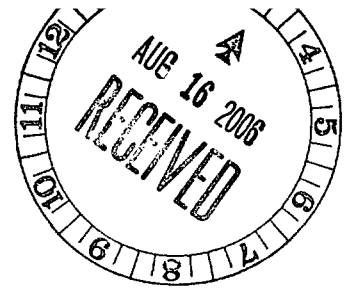


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August 16, 2006

VIA HAND DELIVERY

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

ENTERED
Office of Proceedings
AUG 16 2006
Part of
Public Record
217298
217300

RE: STB Finance Docket No. 34890 and 34922—
*Pyco Industries, Inc.—Feeder Line Application—Lines Of South Plains
Switching, Ltd. Co., and Keokuk Junction Railway Co.—Feeder Line Application
--Lines of South Plains Switching, Ltd. Co.*
Reply To The Motion To Reject

Dear Secretary Williams:

On August 14, PYCO Industries, Inc. filed a pleading entitled "PYCO's Opposition to KJRY's Competing Application and Motion To Reject; due August 14." ("Motion To Reject"). I am enclosing herewith an original and eleven copies of Keokuk Junction Railway Co.'s ("KJRY's") Reply To PYCO's Motion To Reject. Please note that Exhibit 1 to the Supplemental Verified Statement of J. Michael Carr, which is attached to the Reply, constitutes Highly Confidential information and is being filed under seal pursuant to the Board's protective order issued on July 6, 2006 in Finance Docket No. 34890. As Highly Confidential information, Exhibit 1 to Mr. Carr's Supplemental Verified Statement is enclosed in a separate appropriately marked envelope.

Please acknowledge the receipt and filing of the enclosed Reply by time stamping the eleventh copy and returning it to the courier for delivery to me. If there are any questions about this matter, please contact me directly, either by telephone: (202) 663-7823 or by e-mail: wmullins@bakerandmiller.com.

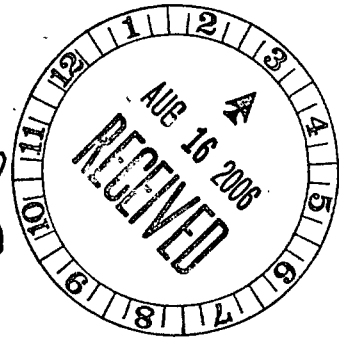
Respectfully submitted,

William A. Mullins
Attorney for Keokuk Junction Railway Co.

cc: All Parties of Record

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB DOCKET NO. 34890
STB DOCKET NO. 34922**



**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.
and
KEOKUK JUNCTION RAILWAY CO.—FEEDER LINE APPLICATION—LINES OF
SOUTH PLAINS SWITCHING, LTD. CO.**

REPLY TO PYCO'S MOTION TO REJECT

**ENTERED
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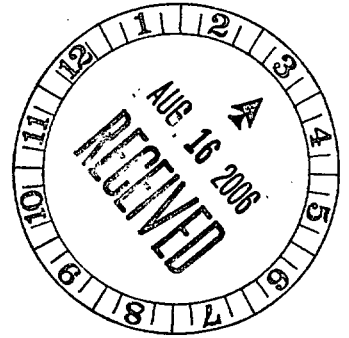
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Attorneys for Keokuk Junction Railway Co.

DATED: August 16, 2006

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB DOCKET NO. 34890
STB DOCKET NO. 34922**



**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.
and
KEOKUK JUNCTION RAILWAY CO.—FEEDER LINE APPLICATION—LINES OF
SOUTH PLAINS SWITCHING, LTD. CO.**

REPLY TO PYCO'S MOTION TO REJECT

By order served July 21, 2006, the Surface Transportation Board ("STB" or "Board"), granted Keokuk Junction Railway Co. ("KJRY") an extension of time to file a competing feeder line application in this proceeding (since recaptioned by the Board on its website with a separate docket number and title, as reflected above). KJRY filed its competing application on August 4, 2006. On August 14, PYCO Industries, Inc. ("PYCO") filed a pleading entitled "PYCO's Opposition to KJRY's Competing Application and Motion To Reject; due August 14." ("Motion To Reject"). KJRY hereby replies to PYCO's Motion To Reject ("Reply").

PYCO's Motion To Reject requests the Board to reject KJRY's competing feeder line application ("FLA") which KJRY filed on August 4. A substantial portion of PYCO's Motion is focused on alleged bad motives, alleged conspiracies between KJRY and South Plains Switching, Ltd. ("SAW"), the lack of direct shipper support for KJRY's competing FLA, the failure by KJRY to show that it is a "financial responsible person" with respect to purchasing all of SAW's lines (the so-called "Alternative One" approach), and alleged flaws in KJRY's calculation of the Going Concern Value ("GCV"). None of these issues is relevant to whether or not KJRY's competing FLA for the Alternative Two proceeding, which is the only application

that has been accepted and is the only current feeder line proceeding being processed and considered by the Board, should be accepted.

Only a small portion of PYCO's Motion deals with whether KJRY is a "financially responsible person" with respect to the Alternative Two application. Because KJRY's competing FLA complied with all of the Board's regulations, contained all of the required information, and more than established that KJRY has the financial resources available to both acquire and operate the Alternative Two lines for the minimum period of three years, PYCO's Motion To Reject should be denied and the Director¹ should accept KJRY's competing FLA for consideration.

ARGUMENT

Despite PYCO's constant barrage of letters, pleadings, supplemental evidence and statements, revised applications, changes in lines, etc., the only feeder line application that has been accepted by the Board for consideration is the so-called "Alternative Two" application that was accepted by the Board in its July 3, 2006 order. Under the Board's July 21, 2006 decision, KJRY was granted until August 4 to file a competing feeder line application consistent with the Board's regulations. Because of the short time period between that decision and the date on which KJRY was to file its competing FLA, KJRY did not have sufficient time to prepare and file a feeder line application covering all of SAW's rail lines and all of the shippers, as it had hoped to do. As a result, KJRY filed a competing FLA covering the same lines and shippers as the Alternative Two application that the Board had already accepted. Thus, consistent with the Board's regulations at 49 CFR 1151.2(c), the only decision with respect to KJRY's competing FLA currently in front of the Board is the Director's decision to either accept or reject KJRY's

¹ PYCO's Motion is directed to the Board; however, a review of the regulations clearly establishes that it is the Director of the Office of Proceedings, not the Board, that determines whether to accept or reject a competing feeder line application. 49 CFR § 1151.2(c)(2).

competing FLA. As the regulation states, a “competing application will be rejected if it does not substantially contain the information required by §1151.3.”

PYCO misconstrues the nature of the Director’s decision at this time. The Director is not making a decision on the merits of KJRY’s competing FLA when he decides whether to accept it or reject it. The Director’s decision is a procedural decision that focuses on whether KJRY has substantially complied with §1151. Cheney R. Co.–Feeder Line Acq., 5 I.C.C.2d 250, 1989 ICC LEXIS 19, *10-*11, (1989)(“ Our decision determined only that Tyson's application was complete and satisfied the formal requirements of the regulations in Part 1151. CRC's assertion that Tyson's application failed to demonstrate that it will operate the line for 3 years involves the merits of that application and will be considered in this decision.”) Because the Director’s decision to accept or reject is not a merits decision, it does not focus on whether the FLA should eventually be granted or denied. That is a decision for the full Board after receiving comments, evidence, and reply evidence. Id.

Here, the vast majority of PYCO’s comments are not directed at whether KJRY’s competing FLA substantially complied with the regulations, i.e. the procedural aspects relevant to §1151.3, but instead, focus on alleged bad motives, conspiracies between KJRY and SAW, the alleged lack of shipper support for KJRY’s competing FLA, the failure by KJRY to show that it is a “financial responsible person” with respect to purchasing all of SAW’s lines, and alleged flaws in KJRY’s calculation of the GCV. None of these issues is relevant to whether or not KJRY’s competing FLA for the Alternative Two lines contained the information required by §1151.3 so as to require that it be rejected.

A. KJRY’s Competing FLA Meets All Of The Regulatory Requirements And Should Be Accepted

Focusing on the considerations that are relevant at this time, it is clear that KJRY’s competing FLA fully complied with §1151.3 and should be accepted. Because KJRY’s

competing FLA was filed for the same lines and for the same shippers as PYCO's Alternative Two FLA and KJRY did not have independent access to the extensive evidence that had already been submitted in the record, KJRY relied in large part on PYCO's evidence with respect to Sections 1151.3(1)(description and location of lines), (3)(ii)(operating costs for three years), (7)(operating plan, in part), and (11)(A)-(E)(public convenience and necessity findings with respect to failure to operate the line, service inadequacy for the majority of shippers,² no material impact on SAW, no material impact on operations, and improvement in service). The Director, as later affirmed through the Board in its July 3rd decision, determined that PYCO's evidence with respect to these sections was sufficient to comply with Section 1151.3, and accepted PYCO's Alternative Two feeder line application. It would be inconsistent and arbitrary for the Board to accept PYCO's evidence as justifying acceptance of its feeder line application but then reject KJRY's competing FLA as failing to comply with Section 1151.3 when KJRY relied upon the same evidence.

As to Sections 1151.3(a)(2)(identification of applicant),(4)(estimate of NLV or GCV), (5)(offer to purchase), (6)(dates proposed for operation), (7)(operating plan, in part), (8)(insurance), (9)(preconditions), (10)(subsidy), (12)(exemption election), (13)(trackage rights), (14)(joint rates), (15)(employees), 16(service requirements), KJRY supplied this information. PYCO does not dispute that KJRY supplied this information in accordance with the Board's regulations. The Director should therefore find KJRY in compliance with these sections.

² PYCO makes much of the fact that KJRY's application does not contain shipper support letters, alleging that the application should thus be rejected, but there is nothing in §1151.3(a)(11)(i)(B) that requires a competing feeder line applicant to obtain shipper support letters for its application. Rather, the requirement is that an applicant show that a majority of shippers on the line have inadequate transportation. PYCO has more than demonstrated that requirement. KJRY incorporated and adopted PYCO's evidence on this issue. Furthermore, it is untrue that no shipper supports KJRY. At least one major shipper on SAW's lines, Southern Cotton Oil Company ("SCO"), believes KJRY's competing FLA deserves full consideration. See Letter of August 10 and Comments Of SCO filed in August 14, in F.D. No. 34890.

The only substantive attack in PYCO's Motion To Reject that goes to the actual requirements of §1151.3 is whether or not KJRY is a "financially responsible person" in accordance with §1151.3(a)(3). Even then, when stripped of its rhetoric and vitriolic nature, PYCO's argument is specious. PYCO's argument goes something along these lines: Even though PYCO believes that the SAW lines, Alternative Two, have a negative GCV and that the constitutional minimum value is the net liquidation value ("NLV") that PYCO estimates at \$606,000, KJRY's GCV is either too high because it counted maintenance expense twice, or too low, because it did not include rehabilitation costs, but regardless, KJRY cannot pay its own estimate of GCV and operate the line for three years, thus, KJRY is not a financially responsible person. Of course, this argument misses the point.

Section 1151.3(a)(4) requires the applicant to give an "estimate" of the NLV or GCV of the line and evidence in support of that estimate. KJRY did precisely that. KJRY accepted PYCO's "estimate" of the NLV of \$606,000. KJRY provided a GCV of \$935,070.92, based on specified evidence and explained by J. Michael Carr, President, and CEO of Pioneer Railcorp. Certainly PYCO doesn't attack its own NLV estimate. PYCO does attack KJRY's methodology for arriving at a GCV, but once again, this goes to the merits of what is the true GCV or NLV. This does not go to the issue of whether KJRY has complied with §1151.3(a)(4). PYCO does not, and cannot dispute, that KJRY provided an "estimate" consistent with the regulations.

What PYCO does dispute is whether KJRY supported its ability to pay the GCV or NLV. According to PYCO, KJRY never showed that Pioneer's cash and available credit line could be used by KJRY for acquiring SAW's lines. This is simply untrue. KJRY provided a verified statement by its President, Mr. Michael Carr, who is also the President, CEO, and CFO of KJRY's parent corporation, Pioneer Railcorp. Perhaps PYCO did not carefully read that

statement, especially the part of the statement that is entitled “Financial Resources *Available to KJRY to Pay for The Lines*” (emphasis supplied). Mr. Carr clearly stated:

Pioneer has available, and will make available to KJRY for purposes of acquiring the SAW lines covered by KJRY’s application, cash on hand in the amount of \$1.5 million. Moreover, Pioneer also has available a \$1.5 million line of credit which is available to support acquiring and operating these lines.

V.S. Carr at 38. This cash and line of credit are specifically available to KJRY for purchase of the SAW lines covered by Alternative Two. This is not cash or credit that is needed for Pioneer’s other subsidiaries, but rather is specifically to be provided to KJRY.

Mr. Carr’s statement was confirmed in a letter by the National City Bank of Michigan/Illinois (“Bank”). The Bank confirmed that they know of no debt covenants or other restrictions that would prohibit Pioneer from making its cash reserves available to KJRY to fund the acquisition of SAW’s lines. Likewise, the Bank confirmed that if Pioneer advanced funds to KJRY out of its \$1.5 million line of credit to purchase and operate the lines that “Pioneer has sufficient cash flow from operations to service debt payments on that line of credit.” V.S. Carr, Exhibit 1, Bank Letter. Again, the line of credit is “available to KJRY” and is not required for other Pioneer operations.³

Nonetheless, while it is not necessary to provide further information, as the record is already sufficient regarding KJRY’s financial responsibility, to erase any doubt, KJRY hereby provides a Supplemental Verified statement by Mr. J. Michael Carr (“S.V.S. Carr”). Mr. Carr makes it crystal clear that Pioneer’s advancement of funds, whether via cash or the line of credit, to KJRY will not jeopardize Pioneer’s other operations, does not impact required operating

³ PYCO criticizes KJRY as the applicant because KJRY does not have its own cash reserves or line of credit. Yet, the fact that Pioneer is providing the financing to KJRY is no different than a bank providing financing to PYCO for its acquisition and operation of the lines. PYCO didn’t include its bank as an applicant in its feeder line, nor should KJRY’s application be rejected because KJRY was obtaining its financing from its parent, who was likewise not included as an applicant.

reserves for its other lines, and that such funds are available to KJRY. Mr. Carr also attaches, under seal, Pioneer's most recent consolidated financial reports. Even a cursory review of those reports establishes that Pioneer has more than sufficient available revenues and cash to fund KJRY's acquisition and operation of SAW's lines.

With all this in mind, PYCO's claim that KJRY does not qualify as a financially responsible person at this stage of the proceeding consistent with §1151.3(a)(3) is ridiculous. Indeed, to emphasize the point, if PYCO is correct that the NLV of \$606,000 is the correct value and that the lines can be operated for a three year period on a profitable basis, which PYCO's own studies show and which were adopted by KJRY, then KJRY has more than enough funds to both acquire and operate the Alternative Two lines. Certainly if the Board has already determined that PYCO is a financially responsible on the basis of PYCO's estimate of NLV, then it would be arbitrary and capricious to hold KJRY to a higher standard and require KJRY to show financial responsibility for more than PYCO's estimate. On the other hand, if PYCO's estimate is too low or is the wrong methodology, which KJRY believes both are the case, and the correct constitutional minimum value is the GCV put forth by KJRY or SAW, then under PYCO's reasoning, PYCO's application should have been rejected because it is not a financially responsible person because PYCO has not shown that it could finance the higher GCV.

The correct answer of course is that at this stage of the proceeding, both PYCO and KJRY have provided their best estimates of the GCV and the NLV, which is all the regulations require at this stage. Both have shown that they could acquire the lines at their respective asserted constitutional minimum value estimates and both have shown that the lines could be operated profitably for a three year period without a subsidy or additional revenue funding.⁴

⁴ PYCO criticizes Mr. Carr and KJRY for not showing that KJRY has the financial resources to operate the lines for the three year period following an acquisition and for not including rehabilitation costs in its estimates. KJRY and Mr. Carr did address those issues. KJRY will

Indeed, it may ultimately be that neither PYCO nor KJRY are financially responsible persons under the statute.⁵ It is clear, however, that at this stage, KJRY has more than complied with the requirements of Section 1151.3 and its competing FLA should be accepted.

B. Other Assertions Made By PYCO Are Irrelevant Or Incorrect

As noted, a substantial portion of PYCO's August 14 Motion to Reject is dedicated to arguing the merits of KJRY's competing FLA – issues which are not yet ripe for review or reply. While KJRY has addressed here PYCO's arguments regarding whether or not KJRY is a financially responsible party, KJRY will address any remaining questions regarding the merits of its application in its reply comments on September 7 as provided in the Board's August 3, 2006 decision. Nonetheless, there are certain disparaging comments that, while irrelevant, need to be addressed.

First, the allegation that KJRY and Pioneer are the "son of SAW" is simply ridiculous. As set forth in the attached Verified Statement of Daniel A. LaKemper, Pioneer's General Counsel, "Mr. Montange's allegations that KJRY is a 'front' for SAW and the 'Son of SAW' are unfounded, reckless, inappropriate, and false." Pioneer and KJRY have no agreements with,

rely upon the positive cash flow from operations to fund post-acquisition operations. In making this statement, KJRY relied upon PYCO's own witness who showed that there would be a positive cash flow for post-acquisition operations, see F.D. No. 34844, May 5 Feeder Line Application, R.L. Banks Study, Exhibit C, Tables 7 and 14. It is duplicitous for PYCO to criticize KJRY for these issues when PYCO itself did not include rehabilitation costs in its post-acquisition operating revenue projections and specifically stated that because the "system's operating revenues exceed its costs, the necessary cash reserve for [post-acquisition] operation is essentially nil." See PYCO June 14 Revised Application at 8 [internal footnotes omitted].

⁵ See Cheney R. Co.-Feeder Line Acq., 5 I.C.C.2d 250, 1989 ICC LEXIS 19, *9 (1989):

Until a proceeding is completed, we do not know which, if any, applicant is a 'financially responsible person' and whether that applicant will actually buy the line at the price we set. Considering applications one at a time may thus delay transfer of a line. This would be contrary to the purposes of the feeder line development program, one of which is to preserve feeder lines.

affiliations with, or understandings with SAW. It is true that Mr. Carr and Mr. LaKemper had various conversations with SAW's counsel and management, but Pioneer did not get involved in these proceedings at the request of SAW. Pioneer got involved because it knew SAW had been attempting to sell the railroad and was the subject of numerous disputes at the STB. Pioneer then reviewed the various revenue and expense projections contained within PYCO's FLA and Revised FLA, determined that SAW could be operated profitably as either an all-SAW alternative or as a partial-SAW alternative, and then called SAW to get SAW's views.⁶ SAW did not call Pioneer first. See S.V.S. Carr at 18.

Pioneer's views regarding the profitability of SAW's operations were later confirmed through reviewing financial information provided by SAW; the same information that had been presented to prospective buyers, including PYCO. Those figures confirmed that PYCO was trying to "low-ball" SAW's worth and basically steal SAW's assets through the regulatory process by paying an artificially low value. As a shortline holding company desiring to acquire and operate additional rail properties and knowing that SAW's railroad can be operated profitably, Pioneer got involved. Id.

Thus, regardless of the disputes and issues between PYCO and SAW, Pioneer and KJRY are not SAW. KJRY will not retaliate against PYCO. S.V.S. Carr at 18. Indeed, as the line's major customer why would KJRY act against its own economic incentive and retaliate against PYCO? It wouldn't. Nor does KJRY simply desire to "milk" the railroad for a few more years and pass it on. That is not Pioneer's or KJRY's modus operandi. KJRY's practice and desire is to enter into long-term contracts with shippers that will guarantee shipper's reasonable rail rates

⁶ Pioneer also called PYCO's counsel to discuss its views and in an attempt to reach a negotiated solution.

over the long-term while providing a reasonable profit to KJRY. It is not a “buy-it,” “milk-it,” and then “sell-it” company and KJRY challenges PYCO to find a contrary example. Id. at 19.

If anything, it is PYCO’s motives that are suspect. PYCO knows the value of SAW’s operations and appears to be trying to steal that value at artificially low NLV prices. Indeed, as one of PYCO’s major competitors, Southern Cotton Oil Company (“SCO”), is also served by SAW and SCO has now entered an appearance in these proceedings., KJRY can only wonder, as it is sure SCO wonders, whether PYCO is trying to acquire SAW’s lines in order to gain a competitive advantage over its competitor. What will PYCO’s treatment be of its competitor’s rail rates and service levels if PYCO owned the line? Is this why PYCO is so adamantly opposed to KJRY – because it wants the lines to create for itself an unfair competitive advantage? As a neutral, third party, KJRY simply wants to operate a railroad for all of the shippers and to do so at a reasonable profit. It is unfortunate that PYCO has chosen to attack KJRY rather than work with it.

A second major allegation that needs to be addressed is PYCO’s often-repeated assertion, at least in its August 14 comments, that KJRY’s competing FLA will not result in adequate service to PYCO and the shippers. PYCO bases this statement on the fact that SAW, under the Alternative Two option, would remain in control of certain rail lines, yards, and access to the non-Alternative Two shippers. As a result, according to PYCO, there are difficult operating issues regarding shared usage of yards, interchange with BNSF, and other such issues which would make KJRY’s operations inadequate to serve PYCO, Attebury, or Compress. Due to these concerns, PYCO believes that KJRY’s competing FLA should be rejected.

Of course, this issue goes to the merits of the underlying competing FLA, not to whether it should be accepted or rejected. Nonetheless, to the extent it is relevant, one glaring problem with this argument is that PYCO’s Alternative Two FLA, also suffers from the same alleged

deficiencies. This is likely the first case where a feeder line applicant, who has had its feeder line accepted by the Board, has actually subsequently made arguments against the merits of its own feeder line application. It may be that an all-SAW alternative, i.e. Alternative One, is the better option for resolving PYCO's alleged operating concerns, but unfortunately, that alternative has been rejected and is not under consideration by the Board. If PYCO believes that Alternative One is now the preferred alternative, it should dismiss its Alternative Two feeder line application and refile a feeder line application for all of SAW's lines.

Finally, KJRY must reiterate its concerns regarding PYCO's litigation tactics. It is almost impossible to determine just what PYCO is and isn't litigating. PYCO is constantly changing its mind, moving the goalposts, and ignoring the Board's rules and procedures. The Board needs to say "enough is enough." The latest example is the fact that PYCO has asked, in its letter filed August 8, that the Alternative Two proceeding be converted into an Alternative One proceeding.⁷ Yet, as if to further highlight PYCO's schizophrenic litigation tactics, PYCO's August 11 filing seeks to amend and revise its Alternative Two feeder line; not convert it to an Alternative One proceeding. This request again seeks to change the rules of the game in the middle of the game, and all for the benefit of PYCO, not the shippers, the public, KJRY, SAW, or SCO. As a result, and for many of the same reasons stated in KJRY's August 10 motion, PYCO's August 11 filing should also be stricken from the record.⁸

⁷ For the reasons stated in its August 10 motion, KJRY has moved to strike that letter.

⁸ There are provisions in the regulations for filing an incomplete application, filing discovery, having the Director conditionally accept an incomplete application, and then having an applicant revise and supplement its incomplete application before the Board actually accepts the application as complete and begins a proceeding. But, that was not the process followed by PYCO. PYCO's Alternative Two application was filed and accepted as a complete application. PYCO cannot change the scope of that application in the middle of the proceeding, and there is no regulatory, statutory, or policy basis for allowing it to do so.

CONCLUSION

Consistent with the Board's precedents and regulations, KJRY filed a competing feeder line application seeking to acquire and operate the same SAW lines that are subject to PYCO's Alternative Two feeder line application. The Director of the Office of Proceedings has until August 18 to accept or reject KJRY's competing FLA. PYCO seeks to have the Director (PYCO mistakenly uses "the Board") reject that application. In large part, PYCO's request for rejection goes to issues that involve the merits of the application or that are simply irrelevant to the Alternative Two proceeding. The Director's decision, however, is not a merits decision. The Director is to determine whether KJRY's application has substantially complied with the regulations. As KJRY's competing FLA is in compliance with Section 1151.3, the Director should accept it for consideration and allow the process, including consideration of the merits, move forward.

Respectfully submitted,



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Attorneys for Keokuk Junction Railway Co.

August 16, 2006

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB DOCKET NO. 34890
STB DOCKET NO. 34922**

**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.
and
KEOKUK JUNCTION RAILWAY CO.—FEEDER LINE APPLICATION—LINES OF
SOUTH PLAINS SWITCHING, LTD. CO.**

VERIFIED STATEMENT OF DANIEL A. LaKEMPER

My name is Daniel A. LaKemper and I am the General Counsel of Keokuk Junction Railway Co. ("KJRY").

KJRY is a wholly-owned subsidiary of Pioneer Railcorp. Pioneer Railcorp has absolutely no relationship with South Plains Switching Switching, Ltd. ("SAW"), nor has it ever had any relationship with SAW.

KJRY's involvement in the SAW feeder line proceeding is purely for its own account, and it own business. I personally contacted SAW's counsel, Mr. McFarland, regarding this matter (not the other way around), to inquire as to SAW's interest in having an independent third party purchase their railroad. A representative of SAW then contacted Mr. Carr, KJRY's President, and provided him with information about SAW's lines. KJRY has had discussions with SAW about the prospect of purchasing that part of SAW's rail lines that are not the part of the feeder line proceeding, and expects to continue those discussions, but, other than those discussions, which have yet to mature into a written agreement, KJRY has no agreement or obligation to SAW whatsoever. Mr. Montange's allegations that KJRY is a "front" for SAW and the "Son of SAW" are unfounded, reckless, inappropriate, and false.

VERIFICATION

I, Daniel A. LaKemper, declare under the penalty of perjury that to the best of my knowledge the foregoing is true and correct. Further, I certify that I am qualified to file this Verified Statement. Executed this 16TH day of August, 2006.

A handwritten signature in cursive script, appearing to read "Daniel A. LaKemper", written in black ink.

Daniel A. LaKemper

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB DOCKET NO. 34890
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**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.
and
KEOKUK JUNCTION RAILWAY CO.--FEEDER LINE APPLICATION--LINES OF
SOUTH PLAINS SWITCHING, LTD. CO.**

SUPPLEMENTAL VERIFIED STATEMENT OF J. MICHAEL CARR

My name is J. Michael Carr. I am President, CEO, and CFO of Pioneer Railcorp ("Pioneer"). I am also the President of KJRY. I have previously provided a verified statement in Finance Docket No. 34890 and incorporate those comments here.

I have reviewed PYCO Industries, Inc. ("PYCO") August 14 comments. While it should not be necessary to provide further information, to erase any doubt, I want to make it crystal clear that Pioneer will advance funds to KJRY for KJRY to both acquire and operate the lines that are subject to KJRY's feeder line application. Pioneer can provide as much as \$3.0 million for that purpose. Furthermore, whether this advancement comes via cash or the line of credit, such advancement of funds to KJRY will not jeopardize Pioneer's other operations and are not required operating reserves for our other lines. I have also attached, as Exhibit 1 to this supplemental verified statement, Pioneer's most recent consolidated financial reports. Even a cursory review of those reports establishes that Pioneer has more than sufficient available revenues and cash to fund KJRY's acquisition and operation of the lines that are subject to KJRY's feeder line application.

I would also like to address PYCO's arguments that Pioneer and KJRY are somehow SAW's substitute and that our actions would be similar to SAW's. Nothing could be further from the truth. We have no agreements with, affiliations with, or understandings with SAW. It is true that I have had some conversations with SAW's management and others, but Pioneer did not get involved at the request of SAW. Pioneer got involved because it knew SAW had been attempting to sell the railroad and that its lines were the subject of numerous disputes at the STB. I reviewed the various revenue and expense projections contained within PYCO's original feeder line application and the revised feeder line application and determined that SAW could be operated profitably as either an all-SAW alternative or as a partial-SAW alternative. KJRY then called SAW and PYCO to get their views. SAW did not call Pioneer first.

My thoughts regarding the profitability of SAW's operations were later confirmed when I reviewed financial information provided by SAW; the same information that has apparently been presented to prospective buyers, including PYCO. Based upon all of the available information, I determined that PYCO was trying to acquire SAW's assets through the regulatory process by paying an artificially low value. As a shortline holding company that desires to acquire and operate additional rail properties, and knowing that SAW's railroad could be operated profitably, I decided that Pioneer and KJRY would get involved. This looks to me like a good opportunity for a third-party, neutral railroad to step into a situation, acquire lines, work with the shippers, and hopefully bring resolution to the contentious nature between the shippers and their railroad.

I will unequivocally say that KJRY will not retaliate against PYCO. Indeed, as the line's major customer, KJRY would not act against its own economic incentive by making its major shipper mad. Nor does KJRY simply desire to "milk" the railroad for a few more years and pass it on. That is not Pioneer's or KJRY's modus operandi. KJRY's practice and desire is to enter into long-term contracts with shippers that will guarantee shipper's reasonable rail rates over the

long-term while providing a reasonable profit to KJRY. Pioneer is not a “buy-it,” “milk-it,” and then “sell-it” company.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB DOCKET NO. 34890
STB DOCKET NO. 34922**

**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.
and
KEOKUK JUNCTION RAILWAY CO.—FEEDER LINE APPLICATION--LINES OF
SOUTH PLAINS SWITCHING, LTD. CO.**

SUPPLEMENTAL VERIFIED STATEMENT OF J. MICHAEL CARR

EXHIBIT 1

**FILED UNDER SEAL AS A HIGHLY CONFIDENTIAL DOCUMENT PURSUANT TO
THE BOARD'S JULY 6TH PROTECTIVE ORDER**

VERIFICATION

I, J. Michael Carr, verify under penalty of perjury that I have read the foregoing supplemental verified statement and that the same is true and correct as stated. Further, I certify that I am qualified and authorized to file the foregoing statement.

Dated: August 16, 2006



J. Michael Carr
President, CEO and Chief Financial
Officer, Pioneer Railcorp

CERTIFICATE OF SERVICE

I, William A. Mullins, hereby certify that on August 16, 2006, I caused a copy of the foregoing Reply To Motion To Reject to be served by first class mail, postage prepaid, or by more expeditious service upon all parties of record in Finance Docket Nos. 34890 and 34922.



William A. Mullins