end. Nos. 122 and 123 handle local traffic, and 120-121 are the through trains. No. 121 normally leaves East Peoria after midnight Monday through Saturday. The power turns at Fort Madison in the evening to become 120. No. 123 is called at East Peoria as needed several days a week and returns from Fort Madison as No. 122.

On the east end, Nos. 20 and 21 handle the through traffic; 21 arrives in East Peoria from Hoosierlift late in the evening Monday through Saturday and 20 departs eastbound after midnight. Grain and other extras are often called on the east end, and the Hoosierlift Local runs about four days a week between Hoosierlift and Logansport, normally in daylight. Traffic into Logansport has picked up a bit in recent years since the Winamac Southern took over the remaining Conrail trackage in the area.

TP&W had enjoyed unit-coal-train interchange with CSX



at Watseka, Ill., but Chicago & North Western, now part of Union Pacific, underbid the Tip-Up for the contract. "The rate level went down so low we did not feel we could participate," Fuller said in an interview during one of his frequent East Peoria visits. "But from '92 to '93 our revenue base stayed essentially the same."

What kept the loss of the coal contract from being a major blow was the growth of intermodal. Isuzu, Mitsubishi, and Caterpillar provide much of the business, but Fuller says the railroad has been successful in developing interchanges with CSX at Watseka and Illinois Central at Gilman for Atlanta- and Memphis-bound traffic. TP&W also sees a little interchange traffic with UP's Southern Pacific line at Chenoa.

Fuller knows intermodal because he was employed by SeaLand for 11 years as its rail services director. His rail career began in a New York Central management training program. He was a Penn Central superintendent in Buffalo and became vice president of operations for Central of New Jersey before joining SeaLand.

Fuller's NYC background accounts for the lightning-stripe paint on some of the TP&W's diesels. "I thought it was a classy paint scheme," Fuller said. "It's a little more intricate than most regionals have, but we have some pretty talented guys here who can paint."

Nineteen Santa Fe GP20's, renumbered by TP&W to 2001-2019, came with the purchase in 1989. One, 2001, was

Meanwhile, on the KJ

THE ORIGINAL TOLEDO, PEORIA & WESTERN'S LINE from La Harpe, Ill., to Keokuk, Iowa, is not part of the new TP&W, for Santa Fe sold the 28-mile branch to Keokuk Junction Railway on December 24, 1986. KJ was incorporated in 1980 to acquire the former Rock Island trackage in Keokuk, doing so in September 1981. Expansion to La Harpe ensured that Burlington Northern at Keokuk would not be KJ's only link to the outside world.

At 10 a.m. on May 12, 1995, KJ engineer Jan Zweerts and conductor Mike Mealy report to work in La Harpe at the old TP&W depot. There's not much inside the small metal building except a telephone and fax machine. While Mealey organizes the paperwork, Zweerts starts the diesel engines of KJRY 488, a former Santa Fe CF7, and 252, one of two ex-Chicago & North Western GP7's that C&NW rebuilt with a Cummins prime mover. These units will power today's La Harpe Job to Keokuk and return. The train runs Monday-Saturday and is usually back in La Harpe by mid- to late-afternoon. Although Keokuk Junction's headquarters are located on the riverfront in Keokuk, power for the road job stays overnight in La Harpe for logistical reasons.

KJ interchanges with the TP&W at La Harpe and serves the Roquette America grain elevator there. Roquette also owns the former Hubinger corn-processing plant in Keokuk and is KJ's largest customer. Many of the sidings between La Harpe and Keokuk are filled with cars stored for Roquette.

Today's La Harpe Job has a little switching to do at the small community of La Crosse, 5 miles west of La Harpe. By noon, the 13-car train is ready to cross the double-deck bridge into Keokuk. The highway portion of the City of Keokuk-owned bridge is no longer used, as a new four-lane bridge has opened a short distance to the south. The La Harpe Job crosses at 5 mph.

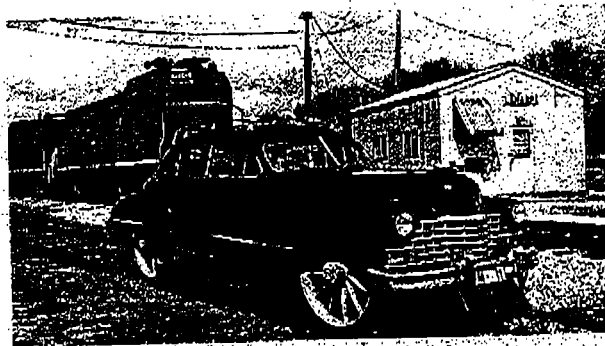
A couple hours later, the crew has



KJ's La Harpe Job crosses the Mississippi River bridge westbound at Keokuk, Iowa.

wrecked in a collision with a garbage truck in 1990. The majority of the Geeps remain in their Santa Fe colors, but Tip-Up tries to get several painted each year. Recently added were two former Chicago & North Western chopped-nose GP7's, now TP&W 1601-1602. Unit 1602 was recently painted in the TP&W's new black paint scheme for switch engines. Fuller says road engines will continue to receive the lightning-stripe scheme.

What has become the pride of the fleet is an ex-Bessemer & Lake Erie F7, TP&W 1500. Purchased in 1992, it went to an outside contractor for repairs and then was painted by TP&W employees. The unit occasionally is used on business trains but mostly hauls freight. Unfortunately for photographers, the F7 usually is middle unit in a consist of three because it lacks convenient steps for switching moves.



Former KJRY President John Warfield operated this 1946 Cadillac rail inspection car, which came from the Western Maryland.

their train made up for La Harpe. With a 30-mph speed limit on good track, they have about a 90-minute run back to La Harpe. The TP&W local from Fort Madison will be by that evening to pick up the KJ interchange.

In Keokuk, KJ interchanges with the Burlington Northern Santa Fe. KJ had asked the Interstate Commerce Commission for trackage rights over BN to Hannibal, Mo., as part of the BNSF merger, to interchange with Norfolk Southern at Hannibal and Southern Pacific at West Quincy, but the request was denied.

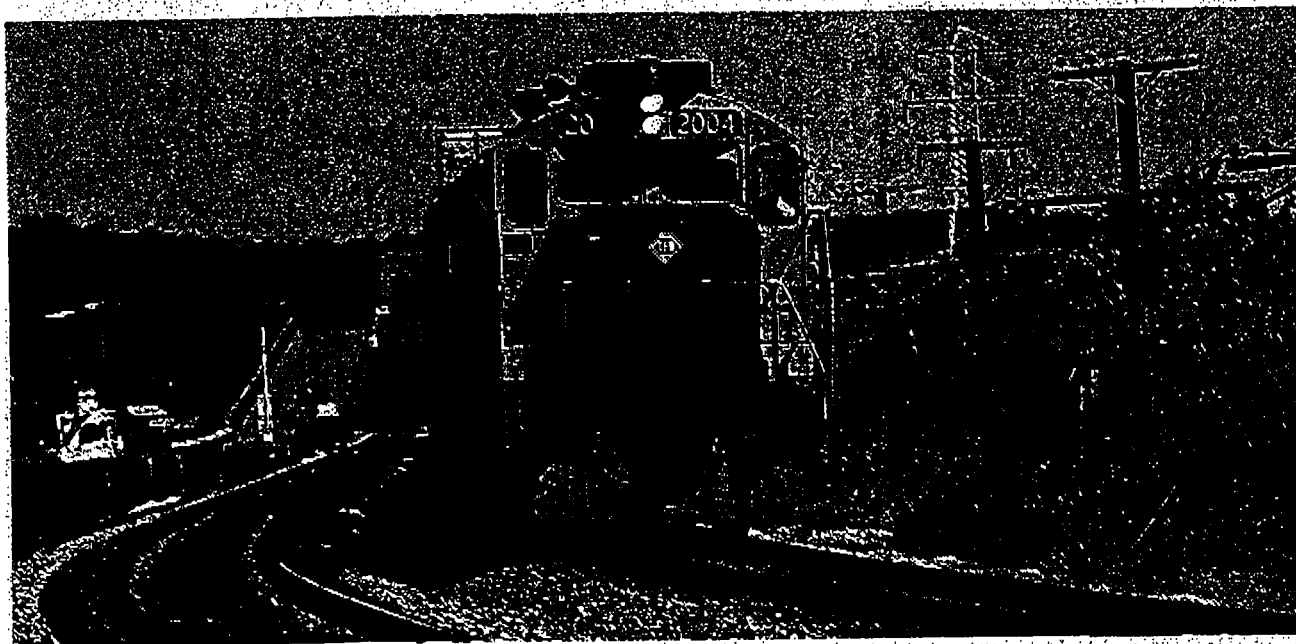
KJ switches the huge Roquette plant six days a week, so it has five units on its roster to make sure the Roquette switcher and the LaHarpe job are protected. Besides the aforementioned 488 and 252, KJ owns ex-Peoria & Pekin Union NW2 405, and two former Iowa Interstate GP10's, 469 and 471. The 488, 252, and 405 are in KJ's "traction orange" paint scheme (as was the other CNW Cummins GP7, 253, since sold). The sixth unit is a GP16 brought into Peoria recently by the KJ's new owner, Pioneer Railcorp of Peoria.

Pioneer bought the KJ in March 1996 and now owns 12 shortline railroads in the Eastern U.S. Pioneer President Guy Brinkman says there are plans to eventually paint the KJ's motive power in the shortline family's scheme of black with yellow stripes. Two former Philadelphia & Western "Strafford" electric cars, used in recent years on excursions, were sold to the New York Museum of Transportation, Brinkman said.

Under Pioneer, the LaHarpe job now originates in Keokuk at mid-morning and returns in the afternoon, Monday through Saturday. The Roquette plant in Keokuk is in the midst of a \$400 million expansion project, so trains should be using the city's railroad bridge across the Mississippi for years to come.—Mark Ottesen

Steam recently made an appearance on the railroad. On July 20-21, 1996, Chesapeake & Ohio 2-8-4 No. 2716 ran excursions out of Logansport during the Iron Horse Festival. Fuller says the TP&W could see more steam in the future if it makes sense financially to both the railroad and the Fort Wayne Historical Society, which operates the 2716 and leases it from the Kentucky Railway Museum.

Back on No. 121 en route to Fort Madison, an alarm bell rings as the train climbs out of the Illinois River valley on the 1.2-percent grade of Glasford Hill. The middle unit, 2002, has died, and conductor Culpepper goes back to restart it. He is successful, but the unit fails three more times on the way to Fort Madison. Keeping the elderly fleet of 21 EMD's running is a constant challenge for the mechanical department. Fuller says TP&W soon will begin a gradual program of replacing



Above, train 120 emerges from the Mississippi bridge into Niota, Ill., after leaving Fort Madison, Iowa. Right, The intermodal facility near Remington, Ind., sees plenty of auto parts traffic bound for Isuzu in Lafayette, Ind.

the locomotives' EMD 567-series diesel engines with 645's. Fuller said he likes the GP20's because "they have a light footprint, yet can still do 60 (mph) on the Santa Fe."

With the dawn, rough track conditions become apparent as we head west. Burkiett and Culpepper have 26 slow orders between East Peoria and Lomax. They remind each other of a new one several times. They are veteran railroaders—Burkiett worked for C&NW, P&PU, and the Rock Island, and Culpepper started out on the Santa Fe. They both like the more regular train schedules of the TP&W.

Top timetable speed for freight is 40 mph, and 121 achieves it several times. But that's between a lot of 10- and 25-mph running. Crews say the railroad east of East Peoria is generally in better condition than to the west. A major tie replacement project was undertaken in summer 1995 on Glasford Hill, and several more projects were planned for 1996-97. Fuller's goal is to eliminate the slow orders and get the railroad back up to a consistent 40 mph.

Coming into Lomax, the train has a green signal to enter Santa Fe's south main track. A hot westbound blows by at 70 mph on the north track, and quickly No. 121 is doing close to 60. Soon we slow to cross the Mississippi on the impressive double-deck Santa Fe rail and highway bridge and enter the yard on the west side of Fort Madison. The train ties up at 9:05 a.m., arriving several hours ahead of its westbound Santa Fe connection.

Burkiett and Culpepper exchange greetings with the crew that will take 120 to East Peoria. Engineer Bob Lee and conductor Stu Vinson both are veterans of the original TP&W, Lee's career going back to 1963 and Vinson's to 1976. Train crews on the new TP&W are represented by the United Transportation Union.

Santa Fe's S-LACH (Los Angeles-Chicago) arrives in Fort Madison during the TP&W crew change and sets out two five-pack stack cars, which are No. 120's train to East Peoria today. Lee and Vinson say it's an unusually short consist.

No. 120 departs Fort Madison at 10:30 (prior to schedul-



ing changes; No. 120 now departs in the evening) and meets three Santa Fe westbounds on the double track to Lomax. At Bushnell, there's no pickup today for Hoosierlift from the BN, so the train keeps rolling. With the Burlington Northern-Santa Fe merger, TP&W now interchanges with BN at Galesburg under a trackage-rights agreement, ironically on the route of the old Peoria & Oquawka. Train No. 221 operates six days a week, usually leaving East Peoria mid-morning and turning back as No. 222. BN still runs coal trains down this line. In addition, the Tip-Up performs haulage service for BNSF between Galesburg and Peoria and handles switching in Peoria for BNSF.

No. 120 has a brief wait at Smithfield for a meet with 123. At Kolbe, near Mapleton, TP&W's Kolbe Local is switching the Witco and Lonza chemical plants.

The train pulls into East Peoria yard at 5 p.m., five-and-a-half hours after leaving Fort Madison; the two five-packers will be at Hoosierlift early the next morning.

Fuller is confident about the TP&W's future, saying he bought it because "with its many connections to Class 1 railroads, it was a unique regional railroad." 1

MARK OTTESEN recently became a train dispatcher for Kansas City Southern after a 24-year career as a broadcast journalist. This is his second TRAINS byline.

VERIFICATION

I, Guy L. Brenkman, verify under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this Verified Statement.

4-8-03

Date

Guy L. Brenkman
Guy L. Brenkman

VERIFIED STATEMENT OF J. MICHAEL CARR

My name is J. Michael Carr. I am the Chief Financial Officer of Pioneer Railcorp. The purpose of this statement in support of Keokuk Junction Railway Company's ("KJRY's") feeder railroad development program ("feeder line") application is to satisfy the Surface Transportation Board ("Board" or "STB") that KJRY has the financial resources to pay the greater of the net liquidation value ("NLV") or going concern value ("GCV") to purchase the La Harpe to Hollis rail line (the "Line"), and to continue the operation of that line for at least three years after acquiring it. This statement will also address to some extent the valuations performed in determining NLV for the Line, though those are addressed to a greater extent in the accompanying statements of B. Allen Brown and John W. Gohmann.

Witness Qualifications

I am the Treasurer of Pioneer, and also serve as Treasurer and Chief Financial Officer for each of Pioneer's subsidiaries, including KJRY. My duties with Pioneer place me as the senior executive over three of Pioneer Railcorp's eight departments – Accounting / Finance, Legal Department and the Real Estate Department. I am responsible for financial reporting to the Board of Directors, the Securities and Exchange Commission (SEC), and Pioneer Railcorp shareholders, and I oversee all financing activities, stock transfer activities, and the day-to-day functions of the Company's accounting staff. I am also a member of Pioneer's Board of Directors.

Before joining Pioneer in March 1993, I worked in public accounting and banking for seven years, most recently as Controller for United Federal Bank of Peoria, Illinois. I am a

certified Public Accountant (CPA), and hold a Bachelor of Science in Accounting from Illinois State University.

Applicant's Financial Ability to Fund the Purchase
And Operation of The Line

Pioneer's Annual Report Form 10K as filed with the Securities and Exchange Commission is attached as Exhibit A hereto. That report amply demonstrates Pioneer's ability to provide the financial backing needed to enable KJRY to acquire the Line and to operate it for at least three years. Mr. Brenkman's accompanying verified statement commits Pioneer to providing the financial support required for the acquisition and operation of this Line. Accordingly, KJRY should be found to be a financially responsible offeror in this proceeding.

Pioneer's annual report contains audited financial statements and balance sheets for Pioneer and its subsidiaries, reported on a consolidated basis. The filing, dated March 25, 2003, accurately represents the current financial position of Pioneer and its subsidiaries.

Pioneer's annual report shows that KJRY can meet the costs of acquiring and operating the Line through its access to the financial resources of Pioneer. As stated by Mr. Brenkman in his accompanying verified statement, Pioneer is committed to funding KJRY's acquisition of the Line and to supporting the cost of operating the Line so as to allow the Line to be operated for at least three years following acquisition of the Line.

Pioneer is a financially sound railroad holding company, fully capable of providing the resources needed for KJRY to acquire and operate the Line. Pioneer's Annual Report Form 10K shows that Pioneer is a profitable, well-managed company. Pioneer's net income in 2002 increased to \$1,246,000, all of which was attributable to normal, ongoing operations. Overall company revenue increased 4% in 2002 to \$14,970,000, while operating expenses decreased by

7%, to \$12,133,000. Operating expense reductions resulted from Pioneer's ongoing efforts to eliminate and control costs.

Pioneer's railroad operations increased operating income by approximately \$953,000 in 2002. The increase in operating income from railroad operations resulted from increased revenues of \$668,000 and a decrease in operating expenses of \$285,000.

Pioneer has substantial financial resources available to finance KJRY's purchase and operation of the Line. Pioneer ordinarily uses cash generated from operations to fund working capital needs, while relying significantly on long-term financing for the purchase of equipment and other significant capital expenditures. To meet the purchase cost for the Line, Pioneer has available retained earnings in excess of \$5.0 million. Exhibit A at 18. Moreover, as in past acquisitions, Pioneer expects to be able to rely on its strong and continuing relationship with its banks to obtain financing to support the acquisition. Pioneer has a solid history of acquiring short lines and short line properties and operating them profitably. These acquisitions were financed largely through commercial loans. Pioneer expects to be able to obtain similar loans to support its acquisition of this Line. Indeed, Pioneer's principal bank, National City Bank, Peoria, Illinois, has already expressed possible interest in providing up to \$5.0 million in financing for KJRY's acquisition of the Line. *See* Exhibit B hereto. To receive this expression of interest from the bank at this stage of this project is very encouraging.

To meet working capital needs for rehabilitation and operation of the Line, Pioneer has the income available from its operations, as shown above, plus working capital facilities totaling \$1,100,000, all of which remains available as of the date of this statement. I anticipate that this amount will be more than adequate to allow Pioneer to provide the funds necessary to rehabilitate the Line sufficiently to restore the traffic base, which, in conjunction with a vigorous

marketing campaign, will allow the Line to generate sufficient traffic and cash flow to become self-sustaining.

Net Liquidation Value of the Line

Pioneer has several times discussed with TP&W's parent holding company the possibility of purchasing at least the West End segment of this Line. Each time, those negotiations have foundered on the parties' inability to quickly reach agreement on the sale price of the Line. Following our discussions with RailAmerica in 2000, for example, RailAmerica abruptly sold the West End segment to SF&L Railway, Inc. ("SF&L") for approximately \$2.18 million.

Once the Board saw SF&L's acquisition for what it was - an attempt to obtain the Line for the purpose of scrapping it - and ordered that the Line be conveyed back to TP&W, B. Allen Brown, Chief Operating Officer of Pioneer, prepared an analysis of the NLV of the Line based on data which had earlier been generated by RailAmerica concerning the quantity and quality of recoverable materials in the Line. Mr. Brown's analysis, based on RailAmerica data and on materials prices provided by various dealers in these types of materials, yielded a NLV of the Line of \$2,335,961. Notably, this amount is above the price at which TP&W sold the line to SF&L.

Wanting to assure ourselves that we had thoroughly analyzed the value of the property, we commissioned an analysis of NLV by Gohmann and Associates, an Illinois transportation consulting firm headed by John W. Gohmann, an experienced railroad valuation expert. Assisted by Richard Lane, a veteran railroader, Mr. Gohmann performed an analysis of NLV based on track charts of the Line. While acknowledging that it would be preferable to have access to the Line to examine it up close, Mr. Gohmann recognized that TP&W had denied Pioneer personnel access to the property, preventing an on-site inspection. Accordingly, Messrs. Gohmann and

Lane based their analysis on the next best available data, namely the track charts. Their analysis, as thoroughly explained in Mr. Gohmann's verified statement and attached report and addendum, resulted in a NLV calculation of \$3,393,363 for the Line. Being the higher of the two NLV estimates prepared for KJRY and being the more inclusive (inasmuch as the Mapleton Segment is included in Mr. Gohmann's analysis), KJRY bases its offer in this proceeding on Mr. Gohmann's NLV calculation.

As Treasurer of Pioneer and KJRY and having been involved in the company's rail acquisitions over the past 10 years, I am comfortable that funding the acquisition and operating costs of the Line are well within Pioneer's capabilities. Pioneer has a long history of rail line acquisitions, making it the second largest short line railroad holding company in the United States. Pioneer is financially capable of this acquisition as well, as demonstrated by our annual report and our 'track record,' if you will, of acquisitions over the past ten years.

ACCESSION NUMBER: 0000796374-03-000001
CONFORMED SUBMISSION TYPE: 10KSB
PUBLIC DOCUMENT COUNT: 3
CONFORMED PERIOD OF REPORT: 20021231
FILED AS OF DATE: 20030326

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME: PIONEER RAILCORP
CENTRAL INDEX KEY: 0000796374
STANDARD INDUSTRIAL CLASSIFICATION: RAILROADS, LINE-HAUL
OPERATING [4011]
IRS NUMBER: 371161316
STATE OF INCORPORATION: IA
FISCAL YEAR END: 1231

FILING VALUES:

FORM TYPE: 10KSB
SEC ACT: 1934 Act
SEC FILE NUMBER: 001-12072
FILM NUMBER: 03618530

BUSINESS ADDRESS:

STREET 1: 1318 S JOHANSON ROAD
CITY: PEORIA
STATE: IL
ZIP: 61607
BUSINESS PHONE: 3093096971

MAIL ADDRESS:

STREET 1: 1318 S JOHANSON RD
CITY: PEORIA
STATE: IL
ZIP: 61607

FORMER COMPANY:

FORMER CONFORMED NAME: PIONEER RAILROAD CO INC /IA/
DATE OF NAME CHANGE: 19920331

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

Annual Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

Commission File Number 33-6658-C

Pioneer Railcorp

(Exact name of Registrant as specified in its charter)

Iowa.....

37-1191206

(State or other jurisdiction of
incorporation or organization)

(IRS Employer ID #)

1318 S. Johanson Rd..
Peoria, IL 61607

(Address of principal executive offices) (Zip code)

Registrant's telephone number: 309-697-1400

Securities registered pursuant to Section 12(g) of the Act:

Title of each Class	Name of each exchange on which registered
-----	-----
Common Stock, Class A	Nasdaq SmallCap Market , Chicago Stock Exchange

Securities registered pursuant to 12(g) of the Act:

Common stock, Class A (\$.001 par value)
Common Stock, Class B (no par value)

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's

knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. X.

Issuer's revenues for the fiscal year ended December 31, 2002 were \$14,969,833.

The aggregate market value of voting stock held by non-affiliates of the Registrant on March 25, 2003 was \$3,819,708.

4,492,412

(Shares of Common Stock outstanding on March 25, 2003)

This Form 10-KSB contains certain "forward-looking" statements as such term is defined in The Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect," and "intend" and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, one-time events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, or intended. The Company does not intend to update these forward looking statements.

The remainder of this page is intentionally left blank

PART I

Item 1. Business

General

Pioneer Railcorp, an Iowa corporation, is a railroad holding company. As used in this Form 10-KSB, unless the context requires otherwise, the term "Company" or "PRC" refers to the parent, Pioneer Railcorp and its subsidiaries: West Michigan Railroad Co. (WMI), Michigan Southern Railroad Company (MSO), Fort Smith Railroad Co. (FSR), Alabama Railroad Co. (ALAB), Mississippi Central Railroad Co. (MSCI), Alabama & Florida Railway Co., Inc. (AF), Decatur Junction Railway Co. (DT), Vandalia Railroad Company (VRRC), Keokuk Junction Railway Co. (KJRY), Shawnee Terminal Railway Company (STR), Pioneer Industrial Railway Co. (PRY), The Garden City Western Railway, Inc. (GCW), Indiana Southwestern Railway Co. (ISW), Kendallville Terminal Railway Co. (KTR), Elkhart & Western Railroad Co. (EWR), Gettysburg & Northern Railroad Co. (GET), Pioneer Resources, Inc. (PRI), Pioneer Railroad Equipment Co., Ltd. (PREL), Pioneer Air, Inc. (PAR), and Pioneer Railroad Services, Inc. (PRS).

The Company operates in two business segments, railroad operations and railroad equipment leasing. Railroad operations are provided by the Company's wholly-owned short line railroad

subsidiaries whose rail system provides shipping links for customers along its routes and interchanges with five major railroads, Burlington Northern Santa Fe Railroad (BNSF), CSX Transportation (CSX), Canadian National Railway Company (CN), Norfolk Southern Railway (NS) and Union Pacific Railroad (UP). Additionally, the Company's railroad subsidiaries have interchanges with two smaller railroads, the Kansas City Southern Railway (KCS) and the Arkansas & Missouri Railroad (AM). PRC's rail system is primarily devoted to carrying freight. The Company also seeks to encourage development on or near, and utilization of, the real estate right of way of its operating railroads by potential shippers as a source of additional revenue and also generates revenue by granting to various entities, such as utilities, pipeline and communications companies and non-industrial tenants, the right to occupy its railroad right of way and other real estate property. The Company's railroad equipment leasing operation provides locomotives, railcars and other railroad related vehicles and equipment to the Company's operating railroad subsidiaries. In addition, the Company's railroad equipment leasing operation leases railcars and locomotives to unaffiliated third parties.

Railroad Operations

Fort Smith Railroad Co. - On July 7, 1991, the Fort Smith Railroad Co. (FSR), a wholly-owned subsidiary of Pioneer Railcorp, entered into a twenty-year lease (with three twenty-year renewals) with the Missouri Pacific Railroad Company (now Union Pacific Railroad) and operates 18 miles of track from Fort Smith to Barling, Arkansas. The FSR's primary interchange is with the Union Pacific Railroad Company (UP). FSR also interchanges with the Arkansas & Missouri Railroad Co. (AM) and the Kansas City Southern Railway (KCS). The traffic base on the FSR is very diversified with both inbound and outbound shipments. The principal commodities are iron/steel, scrap, baby food, fiberglass, particle board, charcoal, grains, frozen poultry, meal, chemicals, alcoholic beverages, industrial sand, lumber, paper, pulpboard, fiberboard, peanuts, fertilizer and military movements.

Alabama Railroad Co. - On October 25, 1991, the Alabama Railroad Co., a wholly-owned subsidiary of Pioneer Railcorp, purchased 60 miles of railroad facilities and real estate from CSX Transportation (CSX) and commenced operations soon thereafter. The line runs from Flomaton to Corduroy, Alabama, and interchanges with CSX in Flomaton. The railroad's principal commodities are outbound lumber products, primarily pulpwood, particle board, and finished lumber.

Mississippi Central Railroad Co. - On April 1, 1992, Pioneer Railcorp purchased the common stock of the Natchez Trace Railroad from Kyle Railways, Inc. The railroad runs from Oxford, Mississippi to Grand Junction, Tennessee, a total of 51 miles, 45.5 of which are located in Mississippi. The railroad interchanges with the NS at Grand Junction, Tennessee and the BNSF at Holly Springs, Mississippi. The Company changed the name of this wholly-owned subsidiary to Mississippi Central Railroad Co. (MSCI) in January 1993. The traffic base on the MSCI is primarily outbound finished wood products and inbound products, such as resins, chemicals and pulpwood, for the production of finished wood products. Other products shipped on the MSCI include scrap steel, cottonseed, fertilizer, and plastics. Alabama & Florida Railway Co. Inc. - On November 23, 1992, the Alabama & Florida Railway Co. (AF), a wholly-owned subsidiary of Pioneer Railcorp, purchased the tangible assets of the A&F Inc., d/b/a the Alabama & Florida

Railroad Company. The line ran from Georgiana to Geneva, Alabama, a distance of 76 miles and interchanged with CSX at Georgiana. On June 11, 2001, the Company's Alabama & Florida Railway Co. (AF) subsidiary sold a 33 mile segment of its track from Georgiana, AL to Andalusia, AL, to the Three Notch Railroad Co. (TNR), a wholly owned subsidiary of Gulf & Ohio Railways. The AF operates the remaining 43 miles of trackage. The AF's principal commodities are fertilizer and railcar storage.

Decatur Junction Railway Co. - On September 23, 1993, the Decatur Junction Railway Co. (DT), a wholly-owned subsidiary of Pioneer Railcorp, signed a lease agreement with Cisco Co-op Grain Company (Cisco) and on September 24, 1993 with Central Illinois Shippers, Incorporated (CISI), for the lease of two segments of track in east central Illinois. The Cisco segment runs from Green's Switch (Decatur) to Cisco, Illinois, approximately thirteen (13) miles. The CISI segment runs from Elwin to Assumption, Illinois, a distance of approximately seventeen (17) miles. The two lines connect via trackage rights on the Canadian National Railway Company (CN) through Decatur, Illinois, a distance of approximately eight (8) miles. Railroad operations began on the Cisco segment December 3, 1993, and began on the CISI segment December 7, 1993. The DT's primary commodities are grain, fertilizer and plastics.

Vandalia Railroad Company - On October 7, 1994, Pioneer Railcorp acquired all the outstanding common stock of the Vandalia Railroad Company. The line located in Vandalia, Illinois, interchanges with CSX and is approximately 3.5 miles long. The railroad's principal commodities are steel pipe and plastic pellets and fertilizer.

West Michigan Railroad Co. - On July 11, 1995, Pioneer Railcorp signed an agreement with the Trustee of the Southwestern Michigan Railroad Company, Inc., d/b/a Kalamazoo, Lakeshore & Chicago Railroad (KLSC), to purchase all of the tangible assets of KLSC. Those assets include approximately 15 miles of track and right of way, extending from Hartford to Paw Paw, in Van Buren County, Michigan. The line interchanges with CSX. Pioneer Railcorp then assigned its right to purchase to the West Jersey Railroad Co., a wholly owned subsidiary of Pioneer, which had been operating the former KLSC tracks under an Interstate Commerce Commission Directed Service Order since June 24, 1995. West Jersey Railroad Co. amended its articles of incorporation to change its name to "West Michigan Railroad Co.," effective October 2, 1995. The sale was approved by the Interstate Commerce Commission by order served October 18, 1995, and the West Michigan Railroad Co. took title to the property on October 24, 1995.

Keokuk Junction Railway Co. - On March 12, 1996, Pioneer Railcorp purchased 93% of the common stock of KNRECO, Inc., an Iowa corporation d/b/a Keokuk Junction Railway (hereinafter "KJRY") from the shareholders, and purchased all of the remaining common shares of KJRY in April of 1996. KJRY operates a common carrier railroad line within the City of Keokuk, Iowa, from Keokuk to LaHarpe, Illinois, and a branch line from Hamilton to Warsaw, Illinois, a total of approximately 38 miles. In addition, KJRY owns all of the common stock of Keokuk Union Depot Company, an Iowa corporation, that owns the former Keokuk Union Depot building, along with surrounding track and real estate. KNRECO, Inc. changed its corporate name to Keokuk Junction Railway Co. effective April 10, 1996. On December 19,

2001, the KJRY purchased 12.1 miles of track from LaHarpe to Lomax, Illinois and was assigned trackage rights from Lomax, Illinois to Ft Madison, Iowa, a distance of approximately 15.5 miles over the BNSF, allowing the KJRY to interchange traffic with the UP. The KJRY also interchanges with the BNSF at Keokuk, Iowa and is in the process of trying to reestablish an interchange with the Toledo, Peoria & Western Railway Company (TPW) at LaHarpe, Illinois. The railroad's principal commodities are corn, corn germ, corn syrup, meal, gluten feed, and railroad wheels.

Shawnee Terminal Railway Company - On November 13, 1996, Pioneer Railcorp purchased 100% of the common stock of the Shawnee Terminal Railway Company. The line located in Cairo, Illinois, interchanges with the Canadian National Railway Company (CN) and is approximately 2.5 miles long. The railroad's principal commodities are glycol and railroad freight cars for cleaning.

Michigan Southern Railroad Company - On December 19, 1996, Pioneer Railcorp through its wholly-owned subsidiary Michigan Southern Railroad Company signed a two year lease with the Michigan Southern Railroad Co. Inc., Morris Leasing, Inc., and Gordon D. Morris to operate certain railroad related assets. The lease called for a fixed monthly payment for the equipment assets leased and a per car charge for railroad usage. The lease contained an exclusive option to purchase the stock of the Michigan Southern Railroad Company, Inc. and the railroad assets of Morris Leasing, Inc., and this option was exercised on January 6, 1999, when the Company's wholly-owned subsidiary Michigan Southern Railroad Company (MSO) purchased all of the stock of the Michigan Southern Railroad Co., Inc. (MSRR) from Gordon D. Morris. The railroad is comprised of three separate, non-contiguous lines. The Michigan Southern Railroad Company line (MSO) is located in southern Michigan and currently operates 15 miles of track. On February 1, 2001, the Company separated 1.1 miles of track located in Kendallville, Indiana from its Michigan Southern Railroad Company subsidiary and operates as a wholly-owned subsidiary of Pioneer Railcorp under the name Kendallville Terminal Railway Co. (KTR). On May 1, 2001, the Company separated 10 miles of track located in the Indiana counties of Elkhart and St. Joseph, Indiana from its Michigan Southern Railroad Company subsidiary and operates as a wholly-owned subsidiary of Pioneer Railcorp under the name Elkhart & Western Railroad Co. (EWR). These actions were taken to simplify interchange with the Norfolk Southern, the connecting carrier to all lines. The MSO's principal commodities are, scrap, scrap paper, pulpboard, lumber and soybean oils. Pioneer Industrial Railway Co. - On February 18, 1998, Pioneer Railcorp through its wholly-owned subsidiary Pioneer Industrial Railway Co., began operating approximately 8.5 miles of railroad in Peoria County, Illinois when the Peoria & Pekin Union Railway Co. (PPU) assigned its lease with the owner, the Peoria, Peoria Heights & Western Railroad (PPHW) to Pioneer Railcorp. The lease expires in July 2004. PPHW is owned by the City of Peoria, Illinois and the village of Peoria Heights, Illinois. The railroad's principal commodities are steel, salt, lumber and plastic pellets.

The Garden City Western Railway, Inc. - On April 29, 1999, the Company purchased 100% of the stock of The Garden City Western Railway, Inc.(GCW) from the Garden City Coop, Inc. and immediately began operations. The GCW is located in southwest Kansas and totals 40 miles of operating railroad and interchanges with the BNSF. The primary commodities include grain, frozen beef, fertilizer, farm implements, feed products and utility poles.

Indiana Southwestern Railway Co. - On April 1, 2000, the Company through its wholly-owned subsidiary Indiana Southwestern Railway Co. (ISW) acquired, in a transaction accounted for by the purchase method of accounting, certain assets including all of the rail facilities owned or leased by the Evansville Terminal Railway Company (EVT). The line is in Evansville, Indiana and is 23 miles in length. The primary commodities are grain, plastics and rail equipment.

Kendallville Terminal Railway Co. - On February 1, 2001, the Company separated 1.1 miles of track located in Kendallville, Indiana from its Michigan Southern Railroad Company (MSO) subsidiary and began operating as a wholly-owned subsidiary of Pioneer Railcorp under the name Kendallville Terminal Railway Co. (KTR). This action was taken to simplify interchange with the Norfolk Southern, the connecting carrier to the KTR, MSO and EWR. The railroads principal commodities are sugar and syrup.

Gettysburg & Northern Railroad Co. - On February 20, 2001, the Company through its wholly-owned subsidiary Gettysburg & Northern Railroad Co. (GET), acquired in a transaction accounted for by the purchase method of accounting, the railroad assets of the former Gettysburg Railway, Inc. (GBRY) and the Gettysburg Scenic Railway (GSRX), from various corporate entities owned by John H. Marino of Manassas, Virginia. The line is 25 miles in length running from Gettysburg, PA to Mount Holly Springs, A. The primary commodities are canned goods, pulpboard, soda ash, grain, and scrap paper. In addition, the GET generates a portion of its revenues from a scenic passenger operation.

Elkhart & Western Railroad Co. - On May 1, 2001, the Company separated 10 miles of track located in the Indiana counties of Elkhart and St. Joseph, Indiana from its Michigan Southern Railroad Company (MSO) subsidiary and began operating as a wholly-owned subsidiary of Pioneer Railcorp under the name Elkhart & Western Railroad Co. (EWR). This action was taken to simplify interchange with the Norfolk Southern, the connecting carrier to EWR, MSO and KTR. The railroads principal commodities are auto frames, cement and lumber.

Railroad Equipment Leasing

Pioneer Railroad Equipment Co., Ltd. (PREL), formed on April 1, 1990, leases equipment to the Company's subsidiary railroads and also leases railcars and locomotives to unaffiliated third parties. PREL also earns income from non-company railroads on its fleet of approximately ,400 railcars (as of December 31, 2002) when they carry freight on non-company railroads.

Corporate Support Operations

Pioneer Railroad Services, Inc.(PRS), Pioneer Resources, Inc.(PRI), and Pioneer Air, Inc. (PAR), which are wholly-owned subsidiaries of Pioneer Railcorp, provide corporate support operations which are engaged in by the Company. Pioneer Railroad Services, Inc. (PRS) which began operations on October 1, 1993, provides accounting, management, marketing, operational and agency services to the Company's subsidiary railroads. Pioneer Resources, Inc. (PRI) was formed on December 30, 1993 to manage real estate and auxiliary resources for Company

subsidiaries. Pioneer Air, Inc. (PAR) was formed on August 5, 1994 and currently owns a Cessna 421B aircraft which is used by Pioneer Railcorp subsidiaries exclusively for Company business travel.

Marketing

The Company's marketing department was established to foster continuing business with existing customers and to develop and attract new customers and additional loadings on all PRC railroads. The Company's attention to marketing has earned recognition from industry publications, Class I railroads, and smaller rail carriers. The Company's marketing department along with the Company's operation's center have become important value-added services offered to present and potential customers.

Distribution

Virtually all interchange traffic is with unionized Class I carriers, and a prolonged work stoppage on those carriers would have a material adverse impact upon the Company, however, there has never been such a prolonged work stoppage of the American railroad industry, and the Company considers the chances of such an event to be remote.

Suppliers

The Company does not believe that the loss of any supplier would have a material adverse effect on its business, as there are alternative suppliers available.

Competition

With respect to the industry in which PRC operates, the Company, like any other railroad company, faces intense competition from the trucking industry, barge lines and other railroads for the movement of commodities. The Company feels (pricing and time sensitivity constant) that it has a competitive advantage due to its integrated efforts in providing value-added rail services through its marketing department and operation's center, with continued emphasis on safe and efficient train operations.

Competition for additional railroads as they become available on the market, either as direct "spin-offs" from Class I Railroads or through the secondary market, is intense. The Company believes that it has a competitive advantage for the acquisition of future Class III Railroads due to the following factors: (1) the Company's acquisition and operation of multiple railroads, (2) the Company's experienced management team, (3) the Company's proficiency with industry-trend technologies desired by Class I Railroads, such as Electronic Data Interchange (EDI), and (4) the quality of the Company's employees.

Regulations

The Company's subsidiaries are subject to regulation by the Surface Transportation Board (STB) of the U.S. Department of Transportation (USDOT), the Federal Railroad Administration (FRA),

and certain state and local jurisdictions. Such regulation affects rates, safety rules, maintenance of track, other facilities, and right of way, and may affect the Company's revenues and expenses. To date there has been no material effect on the Company's operations because of regulatory action, nor does the Company expect any such effect in the foreseeable future.

Employees

On December 31, 2002, the Company had 114 employees which consisted of 94 operating personnel, 17 support staff and 3 executive officers.

Environmental Matters

The Company's operations are subject to various regulations relating to the protection of the environment, which have become increasingly stringent. These environmental laws and regulations, which are implemented principally in the U.S. by the Environmental Protection Agency ("EPA") and comparable state agencies govern the management of hazardous wastes, the discharge of pollutants into the air and surface and underground waters and the manufacture and disposal of certain substances.

There are no material environmental claims pending or, to the Company's knowledge at this time, threatened against the Company. The Company believes that its operations are in material compliance with current environmental laws and regulations. The Company estimates that any expenses incurred in maintaining compliance with the current laws and regulations will not have any material effect on the Company's earnings or capital expenditures. However, the Company can provide no assurance that the current regulatory requirements will not change, that currently unforeseen environmental incidents will not occur or that past non-compliance with the environmental laws will not be discovered on the Company's properties.

Liability Insurance

The Company could be liable for losses or claims that may not be covered by insurance. The Company maintains insurance that covers claims arising from personal injury and property damage in the event of derailments or other accidents or occurrences; however, losses or other claims may arise that may not be covered under insurance policies currently carried by the Company. In addition, under catastrophic circumstances, the potential liability that could result in such a circumstance could exceed the Company's existing insured limits. Insurance coverage is currently available from a very limited number of insurers and could eventually become unavailable or only available under terms or prices that are unacceptable to the Company. Should this occur, it is possible the Company would be adversely effected as a result of a significant increase in insurance costs.

Fuel Costs

Fuel costs constitute a significant portion of our railroad transportation expenses. Fuel prices and supplies are influenced significantly by international political and economic circumstances.

If a fuel supply shortage were to arise due to OPEC production curtailments, a disruption of oil imports or other factors, higher fuel prices could occur and any significant prolonged price increase could materially effect the Company's operating results.

General Economic Conditions

The Company's operations may be adversely affected by changes in the economic conditions of the industries and geographic regions that produce and consume freight that we transport. The Company's revenues may be affected by prevailing economic conditions and, if an economic slowdown or recession were to occur in key markets that the Company serves, the volume of rail shipments the Company carries is likely to be reduced. Significant reductions in the volume of the Company's rail shipments could have a material adverse effect on the Company's operating results.

Item 2. Property

In October 1994, the Company purchased a 16,000 square foot building located in Peoria, Illinois as a corporate headquarters facility. In conjunction with the purchase of its corporate office building, the Company assumed a land lease for the property on which the building is located. This twenty-five year lease is renewable for five successive periods of five years with annual rents equal to ten percent of the appraised value of the land, payable in monthly installments, with appraisal value reviews every five years following the origination date. The Company is responsible for costs of maintenance, utilities, fire protection, taxes and insurance. The building is pledged in a financing agreement. A description of the Company's railroad properties as of December 31, 2002 by subsidiary follows:

- A.) Fort Smith Railroad Co. (FSR): The FSR leases 18 miles of railroad from the Union Pacific Railroad Company and began operations in July 1991 pursuant to a twenty year operating lease. The line runs from Fort Smith to Barling, Arkansas. The lease agreement contains numerous requirements including maintaining existing traffic patterns, repair and replacement of the right of way to the condition in which it was leased, and payment of any applicable real state taxes. The Company is entitled to a fixed rate per carload switched from the UP as well as ninety percent of new leases and easements and fifty percent of existing leases and easements on the property. As long as these lease requirements are met, the Company may continue to operate on the rail facilities without rent. The Company has three twenty year renewal options. The SR's track is in good condition.
- B.) Alabama Railroad Co. (ALAB): The ALAB is 60 miles of operating railroad running from Flomaton to Corduroy, Alabama. The Company considers the track to be in good condition.
- C.) Mississippi Central Railroad Co. (MSCI): The MSCI is 51 miles of operating railroad running from Oxford, Mississippi to Grand Junction, Tennessee. Approximately 45.5 miles of the track are located in Mississippi. The Company considers the track to be in good condition.

- D.) Alabama & Florida Railway Co., Inc. (AF): The AF is 43 miles of operating railroad running from Andalusia to Geneva, Alabama. The Company has an option from CSX Transportation to negotiate a purchase price for the underlying real estate and currently leases the property for a monthly payment of \$1,435. The Company has exclusive rights to the revenues derived from the land leases and easements. The Company considers the line to be in good condition.
- E.) Decatur Junction Railway Co. (DT): The DT leases from Cisco Co-op Grain Company (CISCO) a segment of track, approximately thirteen (13) miles in length, that runs from Green's Switch (Decatur, Illinois) to Cisco, Illinois. The DT also leases a segment of track from Central Illinois Shippers, Incorporated (CISI), approximately seventeen (17) miles in length, that runs from Elwin to Assumption, Illinois. The two lines are connected via trackage rights on the Canadian National Railway Company (approximately eight miles) through Decatur, Illinois. Both leases expire in December 2006 and require the Company to perform normal track maintenance and pay a nominal per car charge on traffic in excess of 1,000 car loads per year. The DT's track is considered to be in good condition.
- F.) Vandalia Railroad Company (VRRC): The VRRC is approximately 3.5 miles of operating railroad located in Vandalia, Illinois. The VRRC has a lease with the City of Vandalia for the 3.5 miles of railway. This lease is renewable for ten year periods beginning in September 2003, and the lease of \$1 is prepaid through September 2003. After September 2003, the lease payments will be equal to \$10 per loaded rail car handled in interchange. The Company considers the track to be in good condition.
- G.) West Michigan Railroad Co. (WMI): The WMI is approximately 15 miles of operating railroad running from Hartford to Paw Paw, Michigan. The track is considered to be in good condition.
- H.) Keokuk Junction Railway Co. (KJRY): The KJRY operates a common carrier railroad line within the City of Keokuk, Iowa, approximately 38 miles from Keokuk to LaHarpe, Illinois, a branch line from Hamilton to Warsaw, Illinois, 12 miles of track from LaHarpe to Lomax Illinois and has trackage rights of 15.5 miles over the BNSF from Lomax, IL to Ft. Madison, IA. The assets and subsidiary stock are pledged in various financing agreements. The track is considered to be in good condition.
- I.) Shawnee Terminal Railway Company (STR): The STR operates 2.5 miles of operating railroad in Cairo, Illinois. The track is considered to be in good condition.
- J.) Michigan Southern Railroad Company (MSO): The MSO is approximately 15 miles long extending from White Pigeon to Sturgis, Michigan. The assets and subsidiary stock are pledged in various financing agreements. The track is considered to be in good condition.

- K.) Elkhart & Western Railroad Co. (EWR): The EWR is located in Elkhart, Indiana and is approximately 10 miles in length. The track is considered to be in good condition.
- L.) Kendallville Terminal Railway Co. (KTR): The KTR is located in Kendallville, Indiana and is approximately 1 mile in length. The line is considered to be in good condition.
- M.) Pioneer Industrial Railway Co. (PRY): The PRY operates a railroad line approximately 8.5 miles long in Peoria County, Illinois. PRY assumed operations from the Peoria & Pekin Union Railway Co. (PPU) when the PPU assigned its lease with the owner, the Peoria, Peoria Heights & Western Railroad (PPHW), effective February 18, 1998, expiring July 2004. PPHW is owned by the City of Peoria, Illinois and the village of Peoria Heights, Illinois. PRY has improved the condition of the track considerably since assuming operation and, overall, the track is now considered to be in good condition.
- N.) The Garden City Western Railway Co., Inc. (GCW): The GCW is 40 miles of operating railroad located in southwest Kansas originating in Garden City, Kansas running north 26 miles to Shallow Water, KS and east 14 miles to Wolf, KS. The assets and subsidiary stock are pledged in various financing agreements. The Company considers the track to be in good condition.
- O.) Indiana Southwestern Railway Co. (ISW): The ISW is 23 miles of operating railroad located in Evansville, Indiana. The assets and subsidiary stock are pledged in various financing agreements. The Company considers the track to be in good condition.
- P.) Gettysburg & Northern Railroad Co. (GET): The GET is 25 miles in length running from Gettysburg, PA to Mount Holly Springs, PA. The assets and subsidiary stock are pledged in various financing agreements. The Company considers the track to be in good condition. Company management believes that all of its properties and assets are adequately covered by insurance.

Item 3. Legal Proceedings

In the course of business, the Company experiences crossing accidents, employee injuries, delinquent and/or disputed accounts, and other incidents, which give rise to claims that may result in litigation. Management vigorously pursues settlement and release of such claims, but at any one time, some such incidents, which could result in lawsuits by and against the Company, remain unresolved. Management believes it has valid claims for, or good defenses to, these actions. Management considers such claims to be a routine part of the Company's business.

The Company is presently involved in litigation surrounding trackage rights with a Class I railroad regarding fees charged between March 1999 and May 2001 by the Company for the Class I carrier's access to and usage of a segment of the Company's tracks as a means of gaining access to certain trackage owned by the Class I railroad. The Surface Transportation Board (STB), in a decision in June 2001, ruled that the Class I railroad could have access to and cross the Company's tracks in order to get to the branch line owned by the Class I railroad. The STB did not set compensation or other terms and conditions as part of its decision and ordered the two

parties to negotiate terms and conditions, and ordered that if no agreement could be reached, that the STB would make a ruling. From March 1999 through May 2001, the Company charged the Class I railroad approximately \$660,000 for access to the Company's track. From May 2001 through December 31, 2001, the Company did not charge the Class I railroad for access to the segment of the Company's track in question. In June 2002, the Washington, D.C. Circuit Court of Appeals vacated the June 2001 STB decision. The Company and the Class I railroad began discussing resolution of the trackage rights dispute, but no agreement could be reached. The Class I railroad commenced utilization of the segment of the Company's track on July 1, 2002. The Class I railroad has agreed to pay the Company \$85 per car for traffic commencing July 1, 2002, on the segment of the track in question with the \$145,690 charged by the Company since July 1, 2002, by agreement of the two parties being accounted for as deferred revenue on the balance sheet pending final solution of the matter by the STB. The Company intends to continue to vigorously defend itself in this matter. As of December 31, 2002, it is not possible to ascertain the ultimate financial impact, if any, upon the Company. Management has made no provision for any estimated losses associated with this matter. In the event that the STB makes an unfavorable ruling against the Company with respect to the \$660,000 of fees charged from March 1999 through May 2001, it is possible, however, that the outcome could have a material adverse effect on the Company's financial position and results of operations.

As of the date of this Form 10-KSB, management is not aware of any incident which is likely to result in a liability that would materially affect the Company's consolidated financial position or results of operation.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to security holders for vote in the fourth quarter 2002.

The remainder of this page is intentionally left blank

PART II

Item 5. Market for Company's Common Equity and Related Stockholder Matters.

The Company's common stock trades on the Nasdaq SmallCap Market tier of the Nasdaq Stock Market under the symbol "PRRR" and the Chicago Stock Exchange under the trading symbol "PRR". The quarterly high and low sales price of the Company's common stock as reported on the Nasdaq for the periods below are as follows:

	01-1Q	01-2Q	01-3Q	01-4Q	02-1Q	02-2Q	02-3Q	02-4Q
High	\$1.88	\$1.56	\$1.40	\$1.39	\$1.40	\$1.97	\$1.85	\$1.61
Low	\$1.06	\$1.12	\$1.05	\$1.03	\$1.15	\$1.15	\$1.39	\$1.38

As of December 31, 2002, the Company had 1,716 common stockholders of record, including brokers who hold stock for others. A cash dividend of \$.03 per common share was paid to stockholders of record as of April 30, 2002. The total dividend was \$135,907 and was paid on August 20, 2002. No dividend was paid in 2001.

The remainder of this page is intentionally left blank

10

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONNECTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS, RELATED NOTES AND OTHER FINANCIAL INFORMATION INCLUDED ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-KSB.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that effect our reported assets, liabilities, revenues and expenses, and our related disclosure of contingent assets and liabilities.

On an on-going basis, we evaluate our estimates, including those related to bad debts, impairment of long-lived assets (including goodwill), depreciable lives for property and equipment, self-insured medical benefits, deferred revenue, income taxes and contingencies for legal matters. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. This forms the basis of judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Most accounting policies are not considered by management to be critical accounting policies. We believe the following critical accounting policies and the related judgments and estimates significantly affect the preparation of our consolidated financial statements: We believe that revenue recognition, deferred revenue accounting, accounting for property and equipment and goodwill accounting are the Company's critical accounting policies (see Note 1 in the Notes to Consolidated Financial Statements for additional information).

Results of Operations

This management's discussion and analysis of financial condition and results of operations references the Company's two operating segments. The Company's railroad operations consist of wholly-owned short line railroad subsidiaries that offer similar services while the Company's equipment leasing operations leases railcars, locomotives, and other railroad equipment to affiliated and unaffiliated entities. All other operations are classified as corporate support services for purpose of these discussions. All information provided for each operating segment is presented after elimination of all intersegment transactions, therefore reflecting its share of consolidated results.

The Company's railroad operating segment had revenue earned from a major customer, Roquette America, Inc., of approximately \$2,851,000 in 2002 and \$2,829,000 in 2001. A future loss of

revenue from this customer could have a materially adverse effect on the Company's results of operations and financial condition.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

The Company's net income in 2002 increased by \$108,000 to \$1,246,000 up from \$1,138,000 in 2001. When comparing 2002 and 2001 net income, it should be noted that all 2002 net income is attributable to normal, ongoing operations compared to 2001 net income which included a pre-tax gain of approximately \$1,738,000 attributable to the sale of 33 miles of Alabama & Florida Railway Co. track from Georgiana, AL to Andalusia, AL. Revenue increased in 2002 by \$549,000 or 4%, to \$14,970,000 from \$14,421,000 in 2001. Operating expense decreased in 2002 by \$953,000 or 7%, to \$12,133,000 from \$13,086,000 in 2001, resulting from the Company's increased efforts to eliminate and control costs. Operating income increased in 2002 by \$1,502,000 or 112%, to \$2,837,000 from \$1,335,000 in 2001. The railroad operations increased operating income by approximately \$953,000 in 2002. The increase in operating income from the railroad operations resulted from increased revenues of \$668,000 and a decrease in operating expenses of \$285,000. The equipment leasing operations decreased operating income by approximately \$14,000 in 2002, resulting from decreased revenues of \$104,000 offset by a decrease in operating expenses of \$90,000. Corporate support services increased operating income by approximately \$395,000 in 2002 primarily related to a reduction in support staff and a decrease in health insurance costs of approximately \$120,000.

11

Revenue:

Revenue increased in 2002 by \$549,000 or 4% to \$14,970,000 from \$14,421,000 in the prior year. The railroad operations increased revenue approximately \$668,000, including the effects of \$196,000 of decreased revenues attributable to the 2001 sale of the Alabama & Florida Railway Co. track. The remaining operating railroads generated increased revenue of \$864,000 in 2002, primarily related to revenues related to increased freight rates and increased traffic with higher per car revenue. The equipment leasing operations had a \$104,000 decrease in revenues in 2002 primarily from a \$70,000 reduction in revenue from its railcar fleet and a \$34,000 decrease in revenue generated from equipment leases to unaffiliated entities. Corporate services decreased revenues \$15,000 as a result of the Company discontinuing its small intermodal logistics activities.

Operating Expense:

Operating expense decreased in 2002 by \$953,000 or 7%, to \$12,133,000 from \$13,086,000 in 2001. The railroad operations decreased operating expense approximately \$285,000. Included in this decrease is \$323,000 of decreased operating expense attributable to the 2001 sale of the Alabama & Florida Railway Co. track. In addition, in 2001 the Company's railroad operations wrote-off approximately \$157,000 of receivable balances due to bankruptcy filings by customers. Excluding these write-offs, and the decrease related to the Alabama & Florida track sale, the remaining operating railroads had decreased operating expense of \$287,000 in 2002. The equipment leasing operations had a \$90,000 decrease in operating expense in 2002 primarily

from decreased locomotive maintenance expenses. Corporate support services decreased operating expense approximately \$410,000, primarily related to a reduction in support staff and related support staff expenses, and a decrease in health insurance costs of approximately \$120,000 related to the Company's health plan.

Maintenance of Way and structure expense (MOW) includes all expenses related to track maintenance; including payroll, track materials, signal maintenance, vegetation control, and bridge maintenance. MOW decreased \$267,000 or 19% to \$1,129,000 from \$1,396,000 in the prior year. The railroad operations decreased MOW by \$211,000, including a \$111,000 decrease in MOW attributable to the 2001 sale of the Alabama & Florida Railway Co. track. Corporate support services decreased MOW expense approximately \$56,000 primarily related to decreased payroll expenses from staff reductions.

Maintenance of equipment expense (MOE) includes expenses related to railcar repair expenses for both foreign and Company owned railcars; including payroll, car repair parts, processing fees for Company owned railcars, and also maintenance to Company owned vehicles. MOE decreased \$258,000 or 15% to \$1,417,000 from \$1,675,000 in the prior year. The railroad operations decreased MOE \$134,000 as a result of decreased payroll and material costs for repairs to foreign rail cars. The equipment leasing operations increased MOE expense approximately \$30,000 as a result of increased costs associated with maintaining the Company's railcar fleet. Corporate support services decreased MOE expense approximately \$154,000 primarily related to decreased payroll expenses from staff reductions.

Transportation expense (TRAN) includes expenses related to train movement operations; including payroll, locomotive fuel and supplies expense, repair expenses to Company owned locomotives, car hire expense, derailment expense, lading and damage claims, switching services purchased, and joint facility expenses with other carriers. TRAN decreased \$147,000 or 4% to \$3,221,000 from \$3,368,000 in the prior year. The railroad operations increased transportation expense approximately \$6,000, including the effect of \$88,000 decreased transportation expense attributable to the 2001 sale of the Alabama & Florida Railway Co. track. The remaining operating railroads increased TRAN expense \$94,000 in 2002. The equipment leasing operations decreased TRAN expense approximately \$112,000 as a result of decreased costs associated with maintaining the Company's locomotive fleet. Corporate support services decreased TRAN expense approximately \$41,000 primarily related related to decreased payroll expenses from staff reductions.

12

General & administration expense (ADMIN) includes general manager payroll expenses, legal expenses, bad debt expense related to interline settlements, liability insurance, utilities, postage and freight, real estate taxes, dues, licenses and fees, vehicle insurance, freight to move company owned railcars and locomotives, health and dental insurance expense, audit fees, printing, and corporate headquarters support service payroll for executive management, accounting, operations, marketing, real estate, legal, and other support staff. ADMIN decreased \$242,000 or 5% to \$4,334,000 from \$4,576,000 in the prior year. The railroad operations decreased ADMIN expense approximately \$81,000. Included in this decrease is \$88,000 of decreased ADMIN

expense attributable to the 2001 sale of the Alabama & Florida Railway Co. track. The remaining operating railroads increased ADMIN expense \$7,000 in 2002. The equipment leasing operations decreased ADMIN expense approximately \$15,000 as a result of decreased costs associated with repositioning the Company's railcar fleet. Corporate support services decreased ADMIN expense approximately \$146,000 primarily related to a decrease in health insurance costs of approximately \$120,000.

Depreciation and amortization expense decreased \$39,000 or 2%, to \$2,032,000 compared to \$2,071,000 in the prior year. The majority of this decrease relates to the railroad operations decreased amortization expense related to the adoption of SFAS 142 effective January 1, 2002, as further discussed in this report under the heading "Impact of New Accounting Pronouncements."

Other Income and Expense Income Statement Line Item Discussion:

Interest income decreased \$23,000 to \$7,000 from \$30,000 in the prior year.

Interest expense decreased \$267,000 in 2002 to \$1,084,000 compared to \$1,351,000 in 2001. The equipment leasing operations had a decrease of approximately \$147,000 in interest expense as a result of the the mid year 2001 repayment of debt with proceeds from the Alabama & Florida Railway Co. 2001 track sale and a reduction in interest expense related to mid-year 2001 and 2002 refinancing of long-term debt at lower interest rates. In addition, the railroad operations had decreased interest expense of \$35,000, including a decrease of \$44,000 resulting from the sale of the Alabama & Florida Railway track. Corporate support services reduced interest expense by \$85,000 relating to the pay down of principal on outstanding financing agreements and reduced interest rates related to long-term debt restructurings.

In 2002, approximately \$305,000 of lease income was generated by the Company's railroad operations from the granting of easements and leases for the use of railroad right of way property, compared to \$268,000 of lease income in 2001. The Company continues to place a strong emphasis on identifying and collecting revenues from third parties occupying Company property.

Net gain on sale of property and equipment was \$17,000 in 2002. The total gain on sale of property and equipment of \$1,929,000 in 2001 included a pre-tax gain of \$1,738,000 from the Alabama & Florida Railway sale of a 33 mile segment of its track from Georgiana, AL to Andalusia, AL, and a \$183,000 pre-tax gain on the sale of 3 small parcels of commercial development land by the West Michigan Railroad Co.

Other net expense/income increased \$46,000 in 2002 to \$12,000 of income from \$34,000 of expense in the prior year. Other income and expense includes revenues generated from scrap sales, and other miscellaneous non-operating revenues and expenses, primarily generated by the Company's railroad operations. In addition, in 2001 the Company incurred approximately \$79,000 of expense as a guarantor on an outstanding loan by the Minnesota Central Railroad Co., which the Company sold in 1999.

Impact of New Accounting Pronouncements:

The Company performed the first of the required impairment tests of goodwill as of December 31, 2002, and, based on management estimates of fair value of the entity, there was no reduction in the carrying amount of the goodwill previously recognized. The Company did not acquire any additional goodwill during 2002.

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 addresses financial accounting and reporting for business combinations, and is effective for all business combinations initiated after June 30, 2001. Effective January 1, 2002, the Company adopted SFAS No. 141. The Company did not enter into any business combinations after June 30, 2001, and, therefore, the adoption of SFAS No. 141 had no effect on the Company's financial statements.

13

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FASB No. 144). This supersedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. FASB No. 144 also amends ARB No. 151, "Consolidated Financial Statements," and was adopted effective January 1, 2002. The adoption of this accounting standard did not have a material effect on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." FASB No. 143 amends FASB No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." It addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs, and is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has not yet completed its full assessment of the effects of this new pronouncement on its financial statements and so is uncertain as to the impact.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued. SFAS No. 146 supersedes Emerging Issues Task Force ("EITF") issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under SFAS No. 146, an entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. SFAS No. 146 also establishes fair value as the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. As SFAS No. 146 only applies to prospective items, the Company believes the adoption of SFAS No. 146 will not have a material impact on the Company's financial position or results of operations.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting

for stock-based employee compensation. The Company does not expect to adopt the fair value method. In addition, SFAS No. 148 requires the Company to disclose in both annual and interim financial statements the method of accounting for stock-based compensation and the effect of the method used on the Company's reported results. SFAS No. 148 is effective for annual and interim periods ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's 2002 consolidated financial statements and is not expected to have a material impact on the Company's future consolidated financial statements.

In November 2002, FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FASB Interpretation No. 45), was issued. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The initial measurement and recognition provisions are required to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. They require that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Under prior accounting principles, a guarantee would not have been recognized as a liability until a loss was probable and reasonably estimable. As FASB Interpretation No. 45 only applies to prospective transactions, the Company believes that the adoption of FASB Interpretation No. 45 will not have a material impact on the Company's financial position or results of operations.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FASB Interpretation No. 46), was issued. It clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which the equity investors do not have a controlling financial interest or do not have sufficient equity at risk. FASB Interpretation No. 46 is effective on January 31, 2003, for entities acquired after such date. The effective date for entities acquired on or before January 31, 2003 is July 1, 2003. The Company has not completed its full assessment of the effects of FASB Interpretation No. 46 on its financial statements and so it is uncertain as to the impact.

14

Liquidity and Capital Resources:

The Company primarily uses cash generated from operations to fund working capital needs and relies on long-term financing for the purchase of railcars, new operating subsidiaries, and other significant capital expenditures. The Company has working capital facilities totaling \$1,100,000, all of which was available for use at the end of 2002.

Long-term equipment financing has historically been readily available to the Company for its railcar acquisition program. The Company believes it will be able to continue obtaining long-term equipment financing should the need arise. The Company's plans for new debt in the foreseeable future is contingent upon new railroad acquisitions and increased needs and/or opportunities for railcars.

The Company had a credit agreement with National City Bank of Michigan/Illinois

to provide a \$5 million revolving acquisition line of credit for railroad acquisitions at a variable interest rate of prime plus 1%. This agreement expired in the third quarter 2002 and was not renewed by the Company. The primary reason the Company decided not to renew the credit facility is that the current commercial lending environment is requiring loan covenants that are stricter than the Company is willing to agree to. The Company still considers National City Bank an important source of acquisition financing, and future acquisition opportunities, absent of this credit line, will require the bank to review and approve the transaction prior to any funding decisions. Previously, under the terms of the credit line, the Company did not need bank approval for an acquisition utilizing the credit line. The outstanding balance of \$2,105,000 on the line was converted to a 5 year 5.75% fixed rate note on October 10, 2002.

Effective October 10, 2002, the Company negotiated reduced interest rates on several of its notes outstanding with National City Bank. The ability to renegotiate interest rates was limited by the assessment of prepayment premiums by National City Bank in accordance with the terms of the original notes. Therefore, it was not cost effective to renegotiate all notes, and the reduction in interest rates on renegotiated notes was limited by the prepayment premiums. The interest rate on the note related to the acquisition of the Michigan Southern Railroad Co. was reduced from 8.375% to 7.55% for 5 years on a note balance of \$1,897,000. The interest rate on the note related to the acquisition of the Keokuk Junction Railway Co. was reduced from 8.375% to 7.15% for 5 years on a note balance of \$2,392,000. The KJRY note includes \$500,000 of additional principal that was previously funded by the acquisition line relating to the December 19, 2001 purchase of 12.1 miles of track from LaHarpe to Lomax, Illinois. In addition, the Company converted the variable rate note payable related to the acquisition of The Garden City Western Railway, Inc. to a fixed rate of 5.7% for the next 5 years on a note balance of \$1,216,000.

The following table summarizes the Company's future commitments and contractual obligations related to its notes payable, long-term debt and noncancellable operating leases as of December 31, 2002:

The following table summarizes the Company's future commitments and contractual obligations (amount in thousands) related to its notes payable, long-term debt and noncancellable operating leases as of December 31, 2002:

Commitments & Contractual Obligations	Years Ending in December 31						Total
	2003	2004	2005	2006	2007	Thereafter	
Notes payable	\$ 92	\$ --	\$ --	\$ --	\$ --	\$	\$ 92
Long -term debt	2,717	2,874	2,760	1,681	4,164	432	14,628
Noncancellable Operating leases	31	31	31	31	31	71	226

On June 11, 2001, the Company's Alabama & Florida Railway Co. (AF) subsidiary sold a 33 mile segment of its track from Georgiana, AL to Andalusia, AL, to the Three Notch Railroad Co. (TNR), a wholly owned subsidiary of Gulf & Ohio Railways in Knoxville, TN. The cash sale price was \$2,500,000 and the sale generated a pre-tax gain of \$1,738,000.

On July 1, 1995, the Company's stock split and warrant issuance became payable to Shareholders. The 2 for 1 stock split increased the number of shares issued and outstanding from 2,099,142 to 4,198,284. At the same time shareholders became entitled to purchase an additional 4,198,284 shares through stock warrants issued by the Company as dividends. One warrant was issued for each share of common stock held after the split, entitling the holder to purchase 1 share of common stock for \$2.00 per share. The shares purchased through the exercise of the warrants must be held for 1 year from date of purchase. As of December 31, 2002, a total of 68,766 warrants originally issued had been exercised to date, and the Company realized \$137,532 on the issuance of the warrants.

15

On June 26, 1996, the Company's shareholders approved a stock option plan permitting the issuance of 407,000 shares of common stock. Options granted under the plan are incentive based except for the options granted to the CEO whose options are non-qualified. The options became fully vested and exercisable as of July 1, 2001. The options are exercisable at prices ranging from \$2.75 to \$3.03, based upon the trading price on the date of the grant, in whole or in part within 10 years from the date of grant. As of December 31, 2002, a total of 155,000 options are outstanding under this plan.

In 1999, Pioneer Railcorp's Board of Directors authorized and approved the repurchase of up to one million shares (1,000,000) of the Company's common stock. As of December 31, 2002, a total of 99,005 shares had been repurchased at a cost of \$141,728. The Company plans to continue buying back its common stock but believes the repurchase will be on a more limited scope than previously anticipated due to capital requirements and the trading volume of the Company's stock.

The Company generally anticipates that the outcomes involving current legal proceedings will not materially affect the Company's consolidated financial position or results of operation. However, with respect to the Company's trackage rights dispute with a Class I railroad discussed in Item 3, the Company's management has made no provision for any estimated losses associated with respect to \$660,000 of fees charged from March 1999 through May 2001 as it is not possible to ascertain the outcome of this matter. It is possible, however, that an unfavorable outcome could have a material adverse effect on the Company's financial position and results of operations.

The Company believes its cashflow from operations and its available working capital credit lines, will be more than sufficient to meet liquidity needs through at least December 31, 2003.

Balance Sheet and Cash Flow Items:

The Company generated net cash from operating activities of \$4,371,000 in 2002 and \$3,651,000 in 2001. Net cash from operating activities for 2002 was generated from \$1,246,000 of net income, \$2,032,000 of depreciation and amortization, an increase in deferred income taxes of \$420,000, a decrease in accounts receivable of \$265,000, an increase in deferred revenue of \$1,158,000, and \$238,000 net cash provided by changes in various other operating assets and

liabilities less a decrease in accounts payable of \$568,000. Net cash from operating activities for 2001 was generated from \$1,138,000 of net income, \$2,072,000 of depreciation and mortization, \$440,000 of deferred income taxes, a decrease in income tax refund claims of \$74,000, an increase in accounts payable of \$607,000, a decrease in accounts receivable of \$257,000, an increase in deferred revenue of \$870,000, and \$122,000 net cash provided by changes in various other operating assets and liabilities less a gain on sale of property and equipment of \$1,929,000.

In 2002, the Company purchased and capitalized approximately \$2,740,000 of fixed assets and capital improvements which included the purchase of approximately 78 railcars at a cost of \$320,000 and the purchase of 7 locomotives at a cost of \$455,000. The railcars and 5 of the 7 locomotive purchases were financed using the Company's working capital line of credit and refinanced with long-term fixed rate financing. The other two locomotives with a combined value of \$129,000 were acquired in exchange of the Company's forgiveness of certain debt owed the Company. The Company capitalized approximately \$1,280,000 of track structure additions and improvements including \$1,036,000 for upgrades to the GET track to handle heavy loads for a power plant. The GET track upgrades were paid for by the power plant and recorded as deferred revenue on the Company's balance sheet. Current accounting principles dictate that this deferred revenue be amortized to income at a rate equal to depreciation expense and therefore will have no effect on net income in future periods. Other capital expenditures in 2002 include \$375,000 capitalized for buildings and structures, including \$145,000 for construction of a new engine house on the GCW, replacing a building which was destroyed by a tornado in 2001, and including \$182,000 for upgrades to several railroad bridges. Other capital expenditures include approximately \$315,000 for railcar and locomotive betterments and various equipment. Unless otherwise noted above, capital expenditures were funded with working capital.

The Company's wholly-owned subsidiary, Mississippi Central Railroad Co., exercised its conversion rights on all of its outstanding shares of preferred stock. The conversion rate was 110% of the par value of \$1,000. In October 2002 the Company disbursed a total of \$365,200 to satisfy the complete and full conversion of all outstanding preferred shares to cash.

Item 7. Financial Statements

The remainder of this page is intentionally left blank

16

Independent Auditor's Report

To the Board of Directors
Pioneer Railcorp
Peoria, Illinois

We have audited the accompanying consolidated balance sheets of Pioneer Railcorp and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial

statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Railcorp and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, the Company adopted FASB Statement No. 142, "Goodwill and Other intangible Assets," effective January 1, 2002.

/s/ McGladrey & Pullen, LLP

Peoria, Illinois
February 20, 2003

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

17

PIONEER RAILCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

ASSETS	2002	2001
Current Assets		
Cash	\$ 1,148,461	\$ 976,678
Accounts receivable, less allowance for doubtful accounts 2002 \$27,481; 2001 \$71,981	3,041,573	3,431,008
Inventories	287,763	222,257
Prepaid expenses	214,606	202,787
Income tax refund claims	337,419	132,905
Deferred income taxes	12,000	80,000
Total current assets	5,041,822	5,045,635
Investments, cash value of life insurance	214,627	184,090

Property and Equipment, net	27,793,573	27,128,209
Other Assets	161,833	22,091
Goodwill	1,017,430	1,017,430
	-----	-----
	\$ 34,229,285	\$ 33,397,455
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 2,716,801	\$ 4,828,203
Notes payable	91,816	57,712
Accounts payable	2,346,751	2,914,471
Accrued expenses	950,968	775,031
	-----	-----
Total current liabilities	6,106,336	8,575,417
	-----	-----
Long-Term Debt, net of current maturities	11,911,244	10,820,867
	-----	-----
Deferred Revenue	2,027,811	870,066
	-----	-----
Deferred Income Taxes	5,637,000	5,285,000
	-----	-----
Minority Interest in Subsidiaries	751,000	1,103,000
	-----	-----
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Common stock, Class A (voting), par value \$.001 per share, authorized 20,000,000 shares, issued 2002 and 2001 4,612,517 shares	4,612	4,612
In treasury 2002 99,005 shares; 2001 84,040 shares	(99)	(84)
	-----	-----
Outstanding 2002 4,513,512; 2001 4,528,477	4,513	4,528
Common stock, Class B (nonvoting), no par value, authorized 20,000,000 shares	--	--
Additional paid-in capital	2,009,441	2,044,041
Retained earnings	5,781,940	4,694,536
	-----	-----
	7,795,894	6,743,105
	-----	-----
	\$ 34,229,285	\$ 33,397,455

See Notes to Consolidated Financial Statements

18

PIONEER RAILCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME Years Ended December 31, 2002 and 2001

	2002	2001
-----	-----	-----
Railway operating revenue	\$ 14,969,833	\$ 14,420,945
	-----	-----
Operating expenses		
Maintenance of way and structures	1,129,442	1,396,451
Maintenance of equipment	1,416,737	1,674,703

Transportation	3,220,839	3,368,143
General and administrative	4,334,140	4,576,346
Depreciation	2,027,869	2,020,197
Amortization	4,000	50,489
	-----	-----
	12,133,027	13,086,329
	-----	-----
Operating income	2,836,806	1,334,616
	-----	-----
Other income (expenses)		
Interest income	7,822	30,196
Interest expense	(1,084,133)	(1,350,985)
Lease income	305,192	268,159
Gain on sale of property and equipment	17,190	1,929,107
Other, net	12,245	(33,919)
	-----	-----
	(741,684)	842,558
	-----	-----
Income before provision for income taxes and minority interest in preferred stock dividends of consolidated subsidiaries	2,095,122	2,177,174
Provision for income taxes	733,543	924,539
	-----	-----
Income before minority interest in preferred stock dividends of consolidated subsidiaries	1,361,579	1,252,635
Minority interest in preferred stock dividends of consolidated subsidiaries	115,890	114,740
	-----	-----
Net income	\$ 1,245,689	\$ 1,137,895
	=====	=====
Basic earnings per common share	\$ 0.28	\$ 0.25
	=====	=====
Diluted earnings per common share	\$ 0.28	\$ 0.25

See Notes to Consolidated Financial Statements.

PIONEER RAILCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31, 2002 and 2001

	Common Stock		Additional Paid-In Capital	Retained Earnings
	Class A (Voting)			
	Shares	Amount		
Balance at December 31, 2000	4,531,277	\$ 4,531	\$ 2,044,041	\$ 3,559,841
Shares acquired in treasury for retirement	(2,800)	(3)	--	(3,200)
Net income	--	--	--	1,137,895

Balance at December 31, 2001	4,528,477	4,528	2,044,041	4,694,536
Dividends on common stock, \$.03 per share	--	--	--	(135,907)
Redemption premium paid on repurchase of preferred stock (Note 10)	--	--	(34,600)	--
Shares acquired in treasury for retirement	(14,965)	(15)	--	(22,378)
Net income	--	--	--	1,245,689
Balance at December 31, 2002	4,513,512	\$ 4,513	\$ 2,009,441	\$ 5,781,940

See Notes to Consolidated Financial Statements.

20

PIONEER RAILCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended December 31, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities		
Net income	\$ 1,245,689	\$ 1,137,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest in preferred stock dividends of consolidated subsidiaries	115,890	114,740
Depreciation	2,027,869	2,020,197
Amortization	4,000	50,489
(Increase) in cash value life insurance	(30,537)	(27,388)
(Gain) on sale of property and equipment	(17,190)	(1,929,107)
Deferred taxes	420,000	439,600
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	265,168	256,730
Income tax refund claims	(204,514)	74,010
Inventories	(65,506)	14,834
Prepaid expenses	(11,819)	(106,430)
Other assets	(143,742)	1,393
Increase (decrease) in liabilities:		
Accounts payable	(567,720)	606,808
Accrued expenses	175,937	131,288
Income taxes payable	--	(4,099)
Deferred revenue	1,157,745	870,066
Net cash provided by operating activities	4,371,270	3,651,026
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	59,673	2,811,719
Purchase of property and equipment	(2,611,449)	(3,177,694)
Insurance reimbursements for damaged property	--	202,835
Acquisition of subsidiaries, net of cash acquired and liabilities assumed	--	(1,600,000)
Net cash (used in) investing activities	(2,551,776)	(1,763,140)
Cash Flows From Financing Activities		
Proceeds from short-term borrowings	1,339,637	1,874,450

Proceeds from long-term borrowings	1,219,769	7,678,351
Principal payments on short-term borrowings	(1,305,533)	(1,816,738)
Principal payments on long-term borrowings	(2,240,794)	(9,090,818)
Common stock dividend payments	(135,907)	--
Preferred stock dividend payments to minority interest ..	(115,890)	(114,740)
Purchase of common stock for the treasury	(22,393)	(3,203)
Repurchase of minority interest	(352,000)	(3,000)
Redemption premium on repurchase of preferred stock	(34,600)	--
Net cash (used in) financing activities	(1,647,711)	(1,475,698)
Net increase in cash	\$ 171,783	\$ 412,188
Cash, beginning of year	976,678	564,490
Cash, end of year	\$ 1,148,461	\$ 976,678
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 1,073,983	\$ 1,382,037
Income taxes	\$ 518,057	\$ 415,028
Supplemental Disclosures of Noncash Investing Information		
Accounts receivable applied to acquire equipment	\$ 124,267	\$ --
Railroad acquisitions:		
Fair value of assets acquired, principally property and equipment	\$ --	\$ 1,604,700
Less liabilities assumed	--	4,700
Net cash paid for stock acquisitions	\$ --	\$ 1,600,000

See Notes to Consolidated Financial Statements.

21

PIONEER RAILCORP AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Pioneer Railcorp is the parent company of sixteen short-line common carrier railroad operations, an equipment leasing company, a subsidiary which owns an airplane, and two service companies. Pioneer Railcorp and its subsidiaries (the "Company") operate in the following states: Alabama, Arkansas, Kansas, Illinois, Indiana, Iowa, Michigan, Mississippi, Pennsylvania, and Tennessee.

The Company's subsidiaries include the following:

West Michigan Railroad Co.
Vandalia Railroad Company
Decatur Junction Railway Co.
Alabama & Florida Railway Co., Inc.
Pioneer Industrial Railway Co.
Gettysburg & Northern Railroad Company
Mississippi Central Railroad Co.
Alabama Railroad Co.
Fort Smith Railroad Co.

Michigan Southern Railroad Company and its subsidiary, Michigan Southern Railroad Company, Inc.
Kendalville Terminal Railway Co.
Elkhart & Western Railroad Co.
The Garden City Western Railway, Inc.
Indiana Southwestern Railway Co.
Shawnee Terminal Railway Company
Pioneer Resources, Inc.

Pioneer Railroad Equipment Co., Ltd.
Keokuk Junction Railway Co. and its subsidiary,
Keokuk Union Depot Company

Pioneer Railroad Services, Inc.
Pioneer Air, Inc.

Pioneer Railroad Equipment Co., Ltd. holds title to a majority of the Company's operating equipment, and Pioneer Air, Inc. owns an airplane utilized by the Company for business purposes. Pioneer Railroad Services, Inc. provides management, administrative, and agency services to the Company's subsidiary railroads. Pioneer Resources, Inc. holds title to certain real estate adjacent to one of the Company's railroads. All other subsidiaries are short-line common carrier railroad operations.

Significant accounting policies:

Principles of consolidation: The consolidated financial statements include the accounts of Pioneer Railcorp and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and cash equivalents: For the purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. There are no cash equivalents as of December 31, 2002 and 2001. Periodically throughout the year, the Company has amounts on deposit with financial institutions that exceed the depository insurance limits. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Receivables credit risk: The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Provisions are made for estimated uncollectible trade accounts receivable. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. To date, losses on accounts receivable have been minimal in relation to the volume of sales and have been within management's expectations.

Revenue recognition: Freight revenue, generally derived on a per car basis from on-line customers and connecting carriers with whom the Company interchanges, is considered earned at the time a shipment is either delivered to or received from the connecting carrier at the point of interchange.

Inventories: Inventories consisting of various mechanical parts, track materials, locomotive supplies, and diesel fuel are stated at the lower of cost (determined by the average cost method) or market. Inventories are used on a daily basis for normal operations and maintenance.

Property and equipment: Property and equipment is stated at cost. Depreciation is generally computed on a straight-line basis over the following estimated useful lives:

	Years

Roadbed	20
Transportation equipment	10-15
Railcars	10-25
Buildings	20-40
Machinery and equipment	5-10 Office
equipment	5-10

Leasehold improvements are depreciated over the lesser of the lease term or life of the improvements.

Maintenance and repair expenditures, which keep the rail facilities in operating condition, are charged to operations as incurred. Expenditures considered to be renewals and betterments are capitalized if such expenditures improve the track conditions and benefit future operations with more efficient use of the rail facilities.

Capital projects primarily represent transportation equipment or roadbed modification projects which have either been purchased and the Company is in the process of modifying and upgrading prior to placing the assets into service, or roadbed modification projects which are not yet complete. As the assets have not yet been placed into service, the Company does not depreciate these assets.

The Company reviews applicable assets on a quarterly basis to determine potential impairment by comparing carrying value of underlying assets with the anticipated future cash flows and does not believe that impairment exists as of December 31, 2002 and 2001.

Goodwill: Prior to January 1, 2002, goodwill was amortized on a straight-line basis over periods ranging from 5-40 years. Reference should be made to Note 17 regarding accounting changes with respect to goodwill effective January 1, 2002. Effective January 1, 2002, goodwill is subject to impairment tests performed at least annually.

Deferred revenue: In 2002 and 2001, the Company incurred costs of \$1,012,055 and \$870,066, respectively, relating to an ongoing upgrade of the track and roadbed of the Gettysburg & Northern Railroad Company. The upgrade is required in order to service a customer that has agreed to reimburse the Company for the costs relating to the upgrade. As of December 31, 2002, the customer has reimbursed the Company \$1,882,121. As the project is ongoing as of December 31, 2002, the Company has recognized deferred revenue of \$1,882,121 and capitalized the same amount for the related track and roadbed upgrade in the capital projects category of property and equipment. Commensurate with the completion of the upgrade in January 2003, the capitalized assets will be depreciated on a straight-line basis over their estimated useful lives, while the deferred revenue will be amortized to income over the same lives as the capital assets are depreciated. Additional deferred revenue totaling \$145,690 is recorded relating to a dispute with a Class 1 railroad. Reference should be made to Note 11 regarding this matter.

Stock options and warrants: The Company's accounting for stock options and warrants is in accordance with APB Opinion No. 25 and related interpretations which generally requires that the amount of compensation cost that must be recognized, if any, is the quoted market price of the stock at the measurement date, less the amount the grantee is required to pay to acquire the stock. Alternatively, SFAS 123 employs fair value based measurement and generally results in the recognition of compensation for all awards of stock to employees. SFAS 123 does not require an entity to adopt those provisions, but, rather, permits continued application of APB 25. While the Company has elected not to adopt the fair value recognition and measurement provisions of SFAS 123, it is required to make certain disclosures pursuant to SFAS 123.

23

Had compensation cost for the stock-based compensation plans been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123) reported net income, and earnings per common share would have been reduced to the pro forma amounts shown below.

	2002	2001
Net income:		
As reported	\$ 1,245,689	\$ 1,137,895
Deduct: Stock based compensation expense determined under fair value based method for all awards, net of tax effect	--	(30,930)
Proforma	\$ 1,245,689	\$ 1,106,965
Basic earnings per common share:		
As reported	\$ 0.28	\$ 0.25
Proforma	\$ 0.28	\$ 0.24
Diluted earnings per common share:		
As reported	\$ 0.28	\$ 0.25
Proforma	\$ 0.28	\$ 0.24

Earnings per common share: The Company follows the guidance of Financial Accounting Standards Board (FASB) Statement No. 128, "Earnings per Share," which requires the presentation of earnings per share by all entities that have common stock or potential common stock, such as options, warrants, and convertible securities outstanding, that trade in a public market. Those entities that have only common stock outstanding are required to present basic earnings per-share amounts. Basic per-share amounts are computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding (the denominator). All other entities are required to present basic and diluted per-share amounts. Diluted per-share amounts assume the conversion, exercise, or issuance of all potential common stock instruments, unless the effect is to reduce the loss or increase the net income per common share.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of

management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Government grants: From time to time, the Company, through its subsidiary railroads, enters into agreements with state agencies in the form of federal or state aid projects or grant agreements which are designed to aid the Company with labor, material, and other costs relating to the rehabilitation and repair of track and bridge structures belonging to the Company. As of December 31, 2002, all amounts relative to these agreements have been received and satisfied in full.

The grant funds are applied as a reduction of the related capital additions for rehabilitating and repair of the applicable track and bridge structures in determining the carrying value of the assets. The grant is recognized as income by way of reduced depreciation charges over the estimated useful lives of the underlying property and equipment.

Self-insurance: The Company self-insures a portion of the risks associated with medical expenses incurred by its employees and their dependents. Under the terms of the self-insurance agreement, the Company is responsible for the first \$25,000 of qualifying medical expenses per person on an annual basis, limited to an aggregate excess amount computed under the terms of the insurance contract using specified participant rates. An insurance contract with a life insurance company covers individual claims in excess of \$25,000 on an annual basis and total claims exceeding the aggregate excess, subject to a maximum lifetime reimbursement of \$2,000,000 per person.

Use of estimates in the preparation of financial statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2. Property and Equipment

24

Property and equipment consist of the following:

	December 31,	
	2002	2001
Land	\$ 3,197,483	\$ 3,197,483
Roadbed	10,348,541	10,281,530
Transportation equipment	5,511,373	5,002,475
Railcars	13,666,990	13,378,214
Buildings	1,835,923	1,382,375
Machinery and equipment	1,617,390	1,544,251
Office equipment	498,008	485,804
Leasehold improvements	252,684	252,684
Capital projects	2,931,277	1,667,580

	-----	-----
	39,859,669	37,192,396
Less accumulated depreciation	12,066,096	10,064,187
	-----	-----
	\$27,793,573	\$27,128,209
	=====	=====

Note 3. Pledged Assets, Notes Payable, and Long-Term Debt

The Company has various unsecured notes payable totaling \$61,816 and \$57,712 as of December 31, 2002 and 2001, respectively, for the financing of insurance premiums. The \$61,816 note, as of December 31, 2002, is payable in monthly installments of \$20,605, including interest at 6%, through March 2003.

The Company has a \$30,000 non-interest-bearing note payable as of December 31, 2002, with Delaware Transportation Equipment Co., L.L.C. This note payable is payable in monthly installments of \$5,000, final payment due June 2003, collateralized by a locomotive.

The Company had a \$600,000 and a \$500,000 line of credit with National City Bank, Peoria, Illinois, at December 31, 2001, each bearing interest at prime, as published in The Wall Street Journal, plus 1%, collateralized by accounts receivable and general intangibles of certain subsidiaries. Effective October 10, 2002, the \$600,000 and \$500,000 lines-of-credit were combined into one \$1,100,000 line-of-credit with National City Bank, Peoria, Illinois, bearing interest at prime, as published in The Wall Street Journal, plus .5%, collateralized by inventory and accounts receivable. The Company had no outstanding balance under these lines-of-credit as of December 31, 2002 and 2001.

The Company had a \$5 million master credit facility with National City Bank, Peoria, Illinois, to provide a revolving acquisition line of credit. This facility expired in October 2002 and was collateralized by commercial pledges and security agreements of various subsidiaries, certain transportation equipment, and other tangible and intangible assets. The interest rate was adjustable at 1.0% over the bank's prime rate (5.75% at December 31, 2001). Amounts drawn on the master line were characterized as separate notes that generally were to be repaid monthly over periods of up to ten years. The Company's outstanding borrowings classified as long-term under this line of credit totaled \$2,709,343 as of December 31, 2001.

The credit agreements with National City Bank contain various restrictive loan covenants, including among others, minimum tangible net worth, debt service coverage, and maximum funded debt to earnings before interest, taxes, depreciation, and amortization (EBITDA).

25

Long-term debt at December 31, 2002 and 2001, consists of the following:

	2002	2001
	-----	-----
Note payable, National City Bank, due in monthly installments of \$33,012 including interest at 8.15%,		

final installment due July 2005, collateralized by locomotives	\$1,502,877	\$1,765,273
Noninterest-bearing note payable, State of Mississippi, due in annual installments of \$3,792, final installment due February 2009, collateralized by track structure	26,546	30,338
Mortgage payable, National City Bank, due in monthly installments of \$4,049 including interest at 9.75% The interest rate is adjustable every five years and is presently based on the Bank's base rate plus 1.5% as of October 31, 1999. Final installment due June 2008, collateralized by Pioneer Railcorp's corporate headquarters building	346,516	360,105
Mortgage payable, National City Bank, due in monthly installments of \$26,057 including interest at 8.35%, final installment due July 2006, collateralized by railcars	963,576	1,184,756
Note payable, Bank of America Leasing & Capital, due in monthly installments of \$30,375 including interest at 5.9%, final installment due December 2004, collateralized by locomotives ..	686,102	1,000,000
Note payable, State of Iowa, due in annual installments of \$47,191 including interest at 3%, final installment due December 2011, collateralized by track material	402,551	145,891
Noninterest-bearing note payable, Main Street Inc., due in monthly installments of \$100, final installment due January 2005, uncollateralized	2,300	3,700
Notes payable, TCF Leasing Inc., due in monthly installments of \$18,029 and \$13,064 including interest at 7.4% and 6.7%, final installments due August 2006 and September 2006, collateralized by railcars	1,211,523	1,487,884
Notes payable, Center Capital Corporation, due in monthly installments of \$47,008 including interest at 6.85%, final installments due January 2005, collateralized by 70 ton box cars	1,092,312	1,521,547
Balance carried forward	\$6,234,303	\$7,499,494

26

	2002	2001
Balance brought forward	\$ 6,234,303	\$ 7,499,494
Note payable, National City Bank, due in monthly installments of \$23,195 including interest at 5.75%, final payment due October 2007, collateralized by Indiana Southwestern railway Co. and the Gettysburg & Northern Railroad Co. stock and assets	2,078,929	--
Note payable, National City Bank, due in monthly installments of \$15,855 including interest at 5.70%, final payment due October 2007, collateralized by Garden City & Western Railway, Inc. stock and assets	1,196,091	--
Note payable, National City Bank, due in monthly installments of \$36,365 including interest at 7.15%, final installment due November 2007, collateralized by Keokuk Junction Railway Co. stock and assets	2,345,489	--
Note payable, National City Bank, due in monthly installments of \$30,731 including interest at 7.55%, final installment due October 2007, collateralized by Michigan Southern Railway Company and Michigan Southern Railroad Company, Inc. stock and assets	1,865,398	--
Notes payable, Bank of America Leasing & Capital, due in monthly installments of \$9,039 and \$9,473 including interest at 6.39% and 5.16%, final installments due July 2007 and September 2007, collateralized by locomotives	907,835	--
Note payable under master line of credit agreement with National City Bank, due in monthly installments of \$27,705 including interest at 1.0% over the bank's prime rate (5.75% at December 31, 2001), final 2002,ent due June 2002, collateralized by real estate, rail facilities, and other assets of the Indiana Southwestern Railway Co. and the Gettysburg & Northern Railroad Co. (refinanced in 2002)	--	2,709,343
Note payable, National City Bank, due in monthly principal installments of \$8,433 through July 2002, with annual increases thereafter, plus interest at the bank's LIBOR rate plus 2.25% adjusted monthly (4.18% at December 31, 2001), final installment due July 2005, collateralized by real estate, rail facilities, and other assets of Garden City & Western Railway, Inc. (refinanced in 2002)	--	1,293,521

Note payable, National City Bank, due in monthly installments of \$30,830 including interest at 8.375%, final installment due May 2004, collateralized by the assets of the Michigan Southern Railroad Company and Michigan Southern Railroad Company, Inc. (refinanced in 2002)	--	2,047,793
Note payable, National City Bank, due in monthly installments of \$37,235 including interest at 8.375% through May 2004 when the rate will be adjusted, final installment due December 2008, collateralized by Keokuk Junction Railway Co. stock and assets (refinanced in 2002)	--	2,098,919
	14,628,045	15,649,070
Less current portion	2,716,801	4,828,203
	\$11,911,244	\$10,820,867

Aggregate maturities required on long-term debt as of December 31, 2002, are due in future years as follows:

Years ending December 31:	Amount
2003	\$ 2,716,801
2004	2,874,021
2005	2,760,229
2006	1,681,171
2007	4,163,615
Thereafter	432,208
	\$ 14,628,045
	=====

Note 4. Income Tax Matters

The Company and all but one of its subsidiaries file a consolidated federal income tax return. This subsidiary files separate federal and state income tax returns.

The provision for income taxes charged to operations for the years ended December 31, 2002 and 2001, was as follows:

	2002	2001
Current:		
Federal	\$209,738	\$374,805
State	103,805	110,134
	313,543	484,939
Deferred:		
Federal	396,375	414,875
State	23,625	24,725
	420,000	439,600
	\$733,543	\$924,539
	=====	=====

The income tax provision differs from the amount of income tax determined by applying the federal income tax rate to pretax income from operations for the years ended December 31, 2002 and 2001, due to the following:

	2002	2001
Computed "expected" tax expense	34.0%	34.0%
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal tax benefit	4.1	4.1
Goodwill amortization	--	.7
Reduction in state tax rate for changes in temporary differences	(1.9)	--
Other	(1.2)	3.7
	35.0%	42.5%

Deferred tax assets and liabilities consist of the following components as of December 31, 2002 and 2001:

	2002	2001
Deferred tax assets:		
AMT credit carryforwards	\$ 614,000	\$ 772,000
NOL carryforwards	--	33,000
Deferred compensation	50,000	49,000
Other	17,000	49,000
	681,000	903,000
Deferred tax liabilities:		
Property and equipment	(6,306,000)	(6,108,000)
	\$ (5,625,000)	\$ (5,205,000)
	=====	=====

28

The components giving rise to the deferred tax assets and liabilities described above have been included in the consolidated balance sheets as of December 31, 2002 and 2001, as follows:

	2002	2001
Current deferred tax assets	\$ 12,000	\$ 80,000
Net noncurrent deferred tax liabilities	(5,637,000)	(5,285,000)
	-----	-----
Net deferred tax liability	\$ (5,625,000)	\$ (5,205,000)
	=====	=====

The Company and its subsidiaries have Alternative Minimum Tax (AMT) credit carry forwards of approximately \$614,000 and \$772,000 at December 31, 2002 and 2001, respectively. This excess of AMT over regular tax can be carried forward indefinitely to reduce future federal income tax liabilities.

Note 5. Retirement Plan

The Company has a defined contribution 401(k) plan covering substantially all employees. Employees are eligible to participate in the plan upon employment and

may elect to contribute, on a tax deferred basis, the lesser of 15% of their salary, or the Internal Revenue Service maximum deferral limit. Company contributions are discretionary and there were no Company contributions to the plan in either 2002 or 2001. Administrative expenses paid by the Company under the plan were \$8,000 and \$4,000 for the years ended December 31, 2002 and 2001, respectively.

Note 6. Deferred Compensation Agreements

The Company has deferred compensation agreements with two former Keokuk Junction Railway Co. employees. The agreements provide monthly benefits for 15 years beginning with the month immediately following the employees' normal retirement date, as defined in the agreements. If an employee terminates employment with the Company for any reason other than death prior to the employees' normal retirement date, benefits are rendered on a pro rata basis. Since both former employees were fully eligible for benefits when they terminated employment in 1999, no additional compensation benefits will accrue. The present value of these benefits was fully accrued, using a discount rate of 7%, by a charge to compensation expense as of December 31, 1999. One employee began receiving benefits in 2001, while the other employee is not scheduled to receive benefits until 2008. The accrual is increased each year by charges to interest expense for the cost of deferring such benefit for the one employee who will not receive benefits until 2008. The liability recorded under these agreements totaled \$133,000 and \$129,000 at December 31, 2002 and 2001, respectively. Interest expense under these agreements totaled \$9,200 and \$8,600 for the years ended December 31, 2002 and 2001, respectively.

Note 7. Stock Options and Warrants

On May 28, 1996, the Board of Directors approved a stock option plan under which the Company granted options to key management, other employees, and outside directors for the purchase of 407,000 shares of its common stock. The plan was approved by the Company's stockholders on June 26, 1996. The options became fully vested and exercisable as of July 1, 2001. Vested options may be exercised in whole or in part within 10 years from the date of grant. The exercise price for these options ranges from \$2.75 to \$3.03, based upon the trading price on the date of the grant. As of December 31, 2002, 155,000 options are still Outstanding under the plan.

Other pertinent information related to the plans is as follows:

	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	175,000	\$ 2.88	215,000	\$ 2.85
Forfeited	(20,000)	2.75	(40,000)	2.75
Exercised	--	--	--	--
Outstanding at end of year	155,000	\$ 2.89	175,000	\$ 2.88

Exercisable at end of year	155,000	175,000
	=====	=====

29

A further summary about stock options outstanding as of December 31, 2002, is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$2.75 - \$3.03	155,000	3.4 years	\$ 2.89	155,000	\$ 2.89

On June 24, 1995, the Company issued 4,198,284 warrants to stockholders of record as a dividend. Each warrant permits stockholders a right to purchase an additional share of stock at a predetermined price of \$2 per share. Stock acquired by exercise of each warrant must be held for a one-year period of time. The warrants expire July 1, 2015. There are 4,129,720 warrants outstanding as of December 31, 2002 and 2001, respectively.

Note 8. Lease Commitments and Total Rental Expense

The Company has entered into five lease agreements covering certain of its railroad properties. For railroad properties it leases, the Company ordinarily assumes, upon the commencement date, all operating and financial responsibilities, including maintenance, payment of property taxes, and regulatory compliance. Lease payments on three railroad properties are based on a per car basis, \$10 on all cars over 1,000 cars per year on each segment. The leases expire between July 2004 and September 2013 and three of these railroads have ten to twenty year renewal options.

The Company has a land lease for the corporate office building. This lease expires in 2008 and is renewable for five successive periods of five years with annual rents equal to ten percent of the appraised value of the land, payable in monthly installments, and with appraisal value reviews every five years following the origination date. The Company is responsible for costs of maintenance, utilities, taxes, and insurance.

The total approximate minimum rental commitment as of December 31, 2002, required under noncancelable leases, and excluding executory costs and per car rentals, is due in future years as follows:

Years Ending December 31:	Amount
2003	\$ 31,000
2004	31,000
2005	31,000
2006	31,000
2007	31,000

Thereafter	71,000

	\$226,000
	=====

The total rental expense under the leases was approximately \$38,000 and \$49,000 for the years ended December 31, 2002 and 2001, respectively.

Note 9. Major Customer

Revenue earned from a major railroad segment customer amounted to approximately \$2,851,000 and \$2,829,000 during the years ended December 31, 2002 and 2001, respectively. Accounts receivable as of December 31, 2002 and 2001, include approximately \$443,000 and \$340,000, respectively, from this customer.

Note 10. Minority Interest in Subsidiaries

Two of the Company's subsidiaries have preferred stock outstanding as of December 31, 2002. This stock is accounted for as minority interest in subsidiaries and dividends on the stock are accounted for as a current expense. The preferred stock of Mississippi Central Railroad Company was callable at the Company's option at 110% of fair value. The Company exercised this option during 2002 and repurchased all of the outstanding shares of Mississippi Central Railroad Company preferred stock. The \$34,600 amount representing the 10% premium paid on the redemption of the preferred stock is recorded as a charge to additional paid-in capital.

30

Following is a summary of the minority interest in subsidiaries as of December 31, 2002 and 2001:

	2002	2001
	-----	-----
Preferred stock of Alabama Railroad Co.		
Par value - \$1,000 per share		
Authorized - 700 shares		
Issued and outstanding - 392 and 405 shares		
(cumulative 12% dividend; callable		
at Company's option at 150% of face value)		
at December 31, 2002 and 2001, respectively	\$ 392,000	\$ 405,000
Preferred stock of Alabama & Florida Railway Co., Inc.		
Par value - \$1,000 per share		
Authorized - 500 shares		
Issued and outstanding - 359 and 366 shares		
(cumulative 9% dividend; callable at Company's		
option after June 22, 1995, at 150% of face value)		
at December 31, 2002 and 2001, respectively	359,000	366,000
Preferred stock of Mississippi Central Railroad Co.		
Par value - \$1,000 per share		
Authorized - 1,000 shares		
Issued and outstanding - none and 332 shares		
(cumulative 10% dividend; convertible at a rate		
of \$10 per common share, callable at Company's		
option after March 1, 1996, at 110% of face value)		
at December 31, 2002 and 2001, respectively	--	332,000

Note 11. Commitments and Contingencies

Commitments: In December 2001, the Company entered into a five-year extension of an existing executive employment contract with the Company's president. The five-year extension provides for a base salary with an annual inflation adjustment based upon the Consumer Price Index. Should the Company acquire or form additional railroads, the base salary will increase \$25,000 for the acquisition of railroads of 125 miles or less, and \$50,000 for railroads over 125 miles. Should the president's employment be terminated, the contract requires a lump sum payment equal to three years of his then current salary. Should the president retire, he is entitled to accept a consulting position with the Company whereby he would be compensated the equivalent of one year's salary for the consulting services rendered, or retire outright with no retirement benefits from the Company.

Contingencies: In the course of its business, the Company's subsidiaries experience crossing accidents, employee injuries, delinquent or disputed accounts and other incidents, which give rise to claims that may result in litigation. Management vigorously pursues settlement of such claims, but at any one time, some such incidents, which could result in lawsuits by and against the Company and its subsidiary railroads, remain unresolved. Management believes it has valid claims for, or good defenses to, these actions.

Management considers such claims to be a routine part of the Company's business and, as of the date of this statement, management believes that no incident has the potential to result in a liability that would materially effect the Company's consolidated financial position or results of operations.

31

The Company is presently involved in litigation surrounding trackage rights with a Class I railroad regarding fees charged between March 1999 and May 2001 by the Company for the Class I carrier's access to and usage of a segment of the Company's tracks as a means of gaining access to certain trackage owned by the Class I railroad. The Surface Transportation Board (STB), in a decision in June 2001, ruled that the Class I railroad could have access to and cross the Company's tracks in order to get to the branch line owned by the Class I railroad. The STB did not set compensation or other terms and conditions as part of its decision and ordered the two parties to negotiate terms and conditions, and ordered that if no agreement could be reached, that the STB would make a ruling. From March 1999 through May 2001, the Company charged the Class I railroad approximately \$660,000 for access to the Company's track. From May 2001 through December 31, 2001, the Company did not charge the Class I railroad for access to the segment of the Company's track in question. In June 2002, the Washington, D.C. Circuit Court of Appeals vacated the June 2001 STB decision. The Company and the Class I railroad began discussing resolution of the trackage rights dispute, but no agreement could be reached. The Class I railroad commenced utilization of the segment of the Company's track on July 1, 2002. The Class I railroad has agreed to pay the Company \$85 per car for traffic commencing July 1, 2002, on the segment of the track in question with the \$145,690 charged by the Company since

July 1, 2002, being accounted for as deferred revenue on the balance sheet. The Company intends to continue to vigorously defend itself in this matter. As of December 31, 2002, it is not possible to ascertain the ultimate financial impact, if any, upon the Company. Management has made no provision for any estimated losses associated with this matter. In the event that the STB makes an unfavorable ruling against the Company with respect to the \$660,000 of fees charged from March 1999 through May 2001, it is possible, however, that the outcome could have a material adverse effect on the Company's financial condition and results of operations.

The Company was awarded grants totaling \$722,097 in 1998 for the repair and rehabilitation of certain railroad track and related structures the Company owns in Alabama. The Company's obligations under the grants expire in 2004, five years after the completion of the repairs. In the unlikely event the Company should discontinue using the underlying track prior to the expiration of the aforementioned commitment period, the Company is contingently liable to repay the full value of awarded funds pursuant to the grants.

The Company was contingently liable as a guarantor on an outstanding loan payable to the U.S. Small Business Administration. The \$79,000 loan was the primary responsibility of the Minnesota Central Railroad Co. (Minnesota Central), which the Company sold in 1999; however, the Company had guaranteed the debt prior to the sale of the Minnesota Central. The Company was required by the U.S. Small Business Administration to pay the \$79,000 loan in 2001 as the purchaser of Minnesota Central Railroad Co. had defaulted on paying the \$79,000 outstanding loan balance.

Note 12. Earnings Per Share

Following is information about the computation of the earnings per share (EPS) data for the years ended December 31, 2002 and 2001:

	For the Year Ended December 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount

Basic EPS			
Income available to common stockholders	\$1,245,689	4,527,523	\$ 0.28
			=====
Effect of Dilutive Securities			
Employee stock options	--	--	

Diluted EPS			
Income available to common stockholders plus assumed conversions	\$1,245,689	4,527,523	\$ 0.28
			=====
For the Year Ended December 31, 2001			

Basic EPS			
Income available to common stockholders	\$1,137,895	4,529,297	\$ 0.25
			=====
Effect of Dilutive Securities			
Employee stock options	--	--	

Diluted EPS			
Income available to common stockholders plus assumed conversions	\$1,137,895	4,529,297	\$ 0.25

The Company has authorized the issuance of stock warrants and granted options to employees to purchase shares of common stock as discussed in Note 7. In determining the effect of dilutive securities, certain stock warrants and options were not included in the computation of diluted earnings per share because the exercise price of those warrants and options exceeded the average market price of the common shares during the applicable year.

Note 13. Common Stock Repurchase

In 1999, the Company's Board of Directors approved a plan to begin repurchasing shares of the Company's common stock from stockholders. During 2002 and 2001, the Company repurchased 14,965 and 2,800 shares of common stock at an average price of approximately \$1.50 and \$1.14 per share, respectively, for a cost of \$22,393 in 2002 and \$3,203 in 2001.

The common stock repurchased is accounted for as treasury stock in the Company's 2002 and 2001 consolidated balance sheets and statements of stockholders' equity. As such, treasury shares held reduce the number of shares of common stock outstanding as of December 31, 2002 and 2001, and the value of the treasury stock reduces stockholders' equity. The excess of the purchase price of the treasury stock over the par value of the stock of \$22,378 and \$3,200 was charged to retained earnings as of December 31, 2002 and 2001, respectively.

Note 14. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents:

The carrying amount approximates the fair value because of the short maturity of those instruments.

Notes payable and long-term debt:

The fair value of the Company's notes payable and long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities with similar collateral requirements.

The estimated fair values of the Company's financial instruments as of December 31, 2002 and 2001, are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,148,461	\$ 1,148,461	\$ 976,678	\$ 976,678
Notes payable and long-term debt	\$14,719,861	\$14,295,707	\$15,706,782	\$15,461,138

Although the fair value of the Company's notes payable and long-term debt is less than its carrying amount at December 31, 2002 and 2001, transaction costs, including prepayment penalties, have not been considered in estimating fair values. Therefore, as a result of significant prepayment penalties, it would not be prudent for the Company to settle the debt at a gain.

In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, nonfinancial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the trained work force, customer goodwill, and similar items.

Note 15. Segment Information

Description of products and services from reportable segments: Pioneer Railcorp's two reportable segments consist of railroad operations and equipment leasing operations. All other operations are classified as corporate support services for purposes of this disclosure.

Measurement of segment profit or loss and segment assets: The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Pioneer Railcorp evaluates segment profit based on operating income before intersegment revenues, provision for income taxes, items of other income and expense, and minority interest in preferred stock dividends of consolidated subsidiaries.

33

Intersegment transactions: Intersegment transactions are recorded at cost.

Factors management used to identify the reportable segment: Pioneer Railcorp's reportable segments consist of wholly-owned short line railroad subsidiaries that offer similar services and a railroad equipment subsidiary that leases railcars, locomotives, and other railroad equipment to affiliated and unaffiliated entities. The corporate operations consist of support services provided to the operating segments.

	For Year Ended December 31,	
	2002	2001

Segment Assets		
Railroad operations	\$ 20,917,398	\$ 19,813,484
Equipment leasing operations	12,258,327	12,733,344
Corporate support services	1,053,560	850,627

Total consolidated segment assets	\$ 34,229,285	\$ 33,397,455
	=====	
Expenditures for additions to long-lived assets		
Railroad operations		
Purchases	\$ 1,676,017	\$ 2,114,118
Acquired through purchase of subsidiaries	-	1,604,700
Equipment leasing operations	1,056,625	1,051,826
Corporate support services	3,074	16,450

Total expenditures for additions to long-lived assets	\$ 2,735,716	\$ 4,787,094
	=====	

Revenues		
Revenues from external customers		
Railroad operations	\$ 11,978,261	\$ 11,310,471
Equipment leasing operations	2,976,332	3,080,117
Corporate support services	15,240	30,357
Total revenues from external customers	\$ 14,969,833	\$ 14,420,945
=====		
Intersegment revenues		
Railroad operations	\$ --	\$ --
Equipment leasing operations	398,400	398,400
Corporate support services	6,209,410	6,714,521
Total intersegment revenues	\$ 6,607,810	\$ 7,112,921
=====		
Total revenue	\$ 21,577,643	\$ 21,533,866
Reconciling items		
Intersegment revenues	(6,607,810)	(7,112,921)
Total consolidated revenues	\$ 14,969,833	\$ 14,420,945
=====		
Expenses		
Interest expense		
Railroad operations	\$ 18,210	\$ 53,037
Equipment leasing operations	480,019	627,250
Corporate support services	585,904	670,698
Total consolidated interest expense	\$ 1,084,133	\$ 1,350,985
=====		
Depreciation and amortization expense		
Railroad operations	\$ 719,426	\$ 751,832
Equipment leasing operations	1,235,911	1,228,825
Corporate support services	76,532	90,029
Total consolidated depreciation and amortization expense	\$ 2,031,869	\$ 2,070,686
=====		
Segment profit		
Railroad operations	\$ 5,004,626	\$ 3,809,823
Equipment leasing operations	1,451,171	1,464,980
Corporate support services	2,988,819	3,172,734
Total segment profit	9,444,616	8,447,537
Reconciling items		
Intersegment revenues	(6,607,810)	(7,112,921)
Income taxes	(733,543)	(924,539)
Minority interest in preferred stock dividends of subsidiaries	(115,890)	(114,740)
Other income (expense), net	(741,684)	842,558
Total consolidated net income	\$ 1,245,689	\$ 1,137,895

34

Note 16. Purchases of Railroad Facilities

On February 20, 2001, the Company, through its wholly-owned subsidiary Gettysburg & Northern Railroad Co., acquired for \$1,604,700 the railroad assets of the former Gettysburg Railway, Inc., and the Gettysburg Scenic Railway and assumed \$4,700 of liabilities in a transaction accounted for by the purchase method of accounting. The fair value of the assets acquired of \$1,604,700 was allocated to the track assets acquired. The operating results of the acquired company have been included in the consolidated statement of income since the date of acquisition. The Company financed this acquisition with \$1,600,000 of long-term borrowings.

Unaudited pro forma consolidated results of operation for the year ended December 31, 2001, as though the aforementioned acquisition had occurred as of January 1, 2001, follows:

	2001

Railway operating revenue	\$14,557,004
Net income	1,101,033
Earnings per common share	0.24

The above amounts reflect adjustments for amortization of goodwill, additional depreciation on revalued purchased assets, and interest on borrowed funds.

Note 17. Accounting Change

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 142, "Goodwill and Other Intangible Assets." Under FASB No. 142, goodwill and intangible assets that management concludes has indefinite useful lives are no longer amortized, but will be subject to impairment tests performed at least annually. FASB No. 142 also requires that an acquired intangible asset be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the assets can be sold, transferred, licensed, rented, or exchanged, regardless of the Company's intent to do so. Effective January 1, 2002, the Company adopted FASB No. 142 and determined that no transitional impairment loss was required at January 1, 2002.

The Company performed the first of the annual required impairment tests of goodwill as of December 31, 2002, and, based on management estimates of fair value of the entity, there was no reduction in the carrying amount of the goodwill previously recognized. The Company did not acquire any additional goodwill during 2002.

In the consolidated balance sheet as of December 31, 2002 and 2001, goodwill totaled \$1,017,430.

The following table presents pro forma net income and earnings per share, exclusive of goodwill amortization expense:

	December 31,	
	2002	2001
	-----	-----
Reported net income	\$ 1,245,689	\$ 1,137,895
Add back goodwill amortization, net of tax ...	--	22,500
	-----	-----
Adjusted net income	\$ 1,245,689	\$ 1,160,395
	=====	=====
Basic earnings per share:		
Reported net income	\$ 0.28	\$ 0.25
Add back goodwill amortization	--	0.01
	-----	-----
Adjusted net income	\$ 0.28	\$ 0.26

=====			
Fully diluted earnings per share:			
Reported net income	\$	0.28	\$ 0.25
Add back goodwill amortization		--	0.01

Adjusted net income	\$	0.28	\$ 0.26
=====			

Note 18. New Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 41 addresses financial accounting and reporting for business combinations, and is effective for all business combinations initiated after June 30, 2001. Effective January 1, 2002, the Company adopted SFAS No. 141. The Company did not enter into any business combinations after June 30, 2001, and, therefore, the adoption of SFAS No. 141 had no effect on the Company's financial statements.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FASB No. 144). This supersedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. FASB No. 144 also amends ARB No. 151, "Consolidated Financial Statements," and was adopted effective January 1, 2002. The adoption of this accounting standard did not have a material effect on the Company's consolidated financial statements.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." FASB No. 143 amends FASB No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." It addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs, and is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has not yet completed its full assessment of the effects of this new pronouncement on its financial statements and so is uncertain as to the impact.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued. SFAS No. 146 supersedes Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under SFAS No. 146, an entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability. SFAS No. 146 also establishes fair value as the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. As SFAS

No. 146 only applies to prospective items, the Company believes the adoption of SFAS No. 146 will not have a material impact on the Company's financial position or results of operations.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. The Company does not expect to adopt the fair value method. In addition, SFAS No. 148 requires the Company to disclose in both annual and interim financial statements the method of accounting for stock-based compensation and the effect of the method used on the Company's reported results. SFAS No. 148 is effective for annual and interim periods ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's 2002 consolidated financial statements and is not expected to have a material impact on the Company's future consolidated financial statements.

In November 2002, FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FASB Interpretation No. 45), was issued. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The initial measurement and recognition provisions are required to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. They require that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Under prior accounting principles, a guarantee would not have been recognized as a liability until a loss was probable and reasonably estimable. As FASB Interpretation No. 45 only applies to prospective transactions, the Company believes that the adoption of FASB Interpretation No. 45 will not have a material impact on the Company's financial position or results of operations.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FASB Interpretation No. 46), was issued. It clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which the equity investors do not have a controlling financial interest or do not have sufficient equity at risk. FASB Interpretation No. 46 is effective on January 31, 2003, for entities acquired after such date. The effective date for entities acquired on or before January 31, 2003 is July 1, 2003. The Company has not completed its full assessment of the effects of FASB Interpretation No. 46 on its financial statements and so it is uncertain as to the impact.

Item 8. Changes In and Disagreements With Accountants on Accounting Financial Disclosure

None.

PART III

Item 9. Directors and Executive Officers of the Registrant

Set forth below are the names and ages of all the directors and executive officers of the Registrant and the positions and offices held by such persons as of December 31, 2002.

Name (Age)	Position

Guy L. Brenkman (55)	Director (Chairman) & President
J. Michael Carr (38)	Director & Treasurer
Orvel L. Cox (60)	Director
Clifton T. Lopez (57)	Director
John S. Fulton (70)	Director
Scott Isonhart (36)	Secretary

All of the above Directors and Officers, with the exception of Clifton T. Lopez, were elected at the Annual Meeting of the Stockholders (and the board meeting which followed) on June 26, 2002 to serve until the 2003 annual meeting. Mr. Lopez was appointed by the Board to complete the term and fill the vacancy created by the resignation of William Sharpe. Mr. Sharpe resigned for personal reasons and was not in conflict with the Board or Company management. There is no family relationship between any officer or director.

Information about Directors and Executive Officers

Mr. Brenkman, Chairman of the Board of Directors and President of Pioneer Railcorp and its subsidiaries, was the incorporator of the Company and has been a member of the Board of Directors and President of the Company since its formation. Mr. Brenkman's past business experience includes real estate sales and management, securities sales, and seven years of operational railroad industry experience before managing the day to day railroad operations of Pioneer in 1988. Mr. Brenkman, acting as agent of the Issuer conducted the public offering of Pioneer Railcorp, which raised its initial capital, and secondary capital for expansions.

Mr. Carr, Treasurer, also serves as Treasurer for each of the Company's subsidiaries and Chief Financial Officer for same. Mr. Carr has been employed by the Company since March 1993. Before joining the Company, Mr. Carr worked in public accounting and banking for seven years, most recently as Controller for United Federal Bank. Mr. Carr is a CPA and holds a BS-Accounting from Illinois State University, Normal, Illinois.

Mr. Cox, Director, also serves as same for each of the Company's subsidiaries. Mr. Cox has 43 years of active railroading experience with 31 of those years working for Class I railroads. Mr. Cox retired from employment with the Company in 2002. Mr. Cox has been a director and officer of Pioneer Railcorp since its inception and has been involved in all phases of the development and growth of the Company. Mr. Cox is a member of the Audit Committee.

Clifton T. Lopez, Director, was appointed to the board in August 2002. Mr Lopez

works as a consultant, currently supporting the tax departments at Monsanto and Pharmacia Corp. in St. Louis, MO. Mr. Lopez has over 30 years of experience in accounting, finance, and planning. Mr. Lopez has a BA-Accounting and Management from Virginia Commonwealth University, Richmond, VA. In addition, Mr. Lopez served 5 years in the military, and resigned commission as a Captain in the Transportation Corp., associated with the transportation business in the areas of trucking, rail, water and aircraft. Mr. Lopez is a member of the Audit Committee and is considered the Audit Committee financial expert of the committee.

Mr. Fulton, Director, was elected to the Board in 1993. Mr. Fulton has 19 years experience in the real estate business concentrating in retail sales, real estate development and appraising. Mr. Fulton's previous positions include industrial appraising (6 years) with Cole, Laver Trumble of Dayton, Ohio, and 5 years with Pepsi-Cola. Mr. Fulton holds a BS degree in Public Administration from Bradley University in Peoria, Illinois. Mr. Fulton is a member of the Audit Committee.

37

Mr. Isonhart, Assistant Secretary, also serves as same for the Company's subsidiaries. Mr. Isonhart has been employed in the finance department of the Company since May 1993 and has a S-Accounting from Bradley University in Peoria, Illinois.

Item 10. Executive Compensation

Summary Compensation Table

		Annual					
		Compensation		Long Term Compensation			
		-----		-----			
				Restricted			
Name & Year	Salary	Award	Options/SARs	Stock Compensation	-----	Other Position	
-----	-----	-----	-----	Guy L. Brenkman, CEO	2002	\$648,952	
----	----		\$ 0				
		2001	\$654,267	----	----	\$ 0	
		2000	\$532,341	----	----	\$ 0	

The remainder of this page is intentionally left blank

38

Option/SAR Grants in Last Fiscal Year

None

Aggregated Option/SAR Exercises in Last Fiscal Year

and FY-End Option/SAR Values

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at FY-End	Value of Unexercised
			Exercisable/ Unexercisable	In-the-Money Options/SARs At FY-End Exercisable/ Unexercisable

Guy Brenkman-CEO	0	0	0/ 80,000	\$0/\$0

In December 1993, the Company entered into a five-year executive employment contract with the Company's president, which was extended through December 2006 by the Board of Directors. The agreement provides for a base salary with annual inflation adjustments based upon the Consumer Price Index. The current agreement provides for twelve weeks paid vacation each year. The president at his election can be paid for any unused vacation during the year. Should the Company acquire or form additional railroads, the base salary will increase \$25,000 for the acquisition of railroads of 125 miles or less, and \$50,000 for railroads over 125 miles. At January 1, 2003, the president's base salary was \$521,816. Should the president's employment be terminated, the contract requires a lump sum payment equal to three years of his then current salary. Should the president retire, he is entitled to accept a consulting position with the Company whereby he would be compensated the equivalent of one year's salary for the consulting services rendered.

Although Mr. Brenkman is authorized by his contract to receive an increase in compensation immediately upon the start of a new railroad, he has generally declined these increases, until in his opinion, the railroad appears to be self supporting and can absorb the cost of such raise. In several instances, Mr. Brenkman has not taken a raise at all. A detailed list of these raises since 1993 is listed as follows:

Subsidiary	Date Acquired	Date Raise Effective

Vandalia Railroad Company	10/07/94	10/07/94
Minnesota Central Railroad Co.	12/12/94	02/01/95
West Michigan Railroad Co.	07/11/95	No Raise Taken
Columbia & Northern Railway	02/21/96	No Raise Taken
Keokuk Junction Railway Co.	03/12/96	04/16/96
Rochelle Railroad Co	03/25/96	04/16/96
Shawnee Terminal Railway Co.	11/13/96	01/01/98
Michigan Southern Railroad	12/19/96	01/01/97
Pioneer Industrial Railway Co.	02/18/98	No Raise Taken
The Garden City Western Railway Co.	04/29/99	05/01/99
Indiana Southwestern Railway Co.	04/01/00	01/01/01
Gettysburg & Northern Railroad CO.	02/20/01	No Raise Taken

Directors of the Registrant each were compensated \$5,000 in 2002.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, as of March 25, 2003, the beneficial ownership of all directors and officers of the Company as a group. These figures include shares of Common Stock that the executive officers have the right to acquire within 60 days of March 25, 2003 pursuant to the exercise of stock options and warrants.

Title of Class: Common Stock (\$.001 par value)

Beneficial Percent		
Name Of Beneficial Owner	Ownership	Of Class
Guy L. Brenkman (2)	3,483,503	39.94%
Orvel L. Cox (3)	183,869	2.11%
John S. Fulton (4)	26,400	.30%
J. Michael Carr (5)	37,414	.43%
Scott Isonhart (6)	5,100	.06%
Clifton T. Lopez	1,000	.01%

Directors and Executive		
Officers as a Group:	3,737,286	42.85%(1)

FOOTNOTES:

(1) Based on 8,721,499 shares of common stock and equivalents outstanding as of March 25, 2003.

(2) Of the total number of shares shown as owned by Mr. Brenkman, 1,740,800 shares represent the number of shares Mr. Brenkman has the right to acquire within 60 days through the exercise of warrants and 33,003 represents the number of shares Mr. Brenkman has the right to acquire within 60 days through the exercise of stock options. Mr. Brenkman owns all shares in joint tenancy with his wife. In addition, 2,340 shares are held by Mr. Brenkman's wife, in which he disclaims beneficial ownership.

(3) Of the total number of shares shown as owned by Mr. Cox, 101,770 shares represent the number of shares Mr. Cox has the right to acquire within 60 days through the exercise of warrants and 20,000 represents the number of shares Mr. Cox has the right to acquire within 60 days through the exercise of stock options. Mr. Cox's shares are owned in joint tenancy with his wife.

(4) Of the total number of shares shown as owned by Mr. Fulton, 10,200 shares represent the number of shares Mr. Fulton has the right to acquire within 60 days upon the exercise of warrants and 5,000 represents the number of shares Mr. Fulton has the right to acquire within 60 days through the exercise of stock options.

(5) Of the total number of shares shown as owned by Mr. Carr, 1,000 shares represent the number of shares Mr. Carr has the right to acquire within 60 days through the exercise of warrants and 36,364 represents the number of shares Mr. Carr has the right to acquire within 60 days through the exercise of stock options.

(6) Of the total number of shares shown as owned by Mr. Isonhart, 100 shares represent the number of shares Mr. Isonhart has the right to acquire within 60 days through the exercise of warrants and 5,000 represents the number of shares Mr. Isonhart has the right to acquire within 60 days through the exercise of stock options.

There are no shareholders known by the Registrant to be beneficial owners of more than 5% of its outstanding common stock other than Mr. Brenkman.

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and any persons holding more than ten percent of the Company's common stock to report their initial ownership of the Company's common stock and any subsequent changes in that ownership to the Securities and Exchange Commission and to provide copies of such reports to the Company. Based upon the Company's review of the copies of such reports received by the Company and representations of its directors and executive officers, the Company believes that during the years ended December 31, 2002 and 2001 all Section 16(a) filing requirements were satisfied.

The remainder of this page is intentionally left blank

40

Item 13. Exhibits and Reports on Form 8-K

Exhibit # 3(I) - Articles of Incorporation of the Company (incorporated by reference to Exhibit 1 of the Company's registration statement of Form S-3 filed July 7, 1995, amended August 30, 1995, September 20, 1995 and September 25, 1995).

Exhibit # 3(ii) - Bylaws of the Company (incorporated by reference to Exhibit #2 of the Company's registration statement on Form S-8 filed January 31, 1996).

Exhibit # 10.1 - 1994 Stock Option Plan for Pioneer Railcorp (incorporated by reference to Exhibit #3 of the Company's registration statement on Form S-8 filed January 31, 1996).

Exhibit # 10.2 - Form of incentive stock option under the 1994 Stock Option Plan for Pioneer Railcorp (incorporated by reference to Exhibit #4 of the Company's registration statement on Form S-8 filed January 31, 1996).

Exhibit # 10.3 - Form of option agreement for non-employee Directors under the 1994 Stock Option Plan for Pioneer Railcorp (incorporated by reference to Exhibit #5 of the Company's registration statement on Form S-8 filed January 31, 1996).

Exhibit # 10.4 - Executive Contract (incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1994, filed March 31, 1995, amended August 31, 1995 and September 20, 1995).

Exhibit # 10.5 - 1996 Stock Option Plan for Pioneer Railcorp (incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1996, filed March 31, 1997).

Exhibit # 10.6 - Form of incentive stock option under the 1996 Stock Option Plan for Pioneer Railcorp (incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1996, filed March 31, 1997).

Exhibit # 10.7 - Form of option agreement for non-employee Directors under the 1996 Stock Option Plan for Pioneer Railcorp (incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1996, filed March 31, 1997).

Exhibit # 21 - Subsidiaries of the registrant.

No reports were filed on Form 8-K during the fourth quarter 2002.

Exhibit 99.1 - Certification pursuant to U.S.C. 18 section 1350.

Item 14. CONTROLS AND PROCEDURES

41

- (a) Evaluation of disclosure controls and procedures: Based on their evaluations as of a date within 90 days of the filing date of this report, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.
- (b) Changes in internal controls: There were no significant changes in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The remainder of this page is intentionally left blank

42

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIONEER RAILCORP
(Registrant)

By: /s/ Guy L. Brenkman

Guy L. Brenkman, President,
Chief Executive Officer and Director

Dated: March 25, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ J. Michael Carr

J. Michael Carr, Treasurer,
Chief Financial Officer and Director

Dated: March 25, 2003

By: /s/ Orvel Cox

Orvel Cox, Director

Dated: March 25, 2003

By: /s/ John Fulton

John Fulton, Director

Dated: March 25, 2003

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES - OXKLEY ACT
OF 2002

Certification by the Chief Executive Officer:

I, Guy L. Brenkman certify that:

1. I have reviewed this annual report on Form 10-KSB of Pioneer Railcorp;
2. Based on my knowledge, this annual report on Form 10-KSB does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report on Form 10-KSB, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

weaknesses.

Date: March 25, 2003

/s/ Guy L. Brenkman

Guy L. Brenkman
Chief Executive Officer

44

Certification by the Chief Financial Officer:

I, J. Michael Carr, certify that:

1. I have reviewed this annual report on Form 10-KSB of Pioneer Railcorp;
2. Based on my knowledge, this annual report on Form 10-KSB does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report on Form 10-KSB, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent valuation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ J. Michael Carr

- -----
J. Michael Carr
Chief Financial Officer

45

EX-21
4
pioneer21.txt

Exhibit 21

Pioneer Railcorp Subsidiaries

- -----
Alabama Railroad Co. (ALAB)
Alabama & Florida Railway Co., Inc. (AF)
Decatur Junction Railway Co. (DT)
Elkhart & Western Railroad Co. (EWR)
Fort Smith Railroad Co. (FSR)
Gettysburg & Northern Railroad Co. (GET)
Indiana Southwestern Railway Co. (ISW)
Kendallville Terminal Railway Co. (KTR)
Keokuk Junction Railway Co. (KJRY)

Michigan Southern Railroad Company (MSO)
Mississippi Central Railroad Co. (MSCI)
Pioneer Air, Inc. (PAR)
Pioneer Industrial Railway Co. (PRY)
Pioneer Resources, Inc. (PRI)
Pioneer Railroad Services, Inc. (PRS)
Pioneer Railroad Equipment Co., Ltd. (PREL)
Shawnee Terminal Railway Company (STR)
The Garden City Western Railway, Inc. (GCW)
Vandalia Railroad Company (VRRC)
West Michigan Railroad Co. (WMI)

1

EX-99.1
5
pioneer991.txt

Exhibit 99.1

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pioneer Railcorp (the "Company") on Form 10-KSB for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Guy L. Brenkman, President and Chief Executive Officer, and J. Michael Carr, Chief Financial Officer, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Guy L. Brenkman

/s/ J. Michael Carr

Guy L. Brenkman

J. Michael Carr

President and Chief Executive Officer

Chief Financial Officer

March 25, 2003

1

April 3, 2003

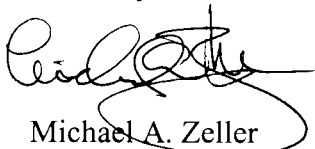
Mr. J. Michael Carr
Pioneer Railcorp
1318 S. Johanson Rd.
Peoria, IL 61607

Dear Mike:

This letter is being provided to confirm the interest of National City Bank of Michigan/Illinois in financing the potential acquisition of the west end of the Toledo, Peoria and Western Railway Co. (TPW) for Pioneer Railcorp. As you know, National City has maintained a strong relationship with Pioneer that has spanned over eleven years. During the tenure of our relationship, National City has provided in excess of \$10 million of term debt financing to Pioneer. National City would be pleased to consider additional financing of up to \$5 million subject to our normal and satisfactory due diligence procedures. This would include consideration of your business plan regarding the west end of the TPW and its ability to adequately service the debt borrowed.

We appreciate the opportunity to consider the furthering of our banking relationship with Pioneer. Should you have any questions, please feel free to contact me at (309) 655-5281.

Sincerely,



Michael A. Zeller
Vice President

MAZ/sz

VERIFICATION

I, J. Michael Carr, verify under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this Verified Statement.

4-8-03

Date

J. Michael Carr
J. Michael Carr

VERIFIED STATEMENT OF CATHERINE BUSCH

My name is Catherine Busch. I am the Director of Marketing for Pioneer Railcorp (“Pioneer”). In that capacity, I provide marketing services to all of Pioneer’s subsidiaries, including its subsidiary Keokuk Junction Railway Company (“KJRY”). My office address is at Pioneer’s headquarters, 1318 South Johanson Road, Peoria, IL 61607. The purpose of this statement in support of KJRY’s feeder railroad development program (“feeder line”) application is to relate the needs of shippers on the La Harpe to Hollis line (the “Line”) for rail service, as reflected by my discussions with them and in their statements filed with the Surface Transportation Board (“Board” or “STB”) in this and other recent Board proceedings.

Summary

My investigation of service on the Line shows that TP&W’s supposed service on the Line is inadequate to meet the shipping needs of a majority of customers on the Line. TP&W has effectively abandoned or embargoed service to shippers on the portion of the Line that was previously owned by SF&L Railway, Inc. (“SF&L”), namely, that portion of the Line extending west from Milepost 123.0. While I have less information available to me about service to shippers on the 4.5 miles of track east of Milepost 123.0 to Milepost 118.5, the east end of the Line that KJRY seeks to acquire, it is my belief, based on my experience in the railroad industry, that KJRY’s proposal here to purchase the Line while allowing TP&W to continue to access these shippers via trackage rights will improve the service available to those shippers significantly by providing them alternative routing and rate options.

Identification of Shippers

I do not have access to TP&W's records and, therefore, may not be aware of all shippers who use or have used TP&W's service on the Line. I understand that information is being sought in discovery requests being filed simultaneously with this application. This notwithstanding, the shippers that my inquiries have identified as having transported traffic over the Line are the following:

Shipper	Location	Letter Attached	Previously Filed Letter With STB
Blandinsville Elevator	Blandinsville, IL	X	X
West Central FS	Sciota, IL	X	
Farmers Elevator Company	Sciota, IL	X	X
Archer Daniels Midland	Bushnell, IL		
West Central FS	Bushnell, IL	X	
Rogers Group/Newton County Stone Company	Canton, IL	X	
United Paving	Canton, IL	X	X
Hitchcock Scrap Yard	Canton, IL	X	
CF Industries	Mapleton		
Caterpillar Foundry	Mapleton		
Degussa (formerly Witco)	Mapleton		
Lonza Group	Mapleton		
Elkem Carbon – Keokuk	Keokuk, IA (overhead shipper)	X	X
Roquette America	Keokuk, IA (overhead shipper)	X	X
Griffin Wheel	Keokuk, IA (overhead shipper)		
Central Iron & Metals	Hamilton, IL (overhead shipper)	X	
LaHarpe Elevator	La Harpe, IL (overhead shipper)	X	X
Colusa Elevator Co.	Colusa, IL (overhead shipper)	X	X

Inadequacy of Current Service to Meet Shippers' Needs

In preparation for this application, I attempted to reach all of the shippers (excluding Mapleton, IL shippers) on the foregoing list. Based on discussions with 9 of them, I have received from them copies of letters complaining of the inadequacy of TP&W's service to meet their shipping needs. Copies of those letters are included in Exhibit A to this statement. Also, during the related proceedings previously before the Board involving the West End of the Line, a number of shippers have previously submitted statements to the Board complaining about their inability to meet their shipping needs due to inadequate service by SF&L or TP&W. True copies of those letters are included in Exhibit B to this statement.

TP&W's operations on the Line have been inadequate to meet shippers' needs for two principal reasons - the sale of the West End to SF&L and TP&W's own disinterest in serving any part of the Line except the Mapleton Segment. The inadequacy of SF&L's service is clearly attributable to TP&W. The course of events concerning the Line since TP&W sold the West End to SF&L in December 2000 makes clear that TP&W knew that SF&L wanted to downgrade service and scrap the Line, yet willingly sold the West End to SF&L nevertheless, while refusing KJRY's offers to purchase and operate the Line. For example, TP&W's pleadings have shown that it was fully aware that SF&L did no due diligence review of operations on the Line prior to agreeing to purchase it. Such facts led the STB to conclude in its October 17, 2002 decision revoking the exemption for sale of the line to SF&L that "no party to the sale should be allowed to profit from the tactics that were employed in this case." STB October 17, 2002 Decision on STB Finance Docket Nos. 33995, *et al.*, at page 19, note 35. TP&W is clearly just as culpable for the inadequacy of SF&L's service over the Line as was SF&L itself.

SF&L's service was clearly inadequate to meet the needs of shippers using this Line. First and foremost, SF&L failed to acquire sufficient track to connect directly with KJRY at La Harpe. Consequently, what had been a two-carrier movement from Keokuk to Peoria became a three-carrier movement, immensely complicating movement of traffic. This alone was responsible for a considerable loss of traffic that formerly moved on the Line as overhead traffic. Second, SF&L reduced service frequency while at the same time raising some prices over 100%. Asking shippers to pay more to get less is never going to be satisfactory, yet this was the approach SF&L took. It was an approach that was consistent and effective for SF&L's goal of drying up traffic on the Line in order to foster abandonment, but clearly did not meet shipper needs. Third, SF&L attempted to force shippers on the Line to ship in multi-car blocks in order to obtain reductions from the elevated rate levels SF&L had imposed. Because shipping in multi-car blocks can require substantial rearrangement in the way a shipper does business, this action likewise alienated shippers and caused them to look for other alternatives. Finally, of course, SF&L's embargo of the West End on October 18, 2002, immediately upon being ordered to convey the property back to TP&W, and continuance of that embargo throughout its prolonged dispute with TP&W about the terms of the re-conveyance, completely cut shippers off from service for four months. All of these tactics, as well as others, caused shippers to divert their traffic to other routes or modes. Again, TP&W is fully culpable for these service inadequacies because it had every reason to know that SF&L had no real intention to operate this Line.

TP&W's pretense of offering service on the Line since reacquiring the property from SF&L in mid-February of this year has been every bit as inadequate as was SF&L's "service" prior to that time. TP&W has effectively instituted an economic embargo of the West End by

imposing rates for movements to La Harpe and Peoria at twice to three times the previous rates for the same service. Exhibit C hereto is a copy of TP&W's tariff for grain moving from a few points on the Line to La Harpe and Peoria. These rates are a vast increase above previous rates for these relatively short movements. I have spoken to several shippers who, upon requesting rates from TP&W and having received rates quoted like these, have simply thrown up their hands about using rail service.

It is also important to explain that while SF&L and TP&W have both attempted to blame KJRY for their poor service because of diversion of overhead traffic, in fact the loss of those overhead movements was due to factors beyond KJRY's control. As explained in more detail in my verified statement dated September 13, 2002, which was submitted in opposition to SF&L's abandonment exemption petition for the Line (attached as Exhibit D hereto), the loss of overhead traffic resulted from some shippers going out of business while others chose other routes and modes that did not involve SF&L, due to SF&L's half-hearted attempts at arranging efficient interchange with KJRY, and SF&L's unattractive pricing. While the Line historically has been a crucial link for east-west through traffic, KJRY will need to undertake significant marketing initiatives over a sustained period to attract overhead traffic back to the Line.

Service Projections for the Line

Initially, KJRY anticipates providing service on the Line on a 3-4 day's per week basis. As traffic levels are restored, KJRY anticipates being able to provide daily service on the Line.

Based on current traffic levels and discussions with shippers of their anticipated shipping needs, KJRY estimates that it will earn on average \$350 per car in revenues from local traffic during the first 12 months of operation, increasing to an average of \$450 per car within 24 months of acquiring the Line due to a change in the commodity mix. Overall, based on my

discussions with shippers of their anticipated shipping volumes and the pricing necessary to attract those volumes to KJRY, I anticipate that revenues from the first three years of operations of the Line would approximate \$2.4 million.

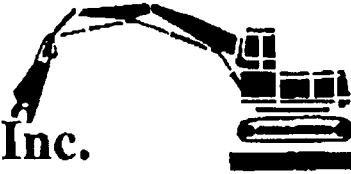
Service Preconditions

Absent Board approval, no conditions will be placed upon shippers as prerequisites in order to receive service. KJRY is not seeking Board approval for any such conditions at this time.

Verified Statement Exhibit A



Hitchcock Scrap Yard, Inc.



April 9, 2003

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street NW, Suite 715
Washington, DC 20423-0001

Mr. Williams,

It has been brought to our attention that there is the possibility of regaining rail service from Canton, IL. via the Keokuk Junction Railway. Hitchcock Scrap Yard, Inc. used to ship via the TPW until the rates made it economically unfeasible to continue. The rail service is presently not available, but if KJRY was to file a feederline application to operate the line, Hitchcock Scrap Yard, Inc. would support KJRY and once again use the rail line.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael Hitchcock Sr.", written over a horizontal line.

Michael Hitchcock Sr.
President/Owner

P.O. Box 14 • Bryant, Illinois 61519 • Phone: (309) 668-3217 • Fax: (309) 668-2784

COLUSA ELEVATOR COMPANY

P.O. Box 26
Colusa, IL 62329
Tel. 217-755-4221

P.O. Box 185
Nauvoo, IL 62354
Tel. 217-453-2216

P.O. Box 364
Ferre, IL 62336
Tel. 217-748-3771

2136 Green Bay Road
Weaver, IL 62658
Tel. 318-372-7852

2099 E. City Rd 2100
Bumside, IL 62318
Tel. 217-748-3221

Wednesday, April 9, 2003

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1935 K Street, NW, Suite 715
Washington, D.C. 20423-0001

Dear Sir:

Five years ago I purchased a grain elevator located on the Keokuk Junction Railway in West-Central Illinois. My primary reason for purchasing this location was to utilize the rail line both directions, as we have a corn processor to our west and a couple of soybean processors/buyers east, in the Peoria area of Illinois. During the first year and a half of doing business there, we successfully moved several millions of bushels of corn west and were in the process of establishing a working agreement with soybean buyers east of us. This progress, however, was halted by the sale of the TP&W to the SF&L at that time.

Subsequently, with the so-called settlement of the situation with the eastern rail service on the old TP&W line going to Peoria, we were hoping to attempt business that direction. However, the rates being quoted for any grain transit east are currently 3-4 times higher than was quoted before the SF&L debacle. In essence the rates have stopped any business we want to do.

I firmly believe that our future linkage to businesses going east on the previous TP&W rail line only becomes a possible reality with the return of Keokuk Junction Railway as owner/operator of that line. The thought of having this line removed or at the very least kept from being competitive in our part of West-Central Illinois is tantamount to causing the closing of several grain elevator concerns such as ours.

We look forward to a return to normal business on this rail line.

Sincerely,



Donald P. Griffiths, Jr.
VP & GM
Colusa Elevator Co.

TOTAL P.02

CENTRAL IRON & METALS
P.O. Box 68
Hamilton, IL 62341

April 9, 2003

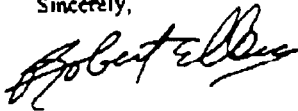
The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

Dear Sir:

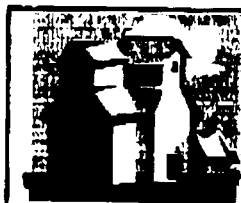
Central Iron & Metals, located in Hamilton, IL, has in the past shipped scrap by rail originating on the KJRY to receivers in Peoria, IL over the TPW line

Rail service is presently not available due to non competitive rates and service, therefore limiting or closing our access to many markets. It is my understanding that the KJRY plans to file a feederline application for the west end of the TPW. Central Iron & Metals supports the KJRY in this plan and would once again use the rail line.

Sincerely,



Robert Ellery
Owner



FARMERS ELEVATOR COMPANY -- OF SCIOTA, IL

April 8, 2003

Honorable Vernon Williams

S.T.B.

Washington DC

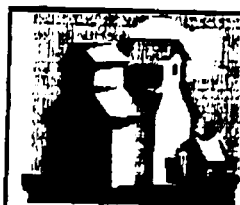
Re: TP&W Rail Line

MR. Williams,

As of Today, we still have no rail service. I suppose we do, but only if we are willing to pay the TP&W Railway 20¢/BU to get corn to Lattape IL. When a truck can haul it for 5¢/BU. The New Rate set by TP&W is clearly unreasonable. The old Rail Rate was 4.5¢/BU.

Not only did the TP&W raise rates, they will not guarantee any service. Their reasoning being what grain we had to haul was not enough for them to operate the line.

Your Honor, It seems strange TP&W does not want our business and yet the KJRY does!



FARMERS ELEVATOR COMPANY - OF SCIOTA, IL

This Letter supports the Keshuk Junction Railway's Efforts to acquire the west end of the TPIW Line via the Feeder Line Application Process.

Keeping this Rail Line open is NOT only important to the elevator, but also to our Farming Community.

Please strongly consider the KJRY in their Application process.

Sincerely

William W. Edwards
Mgr.



29265 N ILLINOIS 78
CANTON, ILLINOIS 61520
(309) 647-1295

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW. Suite 715
Washington D.C. 20423-0001

Dear Mr. Williams;

United Paving and Construction is in the asphalt paving business in Central Illinois. The vast majority of our work is for the Department of Transportation, and various other local government agencies. We depend on the importation of raw materials to produce asphalt, as no local sources of raw materials meet IDOT specifications. Currently, we utilize the river transportation system and the railroads to meet our needs.

Recently, the TP&W rail system, which is the primary carrier in Central Illinois, has attempted to sell or close the rail line from Peoria to the west. The closure of this line would have a major negative impact to our business and community as a whole.

United Paving and Construction is trying to arrange shipments from a quarry in Indiana for the current year. Initial contact with the railroad has been difficult at best. Shipments of stone are usually coordinated through the stone producer, The Rogers Group. The Rogers Group has indicated to me reluctance by TP&W to quote rates, or provide service. When those rates finally did come through, they were clearly unreasonable as compared to previous years. My overall opinion of the situation is, the TP&W may not be interested in operating the portion of their track from Peoria to the west. Additionally, I would support any effort on the part of the Keokuk Junction Railroad to acquire and effectively operate the section of track in question.

Sincerely,
Robert D Pschirrer


United Paving and Construction, Inc.



Newton County Stone Company
Highway 24 East, P. O. Box 147 Kentland, Indiana 47951

Member
ROGERS GROUP INC.

April 7, 2003

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

Dear Mr. Williams:

With this letter I would like to inform you of Rogers Groups inability to continue to ship crushed stone on the TP&W from our quarry in Kentland, Indiana to Canton, Illinois. Rogers Group has shipped stone into this market for 8 years by rail and recently has requested rates from the TP&W. The rates we received back are 37% higher than last years quoted rates for the same move.

The Rogers Group is in favor of The Keokuk Junction Railways efforts to purchase and run this part of the TP&W effectively.

If you require any information feel free to contact my office.

Sincerely,

Tom Hingst
Manager-Northern Indiana Operations
Rogers Group, Inc.

TELEPHONE (219) 474-5125 / 474-5126 ■ Fax (219) 474-3275



ELKEM CARBON - KEOKUK

385 Carbide Lane
P. O. Box 6003
Keokuk, IA 52632-6003
Telephone: (319) 524-6510
FAX: (319) 524-6513

Electrode Paste • Ramming Mixes • Calcined Coal • Carbon Raiser

April 4, 2003

Keokuk Junction Railway Company
1318 South Johanson Road
Peoria, IL 61607

Dear Sir:

We are writing this letter in support of the Keokuk Junction Railway Company's effort to purchase the West End of the TPW Railroad which connects the KJRY at Laharpe, IL. It is in our best interest to support this purchase as this rail link is of interest to many in this area. We need the KJRY RR to purchase this line to enable Elkem Carbon Keokuk to maintain reasonable rates and transit times for traffic headed east from our plant. If this line is abandoned transit times will increase costs will go up thus causing the rates to go up due to traffic having to be handled over routes which move in and out of the way routes to connect with connecting carriers. We feel that the KJRY RR should be allowed to purchase this line and keep it in active service as it is needed to keep our plant competitive in today's market place. It makes no sense to abandon a line which still has a viable purpose.

Sincerely

A handwritten signature in cursive script that reads 'Daniel C. Buckert'.

Daniel C. Buckert
Traffic Coordinator
Elkem Carbon Keokuk

BLANDINSVILLE ELEVATOR
BLANDINSVILLE, ILLINOIS 61420

April 2, 2003, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: KJRY Feeder line application

Dear Secretary Williams:

We wish to express our support of efforts by Keokuk Junction Railway to acquire the west end of the TPW line via the feeder line application process.

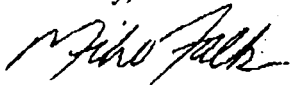
We experienced a reduction in service from TPW prior to their sale to SF&L. Following the sale to SF&L we experienced an increase in rates and a continuation of less than desirable service. Regardless of the undesirable terms we continued efforts with SF&L to utilize rail service until railcars were no longer made available.

Re-ownership by TP&W resulted in a 475% increase in tariff from Blandinsville, IL. to LaHarpe, IL. and a 300% increase in tariff from La Harpe, IL. and Blandinsville, IL. to Gilman, IL.

The outrageous increase in freight charges levied by TP&W leaves us without rail service due to obvious economics.

We appreciate your consideration in restoring rail service to our community.

Sincerely,



Mike Falk
Manager - Blandinsville Elevator

LAHARPE ELEVATOR
POBOX 559
LAHARPE, ILLINOIS 61450

April 2, 2003, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: KJRY Feeder line application

Dear Secretary Williams:

We wish to express our support of efforts by Keokuk Junction Railway to acquire the west end of the TPW line via the feeder line application process.

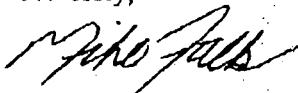
We experienced a reduction in service from TPW prior to their sale to SF&L. Following the sale to SF&L we experienced an increase in rates and a continuation of less than desirable service. Regardless of the undesirable terms we continued efforts with SF&L to utilize rail service until railcars were no longer made available.

Re-ownership by TP&W resulted in a 475% increase in tariff from Blandinsville, IL. to LaHarpe, IL. and a 300% increase in tariff from La Harpe, IL. and Blandinsville, IL. to Gilman, IL.

The outrageous increase in freight charges levied by TP&W leaves us without rail service due to obvious economics.

We appreciate your consideration in restoring rail service to our community.

Sincerely,



Mike Falk
Manager - LaHarpe Elevator

ROQUETTE
America, Inc.

April 4, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: Keokuk Junction Railway

Dear Secretary Williams:

On April 1, 2003, Roquette America was notified by Keokuk Junction Railway of their desire to acquire the west end of the TPW line via the feeder line application process. Roquette America, Inc. supports Keokuk Junction Railway's efforts to acquire this portion of tract.

As noted in a previous letter to you dated January 13, 2003, since October 18, 2002 we have not received any rail service over this line. The STB's decision of 2/14/03 to deny KJRY's petition to provide alternate rail service was based on the fact that TPW stated it was "ready, willing and able to resume operations over the Line" and that it "plans to restore service to the Line once it is reacquired from SF&L". TPW has not resumed operations or restored service.

TPW has not responded in a timely manner to requests for rates and when they have replied, rates have not been competitive. One example was a rate quote of \$705 for a move that SF&L charged \$275 which is \$75 higher than the rate we had received from the TPW prior to the SF&L's purchase of this portion of track. This is almost a 400% increase per car since 12/01.

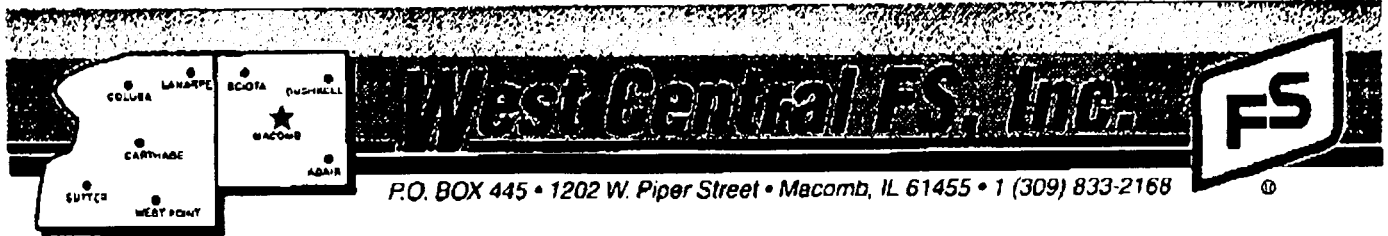
Roquette America, Inc. needs this line open in order to access Class I railroads over Peoria for competitive service for outbound shipments moving to Chicago and to the East Coast.

Sincerely,

Wanda J. Carlson

Wanda J. Carlson
Manager, Rail

132



April 3, 2003

The Honorable Vernon A. Williams, Secretary
 Surface Transportation Board
 1925 K Street, NW, Suite 715
 Washington, DC 20423-0001

Dear Sir,

We are an agricultural cooperative serving farmers in Hancock and McDonough counties in western Illinois. Because of a merger, we changed our name from McDonough FS, Inc. to West Central FS, Inc. We lease land from the TP & W at our facility in Sciota. The lease rates they are charging are very unreasonable and excessive. We have not used rail in the recent past, but we plan to do so in the future. We strongly support and hope the Keokuk Junction Railway receives permission to run this rail line.

Sincerely,

Barry C. Schmidt

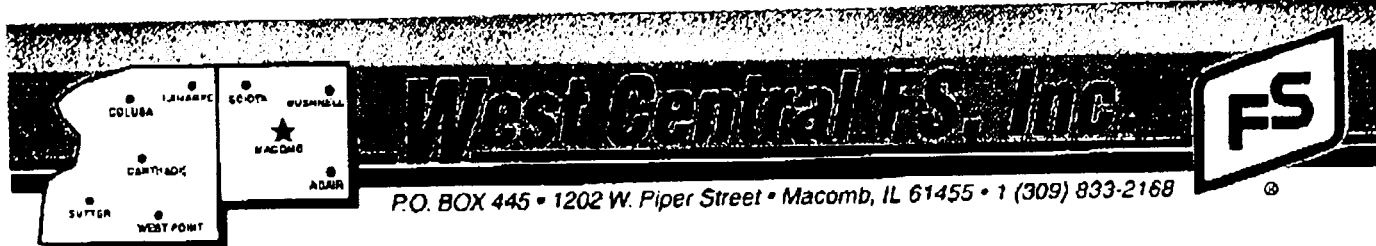
Barry C. Schmidt
 General Manager
 West Central FS, Inc.

04/03/2003 14:20

WEST CENTRAL FS INC → 13096972063

NO.700

002



April 3, 2003

The Honorable Vernon A. Williams, Secretary
 Surface Transportation Board
 1925 K Street, NW, Suite 715
 Washington, DC 20423-0001

Dear Sir,

We are an agricultural cooperative serving farmers in Hancock and McDonough counties in western Illinois. Because of a merger, we changed our name from McDonough FS, Inc. to West Central FS, Inc. We lease land from the TP & W at our facility in Bushnell. The lease rates they are charging are very unreasonable and excessive. We have not used rail in the recent past, but we plan to do so in the future. We strongly support and hope the Keokuk Junction Railway receives permission to run this rail line.

Sincerely,

Barry C. Schmidt
 General Manager
 West Central FS, Inc.

134

Carhage (217) 357-3996 Colusa (217) 755-4440 LaHarpe (217) 659-7746 Sutter (217) 658-6401 West Point (217) 743-5242
 Adair (309) 653-2511 Bushnell (309) 772-3180 Macomb (309) 833-2168 Sciota (309) 456-3832

website - www.westcentralfs.comemail - mailus@westcentralfs.com

FARMERS ELEVATOR COMPANY

AREA CODE 309

TEL. 456-3600

SCIOTA, ILLINOIS

September 17, 2002

Hon. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C.

RE: AB-488 (Sub No. 2X) - SF&L Railway, Inc. - Abandonment Petition between
LaHarpe and Peoria, Illinois

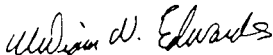
Dear Mr. Williams:

I am in receipt of the Verified Petition for Exemption of SF&L Railway, Inc., seeking authority to abandon 71.5 miles of track from LaHarpe to Peoria, Illinois.

The Farmers Elevator Company presently ships grain on that line to Roquette America in Keokuk, Iowa. In the past grain has also been shipped east on the line to ADM in Peoria. SF&L claims that transloading grain to LaHarpe is available and abandonment will be of little significance to online shippers. The abandonment will greatly impact the Farmers Elevator Company and it will greatly increase the cost of doing business.

On January 31, 2001 I wrote to you in support of a Petition to Revoke the authority of SF&L based upon the likelihood it would seek, in short order, to abandon the line and scrap it. I understand that Petition is still pending. My earlier prediction that SF&L would seek to abandon the line has come true. If the STB is going to allow the SF&L to abandon the line from LaHarpe to Peoria that serves active shippers then I ask that it make its decision as quick as possible so that a company like the Keokuk Junction Railway can buy and operate the line correctly. The last thing anyone in this part of the state of Illinois wants to see is the line abandoned and scraped. If the line is scraped then an important form of transportation will be lost forever. Further, a link to Peoria and connections to the east will also be lost forever. I ask that you not allow the SF&L to profit from their scheme to buy and then abandon the line. The purchase price should be set as low as possible so that it may be purchased and operated and not abandoned.

Respectfully yours,



Williams W. Edwards
Manager

.25

COLUSA ELEVATOR COMPANY

Mr. Don Jacob
Colusa Elevator Co.
Manager-Burnside
Burnside, IL 62318
Fax #217-746-3211

To: Rail Consumer Assistance, Surface Transportation Board

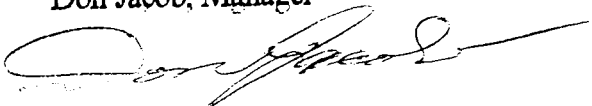
RE: STB Finance Docket No. 33995, SF&L Railway, Inc.-Acquisition and Operation
Exemption-Toledo, Peoria and Western Railway Corporation Between La Harpe
and Peoria, Illinois.

To Whom it May Concern:

We are a grain elevator located on the KJRY Railroad which is a short line railroad of Pioneer Rail Corp. Presently we ship west to Keokuk on KJRY. However, we would ship east to the Illinois River locations when the market presented us that opportunity. In order to do so, we would have to have a reliable and competitive means of transportation. In the past, our experience has shown KJRY Railroad to be both reliable and competitive.

The economy of our community revolves heavily around agriculture. In the future any processing plants or ethanol plants would only help the economy of this area. I do believe a reliable rail system in this area would only enhance the possibility of Ag related industry in Western Illinois.

Don Jacob, Manager



Colusa Elevator: Burnside, Illinois

**ELKEM CARBON - KEOKUK**

365 Carbidg Lane

P. O. Box 6003

Keokuk, IA 52632-6003

Telephone: (319) 524-6510

FAX: (319) 524-6513

Electrode Paste • Ramming Mixes • Calcined Coal • Carbon Reiser

Date: January 16, 2003

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

Dear Sir:

This letter is being directed to you in support of the KJRY Railroad obtaining operating wrights over the SFL Railway from La Harpe, IL To Peoria, IL. As there have been no train operated on this segment of track since the embargo was issued on October 18, 2002. As a result we have not received any rail service over this segment or track since that date. We have customers who need us to ship via this line. As proven in the past each time a segment of track is lost Industry is the one who suffers the most due to lack of service. We need this line in order to be able to provide the service our customers want. If the KJRY Railroad is granted operational wrights over this line we will use the line.

Very Truly Yours
Elkem Carbon Keokuk

Daniel C. Buckert
Traffic Coordinator

ISO-9002 CERTIFIED

Quality is
Our
PRIORITY



Colusa Elevator Co.
P.O. Box 26
Colusa, Illinois 62329

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

Dear Sir,

Colusa Elevator Co is a multi-location independent grain company located in west-central Illinois. One of our facilities is located on the Keokuk Junction Railway in Burnside, Illinois. We have been attempting to get rates to rail soybeans to the Illinois river. So far, we have been unable to even get a quote. Thus we have been trucking over 150,000 bushels soybeans at what we assume is a higher cost than putting the soybeans on railcars. I know that the trucking rate is higher than the quote last time we wanted to rail soybeans. It seems to me that being unable to get rail rates is a totally unacceptable situation. Whatever can be done to correct this situation would be greatly appreciated.

Respectfully,

Colusa Elevator Co.

Dale E Griffiths
Vice-President

LAHARPE ELEVATOR
POBOX 559
LAHARPE, ILLINOIS 61450

January 13, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: AAR Embargo Notice-SF&L Railway

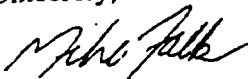
Dear Secretary Williams:

On October 18, 2002, LaHarpe Elevator was notified of the above mentioned AAR Embargo notice of the SF & L Railway of the line between LaHarpe and Peoria, Illinois, Embargo # 1-2002.

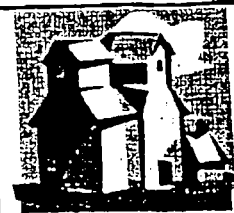
Since that date, LaHarpe Elevator has not received any rail service over this line. Prior to SF&L's acquisition of this line, LaHarpe Elevator moved outbound corn and soybeans over this line to Peoria Illinois, and Gilman Illinois. If rail service was available, LaHarpe Elevator would be able to use this line for these shipments.

LaHarpe Elevator needs this line open in order to access these markets for competitive grain prices. If available, we would again have a competitive setting in LaHarpe, Illinois for all outbound grain shipments moving to these markets.

Sincerely,



Mike Falk
Manager - LaHarpe Elevator



FARMERS ELEVATOR COMPANY - OF SCIOTA, IL.

1-14-03

The Honorable Vernon A. Williams Secretary
S. T. B.

1925 K STREET N W, Suite 715
Washington, DC 20423-0001

Re F: Rail Service Sciota, IL.

MR. Secretary,

Our grain elevator is located on the SFL/TPW
Rail line in West Central Illinois.

We have had no rail service since the
SFL Embargoed the line 10-18-02.

In order for our company to remain in
business, we do not only want rail service - we
need it. Moving our grain by rail is very
important.

All grain movement today is by truck. If
given an opportunity to ship by rail again, we
can safely say we will use the service.

Thank you,
William W. Edwards
Mgr.

ROQUETTE
America, Inc.

January 13, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: AAR Embargo Notice-SF&L Railway

Dear Secretary Williams:

On October 18, 2002, Roquette America, Inc. was notified of the above mentioned AAR Embargo notice of the SF & L Railway of the line between LaHarpe and Peoria, Illinois, Embargo # 1-2002.

Since that date, Roquette America, Inc. has not received any rail service over this line. Prior to SF&L's acquisition of this line, RAI moved outbound freight over this line to connect with Class I railroads in Peoria, Illinois. We also received grain from several elevators located on this line. If rail service was available, RAI would be able to use this line for these shipments.

Roquette America, Inc. needs this line open in order to access the Class I railroads over Peoria for competitive service. If available, we would again have a competitive setting in Keokuk, Iowa for all outbound shipments moving east.

Sincerely,



Wanda J. Carlson
Manager, Rail

BLANDINSVILLE ELEVATOR
PO BOX 293
BLANDINSVILLE, ILLINOIS 61450

January 13, 2003

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

SUBJECT: AAR Embargo Notice-SF&L Railway

Dear Secretary Williams:

On October 18, 2002, Blandinsville Elevator was notified of the above mentioned AAR Embargo notice of the SF & L Railway of the line between LaHarpe and Peoria, Illinois, Embargo # 1-2002.

Since that date, Blandinsville Elevator has not received any rail service over this line. Prior to SF&L's acquisition of this line, Blandinsville Elevator moved outbound corn and soybeans over this line to Keokuk Iowa, Peoria Illinois, and Gilman Illinois. If rail service was available, Blandinsville Elevator would be able to use this line for these shipments.

Blandinsville Elevator needs this line open in order to access these markets for competitive grain prices. If available, we would again have a competitive setting in Blandinsville, Illinois for all outbound grain shipments moving to these markets.

Sincerely,



Terry Rouse
Manager - Corn Procurement



29265 N ILLINOIS 78
CANTON, ILLINOIS 61520
(309) 647-1295

January 14, 2003

The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW, Suite 715
Washington, DC 20423-0001

RE: STL Railway embargo, filed October 18, 2002.

Dear Mr. Williams,

Please be advised that United Paving & Construction, Inc. is once again writing to you with concerns about the TP&W rail line between LaHarpe and Peoria Illinois.

Due to a SF&L Railway embargo, United Paving & Construction, Inc. is unable to get rail service at this time. Viable rail service is vital to the health of United Paving & Construction, Inc. Canton Illinois has no other rail service, and there are no feasible alternative routes. The loss of rail service on this line will do long-term economic damage to United Paving & Construction, as well as to other rail served customers and communities whose business depend upon this line.

United Paving & Construction, Inc. wants and needs this rail service to continue. We will use this rail service if it is available, and hopefully, with your intervention, this service will once again be possible in the near future.

If you have any questions, please do not hesitate to contact me.

Respectfully yours,

Robert D. Pschirrer
President

/med

Toledo, Peoria & Western Railway



FREIGHT TARIFF TPW 4101

Cancels TPW 4100 (in part)

NAMING LOCAL, & PROPORTIONAL RATES
on
CARLOADS OF GRAIN
BETWEEN STATIONS, and JUNCTIONS
of the
TOLEDO, PEORIA & WESTERN RAILWAY

TPW West End Grain Tariff

This tariff is also applicable on intrastate traffic, except where expressly provided to the contrary in connection with particular rates and provisions contained herein.

Freight shipped under this tariff is subject to the following governing authorities:

Tariff Rules: TPW 9300 series.

Rail Car Demurrage, while on the TPW: TPW 6000 series.

Uniform Freight Classification: UFC 6000 series.

Official Stations List: OPSL 6000 series.

ISSUED: February 14, 2003

EFFECTIVE: March 7, 2003

ISSUED BY:
Michael Klass
Director, Marketing & Sales
Toledo, Peoria & Western Railway
1990 E. Washington St.
East Peoria, IL 61611

(The provisions published herein, if effective, will not result in an effect on the quality of the human environment.)

SECTION 1 (CONT)
LOCAL RATES

Item 100

Commodity: **Grain** (STCC 01-1xx-xx)

Destinations: LaHarpe, IL (Only apply for movement beyond destination by rail under AAR Accounting Rule 11)

Origin Station

Blandinsville, IL 705

Sciota, IL 705

Bushnell, IL 705

Item 110

Commodity: **Grain** (STCC 01-1xx-xx)Destinations: Peoria, IL (Also apply for movement beyond destination by rail under AAR accounting Rule 11).
Switching charges of the PPU will be absorbed.

Origin Station

Blandinsville, IL 999

Sciota, IL 999

Bushnell, IL 999

ISSUED: February 14, 2003

EFFECTIVE: March 7, 2003

Issued By: Michael J. Klass, Toledo Peoria & Western Rwy, 1990 E. Washington St., East Peoria, IL 61611

EXPLANATION OF ABBREVIATIONS AND REFERENCE MARKS

AAR	Association of American Railroads
IL	Illinois
NSO	National Service Order, Western Trunk Line Committee, Agent
OPSL	Official List of Open and Prepay Stations, Station List Publishing Company, Agent
PPU	Peoria & Pekin Union Railway
RER	The Official Railway Equipment Register, R.E.R. Publishing Company, Agent
RPS	Railroad Publication Services, Agent
STB	Surface Transportation Board
STCC	Standard Transportation Commodity Code
TPW	Toledo, Peoria & Western Railway
UFC	Uniform Freight Classification, Uniform Freight Classification Committee, Agent
▲	Increase
●	Changes resulting in neither an increase nor a decrease
◆	No Change
▼	Reductions

ISSUED: February 14, 2003

EFFECTIVE: March 7, 2003

Issued By: Michael J. Klass, Toledo Peoria & Western Rwy, 1990 E. Washington St., East Peoria, IL 61611

CANCELLATION NOTICE

This tariff cancels provisions of Freight Tariff TPW 4100 as it relates to the stations of Blandinsville, Bushnell, LaHarpe and Sciota. Items not carried forward are cancelled account obsolescence.

LOCAL RATES

General Rules and Application of Rates:

- (1) Rates apply in shipper owned or leased cars. No mileage allowance will be paid.
- (2) Subject to availability, railroad will supply cars for \$150 in addition to the applicable rate shown herein.
- (3) Freight charges shall be payable within fifteen (15) calendar days of presentation of freight bill to customer.
- (4) DEMURRAGE: TPW served customers will be subject to TPW Demurrage Tariff 6000.
- (5) SWITCHING: Terminal and intermediate switching charges, unless otherwise provided by this tariff, will not be absorbed.
- (6) ROUTE: TPW direct.

ISSUED: February 14, 2003

EFFECTIVE: March 7, 2003

Issued By: Michael J. Klass, Toledo Peoria & Western Rwy, 1990 E Washington St., East Peoria, IL 61611

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. AB 448 (Sub No. 2X)

SF&L RAILWAY, INC.
--ABANDONMENT EXEMPTION--
IN HANCOCK, MCDONOUGH, FULTON AND PEORIA COUNTIES, IL

VERIFIED STATEMENT OF CATHERINE BUSCH SUPPORTING
KEOKUK JUNCTION RAILWAY CO.'S REPLY TO
VERIFIED PETITION FOR EXEMPTION OF SF&L RAILWAY, INC.

My name is Catherine Busch. I have been in charge of marketing for the Keokuk Junction Railway Co., since October 1997. I give this Verified Statement on personal knowledge in support of the Keokuk Junction Railway Co.'s Reply to Verified Petition for Exemption of SF&L Railway, Inc.

1. As a result of being in charge of marketing on the Keokuk Junction Railway (KJRY) I am aware of how traffic moves between the KJRY and other railroads and the rates associated with those moves.
2. Keokuk Junction Railway Co. did not divert any traffic away from the SF&L line between LaHarpe and Peoria, Illinois. Attached hereto as Exhibit "1" is a detailed list of overhead traffic moved to and from KJRY/TPW/SF&L interchange at LaHarpe, Illinois for the period 1999 to 2002 year to date.

1.3

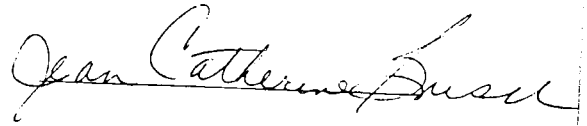
3. The traffic which now moves over the LaHarpe to Lomax line KJRY bought from TPW which includes trackage rights from Lomax, Illinois to Fort Madison, Iowa is mostly new business from Roquette America which previously was routed over the Burlington Northern Santa Fe Railway (BNSF) at Keokuk. Griffin Wheel's decision to move wheels via Fort Madison was made by the customer who received those wheels the Union Pacific Railroad which based its decision on rates and service. The rate for the wheels dropped dramatically and they arrived at their destination two weeks quicker by going over Fort Madison as opposed to the SF&L line.
4. Block rates proposed by SF&L were not and are not workable. The block rates for germ were not received until February 13, 2002 by which time Roquette America had already signed a contract with volume commitment for the movement of that product with the Burlington Northern Santa Fe Railway effective February 1, 2002. Block rates proposed for movement of Griffin Wheel cars would not work because Griffin Wheel never shipped more than one or two cars at a time. None of the commodities for which SF&L proposed block rates were capable of shipment in such large blocks.
5. The SF&L rate for shipment of grain from the LaHarpe-Blandinsville elevators at Blandinsville and Farmers Elevator in Sciota both increased \$53.00 per car from \$147.00 to \$200.00 a 36% increase for moving cars a distance of seven and ten miles respectively. In the time that SF&L was raising its rates the KJRY did not raise its rates in three years in order to keep the through rate competitive with trucks.
6. The TPW, the predecessor of the SF&L, had car hire free on cars for the elevators at Sciota and Blandinsville. Due to service by SF&L of only once or twice per week KJRY could not

allow SF&L to have free car hire for an unlimited period of time due to KJRY's limited car supply. Effective February 1, 2002 five free days of car hire was granted SF&L.

VERIFICATION

I, Catherine Busch, verify under the penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this statement.

Executed this 5th day of September 2002

A handwritten signature in cursive script that reads "Jean Catherine Busch". The signature is written in dark ink and is positioned to the right of the execution date.

TRAFFIC DATA – 1999

MOVED TO/FROM KJRY/TPW INTERCHANGE AT LA HARPE, IL

<u>CUSTOMER</u>	<u>COMMODITY</u>	<u>VOLUME</u>
CENTRAL IRON & METAL	SCRAP METAL	6
KEOKUK FERROSIL	COAL	294
	SCRAP METAL	86
	FERROSILICON	10
	PIG IRON	9
GRIFFIN WHEEL	SCRAP METAL	4
	SCRAP WHEELS	9
	WHEELS	203
MIDWEST CARBIDE	I/B CALCINED COAL	251
	O/B CALCINED ANTHRACITE COAL	36
CROP PRODUCT SERVICES	FERTILIZER	10
BLANDINSVILLE ELEVATOR	CORN	185
FARMERS ELEVATOR/SCIOTA	CORN	542
ROQUETTE AMERICA	CORN SYRUP	458
	STARCH	4
	SULPHUR	1
	CARBON	30
	CORN GERM	963
	SCREENINGS	55
	MEAL	3
	GLUTEN PELLETS	401
SMURFIT-STONE	PULPBOARD	<u>52</u>
	TOTAL	3602

Exhibit 1

TRAFFIC DATA – 2000

MOVED TO/FROM KJRY/TPW INTERCHANGE AT LA HARPE, IL

<u>CUSTOMER</u>	<u>COMMODITY</u>	<u>VOLUME</u>
KEOKUK FERROSIL	COAL	216
	SCRAP METAL	97
	FERROSILICON	5
GRIFFIN WHEEL	WHEELS	284
	SCRAP METAL	13
MIDWEST CARBIDE	O/B CALCINED ANTHRACITE COAL	35
FARMERS ELEVATOR/SCIOTA	CORN	302
ROQUETTE AMERICA	CORN SYRUP	181
	CORN GERM	803
	SCREENINGS	49
	CARBON	11
	SULPHUR	9
	ACID	2
SMURFIT-STONE	PULPBOARD	0
TOTAL		2,007

Note:

- 1) Central Iron & Metal – This scrap dealer mostly deals in junk/tin selling in local markets. Rail only an option should be taken in a large enough volume of quality scrap steel be able to ship to rail markets.
- 2) Keokuk Ferrosil - Inbound coal volume has significantly reduced due to service issues due to NS/CR merger. Additionally company starting to have financial problems.
- 3) Midwest Carbide – I/B Coal – lost due to NS/CR merger and NS pricing of the previous CR service route under which the traffic had previously moved.
- 4) Crop Production Services – Sporadic move – most generally originates on BNSF origins and comes into Keokuk on BNSF.

17

- 5) Blandinsville Elevator – depends on markets/rates if grain moves west to Keokuk or east to ADM
- 6) Roquette – Corn syrup – Significant reductions seen as this contract was in place to NS destinations, with no volume commitment due to the ever changing syrup markets, with new receivers of commodity now being able to be BNSF serviced.
- 7) Roquette – Gluten Pellets – This move only occurs during a few of the winter months of the year when barge traffic cannot move. Pellets continued to move by barge during this year.
- 8) Smurfit Stone – This number is significantly reduced this year due to BNSF restructuring its rates in order to recapture the traffic that had been taken away from them in year 1999. Additionally, Smurfit Stone shut down this facility during this year.

TRAFFIC DATA – 2001

MOVED TO/FROM KJRY/TPW INTERCHANGE AT LA HARPE, IL

<u>CUSTOMER</u>	<u>COMMODITY</u>	<u>VOLUME</u>
KEOKUK FERROSIL	COAL	100
	SCRAP METAL	16
GRIFFIN WHEEL	WHEELS	260
MIDWEST CARBIDE	O/B CALCINED ANTHRACITE COAL	27
BLANDINSVILLE ELEVATOR	CORN	66
FARMERS ELEVATOR/SCIOTA	CORN	290
ROQUETTE AMERICA	CORN SYRUP	127
	SULPHUR	8
	CARBON	13
	CORN GERM	907
	SCREENINGS	53
	ACID	5
	TOTAL	1,872

Note:

- 1) Keokuk Ferrosil – Traffic continues to decline due to service issues and continual financial problems within the company. Company goes out of business third quarter 2001.
- 2) Roquette – corn syrup – continues to reduce – NS service/rate issues.

TRAFFIC DATA – 2002 – YEAR TO DATE

MOVED TO/FROM KJRY/TPW INTERCHANGE AT LA HARPE, IL

<u>CUSTOMER</u>	<u>COMMODITY</u>	<u>VOLUME</u>
KEOKUK FERROSIL	COAL	0
	SCRAP METAL	0
GRIFFIN WHEEL	WHEELS	30
MIDWEST CARBIDE	O/B CALCINED ANTHRACITE COAL	26
BLANDINSVILLE ELEVATOR	CORN	114
FARMERS ELEVATOR/SCIOTA	CORN	297
ROQUETTE AMERICA	CORN SYRUP	4
	SULPHUR	2
	CARBON	7
	CORN GERM	83
	ACID	2
TOTAL		565

Note:

- 1) Keokuk Ferrosil – Company completely shut down, out of business.
- 2) Griffin Wheel (UP wheels – UP pays freight) – When contract extension expired 2/1/2002, the price structuring and transit times to take the cars to the UP at Sommer dramatically increased due to SFL & TPW. UP requested new rates from KJRY via Ft. Madison interchange which offered significantly lower costs and dramatically improved transit times.
- 3) Roquette – corn syrup – continues to reduce, eventually drying up February, 2002 due to increase in rate structures and pricing costs involving SFL, TPW and NS.
 Screenings – Due to increased costs and service issues with new routing to include SFL 2/1/2002, traffic went back to truck.
 Carbon – Due to increased costs and service issues with new routing to include SFL 2/1/200w, traffic was given to BNSF upon contract expiration.
 Corn Germ – Due to dramatic costs and service issues involving SFL/TPW effective 2/1/2002, BNSF captured the traffic which had been maintained by KJRY for many years.

VERIFICATION

I, Catherine Busch, verify under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this Verified Statement.

April 8, 2003
Date

Catherine Busch
Catherine Busch

VERIFIED STATEMENT OF B. ALLEN BROWN

My name is B. Allen Brown. I am the Chief Operating Officer of Pioneer Railcorp ("Pioneer"). My business address is at Pioneer's headquarters, 1318 S. Johanson Road, Peoria, IL 61607. The purpose of this statement is to present the results of a valuation study that I performed with respect to a 71.5-mile segment of the line that Pioneer's Keokuk Junction Railway Company ("KJRY") subsidiary seeks to purchase through this application.

Summary

In connection with my duties, I performed a valuation study of the rail line owned by Toledo, Peoria & Western Railway Corporation ("TP&W"), extending between its junction with the line of KJRY at Milepost 194.5 and Milepost 123.0, the junction between the former ownership of SF&L Railway, Inc. ("SF&L") and TP&W's operations east of that point. This 71.5-mile segment is sometimes referred to herein as the "West End" trackage. The conclusion of my study was that the West End trackage has a net liquidation value of \$2,335,961. My study methodology is explained more fully below.

Qualifications of Witness

As Pioneer's Chief Operating Officer, I am the senior executive over five of Pioneer's eight departments – Corporate Development, Marketing, Mechanical, Roadways & Structures, and Transportation. In this role, I supervise a staff of managers who oversee key company functions including its Customer Service Center, E-Commerce activities, web site, computer systems, and management of the Company's railcar industry data and railcar utilization. My responsibilities also include public relations for the company. I have been with Pioneer in

various assignments since 1987 in areas including acquisitions, accounting and finance, business development, equipment, marketing, operations and SEC reporting.

In addition to overseeing the operations of Pioneer's railroad subsidiaries, I am responsible for identifying, analyzing and negotiating acquisitions, both new and contiguous, along with other growth opportunities for the Company. I work closely with Pioneer President & CEO Guy L. Brenkman in developing and pursuing Pioneer's strategic growth plan. I have played a major role in the acquisition and development of many of the Company's present day operations and holdings. I hold a Masters of Business Administration (MBA) with a concentration in Finance & Economics from the University of Evansville, and a Bachelor of Science in Business Administration-Finance from the University of Kentucky.

In the course of my career and in my daily activities, I am called upon to be familiar with valuation methodologies for analyzing the purchase of rail lines. Among other things, that requires me to be acquainted with market prices for rail and track materials of various types and qualities. Also, through my supervision of rail operations by Pioneer's subsidiary railroads, I am well acquainted with the labor and time involved in removing and/or replacing rail and other track materials, and the costs of removing, transporting and occasionally disposing of used track materials.

Discussion

In October 2000, TP&W executives initiated discussions with me about the possibility of TP&W selling the West End segment to KJRY. In the course of those discussions, Al Sauer of RailAmerica faxed me a list of what RailAmerica believed to be the qualities and quantities of rail and track materials in place in the West End segment. That list included materials in the westernmost 12 miles of that property, a section which KJRY subsequently purchased from

TP&W. In late December 2000, however, TP&W abruptly sold the remainder of the West End segment to SF&L Railway, Inc. (“SF&L”), owned by the principals of A&K Railroad Materials, a rail salvage company.

When SF&L became the operator of the West End trackage adjoining KJRY’s track, KJRY attempted to make arrangements with SF&L that would allow KJRY to ship local and overhead traffic over the West End. One part of that process involved examining SF&L’s railroad operating rules, to see if they were compatible with KJRY’s so that SF&L could operate onto KJRY’s track for purposes of interchange. In the back of that rule book, I noticed a two page exhibit labeled “Exhibit A-Track Materials-MP 123 to MP 194.5.” A copy of that is Exhibit A to this statement. Upon examination of that list, I discovered that it was the same list of track materials that RailAmerica had earlier provided me, though edited to exclude the 12 miles covered by KJRY’s earlier purchase.

After the Surface Transportation Board (“STB”) ordered SF&L to convey the West End segment back to TP&W, I went back to RailAmerica’s listing of materials to determine a net liquidation value (“NLV”) of the West End to use in purchase negotiations with TP&W. My objective in making this valuation was to determine the highest and best value of the rail, track materials and other assets shown on RailAmerica’s inventory if those assets were no longer deployed in this Line; that is, were removed and were reused elsewhere or were sold for scrap.

Despite believing that the quality of materials shown in RailAmerica’s inventory were probably overstated, I applied current market prices for those types and qualities of materials to develop a gross liquidation value. I obtained market prices for relay rail, track materials and turnouts²² through inquiries of multiple vendors of these materials. I also contacted scrap dealers

²² For ease of computation, I divided the relay price given me by the materials dealer by the weight of the turnout to obtain a price per ton for the turnout, and then applied that price to the weight of the turnouts.

to ascertain market prices for various scrap materials. I also obtained values for #1 and #2 relay ties and landscape quality ties from a vendor of ties. I contacted a local landfill along the line to determine the disposal charge for scrap ties, and obtained a price of \$31.00 per ton, equal to about \$1.55 per 100-pound tie.

Applying unit prices obtained from my vendor inquiries to the rail and other track materials (spikes, tie plates, joint bars, etc.) yielded a gross liquidation value for those materials of \$4,863,683. Turnouts in the line were valued at relay or scrap values, depending on quality, yielding a total of \$35,713. Due to the large proportion of scrap quality ties in the line, I concluded that the cost of disposal of scrap ties would exceed the value of relay or landscape ties by \$177,549. Altogether, based on prices obtained through vendor inquiries, I concluded that the gross liquidation (or salvage) value of the West End would be \$4,721,848. *See Exhibit B.*

To determine NLV of that segment, I estimated costs to dismantle rail, to transport the rail and track materials to market, to remove and transport ties either for relay use or for disposal, to remove relay turnouts and to restore 89 grade crossings following removal of the track. Again, these estimates were based on average costs stated by vendors that I contacted. Transportation costs were based on vendor estimates of \$648 per truckload to transport materials, or an average of \$27.00 per ton based on 24 tons per truckload. Tie removal costs were estimated at \$1.00 per ton, again based on vendor inquiry. Tie transportation costs were estimated at \$1.76 per tie, the approximate cost that Pioneer pays for shipment of new ties. Total removal costs equaled \$2,385,887. When removal costs were subtracted from gross liquidation value, the remainder - NLV - was \$2,335,961.

Several of the assumptions in this valuation yielded a value that may be higher than actual NLV. For one thing, I did not assign any cost for bridge removal. Frequently it costs

more to remove a bridge than can be recouped from the scrap or relay value of the salvaged materials. Therefore, I did not include costs for bridge removal, even though state authorities or others might require their removal. I also did not include any inventory carrying cost, though that might also reasonably have been included, based on my discussions with materials vendors.

Certain information that I did not have prevented me from analyzing the value of the entire property that KJRY proposes to purchase. At the time of my valuation analysis, I had no information about quantities of rail or track materials east of Milepost 123. Subsequently, information on that section was obtained and given to KJRY's contractor, Gohmann and Associates, Inc., to include in their valuation analysis.

Also, I did not have any information on the quantity of right-of-way real estate owned by TP&W or the quality of TP&W's title to that land. Based on discussions with TP&W, it has been my impression that TP&W does not have a significant amount of fee ownership of real estate in the line because they never offered to sell to KJRY nor asked KJRY to pay for real property, but only track materials. However, because I lacked specific information about TP&W's interest in the right-of-way property, I did not attempt to include a value for it in my analysis.

Service on the Line

Initially, KJRY anticipates serving the Line on a 3-4 day's per week basis. As traffic levels are restored, KJRY anticipates being able to provide daily service on the Line.

Based on current traffic levels, KJRY estimates that it will cost \$45,000 per month for the first 12 months to operate the Line. Additionally, during that time, I estimate \$200,000 will be required to restore the track structure to safe Class 1 track condition, to provide efficient and

safe operating conditions on the Line. After the first 12 months of operation, KJRY anticipates the need to increase service frequency to 6-7 times per week.

Altogether, KJRY estimates the cost of rehabilitating the Line and operating it at the service levels discussed in the preceding paragraph for the first three years following acquisition to be \$1.9 million for all three years.

Conclusion

Overall, I believe that my NLV estimation for the West End of the Line, from Milepost 123 to Milepost 194.5, is a reasonable and accurate assessment of the value of that property, principally because it is based on RailAmerica's own inventory and qualities of materials for the West End segment. While I question the representation of the quality of materials nevertheless I believe that my attached estimate assigns a fair value to the assets TP&W says that it has. My belief in the accuracy of this valuation is bolstered by the fact that this valuation exceeds the \$2.18 million price at which TP&W sold the West End segment to SF&L.

**EXHIBIT A
TRACK MATERIAL
MP123 TO MP194.5**

The line of railroad running between Peoria, IL MP123.0 and LaHarpe, IL MP194.5, including without limitation, rails, ties and tie plates affixed to the land and ballast, as well as all switches, crossings, crossing signals, bridges, bridge abutments, culverts, structures, fixed communications and signal facilities, yards, shops, buildings, spur tracks, side tracks, and sidings.

RAIL WT	MILES	NT/MILE	NT TONS	CLASS
112# Jt	2.25	187.24	421.29	scrap
112# Jt	7.25	187.24	1,357.49	reroll
112# Jt	5.01	187.24	938.07	relay
112# cwr	2.20	187.24	411.93	reroll
112# cwr	3.00	187.24	561.72	relay
115# Jt	2.80	192.28	538.38	scrap
115# Jt	6.61	192.28	1,270.97	reroll
115# Jt	10.47	192.28	2,013.17	relay
115# cwr	3.30	192.28	634.52	relay
105# Jt	1.40	175.56	246.78	reroll
131# Jt	3.43	218.50	749.46	reroll
131# Jt	7.80	218.50	1,704.30	relay
131# cwr	1.09	218.50	238.17	relay
100# Jt	2.16	167.20	361.15	scrap
100# Jt	8.63	167.20	1,442.94	reroll
100# Jt	3.60	167.20	601.92	relay
100# Jt yrd	3.00	158.40	475.20	scrap
90# Jt	0.50	142.56	71.28	reroll
Total	74.50		14,037.74	

OTM WT	MILES	NT/MILE	NT TONS	CLASS
100# Jt yrd	3.00	56.82	170.46	scrap
90# Jt	0.50	54.32	27.16	scrap
106# Jt	1.40	79.54	111.36	scrap
100# Jt	14.39	56.82	817.64	scrap
112# cwr	2.20	67.09	147.60	scrap
112# cwr	3.00	67.09	201.27	relay
112# Jt	14.51	82.48	1,196.78	relay
115# cwr	3.30	67.42	222.49	relay
115# Jt	19.88	92.01	1,829.16	relay
131# Jt	11.23	105.21	1,181.51	relay
131# cwr	1.09	90.15	98.26	relay
Total	74.50		6003.69	

INITIALS

RAIL AMERICA INC.

Fax:561-994-3929

Mar 1 '01 17:11 P.03

TURNOUTS

WT & TYPE	No.	NT/TO	NT	CLASS
131# - #10	1.00	9.53	8.53	relay
112# - #10	2.00	8.17	16.34	scrap
100# - #10	5.00	8.53	32.65	scrap
70# - #8	3.00	6.53	19.59	scrap
115# - #10	22.00	8.70	191.40	relay
TOTAL	33.00		269.51	

TIES

Remove and Market

	%	No.	CLASS
	5.00	10,728	#1 Relay
	4.00	8,582	#2 Relay
	6.00	12,874	Landscape
TOTAL	85.00	182,376	Scrap
		214,560.00	

INITIALS

NLV FOR MP123.0 TO MP 194.5

Rail

WT	MILES	NT/MILE	NT TONS	CLASS	UNIT PRICE	TOTAL
112# Jt	2.25	187.24	421.29	scrap	\$20.00	\$8,426
112# Jt	7.25	187.24	1,357.49	reroll	\$120.00	\$166,761
112# Jt	5.01	187.24	938.07	relay	\$225.00	\$369,331
112# cwr	2.20	187.24	411.93	reroll	\$120.00	\$53,363
112# cwr	3.00	187.24	561.72	relay	\$200.00	\$351,075
115# Jt	2.80	192.28	538.38	scrap	\$20.00	\$47,109
115# Jt	6.61	192.28	1,270.97	reroll	\$120.00	\$150,928
115# Jt	10.47	192.28	2,013.17	relay	\$300.00	\$864,924
115# cwr	3.30	192.28	634.52	relay	\$200.00	\$1,086,863
105# Jt	1.40	175.56	245.78	reroll	\$120.00	\$29,187
131# Jt	3.43	218.50	749.46	reroll	\$120.00	\$88,998
131# Jt	7.80	218.50	1,704.30	relay	\$250.00	\$655,500
131# cwr	1.09	218.50	238.17	relay	\$185.00	\$89,312
100# Jt	2.16	167.20	361.15	scrap	\$20.00	\$31,601
100# Jt	8.63	167.20	1,442.94	reroll	\$120.00	\$171,349
100# Jt	3.60	167.20	601.92	relay	\$185.00	\$150,480
100# Jt yrd	3.00	158.40	475.20	scrap	\$20.00	\$41,580
90# Jt	0.50	142.56	71.28	reroll	\$120.00	\$8,465
Total	74.50		14,037.74			\$4,365,252

OTM

WT	MILES	NT/MILE	NT TONS	CLASS	UNIT PRICE	TOTAL
100# Jt yrd	3.00	56.82	170.46	scrap	\$20.00	\$3,409
90# Jt	0.50	54.32	27.16	scrap	\$20.00	\$543
105# Jt	1.40	79.54	111.36	scrap	\$20.00	\$2,227
100# Jt	14.39	56.82	817.64	scrap	\$20.00	\$16,353
112# cwr	2.20	67.09	147.60	scrap	\$20.00	\$2,952
112# cwr	3.00	67.09	201.27	relay	\$100.00	\$20,127
112# Jt	14.51	82.48	1,196.78	relay	\$100.00	\$119,678
115# cwr	3.30	67.42	222.49	relay	\$100.00	\$22,249
115# Jt	19.88	92.01	1,829.16	relay	\$100.00	\$182,916
131# Jt	11.23	105.21	1,181.51	relay	\$100.00	\$118,151
131# cwr	1.09	90.15	98.26	relay	\$100.00	\$9,826
	74.50		6,003.69			\$498,431

TURNOUTS						
WT & TYPE	No.	NT/TO	NT	CLASS	UNIT PRICE	TOTAL
131# - #10	1.00	8.53	8.53	relay	\$157.40	\$1,343
112# - #10	2.00	8.17	16.34	scrap	\$20.00	\$327
100# - #8	5.00	6.53	32.65	scrap	\$20.00	\$653
70# - #8	3.00	6.53	19.59	scrap	\$20.00	\$392
115# - #10	22.00	8.70	191.40	relay	\$172.41	\$32,999
TOTAL	33.00		268.51			\$35,713

TIES
Remove and Market

	%	No.	CLASS	UNIT PRICE	TOTAL
	5.00	10,728	#1 Relay	\$5.00	\$53,640
	4.00	8,582	#2 Relay	\$3.00	\$25,746
	6.00	12,874	Landscape	\$2.00	\$25,748
	85.00	182,376	Scrap	\$0.00	\$0
	85.00		Disposal Fee	-\$1.55	-\$282,683
TOTAL		214,560.00			-\$177,549

GLV \$4,721,848

Liquidation Cost

	AMOUNT	UNIT	Cost per Unit	TOTAL
Dismantle Jt Rail	17,525.47	NT	\$45.00	\$788,646
Dismantle cwr Rail	2,515.96	NT	\$90.00	\$226,436
Transport Material	20,041.43	NT	\$27.00	\$541,119
Remove Ties	214,560.00	EA	\$1.00	\$214,560
Transport Ties	214,560.00	EA	\$1.76	\$377,626
Remove Relay TO	10.00	EA	\$1,500.00	\$15,000
Restore Xings	89.00	EA	\$2,500.00	\$222,500
Dismantle Bridges				\$0
Inventory Carrying Cost				\$0
			LC	\$2,385,887

NLV \$2,335,961

Notes:

- 1 Unit Price is based on current market pricing.
- 2 TPW's schedule assumes a 5% wear factor in the mainline, 10% wear factor in the yard tracks.

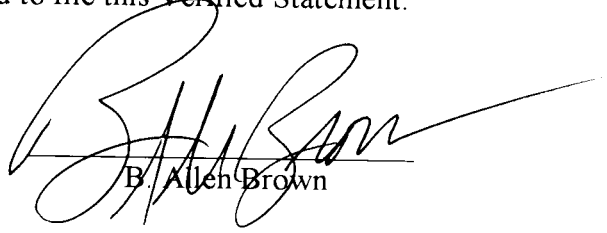
VERIFICATION

I, B. Allen Brown, verify under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this Verified Statement.

04/08/03

Date

A handwritten signature in black ink, appearing to read 'B. Allen Brown', is written over a horizontal line. The signature is stylized with a large initial 'B' and a long, sweeping horizontal stroke at the end.

B. Allen Brown

VERIFIED STATEMENT OF JOHN W. GOHMANN

My name is John W. Gohmann. I am the founder of Gohmann and Associates, Inc., a transportation consulting firm. My business address is 14047 Petronella Drive, Suite 201, Libertyville, IL 60048. The purpose of this statement is to explain the net liquidation value assessment on which the application of Keokuk Junction Railway Company (“KJRY”) in this matter is based.

Witness Qualifications

My entire career has involved railroads and transportation consulting. I began working as a member of a track gang while still in high school. Upon graduation from college, I joined the Chicago and North Western as a Yard Clerk and a Chief Clerk. I subsequently joined the Elgin, Joliet & Eastern as an industrial engineer.

I left the “J” in 1976 to become the carrier member of the National Railroad Adjustment Board. While there, I also earned a Masters Degree in Business. When I left the Board, I founded Gohmann and Associates.

Since founding Gohmann and Associates, I have performed consulting work for many clients needing assistance with railroad matters. Valuation of rail properties is one of those services which I have previously performed as a consultant.

In addition to my work in transportation consulting, I am the President and Chairman of the Minnesota Commercial Railroad. I continue to hold that position today. More information about my background is attached at the back of Exhibit A, along with information about my associate Richard Lane, with whom I performed this valuation study.

Net Liquidation Value of the Line

In January, 2003, Mike Carr of KJRY contacted me and asked me to prepare a net liquidation value (“NLV”) analysis of the rail line of Toledo, Peoria & Western Railway Corporation (“TP&W”) extending between Milepost 194.5 at La Harpe, IL and Milepost 123.0, near Peoria. Subsequently, Mike Carr contacted me and asked me to slightly amend my analysis to include an additional 4.5 miles of main line track and a 2.5-mile spur east of Milepost 123.0, extending to Hollis, IL. In this statement, I will refer to the segment between Mileposts 194.5 and 123.0 as the “West End” segment; the segment between Milepost 123.0 and Milepost 118.5 at Hollis as the “Mapleton Segment;” and the entire property, including both the West End and the Mapleton Segment, as the “Line.”

By NLV, I understood Mike Carr to be asking that I analyze the value of the Line for its highest and best (*i.e.*, most valuable) use other than as part of the rail line that it forms today. In essence, that means assessing the value of each of the components of the Line - rail, other track materials (“OTM,” such as spikes, tie plates, etc.), ties, ballast, and any other assets - at their market values as scrap or as reusable materials. I have prepared such analyses previously in a number of other instances and consequently am familiar with the methodologies and concepts used in computing the NLV of a rail line. In this particular instance, my associate Richard J. Lane and I cooperated in preparing the analysis of the Line. Both Mr. Lane and I concur in the correctness of the conclusions of that study, based on the information available.

The methodology that Mr. Lane and I pursued to determine the NLV of the Line is like that which we each have used in other studies that we have done. In this instance, due to the TP&W’s unwillingness to allow KJRY representatives on TP&W property, we were restricted in our analysis to that information available from TP&W track charts which were last updated

about 5 years ago. In general, track charts contain a good deal of information about a line, such as weight of rail, whether the rail is continuously welded, locations of turnouts and locations and lengths of sidings, and the like. The charts used in our analysis of the Line were no exception, and provided a wealth of information from which we were able to piece together a reliable value for the Line. Track charts, of course, do not contain any significant information about right of way size and ownership, so accordingly our estimate of the value of the right-of-way is an approximation based on available data.

A copy of our complete report to Pioneer, containing our analysis of the NLV of the West End segment is Exhibit A to this verified statement. A copy of our addendum to that report, modifying our conclusions to include the Mapleton Segment, is Exhibit B to this statement.

Our analysis is based on our determinations of quantities and qualities of rail materials, valued at prices provided by dealers that we consulted who deal in second hand rail materials. In determining the quality and quantity of materials, our many years of professional experience in the rail industry come into play. For example, the track charts show that a 1.3-mile section of the Line was laid in 1929, before control-cooled rail became available. Non-control cooled rail has limited value for reuse because it is more prone to develop defects than is control-cooled rail. Moreover, our experience tells us that the non-control cooled rail laid in the Line in 1929 almost certainly was Dudley rail, a type which never gained broad acceptance or use. Therefore, its value as relay material is virtually nil. Similarly, our experience tells us that rail in this line, much of which was laid over 50 years ago, would have significant wear, diminishing the actual tonnage of rail and the reusability of the rail. Factors such as these were weighed in making our judgments about the quality (*i.e.*, relay or scrap) of rail and track materials in the Line.

Once we determined the quality of the rail and track materials, we applied values obtained from discussions with rail materials dealers. While second hand rail may, depending on its characteristics, garner between \$250 and \$450 per net ton upon delivery to the scrap dealer, there are substantial costs involved in removing the materials from the track and transporting them to the materials dealer. Accordingly, based on our experience, we adjusted the price per ton that an abandoning carrier could expect to earn to account for removal and transportation costs.

The calculations of tonnages and values of the various types and weights of rail and OTM, tie salvage value and removal and disposal costs, our means of estimating the potential value of recoverable ballast (assuming, in the absence of evidence one way or the other, that it would be of a reusable quality) are stated in more detail in the attached report and need not be repeated here. Altogether, based on the data available to us and our conclusions as to the value of recoverable materials based on discussions with rail materials dealers and our own experience, we estimate the NLV of the West End segment at \$3,088,833. Using the same techniques, we estimate the value of the 4.5-mile Mapleton Segment, together with the 2.5-mile Mapleton Spur, at \$304,530. See Exhibit B. This brings our total estimated NLV of the entire Line to \$3,393,363.

A couple of cautionary notes about our valuation estimate are worth highlighting. First, we had no actual information about the quantity of the right-of-way to which TP&W may have marketable title. While we estimated the value of TP&W's right-of-way ownership at \$100,000, based on an estimated potential fee ownership of 50% of the right-of-way of the West End segment, it could well be that TP&W owns no transferable interest in the right-of-way and that a zero value should be assigned. As stated in our report at page 7, during the period when the Line

was built, it often was the case that carriers were only able to obtain the right to use land, with title reverting to the underlying landowner if the rail use of the property ceased. Therefore, it may be that the NLV estimate here should be reduced by \$100,000 should it be established that TP&W does not have marketable title to the right-of-way.

Also, we assigned a zero net salvage value to bridges on the line. However, there are a few larger structures which may contain reusable materials. Our experience tells us that bridge removal often results in a negative net salvage value for the structure because of the difficulty of dismantling a structure comprised of very large components, without interfering with the use of whatever road or waterway passes beneath the bridge. It is our belief that the State of Illinois might require removal of the rail bridge over State Highway 41. Should that occur, it could easily reduce the NLV for this line by as much as \$250,000 to \$500,000.

Conclusion

Based on our review of available information about the Line, our many years of experience in assessing values of rail properties and costs of removal of rail components, and our discussions with various materials dealers, we are confident in our assessment of the NLV of the Line at \$3,393,363. While there is additional information about the Line that we would have liked to have in order to make an assessment of this type, I understand the restrictions imposed by TP&W prevent obtaining further information at this time. Accordingly, I believe that our NLV estimate for the Line represents the best and most current information available on the NLV of the Line.

VALUATION STUDY

**Former mainline of the Toledo, Peoria and
Western Railway from Point of Ownership
at MP 123 to Milepost 194.**

Performed in confidence for:

Pioneer Railcorp, Inc.

February, 2003

by:

**Gohmann and Associates, Inc., 14047 Petronella Drive, Suite 201,
Libertyville, Ill. 60048
888-489-2324**

ESTIMATED NET LIQUIDATION VALUE OF FORMER TP&W LINE BETWEEN
M.P. 123.0 AND 194.

Introduction

Gohmann and Associates, Inc, at the request of Pioneer Railcorp, performed a net liquidation study on the above sectioned line of the former Toledo, Peoria and Western Railway Company based on the track charts furnished which were last revised in 1998. The charts contain no information regarding the right of way, or, quality or type of deed or title, and, absent furnishing of deed and title information, as we discuss in Section 2 hereof, little if no value can be placed on the real estate. Information provided by the seller or present owner as to quality and type of deed or title could change such a conclusion.

We did not perform an onsite inspection or hi-rail inspection of the property due to problems which our Client had in obtaining permission from the current owner to do a thorough "hi-rail" vehicle inspection of the line. Simply looking at the line from grade crossings is insufficient, and, an aerial inspection at a safe altitude does not permit viewing of all property, including ties or tracks which can be partially hidden by snow, dirt, mud, grass or weeds.

Section 1 of this report summarizes our findings as to the value of the rail assets as depicted on the 1998 Track chart. The valuations of relay and scrap rail and other track material ("otm") were verified by the of independent sources at other railroads to seek prices for various kinds of rail and other track material in the general area.

Resumes of Richard J. Lane, and, John W. Gohmann, who performed this analysis, are appended hereto.

SECTION 1

Table 1 enclosed lists all rail in track as shown on track charts revised in 1998. Except for sidings and auxilliary tracks, it is assumed that there has been no change since that date except possible insertion of one or more very short relay sections such as are occasionally necessary due to track damage from a derailment or washout. Latest data from second-hand rail suppliers indicates sale prices on good quality SH rail (FOB their yards after all pick-up, -sorting, transport and grading has been completed) ranging from about \$250 to about \$400 per ton dependent on the rail section. Since a purchaser of track in place would have to bear all costs of removal, pick-up, sorting, transportation, etc., those expenses and the rail dealer's anticipated profit would have to be deducted to determine a likely bid for the material in place. It would thus appear that a likely offer in today's market would probably be somewhat less than half of the buyer's anticipated sale price.

The dates shown on the track charts indicate the dates when the various rail segments were laid -not. the dates the rail was rolled. It appears likely that the older sections were rolled before controlled cooling became common. Since controlled coolin.9 was jntroduced jn the mid 1930's it is apparent that the 1.05# segment - laid in 1929, is the older hot-bed rail. Also. as that particular rail is undoubtedly the old Dudley .section which was never very widely used, Its marketability would be further reduced. We would assume

RAIL & OTHER TRACK MATERIAL:

Table 1 - Rail Inventory

RAIL SECTIONS & DATES LAID - Scaled from track charts				
FROM MP	TO MP	MILES	WEIGHT & TYPE	YEAR LAID
123.0	125.3	2.3	115 Jtd.	1952
125.3	130.7	5.4	115 Jtd.	1949
130.7	130.9	0.2	131 Jtd.	1972
130.9	136.6	5.7	131 Jtd.	1940
		EQUATION		
136.8	138.7	1.9	112 CWR	1958
138.7	139.3	0.6	115 Jtd.	1976
139.3	139.8	0.5	90 Jtd.	1950
139.8	140.4	0.6	100 Jtd.	1945
140.4	145.8	5.4	100 Jtd.	1947
145.8	149.4	3.6	115 Jtd.	1949
149.4	150.0	0.6	115 Jtd.	1946
150.0	153.9	3.9	115 Jtd.	1948
153.9	154.6	0.7	115 Jtd.	1949
154.6	154.7	0.1	115 Jtd.	1978
154.7	155.7	1.0	131 CWR	1978
155.7	157.5	1.8	115 CWR	1956
157.5	160.2	2.7	115 Jtd.	1952
160.2	163.0	2.8	112 CWR	1958
163.0	163.3	0.3	115 CWR	1955
163.3	171.7	8.4	100 Jtd.	1944
171.7	184.0	12.3	112 Jtd.	1942
184.0	189.4	5.4	131 Jtd.	1942
189.4	191.7	2.3	112 Jtd.	1942
191.7	193.0	1.3	105 Jtd.	1929
193.0	194.5	1.5	115 CWR	1956
MAIN TRACK TOTALS			SIDINGS & AUXILIARY TRACKS	
90J	0.5		(Estimated as 80%, all scrap)	
100J	14.4		STATION	LENGTH**
105J	1.3		Glasford	0.7
112J	14.6		Rawlts	0.6
112W	4.7		UE Siding	1.5
115J	19.9		Cuba	0.6
115W	3.6		Smithfield	1.0
131J	11.3		Marietta	0.1
131W	1.0		New Phila.	0.3
TOTAL	71.3 MILES		Bushnell	2.0
			Good Hope	0.7
			Sciota	0.8
			Blandinsville	0.4
			TOTAL	8.7 MILES
** Length of sidings & auxiliary tracks scaled from track charts, likely to be less today.				

that all of that section would be sold as scrap. Portions of the 90, 100, 112 and 131 # segments -even of the 100 and 115 # segments -which have been in track on this line for over 50 years, may be of doubtful second-hand value. Rail in sidings and auxilliary tracks is discussed further below.

There is something of an anomaly with respect to pick up of second hand welded rail. While there are obvious Operating and maintenance advantages in use of welded rail which might enhance the value of those sections, the cost of pick-up and transport would normally substantially exceed that of jointed rail thus offsetting any higher eventual value. On the other hand, the eventual purchaser of Road quality jointed rail may desire that it be welded prior to relay. When jointed rail is welded or sold for welding the bolt hole segment of 2 or 3 feet at each end of each rail must be cut out, thus assuming only scrap value, thus reducing or offsetting any initial price advantage. Also, when rail has been in track for many years there is a minor loss in tonnage due to wear to or grinding of the rail-head. While it is possible that the rail in this line had been ground during the period of Santa Fe ownership we are inclined to assume only the loss due to many years' wear.

We have roughly scaled the various sidings and auxilliary tracks shown on the track charts in order to get an approximate value of rail and track material from those tracks. It should be borne in mind that if these track charts are like most I have seen throughout my career there are probably fewer of those tracks in place today than existed in 1988 when the charts were last revised. Also, I have assumed an average rail section of 80# for such tracks. While the turnout ends will be of the same rail section as the main track or other track which they are turning out of, the body of such tracks is likely to be of a lighter section, possibly as low as 60 or 65#. I have found an average of 80# rail, all scrap, to be reasonable for estimating the liquidation value of such additional trackage. As is usual practice, we have not separately evaluated other track material (angle bars, tie plates, spikes, bolts, nutlocks, etc.) but have applied a percentage to the rail tonnage to cover.

Gross weight per mile of rail is determined as follows (using 100# rail for example):
 $(100 \times 5,280 \times 2) / (3 \times 2,000)$. Other sections are determined by inserting their weight per yard in lieu of the 100 used in the above example. For second-hand or scrap rail gross weight so determined must be reduced by the percentages which may appear appropriate for head wear and end cropping. For example, if the theoretical mile of 100# rail above is assumed to have head wear of 1% and to have had approximately 2 feet cropped from each end (about 10% of a 39 ft. rail) in order to prepare it for welding, the total second-hand value of that mile would be developed from the formula above less about 11%. The 2 ft. sections cropped from the ends would, of course, have scrap value. In any actual evaluation it is, of course, necessary to estimate what head loss has occurred, what portions of the rail have second-hand value and, of those portions what portions will probably be welded for relay. Without having made a personal inspection of the line, I have based my computations on the following assumptions:

- (1) All siding and auxilliary track rail is estimated at 80# section and 3% head-wear, all scrap.
- (2.) The 105# Dudley section, in track on this line since 1929, has 2% head-wear and is all scrap.
- (3.) The CWR of all rail sections is all of SH value, less 1% for head-wear and 5% for added salvage costs.
- (4.) Jointed rail of all main track rail sections other than the 105# is all of SH value, less 1% for head-wear. The 115 and 131 # sections are assumed to be weldable and 10% of the overall length of jointed rail in those sections is valued as SC rather than SH to allow for end-cropping.

Per the formula shown above, based on the mileage of the various sections and substituting their respective weights per yard for the 100# shown in the above example, the NLV of the rail is as follows:

80# jointed = 8.7 mi. = 1,227 tons, less 3% head-wear = 1,190 tons (all SC) 90# jointed = 0.5 mi. = 79 tons, less 1% head-wear = 78 tons.

100# -jointed = 14.4 mi. = 2,534 tons, less 1% head-wear = 2,509 tons.
105# -jointed = 1.3 mi. = 240 tons, less 2% head-wear = 235 tons (all SC). 112# jointed = 14.6
mi. = 2,876 tons, less 1% head-wear = 2,847 tons.
112# welded = 4.7 mi. = 926 tons, less 1% for head-wear = 917 tons. Less an additional 5% to
cover added cost recovery. This produces a theoretical tonnage for estimating purposes of 871
tons
115# -jointed = 19.9 mi. = 4,020 tons. Less 1% for head-wear & 10% (credited to scrap) for
cropping = 3582 tons - SH and 398 tons scrap.
115# welded = 3.6 mi. = 729 tons, less 1% for head-wear = 722 tons.
Less an additional 5% to cover added costs of recovery - this produces a theoretical tonnage for
estimating purposes of 686 tons.
131# -jointed = 11.3 mi. = 2,570 tons. Less 1% for head-wear & 10% (credited to scrap) for
cropping = 2,290 tons SH and 254 tons SC. (scrap)
131# welded = 1.0 mi. = 231 tons. less 1% for head-wear = 229 tons. Less an additional 5% to
cover added costs of recovery this produces a theoretical tonnage for estimating purposes of
218 tons. Rail & OTM (Cont'd.): The inventory shown on page 3 produces a total rail inventory of 1
3,081 tons second-hand and 2,077 tons scrap. Based upon quotes of between \$250 and \$400 per ton for
good second-hand rail ready for shipment, it would be my judgment that such rail in track would bring not
more than \$1 00 to \$1 60 per ton. I have therefore used the average of those figures to produce an estimate
of \$140 per ton for value of the second-hand rail. Scrap is estimated at \$40 per ton. On that basis the
estimated total value of rail is (13,081 x \$140) + (2,077 x \$40), or \$1,914,420.
We have added 20% to the rail value to cover the recoverable OTM, thus producing an additional
\$382,884, making the total value of rail and other track material \$2,297,304.

Ties..

Ties are estimated at 3,300 per mile for the main track, 2,700 per mile for sidings and back tracks, and are shown in the usual three categories -those suitable for re-use in trackage, those suitable for landscaping purposes only, and those which must be scrapped. It must, of course, be borne in mind that there are many ties which have a few good years' service left if kept in track but which are not worth the cost of removal, sorting, storage, etc. and insertion elsewhere. Because -except for the eastern extremity near to Peoria -the line crosses a predominantly rural area, there appears to be little marketability of ties for landscaping purposes. Also, particularly since the line is located largely in a populated rural territory and much of it is adjacent to or near to public highways, all scrap ties must be disposed of in an environmentally acceptable manner resulting in a negative value of those ties classed as scrap.

At 3,300 ties per mile the 71.3 miles of main track would contain a total of 235,290 ties. The track charts do not indicate dates of any major tie renewals. However, they do indicate dates of major surfacing, ranging from 1965 to 1986. Most -not all -sections so dated include the prefix "SL ". Based upon my recollection of Santa Fe track charts which I have pursued in connection with other consulting projects it is my assumption that those segments were sledged, a project which assures that all unfit ties are dropped out and normally results in major tie replacement. It would thus appear probable that the last major tie renewals occurred from 17 to 38 years ago although there have presumably been spot replacements as needed since those dates. While tie life is dependent on many factors -tonnage, climate, type of wood, etc. -it would be my assumption that possibly 40% of the main track ties would be of a condition justifying their being inserted in track elsewhere. While there may be as many which would have marketability for landscaping purposes it appears doubtful that a market for that quantity exists in the area which can be reached at reasonable transportation cost. I have therefore estimated only 10% landscaping. This, of course, leaves 50% of the ties which must be disposed of in an environmentally acceptable manner.

At 2,700 ties per mile the 8.7 miles of sidings and auxiliary tracks would contain a total of 23,490 ties. I

would assume that no more than 10% would justify removal and insertion elsewhere, with a like number having possible landscaping value.

At values of \$7.00 each for relay grade ties, \$3.00 each for landscaping, and a negative \$3.00 each for scrap, the total tie value would be $[\$7.00 \times (94,116 + 2,349)] + [\$3.00 \times (23,529 + 2,349)] - [\$3.00 \times (117,645 + 18,792)]$, or $\$675,255 + \$77,364 - \$409,311$, a net of \$343,308-.

BALLAST:

Estimated ballast quantity on well-ballasted track is based on an average 24 sq. ft. cross-section, with a 2:1 side slope on each side from the top of the ballast section of 8 feet, the approximate same width as standard mainline railroad ties.

This cross-section produces $(24 \times 5,280)/27$, or 4,693 cubic yards per mile. The 71.3 miles of main track would thus produce a total of 334,611 cu. yds. of ballast. It is assumed that the sidings' ballast section and quality are somewhat less than those of the main track and that auxiliary tracks' ballast section and quality are, at least in some cases, still less. I have, therefore used one-third of the equivalent quantity per mile for the 8.7 miles of sidings and auxiliary tracks., thus producing a total of 13,610 cu. yds. for those tracks. The grand total thus becomes 348,221 cu. yds.

We are not familiar with the quality of the underlying ballast section except that which has been viewed in the trackage adjacent to existing KJ ownership at La Harpe. We assume that an adequate ballast section was maintained during the period of Santa Fe ownership and it would appear that most would be fairly readily available for pick-up in event of abandonment. There may be a question as to marketability of the ballast since the qualities -hardness, angularity, etc. - which make the best rail ballast are less desirable for uses such as rural road surfacing, the most probable market in a rural area. Assuming that 50% of this ballast is located so that it can be readily picked up and that it can be sold for \$2.00 per cubic yard, this produces a total ballast value of \$348,221.00. There are not that many roadways in this area of the State and in fact, depending upon the cost of transport (which can easily equal the \$2.00 per cubic yard value if hauled a distance of over 100 miles), the value of the ballast could be zero to negative. Further, we are unable and do not know whether the ballast is of a granite type, River shale limestone, or, other origin. Granite ballast and river shale with a strong dolomite content tend to retain substance over the years, while other lower grades (usually purchased from nearby quarries at a less cost) tend to deteriorate almost to powder over time. If it is not definitely determined this is largely granite, we recommend that laboratory samples be taken at tandom points to determine the dolomite or other hardness qualities which would make the ballast even reusable. This factor, as well, could under some circumstances produce a NEGATIVE valuation, rather than the small positive valuation we have given it in this study.

BRIDGE~, SIGNAL~ ETC.:

The track charts indicates 15 bridges in the line segment (not counting the numerous pipe culverts of various diameters and types). Description and my comments regarding possible disposition follow:

Bridge 125.02 -40' O.D. D.G. -Girder this size is readily recoverable & possibly salable. Bridge 128.99- 56' O.D. P.T. -Pile trestles are generally not marketable. Suggest end panels be removed to minimize potential of future liability. Bridge 130.36 -30' O.D. D.G. -See 125.02. Bridge 131.40- 144' O.D. Th. Truss & 22' O.D. I-beam -Truss bridges will generally cost as much

or more to dismantle as the value of material recovered. The I-beam span is readily recoverable and should be salable. Its removal will prevent access to one end of the truss span. Suggest the other end be blocked off to minimize potential of future liability.

Bridge 132.78 -156' O.D. Th.G. -Girder span this size is not as readily recoverable. Suggest ends be blocked off if the line is scrapped to minimize potential of future liability of property still in the hands of a railroad.

Bridge 133.74- 42' O.D.P.T. -See 128.99.

Bridge 135.30- 75' O.D.D.G. -A 75' girder span is probably less marketable than the shorter spans at 125.02 and 130.36, due to its heavier weight and greater length making removal and transport more difficult. Bridge 140.26 -75' O.D.D.G. -See 135.30.

Bridge 157.38- 174' O.D. Th.Truss & 322- O.D.P.T. -See 128.99 & 131.40. In this case removal of the end panel of the pile trestle will serve to block off access from one end. The opposite end should be blocked off to minimize potential of future liability, if the line is scrapped and taken out of service.

Bridge 160.59- 60' O.D. Th.G. -} These girder spans fall between the short spans at 125.02 Bridge 160.92- 60' O.D. Th.G. -} and 130.36 and the 75' span at 135.30 and may be more marketable than the latter: however, we tend to assume their marketability to be doubtful and to place them in the same category as 135.30.

Bridge 167.73 -324' concrete deck I-beam -This bridge, as described, is something of an anomaly. We have difficulty picturing a single 324' I-beam span and tend to picture this bridge -which crosses over State Hwy. 41 -as more likely being a 3-span structure common to such crossings. In such case the I-beam spans may be salable. Whether or not that is the case it appears probable that the State may require the structure to be removed. This could have an affect on the valuation negatively, and, we suggest that the contract be reviewed prior to any transfer of the title to determine potential liability or costs. Contracts governing railway bridges crossing state highways and waterways oftentimes have terms requiring the railroad to remove the bridge if it is no longer used for rail service and abandoned (only possibly superseded by an STB "Rails to Trails" designation. The valuation we make here can be negatively impacted by provisions which tie the liability of removal to the abandoning railroad.

Bridge 172.62- 39'-7" O.D.D.G. & 28' O.D.P.T. -See 125.02 and 128.99. Bridge 180.51 -126' O.D.P.T. -See 128.99.

Bridge 192.74 -14'-4" Stone & Brick Arch -We would place this structure in the same category as culverts, simply to be left in place.

We give the possible sale value of the shorter girder spans no more than a slight edge over the cost which would be incurred in providing necessary protection against future liability, and in the event that full removal of Bridge 167.73 should be required the total cost would no doubt exceed the sale price of the various marketable spans. Thus I am showing a net value of zero for bridges.

While we have seen no record of signals on the line, we assume that there are a number of signalled highway or road crossings. The value of recoverable material from removal of such signals rarely exceeds the cost of removal. Also, the signals may have been installed under contract with the State requiring removal of salvagable material to another crossing if no longer needed at their original location. This is another item which should be reviewed and disclosed to determine potential liability to a buyer as well as a negative impact on the valuation which we make here.

SECTION TWO - BUILDINGS AND RIGHT OF WAY

BUILDINGS:

While there would appear to undoubtedly be some minor structures such as old depots, tool sheds, etc. in existence on the line, we have no record of them and am also valuing these at zero. Oftentimes, upon abandonment, these become more of a liability, and subject to damage, destruction or fire by vandals and transients and even giving them a ZERO value, absent any more information, is generous. Even if one or two excellent station brick structures existed, the presence of other older wood buildings in marginal condition, or for that matter brick, would produce little if any value, or negative value, because to avoid liability issues, these should be dismantled upon abandonment.

RIGHT OF WAY: The track charts of course give no indication of width or potential value of right of way; and even a physical inspection gives no "clue" as to quality of title, which requires a detailed search through the records of each county traversed. Assuming a right of way width of 100 ft. (12.12 acres per mile) produces an assumed total of just over 864 acres. Further assuming that TP&W or its predecessor secured fee title to approximately 50% of the right of way, which title has passed to successive owners, this would produce a total of 432 acres owned in fee. The remainder, secured by easement or reversionary title, is as good as fee so long as it is occupied by a railroad but upon physical abandonment will revert to either the adjoining landowners or successors to the original owners.

Review of the track profile indicates that there may not be any major cuts or fills except in the vicinity of the crossings of the Spoon River (M.P. 157.38) and, to a lesser extent, of Copperas Creek (M.P. 131.40 and 132.78). Thus it appears that the majority of the rural right of way would be of value for agricultural use. The towns are mostly quite small, the largest apparently being Canton, population 14,880; Bushnell, 3511; Cuba, 1440; Glasford, 1115; and Blandinsville, 762. The others are too small to be listed in the Rand McNally Road Atlas. It is possible that there would be some potential commercial or industrial use for property in Canton or one of the other towns, however that potential may be more than offset by the difficulty of making any sale of real property in towns of declining population.

These are only assumptions for real estate valuation. There may also exist tax liens on such property given the ownership history and lack of use (and sometimes precarious financial condition) by the successor carriers after sale by the ATSF. Further, the TP&W Railway was built largely after the great railway boom in the late 1800's, and secondary carriers like TPW oftentimes could only get title or usage of right of way with THEN established land owners by so called "reversionary title" discussed above, which would revert back to the land owners upon discontinuance of service. A clear title of course, cost considerably more, and, the railway did not need it so long as they continued to operate. Also, while we are not aware that any portion of this trackage has been the subject of a previous ICC or STB approved abandonment proceeding, if it has, there could be questionable continued use of the land for rail purposes by another successor carrier, even assuming STB authority has been granted for the acquisition. This is because generally, under the controlling Surface Transportation Board (and before that Interstate Commerce Commission) laws and rules, if abandonment authority is granted, absent intervention by and designation as a Trails to Rails preservation program under those statutes, the federal preemption for usage as a rail carrier is terminated and adjacent land owners can claim immediate reversion by virtue of the original controlling deeds.

We thus recommend a complete title review of this land for quality and type of title as well as for potential tax or other liens possibly being placed on the property. It is generally the burden of the owner of the property to produce same for the buyer before ANY valuation of title or property can be made except for a nominal amount. In this case, merely for sake of valuation absent this information, we would assign only a value of \$100,000 to the entire line, bearing in mind that in the event of abandonment, signals, bridges and other structures may require removal and potential possible liens satisfied before producing value to the seller.

VALUATION SUMMARY:

Rail & Other Track Material \$2,297 ,304

Ties 343,308

Ballast 348,221 to Zero

Bridges & Signals 0

Buildings 0

Right of Way \$100,000

TOTAL \$3,088,833*

Limited ballast usage value based on discussions above = \$2,700,000*

*Note items of discussion in the text which could have further negative impact on the net liquidation value of the property. Experience has shown that just removal of one highway or river bridge of the length outlined above can cost between \$250,000 and \$500,000.

GOHMANN AND ASSOCIATES, Inc.

February 19th, 2003

JOHN W. GOHMANN

BIOGRAPHY

Born June 7, 1947, Mr. Gohmann began working on the railroads in the summer of 1963 as an extra on a Rock Island track gang, while still in high school. In June of 1965, upon graduation from high school in Cedar Rapids, Iowa, he joined the Milwaukee Road on its Iowa Division and worked in train and yard service on both passenger and freight operations.

In undergraduate studies at Coe College, graduating in 1969, he majored in business administration and wrote his thesis on public policy and rail transportation issues. In 1967, after losing his job due to passenger train discontinuances, he joined the Chicago and North Western and was a Yard Clerk and Chief Clerk at CNW's major yard office in Cedar Rapids, Iowa. In July of 1969, he joined the Elgin, Joliet and Eastern as an Industrial Engineer, and, performed cost and operating studies and then served time in the Operating and Labor Relations departments - rising to Manager of Labor Relations where he handled Operating and Non Operating Crafts. He left the "J" in 1976 to become a Carrier Member of the National Railroad Adjustment Board, being appointed by the National Railway Labor conference to represent the industry in the arbitration of rail labor disputes.

He pursued a Masters Degree in Business at Governors State University, Park Forest, Ill, which he received in 1977. His thesis was on how anachronistic public policy in the areas of regulation, labor relations, and governmental funding of Interstate Highways, waterways and airports had played a major role in the bankruptcy of many eastern railroads such as Penn Central, Erie Lackawanna, Central Railroad of New Jersey, Reading and others.

In 1980, he left the National Railroad Adjustment Board to form Gohmann and Associates, a transportation consulting firm, and, at that time he and his firm consulted over 150 clients on the re-establishment of rail service to lines abandoned by the bankruptcies of Conrail, Milwaukee Road and Rock Island. He was one of the founders of what is now Chicago Rail Link and Iowa Northern Railroads. His firm was also retained by transit agencies such as SEPTA, New Jersey Transit, Virginia Railway Express and others to assist in the transfer of rail assets and operations of commuter lines from Conrail to those agencies. For the United States Railway Administration (the "Banker of Conrail in bankruptcy"), he evaluated Conrail's yard, road and branchline operations and wrote a major part of USRA's position before Congress on achieving labor cost savings on Conrail in reorganization. He performed a similar function for the Delaware and Hudson Railroad, Pittsburgh and Lake Erie Railroad, Bangor and Aroostook, Soo Line, and, several other carriers, Gohmann and Associates also has done operating plan and business pro formas for many rail start ups and on going operations and rail asset valuations.

In 1987, he founded the Minnesota Commercial Railway, in the Twin Cities, and, since that time, has been its Chairman and President.

He has been a past officer or director or consultant for several other railroads, a founder of the Minnesota Regional Railroad Association and a past President and Chairman of its Legislative Committee, a founder of the new Small Railroad Business Owners of America Association, a Civil Service Commissioner in Tinley Park, Ill, and an author of many books on railroads and railroad policies, including The Railway Labor Act - a Judicial History, "Who Shot the Train", The Railroad Retirement Dilemma, Arbitration and Representation in Air and Rail Labor Relations, and, several others. He resides with his wife Rebecca and daughter Anne in Libertyville, Ill.

RICHARD J. LANE

Born in 1926, Mr. Lane holds a BA in Engineering from West Virginia University and has close to 40 years experience in the railroad industry. He began his career in the engineering - track department of the Rock Island, and, held numerous positions with Rock Island in the Engineering and Operating Departments, including the position of Assistant Chief Engineer and Assistant Vice President - Operations Planning. In these capacities, he was responsible for maintenance and planning of rail trackage all over the Rock Island system of some 6000 miles, and, pricing and valuation regarding upgrading, abandonments, and restructuring. In his position in the operating department, he was responsible for the planning and scheduling of operations, relationships with other railroads in joint trackage and operating properties and agreements relating to same.

He culminated his career and Director of Assets Disposition of the Rock Island Railroad in reorganization and bankruptcy up to the year 1986. In this position, reporting directly to the Trustee of Rock Island, Mr. Lane coordinated and was responsible for the valuation and sale of virtually all of Rock Island's rail trackage, and oversaw relationships and agreements with railroads regarding this liquidation. Rock Island successfully reorganized as Chicago Pacific Corporation, with proceeds of close to 1 billion dollars and paid off all debtors.

Since the reorganization of Rock Island into Chicago Pacific in 1986, Mr. Lane has served as an independent consultant to many railroads and engineering firms, performing such functions as valuations, engineering planning and layout, operations planning and analysis and miscellaneous rail related matters. He has done special projects for large engineering firms, as well as served with such railroads as Minnesota Commercial, Iowa Northern, Keokuk Junction, and various Pioneer Rail Corporation properties.

Verified Statement Exhibit B

Addendum to:

Valuation Study Performed for Pioneer Railcorp in
February, 2003 for properties of the former
Toledo, Peoria and Western Railway Company

- adding (7) seven miles of additional trackage to
the valuation study.

Gohmann and Associates, Inc.,
14047 Petronella Drive, Suite 201
Libertyville, Ill. 60048

April, 2003

ADDENDUM TO VALUATION STUDY OF TP&W RAIL LINE
PERFORMED IN FEBRUARY, 2003 FOR PIONEER

The original valuation study was based on appraisal of the line from MP 123 to MP 194, and, did not include the Mapleton Spur.

Pioneer has asked us to value an additional 4.5 miles, from MP 118.5 to MP 123, and, an approximately 2.5 mile segment called the Mapleton Spur and Wye Facilities.

Since Pioneer has not been provided with any information regarding these line segments, we are assuming, for valuation purposes, that a mixture of rail and tie and OTM condition also exist on these lines. We use an average of 115 lb rail, which was the approximate average of rail weights in the base study, to determine rail and OTM valuations.

Base Valuation

Rail and OTM

The base valuation was a total of \$2, 297,304 for rail and otm for the MP 123 to 194 segment, or a total of 71 miles. That produces a value of an average of \$32,356 per mile, times 7 miles, for an additional value of:

\$226,494.00

To be added to the original valuation for rail and OTM, taking the total to \$2,523, 798 for rail and otm.

Ties

We determined a net liquidation value of \$343,308 for ties for 71 miles, or an average valuation of \$4835.00 per mile. Seven additional miles at this initial valuation would produce an additional valuation of:

\$33,845.00

To be added to the original valuation for ties, taking the total to \$377,153.

Ballast

We noted the wide variation in the possible valuation of any ballast due to a variety of circumstances, but, assigned a top valuation of \$348,221 if parts were of certain quality,

easy to access, and, there were readily available nearby markets for it.

At \$348,221, we have a value of \$4904 per mile. Adding 7 miles total to the valuation is \$34,332, for a total valuation of \$382,553.

Bridges, Signals, etc.

We have no idea of any bridges on either of these line segments, nor their condition, nor any agreements that surround them. For purposes of this valuation, we assume, as we did in the original study, a zero value.

Further, in most circumstances, highway / roadway protective signals are owned by the State and would be reclaimed by them if there was any use for them elsewhere.

Buildings -

As we did in the initial study, we have no identification on track charts of any buildings and access to the property being denied, no real effective way to inspect them for condition or usability any where else. We thus assign a zero value.

Right of Way

Due to a myriad of circumstances, we assigned a value of only \$100,000 to the right of way and noted that certain conditions could exist which would impact that negatively. That is \$1408 per mile, for a total of \$9859.00 of value, bringing land estimated value to \$109,859 for this rural Illinois countryside. It should be noted that none of the towns or cities through which this line passes are large nor is there anything to indicate, based on the limited volumes of traffic the line produced, that there are any major industries on the line which would increase land valuations to normal commercial valuations found in medium to larger cities.

Summary of the Changes

The complete sum valuation for the entire lines valued and to be purchased (with the addition of the extra seven (7) miles) is thus summarized as follows

Rail and OTM	2,523,798
Ties	377,153
Ballast	382,553
Right of Way	109,859
Total,	\$3.393,363

All other comments and points which could affect the original valuation are also applicable here.

GOHMANN AND ASSOCIATES, INC.

April 2, 2003

VERIFICATION

I, John W. Gohmann, verify under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement.

3/8/2003
Date

John W. Gohmann
John W. Gohmann

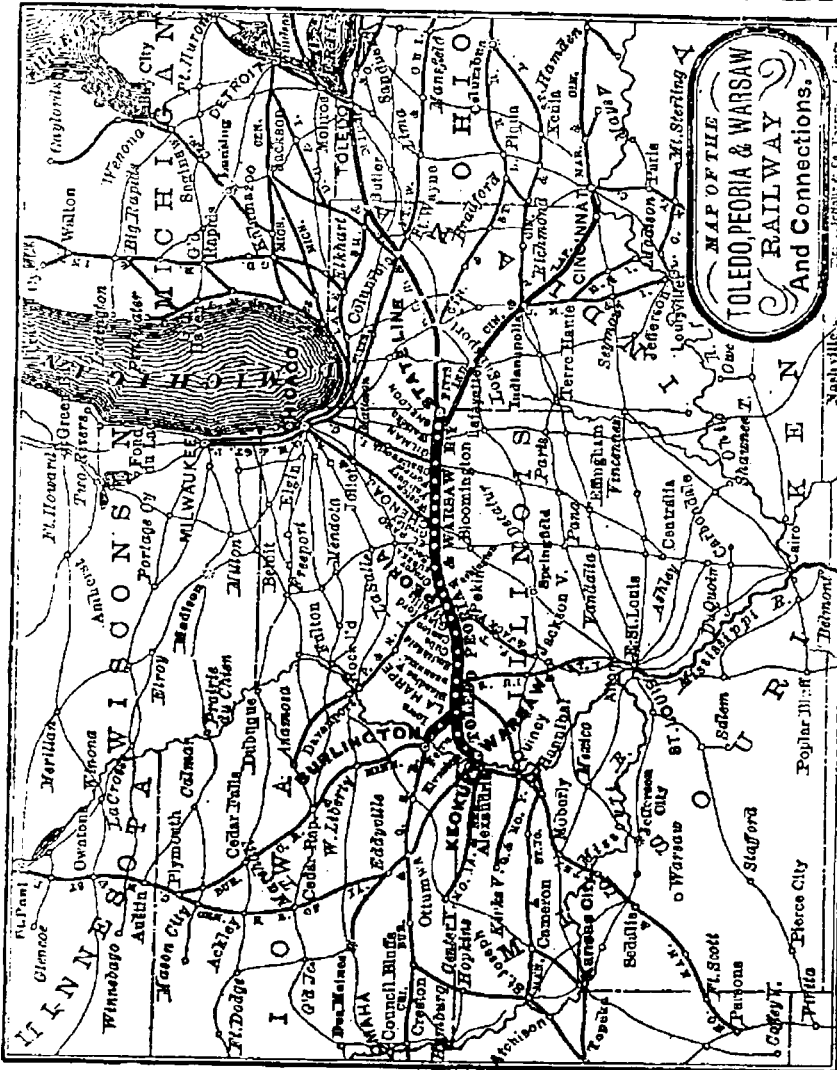
15/08/03

P. 7

Apr 08 03 05:00P

The Great Short Line Route EAST AND WEST —VIA— Toledo, Peoria & Warsaw R'y.

RATES AS LOW AND TIME BETTER THAN OTHER ROUTES!



Shippers of Live Stock will find this the Best Route to Chicago, Buffalo, Pittsburg, Indianapolis, Cincinnati and Eastern Points.

Claims for Overcharge, Loss and Damage Promptly Settled by sending proper papers to the undersigned.

W. S. SPIERS,
General Freight Agent,
PEORIA, ILL.

Map published in Through Freight Tariff from Peoria to the East Via the Toledo, Peoria and Warsaw Railway Taking Effect March 11, 1878. Special Collections Center, Bradley University Library

86

THE
Toledo, Peoria and Western Railroad.

A DIRECT LINE

Between the East & West

EASTWARD

the most Direct Route to Chicago, Toledo, Buffalo, Indianapolis, Cincinnati, Philadelphia, New York and all Eastern Cities.

WESTWARD

the most Direct Route to Burlington, Keokuk, Ottumwa, Des Moines, Omaha, Kansas City, Atchison, and all Points West.

PALACE SLEEPING CARS from Peoria to Chicago **EVERY NIGHT.** Solid Day Train, Peoria to Chicago, **EVERY DAY,** with Reclining Chair Car, in which there is no charge for seats.

Freight Shippers will find this line has as reasonable rates and prompt delivery as any road.

E. F. LEONARD, Manager.

E. N. ARMSTRONG,

GEN'L SUPERINTENDENT.

H. D. GOULD,

GEN'L FREIGHT AND PASSENGER AGENT,

W. W. KENT,

ASSISTANT GENERAL PASSENGER AGENT.

General Offices, Peoria, Ill.

*Advertisement published in Gould's Business Directory of the City of Peoria for 1887.
Peoria Public Library Collection*

Surface Transportation Board
1925 K. Street, NW
Washington, D.C. 51756-0001

Dear Sir or Madam,

We, the undersigned grain producers of the La-Harpe – Blandinsville area, located in west-central Illinois, urge you the S.T.B. to closely scrutinize the transactions between the T.P. & W. Railway, and A & K Railroad Materials, Inc. subsidiary S.F. & L. Railway.

We feel that A & K Railroad Materials, Inc. through its subsidiary S.F. & L. Railway is intending to bring about the demise of the railroad by raising rates and giving less reliable service. This is happening in the first 60 days of starting their operation.

The loss of this rail line would have a major economic impact on this agricultural community by reducing the net price of grain to the farmer.

Thank you for considering our situation.

Name	Address
<u>Charlie Wear</u>	<u>Carthage Ill.</u>
<u>Matt Hocker</u>	<u>Carthage Ill.</u>
<u>Don Tennell</u>	<u>Blandinsville Ill.</u>
<u>Robert L. Reed</u>	<u>Lomax Ill.</u>
<u>Eugene Hitz</u>	<u>Dallas City Ill.</u>
<u>Robert Painter</u>	<u>Lomax TLL</u>
<u>Richard L. Bost</u>	<u>La Harpe, Ill.</u>
<u>Sharon Hocker</u>	<u>La Harpe, Ill.</u>

Name

Address

Scott Hahn	La Harpe, Ill.
Ally Williams	La Harpe IL
Wade W. Peters	La Harpe, Ill.
Wendell M. Deane	Carbury IL
Gene Cox	LA Harpe
James R. Jones	PO Box 140 La Harpe IL 61450
Roger E. Bane	Bruce Ill
Larry Alderson	Blandinsville, Ill 61420
Conrad D. Hirt	La Harpe IL 61450
Robert H. Hark	La Harpe IL
Jim C. Hill	Roseville Ill
Harry Johnson	BLANDINSVILLE IL
Phil Mc Cleary	Blandinsville Ill.
Mitchell Webb	Blandinsville Ill 61420
Harold Webb	Blandinsville Ill 61420
Charles Kennedy	Blandinsville Ill 61420
Donald Shaugen	Blandinsville Ill 61420
Wendell Dean Hassel	Co. Chester Ill -
Ray C. C. C.	La Harpe, Ill 61450
Bill McKean	Blandinsville Ill 61420
Leslie Baker	Roseville, Ill. 61473
Larry Palmer	La Harpe
Bill Carson	Co. Chester Ill. 62326
Willie C. C.	La Harpe, IL
Dave Hilly	LA HARPE, IL.

Name

Address

Steve Smith
 Dean Cook
 Angie Smith
 Harry Jones
 Delrick Hordine
 Russell Wagy
 Bob Soule
 Bob Foster
 Russ Oliver
 Jack Branner
 Don Taylor
 William Meredith
 Lorraine Meredith
 Don Shugart
 Robert Shugart
 Cindy Soule
 Carolyn Kempher
 Jim Woodside
 Mary Kellip
 Gary Kempher
 Sherri Theriwick
 James Theriwick
 Thomas Weaver

B. V. 112
 Sciota Ill.
 Blandinsville Ill. I
 La Harpe, Ill
 La Harpe, Ill.
 Blandinsville Ill
 Blandinsville
 Blandinsville, Ill
 Blandinsville Ill
 Blandinsville, Ill
 " "
 Blandinsville Ill
 Blandinsville, IL
 Blandinsville Ill
 Blandinsville Ill
 Blandinsville Ill
 Blandinsville Ill
 La Harpe Ill
 Blandinsville, IL
 BLANDINSVILLE, ILL
 Blandinsville, Ill.
 Blandinsville Ill
 Blandinsville Ill

Name

Address

Kelly Abbott	Scioto
L. A. H. Schuman	B'ville
M. L. Schuman	Bulle
Oney W. Schuman	Blandinsville
John C. Schuman	Scioto
B. L. Schuman	B'ville, Ill.
Angela Coates	B'ville
Tom M. Schuman	Blandinsville, Ill.
Michael Murray	Blandinsville, Ill.
Jas. A. Reed	Blandinsville, Ill.
Mark Ebert	Blandinsville, Ill.
Steve Ebert	Blandinsville, Ill.
Lynda S. Ebert	Blandinsville, Ill.
Linda S. Ebert	Blandinsville, Ill.
Charlotte Lincher	Blandinsville, Ill.
Jack A. Lincher	Blandinsville, Ill.
Richard L. Lundgren	Blandinsville, Ill.
Kris Carter	Box 336 Blandinsville, Ill.
Steve Carter	Box 336 Blandinsville, Ill.
Joe Carter	443 N. 1550 Rd Blandinsville
Patricia Schuman	Blandinsville, Ill.
Kevin Driskell	B'ville

Name

Address

Don Carter
Ben Powell

22525 E. 700th St. Acota, IL 61473

Harry Simon

335 W. Adams, Blandinsville, IL

210 E ROBERTS ST COLLESTER 62328

Charles A. Moon

210 E Roberts, Colchester, IL 62326

Walter W. Jensen

15680 E 550 - Blandinsville

Fred Kott

5915 B.ville

Mike Kott

Macomb

Steve Kitch

7500 W 1650 RD MACOMB

Paul Kott

200 N. Madison Blandinsville

Mildred Hunt

1100 S Main Blandinsville, IL

Elmer Hunt

500 W Benton Blandinsville, IL

Fred Kott

6405 Main St. Blandinsville, IL

Pauline Calvert

320 W Adams Blandinsville, IL

Martin Calvert

11 - - - -

Daisy Thompson

610 W Washington Blandinsville IL

Lloyd W. Thompson

11 - - - -

Fred Thompson

405 W Adams Blandinsville, IL

Delmar Deems

Blandinsville 61420

Doreen Moore

Blandinsville IL 61420

Jack Hutchinson

LA HARPT IL, 61450

Helen Driskell

22170 E 900th St Blandinsville, IL

Oral C. Verapp

16535 E 550th St MACOMB IL 61455

Bryon Hobbs

Blandinsville 61420

Name

Scott R. Hallonell

Alan J. Bell

Mike Waugh

Reggie Dixon

Kenneth D. Zund

An. Jones

Steve Jones

Address

Dallas City

Dallas City

Smythurst

Blondino, IL

Nauvoo, IL

Colchester

Colchester

Name

Carol Lohby
Kristina Throck
Dawn W. Throck
Robin Small

Address

Blanchinsville IL 61420
Macomb IL 61455
Blanchinsville IL 61420
Blanchinsville IL 61420