

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1994-03-17** | Period of Report: **1993-12-31**

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### FILER

#### ILLINOIS CENTRAL CORP

CIK: **859119** | IRS No.: **133545405** | State of Incorp.: **DE** | Fiscal Year End: **1231**

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SIC: **4011** Railroads, line-haul operating

Business Address  
455 N CITYFRONT PLZ DR  
CHICAGO IL 60611-5504  
3128197500

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1993

Commission file number 1-10720

Illinois Central Corporation  
(Exact name of registrant as specified in its  
charter)

Delaware	13-3545405
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

455 North Cityfront Plaza Drive,  
Chicago, Illinois 60611-5504  
(Address of principal executive offices)

Registrant's telephone number, including area code:  
(312) 755-7500

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF  
THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF  
THE ACT:

Common Stock, par value \$.001 per share

Indicate by check mark whether the registrant  
(1) has filed all reports required to be filed by  
Section 13 or 15(d) of the Securities Exchange Act  
of 1934 during the preceding 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 ....

Indicate by check mark if disclosure of  
delinquent filers pursuant to Item 405 of  
Regulation S-K is not contained herein, and will  
not be contained, to the best of registrant's  
knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of  
this Form 10-K or any amendment to this  
Form 10-K. [ ]

As of March 1, 1994, the aggregate market  
value of the common stock held by non-affiliates of  
the registrant was approximately \$1,449 million.  
For purposes of the foregoing statement only,

directors and executive officers of the registrant have been assumed to be affiliates.

As of March 1, 1994, there were 42,615,839 shares of the registrant's common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 1994 Annual Meeting of Stockholders.

#### ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES FORM 10-K

Year Ended December 31, 1993

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## PART I

## Item 1. Business

## BACKGROUND

Illinois Central Corporation (the "Company") was incorporated under the laws of Delaware on January 27, 1989. The Company, through its wholly-owned subsidiary, Illinois Central Railroad Company (the "Railroad"), traces its origin to 1851, when the Railroad was incorporated as the nation's first land grant railroad. Today, the Railroad operates 2,700 miles of main line track between Chicago and the Gulf of Mexico, primarily carrying chemicals, coal and paper north, with coal, grain and milled grain products moving south along its lines. The Railroad has been significantly downsized and restructured from its peak of nearly 10,000 miles of track operated in 13 states, rebuilding its main line and converting to a single-track main line with a centralized traffic control system and divesting major east-west segments. In addition to the Railroad, the Company's other direct subsidiary conducts railroad related financing operations.

In 1989, the Company was acquired by The Prospect Group, Inc. ("Prospect") by means of a public tender offer that resulted in the Company becoming highly leveraged. Prospect distributed the stock of the Company to Prospect's stockholders in 1990, and the Company again became publicly owned. Improved operating performance, combined with sales of non-operating assets and proceeds from equity and lower-cost debt financings since 1990 have resulted in a substantial reduction in the Company's leverage. Between December 31, 1989 and December 31, 1993, the Company reduced its debt to capitalization ratio from 89% to approximately 50%.

The principal executive office of the Company is located at 455 North Cityfront Plaza Drive, Chicago, Illinois 60611-5504 and its telephone number is (312) 755-7500.

## GENERAL

The Company is in the midst of a four year plan designed to increase its revenues and lower its operating ratio and interest costs. The plan is in sharp contrast to the Company's primary focus for the four years ended December 31, 1992 of significantly reducing costs and improving service offerings.

With 1992 as its base, the plan will focus on capitalizing on the Company's leading operating ratio among Class I railroads (operating expenses divided by operating revenues) which was 68.2% at December 31, 1993. The components of the plan are:

- increase annual revenues by \$100 million by the end of 1996
- reduce the operating ratio by one percentage point per year for a total of four (4) points below the 1992 base
- reduce annual interest expense by \$10 million

To accomplish this plan, revenues must grow at a compounded rate of 4.3% per year while operating expenses must not exceed a compounded annual growth rate of 2.5% per year.

Management has identified the sources of planned revenue growth as economic expansion, new and expanded plants on line and market share growth. Economic expansion is the combination of industrial production improvement and freight rate increases. Market share growth is volume gained from competition, (i.e., other railroads, trucklines and barges) facilitated by being a low cost producer. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the progress made in 1993.

To foster achievement of these goals, the Railroad reorganized its marketing and sales effort (see below), restructured its safety and claims group into a Risk Management Group and streamlined the operating organization. The latter effectively created teams of engineering, maintenance and transportation experts who share the common goal of moving trains safely and efficiently. As a result of these changes, decision-making authority and accountability are now at lower and more localized levels, in line with the Company's systematic efforts to examine and refine all aspects of its service offering to customers.

#### COMMODITIES AND CUSTOMERS

The Railroad's customers are engaged in a wide variety of businesses and ship a number of different products that can be classified into commodity groups: chemicals, coal, grain, paper, grain mill and food products and other commodities. In 1993, two customers accounted for approximately 7% and 6%, respectively, of revenues (no other customer exceeded 5%) and the ten largest customers accounted for approximately 37% of revenues.

In order to address more effectively the diversity of the Company's customer base and move toward attainment of the four year growth plan, the Railroad's marketing department was re-organized in

1993 along major commodity groups. The new business units are chemicals and bulk, grain and grain mill, forest products, coal and coke and metals, and intermodal. The formation of separate units enables a fully integrated sales and marketing effort. Specialization allows employees to anticipate and respond to customer needs more quickly, to attract customers who previously used trucks or barges for their service needs, and to establish business relationships with new shippers. These new units work with current and prospective customers to develop customized shipping solutions. Management believes that this commitment to improved customer service has enhanced relations with shippers.

The formation of the Intermodal Business Unit underscores the Company's commitment to intermodal through long-term relationships with major participants in this strategic market. By forming a separate business unit, the Railroad has fully integrated its intermodal hub operation with sales and marketing for unmatched control of this highly specialized, customer-oriented service.

In 1993, the Railroad invested in 800 new trailers and upgraded facilities to position itself for intermodal growth, dedicated its newest, state-of-the-art terminal, just south of Chicago at the intersections of major expressways, and initiated a major expansion at the Memphis facility with completion anticipated for the first quarter of 1994.

To enhance service within its corridor, the Railroad entered into several joint operating agreements in 1992 and 1993 with trucklines and other intermodal carriers. Management anticipates that these relationships will provide better service to customers and seamless transportation of goods for shippers and customers.

In 1993, approximately 75% of the Railroad's freight traffic originated on its own lines, of which approximately 29% was forwarded to other carriers. Approximately 20% of the Railroad's freight traffic was received from other carriers for final delivery by the Railroad, and the balance of approximately 5% represented bridge or through traffic.

The respective percentage contributions by principal commodity group to the Railroad's freight revenues and revenue ton miles during the past five years are set forth below:

<TABLE>

<CAPTION>

CONTRIBUTIONS TO TOTAL FREIGHT REVENUES BY COMMODITY GROUP

<S>	<C>	<C>	<C>	<C>	<C>
-----	-----	-----	-----	-----	-----

COMMODITY GROUP	1993	1992	1991	1990	1989
	----	----	----	----	----
Chemicals.....	25.0%	24.3%	24.5%	25.3%	24.3%
Coal.....	12.8	15.3	15.0	15.3	16.0
Grain.....	14.0	12.2	11.7	10.7	12.6
Paper.....	12.4	12.1	11.2	10.7	9.9
Grain mill & food products .....	9.8	8.8	8.7	9.5	8.7
Intermodal.....	5.4	5.4	5.2	5.0	4.6
All other .....	20.6	21.9	23.7	23.5	23.9
	-----	-----	-----	-----	-----
Total .....	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

</TABLE>

#### CONTRIBUTION TO REVENUE TON MILES BY COMMODITY GROUP(1)

COMMODITY GROUP	1993	1992	1991
Chemicals.....	15.9%	15.1%	16.0%
Coal.....	15.1	18.2	17.0
Grain.....	27.9	27.3	27.7
Paper.....	9.6	9.0	8.4
Grain mill & food products ....	9.9	9.0	8.3
Intermodal.....	3.7	3.1	2.9
All other .....	17.9	18.3	19.7
	-----	-----	-----
Total.....	100.0%	100.0%	100.0%
	=====	=====	=====

- - - - -

(1) A new car tracking system installed in late 1990 affects the comparability of 1993's, 1992's and 1991's ton mile data with that of the prior years, thus prior years are not presented.

Some of the elements contained in these commodity groupings are as follows:

CHEMICALS .....	A wide variety of chemicals and related products such as chlorine, caustic soda, potash, soda ash, vinyl chloride monomer, carbon dioxide, synthetic resins, alcohols, glycols, styrene monomer, plastics, sulfuric acid, muriatic acid, anhydrous ammonia, phosphates, mixed fertilizer compounds and carbon blacks.
COAL.....	Bituminous and metallurgical coal.
GRAIN .....	Corn, wheat, soybeans, sorghum, barley and oats.
PAPER.....	Pulpboard, fiberboard, woodpulp, printing paper,

newsprint and scrap or  
waste paper.

GRAIN MILL & FOOD PRODUCTS .. Products obtained by  
processing grain and other  
farm products such as feed,  
soybean meal, corn syrup,  
flour and middlings, animal  
packinghouse by-products  
(tallow), canned food, corn  
oil, soybean oil, vegetable  
oils, malt liquors, sugar  
and molasses.

INTERMODAL..... A wide variety of products  
shipped either in  
containers or trailers on  
specially designed cars.

OTHER..... Pulpwood and chips, lumber  
and other wood products;  
sand, gravel and stone,  
coke and petroleum  
products, metallic ores and  
other bulk commodities;  
primary and scrap metals,  
machinery and metal  
products, appliances,  
automobiles and parts,  
transportation equipment  
and farm machinery; glass  
and clay products, ordnance  
and explosives, rubber and  
plastic products, and  
general commodities.

<TABLE>

<CAPTION>

#### OPERATING STATISTICS

Set forth below is certain information relating to  
the Railroad's freight traffic during the past five years:

<S>	<C>	<C>	<C>	<C>	
	1993	1992	1991	1990	1989
	----	----	----	----	----
Carloads (in thousands).....	848	852	866	853	893
Freight train miles (in thousands) (2).....	5,659	5,149	5,445	5,496	5,974
Revenue ton miles of freight traffic (in millions) (1) (3)...	20,334	18,734	19,357	NM	NM
Revenue tons per carload.....	79.1	76.6	79.0	77.7	79.8
Average length of haul (in miles).....	293	284	286	270	246
Gross freight revenue per ton mile (1) (4).....	\$ .027	\$ .029	\$ .028	NM	NM
Net freight ton miles per average route mile (in millions) (1)...	7.5	6.8	7.0	NM	NM
Gallons per ton mile (5).....	.00251	.00269	.00276	.00292	.00329



Active locomotives.....	322	331	361	375	439
Track resurfacing (miles).....	1,293	1,465	940	618	200
Percent resurfaced.....	29.8%	32.0%	19.6%	12.7%	3.9%
Ties laid in replacement (including switch ties).....	323,764	296,536	255,283	240,968	55,346
Slow order miles.....	152.32	135.42	194.62	149.74	308.19

</TABLE>

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- (1) Ton mile data for years subsequent to December 31, 1990, are not comparable with prior years because of the installation of a new car tracking system in late 1990. As a result, this information is not meaningful (NM) for 1990 and 1989.
- (2) Freight train miles equals the total number of miles traveled by the Railroad's trains in the movement of freight.
- (3) Revenue ton miles of freight traffic equals the product of the weight in tons of freight carried for hire and the distance in miles between origin and destination.
- (4) Revenue per ton mile equals net freight revenue divided by revenue ton miles of freight traffic.
- (5) Gallons per ton mile equals the amount of fuel required to move one ton of freight one mile.

The following tables summarize operating expense-to-revenue ratios of the Company for each of the past four years, excluding the effect of the \$8.9 million pretax special charge in 1992. The ratios for 1989 are not comparable to subsequent years because of the March 17, 1989, change in control and are not presented. The first table analyzes the various components of operating expenses based on the line items appearing on the income statements, whereas the second table is based on functional groupings.

<TABLE>

<CAPTION>

<S>	<C> 1993	<C> 1992	<C> 1991	<C> 1990
Operating ratio(1).....	68.2%	70.7%	73.5%	75.4%
Labor and fringe benefits ratio..	33.7	35.0	35.8	37.3
Leases and car hire ratio.....	12.4	12.9	14.0	14.8
Diesel fuel ratio.....	5.4	5.5	6.0	5.9
Materials and supplies ratio.....	6.5	6.0	5.7	4.8
Depreciation and amortization ratio.....	4.1	4.0	3.8	4.0
Other ratio.....	6.1	7.3	8.2	8.6
	1993	1992	1991	1990
Operating ratio(1).....	68.2%	70.7%	73.5%	75.4%
Transportation ratio(2).....	29.6	31.6	34.8	35.3
Maintenance of way ratio(3).....	7.2	7.0	6.4	7.1
Maintenance of equipment ratio(4)	20.7	22.5	23.9	23.7

</TABLE>

- 
- (1) Operating ratio means the ratio of operating expenses before special charge over operating revenues.
  - (2) Transportation ratio means the ratio of transportation expenses (such as expenses of operating, servicing, inspecting, weighing, assembling and switching trains) over operating revenues.
  - (3) Maintenance of way ratio means the ratio of maintenance of way expenses (such as the expense of repairing, maintaining, leasing, depreciating and retiring right-of-way and trackage structures, buildings and facilities) over operating revenues.
  - (4) Maintenance of equipment ratio means the ratio of maintenance of equipment expenses (such as the expense of repairing, maintaining, leasing, depreciating and retiring transportation and other operating equipment) over operating revenues.

#### EMPLOYEES; LABOR RELATIONS

Railroad industry personnel are covered by the Railroad Retirement System instead of Social Security. Employer contribution rates under the Railroad Retirement System are currently more than double those in other industries, and may rise further because of the increasing proportion of retired employees receiving benefits relative to the shrinking number of working employees.

Labor relations in the railroad industry are subject to extensive governmental regulation under the Railway Labor Act. Railroad industry personnel are also covered by the Federal Employer's Liability Act ("FELA") rather than by state no-fault workmen's compensation systems. FELA is a fault-based system, with compensation for injuries determined by individual negotiation or litigation.

The Railroad is a party to several national collective bargaining agreements which establish the wages and benefits of its union workers -- 90% of all Railroad employees. These agreements are subject to renegotiation beginning November 1, 1994, however, cost of living allowance provisions and other terms in each agreement continue until new agreements are reached. Despite being part of a national bargaining group, the Railroad has expressed a desire to negotiate separate distinct agreements with each of its unions on a local basis. Management has been exploring that position and has held several discussions with representatives from most of its unions. It is too early to determine if separate agreements will be reached. Thus, the Railroad has not taken steps to

withdraw formally from the national bargaining group. The following table shows the average annual employment levels of the Railroad:

	1993	1992	1991	1990	1989
Total employees..	3,306	3,421	3,611	3,688	3,942

A significant portion of the decline from the 1992 level is the result of a separate agreement between the Railroad and the United Transportation Union, reached in November 1991. This agreement permits the Railroad to reduce the size of all crews on all trains operated. In accordance with this agreement, 158 crew members were severed at a cost of \$9.6 million to date. No further dramatic reductions in the current crew size of approximately 2.75 at December 31, 1993 is anticipated.

Management believes that additional jobs in all areas may be eliminated over the next several years primarily through attrition and retirements though additional severances are possible.

#### REGULATORY MATTERS; FREIGHT RATES; ENVIRONMENTAL Considerations

The Railroad is subject to significant governmental regulation by the ICC and other federal, state and local regulatory authorities with respect to rates, service, safety and operations.

The jurisdiction of the ICC encompasses, among other things, rates charged for certain transportation services, issuance of securities, assumption of certain liabilities by railroads, mergers or the acquisition of control of one carrier by another carrier and extension or abandonment of rail lines or services.

The Federal Railroad Administration, the Occupational Safety and Health Administration and certain state transportation agencies have jurisdiction over railroad safety matters. These agencies prescribe and enforce regulations concerning car and locomotive safety equipment, track safety standards, employee work conditions and other operating practices.

The amount of coal transported by the Railroad is expected to decline somewhat as the Clean Air Act is fully implemented. Much of the coal from mines currently served by the Railroad will not meet the environmental standards of the Clean Air Act without blending or installation of air scrubbers. On the other hand, the Railroad expects to participate in additional movements of Western coal. Overall, management believes that

implementation of the Clean Air Act is unlikely to have a material adverse effect on the results of the Company.

The Company is and will continue to be subject to extensive regulation under environmental laws and regulations concerning, among other things, discharges into the environment and the handling, storage, transportation and disposal of waste and hazardous materials. Inherent in the operations and real estate activities of the Railroad and other railroads is the risk of environmental liabilities. As discussed in Item 3. "Legal Proceedings," several properties on which the Railroad currently or formerly conducted operations are subject to governmental action in connection with environmental degradation. Additional expenditures by the Railroad may be required in order to comply with existing and future environmental and health and safety laws and regulations or to address other sites which may be discovered.

Environmental regulations and remediation processes are subject to future change and cannot be determined at this time. Based on present information, in the opinion of management, the Company has adequate reserves for the costs of environmental investigation and remediation. However, there can be no assurance that environmental conditions will not be discovered which might individually or in the aggregate have a material adverse effect on the Company's financial condition.

#### COMPETITION

The Railroad faces intense competition for freight traffic from motor, water, and pipeline carriers and, to a lesser degree, from other railroads. Competition with other railroads and other modes of transportation is generally based on the quality and reliability of the service provided and the rates charged. Declining fuel prices disproportionately benefit trucking operations over railroad operations. The trucking industry frequently is more cost and transit-time competitive than railroads, particularly for distances of less than 500 miles. While deregulation of freight rates under the Staggers Act has greatly increased the ability of railroads to compete with each other and alternate forms of transportation, changes in governmental regulations (particularly changes to the Staggers Act) could significantly affect the Company's competitive position.

To a greater degree than other rail carriers the Railroad is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for

some commodities, particularly coal and grain, sometimes represents a lower cost mode of transportation. As a result, the Railroad's revenue per ton-mile has generally been lower than industry averages for these commodities. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts. These interruptions cause widely fluctuating rates. The Railroad's ability to maintain its market share of the available freight has traditionally been affected by its response to the navigational conditions on the river.

Most of the Railroad's operations are conducted between points served by one or more competing carriers. The consolidation in recent years of major midwestern and eastern rail systems has resulted in strong competition in the service territory of the Railroad.

#### LIENS ON PROPERTIES

Most of the locomotives and rail cars owned by the Company's financing/leasing subsidiaries are subject to liens. See Note 8 of Notes to Consolidated Financial Statements.

#### LIABILITY INSURANCE

The Company is self-insured for the first \$5 million of each loss. The Company carries \$295 million of liability insurance per occurrence, subject to an annual cap of \$370 million in the aggregate for all losses. This coverage is considered by the Company's management to be adequate in light of the Company's safety record and claims experience.

#### ITEM 2. PROPERTIES - - - - -

##### PHYSICAL PLANT AND EQUIPMENT

System. As of December 31, 1993, the Railroad's total system consisted of approximately 4,700 miles of track comprised of 2,700 miles of main line, 300 miles of secondary main line and 1,700 miles of passing, yard and switching track. The Railroad owns all of the track except for 190 miles operated by agreements over track owned by other railroads.

Track Structures. During the five years ended December 31, 1993, the Railroad has spent \$305.3 million on track structure to maintain its rail lines, as follows (\$ in millions):

	Capital		
	Expenditures	Maintenance	Total
1993 .....	\$ 50.3	\$ 25.1	\$ 75.4

1992 .....	46.4	23.0	69.4
1991 .....	36.3	20.7	57.0
1990 .....	34.6	20.0	54.6
1989 .....	19.1	29.8	48.9
	-----	-----	-----
Total.....	\$186.7	\$118.6	\$305.3
	=====	=====	=====

These expenditures concentrated primarily on track roadway and bridge rehabilitation in 1993 and 1992. Approximately 1,300 miles and 1,400 miles of road were resurfaced in 1993 and 1992, respectively. Over the last two years, a total of \$8.4 million was spent to construct new or expanded intermodal facilities in Chicago and Memphis. Expenditures in 1991 and 1990 benefited from the use of reclaimed rail, cross ties, ballast and other track materials from the second main line when the Railroad's double-track mainline was converted to a single-track mainline with centralized traffic control. Most reclaimed material has now been used and future expenditures will reflect the purchase of new materials. The reduced number of miles of track and the general good condition of the track structure should result in future expenditures approximately equal to the average of 1993 and 1992.

Fleet. The Railroad's fleet has undergone significant rationalization and upgrading from its peak in 1985 of 862 locomotives and 28,616 freight cars. Over the last two years older, less efficient locomotives were replaced with newer larger horsepower and more efficient equipment. In 1993, the Company implemented a program to increase ownership of freight cars and locomotives and become less dependent on the leasing market as a source of equipment.

Over the last three years the Company, through wholly-owned financing/leasing subsidiaries, has acquired a total of sixty-one (61) 15 to 16 year-old SD-40-2 locomotives and 1,522 freight cars. The 61 locomotives are leased to the Railroad for seven and one-half years. Approximately 650 of the cars acquired are leased to the Railroad as well. The remaining cars are leased to other non-affiliated railroads. When those leases expire, the Railroad has first right of refusal to lease the equipment. As these cars are leased to the Railroad other leased equipment will be returned to the independent, third-party lessors or short-term car hire agreements will be terminated. In 1993, the Railroad acquired 4 SD-40-2 locomotives and also upgraded its highway trailer fleet with 800 newly built trailers which replaced 880 older leased trailers.

The following is the overall fleet at December 31:

Total Units:	1993	1992	1991	1990	1989
	----	----	----	----	----
Locomotives(1)	468	449	470	471	516
Freight cars..	16,634	15,877	16,381	16,526	17,141
Work equipment.	745	902	881	934	1,000
Highway trailers	.898	203	124	67	70

(2)

- - - - -

(1) Approximately 100 locomotives need repair before they can be returned to service. This equipment is repaired if needed on an ongoing basis or sold. In 1993 and 1992, the Railroad sold 23 and 66 surplus locomotives, respectively. The active fleet is 322 as of December 31, 1993.

(2) Excludes trailers being accumulated for return to lessors.

The components of the fleet by subsidiary and in total for 1993 and in total for 1992 are shown below:

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>	<C>		
		Railroad				
	Leasing				1993	1992
	Subsidiaries		Long-Term			
Description(1)	Total	Owned(2)	Lease(3)	Total	Total	Total
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Locomotives:						
Multipurpose	61	223	84	307	368	352
Switching	-	18	82	100	100	97
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total	61	241	166	407	468	449
	=====	=====	=====	=====	=====	=====
Freight Cars:						
Box (general service)	665	199	357	556	1,221	703
Box (special purpose)	857	1,928	725	2,653	3,510	2,345
Gondola	-	945	149	1,094	1,094	1,046
Hopper (open top)	-	1,611	3,344	4,955	4,955	5,397
Hopper (covered)	-	2,418	1,359	3,777	3,777	3,574
Flat	-	304	547	851	851	883
Other	-	998	228	1,226	1,226	1,929
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total	1,522	8,403	6,709	15,112	16,634	15,877
	=====	=====	=====	=====	=====	=====
Work equipment		704	41	745	745	902
		=====	=====	=====	=====	=====
Highway trailers(4)		-	898	898	898	203
		=====	=====	=====	=====	=====

</TABLE>

(1) In addition, approximately 2,735 freight cars and 696

highway trailers were being used by the Railroad under short-term car hire agreements.

- (2) May be subject to Conditional Sales Agreements.
- (3) Excludes equipment listed under Leasing Subsidiaries.
- (4) Excludes trailers being accumulated for return to lessor.

Item 3. Legal Proceedings

- - - - -

State of Alabama, et al. v. Alabama Wood Treating Corporation, Inc., et al., S.D. Ala. No. 85-0642-C

The State of Alabama and Alabama State Docks ("ASD") filed suit in 1985 seeking damages for alleged pollution of land in Mobile, Alabama, stemming from creosoting operations over several decades. Defendants include the Railroad, which owned the land until 1976, Alabama Wood Treating Corporation, Inc., and Reilly Industries, Inc. ("RII"), which leased the land from the Railroad and conducted creosote operations on the site. In December 1976, the Railroad sold the premises to ASD. The complaint sought payment for the clean-up cost together with punitive and other damages.

In 1986, ASD, RII and the Railroad agreed to form a joint technical committee to clean the site sharing equally the cost of clean-up, and in October 1986, the court stayed further proceedings in the suit. Under the agreement the joint technical committee has spent approximately \$6.6 million and has been authorized to expend up to a total of \$6.9 million. The Railroad has contributed \$2.2 million and has agreed to increase its contribution to a total of \$2.3 million. Further clean-up activities are anticipated.

Under the agreement, if any party disagrees with the amount determined by the joint technical committee to be expended or otherwise disagrees with any aspect of the clean-up, such party may decline further participation and recommence legal proceedings. However, amounts already contributed by any party will be credited against that party's eventual liability and may not be recovered from any other party.

Iselin Yard, Jackson, Tennessee

In 1991, the Iselin Rail Yard in Jackson, Tennessee was placed on the Tennessee Superfund list. In May 1993, the United States Environmental Protection Agency ("EPA")



proposed to add a number of sites, including Iselin Rail Yard to the National Priorities List. The Railroad operated a rail yard and locomotive repair facility at the site. The shop facility was sold in 1986 and the rail yard was sold in 1988. Trichloroethylene ("TCE") has been found in several municipal water wells near the site. TCE is a common component of solvents similar to those believed to have been used at the Iselin shop. In addition, concentrations of metals and organic chemicals have been identified on the surface of the site. No order has been issued by any regulatory agency but the State of Tennessee is monitoring work at the site. The Railroad expects to cooperate with the agencies and other Potentially Responsible Parties to conduct any necessary studies and clean-up activities. The Railroad has commenced a remedial investigation and feasibility study of the site.

#### McComb, Mississippi

Elevated levels of lead and other soil contamination has been discovered at the Railroad's facility in McComb, Mississippi. The site was used for many years for sandblasting lead-based paint off freight cars. The Railroad has commenced a formal site investigation under the supervision of the Mississippi Department of Environmental Quality. The Remedial Investigation has disclosed the presence of lead in the soil and further testing of the surface and subsurface soil and groundwater is underway to assess the scope of the contamination. No order has been issued by any regulatory agency. The Railroad expects to cooperate with the State of Mississippi to conduct any necessary studies and clean-up activities.

#### Waste Oil Generation

The Railroad was notified in September 1992 that it had been identified as a Potentially Responsible Party at a federal superfund site in West Memphis, Arkansas. The Railroad is alleged to have generated waste oil which was collected by a waste oil refiner who in turn disposed of sludge at the West Memphis landfill. In December 1992, the successor to the refiner initiated legal proceedings to preserve testimony in anticipation of a future contribution action against multiple Potentially Responsible Parties including the Railroad. Similar actions have been taken by the EPA or third parties with respect to waste oil allegedly generated by the Railroad and disposed of in landfills at Livingston, LA, Griffith, IN and Nashville, TN.

Based on information currently available, the Railroad believes it has substantial defenses to liability for any contamination at these sites, and that any contribution to the contamination by the Railroad was de minimis.

Item 4. Submission of Matters to a Vote of  
Security Holders  
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No matters were submitted to a vote of security holders during the Company's fourth quarter.

Item 4A. Executive Officers of the Registrant  
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The executive officers of the Company are identified in the table below. Each executive officer of the Company currently holds an identical position with the Railroad. Executive officers of the Company and the Railroad serve at the pleasure of the respective Boards of Directors.

Name ----	Age ---	Position(s) -----
Gilbert H. Lamphere	41	Chairman of the Board of Directors
E. Hunter Harrison	49	President and Chief Executive Officer, Director
Gerald F. Mohan	53	Senior Vice President - Marketing
John D. McPherson	47	Vice President - Operations
James M. Harrell	41	Vice President - Human Resources
David C. Kelly	49	Vice President - Maintenance
Ronald A. Lane	43	Vice President and General Counsel and Secretary
Dale W. Phillips	39	Vice President and Chief Financial Officer
John V. Mulvaney	43	Controller

BIOGRAPHICAL INFORMATION

The following sets forth the periods during which the executive officers of the Company and the Railroad have served as such and a brief account of the business experience of such persons during the past five years.

Mr. Lamphere was elected Chairman of the Board of Directors of the Company and the Railroad

in February 1993. He has been a director of the Company and the Railroad since 1989 and Chairman of the Executive Committee of the Board since July 1990. Mr. Lamphere has been Co-Chairman and Chief Executive Officer of The Noel Group, Inc. ("Noel"), a diversified operating company since 1991, and a director of Noel since March 1990. Mr. Lamphere also is the Chairman, Chief Executive Officer and a director of Prospect, for which he has served in various capacities since becoming a director in 1983.

Mr. Harrison was appointed President, Chief Executive Officer and a Director of the Company and the Railroad in February 1993. He joined the Company and the Railroad as Vice President and Chief Transportation Officer in 1989. In November 1991 he was appointed Senior Vice President - Transportation and was named Senior Vice President - - Operations in July 1992. He was employed by Burlington Northern Railway in various vice presidential positions from 1985 to 1989.

Mr. Mohan was appointed Senior Vice President - - Marketing of the Railroad in 1986. In April 1993 he was elected a Director of the Railroad. He was appointed to his present position with the Company in December 1989.

Mr. McPherson joined the Company and the Railroad in his current position in July 1993. Prior to joining the Company and the Railroad, he held various positions with the Atchison, Topeka and Santa Fe Railway Company from 1966 to 1993, most recently as Assistant Vice President - Safety.

Mr. Harrell joined the Company and the Railroad in his current position in 1992. He served as Director of Labor Relations for The Atchison, Topeka and Santa Fe Railway Company from 1989 to 1992. From 1974 to 1989 he held various positions with The Atchison, Topeka and Santa Fe Railway Company.

Mr. Kelly joined the Company and the Railroad as Vice President and Chief Engineer in 1989. In January 1994, he was appointed Vice President - Maintenance. He served as Assistant Chief Engineer - - Systems of CSX Transportation from 1987 to 1989.

Mr. Lane joined the Company and the Railroad as Vice President and General Counsel and Secretary in 1990. In April 1993 he was elected a Director of the Railroad. He was previously employed by The Atchison, Topeka and Santa Fe Railway Company and Santa Fe Pacific Corporation serving as Assistant Vice President - Personnel and Labor Relations, 1987 to 1990.

Mr. Phillips has been employed by the Railroad since February 1988, serving as Director

of Taxes & Property Accounting from February to October 1988, as Assistant Controller from October 1988 to April 1989, and Controller from April 1989 to April 1990. He was appointed to his present position in the Company and the Railroad in April 1990. In April 1993 he was elected a Director of the Railroad. Mr. Phillips also serves as a director of Rail Association Insurance, Ltd.

Mr. Mulvaney joined the Company and the Railroad as Controller in June 1990. He was previously employed by Navistar International Transportation Corp., serving as Director of Accounting, 1987 to 1990.

No family relationship exists among the officers of the Company or the Railroad.

## PART II

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### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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The following table sets forth, for the periods indicated, (i) the high and low sale prices of the Common Stock as reported on the New York Stock Exchange Composite Tape, adjusted for the February 1992 3-for-2 stock split, and (ii) the per share amount of dividends paid.

	STOCK PRICE		DIVIDENDS
	HIGH	LOW	PER SHARE
1992			
First Quarter..	\$25.500	\$21.083	\$ -
Second Quarter.	24.875	20.250	.10
Third Quarter..	22.375	16.500	.10
Fourth Quarter.	25.625	18.250	.15
1993			
First Quarter..	\$27.250	\$23.625	\$ .15
Second Quarter.	30.125	25.375	.15
Third Quarter..	32.750	26.625	.17
Fourth Quarter.	36.000	29.250	.17
1994			
First Quarter	\$38.625	\$33.500	\$ .21
(through March 1)			

As of March 1, 1994, there were approximately 11,000 stockholders based on estimates of beneficial ownership. The closing price of the Common Stock as reported on the New York Stock Exchange Composite Tape on March 1, 1994 was \$35.75 per share.

On February 10, 1994, the Board declared a dividend of \$.21 per share payable April 7, 1994,

to stockholders of record on March 24, 1994.

Prior to April 1992, the Company had not previously paid cash dividends on its Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," for a discussion of the restrictions on the Railroad's ability to transfer funds as dividends to the Company.

The Common Stock is listed on the New York Stock Exchange, Inc. under the symbol "IC."

#### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial data of the Company for the four years ended December 31, 1993, and for the period January 27, 1989 the date on which the Company was incorporated, through December 31, 1989, and selected historical consolidated financial data of the Railroad as predecessor of the Company for the period January 1, 1989, through March 16, 1989, all derived from the consolidated financial statements of the Company which were audited by Arthur Andersen & Co. This summary should be read in conjunction with the consolidated financial statements included elsewhere in this Report and the schedules and notes thereto.

The purchase method of accounting was used to record the assets acquired and liabilities assumed by the Company in 1989.

<TABLE>

#### SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$ in millions, except share data)

<CAPTION>

	The Company				Period	Predecessor
	Years Ended December 31,	Years Ended December 31,	Years Ended December 31,	Years Ended December 31,	1/27/89 to 12/31/89	Period 1/1/89 to 3/16/89
	1993	1992	1991	1990		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income Statement Data (1):						
Revenues.....	\$ 564.7	\$ 547.4	\$ 549.7	\$ 544.2	\$ 398.5	\$ 148.5
Operating expenses before special charge.....	385.2	387.0	404.1	410.4	318.7	143.1
Special charge.....	-	8.9	-	-	-	-
Operating income.....	179.5	151.5	145.6	133.8	79.8	5.4
Other income, net.....	1.7	2.0	5.7	6.2	3.1	2.2
Interest expense, net.....	(33.1)	(43.6)	(55.1)	(71.4)	(68.5)	(8.3)
Income (loss) before income taxes, extraordinary item and cumulative effect of changes in accounting principles.....	148.1	109.9	96.2	68.6	14.4	(0.7)

Provision (benefit) for income taxes	56.4	37.4	30.8	22.4	4.4	(0.4)
Income (loss) before extraordinary item and cumulative effect of changes in accounting principles	91.7	72.5	65.4	46.2	10.0	(0.3)
Extraordinary item, net.....	(23.4)	-	-	-	-	-
Cumulative effect of changes in accounting principles.....	(0.1)	23.4	-	-	-	-
Net income (loss).....	68.2	95.9	65.4	46.2	10.0	(0.3)
Preferred stock dividends requirements.....	-	-	-	5.1	7.4	-
Income (loss) applicable to common stock.....	\$ 68.2	\$ 95.9	\$ 65.4	\$ 41.1	\$ 2.6	\$ (0.3)
Income (loss) per share (2):						
Before extraordinary item and accounting changes.....	\$ 2.14	\$ 1.70	\$ 1.64	\$ 1.31	\$ 0.09	\$ (0.01)
Extraordinary item.....	(0.55)	-	-	-	-	-
Accounting changes.....	-	0.55	-	-	-	-
Income (loss) per share..	\$ 1.59	\$ 2.25	\$ 1.64	\$ 1.31	\$ 0.09	\$ (0.01)
Weighted average number of common shares outstanding (in thousands) (2).....						
	42,680	42,600	39,830	31,460	28,278	21,623
Cash dividends declared per common share.....						
	\$ 0.70	\$ 0.50	-	-	-	-
Operating ratio (3).....						
	68.2%	70.7%	73.5%	75.4%	80.0%	96.4%

The Company					
Years Ended December 31,					
	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data (1):					
Total assets.....	\$1,258.7	\$1,206.1	\$1,183.5	\$1,152.0	\$1,177.1
Long-term debt.....	360.3	367.3	413.5	486.1	537.8
Stockholders' equity.....	377.4	338.8	260.3	128.4	10.9
Working capital (deficit).....	(32.4)	(2.9)	(3.4)	(44.9)	(72.8)

The following notes are for both Income Statement and Balance Sheet data:

(1) The purchase method of accounting was used to record the assets acquired and liabilities assumed by the Company in 1989. This accounting method results in reduced depreciation expense in periods subsequent to March 16, 1989. Accordingly, the above summary financial data derived from the financial statements of the Predecessor and of the Company are not comparable in all material respects since those financial statements report financial positions, results of operations, and cash flows of the separate entities on differing bases. The Company's income statement data reflects the operations of the Railroad from March 17, 1989.

(2) Amounts for the years 1991 and 1990 and the period January 27, 1989 to December 31, 1989 have been restated to give effect to a 3-for-2 stock

split effective in February 1992. Per share data of the Predecessor is based on the weighted average number of shares outstanding for the period.

(3) Operating ratio is the ratio of operating expenses before special charge over operating revenues.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### GROWTH PLAN

For the four years ended December 31, 1992, the Company's primary drivers were reducing costs and improving service offerings. The result was the best operating ratio among Class I railroads, 68.2% at December 31, 1993. While costs continue to be scrutinized, a new direction was initiated in 1993. With 1992 as its base, a new plan was outlined as follows:

- increase annual revenues by \$100 million by the end of 1996.
- reduce the operating ratio by one percentage point per year for a total of four (4) points below the 1992 base.
- reduce annual interest expense by \$10 million.

To accomplish this plan, revenues must grow at a compounded annual rate of 4.3% while operating expenses must not exceed a compounded annual growth rate of 2.5% per year.

Management has identified the sources of planned revenue growth as economic expansion, new and expanded plants on our line and market share growth. Economic expansion is the combination of industrial production improvement and freight rate increases. Market share growth is volume gained from competition i.e., other railroads, trucklines and barges, facilitated by being a low cost producer.

In 1993, the first year of the growth plan, significant strides were made in accomplishing the plan as total revenues increased 3.1%. Two major unplanned events had an impact on revenues. In May 1993, the United Mine Workers began a strike against several companies affecting six mines served by the Railroad. As a result, approximately 35,000 carloads of coal were lost. The strike was settled in December 1993, and full production resumed in January 1994. Partially offsetting the lost coal loads was a gain of approximately 15,000 carloads of grain and grain mill products. This traffic was diverted to the Railroad as a result of the flooding of the upper Mississippi River in July

and August 1993. Additionally, over 500 trains from several other Class I railroads were detoured over the Railroad's system. The result was a significant increase in traffic density over the Company's routes.

Carloadings of paper recorded their fourth consecutive annual increase (3% for 1993). The increase was a result of the improved economy and growth in recycling. In 1993, chemical traffic increased 6%, reversing a two-year recessionary trend. While not benefiting for the full year from various truckline partnerships, intermodal traffic grew at 15% in the second half of 1993 versus the second half of 1992.

While 1993 revenue lagged behind the plan compound rate of 4.3%, management believes the Company is positioned well for 1994. The targeted revenue growth in 1994 is 5%.

For 1993, the Company exceeded its operating ratio goal. Actual improvement was 2.5 percentage points and the full year operating ratio was 68.2%. More efficient train crew and train scheduling coupled with reduced costs contributed to this achievement.

The tender offer for and retirement of the Railroad's \$145 million 14-1/8% Debentures, in the second quarter of 1993, effectively resulted in the achievement of the third goal of the growth plan as interest expense, net declined \$10.5 million in 1993 to \$33.1 million. Interest expense, net is expected to be below \$30 million in 1994.

## RESULTS OF OPERATIONS

The discussion below takes into account the financial condition and results of operations of the Company for the years presented in the consolidated financial statements.

### 1993 COMPARED TO 1992

Revenues for 1993 increased from the prior year by \$17.3 million or 3.1% to \$564.7 million. The increase was a result of a 2.9% increase in average gross freight revenue per carload, resulting from an improved commodity mix and modest rate increases. The 1993 revenue increase was attributable in part to the gain in carloads when the upper Mississippi River flooding affected barge traffic and also disrupted rail operations of other carriers which diverted traffic to the Company's system. Additionally, chemical loads were up 6% and paper was up 3%. Intermodal was up 5%, reflecting the Company's commitment to increase this aspect of operation, as evidenced by the new Chicago-area intermodal facility and expansions in



Memphis. These gains were offset by lost carloads of coal resulting from the United Mine Workers strike of certain coal producers. For the year, carloadings declined .5% (or 4,400 carloads) to 847,900 carloads.

Operating expenses for 1993 decreased \$1.8 million, or .5% as compared to 1992, excluding the special charge recorded in 1992. Labor expense decreased \$1.1 million as a result of on-going cost control programs, including the reduction in train crews, and an overall improvement in efficiency. This decrease was accomplished despite the additional expense incurred because of the flood-related detours of other railroads' trains over the Railroad's track and a 3% wage increase which was effective July 1, 1993 for union employees. Fuel expense reflects the increased traffic in 1993 and 1992 coupled with a total of \$1.5 million for increased fuel taxes resulting from the Omnibus Budget Reconciliation Act of 1993 and for the costs associated with fuel hedges. The more fuel efficient locomotives acquired over the last two years partially offset the rise in fuel costs. Materials and supplies increased \$3.6 million primarily as a result of track material purchases. The surplus from the single track project was substantially depleted necessitating purchase of new materials.

Operating income for 1993 increased 18.5% (\$28.0 million) to \$179.5 million compared to \$151.5 million for 1992, as a result of increased revenues cited above and decreased expenses (including the 1992 special charge). Excluding the special charge, the increase in operating income was 11.9% (\$19.1 million).

Net interest expense decreased by 24.1% to \$33.1 million compared to \$43.6 million in 1992. The issuance of new notes at 6.75% to replace the 14-1/8% Senior Subordinated Debentures (the "Debentures") and lower interest rates on floating debt account for the reduced interest expense in 1993. The Debentures were retired via a tender offer which resulted in an extraordinary loss of \$23.4 million, net of \$12.6 million in tax benefits. The extraordinary loss covers the costs associated with the tender (i.e., premium on repurchase, the write-off of unamortized financing fees and debt discount and the costs associated with calling the untendered Debentures).

See "Liquidity and Capital Resources" for discussion of the impact of the Omnibus Budget Reconciliation Act of 1993.

Effective January 1, 1993, the Company adopted both the Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS

No. 106") and the Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS No. 112"). SFAS No. 106 requires that future costs associated with providing postretirement benefits be recognized as expense over the employees' requisite service period. The pay-as-you-go method used prior to 1993 recognized the expense on a cash basis. SFAS No. 112 establishes accounting standards for employers who provide postemployment benefits and clarifies when the expense is to be recognized. As a result of adopting these two standards the Company recorded a decrease to net income of \$84,000 (net of taxes of \$46,000) as a cumulative effect of changes in accounting principles. In accordance with each standard, years prior to 1993 have not been restated.

For 1993, the adoption of these two standards had no significant effect on income before cumulative effect of changes in accounting principles as compared to the Company's prior pay-as-you-go method of accounting for such benefits. The Company has no plans to fund these liabilities and will continue to pay these costs on a pay-as-you-go basis, as was done in prior years.

#### 1992 COMPARED TO 1991

Revenues for 1992 decreased from the prior year by \$2.3 million or .4% to \$547.4 million. The decrease resulted from a 1.6% (or 13,900 carloads) decrease in the number of freight carloads to 852,300, offset by a 1.1% increase in the average gross revenue per carload. Net freight revenue ton miles decreased 3.2% to 18.7 billion. Gross freight revenue per thousand ton miles increased 2.7% to \$28.89 from \$28.12. The increase in average revenue per carload was caused by an improved commodity mix, in which a greater volume of higher revenue per carload commodities was hauled, and modest rate increases.

Operating expense for 1992 decreased by \$8.2 million, or 2.0% as compared to 1991, even though the Company recorded an \$8.9 million pretax special charge in 1992. Reductions in labor expense (\$5.5 million), lease and car hire expense (\$6.5 million), diesel fuel expense (\$3.1 million) and a favorable litigation settlement in the first quarter more than offset the special charge. The special charge covered certain organizational and other expenses associated with the retirement of E. L. Moyers, the Company's Chairman, President and Chief Executive Officer until February 1993, as well as various unrelated asset revaluations.

Operating income for 1992 increased by 4.1% to \$151.5 million compared to \$145.6 million for 1991, as a result of decreased expenses cited above offset by the aforementioned pretax special charge

and decreased revenues. Excluding the special charge, the Company's 1992 operating income was \$160.4 million, an increase of \$14.8 million (10.2%) as compared to 1991. This increase is a result of on-going cost reduction programs, including the reduction in train crew sizes and the overall emphasis on efficiency.

Net interest expense decreased by 20.9% from \$55.1 million to \$43.6 million. The full year effect of the August 1991 refinancing of the Series K Mortgage Bonds and the repayment of approximately \$34.0 million of the Term Facility accounted for approximately \$4.0 million and \$8.0 million, respectively, in reduced interest expense for 1992.

Effective January 1, 1992, the Company adopted SFAS No. 109, "Accounting for Income Taxes." As a result, the Company recorded a \$23.4 million (\$.55 per share) reduction of its accrued deferred income tax liabilities. The Company elected to report this change as the cumulative effect of change in accounting principle. Therefore, prior period amounts have not been restated.

#### LIQUIDITY AND CAPITAL RESOURCES

##### OPERATING DATA:

	1993	1992	1991
	----	----	----
Cash flows provided by (used for):			
Operating activities.....	\$124.3	\$124.4	\$ 63.1
Investing activities.....	(89.0)	(46.6)	
(36.9)			
Financing activities.....	(59.2)	(75.9)	(7.0)
Net change in cash and			
temporary cash			
investments.	\$(23.9)	\$ 1.9	\$ 19.2
	=====	=====	=====

Cash from operating activities was primarily net income before depreciation, deferred taxes, extraordinary item and the cumulative effect of changes in accounting principles. A significant source of cash in 1992 (\$26.4 million) was the realization of settlement proceeds with numerous insurance carriers in connection with asbestos and hearing loss casualty claims. Most of the settlements were for prior claims but some cover future claims related to prior periods. As part of the settlements, the Railroad agreed to release the carriers from liability for future hearing loss claims. An additional \$6.3 million was received in 1993.

During 1993, additions to property of \$90.7 million included approximately \$36.6 million for

track and bridge rehabilitation and approximately \$31.4 million for the purchase of 21 locomotives and 1,522 freight cars. Expenditures exceeded original estimates of \$60 million as several opportunities to acquire equipment were acted upon in accordance with the Company's strategy of owning more of its equipment. During 1992, additions to property of \$50.8 million included approximately \$46.4 million for track and bridge rehabilitation including approximately \$5 million for the construction of a new intermodal facility in the Chicago area. The funds for this new facility were provided by advance rentals on a three-year lease agreement for the Railroad's old intermodal yard in Chicago by another railroad. The other railroad also paid for an option to acquire the old yard for cash at any time during the three-year lease period. Proceeds from the sales of excess materials generated by the single-track project (\$4.1 million in 1992) partially offset the cost of property additions. Property retirements and removals unrelated to the single-track project generated proceeds of \$5.3 million and \$3.5 million in 1993 and 1992, respectively.

The Railroad anticipates that base capital expenditures for 1994 will be approximately \$60 million and will concentrate on track maintenance, renewal of track structures such as bridges, and upgrading the locomotive fleet. If additional opportunities such as lease conversions or market-driven expansions occur in 1994, the total capital spending could be approximately \$80 million. These expenditures are expected to be met from current operations or other available sources.

Over the last three years, management has concentrated on reducing leverage, expanding funding sources, lowering funding costs and upgrading the debt ratings issued by the rating services. During that time frame, the Railroad's public debt has moved from being designated a "Highly Leveraged Transaction" to being rated Baa3 by Moody's Investors Service ("Moody's") and BBB by Standard & Poor's Corporation ("S&P"). Likewise, the Railroad's debt has also gone from fully collateralized to unsecured. A further step in this process was the initiation of a public commercial paper program in November 1993.

The commercial paper, issued by the Railroad, is rated A2 by S&P, F2 by Fitch Investors Service, Inc. ("Fitch") and P3 by Moody's and is supported by a \$100 million Revolver with the Railroad's bank lending group. At December 31, 1993, \$38.1 million of commercial paper was outstanding with various maturities. The interest rates ranged from 3.45% to 3.75%. The Railroad views this program as a significant long-term funding source and intends to issue replacement notes as each existing issue matures. Therefore, the \$38.1 million is

classified as long-term.

Twice during 1993, the Railroad renegotiated its lending arrangements with its bank lending group and the private placement noteholders. In April 1993, in connection with the Tender Offer for the \$145 million 14-1/8% Senior Subordinated Debentures (the "Debentures") (see below), the banks converted the previous Permanent Facility to a \$180 million Revolving Credit Facility due 1996 at LIBOR plus 100 basis points. The banks and the holders of the \$160 million senior secured notes ("Senior Notes") issued in 1991 agreed to release all collateral and continue to lend on an unsecured basis. In November 1993, the banks again modified this arrangement in connection with the commercial paper program. The new bank agreements consist of a new \$100 million Revolver, due 1996 and a \$50 million 364-day facility due in October 1994 (the "Bank Line"). The new Revolver will be used primarily for backup for the commercial paper but can be used for general corporate purposes. The available amount is reduced by the outstanding amount of commercial paper borrowings and any letters of credit issued on behalf of the Railroad under the facility. No amounts have been drawn under the Revolver. The \$100 million was limited to \$57.9 million because \$38.1 million in commercial paper was outstanding and \$4.0 million in letters of credit had been issued. The Bank Line was structured as a 364-day renewal instrument and the Company intends to renew it on an on-going basis. The \$40 million borrowed at December 31, 1993, has therefore been classified as long-term.

The Company's financing/leasing subsidiaries have approximately \$13.0 million in long-term borrowing agreements which were used to acquire a total of 61 locomotives during 1993 and 1991. One subsidiary used a short-term bridge financing of \$21.7 million to acquire 1,522 box cars in December 1993. Such borrowings are secured by the equipment acquired. The bridge financing must be repaid or refinanced prior to March 3, 1994. The Company expects to refinance this debt with either a seven-year floating or fixed rate term loan or a combination revolving facility and term loan also with a floating or fixed rate and a seven-year term. The Company believes that its available cash, cash generated by its operations and cash available via commercial paper, the Revolver and the Bank Line will be sufficient to meet foreseeable liquidity requirements.

Various borrowings of the Company's subsidiaries are governed by agreements which contain financial and operating covenants. All entities were in compliance with these covenant requirements at December 31, 1993, and management does not anticipate any difficulty in maintaining

such compliance.

In 1993, conditions in the financial markets provided an opportunity for the Railroad to replace its outstanding Debentures. As a result, the Railroad initiated a tender offer for the Debentures. The tender offer, costs associated with calling the \$10.3 million untendered portion and the refinancing of the Permanent Facility Term Loan resulted in a \$23.4 million extraordinary loss, net of \$12.6 million in tax benefits.

In connection with the tender offer for the Debentures, the Railroad issued \$100 million of 6.75% non-callable, 10-year notes due 2003 (the "Notes") and irrevocably placed funds with a trustee to cover principal, a 6% premium and interest through the first call date of October 1, 1994, for the untendered Debentures. Additionally, the Railroad's bank lending group agreed to the termination and replacement of the previous Permanent Facility with a new \$180 million unsecured Revolving Credit Facility expiring December 31, 1996 (see above). Likewise, the Senior Note holders agreed to release all the collateral specified in their original agreement and continue on an unsecured basis.

The Company declared its eighth consecutive quarterly cash dividend which was paid on January 6, 1994. The Board intends to continue a policy of quarterly dividends. Future dividends may be dependent on the Railroad's ability to pay cash dividends to the Company. Certain covenants of the Railroad's debt agreements restrict the level of dividends it may pay to the Company. At December 31, 1993, approximately \$76 million of Railroad equity was free of such restrictions.

The Company has paid approximately \$8 million, \$10 million and \$18 million in 1993, 1992 and 1991, respectively, for severance and lump sum signing awards associated with the various agreements signed in 1992 and 1991. The Company anticipates that an additional \$7 million will be required in 1994 related to all such agreements. These requirements are expected to be met from current operating activities or other available sources.

The Railroad has entered into various hedge agreements designed to mitigate significant changes in fuel prices. As a result, approximately 93% of the Railroad's short-term diesel fuel requirements through March 1995 and 46% through June 1995 are protected against significant price changes.

#### Federal Deficit Reduction Package

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993, which contains a

deficit reduction package, became law. Certain aspects of the legislation increased taxes directly affecting the Company. Most significantly, the new law increased the maximum corporate federal income tax rate from 34% to 35% retroactive to January 1, 1993. This change required the Company to record additional deferred income tax expense of approximately \$3.1 million in the third quarter of 1993 to reflect the new tax rate's impact on net deferred income tax liability as of January 1, 1993. The higher corporate rate did not significantly affect the Company's cash flow.

In addition, the legislation increased the federal tax on diesel fuels by 4.3 cents per gallon effective October 1, 1993. This tax increased the fuel expense of the Railroad, which purchases approximately 4.3 million gallons of diesel fuel each month, by \$.5 million in 1993.

#### Other

The Railroad is and will continue to be subject to extensive regulation under environmental laws and regulations concerning, among other things, discharges into the environment and the handling, storage, transportation and disposal of waste and hazardous materials. Inherent in the operations and real estate activities of the Railroad and other railroads is the risk of environmental liabilities. Several properties on which the Railroad currently or formerly conducted operations are subject to governmental action in connection with environmental damage. In the opinion of management, the Company has adequate reserves to cover the costs for investigation and remediation. However, there can be no assurance that environmental conditions will not be discovered which might individually or in the aggregate have a material adverse effect on the Company's financial condition.

#### Recent Accounting Pronouncements

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114") and Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115").

SFAS No. 114 requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. This statement applies to financial statements for fiscal years beginning after December 31, 1994, with earlier adoption encouraged. The Company is currently evaluating the impact of this statement, if any, on its

reported results. Early adoption is not anticipated.

SFAS No. 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. This statement is effective for fiscal years beginning after December 15, 1993. Adoption is not anticipated to have an adverse impact on reported results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements on page 33 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS IN ACCOUNTING FINANCIAL DISCLOSURES

NONE

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by these items is incorporated by reference to the sections of the Company's definitive proxy statement for its 1994 Annual Meeting of Stockholders (which is expected to be filed with the Securities and Exchange Commission on or before March 16, 1994) entitled Nominees for Election as Class III Directors who would hold office until 1997, Class I Directors continuing in office until 1995, Class II Directors continuing in office until 1996, Committees of the Board of Directors, Compensation of Executive Officers and Directors, and Ownership of Common Stock and Certain Transactions-Certain Transactions. However, the Compensation Committee Report and the Performance Graph are specifically NOT incorporated by reference.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES,  
AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

See Index to Consolidated Financial  
Statements on page 34 of this Report.

2. Financial Statement Schedules:

See Index to Financial Statement Schedules  
on page F-25 of this Report.

3. Exhibits:

See items marked with "\*" on the Exhibit  
Index beginning on page E-1 of this  
Report. Items so marked identify  
management contracts or compensatory plans  
or arrangements as required by Item 14.

(b) 1. Reports on Form 8-K:

During the fourth quarter of 1993 the  
Registrant filed with the Securities and  
Exchange Commission the following reports  
on Form 8-K on the dates indicated to  
report the events described:

NONE

(c) Exhibits:

The response to this portion of Item 14 is  
submitted as a separate section of this  
Report. See Exhibit Index beginning on  
page E-1.

(d) Financial Statement Schedules:

The response to this portion of Item 14 is  
submitted as a separate section of this  
Report.

SIGNATURES

Pursuant to the requirements of the Securities  
Exchange Act of 1934, the Registrant has duly  
caused this Report to be signed on its behalf by  
the undersigned, there unto duly authorized.

ILLINOIS CENTRAL CORPORATION

By: DALE W. PHILLIPS  
Dale W. Phillips  
Vice President and Chief Financial Officer  
Date: March 16, 1994

Pursuant to the requirements of the Securities

Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE(S)	DATE
/s/ GILBERT H. LAMPHERE Gilbert H. Lamphere	Chairman of the Board and Director	March 16, 1994
/s/ E. HUNTER HARRISON E. Hunter Harrison	President and Chief Executive Officer (principal executive officer), Director	March 16, 1994
/s/ DALE W. PHILLIPS Dale W. Phillips	Vice President and Chief Financial Officer (principal financial officer)	March 16, 1994
/s/ JOHN V. MULVANEY John V. Mulvaney	Controller (principal accounting officer)	March 16, 1994
/s/ THOMAS A. BARRON Thomas A. Barron	Director	March 16, 1994
George D. Gould	Director	
/s/ WILLIAM B. JOHNSON William B. Johnson	Director	March 16, 1994
/s/ ALEXANDER P. LYNCH Alexander P. Lynch	Director	March 16, 1994
/s/ SAMUEL F. PRYOR, IV Samuel F. Pryor, IV	Director	March 16, 1994
/s/ F. JAY TAYLOR F. Jay Taylor	Director	March 16, 1994
John V. Tunney	Director	
/s/ ALAN H. WASHKOWITZ Alan H. Washkowitz	Director	March 16, 1994

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

-----  
-----  
  
F O R M 10-K  
-----

FINANCIAL STATEMENTS

SUBMITTED IN RESPONSE TO ITEM 8

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Public Accountants....	F-1
Consolidated Statements of Income for the three years ended December 31, 1993.....	F-2
Consolidated Balance Sheets at December 31, 1993 and 1993.....	F-3
Consolidated Statements of Cash Flows for the three years ended December 31, 1993.....	F-4
Consolidated Statements of Stockholders' Equity and Retained Income for the three years ended December 31, 1993.....	F-5
Notes to Consolidated Financial Statements for the three years ended December 31, 1993.....	F-6

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Illinois Central  
Corporation:

We have audited the accompanying consolidated  
balance sheets of Illinois Central Corporation (a  
Delaware corporation) and subsidiaries as of  
December 31, 1993 and 1992, and the related  
consolidated statements of income, cash flows and  
stockholders' equity and retained income for each  
of the three years in the period ended December 31,

1993. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of Illinois Central Corporation and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for postretirement health care and postemployment benefits.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statement schedules herein are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Chicago, Illinois  
January 19, 1994

&lt;/TABLE&gt;

&lt;TABLE&gt;

ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Income  
(\$ in millions, except share data)

&lt;CAPTION&gt;

<S>	Years Ended December 31,		
	1993	1992	1991
	<C>	<C>	<C>
Revenues	\$ 564.7	\$ 547.4	\$ 549.7
Operating expenses:			
Labor and fringe benefits	190.2	191.3	196.8
Leases and car hire	70.1	70.4	76.9
Diesel fuel	30.4	30.0	33.1
Materials and supplies	36.7	33.1	31.4
Depreciation and amortization	23.5	22.1	20.6
Other	34.3	40.1	45.3
Special charge	-	8.9	-
	-----	-----	-----
Operating expenses	385.2	395.9	404.1
Operating income	179.5	151.5	145.6
Other income, net	1.7	2.0	5.7
Interest expense, net	(33.1)	(43.6)	(55.1)
	-----	-----	-----
Income before income taxes, extraordinary item and cumulative effect of changes in accounting principles	148.1	109.9	96.2
Provision for income taxes	56.4	37.4	30.8
	-----	-----	-----
Income before extraordinary item and cumulative effect of changes in accounting principles	91.7	72.5	65.4
Extraordinary item, net	(23.4)	-	-
Cumulative effect of changes in accounting principles	(0.1)	23.4	-
	-----	-----	-----
Net income	\$ 68.2	\$ 95.9	\$ 65.4
	=====	=====	=====
Income per share:			
Income before extraordinary item and cumulative effect of changes in accounting principles	\$ 2.14	\$ 1.70	\$ 1.64
Extraordinary item, net	(0.55)	-	-
Cumulative effect of changes in accounting principles	-	0.55	-
	-----	-----	-----
Income per share	\$ 1.59	\$ 2.25	\$ 1.64
	=====	=====	=====
Weighted average number of shares of common stock and common stock equivalents outstanding	42,679,683	42,600,107	39,830,182

&lt;/TABLE&gt;

The following notes are an integral part of the consolidated financial statements.

<TABLE>

ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets  
(\$ in millions)

<CAPTION>

ASSETS	December 31, 1993 <C>	December 31, 1992 <C>
<S>		
Current assets:		
Cash and temporary cash investments	\$ 10.7	\$ 34.6
Receivables, net of allowance for doubtful accounts of \$3.1 in 1993 and \$2.6 in 1992	80.3	76.4
Materials and supplies, at average cost	20.1	18.8
Assets held for disposition	9.1	9.1
Deferred income taxes - current	22.8	24.2
Other current assets	3.6	2.1
	-----	-----
Total current assets	146.6	165.2
Investments	15.7	15.0
Properties:		
Transportation:		
Road and structures, including land	947.9	909.5
Equipment	118.1	75.2
Other, principally land	40.4	40.6
Total properties	1,106.4	1,025.3
Accumulated depreciation	(20.9)	(15.8)
	-----	-----
Net properties	1,085.5	1,009.5
Other assets	10.9	16.4
	-----	-----
Total assets	\$ 1,258.7 =====	\$ 1,206.1 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 24.3	\$ 12.7
Accounts payable	54.4	53.7
Dividends payable	9.0	6.4
Income taxes payable	1.5	1.1
Casualty and freight claims	24.7	24.6
Employee compensation and vacations	15.8	16.3
Taxes other than income taxes	14.0	13.0
Accrued redundancy reserves	6.8	9.4
Other accrued expenses	28.5	30.9
	-----	-----
Total current liabilities	179.0	168.1
Long-term debt	360.3	367.3
Deferred income taxes	202.3	171.3
Other liabilities and reserves	139.7	160.6
Contingencies and commitments (Note 13)		
Stockholders' equity:		
Common stock, par value \$.001, authorized 65,000,000 shares, 42,837,064 shares issued and 42,614,566 shares outstanding	-	-
Additional paid-in capital	164.2	160.9
Retained income	216.5	177.9

Treasury stock (222,498 shares)	(3.3)	-
	-----	-----
Total stockholders' equity	377.4	338.8
Total liabilities and stockholders' equity	\$ 1,258.7	\$ 1,206.1
	=====	=====

</TABLE>

The following notes are an integral part of the consolidated financial statements.

<TABLE>

ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(\$ in millions)

<CAPTION>

	Years Ended December 31,		
	<C>	<C>	<C>
	1993	1992	1991
Cash flows from operating activities :			
Net income	\$ 68.2	\$ 95.9	\$ 65.4
Reconciliation of net income to net cash provided by (used for) operating activities :			
Extraordinary item, net	23.4	-	-
Cumulative effect of changes in accounting principles	0.1	(23.4)	-
Depreciation and amortization	23.7	22.1	20.6
Deferred income taxes	31.9	21.4	20.4
Special charge	-	8.9	-
Equity in undistributed earnings of affiliates, net of dividends received	(0.3)	0.2	(0.1)
Net gains on sales of real estate	(0.8)	(0.4)	(0.7)
Cash changes in working capital	(0.8)	(15.8)	(24.7)
Changes in other assets	(1.4)	2.8	(3.0)
Changes in other liabilities and reserves	(19.7)	12.7	(14.8)
	-----	-----	-----
Net cash provided by (used for) operating activities	124.3	124.4	63.1
Cash flows from investing activities :			
Additions to properties	(90.7)	(50.8)	(49.9)
Proceeds from sales of real estate	1.5	1.3	1.8
Proceeds from single track sales	-	4.1	16.3
Proceeds from equipment sales	3.8	2.2	1.3
Proceeds from sales of investments	(0.4)	1.8	3.3
Other	(3.2)	(5.2)	(9.7)
Net cash provided by (used for) investing activities	-----	-----	-----
	(89.0)	(46.6)	(36.9)
Cash flows from financing activities :			
Proceeds from issuance of debt	370.8	0.9	178.0
Principal payments on debt	(403.0)	(61.7)	(250.9)
Proceeds from issuance of Common Stock	-	-	63.1
Dividends paid	(27.1)	(14.8)	-
Proceeds from exercise of stock options and warrants	0.5	0.2	3.4
Purchase of subsidiary's common stock	(0.4)	(0.5)	(0.6)
Net cash provided by (used for) financing activities	-----	-----	-----
	(59.2)	(75.9)	(7.0)
Changes in cash and temporary cash investments	(23.9)	1.9	19.2
Cash and temporary cash investments at beginning of year	34.6	32.7	13.5

Cash and temporary cash investments at end of year	\$ 10.7	\$ 34.6	\$ 32.7
	=====	=====	=====
Supplemental disclosure of cash flow information :			
Cash paid during the year for:			
Interest (net of amount capitalized)	\$ 39.3	\$ 45.3	\$ 55.7
	=====	=====	=====
Income taxes	\$ 10.9	\$ 15.9	\$ 15.7
	=====	=====	=====

</TABLE>

The following notes are an integral part of the consolidated financial statements.

<TABLE>

ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity and Retained Income

<CAPTION>

	Shares (000's)		Equity (\$ in millions)			
	Common Stock <C>	Common Stock <C>	Additional Paid-in Capital <C>	Retained Income <C>	Treasury Stock <C>	Total Stockholders' Equity <C>
<S> Balance December 31, 1990	23,712	\$ -	\$ 90.6	\$ 37.8	\$ -	\$ 128.4
Issuance of Common Stock:						
Exercise of warrants	965	-	3.3			3.3
Public stock offering	3,535	-	63.1			63.1
Exercise stock option	10	-	0.1			0.1
Repurchase restricted stock	(17)		-			-
Net income				65.4		65.4
	-----	-----	-----	-----	-----	-----
Balance December 31, 1991	28,205	-	157.1	103.2	-	260.3
Issuance of Common Stock:						
Stock split 3-for-2	14,102	-	-			-
Exercise stock option	17	-	0.2			0.2
Restricted stock awards	350	-	3.6			3.6
Dividends				(21.2)		(21.2)
Net income				95.9		95.9
	-----	-----	-----	-----	-----	-----
Balance December 31, 1992	42,674	-	160.9	177.9	-	338.8
Issuance of Common Stock:						
Exercise stock option	50	-	0.5			0.5



Restricted stock awards	25	-	2.8			2.8
Stock Repurchased / Forfeited	(134)				(3.3)	(3.3)
Dividends			(29.6)			(29.6)
Net income			68.2			68.2
Balance December 31, 1993	42,615	\$ -	\$ 164.2	\$ 216.5	\$ (3.3)	\$ 377.4
	=====	=====	=====	=====	=====	=====

</TABLE>

The following notes are an integral part of the consolidated financial statements.

## 1. THE COMPANY

Illinois Central Corporation, a holding company, (hereinafter, the "Company") was incorporated under the laws of Delaware. The Company was formed originally for the purpose of acquiring, through a wholly-owned subsidiary, the outstanding common stock of Illinois Central Transportation Company ("ICTC"). Following a tender offer and several mergers, the Illinois Central Railroad Company ("Railroad") is the surviving corporation and the successor to ICTC and now a wholly-owned subsidiary of the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant investments in affiliated companies are accounted for by the equity method. Transactions between consolidated companies have been eliminated in the accompanying consolidated financial statements.

### PROPERTIES

Depreciation is computed by the straight-line method and includes depreciation on properties under capital leases. The depreciation rates for the equipment owned by the Company's finance subsidiary are based on estimated useful life and anticipated salvage value. Lives used range from 18 to 20 years. At the Railroad, depreciation for track structure, other road property, and equipment is calculated using the composite method. In the case of routine retirements, removal cost less salvage recovery is charged to accumulated depreciation. Expenditures for maintenance and repairs are charged to operating expense.

The Interstate Commerce Commission ("ICC") approves the depreciation rates used by the

Railroad. In 1991, the Railroad completed a study which resulted in revised depreciation rates for road properties (excluding track properties) and equipment. The revised rates did not and will not have a significant effect on operating results. The approximate ranges of annual depreciation rates for major property classifications are as follows:

Road properties .....1% - 8%  
Transportation equipment .....1% - 7%

In 1989, the Company initiated a program to convert approximately 500 miles of double track main line to a single track main line, with a centralized traffic control system. This program was completed successfully in 1991.

#### REVENUES

Revenues are recognized based on services performed and include estimated amounts relating to movements in progress for which the settlement process is not complete. Estimated revenue amounts for movements in progress are not significant.

#### INCOME TAXES

Effective January 1, 1992, the Company adopted the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under SFAS No. 109, deferred income taxes are accounted for on the asset and liability method by applying enacted statutory tax rates to differences ("temporary differences") between the financial statement carrying amounts and the tax bases of assets and liabilities. The resulting deferred tax assets and liabilities represent taxes to be collected or paid in the future when the related assets and liabilities are recovered and settled, respectively. See Note 10 for discussion of the 1992 impact of adopting SFAS No. 109.

#### CASH AND TEMPORARY CASH INVESTMENTS

Cash in excess of operating requirements is invested in certain funds having original maturities of three months or less. These investments are stated at cost, which approximates market value.

#### INCOME PER SHARE

Income per common share of the Company is based on the weighted average number of shares of common stock and common stock equivalents outstanding for the period. Dilution, which could result if all outstanding common stock equivalents were exercised, is not significant.

#### FUTURES, OPTIONS, CAPS, FLOORS AND FORWARD CONTRACTS

In March 1990, the FASB issued Statement of Financial Accounting Standards No. 105 "Disclosure of Information about Financial Instruments with Off Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk" ("SFAS 105"). Disclosures required by SFAS 105 are found in various notes where the financial instruments or related risks are discussed. See specifically Notes 6, 7, 8, and 13.

#### CASUALTY AND FREIGHT CLAIMS

The Company accrues for injury and damage claims outstanding based on actual claims filed and estimates of claims incurred but not filed. Estimated amounts expected to be settled within one year are classified as current liabilities in the accompanying Consolidated Balance Sheets.

#### EMPLOYEE BENEFIT PLANS

All employees of the Railroad are covered under the Railroad Retirement Act. In addition, management employees of the Railroad are covered under a defined contribution plan. Contribution costs of the plan are funded currently.

Mr. E. L. Moyers, former Chairman, President and Chief Executive Officer ("Mr. Moyers") is covered by a supplemental plan which is discussed in Note 9.

Effective January 1, 1993, the Company adopted both the Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106") and the Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS No. 112"). SFAS No. 106 requires that future costs associated with providing postretirement benefits be recognized as expense over the employees' requisite service period. The pay-as-you-go method used prior to 1993 recognized the expense on a cash basis. SFAS No. 112 establishes accounting standards for employers who provide postemployment benefits and clarifies when the expense is to be recognized. In accordance with the provisions of these standards, years prior to 1993 have not been restated. See Note 9 for discussion of the impact of adopting SFAS No. 106 and SFAS No. 112.

#### RECLASSIFICATIONS

Certain items relating to prior years have been reclassified to conform to the presentation in the current year.

### 3. EXTRAORDINARY ITEM AND REFINANCING

The 1993 extraordinary loss resulted from the retirement of the Railroad's 14-1/8% Senior Subordinated Debentures (the "Debentures") and refinancing the Permanent Facility. The loss was \$23.4 million, net of tax benefits of \$12.6 million. The loss resulted from the premium paid, the write-off of unamortized financing fees and debt discount and costs associated with the calling of the \$10.3 million of Debentures not tendered. The net proceeds of the 6.75% Notes (see Note 8), borrowings under the \$180 million Revolving Credit Facility and other available cash were used to fund the retirement of the Debentures.

#### 4. OTHER INCOME, NET

Other Income, Net consisted of the following (\$ in millions):

	Years Ended December 31,		
	1993	1992	1991
Income, net.....	\$ 3.9	\$ 3.8	\$ 3.0
Net gains on real estate sales.....	.8	.4	.7
Net gain (loss) on disposal of rolling stock.....	(2.3)	-	-
Equity in undistributed earnings of affiliates..	.5	.3	.4
Net gain on Series K.....	-	-	3.6
Other, net.....	(1.2)	(2.5)	(2.0)
	-----	-----	-----
Other Income, Net.....	\$ 1.7	\$ 2.0	\$ 5.7

#### 5. SUPPLEMENTAL CASH FLOW INFORMATION

Cash changes in components of working capital, exclusive of Current Maturities of Long-Term Debt, included in the Consolidated Statements of Cash Flows were as follows (\$ in millions):

	Years Ended December 31,		
	1993	1992	1991
Receivables, net....	\$ (3.9)	\$ 4.7	\$ (2.6)
Materials and supplies	(1.4)	(3.2)	(.6)
Other current assets..	(1.5)	.3	1.0
Accounts payable...	1.1	(5.7)	(5.0)
Income taxes payable	13.6	.5	(5.4)
Accrued redundancy reserves.....	(2.6)	(11.0)	(11.7)
Other current liabilities.....	(6.1)	(1.4)	(.4)
	-----	-----	-----
	\$ (.8)	\$ (15.8)	\$ (24.7)

Included in changes in Other Liabilities and Reserves is approximately \$6.3 million and \$23.4

million for the years ended December 31, 1993 and 1992, respectively, reflecting proceeds from the settlement of casualty claims with numerous insurance carriers.

In 1993, the Railroad entered into a capital lease for 200 covered hoppers. The lease expires in 2003. See Note 7 for a recap of the present value of the minimum lease payments.

In 1991, the Railroad retired several Long-Term Debt obligations, most significantly its \$150 million 15.5% Series K First Mortgage Bonds ("Series K"). These retirements resulted in non-cash reductions of debt balances of \$4.6 million. Also, in 1991 the balance of a long term investment was reduced by \$2.5 million.

## 6. MATERIALS AND SUPPLIES

Materials and Supplies, valued using the average cost method, consist of track material, switches, car and locomotive parts and fuel. The Railroad entered into various hedge agreements designed to mitigate significant changes in fuel prices. As a result, approximately 93% of the short-term diesel fuel requirements through March 1995 and 46% through June 1995 are protected against significant price changes based on the average near-by contract for Heating Oil #2 traded on the New York Mercantile Exchange.

## 7. LEASES

As of December 31, 1993, the Company leased 6,709 of its cars and 166 of its locomotives. The majority of these leases have original terms of 15 years and expire between 1994 and 2001. Under the terms of the majority of its leases, the Company has the right of first refusal to purchase, at the end of the lease terms, certain cars and locomotives at fair market value. Other leases include office and computer equipment, vehicles and office facilities.

Net obligations under capital leases at December 31, 1993 and 1992, included in the Consolidated Balance Sheets are \$5.4 million and \$.2 million, respectively.

At December 31, 1993, minimum rental payments under capital and operating leases that have initial or remaining noncancellable terms in excess of one year were as follows (\$ in millions):

	Capital Leases	Operating Leases
1994 .....	\$ .9	\$ 34.6

1995 .....	.9	28.4
1996 .....	.8	19.3
1997 .....	.8	7.8
1998 .....	.8	4.2
Thereafter .....	3.1	17.4
	----	-----
Total minimum lease payments...	7.3	\$111.7

Less: Imputed interest ..... 1.9  
Present value of minimum  
payments..... \$5.4

Total rent expense applicable to noncancellable operating leases amounted to \$45.2 million in 1993, \$46.2 million for 1992 and \$48.5 million for 1991. Most of the leases provide that the Company pay taxes, maintenance, insurance and certain other operating expenses.

#### 8. LONG-TERM DEBT AND INTEREST EXPENSE

Long-Term Debt at December 31, consisted of the following (\$ in millions):

<TABLE>

<CAPTION>

<S>

	<C> 1993	<C> 1992
	-----	-----
Equipment obligations, due annually to 2000, 6.11% to 9.254%..	\$ 13.0	\$ 10.9
Debentures and other debt, due 1994 to 2056, 4.5% to 10.9% ...	10.8	11.3
Commercial Paper, at average interest rate 3.57%.....	38.1	-
Bank Line, at average interest rate 3.49%.....	40.0	-
Notes, due 2003, 6.75%.....	100.0	-
Senior Subordinated Debentures.....	-	145.0
Senior Notes, due 1998 to 2001, 10.02% and 10.4%.....	159.8	160.0
Permanent Facility, at average interest rate in 1992 of 5.25% .....	-	47.6
Capitalized leases (Note 7) .....	4.9	.1
Unamortized premium (discount), net .....	(6.3)	(7.6)
	-----	-----
Total Long-Term Debt .....	\$360.3	\$367.3

</TABLE>

At December 31, 1993, the aggregate annual maturities and sinking fund requirements for debt payments for 1994 through 1999 and thereafter are \$24.3 million (includes bridge financing of \$21.7 million (see below)), \$2.3 million, \$80.6 million, \$2.7 million, \$57.6 million, \$61.2 million and \$155.9 million, respectively. The weighted-average interest rate for 1993 and 1992 on total debt excluding the effect of discounts, premiums and related amortization was 9.1% and 10.8%, respectively.

In November 1993, the Railroad initiated a public commercial paper program. The commercial paper is rated A2 by S&P, F2 by Fitch and P3 by Moody's and is supported by a new \$100 million

Revolver with the Railroad's bank lending group. The Railroad views this program as a significant long-term funding source and intends to issue replacement notes as maturities occur. Therefore, the \$38.1 million outstanding at December 31, 1993 has been classified as long-term.

In connection with the commercial paper program, the bank lending group agreed to replace the \$180 million Revolving Credit Facility (see below) with (i) a new \$100 million Revolver, due 1996 and (ii) a \$50 million 364-day facility due October 1994 ("Bank Line"). The new Revolver will be used primarily for backup for the commercial paper but can be used for general corporate purposes. The available amount is reduced by the outstanding amount of commercial paper borrowings and any letters of credit issued on behalf of the Railroad under the facility. No amounts have been drawn under the Revolver. The \$100 million was limited to \$57.9 million because \$38.1 million in commercial paper was outstanding and \$4.0 million in letters of credit had been issued. The Bank Line was structured as a 364-day renewable instrument and the Company intends to renew it on an on-going basis. The \$40 million outstanding at December 31, 1993, has therefore been classified as long-term.

The Company's financing/leasing subsidiaries have approximately \$13.0 million in long-term borrowing agreements which were used to acquire a total of 61 locomotives during 1993 and 1991. Such borrowings are secured by equipment which is leased to the Railroad. These agreements mature in 1999 and 2000. One subsidiary used a short-term bridge financing of \$21.7 million to acquire 1,522 box cars in December 1993. The bridge financing must be repaid or refinanced prior to March 3, 1994. The Company expects to refinance this debt with either a seven year floating or fixed rate term loan or a combination revolving facility and term loan also with a floating or fixed rate. During April 1993, the Company and the Railroad reached an agreement with its bank lending group and the holders of the privately placed \$160 million Senior Secured Notes ("Senior Notes") for a release of all collateral and those instruments are now unsecured. The bank agreed to replace the Permanent Facility with a \$180 million Revolving Credit Facility. This was done in connection with the tender offer made by the Railroad for all of the Debentures.

The tender offer was funded by issuance of new \$100 million 6.75% Notes, due 2003 (the "Notes"), borrowing under a \$180 million Revolving Credit Facility negotiated with the banks which replaced the Permanent Facility and cash on hand. See Note 3 for discussion of the extraordinary loss incurred upon tender for the Debentures. The

Railroad irrevocably placed \$12.6 million on deposit with a trustee to cover principal, a 6% premium and interest through the first call date of October 1, 1994, for the untendered Debentures.

The Notes (issued at a slight discount 1.071%) pay interest semiannually in May and November and are covered by an Indenture. Of the Senior Notes, \$109.8 million bears interest at a rate of 10.02% and \$50 million at 10.4%. Principal payments of \$55 million are due in each of 1998 and 1999, and \$25 million in each of 2000 and 2001. The Senior Notes are governed by a Note Purchase Agreement.

Various borrowings of the Company's subsidiaries are governed by agreements which contain certain affirmative and negative covenants customary for facilities of this nature including restrictions on additional indebtedness, investments, guarantees, liens, distributions, sales and leasebacks, and sales of assets and capital stock. Some also require the Railroad to satisfy certain financial tests, including a leverage ratio, an earnings before interest and taxes to interest charges ratio, debt service coverage, and minimum consolidated tangible net worth requirements. The Railroad may be required to apply 100% of net after-tax proceeds of sales aggregating \$2.5 million or greater of certain assets to reduce Revolver commitments. The holders of the Senior Notes can elect to receive a pro-rata share of after-tax proceeds.

Interest Expense, Net consisted of the following (\$ in millions):

	Years Ended December 31,		
	1993	1992	1991
	----	----	----
Interest expense.....	\$35.2	\$46.2	\$59.7
Less: Interest			
capitalized.....	.8	.6	.4
Interest income.....	1.3	2.0	4.2
	-----	-----	-----
Interest Expense, Net...	\$33.1	\$43.6	\$55.1

## 9. EMPLOYEE BENEFIT PLANS

Retirement Plans. All employees of the Railroad are covered under the Railroad Retirement Act. In addition, management employees of the Railroad are covered under a defined contribution plan. Contributions under the plan vest immediately. Expenses relating to the defined contribution plan were \$.4 million for each of the years ended December 31, 1993, 1992 and 1991.

Mr. Moyers is covered by a non-qualified,



unfunded supplemental retirement benefit agreement which provides for a defined benefit payable annually, commencing upon death, permanent disability or retirement (with benefits arising from retirement commencing upon his attaining age 65 and compliance with certain non-competition agreements), in the amount of \$250,000 per year for a maximum of 15 years. In accordance with the term of the agreement, no payments will be made while Mr. Moyers is employed by another Class I railroad. The present value of this agreement was included in the 1992 special charge. See Note 15.

Postretirement Plans. In addition to the Company's defined contribution plan for management employees, the Company has three benefit plans which provide some postretirement benefits to most former full-time salaried employees and selected former union represented employees. The medical plan for salaried retirees is contributory, with retiree contributions adjusted annually if expected inflation rate exceeds 9.5%, and contains other cost sharing features such as deductibles and co-payments. The Company's contribution will be fixed at the 1999 year end rate for all subsequent years. Salaried retirees are covered by a life insurance plan which provides a nominal death benefit and is non-contributory. The medical plan for locomotive engineers who retired under a special early retirement program in 1987 provides non-contributory coverage until age 65. All benefits under this plan terminate in 1998.

There are no plan assets and the Company will continue to fund these benefits as claims are paid as was done in prior years.

Postemployment Benefit Plans. The Company provides certain postemployment benefits such as long-term salary continuation and waiver of medical and life insurance co-payments while on long-term disability.

SFAS No. 106 and SFAS No.112. As described in Note 2 effective January 1, 1993 the Company adopted SFAS No. 106 and SFAS No. 112. With respect to SFAS No. 106, the Company elected to immediately recognize the transition asset associated with adoption which resulted because the Company had previously recorded an amount under purchase accounting to reflect the estimated liability for such benefits as of the acquisition date of ICTC.

As a result of adopting these two standards, the Company recorded a decrease to net income of \$84,000 (net of taxes of \$46,000) as a cumulative effect of changes in accounting principles (\$ in millions):

Postretirement Benefits (SFAS No. 106):

APBO at January 1, 1993:	
Medical.....	\$36.5
Life.....	2.3
	-----
Total APB.....	38.8
Liability previously recorded.....	(40.3)
	-----
Transition Asset.....	1.5
Postemployment Benefits Obligation at January 1, 1993 (SFAS 112).....	(1.6)
	-----
Pre-tax Cumulative Effect of Changes in Accounting Principles.....	(.1)
Related tax benefit.....	-
	-----
Cumulative Effect of Changes in Accounting Principles.....	\$ (.1)
	=====
Per Share Impact.....	\$ -
	=====

In accordance with each standard, years prior to 1993 have not been restated. For 1993, the adoption of these two standards had no significant effect on income before cumulative effect of changes in accounting principles as compared to the Company's prior pay-as-you-go method of accounting for such benefits.

The accumulated postretirement benefit obligations ("APBO") of the postretirement plans were as follows (\$ in millions):

	December 31, 1993			January 1, 1993
	Medical	Life	Total	Total
Accumulated post- retirement benefit obligation:				
Retirees.....	\$26.4	\$ 2.4	\$28.8	\$33.4
Fully eligible active plan participants..	.7	-	.7	.7
Other active plan participants..	4.7	-	4.7	4.7
	-----	-----	-----	-----
Total APBO....	\$31.8	\$ 2.4	34.2	38.8
Unrecognized net gain.....			5.0	-
Accrued liability for post- retirement benefits.....			\$39.2	\$38.8
			=====	=====

The weighted-average discount rate used in determining the accumulated post-retirement

benefit obligation was 8.0% at January 1, 1993. As a result of the Company's improved financial condition and recognizing the overall shift in the financial community, the Company lowered the weighted-average discount rate to 7.25% as of December 31, 1993. The change in rates resulted in approximately \$2.0 million actuarial loss. The loss was offset by actual experience gains, primarily fewer claims and lower medical rate inflation, which resulted in a \$5.0 million unrecognized net gain as of December 31, 1993.

The components of the net periodic postretirement benefits cost for 1993 were as follows (\$ in millions):

Service costs.....	\$ .1
Interest costs.....	3.0
Net amortization of Corridor excess..	-
	-----
Net periodic postretirement benefit costs.....	\$ 3.1

The weighted-average annual assumed rate of increase in the per capital cost of covered benefits (e.g., health care cost trend rate) for the medical plans is 14.0% for 1993 and is assumed to decrease gradually to 6.25% by 2001 and remain at that level thereafter. The health care cost trend rate assumption normally has a significant effect on the amounts reported; however, as discussed, the plan limits annual inflation for the Company's portion of such costs to 9.5% each year. Therefore, an increase in the assumed health care cost trend rates by one percentage point in each year would have no impact on the Company's accumulated postretirement benefit obligation for the medical plans as of December 31, 1993, or the aggregate of the service and interest cost components of net periodic postretirement benefit expense in future years.

#### 10. PROVISION FOR INCOME TAXES

Effective January 1, 1992, the Company adopted the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). As a result, the Company recorded a \$23.4 million (\$.55 per share) reduction in its accrued net deferred income tax liability as of January 1, 1992. The gain recorded upon adoption could not be recognized previously in accordance with SFAS No. 96 which the Company had adopted in 1988.

The Company elected to report this change as the cumulative effect of a change of accounting principle. Therefore, prior year amounts were not

restated.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993, which contains a deficit reduction package, became law. Certain aspects of the Act directly affect the Company. Most significantly, the new law increased the maximum corporate federal income tax rate from 34% to 35% retroactive to January 1, 1993. This change required the Company to record additional deferred income tax expense of approximately \$3.1 million to reflect the new tax rate's impact on net deferred income tax liability as of January 1, 1993. The higher corporate rate is not anticipated to significantly affect the Company's cash flow.

The Provision for Income Taxes for continuing operations consisted of the following (\$ in millions):

	Years Ended December 31,		
	1993	1992	1991
	----	----	----
Current income tax:			
Federal.....	\$23.6	\$14.4	\$ 9.4
State.....	.9	1.6	1.0
Deferred income taxes.	31.9	21.4	20.4
	-----	-----	-----
Provision for Income			
Taxes.....	\$56.4	\$37.4	\$30.8

The effective income tax rates for the years ended December 31, 1993, 1992 and 1991, were 38%, 34% and 32%, respectively. See Note 3 for the tax benefits associated with the extraordinary loss.

The items which gave rise to differences between the income taxes provided for continuing operations in the Consolidated Statements of Income and the income taxes computed at the statutory rate are summarized below (\$ in millions):

<TABLE>

<CAPTION>

<S>

	Years Ended December 31,					
	<C>		<C>		<C>	
	1993		1992		1991	
	----		----		----	
Expected tax expense						
computed at statutory rate.....	\$51.8	35%	\$37.4	34%	\$32.7	34%
Dividends received exclusion.....	(.1)	-	(.1)	-	(.1)	-
Impact of OBRA 1993 rate change..	3.1	2	-	-	-	-
State income taxes, net of						
Federal tax effect .....	.6	-	1.0	1	.7	1
Benefits of net operating loss						
carryforwards .....	-	-	-	-	(3.8)	(4)
Other items, net .....	1.0	1	(.9)	(1)	1.3	1

	-----	--	-----	---	-----	---
Provision for Income Taxes.....	\$56.4	38%	\$37.4	34%	\$30.8	32%

</TABLE>

Temporary differences between book and tax income arise because the tax effects of transactions are recorded in the year in which they enter into the determination of taxable income. As a result, the book provisions for taxes differ from the actual taxes reported on the income tax returns. The net results of such differences are included in Deferred Income Taxes in the Consolidated Balance Sheets.

The Company has an Alternative Minimum Tax ("AMT") carryforward credit of \$.1 million at December 31, 1993. This excess of AMT over regular tax can be carried forward indefinitely to reduce future U.S. Federal income tax liabilities. At December 31, 1993, this credit was used to reduce the recorded deferred tax liability.

At December 31, 1993, the Company, for tax or financial statement reporting purposes, had no net operating loss carryovers.

Deferred Income Taxes consisted of the following (\$ in millions):

	December 31,	
	-----	-----
	1993	1992
Deferred tax assets...	\$ 82.2	\$ 114.4
Less: Valuation allowance.	(2.2)	(3.3)
Deferred tax assets, net of valuation allowance	80.0	111.1
Deferred tax liabilities.	(259.5)	(258.2)
	-----	-----
Deferred Income Taxes....	\$ (179.5)	\$ (147.1)

The valuation allowance is comprised of the portion of state tax net operating loss carryforwards expected to expire before they are utilized and non-deductible expenses incurred with the previous merger of wholly-owned subsidiaries.

Major types of deferred tax assets are: reserves not yet deducted for tax purposes (\$64.0 million) and safe harbor leases (\$11.8 million). Major types of deferred tax liabilities are: accelerated depreciation (\$206.2 million), land basis differences (\$10.3 million) and debt marked to market (\$2.1 million).

The Company and the Railroad have a tax

sharing agreement whereby the Railroad's federal tax liability and combined state tax liabilities (if any) are the lesser of (i) the Railroad's separate consolidated liability as if it were not a member of the Company's consolidated group or (ii) the Company's consolidated liability computed without regard to any other subsidiaries of the Company. The Company and its financing/leasing subsidiaries have a tax sharing agreement whereby the subsidiary's federal income tax and state income tax liabilities are determined on a consolidated, or combined state income tax basis as if it were not a member of the Company's consolidated group, with no benefit for prior net operating losses or credit carryovers from prior years.

#### 11. COMMON STOCK AND DIVIDENDS

The Company is authorized to issue 65,000,000 shares of Common Stock, par value \$.001. At December 31, 1993, there were 42,614,566 shares of Common Stock outstanding. Each holder of Common Stock is entitled to one vote per share in the election of directors and on all matters submitted to a vote of stockholders. Subject to the rights and preferences of redeemable preferred stock, if any, each share of Common Stock is entitled to receive dividends as may be declared by the Board of Directors out of funds legally available and to share ratably in all assets available for distribution to stockholders upon dissolution or liquidation. No holder of Common Stock has any preemptive right to subscribe for any securities of the Company. No shares of preferred stock were outstanding at December 31, 1993 and 1992.

On February 4, 1992, the Board of Directors authorized a three-for-two stock split on Common Stock. The split was in the form of a stock dividend and was paid on February 28, 1992. Fractional shares were settled for cash. A total of 14,132,058 shares were issued from authorized but unissued shares. In 1992, the Board of Directors initiated a policy of quarterly dividends on the Common Stock of the Company. Future dividends may be dependent on the ability of the Railroad to pay dividends to the Company. Certain covenants of the Railroad's debt restrict the level of dividends it may pay to the Company. At December 31, 1993, approximately \$76 million was free of such restrictions.

The Company awarded 25,000 shares and 150,000 shares of restricted stock to eligible employees of the Railroad in 1993 and 1992, respectively. No cash payments are required by the individuals. Shares awarded under the plans may not be sold, transferred, or used as

collateral by the holders until the shares awarded become free of the restrictions. Restrictions lapse over a four-year period. All shares still subject to restrictions will be forfeited and returned to the plan if the employee's relationship with the Railroad is terminated. A total of 13,500 shares were forfeited in 1993. If the employee becomes disabled, or dies, or a change in control occurs during the vesting period, the restrictions will lapse at that time. The compensation expense resulting from the award of restricted stock is valued at the closing market price of the Company's Common Stock on the date of the award, recorded as a reduction of Stockholders' Equity, and charged to expense evenly over the service period. Compensation expense was \$.8 million and \$.5 million in 1993 and 1992, respectively.

In 1992, the Company awarded 200,000 shares to Mr. Moyers as well. Of this amount, 133,000 were vested upon his retirement in 1993. The remaining 67,000 were forfeited in 1993 when Mr. Moyers was employed by another Class I railroad. See Note 15.

## 12. COMPENSATION AND STOCK OPTIONS

Stock Purchase Plan. Under the Company's 1990 Stock Purchase Plan (the "Stock Plan"), 736,380 shares (post split) of Common Stock were made available from shares held by Prospect for sale to key employees and officers of the Company other than Mr. Moyers, as determined by the Company's Board of Directors. Shares so awarded were sold at a price of \$.10 per share (post split) (which was Prospect's approximate original per share cost for such stock as adjusted for the 3 for 2 stock split in February 1992). In general, shares awarded pursuant to the Stock Purchase Plan are restricted for a period of four years and vest at a rate of 25% per year. At December 31, 1993, only 130,313 shares are restricted. All shares will vest prior to June 30, 1994, with 126,563 vesting on or before April 1, 1994. Unvested shares are subject to repurchase by the Company at a price of \$.267 per share upon the termination of the participant's employment, other than as a result of death or permanent disability. The unawarded shares (63,270) and those repurchased in 1991 are now classified as Treasury Stock.

Long-Term Incentive Plan. Under the Company's 1990 Long-Term Incentive Plan (the "Long-Term Incentive Plan") shares of Common Stock are available for issuance upon the exercise of incentive options that may be awarded by the Compensation Committee to directors and selected

salaried employees of the Company and its affiliates and to certain other individuals who possess the potential to contribute to the future success of the Company. The Compensation Committee also has the authority under the Long-Term Incentive Plan to award stock appreciation rights, restricted stock and restricted stock units, dividend equivalents and other stock-based awards, and to determine the consideration to be paid by the participant for any awards, any limits on transfer of awards, and, within certain limits, other terms of awards. In the case of options (other than options granted to directors who are not full-time employees of the Company ("Outside Directors"), as described below) granted under the Long-Term Incentive Plan, the Committee has the power to determine the exercise price of the option (which cannot be less than 50% of the fair market value on the date of grant of the shares subject to the option), the term of the option, the time and method of exercise and whether the options are intended to qualify as "incentive stock options" pursuant to Section 422A of the Internal Revenue Code.

Outside Directors of the Company also participate in the Long-Term Incentive Plan and are granted an option to purchase 15,000 shares of Common Stock upon initial appointment or election. In addition, Outside Directors as of November 1990 were granted options to purchase an additional 10,000 shares, which grants were approved at the 1991 Annual Meeting of Stockholders. Also on the date of each Annual Meeting, each Outside Director of IC who serves immediately prior to such date and who will continue to serve after such date (whether as a result of such director's re-election or by reason of the continuation of such director's term), will be granted an option to purchase 1,500 shares of Common Stock. Options granted to Outside Directors entitle such persons to purchase Common Stock at the fair market value of such Common Stock on the date the option was granted. Options held by Outside Directors expire 10 years from the date of grant, or, if earlier, one year following termination of service as a director for any reason other than death or disability. Such options become exercisable in full six months after their date of grant.

At the 1993 Annual Meeting, the stockholders authorized an additional one million shares to be available for issuance under the Long-Term Incentive Plan.

The following table summarizes the shares available for award under the Incentive Plan for the year ended December 31, 1993:

Reserved shares at beginning of year.....	904,000
--	---------



Options exercised.....	(49,500)	
Restricted stock awarded.....	(25,000)	(74,500)
	-----	-----
Subtotal.....		829,500
Increase in authorized shares.		1,000,000
Shares of restricted stock forfeited.....		80,500
Change in options outstanding during year.....		(482,500)
		-----
Shares available for award at end of year.....		1,427,500

The following table summarizes changes in shares under option for the year ended December 31, 1993:

<TABLE>

<CAPTION>

	Outside Directors	Employees	Total	Option Price Range Per Share
	-----	-----	-----	-----<S>
	<C>	<C>	<C>	<C>
Outstanding options				
- beginning of year.....	199,500	-	199,500	\$ 8.000 to \$22.750
Options - Granted.....	12,000	520,000	532,000	\$24.875 to \$31.250
- Exercised.....	(49,500)	-	(49,500)	\$ 8.000 to \$27.750
- Terminated....	-	-	-	
	-----	-----	-----	
Change during the year..	(37,500)	520,000	482,500	
	-----	-----	-----	
Outstanding options				
- end of year.....	162,000	520,000	682,000	

</TABLE>

Last Date Exercisable      4-21-2003    11-23-2003

The Compensation Committee awarded stock options to employees under the Long-Term Incentive Plan for the first time in 1993. Awards, all at fair market value, vest ratably over four years and expire 10 years from date of grant.

In 1993, Outside Directors exercised 7,500 options at \$12.00 per share when the market price was \$25.625 per share, 7,500 options at \$12.00 per share when the market price was \$27.875 per share and a total of 34,500 options at prices ranging from \$8.000 per share to \$27.750 per share when the market price was approximately \$33.00 per share.

See Notes 11 and 15 for a discussion of the restricted stock issued under the Long-Term Incentive Plan.

13. CONTINGENCIES, COMMITMENTS AND CONCENTRATION  
OF RISKS

The Company has unconditionally guaranteed its finance subsidiary's \$32.1 million obligations.

The Company is self-insured for the first \$5 million of each loss. The Company carries \$295 million of liability insurance per occurrence, subject to an annual cap of \$370 million in the aggregate for all losses. This coverage is considered by the Company's management to be adequate in light of the Company's safety record and claims experience.

As of December 31, 1993, the Company had \$4.0 million of letters of credit outstanding as collateral primarily for surety bonds executed on behalf of the Company. Such letters of credit expire in 1994 and are automatically renewable for one year. The letters of credit reduced the maximum amount that could be borrowed under the Revolver (see Note 8).

The Company has guaranteed repayment of certain indebtedness of a jointly owned company aggregating \$7.8 million. The Company's primary share is \$1.0 million; the remainder is a primary obligation of other unrelated owner companies.

There are various regulatory proceedings, claims and litigation pending against the Company. While the ultimate amount of liability that may result cannot be determined, in the opinion of the Company's management, based on present information, adequate provisions for liabilities have been recorded. See "Management's Discussion and Analysis - Other" for a discussion of environmental matters.

14. DISCLOSURES ABOUT 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 temporary cash investments. The carrying amount approximates fair value because of the short maturity of those instruments.

Investments. The Company has investments of \$10.3 million in 1993 and \$11.1 million in 1992 for which there are no quoted market prices. These investments are in joint railroad facilities, railroad terminal associations, switching railroads and other transportation companies. For these investments, the carrying

amount is a reasonable estimate of fair value. The Company's remaining investments (\$5.4 million in 1993 and \$3.9 million in 1992) are accounted for by the equity method.

Long-term debt. The fair value of the Company's 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.

Fuel hedge agreements. The fair value of fuel hedging agreements is the estimated amount that the Company would receive or pay to terminate the agreements as of year end, taking into account the current credit worthiness of the agreement counterparties. At December 31, 1993 and 1992, the fair value was a liability of \$4.6 million and less than \$.1 million, respectively.

The estimated fair values of the Company's financial instruments at December 31, are as follows (\$ in millions):

<TABLE>

<CAPTION>

<S>	1993		1992	
	<C> Carrying Amount	<C> Fair Value	<C> Carrying Amount	<C> Fair Value
Cash and temporary cash investments	\$ 10.7	\$ 10.7	\$ 34.6	\$ 34.6
Investments.....	10.3	10.3	11.1	11.1
Debt.....	(384.6)	(406.0)	(380.0)	(430.1)

</TABLE>

#### 15. SPECIAL CHARGE

In 1992, the Company recorded a pretax special charge of \$8.9 million as part of operating expense. The special charge reduced Net Income by \$5.9 million or \$.13 per share.

The special charge consisted of \$7 million for various costs associated with the retirement of Mr. Moyers and the related organizational changes. The costs associated with Mr. Moyers' retirement include the present value of his pension, accelerated vesting of a portion of his restricted stock award and certain costs of a non-competition agreement. The remaining \$1.9 million was for the disposition costs of railcars and a building and its adjacent land.

#### 16. SELECTED QUARTERLY FINANCIAL DATA - (UNAUDITED) (\$ IN MILLIONS, EXCEPT SHARES DATA:

<TABLE>

<CAPTION>

1993	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER (a)
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>	<C>
Revenues.....	\$142.7	\$132.1	\$147.4	\$142.5
Operating income.....	46.4	38.3	46.4	48.4
Income before extraordinary item and cumulative effect of changes in accounting principles.....	24.0	19.9	21.5	26.3
Net income (loss).....	23.9	(3.5)	21.5	26.3
Income per share:				
Before extraordinary item and cumulative effect.....	\$ .56	\$ .47	\$ .50	\$ .61
Extraordinary item.....	-	(.55)	-	-
Cumulative effect.....	-	-	-	-
	- - - - -	- - - - -	- - - - -	- - - - -
Net income (loss) per share.	\$ .56	\$ (.08)	\$ .50	\$ .61
1992				
Revenues.....	\$138.7	\$129.9	\$131.4	\$147.4
Operating income.....	42.6	36.7	36.5	35.7
Income before cumulative effect of change in accounting principle.....	21.1	16.9	17.6	16.9
Net income.....	44.5	16.9	17.6	16.9
Income per share:				
Before cumulative effect....	\$ .50	\$ .40	\$ .41	\$ .39
Cumulative effect.....	.55	-	-	-
	- - - - -	- - - - -	- - - - -	- - - - -
Net income per share.....	\$ 1.05	\$ .40	\$ .41	\$ .39
1991				
Revenues.....	\$138.0	\$131.3	\$139.8	\$140.6
Operating income.....	36.8	35.1	34.6	39.1
Net income.....	15.3	13.7	17.6	18.8
Net income per share.....	\$ .43	\$ .35	\$ .41	\$ .45

</TABLE>

Per share amounts in 1991 have been restated to reflect the 3-for-2 stock split that occurred in February 1992.

- - - - -

(a) Includes the special charge recorded in the fourth quarter of 1992, see Note 15.

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

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F O R M 10-K

FINANCIAL STATEMENT SCHEDULES

SUBMITTED IN RESPONSE TO ITEM 14(a)

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

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I N D E X

T O

FINANCIAL STATEMENT SCHEDULES  
SUBMITTED IN RESPONSE TO ITEM 14(a)

Schedules for the three years ended  
December 31, 1993:

II-Amounts receivable from related parties,  
and underwriters, promoters and  
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VI-Accumulated depreciation and amortization  
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Pursuant to Rule 5.04 of General Rules of Regulation S-X, all other schedules are omitted because they are not required or because the required information is set forth in the financial statements or related notes thereto.

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ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE II--AMOUNTS RECEIVABLE FROM RELATED PARTIES, AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES  
(\$ in millions)

Name of Debtor	Balance at beginning of year	Additions	Deductions	Curent	Non-Curent
E. L. Moyers	\$ .7	-	-	\$ .2	\$ .5

Pursuant to a four-year note dated May 15, 1992, bearing interest at the rate of 7.1%, Mr. Moyers became indebted to the Company in the principal amount of \$1,000,000. In connection with Mr. Moyers' decision to retire and resign from the Board, Mr. Moyers repaid \$238,500 of principal and interest and the Compensation Committee forgave an additional \$200,000 principal amount of the loan. The May 15, 1992 note was cancelled in favor of a new note (the "Note") to be repaid in four annual installments of principal and interest, commencing on February 18, 1994. The Note provides that unpaid principal, including any accrued interest thereon, is to be accelerated in the event of a breach of the non-competition covenant contained in Mr. Moyers' consulting and non-competition agreement with the Company. The Note bears interest at a rate of 6.22% per annum and is prepayable in whole or in part at any time. Any unpaid principal, including any accrued interest thereon, is to be forgiven in the event

of Mr. Moyers' death or disability.

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION  
Illinois Central Corporation--Parent Company  
Condensed Statements of Income  
(\$ in millions, except share data)

<CAPTION>

	Years Ended December 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
Operating expenses.....	\$ 0.2	\$ 0.3	\$ 0.3
	-----	-----	-----
Operating (loss).....	(0.2)	(0.3)	(0.3)
Other income (expense), net.....	(1.3)	(1.6)	(1.3)
Interest income.....	-	0.4	1.0
	-----	-----	-----
Income (loss) before taxes and earnings of subsidiaries.....	(1.5)	(1.5)	(0.6)
Earnings of subsidiaries.....	69.1	97.0	65.8
Provision (benefit) for income taxes	(0.6)	(0.4)	(0.2)
	-----	-----	-----
Net income.....	\$ 68.2	\$ 95.9	\$ 65.4
	-----	-----	-----
Income per share (a).....	\$ 1.59	\$ 2.25	\$ 1.64
	=====	=====	=====
Weighted average number of shares outstanding (thousands) (a).....	42,679.7	42,600.1	39,830.2

</TABLE>

The Notes to Consolidated Financial Statements  
beginning on page F-6 are an integral part of  
this schedule.

(a) Reflects 3-for-2 stock split in February  
1992.

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION  
Illinois Central Corporation--Parent Company  
Condensed Balance Sheets  
(\$ in millions)

<CAPTION>

	December 31,	
	1993	1992
ASSETS		
<S>	<C>	<C>
Current assets:		
Cash and temporary cash investments.....	\$ 1.3	\$ 9.0
Receivables.....	16.0	7.5
Other current assets.....	0.1	-
	-----	-----

Total current assets.....	17.4	16.5
Investments in subsidiaries.....	375.1	332.1
Other assets.....	0.5	-
	-----	-----
Total assets.....	\$ 393.0	\$ 348.6
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 6.3	\$ 4.1
Dividends payable.....	8.9	6.4
Income taxes payable.....	(1.9)	(1.2)
Taxes other than income taxes.....	-	0.1
	-----	-----
Total current liabilities.....	13.3	9.4
Deferred income taxes.....	0.7	0.4
Other liabilities and reserves.....	1.6	-
Contingencies and commitments		
Stockholders' equity (a):		
Common stock, par value \$.001 authorized 65,000,000 shares: 42,837,064 shares issued and 42,614,566 shares outstanding.....	-	-
Additional paid-in capital.....	164.2	160.9
Retained income.....	216.5	177.9
Treasury stock (222,498 shares).....	(3.3)	-
	-----	-----
Total stockholders' equity.....	377.4	338.8
	-----	-----
Total liabilities and stockholders' equity....	\$ 393.0	\$ 348.6
	=====	=====

</TABLE>

The Notes to Consolidated Financial Statements  
beginning on page F-6 are an integral part of  
this schedule.

(a) Reflects 3-for-2 stock split in February  
1992.

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES  
SCHEDULE III -- CONDENSED FINANCIAL INFORMATION  
Illinois Central Corporation--Parent Company  
Condensed Statements of Cash Flows  
(\$ in millions)

<CAPTION>

	Years Ended December 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
Cash flows from operating activities:			



Net income.....	\$ 68.2	\$ 95.9	\$ 65.4
Reconciliation of net income to net cash provided by operating activities:			
Deferred income taxes.....	0.3	0.3	(0.1)
Earnings of subsidiaries.....	(69.1)	(97.0)	(65.8)
Cash changes in working capital:			
Receivables.....	0.1	(0.4)	(0.5)
Other current assets.....	(0.1)	-	-
Accounts payable.....	2.2	1.4	2.6
Income taxes payable.....	(0.7)	(1.0)	(0.1)
Taxes other than income taxes.....	(0.1)	0.1	-
Changes in other assets.....	(0.5)	0.1	(0.1)
Changes in other liabilities and reserves.	1.1	-	-
	-----	-----	-----
Net cash provided by (used for) operating activities.....	1.4	(0.6)	1.4
Cash flows from investing activities:			
Capital contribution to subsidiaries.....	(9.9)	-	(50.1)
Dividends received from subsidiaries.....	27.4	6.4	-
	-----	-----	-----
Net cash provided by (used for) investing activities.....	17.5	6.4	(50.1)
Cash flows from financing activities:			
Proceeds from stock sale.....	-	-	63.1
Dividends paid.....	(27.1)	(14.8)	-
Proceeds from exercise of stock options and warrants.....	0.5	0.2	3.4
	-----	-----	-----
Net cash provided by (used for) financing activities.....	(26.6)	(14.6)	66.5
	-----	-----	-----
Changes in cash and temporary cash investments..	(7.7)	(8.8)	17.8
Cash and temporary cash investments at beginning of period.....	9.0	17.8	-
	-----	-----	-----
Cash and temporary cash investments at end of period.....	\$ 1.3	\$ 9.0	\$ 17.8
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest (net of amount capitalized).....	\$ -	\$ -	\$ -
	=====	=====	=====
Income taxes.....	\$ -	\$ -	\$ -
	=====	=====	=====

</TABLE>

The Notes to Consolidated Financial Statements  
beginning on page F-6 are an integral part of  
this schedule.

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE V -- PROPERTY, PLANT AND EQUIPMENT  
(\$ in millions)

Year Ended December 31, 1993

<CAPTION>

Classification	Balance at Beginning Of Year <C>	Additions At Cost <C>	Retirements <C>	Other Charges Debit (Credit) (1) <C>	Balance At End Of Year
Road and structures, including land.....	\$ 909.5	\$ 50.3	\$ 11.9	\$ -	\$ 947.9
Equipment.....	75.2	46.1	4.5	1.3	118.1
Other, principally land.....	40.6	-	0.2	-	40.4
	-----	-----	-----	-----	-----
Total.....	\$1,025.3	\$ 96.4	\$ 16.6	\$ 1.3	\$1,106.4
	=====	=====	=====	=====	=====

Year Ended December 31, 1992

Classification	Balance at Beginning Of Year	Additions At Cost	Retirements	Other Charges Debit (Credit) (2)	Balance At End Of Year
Road and structures, including land.....	\$ 864.9	\$ 46.4	\$ 8.0	\$ 6.2	\$ 909.5
Equipment.....	70.0	4.4	2.9	3.7	75.2
Other, principally land.....	40.7	-	0.1	-	40.6
	-----	-----	-----	-----	-----
Total.....	\$ 975.6	\$ 50.8	\$ 11.0	\$ 9.9	\$1,025.3
	=====	=====	=====	=====	=====

Year Ended December 31, 1991

Classification	Balance at Beginning Of Year	Additions At Cost	Retirements	Other Charges Debit (Credit)	Balance At End Of Year
Road and structures, including land.....	\$ 846.9	\$ 36.3	\$ 18.3	\$ -	\$ 864.9
Equipment.....	57.8	13.6	1.4	-	70.0
Other, principally land.....	40.9	-	0.2	-	40.7
	-----	-----	-----	-----	-----
Total.....	\$ 945.6	\$ 49.9	\$ 19.9	\$ -	\$ 975.6
	=====	=====	=====	=====	=====

</TABLE>

(1) Reclassification of properties from "Other Assets."

(2) Reclassification of properties from "Assets Held For Disposition."

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE VI -- ACCUMULATED DEPRECIATION AND  
AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT  
(\$ in millions)

Year Ended December 31, 1993

<CAPTION>

Balance at	Additions Charged	Other	Balance
------------	----------------------	-------	---------

Classification	Beginning Of Year	To Cost And Expenses	Retirements	Charges Debit (Credit)	At End Of Year
<S>	<C>	<C>	<C>	<C>	<C>
Road and structures, including land.....	\$ 10.0	\$ 18.9	\$ 16.5	\$ -	\$ 12.4
Equipment.....	5.8	4.1	1.4	-	8.5
Other, principally land.....	-	-	-	-	-
	-----	-----	-----	-----	-----
Total.....	\$ 15.8	\$ 23.0	\$ 17.9	\$ -	\$ 20.9
	=====	=====	=====	=====	=====

Year Ended December 31, 1992

Classification	Balance at Beginning Of Year	Additions Charged To Cost And Expenses	Retirements	Other Charges Debit (Credit)	Balance At End Of Year
Road and structures, including land.....	\$ 3.7	\$ 18.2	\$ 11.9	\$ -	\$ 10.0
Equipment.....	3.6	3.2	1.0	-	5.8
Other, principally land.....	-	-	-	-	-
	-----	-----	-----	-----	-----
Total.....	\$ 7.3	\$ 21.4	\$ 12.9	\$ -	\$ 15.8
	=====	=====	=====	=====	=====

Year Ended December 31, 1991

Classification	Balance at Beginning Of Year	Additions Charged To Cost And Expenses	Retirements	Other Charges Debit (Credit)	Balance At End Of Year
Road and structures, including land.....	\$ 4.2	\$ 17.5	\$ 18.0	\$ -	\$ 3.7
Equipment.....	1.8	2.5	0.7	-	3.6
Other, principally land.....	-	-	-	-	-
	-----	-----	-----	-----	-----
Total.....	\$ 6.0	\$ 20.0	\$ 18.7	\$ -	\$ 7.3
	=====	=====	=====	=====	=====

</TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE VII--GUARANTEES OF SECURITIES OF OTHER  
ISSUERS

AS OF DECEMBER 31, 1993, 1992 AND 1991  
(\$ IN MILLIONS)

Column A	Column B	Column C	Column D
- - - - -	- - - - -	- - - - -	- - - - -
Name of Issuer of Securities Guaranteed by Person for Which	Title of Issue of Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Nature of Guarantee

Terminal Railroad Association of St. Louis St. Louis	Refunding and Improvement Mortgage 4% Bonds, Series "C", due 7/1/2019	\$7.8	Principal and annual interest
---	---	-------	--

<TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS  
(\$ in millions)

<CAPTION>

Year Ended December 31, 1993

Classification	Balance at Beginning Of Year	Additions Charged To Expense	Payments And (Charges)	Balance At End Of Year
<S>	<C>	<C>	<C>	<C>
Redundancy and guarantee reserves...	\$ 51.6	\$ 1.8	\$ 9.8	\$ 43.6
Casualty and other reserves.....	67.4	18.8	23.9	62.3
Bad debt reserve.....	2.6	2.0	1.5	3.1
Taxes.....	3.3	-	1.1	2.2
	-----	-----	-----	-----
Total.....	\$ 124.9	\$ 22.6	\$ 36.6	\$ 110.9
	=====	=====	=====	=====

Year Ended December 31, 1992

Classification	Balance at Beginning Of Year	Additions Charged To Expense	Payments And (Charges)	Balance At End Of Year
Redundancy and guarantee reserves...	\$ 61.3	\$ 2.1	\$ 11.8	\$ 51.6
Casualty and other reserves.....	60.4	21.3	14.3	67.4
Bad debt reserve.....	5.1	1.9	4.4	2.6
Taxes.....	-	3.7	0.4	3.3
	-----	-----	-----	-----
Total.....	\$ 126.8	\$ 29.0	\$ 30.9	\$ 124.9
	=====	=====	=====	=====

Year Ended December 31, 1991

Classification	Balance at Beginning Of Year	Additions Charged To Expense	Payments And (Charges)	Balance At End Of Year
Redundancy and guarantee reserves...	\$ 84.0	\$ -	\$ 22.7	\$ 61.3
Casualty and other reserves.....	61.2	26.4	27.2	60.4
Bad debt reserve.....	5.3	1.9	2.1	5.1
	-----	-----	-----	-----
Total.....	\$ 150.5	\$ 28.3	\$ 52.0	\$ 126.8
	=====	=====	=====	=====

</TABLE>

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit

Sequential

No. -----	Descriptions -----	Page No. -----
3.1	Articles of Incorporation of Illinois Central Railroad Company, as amended. (Incorporated by reference to Exhibit 3.1 to the Registration Statement of Illinois Central Railroad Company on Form S-1. (SEC File No. 33-29269))	
3.2	By-Laws of Illinois Central Railroad Company, as amended. (Incorporated by reference to Exhibit 3.2 to the Registration Statement of Illinois Central Railroad Company on Form S-1. (SEC File No. 33-29269))	
3.3	Restated Articles of Incorporation of Illinois Central Corporation. (Incorporated by reference to Exhibit 3.1 to the Quarterly Report of the Illinois Central Corporation on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-10720))	
3.4	By-Laws of Illinois Central Corporation, as amended. (Incorporated by reference to Exhibit 3.4 to the Registration Statement of Illinois Central Corporation and Illinois Central Railroad Company on Form S-1. (SEC File Nos. 33-36321 and 33-36321-01))	
3.5	Certificate of Retirement of Illinois Central Corporation (Incorporated by reference to Exhibit 3.3 to the Registration Statement of Illinois Central Corporation and Illinois Central Railroad Company on Form S-1, as amended. (SEC File No. 33-40696 and Post-Effective Amendments to Registration Statement Nos. 33-36321 and 33-36321-01))	
3.6	Certificate of Elimination of Illinois Central Corporation. (Incorporated by reference to	

- - - - -

\* Used herein to identify management contracts  
or compensation plans or arrangements as required  
by Item 14 of Form 10-K.

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. - - - - -	Descriptions - - - - -	Sequential Page No. - - - - -
4.1	Form of 14-1/8% Senior Subordinated Debenture Indenture dated as of September 15, 1989 (the "Senior Subordinated Debenture Indenture") between Illinois Central Railroad Company and United States Trust Company of New York, Trustee (including the form of 14-1/8% Senior Subordinated Debenture included as Exhibit A therein). (Incorporated by reference to Exhibit 4.1 to the Registration Statement of Illinois Central Railroad Company on Form S-1, as amended. (SEC File No. 33-29269))	
4.2	Restated Articles of Incorporation of Illinois Central Corporation (included in Exhibit 3.3)	
4.3	Form of the Amended and Restated Revolving Credit and Term Loan Agreement dated as of September 22, 1989, and amended and restated as of July 23, 1991, among Illinois Central Railroad Company and the Banks named therein (including the Form of the Restated Revolving Credit Note, the Form of the Restated Term Note, the Form of the Intercreditor Agreement, the	

Form of the Security Agreement and the Form of the Bond Pledge Agreement included as Exhibits A, B, G, H and I, respectively, therein). (Incorporated by reference to Exhibit 4.1 to the Quarterly Report of Illinois Central Railroad Company on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-7092))

4.4 Amendment No. 1 dated as of February 28, 1992, to the Amended and Restated Revolving Credit and Term Loan Agreement dated as of September 22, 1989, and amended and restated as of July 23, 1991, among Illinois Central Railroad Company and the Banks named therein. (Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 10-K for the year ended December 31, 1991, for the Illinois Central Railroad Company filed March 12, 1992. (SEC File No. 1-7092))

4.5 Form of Guaranty dated as of September 22, 1989, and amended and restated as of July 23, 1991, among Illinois Central Corporation and the Banks named therein that are or may become parties to the Amended and Restated Revolving Credit and Term Loan Agreement dated as of September 22, 1989, and amended and restated as of July 23, 1991, among the Illinois Central Railroad Company and the Banks named therein. (Incorporated by reference to Exhibit 4.3 to the Quarterly Report of Illinois Central Corporation on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-10720))

4.6 Form of Pledge Agreement dated as of September 22, 1989, and amended and restated as of July 23, 1991, among Illinois Central Corporation and the Banks named therein that are or may become parties to the Amended and Restated Revolving

Credit and Term Loan Agreement dated as of amended and restated as of July 23, 1991, among the Illinois Central Railroad Company and the Banks named therein and the Senior Note Purchasers that are parties to the Note Purchase Agreement dated as of July 23, 1991. (Incorporated by reference to Exhibit 4.4 to the Quarterly Report of Illinois Central Corporation on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-10720))

4.7 Form Supplemental Indenture dated July 23, 1991, between Illinois Central Railroad Company and Morgan Guaranty Trust Company of New York relating to First Mortgage Adjustable Rate Bonds, Series M. (Incorporated by reference to Exhibit 4.2 to the Quarterly Report of Illinois Central Railroad Company on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-7092))

4.8 Form of Note Purchase Agreement dated as of July 23, 1991, among Illinois Central Railroad Company, as issuer, and Illinois Central Corporation, as guarantor, for 10.02% Guaranteed Senior Secured Series A Notes due 1999 and for 10.4% Guaranteed Senior Secured Series B Notes due 2001 (including the Form of Series A Note and Series B Note included as Exhibits A-1 and A-2, respectively, therein). (Incorporated by reference to Exhibit 4.3 to the Quarterly Report of the Illinois Central Railroad Company on Form 10-Q for the three months ended September 30, 1991. (SEC File No. 1-7092))

4.9 Form of the Loan and Security Agreement dated as of December 6, 1991, between IC Leasing Corporation I and Hitachi Credit America Corp. (including the Form of the



Initial Funding Credit Note, the Form of the Refurbishing Credit Note, the Form of Assignment of Lease and Agreement, the Form of the Pledge Agreement between IC Financial Services Corporation and Hitachi Credit America Corp. and the Form of the Guaranty Agreement between Illinois Central Corporation and Hitachi Credit America Corp. included as Exhibits D, E, F, G and H, respectively, therein). (Incorporated by reference to Exhibit 4.9 to the Annual Report on Form 10-K for the year ended December 31, 1991, for the Illinois Central Corporation filed March 12, 1992. (SEC File No. 1-10720))

4.10 Form of the Trust Agreement dated as of March 30, 1993, between IC Leasing Corporation II and Wilmington Trust Company. (Incorporated by reference to Exhibit 4.10 to the Current Report of Illinois Central Corporation on Form 8-K dated May 7, 1993. (SEC File No. 1-10720))

4.11 Form of the Security Agreement and Mortgage dated as of March 30, 1993, between IC Leasing Trust II and UNUM Life Insurance Company of America (Including the Form of the Promissory Note between IC Leasing Trust II and UNUM Life Insurance Company of America included as Exhibit A, therein). (Incorporated by reference to Exhibit 4.11 to the Current Report of Illinois Central Corporation on Form 8-K dated May 7, 1993. (SEC File No. 1-10720))

4.12 Assignment of Lease and Conveyance dated March 30, 1993, between IC Leasing Corporation II and IC Leasing Trust II. (Incorporated by reference to Exhibit 4.12 to the Current Report of Illinois Central Corporation on Form 8-K dated May 7, 1993. (SEC File No. 1-10720))

- 4.13 Assignment of Lease and Conveyance dated March 30, 1993, between IC Leasing Trust II and UNUM Life Insurance Company of America.  
(Incorporated by reference to Exhibit 4.13 to the Current Report of Illinois Central Corporation on Form 8-K dated May 7, 1993. (SEC File No. 1-10720))
- 4.14 Form of the Amended and Restated Demand Promissory Note between IC Leasing Corporation III and The First National Bank of Boston dated December 3, 1993, and amended and restated as of January 3, 1994.
- 4.15 Form of the Guaranty dated as of December 3, 1993, between Illinois Central Corporation and The First National Bank of Boston.

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. -----	Descriptions -----	Sequential Page No. -----
4.16	Security Agreement dated as of December 3, 1993, between IC Leasing Corporation III and The First National Bank of Boston and Amendment No. 1 to the Security Agreement dated as of January 3, 1994.	
4.17	Form of the Revolving Credit Agreement dated as of October 27, 1993, among Illinois Central Railroad Company and the Banks named therein (including the Form of the Note, the Form of the Competitive Bid Request, Form of the Notice of Competitive Bid Request, Form of the Competitive Bid and Form of the Competitive Bid Accept/Reject Letter included as Exhibits A, B-1, B-2, B-3	

and B-4, respectively,  
therein). (Incorporated by  
reference to Exhibit 4.8 to  
the Annual Report on Form 10-K  
for the year ended  
December 31, 1993, for  
Illinois Central Railroad  
Company filed March 16, 1994.  
(SEC File No. 1-7092))

4.18 Form of the Amended and  
Restated Revolving Credit  
Agreement dated as of October  
27, 1993, among Illinois  
Central Railroad Company and  
the Banks named therein  
(including the Form of the  
Note, the Form of the  
Competitive Bid Request, Form  
of the Notice of Competitive  
Bid Request, Form of the  
Competitive Bid and Form of  
the Competitive Bid  
Accept/Reject Letter included  
as Exhibits A, B-1, B-2, B-3  
and B-4, respectively,  
therein). (Incorporated by  
reference to Exhibit 4.8 to  
the Annual Report on Form 10-K  
for the year ended  
December 31, 1993, for  
Illinois Central Railroad  
Company filed March 16, 1994.  
(SEC File No. 1-7092))

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. -----	Descriptions -----	Sequential Page No. -----
4.19	Form of Commercial Paper Dealer Agreement between Illinois Central Railroad Company and Lehman Commercial Paper, Inc. dated as of November 19, 1993. (Incorporated by reference to Exhibit 4.10 to the Annual Report on Form 10-K for the year ended December 31, 1993 for Illinois Central Railroad Company filed March 16, 1994. (SEC File No. 1-7092))	
4.20	Form of Issuing and Paying Agency Agreement of the Illinois Central Railroad	

Company related to the Commercial Paper Program between Illinois Central Railroad Company and Bank America National Trust Company dated as of November 19, 1993, (including Exhibit A the Form of Certificated Commercial Paper Note included therein). (Incorporated by reference to Exhibit 4.11 to the Annual Report on Form 10-K for the year ended December 31, 1993 for Illinois Central Railroad Company filed March 16, 1994. (SEC File No. 1-7092))

10.1 \* Form of supplemental retirement and savings plan. (Incorporated by reference to Exhibit 10C to the Registration Statement of Illinois Central Transportation Co. on Form 10 filed on October 7, 1988, as amended. (SEC File No. 1-10085))

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. -----	Descriptions -----	Sequential Page No. -----
10.2 *	Form of management incentive compensation plan. (Incorporated by reference to Exhibit 10D to the Registration Statement of Illinois Central Transportation Co. on Form 10 filed on October 7, 1988, as amended. (SEC File No. 1-10085))	
10.3	Consolidated Mortgage dated November 1, 1949 between Illinois Central Railroad Company and Guaranty Trust Company of New York, Trustee, as amended. (Incorporated by reference to Exhibit 10.8 to the Registration Statement of Illinois Central Railroad Company on Form S-1, as amended. (SEC File No. 33-29269))	

10.4 Form of indemnification agreement dated as of January 29, 1991, between Illinois Central Corporation and certain officers and directors. (Incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K for the year ended December 31, 1990, for the Illinois Central Corporation filed on April 1, 1991. (SEC File No. 1-10720))

10.5 \* Form of IC 1990 Stock Purchase Plan. (Incorporated by reference to Exhibit 10.6 to the Registration Statement of Illinois Central Corporation on Form 10 filed on January 5, 1990, as amended. (SEC File No. 1-10720))

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. -----	Descriptions -----	Sequential Page No. -----
10.6 *	Form of IC Long-Term Incentive Option Plan. (Incorporated by reference to Exhibit 10.17 to the Registration Statement of Illinois Central Corporation and Illinois Central Railroad Company on Form S-1. (SEC File Nos. 33-36321 and 33-36321-01))	
10.7 *	Amendments No. 1 and No. 2 to the IC Long-Term Incentive Plan. (Incorporated by reference to the Proxy Statement of Illinois Central Corporation in connection with its 1992 Annual Meeting of Stockholders. (SEC File No. 1-10720))	
10.8	Railroad Locomotive Lease Agreement between IC Leasing Corporation I and Illinois Central Railroad Company dated as of September 5, 1991. (Incorporated by reference to Exhibit 10.9 to the Annual	

Report on Form 10-K for the year ended December 31, 1991 for the Illinois Central Railroad Company filed March 12, 1992. (SEC File No. 1-7092))

- 10.9 Railroad Locomotive Lease Agreement between IC Leasing Corporation II and Illinois Central Railroad Company dated as of January 14, 1993. (Incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the year ended December 31, 1992, for the Illinois Central Railroad Company filed March 5, 1993. (SEC File No. 1-7092))

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No. -----	Descriptions -----	Sequential Page No. -----
10.10 *	Form of Consulting and Non-Competition Agreement between Illinois Central Corporation and Edward L. Moyers dated as of February 18, 1993. (Incorporated by reference to Exhibit 10.10 to Annual Report on Form 10-K for the year ended December 31, 1992, for the Illinois Central Corporation filed March 5, 1993. (SEC File No. 1-10720))	
10.11 *	Form of the Note Agreement between the Illinois Central Corporation and Edward L. Moyers dated February 18, 1993. (Incorporated by reference to Exhibit 10.11 to Annual Report on Form 10-K for the year ended December 31, 1992, for the Illinois Central Corporation filed March 5, 1993. (SEC File No. 1-10720))	
10.12 *	Form of a Supplemental Retirement Benefit Agreement dated as of August 20, 1992 between Illinois Central	

Corporation and Edward L. Moyers. (Incorporated by reference to Exhibit 10.3 to the Quarterly Report of the Illinois Central Corporation on Form 10-Q for the three month ended September 30, 1992. (SEC File No. 1-10720))

10.13 The Asset Sale Agreement between Allied Railcar Company and IC Leasing Corporation III dated December 3, 1993, (including the Bill of Sale Agreement and Assumption of Liabilities included as Exhibits C and D, respectively, therein).

ILLINOIS CENTRAL CORPORATION  
AND SUBSIDIARIES

EXHIBIT INDEX

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10.15	The Purchase Agreement between IC Leasing Corporation III and The First National Bank of Maryland dated December 29, 1993.	
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(A) Included herein but not reproduced.

<TABLE>

ILLINOIS CENTRAL CORPORATION AND SUBSIDIARIES

COMPUTATION OF INCOME PER COMMON SHARE  
(\$ in millions, except share data)

<CAPTION>

<S>	<C>	Years Ended December 31,		
		1993	1992	1991
Income before extraordinary item and cumulative effect of changes in accounting principles	\$	91.7	\$ 72.5	\$ 65.4
Extraordinary item, net		(23.4)	-	-

Cumulative effect of changes in accounting principles	(0.1)	23.4	-
	-----	-----	-----
Net income	\$ 68.2	\$ 95.9	\$ 65.4
	=====	=====	=====
Calculation of average number of shares outstanding (1):			
Primary:			
Weighted average number of common shares outstanding	42,560,082	42,508,910	39,776,916
Effect of shares issuable under stock options	119,600	91,197	53,266
	-----	-----	-----
	42,679,682	42,600,107	39,830,182
	=====	=====	=====
Fully diluted:			
Weighted average number of common shares outstanding	42,560,082	42,508,910	39,776,916
Effect of shares issuable under stock options (2)	176,638	101,061	100,339
	-----	-----	-----
	42,736,720	42,609,971	39,877,255
	=====	=====	=====
Income per common share:			
Primary:			
Before extraordinary item and cumulative effect of changes in accounting principles	\$ 2.14	\$ 1.70	\$ 1.64
Extraordinary item, net	(0.55)	-	-
Cumulative effect of changes in accounting principles	-	0.55	-
	-----	-----	-----
Net income	\$ 1.59	\$ 2.25	\$ 1.64
	=====	=====	=====
Fully diluted:			
Before extraordinary item and cumulative effect of changes in accounting principles	\$ 2.14	\$ 1.70	\$ 1.64
Extraordinary item, net	(0.55)	-	-
Cumulative effect of changes in accounting principles	-	0.55	-
	-----	-----	-----
Net income	\$ 1.59	\$ 2.25	\$ 1.64
	=====	=====	=====

</TABLE>

(1) Shares for 1991 restated to reflect February 1992 3 for 2 stock split.

(2) Such items are included in primary calculation. Additional shares represent difference between average price of Common Stock for the period and the end of period price.



IC LEASING CORPORATION III

AMENDED AND RESTATED DEMAND PROMISSORY NOTE

\$21,715,000

Dated as of: December 3, 1993

Amended and Restated as of: January 3, 1994

FOR VALUE RECEIVED, the undersigned, IC LEASING CORPORATION III, a Nevada corporation having its principal place of business and chief executive office at 1077 East Sahara Avenue, Las Vegas, Nevada 89193 (the "Borrower") hereby absolutely and unconditionally promises to pay to the order of THE FIRST NATIONAL BANK OF BOSTON, a national banking association (hereinafter, together with its successors in title and assigns, called the "Bank"), at the Bank's head office at 100 Federal Street, Boston, Massachusetts 02110 (the "Head Office"), ON DEMAND AT ANY TIME, or, if no demand is made prior thereto, on the Termination Date (as defined below):

(a) the principal amount of TWENTY ONE MILLION SEVEN HUNDRED FIFTEEN THOUSAND DOLLARS (\$21,715,000), or, if less, the aggregate principal amount outstanding hereunder on the date of maturity (whether by demand, stated maturity, or any earlier termination, by acceleration or otherwise); and

(b) interest on the principal balance outstanding hereunder from time to time from the date hereof through and including the date on which such principal amount is paid in full at such rates and at such times as set forth herein.

This Note evidences the obligations of the Borrower (a) to repay the principal amount of the Loan made by the Bank to the Borrower hereunder, (b) to pay interest, as herein provided, on the principal amount hereof remaining unpaid from time to time, and (c) to pay a closing fee of \$10,000 payable to the Bank on January 3, 1994 (the "Amendment Date") (which fee, together with the

closing fee of \$50,000 paid to the Bank by the Borrower on December 3, 1993 pursuant to the terms of the Prior Note (as defined below), shall be credited to any subsequent closing fee payable by the Borrower to the Bank in connection with any refinancing of this Note). Capitalized terms which are used herein without definition shall be defined as set forth in Section 8 hereof.

This Note has been issued as a replacement of, and in exchange for (but does not evidence the payment or satisfaction of) the Demand Promissory Note issued by the Borrower to the Bank dated as of December 3, 1993 (the "Prior Note").

The Borrower hereby agrees with the Bank as follows:

Section 1. The Loan.

Section 1.1. Interest.

(a) Except as otherwise provided in Section 1.1(c) hereof, the unpaid principal amount of the Loan shall bear interest from the date hereof to but excluding the date on which such principal amount is paid in full, at the following interest rates: (a) during such periods as all or any portion of the Loan shall be a Base Rate Amount, said Base Rate Amount shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days) at the rate per annum equal to the Base Rate in effect from time to time, and (b) during such periods as all or any portion of the Loan shall be a Eurodollar Rate Amount, said Eurodollar Rate Amount shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate plus three quarters of one percent (3/4%). Interest on Base Rate Amounts and Eurodollar Rate Amounts shall be due and payable in arrears on each Interest Payment Date applicable to such Amount except as otherwise provided in this Note.

(b) Upon notice given by the Borrower to the Bank (a "Conversion Notice") (a) not later than 10:00 a.m. (Boston time) on the Business Day of any proposed conversion in the case of any conversion to a Base Rate Amount, and (b) not later than 11:00 a.m. (Boston time), three Business Days prior to

the date of any proposed conversion or continuation in the case of any conversion to a Eurodollar Rate Amount or any continuation of any Eurodollar Rate Amount, the Borrower may convert, on any Business Day, any Base Rate Amount or Eurodollar Rate Amount into another Type of Amount available hereunder, or continue any Eurodollar Rate Amount for an additional Interest Period, provided that if any conversion of a Eurodollar Rate Amount occurs other than on the last day of the Interest Period applicable with respect thereto, the Borrower shall indemnify the Bank against any loss, cost or expense incurred as result of such conversion in accordance with the provisions of this Note. Each such Conversion Notice shall be by telephone or in writing, and shall specify (i) the date of such conversion or continuation, (ii) the Types and amounts of Amounts to be converted or continued, and (iii) with respect to conversion into Eurodollar Rate Amounts and continuation of Eurodollar Rate Amounts, the duration of the Interest Period(s) with respect thereto. Each Amount so converted into or continued as a Eurodollar Rate Amount shall be in an aggregate principal amount of \$5,000,000 or a larger integral multiple of \$1,000,000. If the Borrower shall not have given notice in accordance with this Section 1.1(b) to continue any Eurodollar Rate Amount into a subsequent Interest Period (and shall not have not otherwise have given notice in accordance with this Section 1.1(b) to convert such Eurodollar Rate Amount into a Base Rate Amount), such Eurodollar Rate Amount shall, at the end of the Interest Period applicable thereto, automatically be continued into a new Interest Period as a Base Rate Amount.

(c) Overdue principal and (to the extent permitted by applicable law) interest on the Loan and all other overdue amounts payable hereunder shall bear interest compounded monthly and payable on demand at a rate per annum equal to 2% above the Base Rate, as such rate is in effect from time to time, until such amounts shall be paid in full (to the extent permitted by law, after as well as before judgment).

## Section 1.2. Repayment and Prepayments.

(a) Upon demand by the holder hereof or, if no demand is made prior thereto, on the Termination

Date, there shall become absolutely due and payable by the Borrower hereunder (without regard to the length of any Interest Period in effect), and the Borrower hereby promises to pay to the holder hereof, the balance (if any) of the principal hereof then remaining unpaid, all of the unpaid interest accrued hereon and all (if any) other amounts payable on or in respect of this Note and the indebtedness evidenced hereby, and all such amounts shall be payable without presentment, further demand, protest, notice of protest or any other formalities of any kind, all of which are hereby expressly and irrevocably waived by the Borrower, provided that if the holder hereof makes demand for payment hereunder after 12:00 noon (Boston time) on any day, all amounts due hereunder as provided above shall become absolutely due and payable by the Borrower, and the Borrower hereby promises to pay such amounts to the holder hereof, on the next succeeding Business Day.

(b) The Borrower shall have the right at any time to prepay the principal balance of this Note, without premium or penalty (except as provided below), in whole or in part, together with accrued interest to the date of prepayment on the principal amount prepaid, upon not less than three Business Days' written, telegraphic or telephonic notice to the Bank specifying the amount (not less than \$3,000,000 or a larger integral multiple of \$1,000,000) to be prepaid, provided that if any prepayment or any repayment of the Loan or any portion thereof shall be made with respect to a Eurodollar Rate Amount on a day other than the last day of the Interest Period applicable thereto, the Borrower shall indemnify the Bank against any loss, cost or expense incurred as a result of such prepayment or repayment in accordance with the provisions of Section 1.3 hereof. No amount repaid or prepaid with respect to the Loan may be reborrowed.

### Section 1.3. Eurodollar Rate Amounts - General Provisions.

(a) In the event, prior to the commencement of any Interest Period relating to any Eurodollar Rate Amount, the Bank shall determine that adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate that would otherwise determine the rate of interest to be applicable to any Eurodollar Rate Amount

during such Interest Period, the Bank shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower) to the Borrower. In such event (i) any Conversion Notice with respect to Eurodollar Rate Amounts shall be automatically withdrawn and shall be deemed a notice for Base Rate Amounts, (ii) each Eurodollar Rate Amount will automatically, on the last day of the then current Interest Period relating thereto, become a Base Rate Amount, and (iii) the obligations of the Bank to convert any Base Rate Amounts into Eurodollar Rate Amounts shall be suspended until the Bank determines that the circumstances giving rise to such suspension no longer exist, whereupon the Bank shall so notify the Borrower.

(b) Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or any change in the interpretation or application thereof shall make it unlawful for the Bank to make or maintain Eurodollar Rate Amounts, the Bank shall forthwith give notice of such circumstances to the Borrower and thereupon (i) the obligations of the Bank to convert any Base Rate Amounts to Eurodollar Rate Amounts or continue any Eurodollar Rate Amounts shall forthwith be suspended, and (ii) the outstanding Eurodollar Rate Amounts, if any, shall be converted automatically to Base Rate Amounts on the last day of each Interest Period applicable to such Eurodollar Rate Amounts or within such earlier period as may be required by law. The Borrower agrees promptly to pay the Bank the amount of any costs incurred by the Bank in making any conversion, including any interest or fees payable by the Bank to lenders of funds obtained by it in order to make or maintain Eurodollar Rate Amounts hereunder.

(c) Anything herein to the contrary notwithstanding and without duplication of any other amounts payable hereunder, if, after the date hereof, any change in any present or any future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time

to time hereafter made upon or otherwise issued to the Bank by any central bank or other fiscal, monetary or other authority, (whether or not having the force of law), shall:

(i) subject the Bank to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to Eurodollar Rate Amounts or deposits obtained to fund Eurodollar Rate Amounts (except for changes in the rate of tax on the overall net income of the Bank imposed by the jurisdiction in which the Head Office is located); or

(ii) materially change the basis of taxation of payments to the Bank on the principal of, interest on or any other amounts payable in respect of Eurodollar Rate Amounts (except for changes in the rate of tax on the overall net income of the Bank imposed by the jurisdiction in which the Head Office is located); or

(iii) impose or increase or render applicable any special deposit or reserve or similar requirement (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by an office of the Bank with respect to Eurodollar Rate Amounts; or

(iv) impose on the Bank any other condition or requirement with respect to this Note, Eurodollar Rate Amounts or any class of loans of which any of the Eurodollar Rate Amounts form a part, and the result of any of the foregoing is:

(A) to increase the cost to the Bank attributable to the making, funding or maintaining of Eurodollar Rate Amounts; or

(B) to reduce the amount of principal, interest or other amount with respect to Eurodollar Rate Amounts payable to the Bank hereunder;

then, and in each such case, to the extent such cost or reduction is not reflected in determining the interest rate applicable to Eurodollar Rate Amounts, the Borrower will, upon demand made by the Bank at any time and from time to time as often as the occasion therefor may arise, pay to the Bank

such additional amounts as will be sufficient to compensate the Bank for such additional costs, reduction, payment or foregone interest or other sum.

(d) If the Borrower shall at any time (a) repay or prepay or convert any Eurodollar Rate Amount on a date other than the last day of Interest Period with respect thereto (as a consequence of acceleration pursuant to Section 6 hereof, a mandatory repayment or prepayment required hereunder, an optional prepayment, a conversion pursuant to Section 1.1(b) or otherwise), or (b) for any reason fail to convert or continue a Eurodollar Rate Amount on the date specified therefor in a Conversion Notice delivered by the Borrower to the Bank, the Borrower shall indemnify the Bank, on demand made by the Bank at any time and as often as the occasion therefor may arise, against all losses, costs and expenses which the Bank may at any time or from time to time incur as a consequence of such repayment, prepayment or failure to convert or continue. The amount of such losses, costs or expenses shall be an amount equal to the remainder, if any, of:

(i) the total amount of interest which would otherwise have accrued hereunder on the principal so paid or not converted or continued at a rate equal to the Eurodollar Rate during the period (the "Reemployment Period") (A) in the case of any such repayment or prepayment, beginning on the date of such payment and ending on the last day of the applicable Interest Period of the Eurodollar Rate Amount so paid, or (B) in the case of any such failure to convert or continue, beginning on the date for the conversion or continuation that shall have been requested in the Conversion Notice relating thereto and ending on the date that would have been the last day of the applicable Interest Period of such Eurodollar Rate Amount had such conversion or continuation been made; minus

(ii) an amount equal to the aggregate interest to be earned by the Bank by reinvesting the amount prepaid, repaid or not converted or continued for the Reemployment Period at the yield to maturity on a United States Treasury security selected by the Bank approximately equal in amount to the amount prepaid, repaid or not

converted or continued and having a maturity approximately equal to the Reemployment Period.

Section 2. Payments. All payments to be made by the Borrower hereunder shall be made by the Borrower in Dollars in immediately available funds at the Head Office no later than 11:00 a.m. (Boston time) on the date due. Except as otherwise provided in the definition of the term "Interest Period" with respect to Eurodollar Rate Amounts, if any payment hereunder is required to be made on a day which is not a Business Day, it shall be paid on the next succeeding Business Day and interest shall accrue during such extension. All payments by the Borrower hereunder shall be made without set-off or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any country or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder, the Borrower agrees to pay to the Bank on the date on which the said amount becomes due and payable hereunder, such additional amount as shall be necessary to enable the Bank to receive the same net amount which then would have been received on such date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Bank certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder.

Section 3. Changes in Circumstances. If after the date hereof the Bank determines that (a) the introduction of, or any change in, or any change in the interpretation of, any law or regulation applicable to the Bank, or (b) compliance by the Bank or its parent bank holding company with any guideline, request or directive of any governmental agency or authority (whether or not having the force of law), has the effect of reducing the return on the Bank's or such holding company's capital as a consequence of the Loan to a level below that which the Bank or such holding company could have achieved but for such



adoption, change or compliance, the Bank may notify the Borrower thereof. The Borrower agrees to pay the Bank the amount of such reduction in the return on capital as and when such reduction is determined, upon presentation by the Bank of a statement in the amount and setting forth the Bank's calculation thereof, which statement shall be deemed true and correct absent manifest error.

Section 4. Representations and Warranties. The Borrower represents and warrants to the Bank on the Amendment Date that: (a) it is duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation and is duly qualified and in good standing in every other jurisdiction where it is doing business or where a failure to qualify would have a Materially Adverse Effect; (b) the execution, delivery and performance by the Borrower of this Note and the other Loan Documents to which it is a party (i) are within its corporate authority, (ii) have been duly authorized, and (iii) do not conflict with or contravene its Charter Documents; (c) upon execution and delivery thereof, this Note and each of the other Loan Documents to which the Borrower is a party shall constitute its legal, valid and binding obligation, enforceable in accordance with its terms; (d) there are no legal or other proceedings or investigations pending or threatened against the Borrower before any court, tribunal or regulatory authority which would, if adversely determined, alone or together, have a Materially Adverse Effect; (e) the execution, delivery, performance of its obligations, and the exercise of its rights under the Loan Documents to which it is a party (i) do not require any Consent (other than Consents of lessees of the Acquired Assets with respect to which, if such Consents are not obtained prior to the Amendment Date, all Losses (as defined in the Acquisition Documents) are, to the best of the Borrower's knowledge, indemnified against pursuant to and in accordance with the Acquisition Documents), and (ii) are not and will not be in conflict with or prohibited or prevented by (A) any Requirement of Law, or (B) any Charter Document, corporate vote, minute or resolution, or (C) any instrument, agreement or provision thereof, in each case binding on it or affecting its property; (f) the Borrower is not in violation of (i) any Charter Document, corporate minute or resolution, (ii) any

instrument or agreement, in each case binding on it or affecting its property, or (iii) any Requirement of Law, in a manner which could have a Materially Adverse Effect; (g) the Borrower used the proceeds of Tranche A, immediately upon receipt thereof, solely to finance in part the purchase of certain rolling stock, leases, and related assets (the "Acquired Assets") pursuant to the Acquisition Documents (the "Acquisition"); (h) the Borrower shall use the proceeds of Tranche B, immediately upon receipt thereof, solely to finance in part the purchase of the Maryland Lease, rolling stock leased to ICR thereunder, and certain related assets (the "Maryland Assets"), pursuant to the Maryland Acquisition Documents (the "Maryland Acquisition") (i) the Borrower shall not use the proceeds of the Loan for the purchasing or carrying of any "margin security" or "margin stock" within the meanings of Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224; (j) the amount of Tranche A constituted no more than 80% of the purchase price for the Acquired Assets, the balance of which purchase price was paid on the Date of the Acquisition from other funds of the Borrower, the Borrower's sole shareholder and other affiliates of the Borrower; (k) the amount of Tranche B constitutes no more than 80% of the purchase price of the Maryland Assets, the balance of which purchase price is being paid on the Amendment Date from other funds of the Borrower, the Borrower's sole shareholder and other affiliates of the Borrower; (l) the Borrower has no indebtedness other than pursuant to this Note; (m) none of the property, assets, income or revenue of the Borrower (other than the Acquired Assets) is subject to any liens, pledges, security interests, or other encumbrances other than pursuant to the Security Documents, (n) the Borrower has such title to the Acquired Assets as the Borrower acquired from Allied pursuant to the Acquisition Documents and has granted no liens or other encumbrances on the Acquired Assets other than pursuant to the Security Documents.

Section 5. Security. The Obligations shall continue to be secured by a blanket lien on and security interests in all of the assets of the Borrower, including without limitation, all accounts receivable, contract rights, general intangibles, inventory, chattel paper, real

property, rolling stock, plant and equipment, pursuant to the terms of the Security Agreement. The Obligations shall also continue to be guaranteed by the Guarantor pursuant to the Guaranty.

Section 6. Loans May Become Due Upon Certain Events. If any of the following shall occur: (a) any of the Loan Documents shall cease to be in full force and effect, (b) either the Borrower or the Guarantor (i) shall make an assignment for the benefit of creditors, (ii) shall be adjudicated bankrupt or insolvent, (iii) shall seek the appointment of, or be the subject of an order appointing, a trustee, liquidator or receiver as to all or part of its assets, (iv) shall commence, approve or consent to, or be the subject of any case or proceeding under any bankruptcy, reorganization, liquidation, insolvency, or similar law ("Insolvency Laws") and, in the case of any such involuntary case or proceeding under any Insolvency Law, such case or proceeding is not dismissed within forty-five (45) days following the commencement thereof, or (v) shall be the subject of an order for relief in an involuntary case or proceeding under any Insolvency Laws, or (c) either the Borrower or the Guarantor shall be unable to pay its debts as they mature;

THEN, the entire unpaid principal amount of the Loan, all interest accrued and unpaid thereon, and all other amounts payable hereunder shall automatically become forthwith due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower. The foregoing provisions of this Section 6 shall not limit or impair the Bank's right to demand repayment of the Obligations pursuant to the terms of this Note. No remedy herein conferred upon the Bank is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and in addition to every other remedy hereunder, now or hereafter existing at law or in equity or otherwise.

Section 7. Setoff. Regardless of the adequacy of any collateral or guaranty for the Obligations, any deposits or other sums credited by or due from the Bank to the Borrower may be applied to or set off against any principal, interest and any other amounts then due from the Borrower to the

Bank at any time during the continuance of any default under the Loan Documents without notice to the Borrower, or compliance with any other procedure imposed by statute or otherwise, all of which are hereby expressly waived by the Borrower.

Section 8. Definitions. The following terms shall have the meanings assigned to them below in this Section 8 or in the provisions of this Note referred to below:

Acquired Assets: See Section 4 hereof.

Acquisition: See Section 4 hereof.

Acquisition Documents: That certain Asset Purchase Agreement, dated as of December 3, 1993, by and between CRTC and Allied, the CFC Guaranty referred to therein, the related Asset Sale Agreement, dated as of December 3, 1993, by and between Allied and the Borrower, and all other agreements and documents required to be entered into or delivered pursuant to any of such agreements or in connection with the acquisition by the Borrower of the Acquired Assets.

Allied: Allied Railcar Company, an Illinois corporation.

Amendment Date: See the preamble hereof.

Amounts: Base Rate Amounts and Eurodollar Rate Amounts (each of which shall be a Type of Amount).

Assignment of Acquisition Documents: That certain Collateral Assignment of Acquisition Documents, dated as of December 3, 1993, between the Borrower and the Bank, as the same may be amended and in effect from time to time.

Bank: See the preamble hereof.

Bank of Maryland: The First National Bank of Maryland.

Base Rate: The higher of (a) the annual rate of interest announced from time to time by the Bank at the Head Office, as the Bank's "base rate" and (b) one-half of one percent (1/2%) above the Federal Funds Effective Rate.

Base Rate Amounts: All or any portion of the Loan bearing interest calculated by reference to the Base Rate.

Borrower: See the preamble hereof.

Business Day: Any day on which banks in Boston, Massachusetts, are open for business generally and, in the case of Eurodollar Rate Amounts, also a day which is a Eurodollar Business Day.

CFC: Chrysler Financial Corporation.

Charter Documents: In respect of any entity, the certificate or articles of incorporation or organization and the by-laws of such entity, or other constitutive documents of such entity.

Consent: In respect of any person or entity, any permit, license or exemption from, approval, consent of, registration or filing with any local, state or federal governmental or regulatory agency or authority, required under applicable laws.

Conversion Notice: See Section 1.1(b) hereof.

CRTC: Chrysler Rail Transportation Corporation, a Delaware corporation.

Dollars or \$: Dollars in lawful currency of the United States of America.

Eurodollar Offered Rate: For any applicable Interest Period, the rate per annum determined by the Bank to be the rate per annum at which deposits of dollars are offered to the Bank by prime banks in the London interbank market at or about 10:00 a.m. local time in such interbank market, two Business Days prior to the first day of such Interest Period for a period equal to the duration of such Interest Period in an amount substantially equal to the Eurodollar Rate Amount to be converted or continued by the Bank.

Eurodollar Business Day: Any day on which dealings in dollar deposits in the Eurodollar interbank markets may be transacted.

Eurodollar Rate: For any applicable Interest

Period, the interest rate per annum determined by the Bank pursuant to the following formula:

$$\text{Eurodollar Rate} = \text{Eurodollar Offered Rate} \times$$
$$1.00 - \text{Eurodollar Reserve Percentage}$$

\*The components of the fraction to be rounded upwards, if necessary, to the next highest 1/8th of 1%.

The Bank shall give the Borrower prompt notice (but in any event no later than one Business Day prior to the date of commencement of such Interest Period) of the Eurodollar Rate determined for such Interest Period, and absent manifest error, each determination of the Eurodollar Rate by the Bank shall be conclusive and binding for all purposes hereof.

Eurodollar Rate Amount: All or any portion of the Loan bearing interest calculated by reference to the Eurodollar Rate.

Eurodollar Reserve Percentage: For any day during an Interest Period with respect to a Eurodollar Rate Amount, that percentage (expressed as a decimal) which is in effect on such day under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulation relating to reserve requirements) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding \$1 billion in respect of "Eurocurrency Liabilities" (as such term is used in Regulation D) outstanding from time to time, or in respect of any other category of liabilities which might be incurred by such member bank in any Eurodollar interbank market to fund Eurodollar Rate Amounts. The Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

Federal Funds Effective Rate: For any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day)

by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Bank from three funds brokers of recognized standing selected by the Bank.

Guarantor: Illinois Central Corporation, a Delaware corporation and owner of all of the issued and outstanding capital stock of IC Financial Services Corporation, a Delaware corporation and owner of all of the issued and outstanding capital stock of the Borrower.

Guaranty: That certain Guaranty, dated as of December 3, 1993, from the Guarantor in favor of the Bank, as the same may be amended and in effect from time to time.

Head Office: See the preamble hereof.

ICR: Illinois Central Railroad Company, a Delaware corporation, which is an affiliate of the Borrower.

Insolvency Laws: See Section 6 hereof.

Interest Payment Date: As to any Amount, the last day of the Interest Period applicable thereto, and the Termination Date.

Interest Period: With respect to each Amount (a) initially, the period commencing on the date hereof and ending on the last day of one of the periods set forth below, as selected by the Borrower prior to the date hereof: (i) for any Base Rate Amount, the last day of the calendar month during which such Interest Period began and (ii) for any Eurodollar Rate Amount, one (1), two (2) or three (3) months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Amount and ending on the last day of one of the periods set forth above, as selected by such Borrower in a Conversion Notice, provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period with respect to a Eurodollar Rate Amount would otherwise end on a day that is not a Eurodollar Business Day, that

Interest Period shall be extended to the next succeeding Eurodollar Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Eurodollar Business Day;

(B) if any Interest Period with respect to a Base Rate Amount would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(C) any Interest Period relating to Eurodollar Rate Loan that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month;

(D) any Interest Period relating to Eurodollar Rate Amount that would otherwise extend beyond the Termination Date shall end on the Termination Date; and

(E) in the case of such Amounts which constitute Tranche A on the date hereof, such Amounts shall continue to bear interest with reference to the applicable interest rates for such Amounts and for the applicable Interest Periods elected by the Borrower with respect thereto under the terms of the Prior Note and the Borrower shall pay interest on the applicable Interest Payment Dates with respect thereto as provided herein.

Loan: Collectively, Tranche A and Tranche B.

Loan Documents: This Note and the Security Documents, in each case as from time to time amended or supplemented.

Maryland Acquisition: See Section 4 hereof.

Maryland Acquisition Documents: The Bill of Sale and Assignment from Bank of Maryland to the Borrower, dated as of December 31, 1993, and all other agreements and documents required to be entered into or delivered in connection with the acquisition by the Borrower of the Maryland Assets.



Maryland Assets: See Section 4 hereof.

Maryland Lease: The Equipment Lease Agreement, dated as of October 20, 1980, by and between Bank of Maryland as lessor and ICR as lessee, with respect to certain rolling stock.

Materially Adverse Effect: Any materially adverse effect on the financial condition or business operations or prospects of the Borrower, or any material impairment of the ability of the Borrower to perform its obligations hereunder or under any of the other Loan Documents to which it is a party, or any material impairment of validity or enforceability of any of the Loan Documents.

Obligations: All indebtedness, obligations and liabilities of the Borrower to the Bank, existing on the date hereof or arising hereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising or incurred under this Note or any of the other Loan Documents or in respect of the Loan, or other instruments at any time evidencing any thereof.

Prior Note: See the preamble hereof.

Requirement of Law: In respect of any person or entity, any law, treaty, rule, regulation or determination of an arbitrator, court, or other governmental authority, in each case applicable to or binding upon such person or entity or affecting any of its property.

Security Agreement: That certain Security Agreement, dated as of December 3, 1993, between the Borrower and the Bank, as amended as of the date hereof by an amendment in form and substance satisfactory to the Bank, and as the same may be further amended and in effect from time to time.

Security Documents: Collectively, the Guaranty, the Security Agreement, the Assignment of Acquisition Documents, and any and all instruments and documents required to be delivered pursuant thereto, in each case as amended and in effect from time to time.

Termination Date: March 3, 1994 or such earlier date on which the Loan may become due and

payable pursuant to the terms hereof.

Tranche A: The initial demand loan in the principal amount of \$18,350,000 made to the Borrower by the Bank which was evidenced by the Prior Note and which is, from and after the date hereof, evidenced by this Note.

Tranche B: The additional demand loan in the principal amount of \$3,365,000 made to the Borrower by the Bank and evidenced by this Note.

Type: As to any Amount, its nature as a Base Rate Amount or a Eurodollar Rate Amount.

Section 9. Notices. Except as otherwise specified herein, all notices and other communications made or required to be given pursuant to this Note shall be in writing and shall be either delivered by hand or mailed by United States first-class mail, postage prepaid, or sent by telex or telecopy confirmed by letter, addressed as follows:

(a) if to the Borrower, at 455 North Cityfront Plaza Drive, Chicago, Illinois 60611-5504, Attn: Chief Financial Officer, or such other address for notice as the Borrower shall last have furnished in writing to the person giving the notice; and

(b) if to the Bank, at 100 Federal Street, Boston, Massachusetts 02110, Attn: Transportation Division, 01-08-01, or such other address for notice as the Bank shall last have furnished in writing to the person giving the notice.

Any notice so addressed shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand to an officer of the party to which it is directed, at the time of the receipt thereof by such officer, (ii) if sent by first-class mail, postage prepaid, on the earlier of (A) the fifth Business Day following the mailing thereof, or (B) the date of its receipt, if a Business Day, or if not a Business Day, the next succeeding Business Day, or (iii) if sent by telex or telecopy, at the time of dispatch thereof, if in normal business hours in the state or country where received or otherwise at the opening of business on the next succeeding Business Day.

Section 10. Miscellaneous. The Borrower agrees to indemnify and hold harmless the Bank against all claims and losses of every kind arising out of this Note and the other Loan Documents, except to the extent directly caused by the gross negligence or willful misconduct of the Bank. The Borrower shall pay to the Bank promptly on demand all reasonable legal costs, fees and expenses incurred by the Bank in connection with the preparation, negotiation, execution, amendment, administration or enforcement of this Note and all of the other Loan Documents. This Note shall be binding upon and inure to the benefit of each party hereto and its successors and assigns, but the Borrower may not assign its rights or obligations hereunder. This Note may not be amended or waived except by a written instrument signed by the Borrower and the Bank, and any such amendment or waiver shall be effective only for the specific purpose given. No failure or delay by the Bank to exercise any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other right, power or privilege. The provisions of this Note are several and if any one provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, such invalidity or unenforceability shall affect only such provision in such jurisdiction. This Note expresses the entire understanding of the parties with respect to the transactions contemplated hereby. This Note is a contract under the internal laws of the Commonwealth of Massachusetts and shall be construed in accordance therewith and governed thereby, and shall take effect as A sealed instrument. The Borrower agrees that any suit for the enforcement of this Note and the other Loan Documents to which it is a party may be brought in the courts of the Commonwealth of Massachusetts or any federal court sitting therein and consents to the nonexclusive jurisdiction of such court and to service of process in any such suit being made upon the Borrower by mail at the address specified in Section 9 hereof. The Borrower hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit was brought in an inconvenient court. The Borrower hereby irrevocably waives notice of acceptance, presentment, notice of nonpayment,

protest, notice of protest, suit and all other conditions precedent in connection with the delivery, acceptance, collection and/or enforcement of this Note or any collateral or security therefor. The Borrower hereby agrees, at the Borrower's own expense, to execute and deliver, from time to time, any and all further, or other, instruments, and to perform such acts, as the Bank may reasonably request to effect the transactions contemplated by this Note and to provide to the Bank the benefits of all rights, authorities and remedies conferred upon the Bank by the terms of this Note.

IN WITNESS WHEREOF, this Note has been duly executed by the undersigned as of the day and in the year first above written.

IC LEASING CORPORATION III

By:  
Title:

GUARANTY

GUARANTY, dated as of December 3, 1993, by ILLINOIS CENTRAL CORPORATION, a Delaware corporation, (the "Guarantor") in favor of THE FIRST NATIONAL BANK OF BOSTON, a national banking association (the "Bank").

WHEREAS, the Bank, subject to the terms and conditions contained in the Demand Note referred to below, has agreed to make a demand loan to IC Leasing Corporation III, a Nevada corporation and wholly-owned subsidiary of the Guarantor (the "Company"); and

WHEREAS, the Company has executed and delivered to the Bank a Demand Promissory Note, dated as of December 3, 1993 (as amended and in effect from time to time, the "Demand Note"), in order to evidence the Company's obligations to the Bank in respect of such demand loan; and

WHEREAS, the Guarantor expects to receive substantial direct and indirect benefits from the extensions of credit to the Company by the Bank pursuant to the Demand Note (which benefits are hereby acknowledged); and

WHEREAS, it is a condition precedent to the Bank's agreement to make the demand loan to the Company that the Guarantor execute and deliver to the Bank a guaranty substantially in the form hereof; and

WHEREAS, the Guarantor wishes to guaranty the Company's obligations to the Bank under or in respect of the Demand Note as provided herein;

NOW, THEREFORE, the Guarantor hereby agrees with the Bank as follows:

1. Definitions. The term "Obligations" and all other capitalized terms used herein without definition shall have the respective meanings provided therefor in the Demand Note.

2. Guaranty of Payment and Performance. The Guarantor hereby guarantees to the Bank the full and punctual payment when due (whether at stated maturity, by required pre-payment, by acceleration or otherwise), as well as the performance, of all of the Obligations including all such which would become due but for the operation of the automatic stay pursuant to Section 362(a) of the Federal Bankruptcy Code and the operation of Section 502(b) and 506(b) of the Federal Bankruptcy Code. This Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of all of the Obligations and not of their collectibility only and is in no way conditioned upon any requirement that the Bank first attempt to collect any of the Obligations from the Company or resort to any collateral security or other means of obtaining payment. Should the Company default in the payment or performance of any of the Obligations, the obligations of the Guarantor hereunder with respect to such Obligations in default shall become immediately due and payable to the Bank, without demand or notice of any nature, all of which are expressly waived by the Guarantor. Payments by the Guarantor hereunder may be required by the Bank on any number of occasions.

3. Guarantor's Agreement to Pay Enforcement Costs, Etc. The Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to the Bank, on demand, all reasonable costs and expenses (including reasonable court costs and legal expenses) incurred or expended by the Bank in connection with the Obligations, this Guaranty and the enforcement thereof, together with interest on amounts recoverable under this Section 3 from the time when such amounts become due until payment, whether before or after judgment, at the rate of interest for overdue principal set forth in the Demand Note, provided that if such interest exceeds the maximum amount permitted to be paid under applicable law, then such interest shall be reduced to such maximum permitted amount.

4. Waivers by Guarantor; Bank's Freedom to Act. The Guarantor agrees that the Obligations will be paid and performed strictly in accordance with their respective terms, regardless of any law, regulation or order now or hereafter in effect in

any jurisdiction affecting any of such terms or the rights of the Bank with respect thereto. The Guarantor waives promptness, diligences, presentment, demand, protest, notice of acceptance, notice of any Obligations incurred and all other notices of any kind, all defenses which may be available by virtue of any valuation, stay, moratorium law or other similar law now or hereafter in effect, any right to require the marshalling of assets of the Company or any other entity or other person primarily or secondarily liable with respect to any of the Obligations, and all suretyship defenses generally. Without limiting the generality of the foregoing, the Guarantor agrees to the provisions of any instrument evidencing, securing or otherwise executed in connection with any of the Obligations and agrees that the obligations of the Guarantor hereunder shall not be released or discharged, in whole or in part, or otherwise affected by (a) the failure of the Bank to assert any claim or demand or to enforce any right or remedy against the Company or any other entity or other person primarily or secondarily liable with respect to any of the Obligations; (b) any extensions, compromise, refinancing, consolidation or renewals of any of the Obligations; (c) any change in the time, place or manner of payment of any of the Obligations or any rescissions, waivers, compromise, refinancing, consolidation, amendments or modifications of any of the terms or provisions of the Demand Note, the other Loan Documents or any other agreement evidencing, securing or otherwise executed in connection with any of the Obligations; (d) the addition, substitution or release of any entity or other person primarily or secondarily liable for any of the Obligations; (e) the adequacy of any rights which the Bank may have against any collateral security or other means of obtaining repayment of any of the Obligations; (f) the impairment of any collateral securing any of the Obligations, including without limitation the failure to perfect or preserve any rights which the Bank might have in such collateral security or the substitution, exchange, surrender, release, loss or destruction of any such collateral security; or (g) any other act or omission which might in any manner or to any extent vary the risk of the Guarantor or otherwise operate as a release or discharge of the Guarantor, all of which may be done without notice to the Guarantor. To the fullest extent permitted

by law, the Guarantor hereby expressly waives any and all rights or defenses arising by reason of (i) any "one action" or "anti-deficiency" law which would otherwise prevent the Bank from bringing any action, including any claim for a deficiency, or exercising any other right or remedy (including any right of set-off), against the Guarantor before or after the Bank's commencement or completion of any foreclosure action, whether judicially, by exercise of power of sale or otherwise, or (ii) any other law which in any other way would otherwise require any election of remedies by the Bank.

5. Unenforceability of Obligations Against Company. If for any reason the Company has no legal existence or is under no legal obligation to discharge any of the Obligations, or if any of the Obligations have become irrecoverable from the Company by reason of the Company's insolvency, bankruptcy or reorganization or by other operation of law or for any other reason, this Guaranty shall nevertheless be binding on the Guarantor to the same extent as if the Guarantor at all times had been the principal obligor on all such Obligations. In the event that acceleration of the time for payment of any of the Obligations is stayed upon the insolvency, bankruptcy or reorganization of the Company, or for any other reason, all such amounts otherwise subject to acceleration under the terms of the Demand Note, the Security Documents or any other agreement evidencing, securing or otherwise executed in connection with any Obligation shall be immediately due and payable by the Guarantor.

6. Subrogation; Subordination.

6.1. Waiver of Rights Against Company. Until the final payment and performance in full of all of the Obligations, the Guarantor shall not exercise any rights against the Company arising as a result of payment by the Guarantor hereunder, by way of subrogation, reimbursement, restitution, contribution or otherwise, and will not prove any claim in competition with the Bank in respect of any payment hereunder in any bankruptcy, insolvency or reorganization case or proceedings of any nature; the Guarantor will not claim any setoff, recoupment or counterclaim against the Company in respect of any liability of the Guarantor to the Company; and the Guarantor waives any benefit of and any right to participate in any collateral



security which may be held by the Bank.

6.2. Subordination. The payment of any amounts due with respect to any indebtedness of the Company now or hereafter owed to the Guarantor is hereby subordinated to the prior payment in full of all of the Obligations. The Guarantor agrees that, after the occurrence of any default in the payment or performance of any of the Obligations, the Guarantor will not demand, sue for or otherwise attempt to collect any such indebtedness of the Company to the Guarantor until all of the Obligations shall have been paid in full. If, notwithstanding the foregoing sentence, the Guarantor shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by the Guarantor as trustee for the Bank and be paid over to the Bank on account of the Obligations without affecting in any manner the liability of the Guarantor under the other provisions of this Guaranty.

6.3. Provisions Supplemental. The provisions of this Section 6 shall be supplemental to and not in derogation of any rights and remedies of the Bank under any separate subordination agreement which the Bank may at any time and from time to time enter into with the Guarantor.

7. Security; Setoff. The Guarantor grants to the Bank, as security for the full and punctual payment and performance of all of the Guarantor's obligations hereunder, a continuing lien on and security interest in all securities or other property belonging to the Guarantor now or hereafter held by the Bank and in all deposits (general or special, time or demand, provisional or final) and other sums credited by or due from the Bank to the Guarantor or subject to withdrawal by the Guarantor. Regardless of the adequacy of any collateral security or other means of obtaining payment of any of the Obligations, the Bank is hereby authorized at any time (and from time to time) during the continuance of any default under the Loan Documents, upon prior notice to the Guarantor and to the fullest extent permitted by law, to set off and apply such deposits and other sums against the obligations of the Guarantor under this Guaranty, whether or not the Bank shall have made any demand under this Guaranty and although

such obligations may be contingent or unmatured.

8. Further Assurances. The Guarantor agrees that it will from time to time, at the request of the Bank, provide to the Bank the Guarantor's most recent audited and unaudited balance sheets and related statements of income and changes in financial condition (prepared on a consolidated basis with the Guarantor's subsidiaries, if any) and such other information relating to the business and affairs of the Guarantor as the Bank may reasonably request. The Guarantor also agrees to do all such things and execute all such documents as the Bank may consider necessary or desirable to give full effect to this Guaranty and to perfect and preserve the rights and powers of the Bank hereunder. The Guarantor acknowledges and confirms that the Guarantor itself has established its own adequate means of obtaining from the Company on a continuing basis all information desired by the Guarantor concerning the financial condition of the Company and that the Guarantor will look to the Company and not to the Bank in order for the Guarantor to keep adequately informed of changes in the Company's financial condition.

9. Termination; Reinstatement. This Guaranty shall remain in full force and effect until the Bank is given written notice of the Guarantor's intention to discontinue this Guaranty, notwithstanding any intermediate or temporary payment or settlement of the whole or any part of the Obligations. No such notice shall be effective unless received and acknowledged by an officer of the Bank at the address of the Bank for notices set forth in Section 9 of the Demand Note. No such notice shall affect any rights of the Bank hereunder, including without limitation the rights set forth in Section 4 and 6, with respect to any Obligations incurred prior or accrued to the receipt of such notice or any Obligations incurred or accrued pursuant to any contract or commitment in existence prior to such receipt, and all checks, drafts, notes, instruments (negotiable or otherwise) and writings made by or for the account of the Company and drawn on the Bank or any of its agents purporting to be dated on or before the date of receipt of such notice, although presented to and paid or accepted by the Bank after that date, shall form part of the Obligations. This Guaranty shall continue to be effective or be reinstated,

notwithstanding any such notice, if at any time any payment made or value received with respect to any Obligation is rescinded or must otherwise be returned by the Bank upon the insolvency, bankruptcy or reorganization of the Company, or otherwise, all as though such payment had not been made or value received.

10. Successors and Assigns. This Guaranty shall be binding upon the Guarantor, its successors and assigns, and shall inure to the benefit of and be enforceable by the Bank and its successors, transferees and assigns. Without limiting the generality of the foregoing sentence, the Bank may assign or otherwise transfer the Demand Note, the Security Documents or any other agreement or note held by it evidencing, securing or otherwise executed in connection with the Obligations (provided that the Bank shall not assign or transfer any Security Document without also assigning or transferring the Demand Note), or sell participations in any interest therein, to any other entity or other person, and such other entity or other person shall thereupon become vested, to the extent set forth in the agreement evidencing such assignment, transfer or participation, with all the rights in respect thereof granted to the Bank herein.

11. Amendments and Waivers. No amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantor therefrom shall be effective unless the same shall be in writing and signed by the Bank. No failure on the part of the Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

12. Notices. All notices and other communications called for hereunder shall be made in writing and, unless otherwise specifically provided herein, shall be deemed to have been duly made or given when delivered by hand or mailed first class, postage prepaid, or, in the case of telegraphic or telexed notice, when transmitted, answer back received, addressed as follows: if to the Guarantor, at the address set forth beneath its signature hereto, and if to the Bank, at

the address for the Bank set forth in Section 9 of the Demand Note, or at such address as either party may designate in writing to the other.

13. Governing Law; Consent to Jurisdiction. THE GUARANTY IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. The Guarantor agrees that any suit for the enforcement of this Guaranty may be brought in the courts of the Commonwealth of Massachusetts or any federal court sitting therein and consents to the nonexclusive jurisdiction of such court and to service of process in any such suit being made upon the Guarantor by mail at the address specified by reference in Section 12. The Guarantor hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit was brought in an inconvenient court.

14. Waiver of Jury Trial. THE GUARANTOR HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS GUARANTY, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THE PERFORMANCE OF ANY OF SUCH RIGHTS OR OBLIGATIONS. The Guarantor (a) certifies that neither the Bank nor any representative, agent or attorney of the Bank has represented, expressly or otherwise, that the Bank would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that, in entering into the Demand Note, the Security Documents and any and all other documents, agreements or instruments executed in connection therewith to which the Bank is a party, the Bank is relying upon, among other things, the waivers and certifications contained in this Section 14.

15. Miscellaneous. This Guaranty constitutes the entire agreement of the Guarantor with respect to the matters set forth herein. The rights and remedies herein provided are cumulative and not exclusive of any remedies provided by law or any other agreement, and this Guaranty shall be in addition to any other guaranty of or collateral security for any of the Obligations. The invalidity or unenforceability of any one or more sections of this Guaranty shall not affect the validity or enforceability of its remaining provisions. Captions are for the ease of reference

only and shall not affect the meaning of the relevant provisions. The meanings of all defined terms used in this Guaranty shall be equally applicable to the singular and plural forms of the terms defined.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed and delivered as of the date first above written.

ILLINOIS CENTRAL CORPORATION

By: \_\_\_\_\_

Title:

Address:

455 North Cityfront Plaza Drive

Chicago, Illinois 60611-5504

Attn: Chief Financial Officer

Telex: \_\_\_\_\_

## SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of December 3, 1993, is between IC LEASING CORPORATION III (the "Borrower"), a Nevada corporation having its principal place of business and chief executive office at One East First Street, Reno, Nevada 89501 and THE FIRST NATIONAL BANK OF BOSTON (the "Bank") pursuant to that certain Demand Promissory Note, dated as of December 3, 1993, among the Borrower and the Bank as the same may be amended, restated, modified or supplemented from time to time (such agreement, as in effect from time to time, the "Demand Note"). Capitalized terms which are used herein without definition and which are defined in the Demand Note shall have the same meanings herein as in the Demand Note.

Section 1. GRANT OF SECURITY INTEREST. To secure the due and prompt payment and performance by the Borrower of the Obligations (as defined below), the Borrower hereby pledges, assigns and grants to the Bank, a continuing security interest in and lien on all properties, assets and rights of the Borrower of every kind and nature, wherever located, now owned or hereafter acquired or arising, and all proceeds and products thereof, whether derived from voluntary or involuntary disposition or otherwise, including, without limiting the generality of the foregoing, all goods, accounts, including all accounts receivable, contract rights, including, without limitation, all rights of the Borrower under the Acquisition Documents and all rights of the Borrower under leases of equipment and other personal property, rights to the payment of money including tax refund claims, insurance proceeds and tort claims, chattel paper, documents, instruments, general intangibles, the Borrower's operating certificates from the Interstate Commerce Commission, securities, together with all income therefrom, increases thereunder and proceeds thereof, patents, trademarks, trade names, copyrights, engineering drawings, service marks, customer lists, books and records, furniture, fixtures, rolling stock of

every kind and description, locomotives, rail, ties and capital improvements thereon, equipment, maintenance of way equipment, inventory and all other capital assets, raw materials, work in progress, and real property and interests in and rights in, on or over real property, including railbeds, yards and maintenance areas (all such properties, assets and rights hereinafter sometimes called, collectively, the "Collateral").

Section 2. OBLIGATIONS SECURED. The Collateral hereunder constitutes and will constitute continuing security for all of the indebtedness, obligations and liabilities of the Borrower to the Bank and any institutional lender who becomes a participant in or holder of any of the obligations comprising the Obligations (as defined below) under the Demand Note and the other Loan Documents, in each case as such instrument is originally executed on the date hereof or as modified, amended, restated, supplemented or extended hereafter, whether such Obligations are now existing or hereafter arising, joint or several, direct or indirect, absolute or contingent, due or to become due, matured or unmatured, liquidated or unliquidated, arising by contract, operation of law or otherwise, and all obligations of the Borrower to the Bank arising out of any extension, refinancing or refunding of any of the foregoing obligations (hereinafter collectively referred to as the "Obligations").

Section 3. PRO RATA SECURITY; APPLICATION OF PROCEEDS OF COLLATERAL. All amounts owing with respect to the Obligations shall be secured pro rata by the Collateral without distinction as to whether some Obligations are then due and payable and other Obligations are not then due and payable. Upon any realization upon the Collateral by the Bank, whether by receipt of insurance proceeds pursuant to Section 4(g) hereof or upon foreclosure and sale of all or part of the Collateral pursuant to Section 8 hereof or otherwise, the Borrower agrees that the proceeds thereof shall be applied (i) first, to the payment of expenses incurred with respect to maintenance and protection of the Collateral pursuant to Section 4 hereof and of expenses incurred pursuant to Section 12 hereof with respect to the sale of or realization upon any of the Collateral or the perfection, enforcement or protection of the rights

of the Bank (including reasonable attorneys' fees and expenses of every kind); (ii) second, to all amounts of interest, expenses and fees outstanding which constitute the Obligations; (iii) third, to all amounts of principal outstanding under the Obligations; and (iv) fourth, the balance, if any, shall be returned to the Borrower or the person or entity entitled thereto and the Borrower shall remain liable for any deficiency in the payment of the Obligations. The Borrower agrees that all amounts received with respect to any of the Obligations, whether by realization on the Collateral or otherwise, shall be applied to the payment of the Obligations in accordance with the provisions of this Section 3.

#### Section 4. REPRESENTATIONS AND COVENANTS OF THE BORROWER.

(a) Real Property. The Borrower represents and warrants to the Bank that the real property listed in Schedule 4(a) hereto constitutes all of the real property which the Borrower owns or leases. The Borrower agrees to notify the Bank of any other real property which the Borrower may hereafter acquire or lease. The Borrower agrees that it shall, upon request by the Bank, execute and deliver to the Bank mortgages and other instruments, as referred to in paragraph (n) below of this Section 4, and file the same in the appropriate recording offices with respect to the real property listed on Schedule 4(a) hereto and at such times as any mortgagable right, title or interest is acquired in the future by the Borrower in any other real property. All such mortgages and other instruments shall secure all of the Obligations pro rata and shall be on terms and conditions satisfactory to the Bank as evidenced by its written consent thereto.

(b) Rolling Stock. The Borrower represents and warrants to the Bank, that the Rolling Stock (as defined in this Section 4(b)) listed on Schedule 4(b) hereto constitutes all of the Rolling Stock, including markings thereon and serial numbers thereof, which the Borrower owns or leases. The Borrower agrees not to change any markings or serial numbers on any of the Rolling Stock listed on Schedule 4(b) hereto until after the Borrower has given notice in writing to the Bank of its intention to make such change. The Borrower agrees



to notify the Bank of any other Rolling Stock which the Borrower may hereafter acquire or lease. The Borrower agrees that it shall execute and deliver to the Bank supplemental security agreements and other instruments, as referred to in paragraph (i) below of this Section 4, and file the same in the appropriate recording offices (i) with respect to the Rolling Stock listed on Schedule 4(b) hereto, (ii) at such times as any assignable right, title or interest is acquired in the future by the Borrower in any other Rolling Stock and (iii) at such times as any change is made in one or more of the markings or serial numbers on any of the Rolling Stock listed on Schedule 4(b) hereto or on any other Rolling Stock owned or leased by the Borrower. All such supplemental security agreements and other instruments shall secure all of the Obligations pro rata and shall be on terms and conditions satisfactory to the Bank as evidenced by its written consent thereto. The term "Rolling Stock" as used herein means all rolling stock of every kind and description, locomotives and all other rail cars.

(c) Patents, Trademarks, Copyrights. The Borrower represents and warrants to the Bank, that as of the date hereof, except as set forth on Schedule 4(c) hereto, it has no right, title or interest in any patent, trademark registrations, copyright registrations or service mark registrations, or in any pending applications for the same and agrees promptly to furnish to the Bank written notice of each such patent, trademark, copyright or service mark registrations, or any applications for same, in which it may hereafter acquire any right, title or interest. The Borrower shall, on request by the Bank, execute, acknowledge and deliver all such documents and instruments as the Bank may reasonably require to confirm the Bank's security interest in and to any such patent, trademark or service mark registrations, or application for the same as part of the Collateral hereunder and appoints the Bank as the Borrower's attorney-in-fact to execute and file the same.

(d) Location of Chief Executive Office and Principal Place of Business. The Borrower represents and warrants to the Bank that the location of its chief executive office (as such term is used in Paragraph 5(c) of the Official Comment to Section 9-103 of the UCC, as hereinafter

defined) is One East First Street, Reno, Nevada 89501 and that the location where its books and records are kept is 455 North Cityfront Plaza Drive, Chicago, Illinois 60611. The Borrower further represents that attached hereto as Schedule 4(d) is a true and correct list of all localities where property comprising a part of the Collateral (other than interests in real property set forth in Schedule 4(a) hereto and Rolling Stock set forth in Schedule 4(b) hereto) is located. The Borrower agrees that it shall not change the location of its chief executive office or location where books and records are kept or the location of any property comprising a part of the Collateral other than changes in the location of Rolling Stock unless it shall have (i) given the Bank at least thirty (30) days' advance written notice of such change, and (ii) filed in all necessary jurisdictions such UCC-3 financing statements or other documents as may be necessary to continue without impairment or interruption the perfection and priority of the liens on the Collateral in favor of the Bank pursuant to the Security Documents.

(e) Ownership of Collateral.

(i) The Borrower represents and warrants to the Bank that, except as set forth on Schedule 4(e) attached hereto, it is the owner of the Collateral (other than the Acquired Assets) free from any adverse lien, security interest or encumbrance; and, as to the Acquired Assets, the Borrower has acquired such title thereto as the Borrower acquired from Allied pursuant to the Acquisition Documents, and has granted no liens or other encumbrances on the Acquired Assets other than pursuant hereto.

(ii) Except for the security interest herein granted and the title matters referred to in clause (i) above, the Borrower shall be the owner of the Collateral free of any lien, security interest or encumbrance and the Borrower shall defend the same against all claims and demands of all persons or entities at any time claiming the same or any interest therein adverse to the Bank. The Borrower shall not pledge, mortgage or create or suffer to exist a security interest in the Collateral in favor of any person or entity other than the Bank.

(f) Sale or Disposition of Collateral. The

Borrower shall not sell or offer to sell or otherwise transfer the Collateral or any interest therein except for sales of inventory and the lease of Collateral in the ordinary course of business.

(g) Insurance. The Borrower shall have and maintain or cause to be maintained at all times with respect to the Collateral such insurance against risks customarily insured against by companies engaged in similar businesses to that of the Borrower, in amounts, containing such terms, in such forms, for such periods and written by such companies as are satisfactory to the Bank, such insurance to be payable to the Bank and to the Borrower as its interests may appear, and all such property insurance to name the Bank as loss payee and additional insured. All policies of insurance shall provide for thirty (30) days' written minimum cancellation notice to the Bank. In the event of the Borrower's failure to provide and maintain insurance as herein provided, the Bank may, at its option, provide such insurance, and the Borrower hereby promises to pay to the Bank on demand the amount of any disbursements made by the Bank for such purpose. The Borrower shall, within five Business Days after the date hereof, furnish to the Bank certificates or other evidence satisfactory to the Bank of compliance with the foregoing insurance provisions. After the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note or if the Borrower fails to obtain or maintain insurance as required herein, the Bank may act as attorney for the Borrower in obtaining, adjusting, settling and canceling such insurance and endorsing any drafts; and any amounts collected or received under any such policies shall be applied by the Bank to the Obligations in accordance with the provisions of Section 3 hereof or, at the option of the Bank, the same may be released to the Borrower, but such application or release shall not cure or waive any default hereunder and no amount so released shall be deemed a payment on any Obligation secured hereby.

(h) Maintenance of Collateral. The Borrower shall keep the Collateral or shall cause the Collateral to be kept in good order and repair and shall not use the Collateral in violation of law or

any policy of insurance thereon. The Bank may, at any reasonable time, upon written notice to the Borrower inspect the Collateral, wherever located. The Borrower shall pay or cause to be paid promptly when due all taxes and assessments upon the Collateral, upon the use and operation of the Collateral and upon this Agreement, except those taxes and assessments as are being in good faith appropriately contested by the Borrower and for which adequate reserves have been established. In its discretion, after the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, or if the Borrower fails to discharge unpaid taxes or encumbrances or pay filing fees, the Bank may make repairs of the Collateral, discharge taxes and other encumbrances at any time levied or placed on the Collateral which remain unpaid in violation of this Agreement and pay any necessary filing fees. The Borrower agrees to reimburse the Bank on demand for any and all expenditures so made and, until paid, the amount thereof shall be an Obligation secured by the Collateral. The Bank shall have no obligation to the Borrower to make any such expenditures, nor shall the making thereof relieve the Borrower of any default.

(i) Creation and Perfection of Lien. The Borrower represents and warrants to the Bank, and covenants with the Bank, that this Agreement creates a valid security interest in the Collateral as security for the payment and performance of the Obligations. Upon the filing and recording of this Agreement with the Interstate Commerce Commission (the "ICC") in accordance with Section 11303 of Title 49 of the United States Code and the rules and regulations thereunder, and upon the filing of UCC-1 financing statements in the form attached hereto as Exhibit A (the "Financing Statements") under the Uniform Commercial Code as the same may be in effect from time to time in the States of Illinois and Nevada, or in any other jurisdiction whose Uniform Commercial Code would govern the perfection or priority of security interests in the Collateral (the "UCC"), naming the Borrower as debtor and the Bank as secured party, such security interest shall be perfected under the UCC and the Interstate Commerce Act of 1887, as amended

("ICA"), and such security interest shall be prior to all other liens. To the best of the Borrower's knowledge, after due inquiry, no further filings, recordings or other actions are or will be necessary to maintain the priority of such security interest other than the filing of UCC continuation statements within six months prior to the expiration of a period of five years after the original filing. This Agreement and all documents to be filed herewith are in appropriate form for filing with the ICC.

(j) No Further Actions. Except for the filings referred to in paragraph (i) above no authorization, approval or other action by, and no notice of filing with, any governmental authority or regulatory body or other person or entity that has not been received, taken or made is required (i) for the granting by the Borrower of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Borrower, (ii) for the maintenance of the security interest hereunder (including, to the best of the Borrower's knowledge, after due inquiry, the first priority nature of such security interest), or (iii) for the exercise by the Bank of the rights or the remedies with respect to the Collateral pursuant to this Agreement.

(k) Accounts Receivable. The Borrower shall keep or cause to be kept separate records of accounts receivable, which such records shall be complete and accurate in all material respects and, from time to time upon the request of the Bank, shall deliver to the Bank with respect to each account receivable lists setting forth the name, address, face value, and date of invoice of each debtor obligated on such account receivable.

(l) Government Contracts. The Borrower agree that from time to time at the Bank's request, it shall execute all such documents, and take all such actions, as the Bank may reasonably deem necessary or proper to perfect the Bank's security interest in any Collateral consisting of the Borrower's rights to monies due or to become due under any contracts or agreements with or orders from the United States government or any agency or department thereof.

(m) Securities. The Borrower agrees that it

shall forthwith deliver and pledge to the Bank hereunder, all certificates representing securities which the Borrower shall acquire, whether by purchase, stock dividend, distribution of capital or otherwise, along with stock powers or other appropriate instruments of assignment with respect thereto, duly executed in blank.

(n) Further Assurances By the Borrower. The Borrower agrees to execute and deliver to the Bank from time to time at its request all documents and instruments, including financing statements, supplemental security agreements, notices of assignments under the United States Assignment of Claims Act and under similar or local statutes and regulations, and to take all action as the Bank may reasonably deem necessary or proper to perfect or otherwise protect the security interest and lien created hereby.

Section 5. POWER OF ATTORNEY. (a) The Borrower acknowledges the Bank's right, to the extent permitted by applicable law, singly to execute and file financing or continuation statements and similar notices required by applicable law, and amendments thereto, concerning the Collateral without execution by the Borrower. A carbon, photographic or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(b) The Borrower hereby irrevocably appoints the Bank as its attorney-in-fact, effective at all times subsequent to the occurrence of any failure by the Borrower to pay to the Bank the Obligations on demand or the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note and during the continuance thereof, with full authority in the place and stead of the Borrower and in the name of the Borrower or otherwise, to take any action and to execute any instrument which the Bank may deem necessary or advisable to accomplish the purpose of this Agreement, including, without limitation, the power and right (i) to endorse the Borrower's name on any checks, notes, acceptances, money orders, drafts, filings or other forms of payment or security that may come into the Bank's possession and (ii) to do all other things which the Bank then determines to

be necessary to carry out the terms of this Agreement. The power conferred on the Bank hereunder is solely to protect the Bank's interests in the Collateral and shall not impose any duty upon the Bank to exercise such power.

Section 6. SECURITIES AS COLLATERAL. (a) Upon the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, the Bank may, at any time, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. If the Bank so elects to exercise its right herein and gives notice of such election or direction to the Borrower, upon the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, the Bank may vote any or all of the securities constituting Collateral possessing voting rights (whether or not the same shall have been transferred into its name or the name of its nominee or nominees) and give all consents, waivers and ratifications in respect of the securities constituting Collateral and otherwise act with respect thereto as though it were the outright owner thereof, the Borrower hereby irrevocably constituting and appointing the Bank the proxy and attorney-in-fact of the Borrower, with full power of substitution, to do so. So long as the Borrower has not failed to pay to the Bank the Obligations on demand or no event set forth in clauses (a) through (c) of Section 6 of the Demand Note has occurred and is continuing, the Borrower shall be entitled to receive all cash dividends paid in respect of the securities, to vote the securities and to give consents, waivers and ratifications in respect of the securities, provided that no vote shall be cast, or consent, waiver or ratification given or action taken which would be inconsistent with or violate any provisions of the Demand Note, any other Security Document or this Agreement.

(b) Any sums paid upon or in respect of any of the securities, upon the liquidation or dissolution of the issuer thereof, shall be paid



over to the Bank to be held by it as security for the Obligations; and in case any distribution of capital or property shall be made on or in respect of any of the securities pursuant to the recapitalization or reclassification of the capital of the issuer thereof or pursuant to the reorganization of such issuer, the property so distributed shall be delivered to the Bank to be held by it as security for the Obligations. All sums of money paid and property distributed in respect of the securities upon such a liquidation, dissolution, recapitalization or reclassification which are received by the Borrower shall, until paid or delivered to the Bank, be held in trust for the Bank as security for the Obligations.

Section 7. ACCOUNTS RECEIVABLE. So long as the Borrower has not failed to pay to the Bank the Obligations on demand or no event set forth in clauses (a) through (c) of Section 6 of the Demand Note has occurred and is continuing, the Borrower shall continue to collect payment from debtors on accounts receivable of the Borrower, obligors on accounts, chattel paper and general intangibles of the Borrower, obligors on instruments for which the Borrower is an obligee and lessees and conditional vendees under agreements governing the leasing or selling by conditional sale of Collateral by the Borrower. After the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, the Bank may require the Borrower to notify such debtors, obligors, lessees or conditional venders of the Bank's security interest. Upon the making of such a request by the Bank, the Borrower shall hold, as trustee for the Bank, the proceeds received from such collection and shall turn the same over to the Bank, or to such other bank as may be approved by the Bank, immediately upon receipt of such proceeds and in the identical form received. After the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, the Bank may require the Borrower to notify such account debtors and obligors that payment thereof is to be made directly to the Bank, and, if the Borrower does not promptly so notify such account



debtors and obligors, the Bank may itself without further notice to or demand upon the Borrower, so notify such account debtors or obligors. The making of such a request or the giving of any such notification shall not affect the duties of the Borrower described above with respect to proceeds received by the Borrower. The Bank shall apply the proceeds of such collection received by the Bank to the Obligations in accordance with Section 3 of this Agreement. The application of the proceeds of such collection shall be conditional upon final payment in cash or solvent credits of the items giving rise to them. If any item is not so paid, the Bank in its discretion, whether or not such item is returned, may either reverse any credit given for the item or charge it to any deposit account maintained by the Borrower with the Bank.

Section 8. REMEDIES. Upon the occurrence and during the continuance of any failure by the Borrower to pay to the Bank the Obligations on demand or upon the occurrence and during the continuance of any event set forth in clauses (a) through (c) of Section 6 of the Demand Note, to the fullest extent permitted by applicable law, in addition to the remedies set forth elsewhere in this Agreement:

(i) The Bank shall have, in addition to all other rights and remedies given it by any instrument or other agreement evidencing, or executed and delivered in connection with, any of the Obligations and otherwise allowed by law, the rights and remedies of a secured party under the UCC and the rights and remedies of a secured party holding a security interest in collateral pursuant to the ICA, and, without limiting the generality of the foregoing, the Bank may, without (to the fullest extent permitted by law) demand of performance or advertisement or notice of intention to sell or of time or place of sale or of redemption or other notice or demand whatsoever, (except that the Bank shall give to the Borrower at least ten (10) days' notice of the time and place of any proposed sale or other disposition), all of which are hereby expressly waived to the fullest extent permitted by law, sell at public or private sale or otherwise realize upon, in the City of Boston, Massachusetts, or elsewhere, the whole or from time to time any part of the Collateral in or upon which the Bank shall have a security interest

or lien hereunder, or any interest which the Borrower may have therein, and after deducting from the proceeds of sale or other disposition of the Collateral all expenses (including all reasonable expenses for legal services and disbursements) as provided in Section 12 hereof, shall apply the residue of such proceeds toward the payment of the Obligations in accordance with Section 3 of this Security Agreement (without duplication for any expenses paid in accordance with the previous sentence hereof), the Borrower remaining liable for any deficiency remaining unpaid after such application. If notice of any sale or other disposition is required by law to be given to the Borrower or the Bank, the Borrower and the Bank hereby agree that a notice given as hereinbefore provided shall be reasonable notice of such sale or other disposition. The Borrower also agrees to assemble the Collateral at such place or places as the Bank reasonably shall designate by written notice. At any such sale or other disposition the Bank may itself, and any other person or entity owed any Obligation may itself, purchase the whole or any part of the Collateral sold, free from any right of redemption on the part of the Borrower, which right is hereby waived and released to the fullest extent permitted by law.

(ii) Furthermore, without limiting the generality of any of the rights and remedies conferred upon the Bank under Section 8(i) hereof, the Bank to the fullest extent permitted by law may enter upon the premises of the Borrower, exclude the Borrower therefrom and take immediate possession of the Collateral, either personally or by means of a receiver appointed by a court therefor, using all necessary force to do so, and may, at its option, use, operate, manage and control the Collateral in any lawful manner and may collect and receive all rents, income, revenue, earnings, issues and profits therefrom, and may maintain, repair, renovate, alter or remove the Collateral as the Bank may determine in its discretion, and any such monies so collected or received by the Bank shall be applied to, or may be accumulated for application upon, the Obligations in accordance with Section 3 of this Agreement.

(iii) The Bank agrees that it will give notice to the Borrower of any enforcement action taken by it pursuant to this Section 8 promptly

after commencing such action.

(iv) The Borrower recognizes that the Bank may be unable to effect a public sale of the securities by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers consistent with all applicable laws. The Borrower agrees that any such private sales may be at prices and other terms less favorable to the Borrower than if sold at public sales and that such private sales shall not by reason thereof be deemed not to have been made in a commercially reasonable manner. The Bank shall be under no obligation to delay a sale of any of the securities for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the Securities Act of 1933, as amended, even if the issuer would agree to do so.

Section 9. MARSHALLING. The Bank shall not be required to marshal any present or future security for (including but not limited to this Agreement and the Collateral subject to the security interest created hereby), or guaranties of, the Obligations or any of them, or to resort to such security or guaranties in any particular order; and all of their rights hereunder and in respect of such securities and guaranties shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, the Borrower hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Bank's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or guaranteed and, to the extent that it lawfully may, the Borrower hereby irrevocably waives the benefits of all such laws. Except as otherwise provided by applicable law, the Bank shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the preservation of any rights pertaining thereto beyond the safe custody thereof.

Section 10. BORROWER'S OBLIGATIONS NOT AFFECTED. To the extent permitted by law, the

obligations of the Borrower under this Security Agreement shall remain in full force and effect without regard to, and shall not be impaired by (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Borrower, to the extent permitted by law; (b) any exercise or nonexercise, or any waiver, by the Bank of any right, remedy, power or privilege under or in respect of any of the Obligations or any security therefor (including this Agreement); (c) any amendment to or modification of this Agreement or any instrument evidencing any of the Obligations or pursuant to which any of them were issued, other than in the specific instance and for the specific purpose for which such amendment or modification was given; (d) any amendment to or modification of any instrument or agreement (other than this Agreement) securing any of the Obligations; or (e) the taking of additional security for or any guaranty of any of the Obligations or the release or discharge or termination of any security or guaranty for any of the Obligations; and whether or not the Borrower shall have notice or knowledge of any of the foregoing.

Section 11. NO WAIVER. No failure on the part of the Bank to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Bank of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. Each and every right, remedy and power hereby granted to the Bank or the future holders of any of the Obligations or allowed to any of them by law or other agreement, including, without limitation, the Demand Note or any other Security Document, shall be cumulative and not exclusive of any other, and, subject to the provisions of this Agreement, may be exercised by the Bank or the future holders of any of the Obligations from time to time.

Section 12. EXPENSES. The Borrower agrees to pay, on demand, all reasonable costs and expenses (including reasonable attorneys' fees and expenses for legal services of every kind) of the Bank incidental to the sale of, or realization upon, any of the Collateral or in any way relating to the perfection, enforcement or protection of the rights

of the Bank hereunder; and the Bank may at any time apply to the payment of all such costs and expenses all monies of the Borrower or other proceeds arising from its possession or disposition of all or any portion of the Collateral.

Section 13. CONSENTS, AMENDMENTS, WAIVERS. Any term of this Agreement may be amended, and the performance or observance by the Borrower of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument signed by the Borrower and the Bank.

Section 14. GOVERNING LAW. Except as otherwise required by the laws of any jurisdiction in which any Collateral is located, this Agreement shall be deemed to be a contract under seal and shall for all purposes be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts.

Section 15. PARTIES IN INTEREST. All terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, provided that the Borrower may not assign or transfer its rights hereunder without the prior written consent of the Bank.

Section 16. COUNTERPARTS. This Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

Section 17. TERMINATION. Upon the indefeasible payment in full of the Obligations, this Agreement shall terminate and the Borrower shall be entitled to the return, at the Borrower's expense, of such Collateral in the possession or control of the Bank as has not theretofore been disposed of pursuant to the provisions hereof.

Section 18. NOTICES. Except as otherwise expressly provided herein, all notices and other communications made or required to be given pursuant to this Agreement shall be given in accordance with Section 9 of the Demand Note.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as an instrument under seal by their authorized representatives as of the date first written above.

IC LEASING CORPORATION III

By: \_\_\_\_\_  
Title:

THE FIRST NATIONAL BANK OF BOSTON

By: \_\_\_\_\_  
Title:

IC LEASING CORPORATION III

AMENDMENT NO. 1 to SECURITY AGREEMENT

This AMENDMENT AGREEMENT NO. 1, dated as of January 3, 1994, is between IC LEASING CORPORATION III (the "Borrower") and THE FIRST NATIONAL BANK OF BOSTON (the "Bank").

WHEREAS, the Borrower and the Bank are parties to that certain Security Agreement dated as of December 3, 1993 (the "Security Agreement"); and

WHEREAS, the Borrower and the Bank wish to amend the schedule of Rolling Stock (as defined in the Security Agreement) as provided in the Security Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

Item 1. CAPITALIZED TERMS. Capitalized terms which are used herein without definition and which are defined in the Security Agreement shall have the same meanings herein as in the Security Agreement.

Item 2. AMENDMENT TO SECURITY AGREEMENT. (a) The preamble to the Security Agreement is hereby amended by deleting therefrom the address "One East First Street, Reno, Nevada 89501" and substituting therefor the address "1077 East Sahara Avenue, Las Vegas, Nevada 89193".

(b) Section 4(d) of the Security Agreement is hereby amended by deleting therefrom the address "One East First Street, Reno, Nevada 89501" and substituting therefor the address "1077 East Sahara Avenue, Las Vegas, Nevada 89193".

(c) Schedule 4(b) to the Security Agreement is hereby amended by deleting such schedule in its entirety and substituting therefor the Schedule 4(b) attached hereto.

(d) Except as expressly set forth herein, the Security Agreement shall be unaffected hereby and shall continue in full force and effect.

Item 3. REPRESENTATIONS AND WARRANTIES. The Borrower confirms to the Bank that the representations and warranties of the Borrower set forth in Item 4 of the Security Agreement are true and correct on and as of the date hereof, as if made herein.

Item 4. MISCELLANEOUS PROVISIONS. Except as otherwise required by the laws of any jurisdiction in which the Collateral is located, this Amendment shall be deemed to be a contract under seal and shall for all purposes be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts. This Amendment may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Amendment it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as an instrument under seal by their authorized representatives as of the date first written above.

IC LEASING CORPORATION III

By:

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Title:

THE FIRST NATIONAL BANK OF BOSTON

By:

---

Title:



ALLIED RAILCAR COMPANY

ASSET SALE AGREEMENT

This ASSET SALE AGREEMENT is made as of December 3, 1993 by and between ALLIED RAILCAR COMPANY, an Illinois corporation ("Seller"), and IC Leasing Corporation III, a Nevada corporation ("Buyer").

Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, certain assets of Seller, on the terms and conditions set forth in this Agreement.

ACCORDINGLY, Seller and Buyer agree as follows:

ARTICLE I

DEFINITIONS

1.1 Defined Terms.

(a) The following terms have the meanings specified in this Section 1.1 for all purposes of this Agreement:

"CRTC" means Chrysler Rail Transportation Corporation, a Delaware corporation.

"CRTC Agreement" means the Asset Purchase Agreement dated as of December 3, 1993 between CRTC and Seller, a copy of which is attached to this Agreement as Exhibit A.

"CRTC Closing" means the Closing defined in the CRTC Agreement.

"Claims Administration Agreement" means the Claims Administration Agreement dated the date hereof among, inter alia, Buyer and Seller.

"Closing" means the completion of the purchase of the Purchased Assets and the assumption of the Assumed Obligations by Buyer.

"Closing Date" means the date at which Closing occurs.

"Purchased Assets" means those Assets listed on Exhibit

B to this Agreement.

(b) Capitalized terms not defined in this Agreement shall have the meanings provided in the CRTC Agreement as in effect on the date hereof.

## ARTICLE 2

### PURCHASE OF PURCHASED ASSETS AND CLOSING

#### 2.1 Transfer of Purchased Assets.

On the terms and subject to the conditions set forth in this Agreement, including without limitation Section 2.9, Seller shall sell, assign, convey or otherwise transfer to Buyer, without recourse, representation or warranty, except as otherwise expressly provided herein, and Buyer shall purchase and acquire on the Closing Date:

(a) All of the right, title and interest of Seller in and to the Purchased Assets, including all such right, title and interest acquired or to be acquired pursuant to the CRTC Agreement;  
and

(b) All rights of Seller under the CRTC Agreement and under the CFC Guaranty to the extent those rights pertain to the Purchased Assets, including without limitation rights with respect to Records and Warranties, the representations and warranties of CRTC under and pursuant to the CRTC Agreement, the covenants of CRTC under the CRTC Agreement and the indemnification obligations of CRTC under the CRTC Agreement. Buyer acknowledges that the assignment of rights under the CRTC Agreement is subject to Section 10.4 of the CRTC Agreement.

#### 2.2 Excluded Assets.

(a) Buyer is not acquiring any interest in any CRTC assets excluded by Section 2.2 of the CRTC Agreement.

(b) Buyer is not acquiring any interest in rights of Seller under the CRTC Agreement to the extent those rights pertain to Assets other than Purchased Assets.

#### 2.3 Purchase Price.

(a) Subject to the purchase price adjustments contained in Section 2.4 hereof, Buyer shall pay to Seller for the Purchased Assets twenty-two million, nine hundred seventy-five thousand, two hundred eighty-eight and 20/100 dollars (\$22,975,288.20) (the "Purchase Price").

(b) In accordance with the terms and conditions of this Agreement, at Closing Buyer shall pay to Seller the Purchase Price in cash by wire transfer of immediately available funds in accordance with the wire transfer instructions delivered to Buyer from Seller at least one business day prior to Closing.

#### 2.4 Adjustments to Purchase Price.

(a) Buyer agrees that there shall not be any adjustment to the Purchase Price in the event that any Railcar included in the Purchased Assets is a Destroyed Railcar under the CRTC Agreement and further agrees that its sole compensation for the acquisition of any Railcar which is such a Destroyed Railcar shall be the right to receive amounts received or receivable by Seller under Section 2.4 of the CRTC Agreement. Any such amounts received by Seller prior to Closing shall be paid or credited to Buyer at Closing, and any such amounts received by Seller after Closing shall be promptly paid over to Buyer.

(b) The Purchase Price shall be decreased by an amount equal to \$2,250 multiplied by the number (if any) of Railcars listed on Schedule 4.5 to the CRTC Agreement and included in the Purchased Assets. Such adjustment may be effected by a refund of a portion of the Purchase Price within 10 days after Closing.

#### 2.5 Assumption of Obligations.

On the Closing Date Buyer shall assume and thereafter pay, perform and discharge all liabilities, obligations and duties of Seller with respect to the Purchased Assets, including without limitation all obligations of Seller under the CRTC Agreement with respect to the Purchased Assets and all obligations assumed by Seller with respect to the Purchased Assets under the CRTC Agreement (the "Assumed Obligations"). It is acknowledged and agreed that (i) Buyer shall be deemed to be a "Purchaser" as defined in Section 10.4 of the CRTC Agreement and (ii) to the extent any provision of the Agreement related to any rights or Assets assigned to or liabilities, obligations or duties assumed by, Buyer pursuant to this Agreement, Buyer shall be subject to and bound by the provisions of the CRTC Agreement as if it were a party to such Agreement, including without limitation, Sections 2.6 (Allocation of Revenues and Expenses), Section 2.9 (Restricted Assets), Article VIII (Survival; Indemnification) and Article X (Miscellaneous). This provision is intended to be for the benefit of CRTC and may be directly enforced by CRTC.

#### 2.6 Allocation of Revenues and Expenses .

(a) Buyer agrees to the allocation between Seller and CRTC of revenues and expenses under Section 2.6 of the CRTC Agreement with respect to the Purchased Assets and agrees that such allocation to Seller shall be for the account of Buyer.

(b) Any revenue and expenses of Seller attributable to the Purchased Assets and allocable to the period prior to the Closing Date shall be for the account of Buyer, and Buyer shall have the right to receive all such revenue and shall be obligated to pay all such expenses.

## 2.7 Closing.

The Closing shall take place at the offices of Schiff Hardin & Waite, 7200 Sears Tower, Chicago, Illinois 60606, simultaneously with the CRTC Closing, but in any event not later than December 31, 1993. The term "Closing Date" means the date on which the Closing occurs.

## 2.8 Deliveries at Closing.

(a) At Closing Seller shall deliver to Buyer (i) such Purchased Assets and such bills of sale, endorsements and instruments of conveyance, transfer and assignment as are necessary to transfer to Buyer all of the right, title and interest of Seller in and to the Purchased Assets (including all of the right, title and interest acquired by Seller from CRTC) in accordance with this Agreement and (ii) all other instruments and documents which are expressly required pursuant to this Agreement to be executed and delivered by Seller at the Closing.

(b) At Closing Buyer shall deliver to Seller (i) the Purchase Price, (ii) such assumption agreements or other instruments necessary or appropriate to effect Buyer's assumption of the Assumed Obligations and (iii) all other instruments and documents which are expressly required pursuant to this Agreement to be executed and delivered by Buyer at the Closing.

(c) Seller and Buyer acknowledge that at the time of Closing the Railcars are in the possession of Lessees or at various locations on the railroad interchange system and that physical delivery at Closing is not practicable. Accordingly Buyer and Seller agree that each Railcar shall be deemed delivered from Seller to Buyer under this Agreement, without any further action by Seller or Buyer, on the earlier of (i) the first day that such Railcar is present in any of the states listed on Schedule 2.8 or (ii) December 31, 1994. This provision shall have no effect on title, risk of loss or any other rights and obligations with respect to the Railcars, all of which shall pass from Seller to Buyer at the Closing (or as

otherwise provided by Section 2.9). Buyer agrees that Seller shall have no liability or obligation to Buyer for any Losses to buyer which arise out of or relate to this Section 2.8(c).

## 2.9 Restricted Assets.

In the event that any Purchased Assets are Restricted Assets, Buyer shall have all the rights and obligations of Seller with respect to such Restricted Assets under Section 2.9 of the CRTC Agreement. Seller hereby assigns such rights to Buyer, and Buyer hereby assumes such obligations.

## ARTICLE 3

### REPRESENTATIONS AND WARRANTIES OF SELLER

IT IS THE INTENT AND AGREEMENT OF THE PARTIES HERETO THAT THE PURCHASED ASSETS ARE BEING SOLD ON AN "AS IS", "WHERE IS", "WITH ALL FAULTS" BASIS AND WITHOUT ANY REPRESENTATIONS OR WARRANTIES EXCEPT AS EXPRESSLY PROVIDED IN THIS ARTICLE 3. Subject to the foregoing, Seller hereby represents and warrants to Buyer:

3.1 Corporate Status. Seller is a corporation validly existing and in good standing under the laws of the State of Illinois. Seller has the corporate power and corporate authority to own and lease the Purchased Assets owned or leased by it.

3.2 Authority; Binding Effect. Seller has the corporate power and corporate authority to execute and deliver this Agreement and the other instruments and agreements required or contemplated herein to be executed and delivered by it at the Closing, to perform its obligations hereunder and thereunder, and to consummate the transactions provided for herein and therein, and all corporate action of Seller necessary for the making and performance of this Agreement and such other instruments and agreements by it has been duly taken. The execution, delivery and performance of this Agreement and such other instruments and agreements by Seller, and the consummation by Seller of the transactions contemplated hereby and thereby, do not and will not (i) (A) contravene any provisions of the Articles of Incorporation or by-laws of Seller, (B) result in any material breach of or material default (or an event which, with notice or lapse of time or both, would constitute a material default) under, or the cancellation of, or the creation of any lien (other than Permitted Liens) under, any Assumed Contract, (C) result in any material breach of or material defaults (or an event which, with notice or lapse of time or both, would constitute a material default) under, or the cancellation of

or the creation of any lien under, any other material mortgage, indenture, contract, agreement or other instrument to which Seller is a party except for such breaches, defaults, cancellations or liens which would not materially adversely affect Seller's ability to perform its obligations hereunder, or (D) result in any violation by Seller of any law, rule or regulation applicable to it which violation would materially adversely effect Seller's ability to perform its obligations hereunder, (ii) result in any violation by Seller of any judgment, injunction or decree of any court or governmental authority applicable to Seller which violation would materially adversely affect Seller's ability to perform its obligations hereunder, or (iii) require any Governmental Filing to be made or obtained by Seller except for filings made and obtained prior to the date hereof, any Governmental Filings that may be required to be made as a result of the specific regulatory status of Buyer or as a result of any other facts that relate to the business or activities in which Buyer is or proposes to be engaged, and Governmental Filings the failure of which to make or obtain would not have a material adverse effect on Seller's ability to perform its obligations hereunder. This Agreement has been duly executed and delivered by Seller and the other instruments and agreements required or contemplated herein to be executed and delivered by Seller at the Closing will be duly executed and delivered by Seller at the Closing. This Agreement constitutes, and at the Closing each of such other instruments and agreements will constitute, the valid and binding obligations of Seller, enforceable against Seller in accordance with their terms.

3.3 Consents From Third Parties. No Consents are required to be obtained by Seller under the Assumed Contracts for the consummation by Seller of the transactions contemplated by this Agreement.

3.4 Title to Purchased Assets. Seller has such title to the Purchased Assets as Seller acquired from CRTC at the CRTC Closing and has granted no liens or other encumbrances on the Purchased Assets, nor allowed any other liens or encumbrances arising by, through or under Seller to attach to the Purchased Assets.

3.5 Litigation. There is no material action, suit, formal governmental investigation or other proceeding pending or, to Seller's knowledge, threatened against Seller, at law or in equity, before any federal, state or municipal court, administrative agency or arbitrator which materially adversely affects the Purchased Assets or the Assumed Obligations and is reasonably likely to be adversely determined in a manner which would be material to the Purchased Assets, or which would

materially impair Seller's ability to perform this Agreement or the other instruments and documents to be executed and delivered by Seller at the Closing.

3.6 Brokers. Except for Buyer's arrangements with Railroad Financial Corporation which do not require any payment by Seller, there is no broker or finder or other Person who has any valid claim against any of the parties to this Agreement for a commission or brokerage fee or the like in connection with this Agreement or the transactions contemplated hereby as a result of any agreement of or action taken by Seller.

#### ARTICLE 4

##### REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller that:

4.1 Corporate Status. Buyer is a corporation validly existing and in good standing under the laws of the State of Nevada. Buyer has the corporate power and corporate authority to own or lease its properties and assets and the Purchased Assets that it will acquire at the Closing and to carry on its business in the manner in which such business is now being conducted and will be conducted by Buyer after the Closing.

4.2 Authority; Binding Effect. Buyer has the corporate power and corporate authority to execute and deliver this Agreement and the other instruments and agreements required or contemplated herein to be executed and delivered by it at the Closing, to perform its obligations hereunder and thereunder and to consummate the transactions provided for herein and therein, and all corporate action of Buyer necessary for the making and performance of this Agreement and such other instruments and agreements by Buyer has been duly taken. The execution, delivery and performance of this Agreement and such other instruments and agreements by Buyer, and the consummation by Buyer of the transactions contemplated hereby and thereby, do not and will not (i) (A) contravene any provisions of the Articles of Incorporation or By-laws of Buyer, (B) result in any material breach of or material default (or an event which, with notice or lapse of time or both, would constitute a material default) under, or the cancellation of, any material mortgage, indenture, contract, Agreement or other instrument to which Buyer is a party except for such breaches, defaults or cancellations which would not materially adversely affect Buyer's ability to perform its obligations hereunder, or (C) result in any violation by Buyer of any law, rule or regulation applicable to Buyer which

violation would materially adversely affect Buyer's ability to perform its obligations hereunder, (ii) result in any violation by Buyer of any judgment, injunction or decree of any court or governmental authority applicable to Buyer which violation would materially adversely affect Buyer's ability to perform its obligations hereunder or (iii) require any Governmental Filing to be made or obtained by Buyer except for Governmental Filings made or obtained prior to the date hereof, state or local sales tax filings and Governmental Filings the failure of which to make or obtain would not have a material adverse effect on Buyer's ability to perform its obligations hereunder. This Agreement has been duly executed and delivered by Buyer and the other instruments and agreements required or contemplated herein to be executed and delivered by Buyer at the Closing will be duly executed and delivered by Buyer at the Closing. This Agreement constitutes, and at the Closing each of such other instruments and agreements will constitute, the valid and binding obligations of Buyer enforceable against Buyer in accordance with their terms.

4.3 Brokers. Except for Buyer's arrangements with Railroad Financial Corporation which do not require any payment by Seller, there is no broker or finder or other Person who has any valid claim against any of the parties to this Agreement for a commission or brokerage fee or the like in connection with this Agreement or the transactions contemplated hereby as a result of any agreement of or action taken by Buyer or any of its Affiliates.

4.4 Litigation. There is no material action, suit, formal governmental investigation or other proceeding pending or, to Buyer's knowledge, threatened against Buyer, at law or in equity, before any federal, state or municipal court, administrative agency or arbitrator which if adversely determined would materially impair Buyer's ability to perform this Agreement or the other instruments and documents to be executed and delivered by Buyer at the Closing.

## ARTICLE 5

### CONDITIONS TO BUYER'S OBLIGATIONS

The obligations of Buyer to purchase the Purchased Assets and assume the Assumed Obligations are subject to the fulfillment, at or before the Closing, of each of the following conditions, any one or more of which may be waived by Buyer:

5.1 Representations, Warranties, Covenants. The representations and warranties of Seller contained in Article



3 of this Agreement shall be true and correct in all material respects as of the Closing Date as through such representations and warranties were made as of the Closing Date. Seller shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it at or prior to the Closing Date.

5.2 Proceedings. No party to this Agreement shall be subject to any order, stay, injunction or decree of any court of competent jurisdiction in the United States restraining or prohibiting the consummation of the transactions contemplated hereby.

5.3 Bill of Sale and Assignment. Seller shall have delivered to Buyer a Bill of Sale and Assignment (the "Bill of Sale and Assignment"), duly executed by Seller, in the form attached to this Agreement as Exhibit C.

5.4 Instruments of Conveyance. Seller shall have duly executed and delivered to Buyer any other assignments or other instruments of conveyance with respect to the Purchased Assets reasonably determined to be necessary by Buyer and its counsel.

5.5. Legal Opinion. Buyer shall have received a legal opinion of McLachlan, Rissman & Doll, counsel to Seller, with respect to the matters set forth in Sections 3.1 and 3.2.

5.6 CRTC Closing. The CRTC Closing shall have occurred as contemplated by the CRTC Agreement.

5.7 Claims Administration Agreement. Seller shall have duly executed and delivered the Claims Administration Agreement.

## ARTICLE 6

### CONDITIONS TO SELLER'S OBLIGATIONS

The obligations of Seller to consummate the transfer of the Purchased Assets are subject to the fulfillment, at or before the Closing, of each of the following conditions, any one or more of which may be waived by Seller:

6.1 Representations, Warranties, Covenants. The representations and warranties of Buyer contained in Article 4 of this Agreement shall be true and correct in all material respects as of the Closing Date as though such representations

and warranties were made as of the Closing Date. Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it at or prior to the Closing Date.

6.2 Proceedings. No party to this Agreement shall be subject to any order, stay, injunction or decree of any court of competent jurisdiction in the United States restraining or prohibiting the consummation of the transactions contemplated hereby.

6.3 Assumption of Liabilities. Buyer shall have delivered to Seller a Delegation and Assumption of Liabilities (the "Assumption of Liabilities") duly executed by Buyer, in the form attached to this Agreement as Exhibit D.

6.4. Legal Opinion. Seller shall have received a legal opinion of Schiff Hardin & Waite, counsel to Buyer, with respect to the matters set forth in Sections 4.1 and 4.2.

6.5 CRTC Closing. The CRTC Closing shall have occurred as contemplated by the CRTC Agreement.

## ARTICLE 7

### COVENANTS

#### 7.1 Notice of Proceedings; Agreement to Defend.

(a) Each party to this Agreement will notify the other promptly in writing upon (i) such party's becoming aware of any order, judgment or decree restraining or enjoining the consummation of this Agreement or the transactions contemplated hereby or any complaint seeking such an order, judgment or decree or (ii) such party's receiving any notice from any governmental authority of its intention (A) to institute an investigation into, or institute a suit or proceeding to restrain or enjoin, the consummation of this Agreement or the transactions contemplated hereby or (B) to nullify or render ineffective this Agreement or such transactions if consummated.

(b) In the event any Person brings a suit or claim, or commences an action, investigation or other proceeding, which either challenges the validity or legality of this Agreement or the transactions contemplated by this Agreement or any instrument or document contemplated hereby, or seeks damages in connection with such transactions, the

parties agree to consult and to cooperate with each other and use all reasonable efforts to defend against such suit, claim, action, investigation or other proceeding and, in the event an injunction or other order is issued in connection with any of the foregoing, to use all reasonable efforts to have such injunction lifted or such order set aside so that the transactions contemplated by this Agreement and the instruments and documents contemplated hereby may proceed.

7.2 Consummation of Agreement. Subject to the provisions of Article 9 of this Agreement, Buyer and Seller shall use all reasonable efforts to fulfill and perform all conditions and obligations on their respective parts to be fulfilled and performed under this Agreement, and to cause the transactions contemplated by this Agreement to be fully carried out.

7.3 Consents and Filings. Buyer and Seller shall give or cause to be given all required notices and use all reasonable efforts to obtain as soon as possible all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities as may be required or desired in order to enable Seller and Buyer to perform their respective obligations under this Agreement.

7.4 Records. Seller shall deliver to Buyer the Records pertaining to the Purchased Assets as promptly as practicable (or a copy of such Records), but in no event later than 10 days after receipt of such Records from CRTC.

## ARTICLE 8

### SURVIVAL; INDEMNIFICATION

8.1 Survival. All representations and warranties, covenants and agreements contained in this Agreement or in the certificates of Buyer and Seller to be delivered at the Closing, the Bill of Sale and Assignment and the Assumption of Liabilities (the "Other Documents") shall survive and not be affected in any respect by the Closing or by any investigation conducted by any party hereto and any information which any party may receive.

8.2 Indemnification. The parties shall indemnify each other as set forth below:

(a) Seller hereby agrees to indemnify and hold harmless Buyer from, and to reimburse Buyer for, any and all losses, damages, liabilities and claims, and fees, costs and expenses

of any kind related thereto, including reasonable attorneys' fees ("Losses") which are the direct result of (i) the breach as of the Closing Date of any representation or warranty of Seller contained in Article 3 of this Agreement, (ii) the breach by Seller of or failure by Seller to perform any of its obligations contained in this Agreement or any of the Other Documents or (iii) any failure by Seller to pay or discharge when due any liability or obligation of Seller that is not assumed by Buyer in or pursuant to this Agreement or any of the Other Documents.

(b) Buyer hereby agrees to indemnify and hold harmless Seller from any and all Losses which are the direct result of (i) the breach as of the Closing Date of any representation or warranty of Buyer contained in Article 4 of this Agreement, (ii) the breach by Buyer of or failure by Buyer to perform any of its obligations contained in this Agreement or any of the Other Documents, (iii) any failure by Buyer to pay or discharge any liability or obligation assumed by it in or pursuant to this Agreement or any of the Other Documents or (iv) any failure by Buyer to pay or discharge any other liabilities, obligations and duties (and asserted liabilities, obligations or duties) whether fixed, contingent or otherwise, accruing, arising, incurred or to be performed after the Closing Date in any way associated with, relating to or arising out of ownership or operation of the Purchased Assets after Closing.

(c) As promptly as reasonably practicable after Buyer or Seller shall receive any notice of, or otherwise become aware of, the commencement of any action, suit or proceeding, the assertion of any claim, the occurrence of any event, the existence of any fact or circumstance or the incurrence of any Loss, for which indemnification is provided for by this Section 8.2 (an "Indemnified Event"), the party entitled to indemnification (an "Indemnified Party") shall give written notice (an "Indemnification Claim") to the party from which indemnification is sought (an "Indemnifying Party") describing in reasonable detail the basis of such Indemnification Claim. If the Indemnifying Party is not so notified by the Indemnified Party within 30 calendar days after the date of an executive officer of the Indemnified Party's receipt of notice of, or an executive officer of the Indemnified Party's becoming aware of, any Indemnification Event, the Indemnifying Party shall be relieved of liability hereunder to any Indemnified Party in respect of such Indemnification Event, or the facts or circumstances giving rise thereto, to the extent, (but only to the extent) the Indemnified Party is actually prejudiced or damaged thereby. If such Indemnification Claim involves the claim of any third party, the Indemnifying Party shall be entitled to participate in, and assume sole control

over, the defense and settlement of such claim; provided, however, that (i) the Indemnified Party shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim; (ii) the Indemnifying Party shall thereafter consult with the Indemnified Party upon Indemnified Party's reasonable request for such consultation from time to time with respect to such claim; and (iii) the Indemnifying Party shall obtain the prior written approval of the Indemnified Party, which shall not be unreasonably withheld or delayed, before entering into any settlement of such claim or ceasing to defend against such claim, if as a result of such settlement injunctive or other equitable relief would be imposed against the Indemnified Party. After written notice by the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of any such claim, the Indemnifying Party shall not be liable to such Indemnified Party hereunder for any legal expenses subsequently incurred by such Indemnified Party in connection therewith. If the Indemnifying Party does not assume sole control over the defense or settlement of such claim as provided in this Section 8.2(c) within a reasonable period of time, the Indemnified Party shall have the right to defend and, upon obtaining the written consent of the Indemnifying Party which shall not be unreasonably withheld or delayed, settle the claim in such manner as it may deem appropriate, and the Indemnifying Party shall promptly reimburse the Indemnified Party therefor in accordance with Section 8.2(a) or (b), as appropriate. The Indemnifying Party shall not be liable under this Section 8.2 for any settlement or compromise effected without its consent (provided the Indemnifying Party has not breached its obligations under this Section 8.2).

(d) In the event of any Indemnification Claim involving the claim of any third party, the Indemnified Party shall cooperate (and shall cause its Affiliates to cooperate) in all reasonable respects with the Indemnifying Party in the defense of any such claim under this Section 8.2. Without limiting the generality of the foregoing, the Indemnified Party shall furnish the Indemnifying Party with such documentary or other evidence as is then in its or any of its Affiliates' possession as may reasonably be requested by the Indemnifying Party for the purpose of defending against any such claim.

(e) Upon payment of any amount pursuant to any Indemnification Claim, the Indemnifying Party shall be subrogated, to the extent of such payment, to all of the Indemnified Party's rights of recovery against any third party (other than any Affiliate or permitted assignee) with respect to the matters to which such Indemnification Claim relates.

## ARTICLE 9

### TERMINATION

9.1 Mutual Agreement. This Agreement may be terminated at any time prior to the Closing by the written agreement of Seller and Buyer.

9.2 Unilateral Termination. This Agreement may be terminated by Buyer or Seller giving notice of termination to the other at any time after December 31, 1993, if the Closing has not occurred by that date.

9.3 Effect of Termination. Except for the terms of Sections 10.2 and 10.7 hereof, which shall survive any termination of this Agreement, upon the termination of this Agreement pursuant to this Article 9, this Agreement shall forthwith become null and void, and no party hereto or any of its officers, directors, employees, agents, consultants, stockholders or principals shall have any rights, liabilities or obligations hereunder or with respect hereto; provided, however, that nothing contained in this Article 9 shall relieve any party from liability for any willful failure to comply with any covenant or agreement contained herein (and the terms of Article 8 hereof shall apply to any such failure).

## ARTICLE 10

### MISCELLANEOUS

10.1 Exclusivity of Representations; Reliance on Representations. (a) THE REPRESENTATIONS AND WARRANTIES MADE BY SELLER IN THIS AGREEMENT ARE IN LIEU OF AND ARE EXCLUSIVE OF ALL OTHER REPRESENTATIONS AND WARRANTIES, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE AND ANY OTHER IMPLIED WARRANTIES OF SELLER. SELLER HEREBY DISCLAIMS ANY SUCH OTHER OR IMPLIED REPRESENTATIONS OR WARRANTIES, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO BUYER OR ANY OF ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION BY SELLER OR ANY OTHER PERSON IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(b) Buyer represents to Seller that in making its decision to enter into this Agreement and purchase the Purchased Assets, it is not relying on any information provided or statements made by Seller or any of its agents, representatives, employees or Affiliates other than the

specific representations and warranties made by Seller in this Agreement.

10.2 Expenses. Except as expressly contemplated by this Agreement, each party hereto shall bear all of its expenses incurred in connection with the transactions contemplated by this Agreement, including, without limitation, accounting and legal fees incurred in connection herewith. Buyer shall pay, or reimburse Seller for, (i) any sales, use, transfer, stamp, documentary, recording, registration or similar Taxes arising from the transfer of the Purchased Assets to Buyer and (ii) any filing or recording fees in connection with the transfer of the Purchased Assets to Buyer. Buyer and Seller agree to cooperate in order to minimize any Taxes that may be applicable to the transfer of Purchased Assets.

10.3 Bulk Sales Laws. Buyer hereby waives compliance with the provisions of any applicable bulk sales law. Seller agrees to indemnify and hold harmless Buyer from any loss, liability, cost or expense which may result from non-compliance with any applicable bulk sales law.

10.4 Further Assurances. From time to time prior to, at and after the Closing Date, each party hereto will execute all such instruments and take all such actions as any other party, being advised by counsel, shall reasonably request in connection with carrying out and effectuating the intent and purpose hereof and all transactions and things contemplated by this Agreement, including, without limitation, the execution and delivery of any and all confirmatory and other instruments in addition to those to be delivered on the Closing Date, and any and all actions which may reasonably be necessary or desirable to complete the transactions contemplated hereby.

10.5 Notices. Notices and other communications provided for herein shall be in writing (which shall include notice by facsimile transmission) and shall be delivered or mailed (or if by facsimile communications equipment of the sending party hereto, delivered by such equipment), addressed as follows:

If to Seller:

Allied Railcar Company  
6 West Hubbard, Suite 500  
Chicago, Illinois 60610

Attention: President  
Fax: 312-222-1470

If to Buyer:

IC Leasing Corporation III  
1 East First Street  
Reno, Nevada 89501

Attention: President

or to such other address as a party may from time to time designate in writing in accordance with this Section. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt, provided that any notice or communication that is received other than during regular business hours of the recipient shall be deemed to have been given at the opening of business on the next business day of the recipient.

10.6 Captions. The captions of Articles and Sections of this Agreement are for convenience only and shall not control or affect the meaning or construction of any of the provisions of this Agreement.

10.7 Law Governing. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois (without regard to the conflicts of law principles thereof).

10.8 Waiver of Provisions. The terms, covenants, representations, warranties and conditions of this Agreement may be waived only by a written instrument executed by the party waiving compliance. The failure of any party at any time or times to require performance of any provisions of this Agreement shall in no manner affect the right of such party at a later date to enforce the same. No waiver by any party of any condition or the breach of any provision, term, covenant, representation or warranty contained in this agreement, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or of the breach of any other provision, term, covenant, representation, or warranty of this Agreement.

10.9 Counterparts. This Agreement may be executed in several counterparts, and all counterparts so executed shall constitute one agreement, binding on the parties hereto, notwithstanding that the parties are not signatories to the same counterpart.

10.10 Entire Agreement; Amendment. This Agreement



constitutes the entire agreement among the parties or their Affiliates with respect to the matters contained herein and supersedes and cancels any and all prior agreements relating to such matters between them and may not be amended or modified except in a writing signed by Buyer and Seller.

10.11 No Third Party Beneficiary. Except as provided in Section 2.5 and Section 10.13, this Agreement is not intended and shall not be construed to confer upon any Person other than the parties thereto and their permitted assigns any rights or remedies hereunder.

10.12 Severability. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Agreement shall be deemed valid and enforceable to the full extent possible.

10.13 Assignment. Either party may assign its rights under this Agreement, but any assignment shall not affect the obligations of the assignor. Seller may assign its rights under this Agreement to a source of financing for the Assets; upon receiving notice of such assignment, Buyer agrees not to consent to any amendment to this Agreement or any waiver of Buyer's obligations under this Agreement without the consent of such assignee and agrees that such assignee may enforce this Agreement on behalf of Seller.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized officers, all as of the date and year first written above.

ALLIED RAILCAR COMPANY

By \_\_\_\_\_  
Title:

IC LEASING CORPORATION III

By \_\_\_\_\_  
Title:

PURCHASE AGREEMENT

This Agreement is entered into as of December \_\_\_\_\_, 1993 between The First National Bank of Maryland, a national banking association ("Seller") and IC Leasing Corporation III, a Nevada corporation ("Purchaser").

RECITALS

WHEREAS, Seller owns two hundred seventy-seven 70-ton 50-foot 6-inch Class XM boxcars, described more fully on Exhibit A attached hereto (the "Equipment"). Each unit of Equipment is herein designated a "Unit";

WHEREAS, Seller and Illinois Central Railroad Company, a Delaware corporation, ("Lessee") entered into a Equipment Lease Agreement dated October 20, 1980, pursuant to which Lessee presently leases the Equipment from Seller, a copy of which is attached hereto as Exhibit B (the "Equipment Lease"). Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Equipment Lease; and

WHEREAS, Seller desires to sell and assign to Purchaser and Purchaser desires to purchase and assume from Seller the Equipment and the Equipment Lease, at the price and on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the following mutual agreements the parties hereto hereby agree as follows:

1. Sale and Assignment of Equipment and Equipment Lease.

1.01 Transfer of Equipment and Equipment Lease. On the Closing Date (as hereinafter defined), Seller agrees to sell and assign to Purchaser, and Purchaser agrees to purchase and assume from Seller, all of Seller's right, title and interest in and to the Equipment and the Equipment Lease. Lessee shall retain possession of

the Equipment under the terms of the Equipment Lease which, except as hereinafter provided, shall remain in full force and effect. Units sustaining a Casualty Occurrence prior to the Closing Date, shall not be acquired by Purchaser.

1.02 Warranties and Other Rights. Seller hereby agrees to sell and assign to Purchaser all of the warranties with respect to the Equipment obtained by Seller from others which are assignable.

1.03 Assumption of Rights and Obligations Under Equipment Lease. Upon the consummation of the transactions contemplated by this Agreement, Purchaser shall (i) be entitled to receive all rents, collections, interests and other sums on account of the Equipment Lease (ii) assume, perform and discharge all of the obligations and duties of Seller with respect to the Equipment Lease and (iii) exercise all other incidences of ownership of the Equipment under the Equipment Lease.

1.04 Purchase Price. In consideration for the sale and assignment of the Equipment and the Equipment Lease, Purchaser does hereby promise to pay to Seller the sum of \$15,186 per Unit (the "Purchase Price") on December 31, 1993, by Federal Reserve wire transfer to such bank account as Seller may direct.

1.05 Closing. The closing of the purchase and sale of the Equipment and the Equipment Lease shall occur at 10:00 a.m. Chicago time at the principal office of the Seller on December 31, 1993 or such other time or place as the parties shall mutually agree (the "Closing Date").

2. Representations, Warranties and Covenants of Seller.

2.01 Concerning the Equipment and Equipment Lease. Seller represents and warrants that the sale of the Equipment and Equipment Lease does not violate or infringe the patent, trademark, trade name or other rights of any party.

2.02 Title. Seller represents and warrants that except for the interest of the Lessee under the Equipment Lease, Seller has good

and marketable title to the Equipment, free and clear of all liens, claims, charges, security interests, encumbrances and rights of third parties of any type or description arising by or through Seller or its affiliates.

2.03 Notices. Seller represents and warrants that Seller has not received any notice from any governmental authority that any investigation has been commenced or is contemplated respecting any failure of the Equipment to comply with any laws, rules, regulations or orders.

2.04 Equipment Lease. The Equipment Lease attached hereto as Exhibit B is a true and complete copy of the Equipment Lease and there are no amendments or other agreements relating to the Equipment Lease. Seller agrees that concurrent with the consummation of the transactions contemplated by this Agreement and payment by Lessee of any Basic Rents then outstanding under the Equipment Lease, Seller shall have no further rights with respect to the Equipment Lease and Lessee shall be released from all obligations and liabilities to Seller under the Equipment Lease, except as provided in Sections 10.02 and 14.02 of the Equipment Lease.

2.05 Other Agreements. Seller represents and warrants that except for the Equipment Lease, this Agreement and the documents to be delivered pursuant hereto, there are no agreements of any kind relating to the Equipment or any part thereof which Seller has entered into and which will be binding upon Purchaser after the Closing Date.

2.06 Bill of Sale and Assignment. On the Closing Date, the "Bill of Sale and Assignment" (as hereinafter defined) shall have been duly authorized, executed and delivered by Seller and shall be valid and effective to transfer and assign good and marketable title to the Equipment and Seller's interest in the Equipment Lease to Purchaser, free and clear of all liens, claims, charges, security interests, encumbrances and rights of third parties of any type or description arising by or through Seller or its affiliates.

2.07 Documents Furnished. Seller represents and warrants that it will deliver to

Purchaser on the Closing Date, copies of all material agreements and instruments currently in its possession received by it (except the Purchase Agreement, drafts of documents, correspondence and legal opinions) in connection with Seller's acquisition of the Equipment, including, without limitation, all written notices, appraisals, inspection reports, maintenance records, invoices, purchase orders, original equipment specifications, drawings and certificates of acceptance.

2.08 Organization and Existence. Seller represents and warrants that it is a national banking association duly and validly organized and existing in good standing under the laws of the State of Maryland and is duly qualified to own its properties and carry on its business in each jurisdiction where the failure to so qualify would be materially adverse to Seller or its business.

2.09 Power and Authority. Seller represents and warrants that Seller has the power and authority to execute and deliver this Agreement and the Bill of Sale and Assignment (as hereinafter defined) (collectively, the "Transaction Documents") and to perform, when due, its obligations hereunder and thereunder. Seller has the power and authority to deliver all other documents delivered by Seller in connection with the closing of this Purchase Agreement.

2.10 Authorizations. Seller represents and warrants that the execution and delivery of the Transaction Documents by Seller and the performance by Seller, when due, of its obligations hereunder and thereunder, have been duly authorized by all necessary action and do not violate or conflict with, or, with or without the giving of notice, the passage of time or both, constitute a default under, any provision of Seller's instruments of organization, any law, order, writ, injunction, decree, rule or regulation of any court, administrative agency or any other governmental authority or any agreement or other document or instrument to which Seller is a party or by which Seller is, or may be, bound.

2.11 Enforceability. Seller represents and warrants that the Transaction Documents constitute the valid and binding obligations of

Seller and are enforceable against it in accordance with their respective terms. There is no action, suit, proceeding or investigation at law or in equity pending or, to the knowledge of Seller, threatened before or by any court, public board or body, against or affecting Seller wherein an unfavorable decision, ruling or finding would adversely affect the ability of Seller to perform its obligations under the Transaction Documents.

2.12 Disclaimer. EXCEPT AS EXPRESSLY SET FORTH HEREIN, SELLER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE CONDITION OF THE EQUIPMENT, ITS VALUE, DESIGN, MERCHANTABILITY, FITNESS FOR USE OR FITNESS FOR A PARTICULAR PURPOSE, AS TO THE QUALITY OF MATERIAL OR WORKMANSHIP OR CONFORMITY TO SPECIFICATIONS OF ANY PURCHASE ORDER, AS TO THE ABSENCE OF LATENT OR OTHER DEFECTS WHETHER OR NOT DISCOVERABLE OR AS TO ANY OTHER MATTER RELATING TO THE EQUIPMENT.

2.13 Brokerage Fees. No person or entity acting on Seller's behalf has any claim for a brokerage commission, finder's fee or other like payment in connection with this Agreement or the transactions contemplated by this Agreement.

### 3. Representations, Warranties and Covenants of Purchaser.

Purchaser represents and warrants to, and agrees with, Seller as follows:

3.01 Organization and Existence. Purchaser is a corporation duly and validly organized and existing under the laws of the State of Nevada and is duly qualified to own its properties and carry on its business in each jurisdiction where the failure to be so qualified would be materially adverse to Purchaser or its business.

3.02 Power and Authority. Purchaser has the power and authority to execute and deliver or accept, as the case may be, the Transaction Documents and to pay and perform, when due, its obligations hereunder and thereunder.

3.03 Authorization. The execution and delivery or acceptance, as the case may be, of the Transaction Documents by Purchaser and the payment

and performance by Purchaser, when due, of its obligations hereunder and thereunder, have been duly authorized by all necessary action of Purchaser and do not violate or conflict with, or, with or without the giving of notice, the passage of time or both, constitute a default under, any provision of Purchaser's instruments of organization, any law, order, writ, injunction, decree, rule or regulation of any court, administrative agency or any other governmental authority or any agreement or other document or instrument to which Purchaser is a party or by which Purchaser is, or may be, bound.

3.04 Enforceability. The Transaction Documents constitute the valid and binding obligations of Purchaser, enforceable against it in accordance with their respective terms. There is no action, suit, proceeding or investigation at law or in equity pending or, to the knowledge of Purchaser, threatened before or by any court, public board or body, against or affecting the Purchaser wherein an unfavorable decision, ruling or finding would adversely affect the ability of Purchaser to perform its obligations under the Transaction Documents.

3.05 Broker Fees. No person or entity acting on Purchaser's behalf has any claim for a brokerage commission, finder's fee or other like payment in connection with this Agreement or the transactions contemplated by this Agreement.

#### 4. Certain Taxes and Charges.

4.01 Payment. Purchaser agrees to pay, when due, all sales and other taxes due upon the transactions contemplated hereby.

4.02 Contest. Each party may in good faith (at its expense) contest in any reasonable manner the imposition of any of the foregoing taxes but only to the extent that such contest neither affects adversely, nor threatens to affect adversely, the other party's interest in the Equipment nor exposes the other party to any liability.

#### 5. Indemnification.

5.01 Indemnification by Seller. Seller



agrees to indemnify Purchaser and to protect, defend and hold Purchaser harmless, from and against any and all loss, cost, damage, injury or expense, including, without limitation, reasonable attorneys' fees, wheresoever and howsoever arising which Purchaser may incur for, or by reason of (i) the breach of any of the warranties or representations of Seller contained in any of the Transaction Documents, (ii) a breach by Seller of any of the warranties or agreements of Seller contained in any of the Transaction Documents, or (iii) any claim in any way relating to or arising or alleged to arise out of the ownership of the Equipment prior to the Closing Date, except for claims with respect to which Purchaser indemnifies Seller pursuant to the Equipment Lease. In the event any claim for indemnification hereunder arises on account of a claim or action made or instituted by a third person against Purchaser, Purchaser shall notify Seller promptly after the receipt of notice by Purchaser that such claim was made or that such action was commenced. Seller shall be entitled to participate in the defense of any such claim or action by counsel of its own choosing and at its expense. Any such claim or action shall not be settled without Seller's prior written consent, unless Seller shall deny Purchaser's right to indemnification.

#### 5.02 Indemnification by Purchaser.

Purchaser agrees to indemnify Seller and to protect, defend and hold Seller harmless, from and against any and all loss, cost, damage, injury or expense, including, without limitation, reasonable attorneys' fees, wheresoever and howsoever arising which Seller may incur for, or by reason of (i) the breach of any of the warranties or representations of Purchaser contained in any of the Transaction Documents, (ii) a breach by Purchaser of any of the warranties or agreements of Purchaser contained in any of the Transaction Documents, or (iii) any claim in any way relating to or arising or alleged to arise out of the ownership of the Equipment or assignment of the Equipment Lease after the Closing Date. In the event any claim for indemnification hereunder arises on account of a claim or action made or instituted by a third person against Seller, Seller shall notify Purchaser promptly after the receipt of notice by Seller that such claim was made or that such action was commenced.

Purchaser shall be entitled to participate in the defense of any such claim or action by counsel of its own choosing and at its expense. Any such claim or action shall not be settled without Purchaser's prior written consent, unless Purchaser shall deny Seller's right to indemnification.

6. Purchaser's Conditions Precedent. Purchaser's obligation to consummate the transactions contemplated by this Agreement are subject to the following conditions precedent:

6.01 Representations and Warranties of Seller. All representations and warranties of Seller set forth herein shall be true and correct on the Closing Date as if then made.

6.02 Compliance. Seller shall have performed and complied in all material respects with all obligations and agreements required in this Agreement to be performed or complied with by it prior to the Closing Date.

6.03 No Injunctions. There shall not be in effect any injunction or restraining order issued by a court of competent jurisdiction, or other governmental body having jurisdiction, against the consummation of the transactions contemplated by this Agreement.

6.04 Delivery of Transaction Documents. Seller shall have delivered to Purchaser (i) an executed copy of the bill of sale and assignment in the form attached hereto as Exhibit C (the "Bill of Sale and Assignment"); (ii) the opinion of Seller's internal legal counsel, in such form as may be acceptable to Purchaser as to the matters set forth in Sections 2.08, 2.09, 2.10 and the first sentence of Section 2.11 hereof and (iii) written notice of the assignment of the Equipment Lease to Purchaser in the form attached hereto as Exhibit D in accordance with Section 20 of the Equipment Lease (the "Notice to Lessee"), executed by Seller and Lessee.

7. Seller's Conditions Precedent. Seller's obligation to consummate the transactions contemplated by this Agreement are subject to the following conditions precedent:

7.01 Representations and Warranties of

Purchaser. All representations and warranties of Purchaser set forth herein shall be true and correct on the Closing Date as if then made.

7.02 Compliance. Purchaser shall have performed and complied in all material respects with all obligations and agreements required in this Agreement to be performed or complied with by it prior to the Closing Date.

7.03 No Injunctions. There shall not be in effect any injunction or restraining order issued by a court of competent jurisdiction, or other governmental body having jurisdiction, against the consummation of the transactions contemplated by this Agreement.

7.04 Delivery of Opinion and Purchase Price. Purchaser shall have delivered to Seller (i) the opinion of Purchaser's internal legal counsel, in such form as may be acceptable to Seller as to the matters set forth in Section 3.01, 3.02, 3.03 and the first sentence of Section 3.04 hereof and (ii) the Purchase Price for each Unit accepted by Purchaser hereunder.

7.05 Notice to Lessee. Seller shall have received from Lessee the Notice to Lessee, executed by Lessee.

## 8. Miscellaneous.

8.01 Transaction Costs and Legal Fees. Each party shall bear its own expenses (including legal fees) relating to the transaction contemplated by this Agreement.

8.02 Survival. The representations, warranties and agreements made herein shall survive the execution and delivery of this Agreement and the consummation of the transactions described herein.

8.03 Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns.

8.04 Notices. Any notice, request or other communication required or permitted to be given under any of the provisions of this Agreement

shall be given in writing and shall be deemed given the date the same is actually received by the party to whom it is addressed, provided that if such notice is mailed by certified or registered mail, return receipt requested, postage prepaid and addressed to the party for which it is intended, such mailed notice shall be deemed received 3 days after the mailing date. All notices shall be sent to the parties at the addresses set forth below:

(a) If to Seller, addressed to:

The First National Bank of Maryland  
P.O. Box 17086  
Baltimore, Maryland 21203  
Attention: Transportation and

Leasing Group

(b) If to Purchaser, addressed to:

IC Leasing Corporation III  
1077 East Sahara Avenue  
Las Vegas, Nevada 89193  
Attention: President

8.05 Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of Illinois applicable to contracts made and to be performed therein, without giving effect to the principles of conflict of laws thereof.

8.06 Captions. Captions used herein are inserted for reference purposes only and shall not affect the interpretation or construction of this Agreement.

8.07 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

8.08 Entire Agreement. This Agreement (including the executed counterparts of the exhibits hereto) represents the entire agreement between the parties and it supersedes all prior agreements or understandings with respect to the subject matter hereof. This Agreement may be

amended or varied only by writing, of even or subsequent date, executed by Seller and Purchaser.

8.09 Course of Dealing. No course of dealing between Seller and Purchaser, nor any delay in exercising any rights or remedies hereunder or otherwise shall operate as a waiver of any of the rights and remedies of Seller or Purchaser.

8.10 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.

8.11 Further Assurances. Each of Purchaser and Seller agree to execute and deliver to the other all such further instruments and documents as may reasonably be requested by the other in order fully to carry out the intent, and to accomplish the purposes of, the transactions referred to herein.

IN WITNESS WHEREOF, Seller and Purchaser have executed this Agreement as of December , 1993.

SELLER:

THE FIRST NATIONAL BANK  
OF MARYLAND

By:  
Title:

PURCHASER:

IC LEASING CORPORATION III

By:  
Title:

ILLINOIS CENTRAL CORPORATION  
SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 1993

Name	Place of Incorporation
------	------------------------

Subsidiaries included  
in the financial  
statements, which  
are 100% owned:

Illinois Central Railroad Company	Delaware
IC Financial Services Corporation	Delaware

Subsidiaries that are  
100% owned by Illinois  
Central Railroad Company:

Chicago Intermodal Company	Delaware	
Kensington and Eastern Railroad Company Corporation	Illinois Delaware	Mississippi Valley
Waterloo Railroad Company	Delaware	

Subsidiaries that are 100%  
owned by IC Financial  
Services Corporation:

IC Leasing Corporation I	Nevada
IC Leasing Corporation II	Nevada
IC Leasing Corporation III	Nevada

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

ILLINOIS CENTRAL CORPORATION

As independent public accountants, we hereby consent to the incorporation of our report dated January 19, 1994 included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993, into Illinois Central Corporation's previously filed Form S-8 Registration Statements File Nos. 33-41052 and 33-51924.

ARTHUR ANDERSEN & CO.

Chicago, Illinois  
March 16, 1994