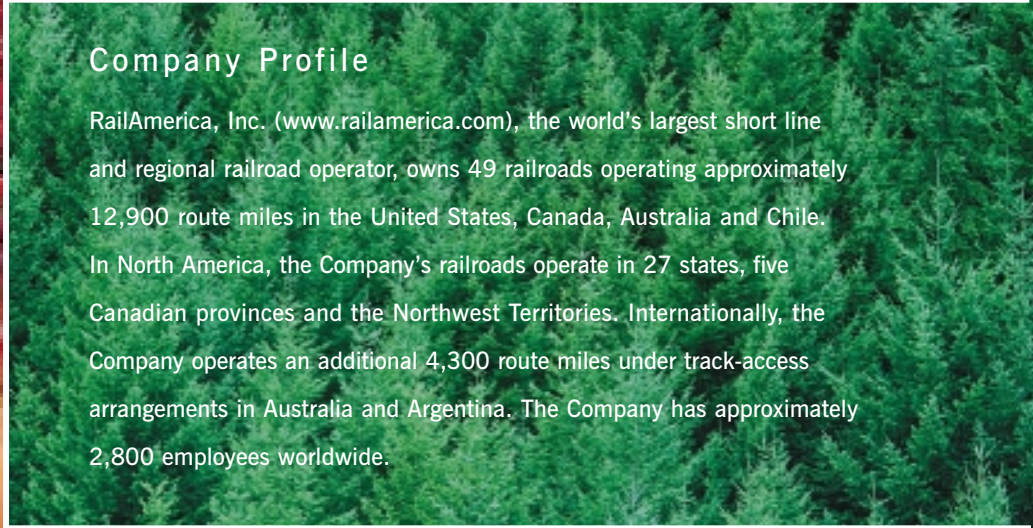


Reaching Across America and Beyond



RailAmerica, Inc.

2001 Annual Report



Company Profile

RailAmerica, Inc. (www.railamerica.com), the world's largest short line and regional railroad operator, owns 49 railroads operating approximately 12,900 route miles in the United States, Canada, Australia and Chile. In North America, the Company's railroads operate in 27 states, five Canadian provinces and the Northwest Territories. Internationally, the Company operates an additional 4,300 route miles under track-access arrangements in Australia and Argentina. The Company has approximately 2,800 employees worldwide.





Corporate Offices

Corporate Headquarters
Boca Raton, Florida

Regional Office
San Antonio, Texas

Regional Office
San Francisco, California

North American Railroads

Alabama & Gulf Coast Railway
Monroeville, Alabama

Arizona & California Railroad
Parker, Arizona

Arizona Eastern Railway Company
Claypool, Arizona

California Northern Railroad
American Canyon, California

Cape Breton & Central
Nova Scotia Railway
Stellarton, Nova Scotia, Canada

Carolina Piedmont Railroad
Laurens, South Carolina

Cascade & Columbia River Railroad
Omak, Washington

Central Oregon & Pacific Railroad
Roseburg, Oregon

Central Railroad Company
of Indiana
Cincinnati, Ohio

Central Railroad Company
of Indianapolis
Cincinnati, Ohio

Central Western Railway
Stettler, Alberta, Canada

Chesapeake & Albemarle Railroad
Elizabeth City, North Carolina

Connecticut Southern Railroad
East Hartford, Connecticut

Dallas, Garland &
Northeastern Railroad
Richardson, Texas

Eastern Alabama Railway
Sylacauga, Alabama

Esquimalt & Nanaimo Railway
*Nanaimo, Vancouver Island,
British Columbia, Canada*

Goderich-Exeter Railway
Kitchener, Ontario, Canada

Grand Rapids Eastern Railroad
Greenville, Michigan

Huron & Eastern Railway
Vassar, Michigan

Indiana & Ohio Central Railroad
Cincinnati, Ohio

Indiana & Ohio Railway
Cincinnati, Ohio

Indiana Southern Railroad
Petersburg, Indiana

Kiamichi Railroad
Hugo, Oklahoma

Kyle Railroad Company
Phillipsburg, Kansas

Lahaina, Kaanapali & Pacific Railroad
Mauai, Hawaii

Lakeland & Waterways Railway
Edmonton, Alberta, Canada

MacKenzie Northern Railway
Peace River, Alberta, Canada

Michigan Shore Railroad
Greenville, Michigan

Mid-Michigan Railroad
Greenville, Michigan

Missouri & Northern
Arkansas Railroad
Carthage, Missouri

New England Central Railroad
St. Albans, Vermont

North Carolina & Virginia Railroad
Aboskie, North Carolina

Ottawa Valley Railway
North Bay, Ontario, Canada

Otter Tail Valley Railroad
Fergus Falls, Minnesota

Puget Sound & Pacific Railroad
Elma, Washington

Saginaw Valley Railway
Vassar, Michigan

San Diego & Imperial Valley Railroad
San Diego, California

San Joaquin Valley Railroad
Exeter, California

San Pedro & Southwestern Railway
Benson, Arizona

South Carolina Central Railroad
Hartsville, South Carolina

Southern Ontario Railway
Hamilton, Ontario, Canada

Texas-New Mexico Railroad
Hobbs, New Mexico

Texas Northeastern Railroad
Richardson, Texas

Toledo, Peoria & Western Railroad
East Peoria, Illinois

Ventura County Railroad
Port Hueneme, California

Virginia Southern Railroad
Keysville, Virginia

West Texas & Lubbock Railroad
Brownfield, Texas

International Railroads

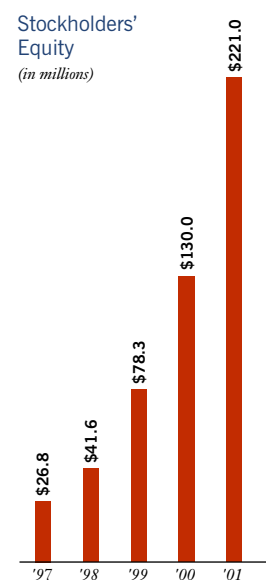
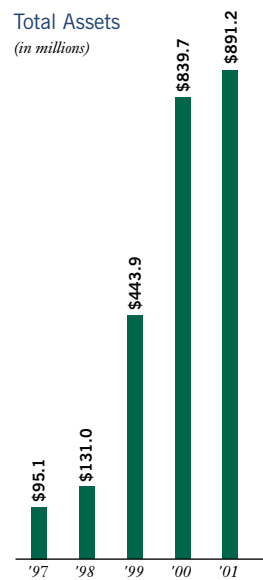
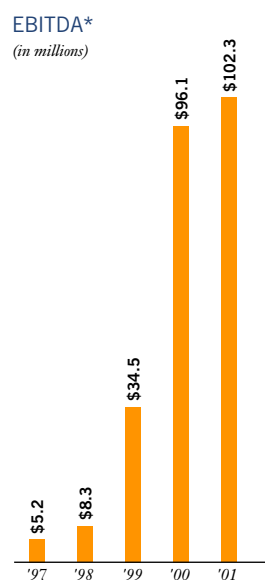
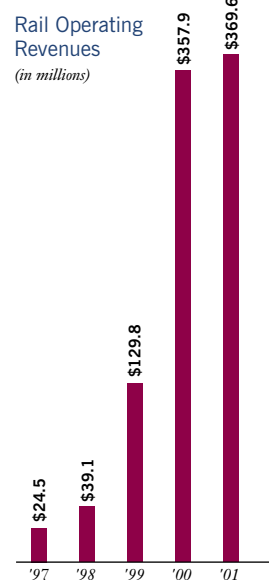
Ferromor (Empresa de Transporte
Ferroviario S.A.)
Coquimbo, Chile

Freight Australia
Melbourne, Australia



(*\$ thousands, except earnings per share & operating data*)

	2001	2000	1999	1998	1997
Income Statement Data					
Operating revenue	\$369,631	\$357,936	\$129,818	\$ 39,136	\$24,496
Operating income	74,740	70,034	25,279	5,781	3,365
Income from continuing operations	17,274	9,608	6,025	113	288
Diluted earnings per share from continuing operations	\$ 0.72	\$ 0.49	\$ 0.43	\$ 0.01	\$ 0.02
Net income	17,038	11,661	9,921	4,401	1,939
Net income per diluted share	\$ 0.71	\$ 0.60	\$ 0.77	\$ 0.45	\$ 0.22
Weighted average diluted shares outstanding	25,350	18,267	11,665	9,778	8,587
Balance Sheet Data					
Total assets	\$891,168	\$839,703	\$443,929	\$130,964	\$95,141
Long-term debt	301,687	358,856	162,827	66,327	47,603
Subordinated debt	144,988	141,411	122,449	—	2,212
Stockholders' equity (incl. Preferred Stock)	220,959	130,047	78,297	41,642	26,814
Operating Data					
Freight carloads	1,214,554	1,151,743	394,177	117,535	69,140
Track mileage	11,000	11,000	8,400	2,400	2,330
Number of full time employees	2,312	2,368	1,707	652	542



*Earnings before interest, taxes, depreciation and amortization.

Chairman's Letter

To Our Shareholders:

Now more than ever, RailAmerica's portfolio of short line and regional freight railroads reaches across our great nation and beyond, from neighboring states to distant continents. With railroads throughout North America and in Australia and Chile, our global presence continues to grow with each passing year.

One of the things we are proud of is that our short line railroads form the backbone of rural America, transporting goods throughout the countryside and interchanging them with the Class I carriers for the long haul. From the Pacific Northwest to the Atlantic Seaboard, to the Andes Mountains, to the outback of Australia, we are truly an international company with local appeal.

We keep much-needed commodities such as steel, grain, lumber and coal moving efficiently through the vast rail networks for consumption in domestic markets as well as for export trade. Among other things, these goods provide for the homes we live in, the electricity that runs them, the food we eat and the vehicles that transport us. For many of us, railroads carry the products that touch our every day lives.

2001 Goals

I am pleased to report that in 2001 RailAmerica continued to make progress in solidifying its position as one of the fastest growing, most efficient, safest and profitable operators of short line and regional freight railroads.

Our chief objective during 2001 was to significantly improve our capital structure. Through our asset rationalization plan and issuance of common stock, we more than surpassed that goal. Our balance sheet is now stronger than ever. We reduced our net debt to equity ratio from 4.4 times after the RailTex acquisition in February 2000 to 1.4 times at the end of 2001. We successfully improved our base of shareholders with the addition of high-quality, prestigious institutional investors while increasing our equity by more than \$100 million in 2001.



“Our short line railroads form the backbone of rural America, transporting goods throughout the countryside.”

“In 2001, RailAmerica continued to make progress in solidifying its position as one of the fastest growing, most efficient, safest and profitable operators of short line and regional freight railroads.”



Gary O. Marino
Chairman, President & CEO

We accomplished this initiative through the issuance of common stock, the conversion of our redeemable convertible preferred stock, the exercise of other convertible securities into common stock and retention of earnings. Equity was further increased \$48 million in early 2002 as a result of the issuance of common stock in connection with the StatesRail and ParkSierra acquisitions. We reduced our debt by approximately \$55 million in 2001 through the use of proceeds from the sale of certain assets, including non-core railroads, intellectual property and real estate, the sale/leaseback of equipment and internally generated cash flow.

Our improved capital structure was acknowledged by the financial community and reflected in our stock performance in 2001. RailAmerica's stock increased 83 percent last year—a strong showing in a year where we saw a substantial retreat in the equity markets. In the same period, the S&P 500 decreased 15 percent, the Nasdaq® dropped 18 percent and the Russell 2000® Index gained just 5 percent.

We attained other milestones in 2001 as well. In July, we were added to the Russell 2000® Index. In October, we moved up to 85th from 103rd in the ranks of *Forbes* magazine's *200 Best Small Companies in America* list. And after almost ten years of trading on the Nasdaq® market, we received approval for listing on the New York Stock Exchange in December and on January 2, 2002 commenced trading under our new ticker symbol, “RRA.”

Finally, our outstanding customer service was recognized by the American Short Line and Regional Railroad Association. Our Indiana Southern Railroad (ISRR) and our Dallas, Garland & Northeastern Railroad (DGNO) won the industry's top marketing awards which recognizes excellence in railroad marketing initiatives. ISRR was honored for its new business agreement with Peabody Coal Company, which is expected to increase annual carloads on the ISRR by approximately 20 percent as well as substantially decrease transportation costs for Peabody. DGNO was honored for its innovative rail-based solution to a customer's needs to deliver cement between two plants located in Texas. Through these new initiatives, our two railroads will remove approximately 76,000 trucks from the highways annually.

Performance

In 2001 we set records in just about every financial and statistical category, including carloads, revenues, operating income, EBITDA (earnings before interest, taxes, depreciation and amortization), net income and earnings. These records were achieved in a year where we faced a weak global economy, a tough U.S. industrial sector and depressed Australian and Canadian dollar exchange rates.

Operating revenues for 2001 grew 3 percent to \$370 million, from \$358 million in 2000. For the year, operating income and EBITDA both improved 7 percent to \$75 million and \$102 million, respectively. Earnings from continuing operations increased 80 percent to \$17.3 million for 2001, while earnings per share increased to \$0.72, up from \$0.49 in 2000.

Our global carloads reached an all-time high of 1.2 million in 2001, a 4 percent increase over 2000. To put this growth in perspective, our North America "same railroad" carloads also improved 4 percent in 2001 while the Class I carloads declined an average of 2 percent during the same period. Our international carloads also rose 5 percent in 2001.

We attribute this strength to the diversity among our geographic locations and commodity mix hauled. Our revenues are derived from five countries, 27 U.S. states and six Canadian provinces, while no one commodity makes up more than 10 percent of our total product mix. This tremendous diversity continues to serve as a safeguard against regional and economic downturns. Carloads were also enhanced by new transportation contracts on both our North American and international properties in 2001, including new shipments of coal at our Indiana railroad, steel at our South Carolina railroad and copper products at our Chilean railroad.

The improvement in our operating ratio, a key measurement of railroad operating performance, was outstanding. In North America, our operating ratio improved 3.4 percentage points to 75.5 percent in 2001, while our international railroad operating ratio improved 2.0 percentage points to 79.6 percent. We believe that our emphasis on safety contributed to this overall success.



Coal A major commodity for railroads worldwide, coal is transported by rail to power plants and manufacturing facilities for its ultimate use as a source of energy for you and me.



Grain Whether on its way to a food processing plant or bakery, grain products are hauled by rail in covered hoppers to its destination—eventually our table.



In 2001 our return on invested capital stood at nearly 12%, positioning RailAmerica, we believe, as one of the only railroads in the industry earning its cost of capital. And, as of the writing of this annual report, we are in the process of refinancing approximately \$325 million of our long-term debt in order to lower interest payments, thereby increasing income and enhancing shareholder returns.

Acquisitions

An important part of our business plan has always been, and continues to be, making strategic rail acquisitions. Even though the purpose of acquisitions is to add to our bottom line, they are not our only means of growth. As noted above, our "same railroad" carloads, revenues and earnings continue to grow significantly faster than the railroad industry averages.

When seeking to acquire a railroad, we look for a property that enhances our regional operating structure, has a growing customer base and a sound rail infrastructure. In addition, an acquisition should be accretive to our earnings, generate sufficient returns, and improve our leverage and debt coverage ratios.

In the fall of 2001, we announced the acquisition of the StatesRail and ParkSierra railroads. StatesRail consisted of eight railroads, including seven freight railroads and a tourist railroad in Hawaii. ParkSierra was comprised of three west coast railroads. Both transactions were completed in early January 2002.

Combined, we paid a total of approximately \$138 million for these railroads, which consisted of approximately \$90 million in cash or the assumption of debt, and approximately \$48 million in RailAmerica common stock. Since the owners of StatesRail and ParkSierra agreed to take RailAmerica common stock for approximately one-third of the

combined purchase price for these two transactions, the end result for RailAmerica was a reduction in our overall balance sheet leverage.

StatesRail and ParkSierra together are projected to add about \$90 million in revenues and approximately \$28 million in EBITDA to RailAmerica in 2002. That would mean a purchase price to EBITDA multiple of 4.9 times. To date, the integration of these acquisitions has proceeded well and we fully expect that they will be accretive to 2002 earnings.

We believe the StatesRail and ParkSierra transactions represent the types of acquisitions that are consistent with RailAmerica's strategic approach to acquiring rail properties. They provide significant opportunities for organic growth through aggressive marketing, the ability to geographically cluster operations within our current operating regions to gain functional efficiencies, and the ability to achieve substantial corporate and administrative cost savings and synergies through our consolidated corporate structure.

The current acquisition environment holds numerous opportunities for us to grow our business. In particular, the market for acquisitions in North America remains favorable as some Class I's are looking to rationalize their light density branch lines and there are a number of privately held railroad operators both domestically and abroad that are seeking to liquefy their investments.

Internationally, where we believe rail privatizations offer the greatest growth potential, there are many opportunities, but we seek to be only in those countries with stable political and economic environments.



Forest Products Moved by rail as logs, paper or finished lumber, forest products are a vital natural resource that touch our lives daily.



Steel A key component for many everyday products, raw steel & steel products are shipped by rail in several forms, including as finished automobiles in these auto racks above.



Reaching Across America...and Beyond

RailAmerica symbolizes the values that are the driving force of rural America—efficiency, service, loyalty and innovation. By upholding these ideals, we differentiate ourselves from other railroads and other modes of transportation. They are the pillars of our business, enabling us to reach across America and beyond.

Efficiency

RailAmerica is one of the most efficient and profitable rail operators in the world. Even during the difficult economic environment of 2001, we increased carloads and revenues and improved the operating ratios at our railroads. We credit our diverse geographic and product mix, safe operations and regional operating structure for leading this improvement. We strive to operate with maximum efficiency, thereby bringing reduced pricing to our customers and improved financial results to our shareholders.

Service

We pride ourselves with having a superior level of customer service. Put simply, in order to grow our business we must grow our carloads. Our marketing team is focused on increasing business from existing customers while our industrial development group concentrates on relocating new customers to our rail lines. In 2001, we invested \$62 million in our rail infrastructure and equipment—enabling us to provide dependable, quality service that our customers can count on.

Loyalty

By remaining loyal to our customers, they are more likely to remain loyal to us. While an important facet of our service is the consistent and reliable delivery and pick-up of freight, our flexibility enables us to react quickly to market changes. Our one-on-one contact with customers enables us to offer them the best rates available and personalized shipping solutions. In addition to our thousands of customers, we have 2,800 loyal employees working hard every day to make RailAmerica a success.

Innovation

While railroad companies typically are not thought of as innovators, RailAmerica is far from the norm in this respect. In addition to the short line marketing awards mentioned above, we have been on the cutting edge of customer service initiatives—including new rail service for commodities like sugar beets and apples that traditionally do not move via rail due to service issues.

In conclusion, in 2001 we accomplished our goals yet we empower ourselves to progress in 2002. We face the future with confidence and optimism. Our management team and staff are dedicated to building and growing our portfolio of strong railroad assets to deliver the value our loyal shareholders expect and deserve.

RailAmerica's growth is unparalleled in the industry and our strategy is clear. As we broaden our reach throughout North America and beyond, we will remain the backbone of rural America.



“RailAmerica symbolizes the values that are the driving force of rural America—efficiency, service, loyalty and innovation. By upholding these ideals, we differentiate ourselves from other railroads.”



General

We are the world's largest short line and regional freight railroad operator. We own 49 railroads operating approximately 12,900 route miles in the United States, Canada, Australia, Chile and Argentina. In North America, we operate in 27 states, five Canadian provinces and the Northwest Territories.

Our principal business consists of the operations of North American short line freight railroads and international regional railroads. During 2001, 67% of our revenues were derived from railroad operations in North America while 33% of revenues were derived from our international railroad operations based in Australia and Chile. During 2001, Australia and Chile generated 27% and 6%, respectively, of our total revenues.

Our North American rail group operates 46 short line railroads, including 11 railroads purchased in January 2002 (see discussion of the ParkSierra and StatesRail acquisitions below). Each of these railroads operates independently with their own customer base. While these railroads are spread out geographically and carry diverse commodities, bridge traffic, coal and lumber and forest products accounted for 23%, 11% and 10% of our carloads in North America during 2001. As a percentage of revenues, however, which is impacted by several factors including the length of the haul, these carloads generated 10%, 17% and 11% of our North American freight revenues. Bridge traffic, which neither originates or terminates on our line, generally has a lower rate per carload. For 2002, we expect bridge traffic to comprise a smaller percentage of both our carloads and revenues as neither ParkSierra's nor StatesRail's railroads generate significant bridge traffic. Conversely, petroleum products, which generated less than 5% of carloads and revenues in 2001, are expected to increase as nearly 20% of ParkSierra's and StatesRail's carloads are petroleum products.

Freight Australia, our Australian regional railroad, has two primary sources of revenues. The first is freight revenues, which comprises 82% of Freight Australia's total revenues. Freight Australia hauls various commodities over its line including agricultural products, cement, gypsum, stone and logs. Agricultural products comprised 46% of Freight Australia's total revenues in 2001. The level of revenues from agricultural products is dependent on the grain harvest in the State of Victoria. The grain harvest in 2001 was very strong and the 2002 harvest is expected to be

good as well. The second source of revenue is access fees paid to us by other passenger or freight operators for the right to operate over our railroad. These amounts accounted for 18% of Freight Australia's revenues in 2001.

Ferronor, our 55%-owned Chilean railroad, has two customers that comprised approximately 83% of its revenues in 2001. Each of these customers operate under take-or-pay arrangements.

In addition to our railroad operations, we have historically generated gains through asset sales. Through our various North American railroads, we own 8,604 miles of track and 63,400 acres of land. We continually review our portfolio of railroads and look to sell entire railroads, portions of railroads or underutilized real estate where holding such assets does not meet our internal criteria. During 2001, we generated gains of \$6.4 million. These gains are included in operating income in our consolidated statements of income.

In January 2002, we acquired all of the stock of StatesRail, which owned and operated eight railroads (including seven freight railroads and a tourist railroad in Hawaii) with 1,647 miles of track in eleven states. Total consideration for the acquisition was \$90 million, consisting of \$67 million in cash and \$23 million in our common stock (1.7 million shares).

Also, in January 2002, we acquired all of the stock of ParkSierra, which owned and operated three freight railroads with 703 miles of track in four western states. Total consideration for the acquisition was \$48 million, consisting of \$23 million in cash and \$25 million in our common stock (1.8 million shares).

In February 2000, we acquired RailTex, which owned and operated twenty-five railroads with over 4,100 miles of track. Total consideration for the acquisition was \$294 million, consisting of \$128 million in cash, assumption of \$105.3 million in debt and 6.6 million shares of our common stock valued at \$60.9 million.

In December 2000, we sold our specialty truck trailer manufacturing operations for \$38.5 million. This segment is presented as a discontinued operation for each period presented.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

The critical financial statement accounts that are subject to significant estimation are reserves for litigation, casualty and environmental matters and deferred income taxes. In accordance with SFAS No. 5, an accrual for a loss contingency is established if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred or an asset has been impaired. These estimates have been developed in consultation with outside counsel handling our defense in these matters and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Subsequent changes to those estimates are reflected in our statement of operations in the period of the change.

Deferred taxes are recognized based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish an additional valuation allowance against a portion of our deferred tax asset, resulting in an increase in our effective tax rate and an adverse impact on earnings.

In addition, Property, plant and equipment comprised 83% of our total assets as of December 31, 2001. These assets are stated at cost, less accumulated depreciation. Expenditures that increase asset values or extend useful lives are capitalized. Repair and maintenance expenditures are charged to operating expense when the work is performed. We periodically review the carrying value of our long-lived assets for continued appropriateness. This review is based upon our projections of anticipated future cash flows. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

For a complete description of our accounting policies, see Note 1 to our consolidated financial statements.

Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes beginning on Page F-1.

On a consolidated basis, we recorded net income for 2001 of \$17.0 million, or \$0.71 per diluted share, compared with net income for 2000 of \$11.7 million, or \$0.60 per diluted share. Operating income for 2001 was \$74.7 million compared with operating income for 2000 of \$70.0 million. The increase in operating income is primarily due to the inclusion of the RailTex properties for twelve months in 2001 compared to eleven months in 2000, operating synergies realized subsequent to the integration of the RailTex properties and "same railroad" revenue growth of 4% partially offset by the sale of five railroads in the third and fourth quarters of 2000, the devaluation of the Canadian and Australian currencies in 2001 compared to 2000 and \$4.8 million less in net gains on asset sales in 2001 as compared to 2000.

North American Railroad Operations

Our historical results of operations for our North American railroads include the operations of our acquired railroads from the dates of acquisition as follows:

Name of Railroad	Date of Acquisition
E&N Railway	January 1999
RailLink properties (6 railroads)	August 1999
Toledo, Peoria and Western Railroad	September 1999
RailTex properties (25 railroads)	February 2000

We disposed of certain railroads as follows:

Name of Railroad	Date of Disposition
Minnesota Northern Railroad	August 2000
St. Croix Valley Railroad	August 2000
South Central Tennessee Railroad	December 2000
Pittsburgh Industrial Railroad	December 2000
Ontario L'Orignal Railway	December 2000
Dakota Rail, Inc.	December 2001

As a result, the results of operations for the years ended December 31, 2001, 2000 and 1999 are not comparable in various material respects and are not indicative of the results which would have occurred had the acquisitions or dispositions been completed at the beginning of the periods presented.

The following table sets forth the operating revenues and expenses (in thousands) for our North American railroad operations for the periods indicated. All results of operations discussed in this section are for our North American railroads only, unless otherwise indicated.

	Years Ended December 31,		
	2001	2000	1999
Total operating revenue	\$245,426	\$231,445	\$44,924
Operating expenses:			
Maintenance-of-way	23,477	25,448	5,920
Maintenance-of-equipment	20,984	13,101	2,068
Transportation	69,932	70,958	12,232
Equipment rental	15,136	15,842	4,512
General and administrative	39,962	41,062	6,496
Depreciation and amortization	15,915	16,430	3,594
Total operating expenses	185,406	182,841	34,822
Operating income	\$ 60,020	\$ 48,604	\$10,102

Carloads By Commodity Table

The following table presents our North American carloads by commodity for the years ended December 31, 2001, 2000 and 1999.

Commodity Group	Carloads		
	2001	2000	1999
Agricultural & Farm Products	80,834	76,593	28,140
Autos	45,923	47,900	3,415
Chemicals	66,863	66,827	8,522
Coal	95,433	71,945	5,504
Food Products	40,578	39,313	9,736
Intermodal	38,310	30,134	5,033
Lumber & Forest Products	88,162	90,102	14,681
Metals	52,130	61,049	10,956
Minerals	19,423	16,393	901
Metallic/Non-metallic Ores	45,658	36,780	3,165
Paper Products	64,113	59,124	15,310
Petroleum Products	28,552	26,840	5,678
Railroad Equipment/Bridge Traffic	200,565	192,323	37,023
Other	19,035	24,128	6,927
Total	885,579	839,451	154,991

Comparison of North American Railroad Operating Results for the Years Ended December 31, 2001 and 2000

Operating Revenues. Operating revenue increased by \$14.0 million, or 6%, to \$245.4 million for the year ended December 31, 2001 from \$231.4 million for the year ended

December 31, 2000 while carloads increased 5% to 885,579 in 2001 from 839,451 in 2000. The increases in revenues and carloads was primarily due to the inclusion of the RailTex properties for twelve months in 2001 compared to eleven months in 2000, partially offset by the sale of certain railroads in 2000 and the 4% decline in the Canadian dollar in 2001 compared to 2000. On a "same railroad" basis, including the RailTex properties on a pro forma basis from January 2000 and excluding the sold railroads, carloads and revenues both increased 4% in 2001. Increased coal shipments were primarily responsible for the increase. Transportation revenue per carload increased to \$241 in 2001 from \$239 in 2000.

Operating Expenses. Total operating expenses increased by \$2.6 million, or 1%, to \$185.4 million for the year ended December 31, 2001 from \$182.8 million for the year ended December 31, 2000. The operating ratios, defined as total operating expenses divided by total revenues, were 75.5% and 79.0% for the years ended December 31, 2001 and 2000, respectively.

Maintenance-of-way expenses decreased \$1.9 million, or 8%, to \$23.5 million in 2001 from \$25.4 million in 2000. This decrease is primarily due to the reduction of an environmental liability in 2001 of \$1.9 million due to changes in environmental regulations. Excluding this change, maintenance-of-way expenses were flat compared to 2000. Maintenance-of-equipment expense increased \$7.9 million, or 60%, to \$21.0 million in 2001 from \$13.1 million in 2000. This increase is primarily due to our sale-leaseback transactions which we consummated in December 2000 and June 2001. Additional rent from these two transactions was approximately \$4.0 million in 2001. In addition, in connection with our locomotive fleet rationalization and upgrade program, we leased additional locomotives in 2001 to replace existing older less powerful locomotives. Transportation expenses decreased \$1.1 million, or 1%, to \$69.9 million in 2001 from \$71.0 million in 2000. The decrease in transportation expenses is primarily due to lower fuel costs in 2001 as our average price per gallon was \$1.00 in 2001 compared to \$1.07 in 2000, resulting in a \$1.5 million savings. In addition, our fleet rationalization and upgrade program resulted in more efficient locomotives and lower operating costs. Other changes in operating costs were not significant.

Comparison of North American Railroad Operating Results for the Years Ended December 31, 2000 and 1999

Operating Revenues. Operating revenue increased by \$186.5 million, or 415%, to \$231.4 million for the year ended December 31, 2000 from \$44.9 million for the year ended December 31, 1999. North American carloads totaled 839,451 for the year ended December 31, 2000, an increase of 684,460 compared to 154,991 carloads in the prior year. These increases were primarily due to the acquisitions of TPW, RaiLink and RailTex which on a combined basis contributed \$206.9 million in revenue and 782,614 carloads for the year ended December 31, 2000 compared to \$18.1 million in revenue and 94,309 carloads for the year ended December 31, 1999. Transportation revenue per carload was \$239 in 2000 versus \$238 for 1999.

Operating Expenses. Total operating expenses increased by \$148.0 million, or 425%, to \$182.8 million for the year ended December 31, 2000 from \$34.8 million for the year ended December 31, 1999. The increase was due to the acquisitions of TPW, RaiLink and RailTex, which on a combined basis contributed \$164.6 million in operating expenses for the year ended December 31, 2000 compared to \$14.4 million for the year ended December 31, 1999. Additionally, increased fuel costs impacted our operating expenses by approximately \$4.4 million over 2000. Our operating ratios were 79.0% and 77.5% for the years ended December 31, 2000 and 1999, respectively.

International Railroad Operations

Freight Australia

The results of operations for the years ended December 31, 2001, 2000 and 1999 include the operations of Freight Australia from its date of acquisition, May 1, 1999.

Therefore, the results of operations for the year ended December 31, 2000 are not comparable to the prior year in certain material respects and are not indicative of the results which would have occurred had the acquisition been consummated January 1, 1999.

The following table sets forth the operating revenues and expenses (in thousands) for Freight Australia's railroad operations for the years ended December 31, 2001 and 2000 and the period from May 1, 1999 to December 31, 1999.

	2001	2000	1999
Revenues:	\$101,430	\$102,204	\$63,358
Operating expenses:			
Transportation	66,575	70,118	42,742
General and administrative	5,914	6,253	5,169
Depreciation and amortization	6,932	5,438	3,429
Total operating expenses	79,421	81,809	51,340
Operating income	\$ 22,009	\$ 20,395	\$12,018

Comparison of Freight Australia's Operating Results for the Years Ended December 31, 2001 and 2000

Operating Revenues. Operating revenues decreased \$0.8 million, or 1%, to \$101.4 million for the year ended December 31, 2001 from \$102.2 million for the year ended December 31, 2000. Freight Australia's carloads were 221,710 for the year ended December 31, 2001, an increase of 18,174, or 9%, compared to 203,536 for the year ended December 31, 2000. Revenue per carload was \$376 for 2001 versus \$406 for 2000. The decrease in revenues and revenue per carload was primarily due to an 11% decline in the Australian dollar in 2001 compared to 2000. The increase in the carloads in 2001 was due to the strong grain harvest in Victoria. The decline in the value of the Australian dollar relative to the U.S. dollar in 2001 compared to 2000 impacted Freight Australia's revenues by \$12.6 million.

Operating Expenses. Operating expenses decreased \$2.4 million, or 3%, to \$79.4 million for the year ended December 31, 2001 from \$81.8 million for the year ended December 31, 2000. The decrease in operating expenses was primarily due to the 11% decline in the Australian dollar, which reduced operating expenses by \$9.8 million. Depreciation and amortization increased in 2001 due to the extensive capital work done on the locomotive fleet and track since we purchased the railroad from the government in 1999. The operating ratio improved to 78.3% in 2001 from 80.0% in 2000 due to the increased carloads and the relatively fixed nature of many of the expenses.

Comparison of Freight Australia's Operating Results for the Years Ended December 31, 2000 and 1999

Operating Revenues. Operating revenues increased \$38.8 million, or 61%, to \$102.2 million for the year ended December 31, 2000 from \$63.4 million for the year ended

December 31, 1999. The increase in operating revenue was primarily due to the 1999 period including only eight months of operations. Freight Australia's carloads were 203,536 for the year ended December 31, 2000, an increase of 71,051, or 35%, compared to 132,485 for the year ended December 31, 1999. Revenue per carload was \$406 for 2000 versus \$366 for 1999. The increase in revenue per carload was primarily due to a change in commodity mix from 1999 to 2000.

Operating Expenses. Operating expenses increased \$30.5 million, or 59%, to \$81.8 million for the year ended December 31, 2000 from \$51.3 million for the period May 1, 1999 through December 31, 1999. The increase in operating expenses was primarily due to the 1999 period including only eight months of operations. Operating expenses, as a percentage of operating revenue, were 80.0% and 81.0% for the years ended December 31, 2000 and 1999. Operating expenses were negatively impacted in 2000 by rising fuel prices in the amount of \$2.5 million.

Operating income was lower in 2000 as compared to 1999 by approximately \$2.0 million due to the decline in the Australian dollar exchange rate.

Ferronor

The following table sets forth the operating revenues and expenses (in thousands) for Ferronor's railroad operations for the years ended December 31, 2001, 2000 and 1999.

	2001	2000	1999
Revenues:	\$22,085	\$22,873	\$19,115
Operating expenses:			
Transportation	12,967	15,505	11,964
General and administrative	2,670	2,494	2,222
Depreciation and amortization	3,208	2,278	1,231
Total operating expenses	18,845	20,277	15,417
Operating income	\$ 3,240	\$ 2,596	\$ 3,698

Comparison of Ferronor's Operating Results for the Years Ended December 31, 2001 and 2000

Operating Revenues. Operating revenue decreased \$0.8 million, or 3%, to \$22.1 million in 2001 from \$22.9 million in 2000. Ferronor's carloads handled totaled 107,265 for the year ended December 31, 2001, a decrease of 1,491, or 1%, compared to 108,756 for the year ended December 31, 2000. Revenue per carload was \$204 for 2001 versus \$210 for 2000. The decrease in revenue per carload was primarily due to a change in commodity mix from 2000 to 2001.

Operating Expenses. Transportation expenses declined \$2.5 million, or 16%, to \$13.0 million from \$15.5 million in 2000. The expenses in 2000 were impacted by start-up costs for new contracts. Depreciation expense increased in 2001 by \$1 million over 2000 due to capital expenditures made to support the new contracts. The operating ratio was 85.3% and 88.7% for the years ended December 31, 2001 and 2000, respectively, reflecting the higher start up costs in 2000.

Comparison of Ferronor's Operating Results for the Years Ended December 31, 2000 and 1999

Operating Revenues. Operating revenue increased \$3.8 million, or 20%, to \$22.9 million for the year ended December 31, 2000 from \$19.1 million for the year ended December 31, 1999. Ferronor's carloads handled totaled 108,756 for the year ended December 31, 2000, an increase of 14,921, or 16%, compared to 93,835 for the year ended December 31, 1999. The increase in both carloads and revenue is related to the commencement of operations in the fourth quarter of 1999 on a new long-term contract.

Operating Expenses. Operating expenses increased \$4.9 million, or 32%, to \$20.3 million for the year ended December 31, 2000 from \$15.4 million for the year ended December 31, 1999. The increase was due to start up costs related to a new long-term contract which commenced in late 1999. Depreciation expense increased in 2000 by \$1 million over the prior year due to capital expenditures relating to new contracts. The operating ratios were 89% and 81% for the years ended December 31, 2000 and 1999, respectively.

Corporate Overhead and Other

Corporate Overhead. Corporate overhead services performed for our subsidiaries include executive management, overall strategic planning, accounting, finance, legal, cash management, payroll and tax. Corporate overhead, which is included in selling, general and administrative expenses in the consolidated statements of income, increased \$3.4 million, or 27%, to \$15.8 million for the year ended December 31, 2001 from \$12.4 million for the year ended December 31, 2000. Corporate overhead increased \$7.2 million, or 138%, to \$12.4 million for the year ended December 31, 2000 from \$5.2 million for the year ended December 31, 1999. The increases in each of the specified periods were related to the additional costs incurred to manage the acquired railroads and to establish a strong management team to handle our

continued growth. For the year ended December 31, 2000, we incurred \$4.8 million of costs related to our acquisition and integration of RailTex and our unsuccessful acquisition bid for Westrail, an Australian railroad.

Asset Rationalization Plan. In 2000 and 2001, we embarked on an asset rationalization plan, which included the sale of several non-core, non-strategic assets and reduced our long-term debt. In December 2001, we sold Dakota Rail, Inc. and certain other assets for \$9.8 million. The proceeds from these transactions were used to reduce the Company's long-term debt and for general working capital purposes. The net gains in 2001 were \$6.4 million compared to \$12.8 million in 2000. This decline is primarily due to the delay of certain transactions which had been expected to close during the fourth quarter of 2001. We expect these transactions will close during 2002.

Sale/Leaseback Program. In June 2001, we completed \$8.4 million in locomotive sale/leaseback transactions in North America. In December 2000, we completed \$22.2 million in locomotive sale/leaseback transactions in North America. The proceeds from these transactions were used to reduce the Company's long-term debt and for general working capital purposes.

Interest Expense. Interest expense, including amortization of financing costs, increased from \$20.5 million in 1999 to \$56.0 million in 2000 and decreased to \$53.5 million in 2001. The increase from 1999 to 2000 is primarily attributable to the financing of our acquisitions of Freight Australia, TPW and RaiLink in 1999 and RailTex in 2000. The decrease in interest expense from 2000 to 2001 is primarily due to reduction of our long-term debt and a decrease in base interest rates. We have two interest rate swap agreements in place which fix the LIBOR component of \$212.5 million of our senior debt at 6.723%. As such, as interest rates declined during 2001, we only benefited on our senior debt for the portion of the principal balance in excess of \$212.5 million. The total expense associated with our interest rate swap was \$5.6 million in 2001.

Income Taxes. Our effective tax rates in 2001 and 2000 were 22.5% and 23.5%, respectively. In 2001, we recorded a benefit of \$3.1 million from a reduction in the Canadian federal and provincial tax rates. The effective tax rate in 2000 was impacted by the allocation of income taxes between

continuing operations, discontinued operations and extraordinary items. We believe our effective tax rate for 2002 will be approximately 33%. This reflects the higher statutory rates from the acquisitions of ParkSierra and StatesRail, offset by the reduction in the Canadian tax rates.

Extraordinary Loss. In connection with the reduction of our senior debt in July and August 2001, we recorded an extraordinary charge of \$0.2 million for the year ended December 31, 2001. Pursuant to the refinancing of our debt in February 2000, we recorded an extraordinary charge for the year ended December 31, 2000 for the loss on early extinguishment of debt of \$2.9 million. In connection with the issuance of subordinated debt in August 2000 we recorded an extraordinary charge of \$1.1 million for early extinguishment of debt.

Discontinued Operations. In December 2000, we sold our specialty truck trailer manufacturing operations for \$38.5 million resulting in a gain of approximately \$11.5 million, net of income taxes. We recorded net earnings from our discontinued operations of \$8.3 million in 2000 compared to \$3.9 million in 1999. In connection with the acquisition of RailTex, we refinanced our investment in our trailer manufacturing operations resulting in additional interest expense of \$7.3 million in 2000.

Cumulative Effect of Accounting Change. In 2000, we recorded a \$2.3 million charge associated with a change in accounting principle. This charge resulted from a beneficial conversion feature associated with warrants in connection with the junior convertible subordinated debentures issued in 1999. This was a result of a change during 2000 of the applicable accounting literature.

Liquidity and Capital Resources— Combined Operations

The discussion of liquidity and capital resources that follows reflects our consolidated results and includes all subsidiaries. The Company's principal source of liquidity is cash generated from operations. In addition, the Company funds any additional liquidity requirements through borrowings under its \$50 million revolving credit facility.

Operating Activities

Our cash provided by operating activities was approximately \$55 million for the year ended December 31, 2001. This

amount consists primarily of \$17 million in net income, \$32 million in depreciation and amortization and \$3 million of deferred income taxes.

Investing Activities

Cash used in investing activities was \$47 million for the year ended December 31, 2001. This consists primarily of capital expenditures of \$62 million, partially offset by proceeds from the sale of assets and proceeds from the sale/leaseback transactions totaling \$19 million. We expect capital expenditures in 2002 to be approximately \$68 million which includes amounts for the recently acquired ParkSierra and StatesRail properties.

Financing Activities

Cash provided by financing activities was \$39 million for 2001. During 2001, we completed two private placements of common stock raising net proceeds of approximately \$90 million. In addition, we raised approximately \$8 million of new equity through the exercise of stock options and warrants. These amounts were used for \$54 million in debt repayments during the year. Under our existing senior debt facilities, our principal repayments will be \$17.0 million in 2002.

In January 2002, in connection with the acquisitions of ParkSierra and StatesRail, we borrowed an additional \$50 million under our senior credit facility. The terms of the additional \$50 million are consistent with our existing Term B loans.

Our senior credit agreement provides (i) a \$125 million Term A loan, bearing interest at LIBOR plus 2.50 (4.44% at December 31, 2001), (ii) a \$205 million Term B loan, bearing interest at December 31, 2001 at LIBOR plus 3.25% (5.19% at December 31, 2001), and (iii) a \$50 million revolving credit facility which includes \$30 million of U.S. dollar denominated loans bearing interest at the same interest rate as the Term A loans, \$10 million of Canadian dollar denominated loans and \$10 million of Australian dollar denominated loans with an initial interest rate of LIBOR plus 3.00%. In January 2002, we borrowed an additional \$50 million, under a Term C loan, on terms consistent with the Term B loan. The applicable interest rate of the Term A loans and the revolving loans varies depending on our leverage ratio. All of the capital stock of all our U.S. subsidiaries, 65% of the capital stock of our Canadian and Australian subsidiaries and substantially all of the assets of our subsidiaries serve as collateral for the senior credit facilities.

The Term A loan requires principal payments of 15% in 2002, 20% in 2003, and 25% in both 2004 and 2005. The Term B and Term C loans requires principal payments of 1% per year through 2005 and a balloon maturity at December 31, 2006. The revolving loan matures on December 31, 2005. As of December 31, 2001, the outstanding balances of the Term A and Term B loans are \$83.6 million, \$184.1 million, respectively. There was no outstanding balance on the revolving loan at December 31, 2001.

In August 2000, RailAmerica Transportation Corp., our wholly-owned subsidiary, sold units consisting of \$130.0 million of 12⁷/₈% senior subordinated notes due 2010 and warrants to purchase 1,411,414 shares of our common stock. Our U.S. subsidiaries are guarantors of the senior subordinated notes.

Our senior credit agreement and the indenture governing our senior subordinated notes include numerous covenants imposing significant financial and operating restrictions on our business. The covenants place restrictions on our ability to, among other things: incur more debt; pay dividends, redeem or repurchase our stock or make other distributions; make acquisitions or investments; use assets as security in other transactions; enter into transactions with affiliates; merge or consolidate with others; dispose of assets or use asset sale proceeds; create liens on our assets; and extend credit.

In addition, our senior credit agreement also contains financial covenants that require us to meet a number of financial ratios and tests. Our ability to meet these ratios and tests and to comply with other provisions of our senior credit facilities can be affected by events beyond our control. Our failure to comply with the obligations in our senior credit facilities could result in an event of default, which, if not cured or waived, could permit acceleration of our indebtedness under the credit agreement or other indebtedness which would have a material adverse effect on us. As of December 31, 2001, we were in compliance with these financial covenants.

To partially mitigate the interest rate risk on the credit facilities we entered into two interest rate swaps in May 2000. The interest rate swaps fixed a LIBOR rate of 7.23% on \$212.5 million of our senior term debt for a three-year period. In May 2001, we modified the interest-rate swap agreements, extending the term for two years and reducing the fixed pay rate to 6.723%. Fluctuations in the market interest rate will continue to affect the cost of our remaining

borrowings. Assuming current debt levels, the effect of a 1% increase in interest rates on the remaining senior debt would have resulted in an increase in interest expense of \$1.2 million for the year ended December 31, 2001.

As of December 31, 2001, we had working capital of \$30 million compared to a working capital deficit of \$7.6 million as of December 31, 2000. This increase is primarily due to the private placement of common stock in December 2001, in which we raised \$51 million.

Two primary uses of the cash provided by our operations are capital expenditures and debt service. The following table represents the minimum future payments on our existing long-term debt and lease obligations:

	Total	2002	2003– 2004	2005– 2006	After 2006
Long term debt	\$445,491	\$23,652	\$59,709	\$230,071	\$132,059
Capital lease obligations	\$ 1,184	\$ 832	\$ 319	\$ 33	\$ 0
Operating lease obligations	\$100,139	\$18,039	\$30,008	\$ 26,916	\$ 25,176

Our long-term business strategy includes the selective acquisition of additional transportation-related businesses. Accordingly, we may require additional equity and/or debt capital in order to consummate acquisitions or undertake major development activities. It is impossible to predict the amount of capital that may be required for those acquisitions or development, and sufficient financing for those activities may not be available on terms acceptable to us, if at all. As of March 15, 2002, we had \$39 million of availability under our revolving credit facilities, and \$25 million of cash.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 became effective for business combinations initiated after June 30, 2001 and requires purchase method accounting. Under Statement No. 142, goodwill and identifiable intangible assets with an indefinite

life will no longer be amortized; however, both goodwill and other intangible assets will need to be tested at least annually for impairment. Statement No. 142 will be effective for fiscal years beginning after December 15, 2001. The Company believes the adoption of these pronouncements will not have a material impact on its financial statements.

In addition, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations," and Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." Statement No. 143, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Statement No. 144, which is effective for fiscal years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. The Company believes the adoption of these standards will not have a material impact on its financial statements.

To the Stockholders and Board of Directors of
RailAmerica, Inc.:

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of RailAmerica, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Empresa De Transporte Ferroviario S.A., a 55%-owned subsidiary of the Company, which statements reflect total revenues of \$19,115,000 for the year ended December 31, 1999. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Empresa De Transporte Ferroviario S.A. for the year ended December 31, 1999 is based solely on the report of

the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 15, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.



PricewaterhouseCoopers LLP
West Palm Beach, Florida
March 18, 2002, except for Note 18,
which is as of March 28, 2002

December 31,	2001	2000
	<i>(in thousands, except per share data)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,761	\$ 13,090
Restricted cash in escrow	2,418	4,539
Accounts and notes receivable, net of allowance of \$571 and \$886, respectively	54,278	62,864
Other current assets	14,204	19,551
Total current assets	130,661	100,044
Property, plant and equipment, net	738,775	715,020
Other assets	21,732	24,639
Total assets	\$891,168	\$839,703
Liabilities, Redeemable Preferred Stock and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 24,484	\$ 20,558
Accounts payable	36,035	39,752
Accrued expenses	39,889	47,305
Total current liabilities	100,408	107,615
Long-term debt, less current maturities	277,203	338,298
Subordinated debt	144,988	141,411
Deferred income taxes	96,822	87,288
Minority interest and other liabilities	50,788	35,044
	670,209	709,656
Commitments and contingencies		
Redeemable convertible preferred stock, \$0.01 par value, \$25 liquidation value; 278,400 shares issued and outstanding at December 31, 2000	—	6,613
Stockholders' equity:		
Common stock, \$0.001 par value, 60,000,000 shares authorized; 28,842,090 shares issued and outstanding at December 31, 2001 and 18,623,320 shares issued and outstanding at December 31, 2000	29	19
Additional paid-in capital	224,248	118,502
Retained earnings	45,902	29,162
Accumulated other comprehensive (loss)	(49,220)	(24,249)
Total stockholders' equity	220,959	123,434
Total liabilities, redeemable preferred stock and stockholders' equity	\$891,168	\$839,703

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

For the Years Ended December 31,	2001	2000	1999
	<i>(in thousands, except earnings per share data)</i>		
Operating revenue	\$369,631	\$357,936	\$129,818
Operating expenses:			
Transportation	209,072	210,972	79,439
Selling, general and administrative	64,652	62,093	19,550
Net gain on sale and impairment of assets	(6,434)	(11,184)	(3,629)
Depreciation and amortization	27,601	26,021	9,179
Total operating expenses	294,891	287,902	104,539
Operating income	74,740	70,034	25,279
Interest expense, including amortization costs of \$4,410, \$4,854 and \$4,203, respectively	(53,480)	(55,950)	(20,490)
Minority interest and other income (expense)	1,019	(1,526)	449
Income from continuing operations before income taxes	22,279	12,558	5,238
Provision (benefit) for income taxes	5,005	2,950	(787)
Income from continuing operations	17,274	9,608	6,025
Discontinued operations:			
Gain on disposal of discontinued segment (net of income taxes of \$6,850)	—	11,527	—
Income (loss) from operations of discontinued segment (net of income taxes of (\$1,650) and \$2,300, respectively)	—	(3,226)	3,896
Income before extraordinary item and cumulative effect of accounting change	17,274	17,909	9,921
Extraordinary loss from early extinguishment of debt (net of income taxes of \$142 and \$2,200, respectively)	(236)	(3,996)	—
Cumulative effect of accounting change	—	(2,252)	—
Net income	\$ 17,038	\$ 11,661	\$ 9,921
Net income available to common stockholders	\$ 16,740	\$ 10,991	\$ 8,886
Basic earnings per common share:			
Continuing operations	\$ 0.79	\$ 0.50	\$ 0.45
Discontinued operations	—	0.45	0.35
Extraordinary item	(0.01)	(0.22)	—
Cumulative effect of accounting change	—	(0.12)	—
Net income	\$ 0.78	\$ 0.61	\$ 0.80
Diluted earnings per common share:			
Continuing operations	\$ 0.72	\$ 0.49	\$ 0.43
Discontinued operations	—	0.45	0.34
Extraordinary item	(0.01)	(0.22)	—
Cumulative effect of accounting change	—	(0.12)	—
Net income	\$ 0.71	\$ 0.60	\$ 0.77
Weighted average common shares outstanding:			
Basic	21,510	18,040	11,090
Diluted	25,350	18,267	11,665

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

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31, 2001, 2000 and 1999	Stockholders' Equity					
	Number of	Additional	Retained	Other	Total	
	Shares Issued	Par Value	Paid-In Capital	Earnings		Comprehensive Income (Loss)
	<i>(in thousands)</i>					
Balance, January 1, 1999	10,207	\$10	\$ 24,995	\$ 9,285	\$ 471	\$ 34,761
Net income	—	—	—	9,921	—	9,921
Cumulative translation adjustments	—	—	—	—	3,015	3,015
Total comprehensive income						12,936
Issuance of common stock	1,438	1	12,028	—	—	12,029
Purchase of treasury stock	—	—	(1,224)	—	—	(1,224)
Exercise of stock options	141	—	732	—	—	732
Conversion of debt	564	1	3,332	—	—	3,333
Conversion of preferred stock	261	1	2,006	—	—	2,007
Issuance of warrants	—	—	5,928	—	—	5,928
Preferred stock dividends and accretion	—	—	—	(1,035)	—	(1,035)
Balance, December 31, 1999	12,611	13	47,797	18,171	3,486	69,467
Net income	—	—	—	11,661	—	11,661
Cumulative translation adjustments	—	—	—	—	(27,735)	(27,735)
Total comprehensive loss						(16,074)
Issuance of common stock	6,652	7	60,917	—	—	60,924
Exercise of stock options	49	—	269	—	—	269
Conversion of redeemable securities	339	—	2,669	—	—	2,669
Warrants issued	—	—	8,841	—	—	8,841
Purchase of treasury stock	—	—	(1,992)	—	—	(1,992)
Retirement of treasury stock	(1,028)	(1)	1	—	—	—
Preferred stock dividends and accretion	—	—	—	(670)	—	(670)
Balance, December 31, 2000	18,623	19	118,502	29,162	(24,249)	123,434
Net income	—	—	—	17,038	—	17,038
Cumulative effect of adopting SFAS 133, net	—	—	—	—	(4,388)	(4,388)
Change in market value of derivative instruments, net	—	—	—	—	(5,008)	(5,008)
Cumulative translation adjustments	—	—	—	—	(15,575)	(15,575)
Total comprehensive loss						(7,933)
Issuance of common stock	8,176	8	89,728	—	—	89,736
Exercise of stock options	1,334	1	8,342	—	—	8,343
Tax benefit on exercise of options and warrants	—	—	2,633	—	—	2,633
Conversion of redeemable securities	882	1	7,030	—	—	7,031
Purchase of treasury stock	(173)	—	(1,987)	—	—	(1,987)
Preferred stock dividends and accretion	—	—	—	(298)	—	(298)
Balance, December 31, 2001	28,842	\$29	\$224,248	\$45,902	\$(49,220)	\$220,959

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2001	2000	1999
	<i>(in thousands)</i>		
Cash Flows From Operating Activities:			
Net income	\$ 17,038	\$ 11,661	\$ 9,921
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,011	34,566	14,134
Write-off of deferred loan costs	378	4,857	—
Interest paid in kind	—	5,806	—
Minority interest in income of subsidiary	1,350	995	1,551
Equity interest in earnings of affiliate	—	(554)	(230)
Gain on insurance settlement	—	—	(4,069)
(Gain) loss on sale or disposal of properties	(6,434)	(29,554)	118
Cumulative effect of accounting change	—	2,252	—
Deferred income taxes	2,926	(2,797)	3,402
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	5,298	3,654	(2,246)
Other current assets	8,587	2,455	(4,102)
Accounts payable	1,172	2,239	3,244
Accrued expenses	(12,485)	5,759	3,326
Other liabilities	1,620	4,071	(2,295)
Deposits and other	3,509	(977)	(1,254)
Net cash provided by operating activities	54,970	44,433	21,500
Cash Flows From Investing Activities:			
Purchase of property, plant and equipment	(61,675)	(62,499)	(51,391)
Proceeds from sale of properties and investments	18,502	96,654	1,163
Acquisitions, net of cash acquired	—	(148,922)	(8,453)
Cash held in discontinued operations	—	—	(656)
Change in restricted cash in escrow	1,046	(4,539)	—
Deferred acquisition costs and other	(4,577)	(2,711)	639
Net cash used in investing activities	(46,704)	(122,017)	(58,698)
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt	85,590	549,235	182,085
Principal payments on long-term debt	(142,088)	(448,107)	(150,183)
Sale of convertible preferred stock	—	—	4,095
Sale of common stock	89,736	—	11,868
Proceeds from exercise of stock options	8,343	234	581
Preferred stock dividends paid	(241)	(289)	(843)
Purchase of treasury stock	(1,987)	(1,992)	(1,224)
Deferred financing costs paid	—	(18,980)	(2,755)
Net cash provided by financing activities	39,353	80,101	43,624
Net increase in cash	47,619	2,517	6,426
Effect of exchange rates on cash	(948)	(1,025)	87
Cash, beginning of period	13,090	11,598	5,085
Cash, end of period	\$ 59,761	\$ 13,090	\$ 11,598

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

1. Summary of Significant Accounting Policies

Organization Principles of Consolidation

The accompanying consolidated financial statements include the accounts of RailAmerica, Inc. and all of its subsidiaries (the "Company"). All of RailAmerica's consolidated subsidiaries are wholly-owned except Empresa De Transporte Ferroviario S.A. ("Ferrovor"), a Chilean railroad, in which the Company has a 55% equity interest. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the 2001 presentation.

The Company's principal operations consist of rail freight transportation in North America, Chile, Argentina and Australia.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

Concentration of Credit Risk

The Company maintains its cash in demand deposit accounts, which at times may exceed insurance limits. As of December 31, 2001, the Company had approximately \$58.5 million of cash in excess of insurance limits.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Costs assigned to property purchased as part of an acquisition are based on the fair value of such assets on the date of acquisition. Improvements are capitalized, and expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses on sales and retirements of properties are included in the determination of the results of operations. The Company periodically reviews

its assets for impairment by comparing the projected undiscounted cash flows of those assets to their recorded amounts. Impairment charges are based on the excess of the recorded amounts over their estimated fair value, as measured by the discounted cash flows.

Depreciation has been computed using the straight-line method based on estimated useful lives as follows:

Buildings and improvements	20-33 years
Railroad track	30-40 years
Railroad track improvements	3-10 years
Locomotives, transportation and other equipment	5-30 years
Office equipment	5-10 years

Income Taxes

The Company utilizes the liability method of accounting for deferred income taxes. This method requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are also established for the future tax benefits of loss and credit carryovers. The liability method of accounting for deferred income taxes requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Revenue Recognition

The Company recognizes transportation revenue after services are provided.

Foreign Currency Translation

The financial statements and transactions of the Company's foreign operations are maintained in their local currency, which is their functional currency, except for Chile, where the U.S. dollar is used as the functional currency. Where local currencies are used, assets and liabilities are translated at current exchange rates in effect at the balance sheet date. Translation adjustments, which result from the process of translating the financial statements into U.S. dollars, are accumulated in the cumulative translation adjustment account, which is a component of accumulated other comprehensive

income in stockholders' equity. Revenues and expenses are translated at the average exchange rate for each period. Gains and losses from foreign currency transactions are included in net income.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 became effective for business combinations initiated after June 30, 2001 and requires purchase method accounting. Under SFAS No. 142, goodwill and identifiable intangible assets with an indefinite life will no longer be amortized; however, both goodwill and other intangible assets will need to be tested at least annually for impairment. SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001. The Company has no goodwill as of December 31, 2001 and believes the adoption of these pronouncements will not have a material impact on its financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144, which is effective for fiscal years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. The Company believes the adoption of these pronouncements will not have a material impact on its financial statements.

2. Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year while income from continuing operations is reduced by preferred stock dividends and accretion.

Diluted earnings per share is calculated using the sum of the weighted average number of common shares outstanding plus potentially dilutive common shares arising out of stock options, warrants and convertible securities. Options and warrants totaling 1.2 million, 4.3 million and 1.8 million

were excluded from the diluted earnings per share calculation for the years ended December 31, 2001, 2000 and 1999, respectively, as well as assumed conversion of \$29.2 million (3.1 million shares) in 2000 and \$26.5 million (2.7 million shares) in 1999 of convertible preferred stock and convertible debentures, as such securities were anti-dilutive.

The following is a summary of the income from continuing operations available for common stockholders and weighted average shares (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Income from continuing operations	\$17,274	\$ 9,608	\$ 6,025
Preferred stock dividends and accretion	(298)	(670)	(1,035)
Income from continuing operations available to common stockholders (basic)	16,976	8,938	4,990
Interest on convertible debt	1,044	—	42
Preferred stock dividends and accretion	298	—	—
Income from continuing operations available to common stockholders (diluted)	\$18,318	\$ 8,938	\$ 5,032
Weighted average shares outstanding (basic)	21,510	18,040	11,090
Assumed conversion:			
Options and warrants	1,196	227	379
Convertible debentures and preferred stock	2,644	—	196
Weighted average shares outstanding (diluted)	25,350	18,267	11,665

3. Discontinued Operations

In February 2000, the Company finalized its plan to sell its trailer manufacturing operations which consisted of Kalyn/Siebert, L.P. ("KSLP") and Kalyn/Siebert Canada ("KSC"). This business has been accounted for as a discontinued operation and results of operations have been excluded from continuing operations in the consolidated statements of operations for all periods presented.

In December 2000, the Company sold KSLP for \$32.5 million in cash, including \$3.5 million which was in escrow at December 31, 2000. A gain of \$21.0 million was recognized. In December 2000, the Company sold

substantially all of the assets and business of KSC for \$6 million in cash, including \$2 million which was in escrow at December 31, 2000. A loss of \$2.6 million was recognized. As of December 31, 2001, \$2.2 million remains in escrow under terms of the sale agreements.

Total revenue for the trailer manufacturing business was \$34.7 million and \$44.3 million for the years ended December 31, 2000 and 1999, respectively. Interest expense of \$7.3 million was charged to the manufacturing business in 2000, representing the interest expense for the portion of the asset sale bridge note, which was repaid with the proceeds from the sale of the trailer manufacturing business. (Loss) income before income taxes for the trailer manufacturing business was (\$4.9) million and \$6.2 million for the years ended December 31, 2000 and 1999, respectively.

4. Acquisitions

On February 4, 2000, the Company acquired RailTex, Inc. for \$128 million in cash, assumption of \$105.3 million in debt and 6.6 million shares of the Company's common stock valued at \$60.9 million. RailTex, the operator of 25 railroads with over 4,100 miles of rail lines in North America, became a wholly-owned subsidiary of the Company. As part of the purchase price and in accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the Company recorded liabilities of \$11.2 million which related to severance and change of control payments to former RailTex employees.

The acquisition was accounted for as a purchase and its results were included since the date of acquisition. On a pro forma basis (unaudited), as if the acquisition of RailTex had occurred on January 1, 2000, the Company's revenues, operating income and diluted earnings per share would have been \$372.0 million, \$11.7 million and \$0.57, respectively. This does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2000 or of results which may occur in the future.

On September 3, 1999, the Company acquired The Toledo, Peoria and Western Railroad Corporation ("TPW") for \$17.4 million, including the repayment of indebtedness.

On July 26, 1999, the Company acquired RaiLink Ltd. ("RaiLink") for \$49.8 million. RaiLink and its 26.3% owned affiliate, Quebec Railway Corporation, operated 11 regional railways with 2,500 miles of track in Alberta, the Northwest Territories, Ontario, Quebec and New Brunswick. During

the fourth quarter of 2000, the Company sold its interest in the Quebec Railway Corporation.

On April 30, 1999, the Company purchased the assets and liabilities comprising the railroad freight business of V/Line Freight Corporation ("VLF"), now known as Freight Australia. Under the acquisition agreement the Company acquired all of the locomotives, wagons, motor vehicles, equipment, stock, spare parts inventory and accounts receivable, certain business, brand and trade names and trademarks, and the outstanding business contracts of VLF for a purchase price of \$49.0 million. In connection with the acquisition, Freight Australia also entered into other agreements, including a primary infrastructure lease with the Director of Public Transport of Australia and various facilities leases, access agreements, maintenance and service agreements and other miscellaneous agreements. Pursuant to the infrastructure lease, Freight Australia received a 45-year lease of the non-electrified intrastate Victorian railway tracks and infrastructure. Freight Australia prepaid in cash the net present value of the rental payments for the infrastructure lease totaling approximately \$54.0 million. Freight Australia commenced operations of the rail-based freight business on May 1, 1999.

5. Dispositions

During 2001, the Company sold Dakota Rail, Inc. for \$7.6 million, resulting in a net gain of \$3.9 million. In addition, the Company sold other non-core assets resulting in a net gain of \$2.5 million.

During 2000, the Company sold several railroads and other non-core assets for total proceeds of \$44.0 million, resulting in a net gain of \$11.2 million.

6. Other Balance Sheet Data

Other current assets consist of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Track supplies	\$ 7,702	\$10,068
Prepaid expenses and other	6,502	9,483
	\$14,204	\$19,551

At December 31, 2000, \$1.15 million of notes receivable from related parties are included in other current assets on the consolidated balance sheet. All obligations were paid in full in 2001.

Other assets consist of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Deferred loan costs, net	\$13,797	\$16,808
Deposits and other	7,935	7,831
	\$21,732	\$24,639

Deferred loan costs are being amortized utilizing the interest method over the term of the respective term loans.

Accrued expenses consist of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Accrued interest expense	\$ 8,382	\$10,727
Accrued compensation and benefits	5,893	5,633
Other accrued liabilities	25,614	30,945
	\$39,889	\$47,305

Minority interest and other liabilities consist of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Interest rate swaps	\$15,155	\$ —
Minority interest	11,834	10,484
Accrued liabilities	12,043	10,970
Long service leave	6,009	6,565
Annual leave	3,742	3,677
Other	2,005	3,348
	\$50,788	\$35,044

7. Property, Plant and Equipment

Property, plant and equipment consist of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Land	\$133,643	\$127,737
Buildings and improvements	15,963	14,665
Railroad track and improvements	504,491	460,108
Locomotives, transportation and other equipment	147,489	151,786
	801,586	754,296
Less: accumulated depreciation	62,811	39,276
	\$738,775	\$715,020

The Company completed \$8.4 million and \$22.2 million in locomotive sale/leaseback transactions in 2001 and 2000, respectively.

In the fourth quarter of 1999, a \$4.1 million gain was recognized on an insurance settlement from an accident which destroyed certain locomotives and railcars in Australia.

8. Long-Term Debt and Leases

Long-term debt consists of the following as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Senior credit facilities, see below	\$267,752	\$319,714
Credit facility with Banco de Desarrollo, see below	11,678	10,462
Credit facility with Banco Security, interest rate of 7.12%–8.74%	7,325	7,499
Mortgage note payable, bearing interest at 7.85%, due in fixed monthly installments of \$46 (including interest), with a final payment of \$4,827 in January 2010, collateralized by corporate office building	5,833	5,927
Other long-term debt	9,099	15,254
	301,687	358,856
Less current maturities	24,484	20,558
Long-term debt, less current maturities	\$277,203	\$338,298

In February 2000, the Company entered into a credit agreement and two bridge notes in connection with the acquisition of RailTex and the refinancing of most of the Company's and RailTex's existing debt. The credit agreement provides (i) a \$125 million Term A loan, bearing interest at LIBOR plus 2.50% (4.44% at December 31, 2001), (ii) a \$205 million Term B loan, initially bearing interest at LIBOR plus 3.25% (5.19% at December 31, 2001), and (iii) a \$50 million revolving credit facility which includes \$30 million of U.S. dollar denominated loans, \$10 million of Canadian dollar denominated loans and \$10 million of Australian dollar denominated loans with an interest rate of LIBOR plus 2.50%. All of the capital stock of the Company's U.S. subsidiaries, 65% of the capital stock of the Canadian and Australian subsidiaries and the majority of the assets of the Company's subsidiaries serve as collateral for the senior credit facilities. As of December 31, 2000, the two bridge notes had been repaid.

The Term A loan requires principal payments of 15% in 2002, 20% in 2003, and 25% in both 2004 and 2005. The Term B loan requires principal payments of 1% per year through 2005 and a balloon maturity at December 31, 2006. The revolving loan matures on December 31, 2005. The outstanding balances as of December 31, 2001 of the Term A and Term B loans are \$83.6 million and \$184.1 million, respectively. There was no outstanding balance on the revolving loan as of December 31, 2001 as compared to \$17.7 million outstanding as of December 31, 2000.

The Company's borrowings include covenants which impose financial and operating restrictions on the Company's ability to, among other things: incur more debt; pay dividends, redeem or repurchase its stock in excess of \$2 million per year or make other distributions; make acquisitions or investments; use assets as security in other transactions; enter into transactions with affiliates; merge or consolidate with others; dispose of assets or use asset sale proceeds; create liens on its assets; and extend credit. The facilities also contain financial covenants that require the Company to meet a number of financial ratios and tests. As of December 31, 2001, we were in compliance with these financial covenants.

In connection with the February 2000 debt refinancing, the Company recorded an extraordinary charge of \$2.2 million for early extinguishments of debt, net of income taxes.

In February 1999, Ferron refinanced certain short-term debt with Banco de Desarrollo. The refinancing consists of two credit lines. The first credit line is a \$5.0 million facility which bears interest at the interbank cost plus 1.75% (9.05% at December 31, 2001) with interest to be paid over 120 equal monthly installments and principal to be paid over 96 equal installments beginning two years from the funding. The second credit line is a \$7.7 million facility which bears interest at LIBOR plus 2.75% (5.71% at December 31, 2001) and is payable in 120 equal monthly installments (including interest).

The aggregate annual maturities of long-term debt are as follows (in thousands):

2002	\$ 24,484
2003	28,836
2004	29,658
2005	29,668
2006	179,757
Thereafter	9,284
	<u>\$301,687</u>

During the years ended December 31, 2001, 2000 and 1999 interest of approximately \$668, \$1,257 and \$1,386, respectively, was capitalized for on-going capital improvement projects.

On May 4, 2000, the Company entered into two interest rate swap agreements for a total notional amount of \$212.5 million. The agreements, which have a term of three years, require the Company to pay a fixed interest rate of 7.23% while receiving a variable interest rate equal to the 90 day LIBOR rate. In May 2001, the interest rate swap agreements were extended for two years and the fixed pay rate was reduced to 6.723%.

Leases

The Company has several equipment finance leases for equipment. Certain of these leases are accounted for as capital leases and are presented separately below.

Minimum annual lease commitments at December 31, 2001 are as follows (in thousands):

	Capital Leases	Operating Leases
2002	\$ 832	\$ 18,039
2003	253	15,469
2004	66	14,539
2005	18	13,890
2006	15	13,026
Thereafter	—	25,176
	<u>\$1,184</u>	<u>\$100,139</u>

Rental expense under operating leases was approximately \$16.0 million, \$9.0 million and \$3.4 million for the years ended December 31, 2001, 2000 and 1999, respectively.

9. Subordinated Debt

In August 2000, RailAmerica Transportation Corp. ("RTC"), a wholly-owned subsidiary of the Company, sold units consisting of \$130.0 million of 12-7/8% senior subordinated notes due 2010 and warrants to purchase 1,411,414 shares of the Company's common stock in a private offering, for gross proceeds of \$122.2 million after deducting the initial purchasers' discount. All of the Company's U.S. subsidiaries are guarantors of the senior subordinated notes. The net proceeds received from the issuance of the units were used to pay \$115.0 million of then-existing debt and approximately \$1.8 million of term loans under the Company's senior credit facilities, resulting in an extraordinary charge of \$1.8 million, net of taxes, associated with the early extinguishment of debt.

Prior to August 15, 2003, the Company may redeem up to 35% of the senior subordinated notes at a redemption price of 112.875% of their principal amount with the proceeds from an equity offering. From August 16, 2003 through August 14, 2005, the Company may not redeem the senior subordinated notes and subsequent to August 14, 2005, the Company may redeem the senior subordinated notes for 106.438% of their principal amount. The premium reduces annually on a sliding scale until they may be redeemed at their principal amount commencing August 15, 2008.

In June 2000, the Company engaged an investment banking firm to assist the Company's Board of Directors in evaluating the issuance of the senior subordinated notes, for which it issued three-year warrants to purchase 150,000 shares of the Company's common stock. Of these warrants, 75,000 are at an exercise price of \$5.50 and 75,000 are at an exercise price of \$6.50. These warrants were exercised during 2001.

In August 1999, the Company issued \$22.5 million aggregate principal amount of junior convertible subordinated debentures. Interest on the debentures accrues at the rate of 6% per annum and is payable semi-annually. The debentures are convertible, at the option of the holder, into shares of RailAmerica at a conversion price of \$10. The debentures mature on July 31, 2004, are general unsecured obligations and rank subordinate in right of payment to all senior indebtedness. At RailAmerica's option, the debentures may be redeemed at par plus accrued interest, in whole or in part, if the closing price of RailAmerica's common stock is above \$20 for 10 consecutive trading days. During 2001 and 2000, \$0.39 million and \$0.35 million, respectively, of the junior convertible subordinated debentures were converted into common stock.

The Company recognized a \$2.3 million charge in the fourth quarter of 2000 for the beneficial conversion feature included in the junior convertible subordinated debentures. This charge is shown as the cumulative effect of an accounting change.

10. Redeemable Preferred Stock

In January 1999, the Company completed a private offering of \$11.6 million of Series A Convertible Redeemable Preferred Stock ("Preferred Stock"). The Company sold 464,400 shares of Preferred Stock at a price of \$25 per share. The Preferred Stock paid annual dividends of 7.5%, was convertible into shares of the Company's common stock at a price of \$8.25 per share and was non-voting. During 1999, 86,000 shares of the Preferred Stock were converted and 100,000 shares were converted in 2000. Accretion of costs was \$56,309, \$119,681 and \$192,510 for the years ended December 31, 2001, 2000 and 1999 respectively.

A company owned by a director of the Company served as the exclusive placement agent for this private placement. The Company paid a total of \$0.8 million in placement fees and cost reimbursements on this transaction and issued two-year warrants to purchase 140,727 shares of common stock at an exercise price of \$8.25 per share. The warrants expired unexercised on January 31, 2001.

In July 2001, all of the Company's outstanding convertible preferred stock was converted into common stock and other convertible securities were exercised, resulting in the issuance of 842,400 shares of common stock and increasing stockholders' equity by \$6.7 million.

11. Common Stock Transactions

In December 2001, the Company closed on the private placement sale of 4.3 million shares of its common stock for \$12.50 per share, resulting in net proceeds of \$51.5 million. The proceeds from this private placement were used to finance the StatesRail and ParkSierra acquisitions, which are described in Note 18, as well as the reduction of debt and other general corporate purposes. In connection with this private placement, the Company issued 18-month warrants to purchase 100,000 shares of common stock at an exercise price of \$13.75 per share to the placement agents.

In June 2001, the Company closed on the private placement sale of 3.8 million shares of its common stock for \$10.75 per share, resulting in net proceeds of \$38.2 million.

The proceeds from this private placement were used to reduce debt and for general corporate purposes. In connection with this private placement, the Company issued 18-month warrants to purchase 200,000 shares of common stock at an exercise price of \$11.825 per share to the placement agents.

In August 1999, the Company issued warrants to purchase 676,363 shares of common stock to the investors in the private offering of its junior convertible subordinated debentures. The warrants are exercisable through August 5, 2004 at an exercise price of \$10.50 per share, subject to adjustment under selected circumstances. Warrants to purchase 200,000 shares of common stock at an exercise price of \$10.50 per share through July 31, 2001 were issued to the placement agent in connection with the private offering. These warrants were exercised during 2001.

In March 1999, the Company completed a private placement of approximately \$12.5 million of restricted common stock. Pursuant to the offering, the Company sold approximately 1.4 million shares of its common stock at a price of \$8.81 per share and issued approximately 212,000 warrants to purchase an equivalent number of shares of common stock at an exercise price of \$10.13 per share within one year of the transaction's closing date. A company owned by one of the Company's directors acted as placement agent and received approximately \$0.4 million in fees and cost reimbursement and one-year warrants to purchase 141,504 shares of the Company's common stock at an exercise price of \$10.13. All of the warrants issued for this transaction expired unexercised on March 3, 2000.

12. Income Tax Provision

Income before income taxes for the years ended December 31, 2001, 2000 and 1999 consists of (in thousands):

	2001	2000	1999
Domestic	\$ 2,288	\$(8,723)	\$ 2,868
Foreign subsidiaries	19,991	26,334	8,566
	\$22,279	\$17,611	\$11,434

The provision for income taxes for the years ended December 31, 2001, 2000 and 1999 consists of (in thousands):

	2001	2000	1999
Federal income taxes:			
Current	\$ —	\$ 334	\$ 15
Deferred	801	2,494	1,234
	801	2,828	1,249
State income taxes:			
Current	437	700	149
Deferred	565	(1,548)	(106)
	1,002	(848)	43
Foreign income taxes			
Current	1,500	2,435	857
Deferred	4,737	1,535	2,197
Change in tax law	(3,177)	—	(2,835)
	3,060	3,970	219
Total income tax provision	\$ 4,863	\$ 5,950	\$ 1,511

The following summarizes the total income tax provisions for each of the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Continuing operations	\$5,005	\$ 2,950	\$(787)
Discontinued operations	—	5,200	2,298
Extraordinary item	(142)	(2,200)	—
Total income tax provision	\$4,863	\$ 5,950	\$1,511

The differences between the U.S. federal statutory tax rate and the Company's effective rate from continuing operations are as follows (in thousands):

	2001	2000	1999
Income tax provision, at 35%	\$ 7,798	\$4,406	\$ 1,833
Net benefit due to difference between U.S. & Foreign tax rates	(629)	(206)	(561)
Net benefit due to tax law changes in Australia	—	—	(2,835)
Net benefit due to tax law changes in Canada	(3,177)	—	—
Amortization of non-deductible warrants	—	(602)	602
Other, net	383	(559)	344
Valuation allowance	630	(89)	(170)
Tax provision	\$ 5,005	\$2,950	\$(787)

The Company files a consolidated U.S. income tax return with its domestic subsidiaries. For state income tax purposes, the Company and each of its domestic subsidiaries generally file on a separate return basis in the states in which they do business. The Company's foreign subsidiaries file income tax returns in their respective jurisdictions.

The components of deferred income tax assets and liabilities as of December 31, 2001 and 2000 are as follows (in thousands):

	2001	2000
Deferred tax assets:		
Net operating loss carryforward	\$ 26,178	\$ 11,829
Alternative minimum tax credit	783	1,125
Accrued expenses	12,973	5,201
Other	24	1,128
Total deferred tax assets	39,958	19,283
Less: valuation allowance	(3,357)	(999)
Total deferred tax assets, net	36,601	18,284
Deferred tax liabilities:		
Property, plant and equipment	132,806	107,188
Deferred revenue	617	(2,478)
Other	—	862
Net deferred tax liability	\$(96,822)	\$(87,288)

The liability method of accounting for deferred income taxes requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. It is management's belief that it is more likely than not that a portion of the deferred tax assets will not be realized. The Company has established a valuation allowance of \$3.4 million at December 31, 2001 and \$1.0 million at December 31, 2000, respectively.

The following is a summary of net operating loss carryforwards by jurisdiction as of December 31, 2001 (in thousands):

	Amount	Expiration Period
U.S.—Federal	\$ 38,495	2003–2021
U.S.—State	120,098	2002–2021
Chile	1,825	None
Australia	18,099	None
Canada	6,023	2004–2008
	\$184,540	

As part of certain acquisitions, the Company acquired net operating loss carryforwards for federal and state income tax purposes. The utilization of the acquired tax loss carryforwards may be limited by the Internal Revenue Code Section 382. These tax loss carryforwards expire in the years 2002 through 2010.

No provision was made in 2001 for U.S. income taxes on undistributed earnings of the Chilean, Canadian or Australian subsidiaries as it is the intention of management to utilize those earnings in their respective operations for an indefinite period of time.

13. Stock Options

The Company has stock option plans under which employees and non-employee directors may be granted options to purchase shares of the Company's common stock at the fair market value at the date of grant. Options generally vest in two or three years and expire in ten years from the date of the grant.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation costs have been recognized for the stock options issued during 2001, 2000 and 1999 as all stock options were granted with an exercise price at least equal to the market price on the date of grant. Had compensation cost for the Company's stock options issued been determined based on the fair value at the grant date for awards in these years consistent with the provisions of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share information):

	2001	2000	1999
Net income—as reported	\$17,038	\$11,661	\$9,921
Net income—pro forma	\$12,689	\$ 8,076	\$8,972
Basic net income per share—			
as reported	\$ 0.78	\$ 0.61	\$ 0.80
Basic net income per share—			
pro forma	\$ 0.58	\$ 0.41	\$ 0.72
Diluted net income per share—			
as reported	\$ 0.71	\$ 0.60	\$ 0.77
Diluted net income per share—			
pro forma	\$ 0.54	\$ 0.41	\$ 0.68

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2001, 2000 and 1999: dividend yield 0.0%, 0.0% and 0.0%; expected volatility of 41%, 41% and 40%; risk-free

interest rate of 4.6%, 6.5% and 5.8%; and expected lives of 5, 5 and 10 years. The weighted average fair value of options granted for 2001, 2000 and 1999 were \$5.03, \$4.75, and \$5.86, respectively.

Information regarding the above options for 2001, 2000 and 1999 is as follows:

	Number of Outstanding Shares	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
Outstanding at January 1, 1999	1,537,001	\$ 5.40		
Granted	455,000	\$ 8.97		
Exercised	(141,168)	\$ 4.35		
Forfeited	(10,833)	\$ 5.09		
Outstanding at December 31, 1999	1,840,000	\$ 6.34	1,255,999	\$ 5.40
Granted	1,882,558	\$ 8.08		
Exercised	(48,969)	\$ 4.78		
Forfeited	(222,498)	\$ 7.64		
Outstanding at December 31, 2000	3,451,091	\$ 7.23	1,937,858	\$ 6.50
Granted	1,494,289	\$11.72		
Exercised	(936,223)	\$ 5.31		
Forfeited	(62,855)	\$ 7.74		
Outstanding at December 31, 2001	3,946,302	\$ 9.37	2,557,233	\$ 8.70
Authorized at December 31, 2001	4,841,169			

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$3.50-\$ 5.00	179,200	4.19	\$ 4.53	179,200	\$ 4.53
\$5.01-\$ 7.00	473,272	8.02	\$ 6.36	328,792	\$ 6.33
\$7.01-\$ 9.75	1,913,162	7.57	\$ 8.69	1,599,015	\$ 8.74
\$9.76-\$13.00	1,380,668	9.50	\$11.97	450,226	\$11.97
	<u>3,946,302</u>			<u>2,557,233</u>	

In January 1995, the Company established an Employee Stock Purchase Plan open to all full-time employees. Each employee may have payroll deductions as a percentage of their compensation, not to exceed \$25,000 per year. The purchase price equals 85% of the fair market value of a share of the Company's common stock on certain dates during the year. For the years ended December 31, 2001, 2000 and 1999, 21,943, 11,749 and 16,500 shares of common stock, respectively, were sold to employees under this plan.

14. Noncash Investing and Financing Activities

Cash paid for interest from continuing operations during 2001, 2000 and 1999 was \$54.6 million, \$41.2 million and \$16.3 million, respectively. Cash paid (received) for income taxes during 2001, 2000 and 1999 was \$(1.1) million, \$4.0 million and \$1.3 million, respectively.

	2001	2000	1999
Common stock issued for businesses acquired	\$ —	\$ 60,773	\$ —
Warrants issued for business acquired	—	—	3,031
Debt issued for business acquired	—	105,376	173,493
Acquisition costs accrued	—	—	4,897
Details of acquisitions:			
Working capital components, other than cash	—	6,109	(5,827)
Property and equipment	—	(390,468)	(217,965)
Other assets	—	(6,980)	(4,834)
Deferred loan costs	—	—	(6,959)
Goodwill	—	—	(972)
Notes payable and loans payable	—	3,148	35,466
Deferred income taxes payable	—	73,120	11,217
Net cash used in acquisitions	\$ —	\$(148,922)	\$ (8,453)

15. Fair Value of Financial Instruments

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and recorded a cumulative transition charge of \$4.4 million, net of tax, to Accumulated Other Comprehensive Loss ("AOCL"). The standard requires that all derivatives be recorded on the balance sheet at fair value and establishes criteria for documentation and measurement of hedging activities.

The Company currently uses derivatives to hedge against increases in fuel prices and interest rates. The Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives that are designated as cash flow hedges to specific assets or liabilities on the balance sheet, commitments or forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly, whether the derivative item is effective in offsetting the changes in fair value or cash flows. Any change in fair value

resulting from ineffectiveness, as defined by SFAS No. 133, is recognized in current period earnings. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is recorded in AOCL as a separate component of Stockholders' Equity and reclassified into earnings in the period during which the hedge transaction affects earnings.

The Company monitors its hedging positions and credit ratings of its counterparties and does not anticipate losses due to counterparty nonperformance.

Fuel costs represented 8.1% of total revenues during 2001. Due to the significance of fuel expenses to the operations of the Company and the historical volatility of fuel prices, the Company periodically hedges against fluctuations in the price of its fuel purchases. Each one-cent increase in the price of fuel would result in \$0.03 million of additional fuel expense on a monthly basis.

The fuel hedging program includes the use of derivatives that are accounted for as cash flow hedges. As of December 31, 2001, the Company had entered into fuel swap agreements to hedge the equivalent of approximately 27% of its projected 2002 North American fuel consumption at an average price of approximately \$0.87 cents per gallon, including transportation and taxes. The fair value of the fuel swaps were not material at December 31, 2001.

Interest on the Company's senior credit facility is payable at variable rates indexed to LIBOR. To partially mitigate the volatility of LIBOR, the Company entered into two interest rate swaps in May 2000. These swaps are accounted for as cash flow hedges under SFAS No. 133 and qualify for the short cut method of recognition. The interest rate swaps locked in a LIBOR rate of 7.23% on \$212.5 million of debt for a three-year period. In 2001, we extended the interest rate swaps for two years and reduced the LIBOR rate to 6.723%. Fluctuations in the market interest rate will affect the cost of our remaining borrowings. The effect of each 1% increase in interest on the remaining borrowings would result in an increase in interest expense of \$1.0 million. At December 31, 2001, AOCL included a \$9.4 million charge, net of taxes, relating to the interest rate swaps.

Management believes that the fair value of its senior long-term debt approximates its carrying value based on the variable rate nature of the financing, and for all other long-term debt based on current borrowing rates available with

similar terms and maturities. The fair value of the senior subordinated notes is \$133.9 million as of December 31, 2001, based on the quoted market price.

16. Pension and Other Benefit Programs

The Company maintains a pension plan for a majority of its Canadian railroad employees, with both defined benefit and defined contribution components.

Defined Benefit—The defined benefit component applies to approximately 60 employees who transferred employment directly from Canadian Pacific Railway Company (“CPR”) to a subsidiary of RailLink, Ltd. The defined benefit portion of the plan is a mirror plan of CPR’s defined benefit plan. The employees that transferred and joined the mirror plan were entitled to transfer or buy back prior years of service. As part of the arrangement, CPR transferred to the Company the appropriate value of each employee’s pension entitlement.

The following chart summarizes the benefit obligations, assets, funded status and rate assumptions associated with the defined benefit plan for the years ended December 31, 2001 and December 31, 2000 (in thousands):

	January 1, 2001 to December 31, 2001	January 1, 2000 to December 31, 2000
Exchange Rate Beginning of Year	\$ 0.67	\$ 0.69
Exchange Rate End of Year	\$ 0.63	\$ 0.67
Change in Benefit Obligation		
Benefit obligation at beginning of period	\$3,114	\$2,853
Service cost	60	62
Interest cost	205	194
Plan participants’ contributions	89	91
Benefits paid	0	(3)
Foreign currency exchange rate changes	(186)	(83)
Benefit obligation at end of period	\$3,282	\$3,114
Change in Plan Assets		
Fair value of plan assets at beginning of period	\$3,201	\$2,655
Actual return on plan assets	(54)	388
Employer contribution	101	106
Plan participants’ contributions	106	132
Benefits paid	0	(3)
Foreign currency exchange rate changes	(190)	(77)
Fair value of plan assets at end of period	\$3,164	\$3,201
Funded status—prepaid (accrued) benefit cost	\$ (118)	\$ 87
Assumptions		
Discount rate	7.00%	7.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%
Components of Net Periodic Benefit Cost in Period		
Service cost	\$ 60	\$ 62
Interest cost	205	194
Expected return on plan assets	(241)	(206)
Amortization of prior service cost	15	16
Net periodic pension cost	\$ 39	\$ 66

Freight Australia’s employees participate in the Victorian government’s superannuation funds. The contributions made by Freight Australia are as follows for the year ended December 31, 2001, 2000 and the period from May 1, 1999 to December 31, 1999 (in thousands):

	2001	2000	1999
Victorian Superannuation Fund	\$ 229	\$ 140	\$ 62
State Superannuation Fund	783	972	647
Transport Fund	244	263	194
Freight Victoria Fund	177	161	53
Superannuation Trust of Australia	133	—	—
Total contributions	\$1,566	\$1,536	\$956

Defined Contribution—The defined contribution component applies to a majority of the Company’s Canadian railroad employees that are not covered by the defined benefit component. The Company contributes 3% of a participating employee’s salary to the plan. Pension expense for the year ended December 31, 2001, 2000 and for the period August 1, 1999 to December 31, 1999 for the defined contribution members was \$0.3 million, \$0.2 million and \$0.1 million, respectively.

Profit Sharing Plan—The Company maintains a contributory profit sharing plan as defined under Section 401(k) of the U.S. Internal Revenue Code. The Company made contributions to this plan at a rate of 50% of the employees’ contribution up to a maximum annual contribution of \$1,500 per eligible employee. An employee becomes 100% vested with respect to the employer contributions after completing five years of service. Employer contributions during the years ended December 31, 2001, 2000 and 1999 were approximately \$484,000, \$286,000 and \$81,000, respectively.

17. Commitments and Contingencies

In 2000, certain parties filed property damage claims totaling approximately \$32.5 million against RaiLink Ltd. and RaiLink Canada Ltd., wholly-owned subsidiaries of RailAmerica, and others in connection with fires that allegedly occurred in 1998. The Company intends to vigorously defend these claims, and has insurance coverage to approximately \$13.0 million to cover these claims. The Company’s insurer has reserved \$9.8 million for these matters. A loss, if any, in excess of our insurance policy coverage may adversely affect the Company’s cash flow and financial condition.

In the ordinary course of conducting its business, the Company becomes involved in various legal actions and other claims, which are pending or could be asserted against the Company. Litigation is subject to many uncertainties, the outcome of individual litigated matters is not predictable with assurance, and it is reasonably possible that some of these matters may be decided unfavorably to the Company. It is the opinion of management that the ultimate liability, if any, with respect to these matters will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

The Company has a \$4.7 million contingent obligation, under certain events of default or if line abandonment occurs, to the Canadian National Railroad in connection with its properties. The contingent obligation bears no interest and has no pre-defined terms of payment or maturity.

The Company’s operations are subject to extensive environmental regulation. The Company records liabilities for remediation and restoration costs related to past activities when the Company’s obligation is probable and the costs can be reasonably estimated. Costs of ongoing compliance activities to current operations are expensed as incurred. The Company’s recorded liabilities for these issues represent its best estimates (on an undiscounted basis) of remediation and restoration costs that may be required to comply with present laws and regulations. During the fourth quarter of 2001, the Company reduced its environmental liability by \$1.9 million due to a change in environmental regulations. The remaining liabilities are not material. Although these costs cannot be predicted with certainty, management believes that the ultimate outcome of identified matters will not have a material adverse effect on the Company’s consolidated results of operations or financial condition.

18. Subsequent Events

In January 2002, the Company acquired StatesRail, a privately owned group of railroads headquartered in Dallas, Texas, which owns and operates eight railroads (including seven freight railroads and a tourist railroad in Hawaii) with 1,647 miles of track in 11 states. Total consideration for the acquisition was \$90 million, consisting of \$67 million in cash and \$23 million (1.7 million shares) in the Company’s common stock.

In January 2002, the Company acquired ParkSierra Corp. for consideration of \$48 million, consisting of

\$23 million in cash and \$25 million (1.8 million shares) in the Company's common stock. ParkSierra, headquartered in Napa, California, consists of the Arizona & California Railroad, the California Northern Railroad and the Puget Sound & Pacific Railroad. These railroads operate 703 miles of track in four western U.S. states.

In January 2002, the Company borrowed an additional \$50 million under a Term C loan, which has terms consistent with the Term B loan (see Note 8).

On January 14, 2002, the Company submitted a bid for the acquisition of National Rail and FreightCorp, two government-owned railroads in Australia. Subsequently, the Company was notified that another entity was awarded the bid. Accordingly, the Company will record a charge in the first quarter of 2002 related to the write-off of direct costs incurred in preparing, submitting and financing the

bid. Such direct costs, of which \$2.4 million was billed and deferred as of December 31, 2001, are currently being negotiated for final settlement.

In March 2002, the Company sold the Georgia Southwestern Railroad and certain operating assets for total consideration of \$7.1 million.

19. Segment Information

The Company's continuing operations have been classified into three business segments: North American rail transportation, Australian rail transportation, and Chilean rail transportation. The North American rail transportation segment includes the operations of the Company's railroad subsidiaries in the United States and Canada, as well as corporate expenses.

Business and geographical segment information for the years ended December 31, 2001, 2000 and 1999 is as follows (dollar amounts in thousands):

	Consolidated	North America			
		United States	Canada	Chile	Australia
Year Ended December 31, 2001:					
Revenue	\$369,631	\$184,216	\$61,900	\$22,085	\$101,430
Depreciation and amortization	\$ 27,601	\$ 13,938	\$ 3,523	\$ 3,208	\$ 6,932
Income before income taxes	\$ 22,279	\$ 6,172	\$ 2,271	\$ 1,161	\$ 12,675
Interest expense	\$ 53,480	\$ 43,464	\$ 6,565	\$ 3,195	\$ 256
Total assets	\$891,168	\$630,607	\$87,952	\$59,342	\$113,267
Capital expenditures	\$ 61,675	\$ 29,148	\$ 9,869	\$ 2,444	\$ 20,214
Year Ended December 31, 2000:					
Revenue	\$ 357,936	\$ 169,354	\$ 63,505	\$ 22,873	\$ 102,204
Depreciation and amortization	\$ 26,021	\$ 14,052	\$ 4,253	\$ 2,278	\$ 5,438
Income (loss) before income taxes	\$ 12,558	\$ (19,194)	\$ 13,752	\$ 954	\$ 17,046
Interest expense	\$ 55,950	\$ 52,665	\$ 431	\$ 2,383	\$ 471
Total assets	\$ 839,703	\$ 635,746	\$ 83,724	\$ 57,629	\$ 62,604
Capital expenditures	\$ 62,499	\$ 24,566	\$ 9,570	\$ 10,018	\$ 18,345
Year Ended December 31, 1999:					
Revenue	\$ 129,818	\$ 27,166	\$ 20,179	\$ 19,115	\$ 63,358
Depreciation and amortization	\$ 9,179	\$ 2,428	\$ 2,091	\$ 1,231	\$ 3,429
Income (loss) before income taxes	\$ 5,238	\$ (2,979)	\$ 919	\$ 1,473	\$ 5,825
Interest expense	\$ 20,490	\$ 8,129	\$ 3,203	\$ 1,595	\$ 7,563
Total assets	\$ 428,932	\$ 115,295	\$ 99,038	\$ 52,022	\$ 162,577
Capital expenditures	\$ 51,391	\$ 14,604	\$ 11,841	\$ 13,389	\$ 11,557

20. Unaudited Quarterly Financial Data

Quarterly financial data for 2001 is as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue	\$91,955	\$93,460	\$93,173	\$91,043
Operating income	\$ 7,943	\$19,578	\$19,061	\$18,158
Income from continuing operations	\$ 2,787	\$ 4,153	\$ 5,155	\$ 5,179
Net income	\$ 2,787	\$ 4,153	\$ 4,919	\$ 5,179
Basic income from continuing operations per share	\$ 0.15	\$ 0.21	\$ 0.22	\$ 0.20
Diluted income from continuing operations per share	\$ 0.14	\$ 0.19	\$ 0.20	\$ 0.19

Quarterly financial data for 2000 is as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue	\$80,807	\$95,908	\$90,896	\$90,325
Operating income	\$13,942	\$24,961	\$16,863	\$14,268
Income (loss) from continuing operations	\$ (889)	\$ 7,588	\$ 1,844	\$ 1,065
Net income (loss)	\$ (3,182)	\$ 7,553	\$ 237	\$ 7,053
Basic income (loss) from continuing operations per share	\$ (0.06)	\$ 0.40	\$ 0.09	\$ 0.05
Diluted income (loss) from continuing operations per share	\$ (0.06)	\$ 0.36	\$ 0.09	\$ 0.05

21. Guarantor Financial Statement Information

In August 2000, RailAmerica Transportation Corp. ("Issuer"), a wholly-owned subsidiary of RailAmerica, Inc. ("Parent"), sold units including 12^{7/8}% senior subordinated notes, which are registered with the Securities and Exchange Commission. The notes are guaranteed by the Parents, the domestic subsidiaries of the Issuer and Palm Beach Rail Holdings, Inc.

Financial information regarding the Issuer, the Parent, the Guarantor Subsidiaries and the Non-Guarantor subsidiaries is included in the notes to the consolidated financial statements of the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2001.

Board of Directors

Gary O. Marino
*Chairman, President & CEO,
RailAmerica, Inc.*

Donald D. Redfearn
*Executive Vice President,
Chief Administrative Officer & Secretary,
RailAmerica, Inc.*

John H. Marino
*Chairman & President,
Delaware Transportation Group, Inc.*

Richard Rampell
*Chief Executive Officer,
Rampell and Rampell, P.A.*

John M. Sullivan
*Retired President & CEO,
Haug Die Casting, Inc.
Former head of
U.S. Federal Railroad Administration*

Charles Swinburn
*Attorney, Morgan, Lewis & Bockius
Former Deputy Assistant Secretary for
Policy & International Affairs,
U.S. Dept. of Transportation*

Douglas R. Nichols
*President & Founder,
First London Securities Corporation, Inc.*

Ferd. C. Meyer, Jr.
*Of Counsel,
Salans Hertzfeld Heilbronn Christy & Viner*

William G. Pagonis
*Executive Vice President—Logistics,
Sears Roebuck & Company
Lieutenant General (three-star),
U.S. Army, Retired*

Company Officers

Gary O. Marino
Chairman, President & CEO

Donald D. Redfearn
*Executive Vice President,
Chief Administrative Officer & Secretary*

Gary M. Spiegel
*Executive Vice President &
Chief Operating Officer,
North American Rail Group*

W. Graham Claytor, III
*Senior Vice President,
International Rail Group*

R. Joe Conklin
*Senior Vice President—Central Corridor,
North American Rail Group*

Bennett Marks
*Senior Vice President &
Chief Financial Officer*

Marinus van Onselen
Chief Executive Officer, Freight Australia

Committees of the Board

Audit

Richard Rampell
Douglas R. Nichols
John M. Sullivan

Compensation

Ferd. C. Meyer, Jr.
William G. Pagonis
Charles Swinburn

Executive

Gary O. Marino
Donald D. Redfearn
Richard Rampell

Government Affairs

John M. Sullivan
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*Senior Vice President—Northern Corridor,
North American Rail Group*

Thomas Schlosser
*Senior Vice President—Pacific Corridor,
North American Rail Group*

John T. “Jack” White
Vice President & General Counsel

Walter Zorkers
Senior Vice President—Strategic Planning

Corporate Information

Corporate Headquarters

5300 Broken Sound Boulevard NW
Boca Raton, Florida 33487
(561) 994-6015
(561) 994-4629 (facsimile)

Registrar and Transfer Agent

American Stock Transfer and Trust Company
New York, New York
(800) 937-5449
As of April 29, 2002, the Company had
600 shareholders of record.

Annual Meeting of Shareholders

June 20, 2002 at 10 a.m. EDT
Boca Raton Marriott Hotel
5150 Town Center Circle
Boca Raton, Florida

Investor Inquiries

To receive copies of reports filed with the
Securities and Exchange Commission or
other information about RailAmerica, contact
Sara Wilkins, Vice President of Investor
Relations & Corporate Communications,
at the corporate offices, or email at
sara.wilkins@railamerica.com.

Visit our web site at www.railamerica.com
to obtain recent press releases, quarterly
reports and additional information about
RailAmerica, including how to receive a
hard copy of our Annual Report, as well as
to sign up to receive Company information
via email.

Independent Auditors

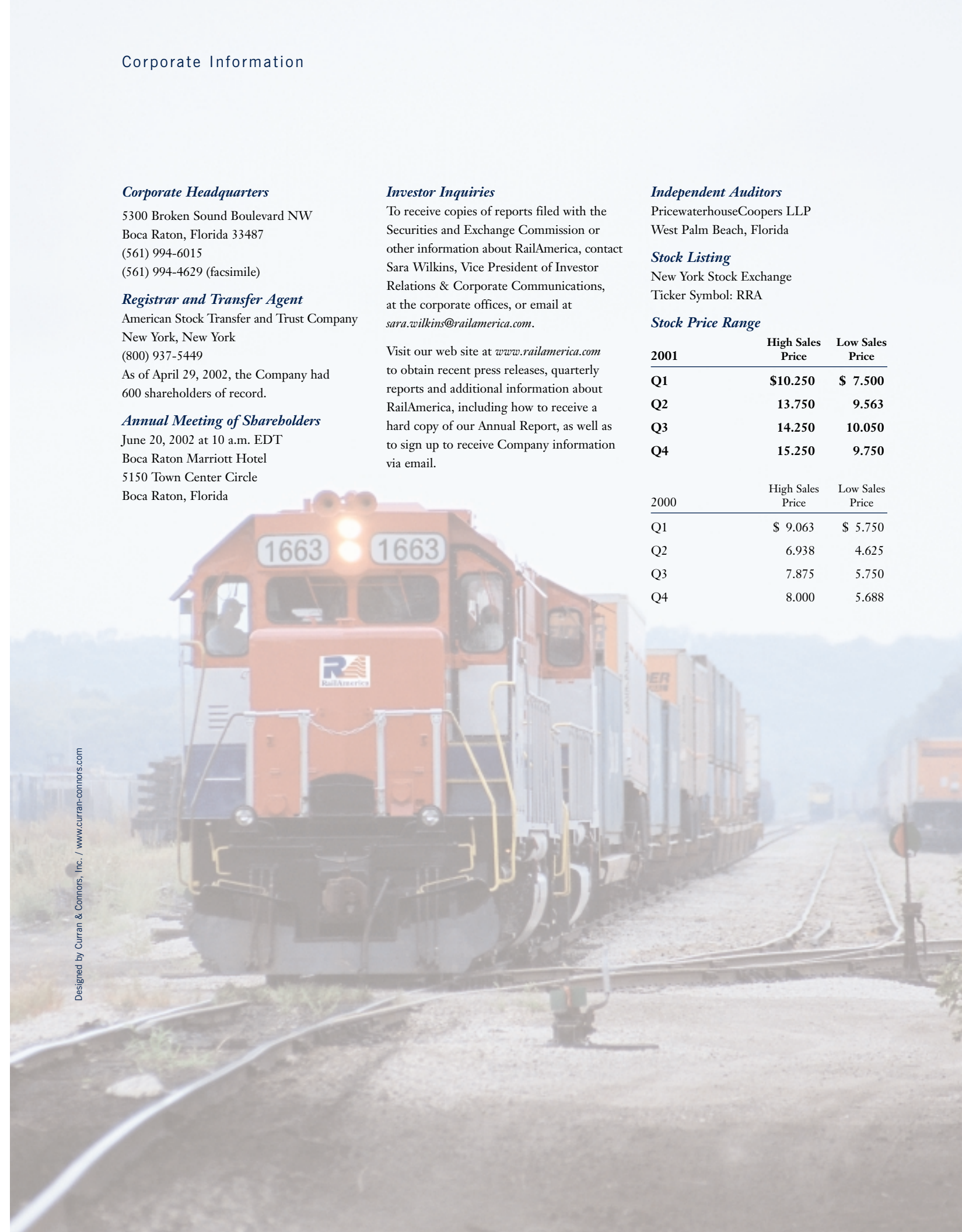
PricewaterhouseCoopers LLP
West Palm Beach, Florida

Stock Listing

New York Stock Exchange
Ticker Symbol: RRA

Stock Price Range

	High Sales Price	Low Sales Price
2001		
Q1	\$10.250	\$ 7.500
Q2	13.750	9.563
Q3	14.250	10.050
Q4	15.250	9.750
	High Sales Price	Low Sales Price
2000		
Q1	\$ 9.063	\$ 5.750
Q2	6.938	4.625
Q3	7.875	5.750
Q4	8.000	5.688





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Boca Raton, Florida 33487

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