FD 30400 SUB NO. 20 A

HOGAN & HARTSON

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS*

FRANK J. HOGAN (1877-1944)
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WRITER'S DIRECT DIAL NUMBER:
(202) 331-4679

July 19, 1984

BY HAND

Hon. James H. Bayne
Secretary
Interstate Commerce Commission
12th St. & Constitution Ave.
Washington, D. C. 20423

Re: Santa Fe/Southern Pacific Merger
Finance Docket No. 30,400 Sub 20

Dear Mr. Bayne:

The Denver and Rio Grande Western Railroad Company is today filing its Responsive Application in connection with the above-referenced proceeding. In connection with that Responsive Application, a Seventeen Hundred Dollar ($1,700.00) application fee is enclosed.

JUL 19 4 21 PM '84
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FEE OPERATION BR
I.C.C.

Sincerely,

[signature]

George W. Mayo, Jr.
Counsel for The Denver &
Rio Grande Western
Company

GWM:jms
Enclosure

DRGW-10

BEFORE THE

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30400 Sub 20

SANTA FE SOUTHERN PACIFIC CORPORATION
-- CONTROL --
SOUTHERN PACIFIC TRANSPORTATION COMPANY
-- MERGER --
THE ATCHISON, TOPEKA AND SANTA FE
RAILWAY COMPANY AND SOUTHERN PACIFIC
TRANSPORTATION COMPANY

RESPONSIVE APPLICATION OF
THE DENVER AND RIO GRANDE WESTERN
RAILROAD COMPANY

THE DENVER AND RIO GRANDE
WESTERN RAILROAD COMPANY

Samuel R. Freeman
Vice President & General Counsel
Kendall T. Sanford
General Attorney
The Denver and Rio Grande Western
Railroad Company
P.O. Box 4582
Denver Colorado 80217
(303) 595-2331

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Thomas B. Leary
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(202) 331-4500

July 19, 1984

Attorneys for The Denver and Rio Grande Western Railroad Company

DRGW-10

BEFORE THE

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30400

SANTA FE SOUTHERN PACIFIC CORPORATION
-- CONTROL --
SOUTHERN PACIFIC TRANSPORTATION COMPANY
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July 19, 1984

Attorneys for The Denver and Rio
Grande Western Railroad Company

SUBJECT MATTER INDEX
DRGW APPLICATION
F.D. No. 30400

* To be filed August 20, 1984

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BEFORE THE

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30400

SANTA FE SOUTHERN PACIFIC CORPORATION
-- CONTROL --
SOUTHERN PACIFIC TRANSPORTATION COMPANY
-- MERGER --
THE ATCHISON, TOPEKA AND SANTA FE
RAILWAY COMPANY AND SOUTHERN PACIFIC
TRANSPORTATION COMPANY

RESPONSIVE APPLICATION OF
THE DENVER AND RIO GRANDE WESTERN
RAILROAD COMPANY

Section 1180.6(a)
Persons to whom Correspondence with respect
to the Application Should Be Addressed

Service of all documents should be made upon the following representatives of The Denver and Rio Grande Western Railroad Company:

Samuel R. Freeman
Vice President and General Counsel
The Denver and Rio Grande Western
Railroad Company
P.O. Box 5482
Denver, Colorado 80217
(303) 595-2331

E. Barrett Prettyman, Jr.
HOGAN & HARTSON
815 Connecticut Avenue, N.W.
Washington, D.C. 20006
(202) 331-4685

Section 1180.6(a)(1)(i)
Summary of the Proposed Transaction

By this application, The Denver and Rio Grande Western Railroad Company ("DRGW") seeks authority (1) to acquire certain lines of the Southern Pacific Transportation Company ("SPT") and (2) for the grant to DRGW of unrestricted trackage rights over certain other lines, as a condition of the proposed merger between SPT and The Atchison, Topeka and Santa Fe Railway Company ("ATSF").

DRGW seeks fee ownership 1/ of the following SPT lines: Ogden, UT - Winnemucca, NV; Winnemucca, NV - Klamath Falls, OR; 2/ Winnemucca, NV - Roseville, CA; Wendel, CA - Susanville, CA; Alturas, CA - Lakeview, OR; Hazen, NV - Fallon, NV; Hazen, NV - Mina, NV. In addition, Rio Grande seeks unrestricted trackage rights over (or an alternate means of serving) the following SPT lines: Klamath Falls, OR - Portland, OR; Roseville, CA - Sacramento, CA - Oakland, CA, via Davis and Fairfield, CA (to provide a continuous through route between Oakland and Roseville via Davis); Roseville, CA - Fresno, CA, via Galt, Lathrop and Modesto, CA; Oakland, CA -

---

1/ In the alternative, DRGW seeks trackage rights over these lines.

2/ This line includes trackage rights over a 149-mile Western Pacific line between Winnemucca, NV, and Flanigan, NV. DRGW seeks an assignment of trackage rights over this Western Pacific line.

Niles, CA, via Hayward, CA; Lathrop, CA - Tracy, CA; Niles, CA, - San Jose, CA (including Lick, Luther Branch and Maybury Branch and other areas in the City of San Jose); Davis, CA - Woodland, CA; Benicia Branch, CA; Fairfield, CA - Schellville, CA; Stockton, CA - Oakdale, CA (or, in the alternative, trackage rights over ATSF between Oakdale and Stockton); San Jose, CA - Santa Clara, CA (including a portion of Santa Clara - Agnew line) - Sunnyvale, CA; Elmhurst, CA - Mulford, CA; Martinez, CA - Pittsburg, CA (including a portion of Concord - Avon line); Albany, OR - Lebanon, OR - Griggs, OR; Albany, OR - Corvallis, OR - Dallas, OR; Portland, OR - Beaverton, OR; Eugene, OR - Ashland, OR - Belleville, OR (including White City Branch); Eugene, OR - Danebo, OR - Coquille, OR; Springfield, OR - Hendricks, OR. 3/

The terms under which DRGW proposes to consummate the proposed acquisition and to implement the proposed trackage rights, the manner in which the involved lines would be operated, and the likely impact of the proposed transaction on

---

3/ DRGW understands that certain SPT lines referenced in this paragraph -- lines which SPT obtained through its acquisition of, and subsequent merger with, the Central Pacific Railway Company -- are subject to a paired-track agreement between SPT and UP. To the extent that such agreement may interfere with the award of the conditions sought by DRGW, DRGW asks the Commission to set the agreement aside pursuant to 49 U.S.C. § 11351 and 49 C.F.R. § 1180.1(g) (1983).

carriers, shippers, and other interested parties are discussed in detail in this application. 4/

The proposed transaction is a necessary adjunct to Commission approval of the ATSF/SPT merger sought in these proceedings. Absent imposition of the conditions requested in this application, the ATSF/SPT merger would be contrary to the public interest because it would effectively deprive shippers and receivers of the competitive transportation alternatives currently available to them, and in particular the alternative afforded by DRGW's Central Corridor route to Kansas City. Moreover, if the ATSF/SPT merger is approved without DRGW's conditions, the merger ultimately will materially weaken DRGW and its Kansas City connections, thereby interfering with the quality of service offered to shippers and receivers.

4/ In view of the delays and technical difficulties encountered in obtaining data necessary to analyze t transaction proposed in the primary application, the Commission granted an extension of time until August 20, 1984, for the completion of responsive applications. (ICC Decision No. 11, served June 28, 1984). The information to be submitted at that time is dependent upon evaluation of the economic and technical data supplied by the primary applicants and cannot be completed at this time. Those portions of the application which DRGW will submit on August 20, 1984 have been noted in the text of this application.

Section 1180.6(a)(1)(ii)
Proposed Time Schedule

The proposed acquisition of lines and trackage rights by DRGW will be executed at the same time the consolidation of ATSF/SPT is implemented. The transaction is contingent upon Commission approval of the ATSF/SPT merger and the execution of an acquisition agreement and a trackage rights agreement. These contingent agreements will be completed and executed prior to, or shortly after, the effective date of any Commission decision in Finance Docket No. 30400 approving the primary application.

Section 1180.6(a)(1)(iii)
Purposes Sought To Be Accomplished by the Proposed Transaction

DRGW's acquisition of SPT lines and trackage rights will accomplish multiple purposes, including:

(1) reduction of the anti-competitive effects of the ATSF/SPT merger by preserving the competitive alternative rail service provided by DRGW in the Central Corridor;

(2) preservation of the high quality of rail services presently available to shippers in DRGW's service territory;

(3) provision of vital physical access for DRGW to the west coast of California and Oregon, thus

allowing DRGW to remain a viable competitor in transcontinental shipments;

(4) preservation of DRGW's ability to provide interline-received and interline-forwarded service; and

(5) establishment of an independent competitive outlet for the transportation of coal originating on DRGW's lines in Colorado and Utah.

DRGW's conditions are required to alleviate a seriously anti-competitive situation in the transcontinental shipment of goods. The proposed ATSF/SPT combination is a parallel merger which will reduce by one the already limited competitive alternatives available to shippers and receivers in California and Oregon. By providing DRGW with direct access to the West Coast, the conditions sought here will restore the pre-existing number of competitive alternatives for transcontinental shipments.

If the conditions are not granted, the adverse competitive impact of the parallel merger would be exacerbated by a deterioration in DRGW's ability to provide a competitive alternative in the Central Corridor. In the UP/MP Decision, the Commission recognized DRGW's pivotal role in Central Corridor competition and it also recognized that preservation of an independent western connection for DRGW was essential. Indeed, the Court of Appeals remanded the UP/MP Decision to the

Commission because it may have provided insufficient protection to DRGW in the West. The situation after an ATSF/SPT merger would be much worse. The UP-MP Decision effectively eliminated DRGW's Salt Lake City, UT, interchange with Western Pacific as an independent connection. DRGW is now left with a single independent connection to the West -- an interchange with SPT at Ogden, UT -- which would be lost if this merger is approved without the conditions proposed by DRGW.

In sum, imposition of conditions sought by DRGW is necessary to ensure that the proposed merger of the ATSF and SPT systems is consistent with the public interest. The proposed acquisition of lines and trackage rights would maintain competition and improve rail services in the Central Corridor while, at the same time, permitting realization of the public benefits offered by a merged ATSF/SPT system.

Section 1180.6(a)(1)(iv) Nature and Amount of New Securities and Other Financial Arrangements

No new securities will be issued in connection with this transaction. DRGW will take whatever steps the Commission deems appropriate to establish reasonable charges for the use of the lines over which trackage rights are requested and for the acquisition of lines. DRGW will submit additional material relating to the relevant financial arrangements on August 20, 1984.

Section 1180.6(a)(2)
Public Interest Justifications

Effect of the Proposed Transaction on Competition (Section 1180.6(a)(2)(i)). DRGW seeks to acquire lines and trackage rights from SPT in order to continue to provide a viable competitive alternative to the transcontinental service afforded by the combined ATSF/SPT system and the recently merged UP/MP/WP system. If the merger is approved without the conditions sought by DRGW, shippers and receivers will have the competitive alternatives available to them materially reduced. The competition fostered by the DRGW Central Corridor route must be maintained to provide a critically required market discipline in the transcontinental shipment of goods by rail, a discipline necessary to protection of the public interest in efficient rail service at reasonable rates. DRGW will submit additional material relating to the effect of the proposed transaction on competition on August 20, 1984.

Financial Consideration/Economies (Section 1180.6(a)(2)(ii)). DRGW will supply the required information on August 20, 1984.

Effect of Any Increase in Total Fixed Charges (Section 1180 6(a)(2)(iii)). DRGW will supply the required information on August 20, 1984.

Effect on Adequacy of Transportation Service to Public (Section 1180.6(a)(2)(iv)). DRGW will supply the required information on August 20, 1984.

Effect on Employees (Section 1180.6(a)(2)(v)). DRGW will supply the required information on August 20, 1984.

Effect of Inclusion or Lack of Inclusion of Other Railroads in the Territory (Section 1180.6(a)(2)(vi)). DRGW will supply the required information on August 20, 1984.

Section 1180.6(a)(3)
Other Supporting or Descriptive Statements

DRGW will submit supporting testimony on August 20, 1984, including statements from shippers, receivers, public bodies and connecting railroads. This testimony will demonstrate the widespread concern of those who rely on DRGW's service that approval of the merger of ATSF and SPT without the conditions DRGW is seeking could have serious adverse effects on competition and on DRGW's continued ability to provide quality service.

Section 1180.6(a)(4)
Opinion of Counsel

An opinion of counsel responsive to 49 C.F.R. § 1180.6 (a)(4) will be submitted on August 20, 1984.

Section 1180.6(a)(5)
List of States

DRGW owns rail equipment and track located in Colorado and Utah. A list of the states in which ATSF and SPT own property is contained in the primary application (SFSP-4 at p. 22) and is incorporated herein by reference.

Section 1180.6(a)(6)
Map
Exhibit 1

A map indicating the involved lines, other rail lines in the territory, and the principal geographic points in the region is attached as Exhibit 1.

Section 1180.6(a)(7)(i)
Nature and Terms of Transaction

See Summary of Transaction, (Section 1180.6(a)(1)(i)), above.

Section 1180.6(a)(7)(ii)
Agreement

Proposed agreements for acquisition of lines and for trackage rights will be submitted on August 20, 1984.

Section 1180.6(a)(iii)
Description of Resulting Company

Not applicable.

Section 1180.6(a)(7)(iv)
Court Order

Not applicable.

Section 1180.6(a)(7)(v)
Property Involved

The property involved in the proposed transaction is described in Section 1180.6(a)(1)(i), Summary of Transaction, above.

Section 1180.6(a)(7)(vi)
Principal Routes, Principal Terminals, Principal Points of Interchange, Main Line and Branch Line Mileages

DRGW operates over 1800 miles of mainline track from Denver and Pueblo, CO, on the east, to Salt Lake City and Ogden, UT, on the west and has trackage rights between Pueblo and Kansas City, MO. The principal routes and interchanges are listed below.

RIO GRANDE: PRINCIPAL ROUTES

Main Lines

Route	Miles
Ogden, UT - Salt Lake City, UT	37
Salt Lake City, UT - Grande Jct., CO	297
Grand Jct., CO - Dotsero, CO	118
Dotsero, CO - Pueblo, CO	224
Dotsero, CO - Denver, CO	167
Denver, CO - Pueblo, CO	120
Total Main Line Miles	963

Major Branch Lines

Route	Miles
Thistle, UT - Marysville, UT	132
Midvale, UT - Magna, UT	18
Colton, UT - Clear Creek, UT	21
Brendel, UT - Sunnyside, UT	36
Mounds, UT - Sunnyside, UT	18
Grand Jct., CO - Oliver - Montrose, CO	128
Durango, CO - Silverton, CO (Narrow Guage)	45
Pueblo, CO - Antonito - Creede, CO	224
Glenwood, CO - Woody Creek, CO	33
Malta, CO - Leadville, CO	5
Bond, CO - Craig - Energy - Axial, CO	141
Major Branch Line Miles	801
Other Branch Line Miles	59
Total Branch Line Miles	860

RIO GRANDE: PRINCIPAL INTERCHANGE POINTS

Station	Connecting Carriers
Ogden, UT	Southern Pacific Union Pacific
Salt Lake City, UT	Western Pacific Union Pacific Salt Lake Garfield and Western
Provo, UT	Union Pacific Utah Railway
Denver, CO	Union Pacific Burlington Northern Colorado and Southern (BN) Atchison, Topeka & Santa Fe
Colorado Spgs., CO	Atchison, Topeka & Santa Fe Colorado and Southern (BN)

Pueblo, CO	Missouri Pacific Atchison, Topeka & Santa Fe Colorado and Southern (BN) Colorado and Wyoming
Walsenburg, CO	Colorado and Southern (BN)
Trinidad, CO	Colorado and Southern (BN) Colorado and Wyoming

The principal routes, terminals, and interchanges operated by ATSF and SPT are listed in the primary application (SFSP-4 at pp. 24-26) and are incorporated herein by reference.

Section 1180.6(a)(7)(vii)
Governmental Financial Assistance

No governmental financial assistance is involved in the proposed transaction.

Section 1180.6(a)(8)
Environmental Data

The required environmental data, Exhibit 4, will be submitted on August 20, 1984.

Section 1180.6(a)(9)
Energy Data

The required energy data. Exhibit 5, will be submitted on August 20, 1984.

Section 1180.6(b)
Section 1180.6(b)(1)
Form 10-K

A Form 10-K submitted by Rio Grande Industries, Inc., DRGW's parent corporation, is attached at Exhibit 6.

Section 1180.6(b)(2)
Form S-14

Neither DRGW nor its parent, Rio Grande Industries, Inc., has been required to submit a Form S-14 within the last three years.

Section 1180.6(b)(3)
Change in Control

There has been no change in ownership, control or officers not indicated by the most recent annual report submitted with this application.

Section 1180.6(b)(4)
Annual Reports

The most recent annual reports for Rio Grande Industries, Inc., are attached at Exhibit 10.

Section 1180.6(b)(6)
Corporate Chart

A corporate chart is attached at Exhibit 11.

Section 1180.6(b)(7)
Non-Carrier Information

Not applicable since DRGW is a carrier.

Section 1180.6(b)(8)
Indirect Intercorporate Relationships

There are no direct or indirect intercorporate or financial relationships between DRGW and the primary applicants which are not disclosed elsewhere in the application.

Section 1180.7
Market Analyses

Market impact analyses including the effects of inter- and intramodal competition, traffic patterns, and other supporting data will be submitted by DRGW on August 20, 1984.

Section 1180.8
Operational Data

The operating plan, including patterns of service, anticipated equipment requirements, density charts, and other related data will be submitted by DRGW on August 20, 1984.

Section 1180.9
Financial Information

Financial information, including pro forma balance sheets and a pro forma income statement will be submitted by DRGW on August 20, 1984.

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

I, Samuel R. Freeman, being duly sworn, depose and say that I am Vice President and General Counsel of The Denver and Rio Grande Western Railroad Company and I am a duly designated officer to execute, verify and file this application. I have knowledge of the matters contained herein as they pertain to The Denver and Rio Grande Western Railroad Company and the statements made herein are made and set forth as true and correct to the best of my knowledge, information and belief.

Samuel R. Freeman
Samuel R. Freeman

SUBSCRIBED and sworn to before me this 16th day of July, 1984.

Kate Sydney
Notary Public

My commission expires: January 18, 1988

C E R T I F I C A T I O N

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

I, C. E. Schmeckpeper, being duly sworn, depose and say that I am the duly elected Secretary of The Denver and Rio Grande Western Railroad Company, and I certify that Samuel R. Freeman is duly authorized by the Company to sign, verify, and file the foregoing Application.

C. E. Schmeckpeper

C. E. Schmeckpeper

SUBSCRIBED and sworn to before me this 16th day of July, 1984.

Kate Sydney

Notary Public

My commission expires January 18, 1988

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 19th day of July, 1984, true copies of the Responsive Application of The Denver and Rio Grande Western Railroad Company in ICC Finance Docket No. 30400 have been served on all parties required to be served by 49 C.F.R. § 1180.5 and the Decision of the Commission dated June 27, 1984.

Mary Anne Mason

Mary Anne Mason

EXHIBIT 1

MAP

SECTION 1180.6(a)(6)

EXHIBIT 6

FORM 10-K

§1180.6(b)(1)

Form 10-K
Quarterly Report

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1984

Commission File Number 1-6022

RIO GRANDE INDUSTRIES, INC.

Incorporated under the laws of the State of Delaware

84-0590331
(IRS Employer Identification Number)

P. O. Box 5482, Denver, Colorado 80217
Telephone (303) 595-2254

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days........... Yes ☒ No ☐

Common Stock, $1.00 par value, outstanding as of March 31, 1984 totaled 9,925,771 shares such shares being the only class of Common Stock authorized at that date.

CONDENSED CONSOLIDATED BALANCE SHEETS
December 31, 1983 and March 31, 1984
(unaudited)

-A S S E T S-	December 31, 1983 (in thousands)	March 31, 1984 (in thousands)
CURRENT ASSETS:		
Cash and temporary investments-at cost, which approximates quoted market value	$152,537	$216,572
Accounts receivable	56,009	57,224
Income tax refund receivable	7,238	--
Inventories	23,640	27,304
Other	5,341	6,926
Total current assets	244,765	308,026
PROPERTIES:		
Railroad properties:		
Track structure	499,210	502,467
Equipment	293,939	295,993
Other	6,495	6,494
Total	799,644	804,954
Other properties	40,511	34,381
Total	840,155	839,335
Less accumulated depreciation and amortization	298,887	300,785
Properties - net	541,268	538,550
OTHER ASSETS:		
Other investments-at cost	8,660	8,456
Other	11,061	11,295
Total other assets	19,721	19,751
TOTAL	$805,754	$866,327

- LIABILITIES AND STOCKHOLDERS' EQUITY-	December 31, 1983 (in thousands)	March 31, 1984 (in thousands)
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 8,646	$ 8,853
Accounts and wages payable	61,172	63,378
Interest	1,116	1,392
Income taxes	--	9,315
Other taxes	5,221	5,168
Dividends payable	3,969	3,970
Other	2,857	5,818
Total current liabilities	82,981	98,894
LONG-TERM DEBT:		
Equipment obligations	60,804	58,303
Other	19,204	19,146
Total long-term debt	80,008	77,449
OTHER LIABILITIES AND DEFERRED CREDITS:		
Deferred income taxes	138,055	141,453
Other	16,465	16,560
Total other liabilities and deferred credits	154,520	158,013
STOCKHOLDERS' EQUITY:		
Common stock, $1 par value, 22,000,000 shares authorized	10,174	10,174
Capital surplus	198,790	198,927
Retained earnings	281,930	325,479
Less treasury stock	(2,649)	(2,609)
Total stockholders' equity	488,245	531,971
TOTAL	$805,754	$866,327

See Notes to Condensed Consolidated Financial Statements

RIO GRANDE INDUSTRIES, INC.
AND SUBSIDIARIES

Part I
Financial Information

Form 10-Q
March 31, 1984

CONDENSED STATEMENTS OF CONSOLIDATED INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 1983 AND 1984
(unaudited)

	1983	1984
	(In thousands except per share amounts)	
Operating revenues:		
Railroad	$69,679	$88,209
Other operations	2,026	1,884
Total	71,705	90,093
Operating expenses:		
Railroad	65,972	80,888
Other operations	1,309	1,303
Total	67,281	82,191
Operating income	4,424	7,902
Interest income	4,239	4,994
Interest expense	2,050	2,002
Other income - net	609	1,489
Income from continuing operations before income taxes	7,222	12,383
Provision for income taxes-(Note 3)	2,773	3,864
Income from continuing operations	4,449	8,519
Discontinued operations-net of income taxes (Note 4):		
Income from discontinued operations	791	--
Gain on sale of subsidiary	--	39,000
Net income	$ 5,240	$47,519
Earnings per Common Share-(Note 5)-		
Income from continuing operations	$ .45	$ .86
Net income	.53	4.79
Dividends declared per common share	.40	.40

See Notes to Condensed Consolidated Financial Statements

RIO GRANDE INDUSTRIES, INC.
AND SUBSIDIARIES

Part I
Financial Information

Form 10-Q
March 31, 1984

CONDENSED STATEMENTS OF CONSOLIDATED CHANGES IN FINANCIAL POSITION FOR THE THREE MONTHS ENDED MARCH 31, 1983 AND 1984
(unaudited)

	1983	1984
	(In thousands)	
WORKING CAPITAL PROVIDED:		
Operations	$ 12,543	$ 18,531
Discontinued operations (Note 4):		
Operations-less working capital applied	(591)	--
Net proceeds from sale of subsidiary less working capital sold	--	45,785
Sale of properties	666	333
Issuance of equity securities	1,250	177
Other	1,421	837
Total	15,289	65,663
WORKING CAPITAL APPLIED:		
Additions to properties	6,803	11,135
Reduction in long-term debt	2,736	2,559
Dividends	3,960	3,970
Other	3,755	651
Total	17,254	18,315
INCREASE (DECREASE) IN WORKING CAPITAL	$(1,965)	$ 47,348

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1984

1. Financial Statements

The financial statements furnished herein reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods.

2. Change in Accounting Method

In the fourth quarter of 1983, The Denver and Rio Grande Western Railroad Company (Railroad) changed its method of accounting for railroad track structure from retirement-replacement-betterment accounting to depreciation accounting. The interim financial statements for 1983 have been restated to apply the new method retroactively. The change decreased 1983 income from continuing operations by $481,000 or $.05 per share.

3. Income Taxes

Income taxes have been provided at rates which the Company estimates will be the effective rates for the entire year. The provision for income taxes is at less than statutory rates in both years, principally due to investment tax credits.

4. Discontinued Operations

On January 4, 1984, the Company sold Computer Sharing Services, Inc. (CSS) resulting in discontinuance of all computer time-sharing operations. The operations of CSS and the gain on the sale are reported separately as Discontinued Operations. The operations of CSS for the first quarter of 1983 is summarized as follows:

Operating revenues	$7,133,000
Net income	791,000
Net income per share	.08

5. Earnings Per Share

For the three months ended March 31, 1984 and 1983, earnings per common share were based upon 9,924,124 and 9,884,922 weighted average shares of common stock outstanding during the respective periods.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Railroad Operations:

Railroad revenues increased by 27 percent or $18.5 million to a total of $88.2 million in the three months ended March 31, 1984, compared to the same period in 1983. Revenue from the shipment of coal was up 21 percent, Trailer on Flat Car was up 81 percent, and autos and auto parts was up 65 percent. Several other freight categories, including lumber and forest products, food products, pulp and paper products and chemicals showed substantial increases. Coal revenues accounted for 44 percent of total freight revenues compared to almost 47 percent in the 1983 first quarter.

Railroad operating expenses increased by 23 percent leaving an operating income for the Railroad of $7.3 million in 1984, an increase of $3.6 million or 97 percent compared to the 1983 quarter.

Interest Income:

For the three months ended March 31, 1984, Interest Income increased by 18 percent to $5.0 million compared to the same period in 1983. The increase was due principally to interest income earned on a substantially larger portfolio of temporary investments.

Other Income:

Other income in 1984 totalled $1.5 million compared to $ .6 million in the same quarter of 1983. The 1984 increase was due substantially to a gain on the sale of non-operating real estate which was partially offset by certain non recurring expenses applicable to the Company's trucking operation.

Income Taxes:

The estimated tax rate for continuing operations is substantially less in 1984 than 1983 because of increased estimated investment tax credits.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources:

The Company's financial position improved significantly in the first quarter of 1984, principally from the sale of Computer Sharing Services, Inc. Including this sale, available working capital increased by $47.3 million, and the ratio of long-term debt to long-term debt plus equity improved to 12.7 percent from 14.1 percent at year end.

During the first quarter of 1984, funds necessary to meet the Company's operating needs, to pay dividends on its capital stock and to finance capital expenditures were provided principally through internally generated funds.

Other:

In 1983, the Company adopted a change in accounting methods which is more fully described in Note 2 of Notes to Condensed Consolidated Financial Statements.

Item 6. (a) Part I Exhibits:
None

(b) Reports on Forms 8-K:
The Company filed an 8-K report dated January 18, 1984, in which it reported that all of the issued and outstanding shares of Computer Sharing Services, Inc. (CSS), a wholly owned subsidiary of the Company, had been sold to McDonnell Douglas Corporation pursuant to a Stock Purchase Agreement dated January 4, 1984.

Included with the 8-K report were pro forma income statements for the year ended December 31, 1982 and nine months ended September 30, 1983, and a pro forma balance sheet as of September 30, 1983, reflecting the elimination of CSS from continuing operations of Rio Grande Industries, Inc.

Items 1 through 5 are omitted because of the absence of the conditions under which a response is required.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RIO GRANDE INDUSTRIES, INC.
(Registrant)

(SIGNED) D. L. THOMAS

D. L. Thomas
Controller

(signed) M. E. Ehrlich

M. E. Ehrlich
Vice President, Secretary and Treasurer

Date: May 11, 1984

Form 10-K

Annual Report

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1983

Commission File Number 1-6022

RIO GRANDE INDUSTRIES, INC.

Incorporated under the laws of the State of Delaware

84-0590331
(IRS Employer Identification No.)

1515 Arapahoe Street, Denver, Colorado 80202
Telephone (303) 595-2254

Securities requested pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange On which registered
$1.00 Par Value Common Stock	New York Stock Exchange

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days .... Yes [X] No [ ]

Aggregate market value of voting stock held by non-affiliates of the registrant as of February 29, 1984:

Title of class	Shares held by non-affiliates	Market Price	Aggregate Market Value
Common	9,612,097	$53 1/2	$514,247,190

Indicate the number of shares outstanding of each of the issuer's class of Common Stock, as of the close of the period covered by this report.

Class	Outstanding at December 31, 1983
Common Stock, $1.00 Par Value	9,921,955

Documents incorporated by reference:

Document	Referenced by
Annual Report to Stockholders For the Year Ended December 31, 1983	Parts I and II
Proxy Statement dated March 23, 1984	Parts I and III

Part I

Item 1. Business

(a) General development of business:

The information set forth in Note 2 "Change in Accounting Method" and Note 5 "Discontinued Operations - Computer Sharing Services" of the Notes to Consolidated Financial Statements on pages 18 and 20 respectively, of the Company's 1983 Annual Report to Stockholders is incorporated herein by reference.

(b) Financial information about industry segments:

As a result of the sale of Computer Sharing Services, Inc., the Company is primarily engaged in Railroad Transportation which is considered a single segment.

(c) Narrative description of the business:

(1) Railroad -

The information set forth under the caption "The Denver and Rio Grande Western Railroad Company" on pages 4 through 11 and 34 of the Company's 1983 Annual Report to Stockholders is incorporated herein by reference. Additional information concerning the Railroad follows.

The Railroad, as a common carrier engaged in interstate rail transportation, is subject to the regulatory jurisdiction of the Interstate Commerce Commission ("ICC"). The ICC has jurisdiction, among other things, over rates charged, the issuance of certain securities, the extension and abandonment of rail lines, and the consolidation, merger and acquisition of control of and by such carriers. The Railroad is also subject to the jurisdiction of the Department of Transportation with respect to safety equipment, and protection of employees and passengers. Labor relations in the railroad industry are regulated under the Railway Labor Act.

Franchises or permits to operate from state and federal agencies are vital in the operation of the common carrier railroad and have perpetual lives.

The Railroad is subject to intense competition for traffic. In transcontinental freight traffic, the Railroad faces strong railroad competitors who duplicate its service in the "overhead" hauling of freight received by the Railroad from one interconnecting carrier and hauled to another carrier. Some of these competitors have substantially greater financial resources and the advantage of lines from the midwest to the west coast. Common and contract motor carriers, as well as private truck fleets, also provide competition for freight traffic.

On October 14, 1980, the Staggers Rail Act was signed into law to reform the economic regulation of the railroad industry. The measure gives broad freedom to railroads to change freight rates without going through certain of the procedures formerly required. The legislation also allows railroads greater flexibility to abandon unwanted branch lines.

Because of the complexity of railroad deregulation, the Company believes the impacts will be felt gradually over a period of years. Deregulation has helped the Railroad, especially in the areas of intermodal competition and rate making flexibility, and has given it more freedom to enter into contract rates with shippers. Other aspects of deregulation, however, provide competitive advantages for large single line railroads which have greater flexibility in setting rates than railroads relying on connecting carriers and joint rates, such as the Railroad. The Company has been adversely affected by the mergers of other railroads. The ability of the long-line roads to quote rates, enter into contracts and effectively shut down a gateway or cancel a potential route has put the Company at a competitive disadvantage.

The business of the Railroad is not subject to significant seasonal variations and is not dependent on raw materials with limited sources or availability. The Railroad is dependent on an adequate supply of diesel fuel but, to this date, has not incurred any curtailment of operations due to a shortage of fuel.

(2) Other industries -

In addition to the Railroad discussed above, the Company is also engaged as a common carrier truckline operating in ten western States on a call-and-demand truckload basis and in the operation of the Company's headquarters building.

(3) The following additional information is provided:

(i) Research and development activities:
Not material.

(ii) Customers representing 10% or more of consolidated revenues:
Not applicable.

(iii) Environmental disclosures:
Not material.

(iv) Number of employees:
Total employment at December 31, 1983, was about 3,520. Of these approximately 3,165 were with the railroad, 275 were with the computer time sharing operations sold January 4, 1984, and 80 were with the other industries.

(d) Sales in foreign countries are not material.

Item 2. Properties

Materially important physical properties of the Company and its subsidiaries, identified by industry segments, are as follows:

RAILROAD

The Denver and Rio Grande Western Railroad Company - Railroad equipment and track, buildings and shops in Colorado and Utah. Of total trackage operated, including the trackage rights between Pueblo, Colorado and Kansas City, Missouri, approximately 72% is owned. The Railroad owns over 300 locomotives and has over 10,000 freight cars of various types of which 80% are owned. At December 31, 1983, the Railroad had capital lease commitments for equipment with a cost of $34,460,000.

OTHER INDUSTRIES

Montwood Corporation - owns in fee approximately 130 acres of land in California, Utah and Colorado, together with a 22,000 sq. ft. freight terminal in Colorado, all of which is held for investment or sale.

Leavell Development Company - holds 73-1/3% ownership on a joint venture basis in a 545,000 sq. ft. office building in Denver, Colorado, in which the Company and its subsidiaries occupy 102,000 sq. ft. of space.

Rio Grande Land Company - owns in fee various parcels of land in Colorado and Utah which are available for use in developing new or additional business by generating railroad traffic into and out of such locations. These parcels aggregate approximately 1,054 acres.

Rio Grande Motor Way, Inc. - owns about 8 freight terminals and/or small parcels of land at various locations in Colorado, New Mexico and Utah. All of these properties are for sale. At December 31, 1983, the truckline also owned 5 tractors and 90 trailers.

Item 3. Legal Proceedings

There are no pending material legal proceedings other than those incidental to business of the Company and its subsidiaries and that described in Note 5 of the Financial Statements.

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

Not Applicable

Part II

Item 5. Market for the Registrant's Common Stock and Restated Security Holder Matters

Information required by this item is included under the headings "Financial Highlights," on page 1, "Stock Price and Dividend Information" and "Shareholder References" on page 35 of the Company's 1983 Annual Report to Stockholders, which is incorporated herein by reference.

Item 6. Selected Financial Data

Selected financial data are included under the heading "Five-Year Summary of Selected Financial Data" on page 29 of the Company's 1983 Annual Report to Stockholders, which is incorporated herein by reference.

Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations

Information required by this item is included under the heading "Management Discussion and Analysis" on pages 30 through 32 of the Company's 1983 Annual Report to Stockholders, which is incorporated herein by reference.

In 1982, Railroad revenues declined, as compared to 1981, by 12.7% due to a weak coal market and the recessionary environment which affected commodity shipments in general.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and supplementary data included on pages 13 through 28 of the Company's 1983 Annual Report to Stockholders are included herein by reference:

Statements of Consolidated Income for the Years Ended December 31, 1983, 1982, and 1981

Consolidated Balance Sheets, December 31, 1983 and 1982

Statements of Consolidated Stockholders' Equity for the Years Ended December 31, 1983, 1982 and 1981

Statements of Consolidated Changes in Financial Position for the Years Ended December 31, 1983, 1982 and 1981

Notes to Consolidated Financial Statements for the Years Ended December 31, 1983, 1982 and 1981

Selected Quarterly Financial Data

Auditors' Opinion

Supplementary Financial Data Adjusted for the effects of Changing Prices

Item 9. Disagreements on Accounting and Financial Disclosure

Not Applicable

Part III

Item 10. Directors and Officers of the Registrant

Directors -

Information relating to Directors of the Company is included under the headings "Election of Directors" and "Business Experience" on pages 2 through 4 of the Proxy Statement dated March 23, 1984, which is incorporated herein by reference.

Executive Officers -

M. E. Ehrlich — Vice President-Finance & Administration, Secretary and Treasurer — Age 60

Secretary since 1969; appointed Vice President in 1973; appointed Treasurer April 1976; appointed Vice President-Finance & Administration in 1982.

S. R. Freeman — Vice President and General Counsel — Age 54

General Counsel since April 1974; appointed Vice President in April 1976.

W. J. Holtman — Chairman of the Board and President — Age 62

Chairman of the Board of the Company since May 24, 1982. President of the Company since August 1, 1980, and Chief Executive Officer effective January 1, 1981. Vice President, February 1976 until August 1980; Chairman of the Board of Railroad Company since May 24, 1982; President since June 1976 and appointed Chief Executive Officer in January 1978.

J. D. Key — Vice President - Traffic The Denver and Rio Grande Western Railroad Company — Age 65

Vice President-Traffic of Railroad Company since December 1979; Assistant Vice President-Traffic of Railroad Company from 1971 to December 1979.

J. B. Love — Vice President — Age 60

Vice President since 1975.

D. L. Thomas — Controller — Age 59

Controller since 1974.

These individuals are unrelated to each other. All officers listed have been elected to serve until the next Annual Meeting of Directors scheduled for April 24, 1984, or until their successors have been elected and shall have qualified.

Item 11. Management Remuneration and Transactions

Information required by this item is included under the headings "Executive Compensation", "Compensation Plans", and "Retirement Benefits" on pages 5 through 7 of the Proxy Statement dated March 23, 1984, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required by this item is included under the heading "Share Ownership" on pages 1 and 2 of the Proxy Statement dated March 23, 1984, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Not Applicable.

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

(1) The following consolidated financial statements and supplementary data included on pages 13 through 28 of the Company's 1983 Annual Report to Stockholders are included herein by reference:

Statements of Consolidated Income for the Years Ended December 31, 1983, 1982, and 1981

Consolidated Balance Sheets, December 31, 1983 and 1982

Statements of Consolidated Stockholders' Equity for the Years Ended December 31, 1983, 1982 and 1981

Statements of Consolidated Changes in Financial Position for the Years Ended December 31, 1983, 1982 and 1981

Notes to Consolidated Financial Statements for the Years Ended December 31, 1983, 1982 and 1981

Selected Quarterly Financial Data

Auditors' Opinion

Supplementary Financial Data Adjusted for the effects of Changing Prices

(2) The following financial statements and supplementary data are enclosed herewith:

Auditors' Opinion

Schedules:

Schedule I - Consolidated Marketable Securities

Schedule V - Consolidated Property, Plant and Equipment

Schedule VI - Consolidated Reserves for Depreciation, Depletion, and Amortization of Property, Plant and Equipment

Schedule X - Consolidated Supplementary Income Statement Information

Consent of Independent Public Accountants

All other schedules are omitted because of the absence of the conditions under which they are required or because the information is included in the financial statements or the notes thereto.

(3) Exhibits:

The following exhibits were filed with Form 10-K for the Year Ended December 31, 1980 and are incorporated herein by reference.

(3b) By-Laws

(10) Consultant Agreement with G. B. Aydelott dated January 1, 1981

The following exhibits are enclosed herewith.

(3) Articles of Incorporation, as amended

(11) Computation of Earnings Per Share

(13) Annual Report to Stockholders for the Year ended December 31, 1983

(18) Accountants preferability letter regarding change in accounting principles

(22) Subsidiary Companies

(23) Proxy Statement dated March 23, 1984

(24) Form 11-K for the year ended December 31, 1983

(b) Reports on Form 8-K

No reports on Form 8-K were filed or required to be filed during the year ended December 31, 1983.

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

March 28, 1984

RIO GRANDE INDUSTRIES.

By (signed) W. J. Holtman
W. J. Holtman
Chairman of the Board and President

(signed) M. E. Ehrlich
M. E. Ehrlich
Vice President, Secretary and Treasurer

(signed) D. L. Thomas
D. L. Thomas
Controller

(signed) G. B. Aydelott
G. B. Aydelott, Director

C. H. Leavell, Director

(signed) Harry Blundell
Harry Blundell, Director

(signed) G. H. Phipps
G. H. Phipps, Director

(signed) W. K. Coors
W. K. Coors, Director

(signed) D. E. Provost
D. E. Provost, Director

(signed) John Evans, Jr.
John Evans, Jr., Director

Mayfield R. Shilling, Director

David P. Gardner, Director

(signed) Roy W. Simmons
Roy W. Simmons, Director

(signed) W. J. Holtman
W. J. Holtman, Director

Wm. Thayer Tutt, Director

Deloitte Haskins+Sells

633 Seventeenth Street
Denver, Colorado 80202
(303) 534-8153
TWX 910-931-2007

AUDITORS' OPINION

Rio Grande Industries, Inc.:

We have examined the consolidated balance sheets of Rio Grande Industries, Inc. and its subsidiaries as of December 31, 1983 and 1982 and the related statements of consolidated income, stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983, and have issued our opinion thereon dated February 17, 1984; such financial statements and opinion are included in your 1983 Annual Report to Shareholders and are incorporated herein by reference. Our examinations also comprehended the supplemental schedules of Rio Grande Industries, Inc. and its subsidiaries, listed in Item 13. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins + Sells

Denver, Colorado
February 17, 1984

SCHEDULE I

RIO GRANDE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED MARKETABLE SECURITIES
DECEMBER 31, 1982 and 1983

	PRINCIPAL AMOUNT	COST	MARKET VALUE	CARRYING VALUE
	(In thousands)			
DECEMBER 31, 1982:				
United States Government Securities....................	$163,500	$164,958	$164,683	$164,683
*Certificates of Deposit with Banks....................	1,600	1,600	1,600	1,600
*Corporate Commercial Paper.......	300	300	300	300
TOTAL.................	$165,500	$166,858	$166,583	$166,583
DECEMBER 31, 1983:				
United States Government Securities....................	$106,222	$108,736	$108,165	$108,165
*Certificates of Deposit with Banks....................	13,086	13,070	13,070	13,070
*Corporate Commercial Paper.......	9,455	9,448	9,448	9,448
*State & Municipal Obligations....	19,395	19,368	19,368	19,368
TOTAL.................	$148,158	$150,622	$150,051	$150,051

*No individual security exceeds 2% of total Company assets

SCHEDULE V

RIO GRANDE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED PROPERTY, PLANT, AND EQUIPMENT
FOR THE YEARS ENDED DECEMBER 31, 1981, 1982 AND 1983

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	RETIREMENTS OR SALES	BALANCE AT END OF YEAR
	....	(in thousands)	....	
YEAR ENDED DECEMBER 31, 1981:				
Railroad property:				
Railroad track structure........	$366,882	$36,743	$ 7,842	$395,783
Railroad equipment..............	290,903	44	3,875	287,072
Other...........................	4,407	85	6	4,486
Total......................	662,192	36,872	11,723	687,341
Other properties.................	40,381	387	2,745	38,023
Total-Continuing operations.	702,573	37,259	14,468	725,364
Discontinued operations..........	8,037	3,083	--	11,120
Total......................	$710,610	$40,342	$14,468	$736,484
YEAR ENDED DECEMBER 31, 1982:				
Railroad property:				
Railroad track structure........	$395,783	$42,122	$ 4,200	$433,705
Railroad equipment..............	287,072	13 890	7,268	293,694
Other...........................	4,486	2,013	4	6,495
Total......................	687,341	58,025	11,472	733,894
Other properties.................	38,023	--	6,257	31,766
Total-Continuing operations.	725,364	58,025	17,729	765,660
Discontinued operations..........	11,120	4,410	7,512	8,018
Total......................	$736,484	$62,435	$25,241	$773,678
YEAR ENDED DECEMBER 31, 1983:				
Railroad property:				
Railroad track structure........	$433,705	$69,404	$ 3,899	$499,210
Railroad equipment..............	293,694	3,238	2,993	293,939
Other...........................	6,495	7	7	6,495
Total......................	733,894	72,649	6,399	799,644
Other properties.................	31,766	606	2,670	29,702
Total-Continuing operations.	765,660	73,255	9,569	829,346
Discontinued operations..........	8,018	2,880	89	10,809
Total......................	$773,678	$76,135	$ 9,658	$840,155

See Notes 1, 2, 3, and 4 to Consolidated Financial Statements

SCHEDULE VI

RIO GRANDE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED RESERVES FOR DEPRECIATION, DEPLETION, AND AMORTIZATION OF PROPERTY, PLANT, AND EQUIPMENT
FOR THE YEARS ENDED DECEMBER 31, 1981, 1982 AND 1983

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO INCOME	RETIREMENTS RENEWALS, AND REPLACEMENTS	OTHER CHANGES -- DESCRIPTION --	OTHER CHANGES ADDITION (DEDUCTION)	BALANCE AT END OF YEAR
	(in thousands)					
YEAR ENDED DECEMBER 31, 1981:						
Railroad property:						
Railroad track structure	$124,043	$ 9,366	$ 5,701	Depreciation charged to deferred credits	$ 1,140	$128,848
Railroad equipment	117,172	12,272	2,660			126,784
Other	3[illegible]1	23				414
Total	241,606	21,661	8,361		1,140	256,046
Other properties	13,755	1,273	1,578			13,450
Total-Continuing operations	255,361	22,934	9,939		1,140	269,496
Discontinued operations	1,555	1,712				3,267
TOTAL	$256,916	$24,646	$ 9,939		$ 1,140	$272,763
YEAR ENDED DECEMBER 31, 1982:						
Railroad property:						
Railroad track structure	$128,848	$ 9,855	$ 5,151	Depreciation charged to deferred credits	$ 1,181	$134,733
Railroad equipment	126,784	11,937	6,591			132,130
Other	414	907				1,321
Total	256,046	22,699	11,742		1,181	268,184
Other properties	13,450	199	4,[illegible]11			9,538
Total-Continuing operations	269,496	22,898	15,853		1,181	277,722
Discontinued operations	3,267	1,843	3,194			1,916
TOTAL	$272,763	$24,741	$ 9,047		$ 1,181	$279,638
YEAR ENDED DECEMBER 31, 1983:						
Railroad property:						
Railroad track structure	$134,733	$10,410	$ 3,329	Depreciation charged to deferred credits	$ 1,352	$143,166
Railroad equipment	132,130	12,114	1,738			142,506
Other	1,321	76				1,397
Total	268,184	22,600	5,067		1,352	287,069
Other properties	9,538	808	2,163			8,18[illegible]
Total-Continuing operations	277,722	23,408	7,230		1,352	295,252
Discontinued operations	1,916	1,795	76			3,6[illegible]5
TOTAL	$279,638	$25,203	$ 7,306		$ 1,352	$298,[illegible]87

See Notes 1, 2, 3, and 4 to Consolidated Financial Statements

RIO GRANDE INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 1981, 1982 and 1983

	1981	1982	1983
	.....(In thousands).....		
MAINTENANCE AND REPAIRS:			
Roadway and structures..............	$32,949	$32,035	$39,411
Equipment and other................	45,399	38,120	35,395
TAXES OTHER THAN INCOME TAXES:			
Property taxes.....................	4,333	3,702	3,868
Payroll taxes......................	17,868	18,435	18,026
Other..............................	482	354	304

Amounts included are from continuing operations and have been restated to reflect depreciation accounting for the track structure as described in Note 2 to Consolidated Financial Statements.

Depreciation is disclosed in Note 1 to Consolidated Financial Statements. Rents are disclosed in Note 4 to Consolidated Financial Statements. There was no significant amortization of intangibles, royalties, advertising, or research and development costs.

Deloitte Haskins+Sells

633 Seventeenth Street
Denver, Colorado 80202
(303) 534-8153
TWX 910-931-2967

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Rio Grande Industries, Inc.:

We hereby consent to the incorporation by reference in Registration Statement No. 2-60773 on Form S-8 of our opinions dated February 17, 1984 and March 2, 1984 appearing in this 1983 Annual Report on Form 10-K and in the 1983 Annual Report on Form 11-K of Rio Grande Industries, Inc. Employees' Stock Ownership Plan, respectively.

Deloitte Haskins + Sells

Denver, Colorado
March 22, 1984

EXHIBIT 9

ANNUAL REPORTS

§1180.6(b)(4)

Most Recent
Quarterly Report

Rio Grande Industries, Inc.
One Park Central
1515 Arapahoe Street
P.O. Box 5482
Denver, Colorado 80217

First Class Mail
U.S. Postage
PAID
Denver, Colorado
Permit No. 213

Grande Motor Way. 1983 first quarter net income including the discontinued Computer Services operation was $5.24 million, or $.53 per Common share.

Results for both years are based on depreciation accounting for Rio Grande railroad. Earnings per share figures are based on average Common shares outstanding during the respective quarters.

Rio Grande railroad's revenues were $88.2 million, up 27 percent over those of the 1983 first quarter, and pre-tax income of $5.7 million was up 51 percent on that same comparative basis. Coal revenues were up 21 percent, accounting for 44 percent of total freight revenues as opposed to almost 47 percent in the 1983 first quarter. Non-coal traffic was up 34 percent, with TOFC traffic ("piggyback") showing the greatest percentage increase of any category, up 81 percent over the 1983 first quarter. Autos and auto parts showed a 65 percent increase, and several other freight categories, including lumber and forest products, pulp and paper products and chemicals, showed healthy percentage increases. Iron and steel, and petroleum products showed declines, but both categories were lower producers than those in which increases occurred. Receipts from eastern connections showed healthy growth as the Kansas City to Pueblo rail segment added to its importance as a significant contributor to gross revenues and net income. On the west end, traffic also showed growth with the Southern Pacific marketing arrangement via Ogden, Utah, adding strength to Rio Grande's position. It is gratifying to report that the outlook for our railroad business overall appears better than it has for several years.

W. J. Holtman

W. J. Holtman
Chairman of the Board
and President

May 30, 1984

Over 97 percent of the votes cast were in favor of the election of Harry Blundell, W.K. Coors, W.J. Holtman and Gerald H. Phipps as directors for three-year terms.

The resolution confirming the designation of Deloitte Haskins and Sells as independent auditors of the Company for the year 1984 was adopted by a favorable vote of over 97 percent of the votes cast.

The Chairman stated that on advice of counsel he was not in position to discuss the status of negotiations and discussions with other parties regarding acquisition of this Company. He presented a review of Company operations, first quarter results and comments on the outlook for the rest of the year, and then opened the meeting for questions. These are some of the questions asked by individual stockholders, with answers by the Chairman:

Q. How aggressively is Morgan Stanley seeking a merger for Rio Grande?

A. Aggressively and on a continuing basis.

Q. And could they be looking at someone for a leveraged buy-out of Rio Grande?

A. I can't discuss any strategic steps about this particular effort beyond the statement I have made.

Q. In view of increased earnings, could dividends be increased?

A. The Board of Directors determines whether or not dividends will be increased, and the matter is reviewed on an on-going basis.

Q. Do you expect the traffic increases reported for the first quarter to continue during the remainder of the year?

A. This depends largely on the economy, but we look for strong increases throughout the year.

Q. Did we lose business and goodwill as a result of the Thistle disaster?

A. I don't think we lost goodwill. As a matter of fact, I think we gained goodwill because of our willingness to divert traffic over another railroad at additional cost to us. However, two utilities at least found other sources of coal in the East, so there was some actual traffic loss, but we don't view that as serious.

Q. What have we invested in the Kansas City route?

A. We pay on-going operating expense relative to wheelage, but there have been no capital expenditures.

Q. What about possible purchase of the Moffat Tunnel?

A. I think we would be quite willing to discuss the purchase of the Moffat Tunnel if the price were right, and its sale approved by the Moffat Tunnel Commission and the Colorado legislature.

Q. What is the status of Rio Grande Motor Way?

A. It's still in business. We anticipate perhaps a small loss by year end.

Q. Who is Century Capital Associates which is shown as a five percent owner in the proxy statement?

A. It is a money management group which largely invests funds of pension plans.

Q. To your knowledge, are any other railroads large shareholders of Rio Grande?

A. No.

Q. I note that you have had another good year for employee safety receiving your fourth consecutive award. How do we enforce policies regarding drinking and drug abuse by employees?

A. We have now received the Harriman safety award for the fifth consecutive year, making another gold medal. We rely principally on training and the efforts and motivation of the excellent people throughout the Company. We have a very fair and rigidly enforced discipline system covering operating rules and federal regulations. We also rely on heavy surveillance and monitoring by crews and supervisors. Last year, as an example, Mechanical Department in Utah had an accident-free year, a tremendous accomplishment,and to reward them for that accomplishment, the Board of Directors authorized the giving of two $100 bonds to each Mechanical Department employee on the Utah Division. All employees are very much concerned with safety.

Q. How do you plan to deal with the perception that the call of the Preferred stock and the exchange of Preferred stock, which diluted shareholders' interest to a significant degree, does not reconcile with management's view of enhancing shareholders' values?

A. We think the cash position of the Company now is one which strengthens it, and considering the present environment of deregulation and merger, we feel that the call of the Preferred was a proper decision and is going to protect the Company in the future.

Q. What is your expectation for coal traffic for the balance of the year?

A. We expect it to increase twelve to fifteen percent.

1983 Annual Report

Rio Grande Industries, Inc.

Annual Report 1983

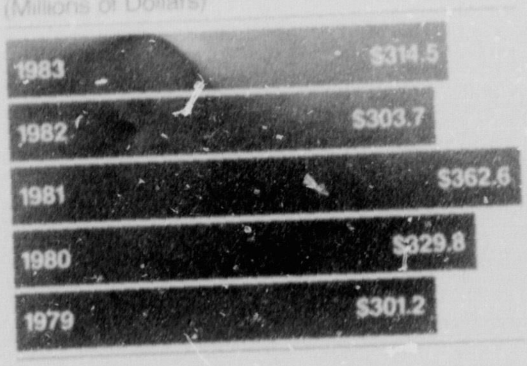
Contents

Rio Grande Industries, Inc.
Financial Highlights

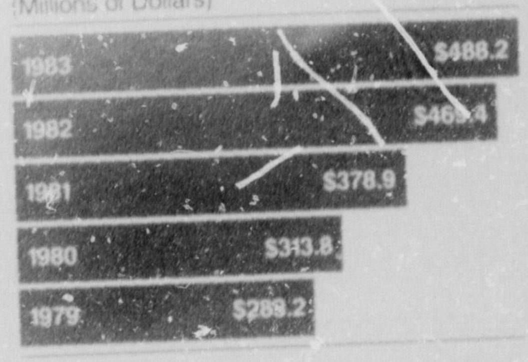
	Year Ended December 31	
	1983	1982
Operating Revenues	$314,466,000	$303,721,000
Income Taxes	9,804,000	13,066,000
Income from Continuing Operations before Extraordinary Gain	19,335,000	26,466,000
Net Income	32,562,000	30,420,000
Net Income Per Common Share:		
Assuming No Dilution	3.29	4.38
Assuming Full Dilution	3.29	3.55

	As of December 31	
	1983	1982
Stockholders' Equity	$488,245,000	$469,415,000
Shares of Common Stock Outstanding	9,921,955	9,866,817
Number of Common Stockholders of Record	7,865	8,663

Operating Revenues
(Millions of Dollars)



Stockholders' Equity
(Millions of Dollars)



FD-30400 SUB NO.20 (F) A2

The Denver and Rio Grande Western Railroad Company

The improving economy, deregulation, the restoration of rail service in Utah following massive earthslides, the commencement of operations over the newly-awarded trackage rights between Kansas City, Missouri and Pueblo, Colorado, the announcement of a competitive merger, and the discontinuance of the Rio Grande Zephyr run were among the key occurrences affecting Rio Grande railroad in 1983.

Freight revenues for the year totaled $301 million, reflecting an increase of $14 million (five percent) over those for 1982. The extension of operations to Kansas City increased the average length of haul from 325 miles in 1982 to 484 miles in 1983. The increase helped offset an 11 percent decrease in carloadings with an average revenue per ton-mile of 2.5 cents, down 15 percent from the previous year.

Operating Income and Expense

In spite of the sharp increase in average length of haul, the reduced traffic volume and lower margins on some traffic resulted in a reduction in operating income which for the year totaled $17.8 million, a decrease of 49 percent from 1982's total of $35.0 million. Both figures are restated to reflect depreciation accounting of track structure as mandated for the first time by the Interstate Commerce Commission (ICC). On page 11 you will find a discussion of the effects of this accounting change.

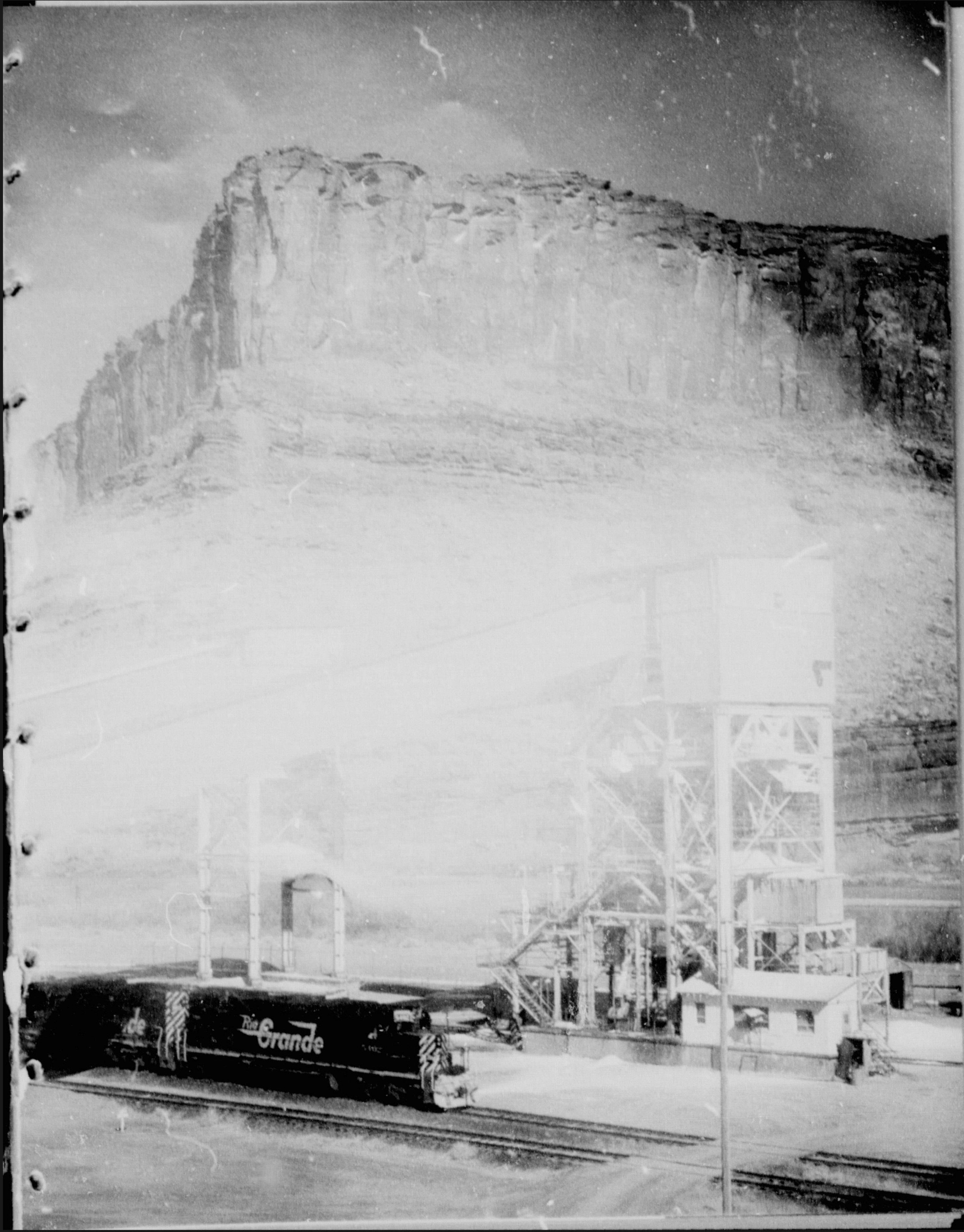
Operating expenses for the year totaled $288.6 million, an increase of $3[illegible].2 million (12 percent) over 1982. Roadway and structure maintenance costs increased $9 million (22 percent) over restated 1982 figures, due primarily to Rio Grande's share of line maintenance and operating costs between Pueblo and Kansas City. Equipment maintenance decreased $1.5 million (three percent), but equipment rentals increased $10 million due to the extended length of hauls. The average cost per gallon of locomotive fuel decreased 13 percent in 1983, from 96 cents to 83 cents, resulting in a decrease in fuel expense from $46.5 million to $44 million (five percent).

A total of $105 million in wages was paid in 1983 (chargeable to operating expenses), approximating the wage figures of 1982. Payroll taxes and other employee benefits for the same period increased one percent, from $30.3 million to $30.6 million. Wages and benefits represented 44 percent of revenues, down from 46 percent in 1982. While average wage rates for the period were up 11.5 percent, average employment levels declined 7.5 percent.

Freight Traffic

Lower demand and an increase in competition between producing areas were cited as two significant factors in Rio Grande's six percent drop in coal revenues. Coal revenues for 1983 were $129.8 million (representing 43 percent of total freight revenues), against $138.6 million in 1982 (representing 48 percent of total freight revenues). The 10-year progressive climb of coal revenues — from $13 million in 1972 to $139.2 million in 1981 — had slowed by 1982 and declined in 1983. There was reduced demand from the export market, due to the comparative value of our dollar and to increased competition among international coal producers. On the domestic side, reduced shipments to the steel industry resulted because of the closing of Kaiser Steel's Fontana Plant, CF & I's decline in sales and U.S. Steel's major cutbacks at Geneva, Utah. Rio Grande revenues were adversely affected by an Illinois utility's decision to purchase coal from Kentucky mines along with the April-June suspension of shipments to two utilities, an unavoidable consequence of the railroad closure at Thistle, Utah. An increase in tonnage to two other utilities and the addition of new industrial accounts provided some offset to these revenue losses.

Revenues from all other commodities totaled $171 million — a strong increase of $24 million (16.3 percent) over 1982 totals. Intermodal (trailer container) traffic, lumber, paper products and automobiles accounted for the system's major gains, while shipment of barytes, iron and steel, chemicals and petroleum products declined.


Rio Grande

Intermodal Traffic
Revenue from intermodal traffic reached a new high during 1983 of $31.7 million, a 34.5 percent increase. The increase was due, in part, to the start of TOFC operations in Kansas City, Missouri in April.

Of significant note was approval by the ICC of Rio Grande's application for 48-state motor carrier authority, enabling Rio Grande railroad to commence operations in January 1984.

Also noteworthy was the Company's securing of a U.S. Mail contract during fourth quarter 1983, an agreement which will extend into 1987. This traffic will move in TOFC service between Chicago and Oakland and volumes are projected at several hundred trailerloads per month.

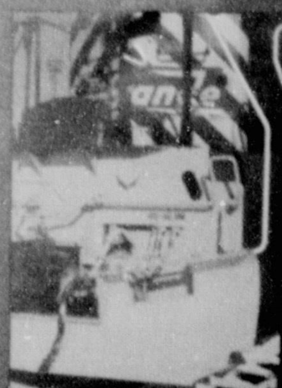
Equipment Planning and Utilization
To update the existing Rio Grande fleet, 120 covered hoppers of 100-ton capacity were leased in 1983. Additional equipment planning strategies included a move to increase the off-line utilization of D&RGW equipment in order to increase per diem earnings.

Industrial Development
The upward economic trend experienced by the region in mid-1983 was reflected in an increased demand for industrial sites along the Rio Grande railroad. High interest rates continued to dampen many potential developments, however.

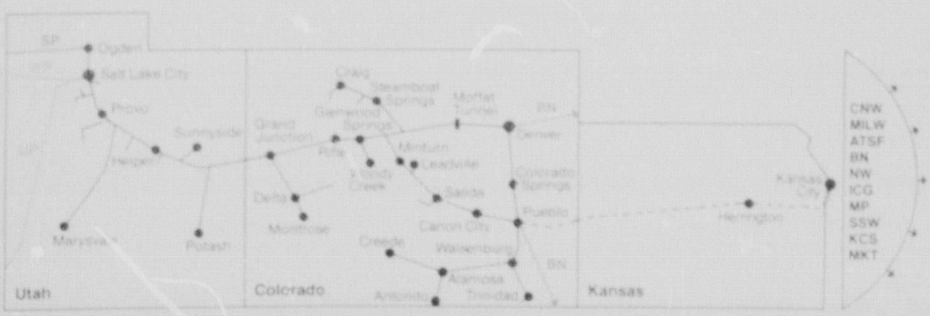
On a positive note, industrial development land sales and leases exceeded $1.1 million in 1983. It is projected that potential rail traffic resulting from these real estate transactions (including both rail and private industrial activity) will yield over 2,100 carloads of freight annually, generating revenues of $1.3 million.

It is further projected that industrial development along the Rio Grande will increase in 1984 if interest rates decline and the economic outlook improves as expected.

Capital Expenditures
Capital expenditures in 1983 totaled $32.9 million excluding expenditures at Thistle, Utah, marking a substantial decline from 1982's $56.8 million (restated to reflect the capitalization of track components as the result of the conversion to depreciation accounting). In 1983, 26 miles of new rail and 93,000 new crossties were installed (excluding installations at Thistle, Utah), as compared to 18.5 miles of rail and 259,000 crossties in 1982.



Denver and Rio Grande Western Railroad And Connections



Thistle Earthslide

The earthslide at Thistle, Utah on April 14, 1983 closed the Rio Grande mainline. On July 4, 1983, 81 days later, the first trains ran through a new tunnel and over 6.1 miles of new roadbed, track and grading. A second tunnel was driven, both tunnels were lined and the entire project was completed in December 1983. The economics of this project were staggering — the company spent $40 million to do the grading, road work and tunnel bores, and received $29,750,000 in insurance proceeds. The incremental expense of rerouting traffic over a competitor's line was $19 million, making a total out-of-pocket cost at the time of $29 million. This number will be reduced somewhat by current tax benefits of $9 million resulting in a net out-of-pocket cost to the company of $20 million. It is not possible to quantify what business was lost in total, but it is known that for the entire 81 days two utilities did not schedule shipments, even on a reroute basis, via Rio Grande. There is also no way to measure the real costs of diversion of attention and effort from the managing and operation of the basic business. The great gain was the justifiable pride of achievement resulting from the cleanup and the rebuilding of the mainline by our people.

On page 9 of this report is a picture which shows the huge dam and lake created by the earthslide. To the left of center can be seen the water diversion tunnel which allowed overflow and prevented breaching of the dam. The larger rail tunnel is shown further to the left. At its high point, the earthen dam is 220 feet above the original creek-bed. The State of Utah has since authorized construction of a drainage tunnel to lower the water level and eliminate buildup behind the dam.

In connection with this disaster, the extraordinary item of $7,625,000 shown on the Income Statement consists of $29,750,000 in insurance proceeds minus $400,000 book value of property destroyed, $19,000,000 in incremental operating expenses, and applicable income taxes.

Final Run for the Zephyr

April 1983 marked the final run for the Rio Grande Zephyr and the official termination by Rio Grande railroad of its Denver-Salt Lake City passenger operations. The service was taken over by Amtrak for inclusion in its Chicago-Oakland run, known as the California Zephyr, thereby reinstating one of America's grandest and most scenic passenger routes.

Employee Safety

A tradition continued in 1983 with Rio Grande employees meriting the prestigious Harriman Gold Medal award for the fourth consecutive year. The honor is granted to that group of railway employees earning first place in employee safety performance nationwide.

Rail Mergers

In December, Southern Pacific Company and Santa Fe Industries merged their respective holding companies, with the stock of the Southern Pacific Transportation Company (the railroad) being placed in trust pending approval of merger of Southern Pacific Transportation Company into the new Santa Fe Southern Pacific Corporation. Application is planned to be filed with the ICC in March for the railroad merger, and if approved by the ICC, will mark the latest in a series of western rail mergers. An ICC decision is required within 31 months. Recent decisions have resulted in the consolidation of Union Pacific, Missouri Pacific and Western Pacific (1982) and in the merger of Burlington Northern and SLSF lines (1981). Protection of the Rio Grande market position is the uppermost priority of this company and necessary steps will be taken to preserve and improve that position in light of these mergers.

7

Conversion to Depreciation Accounting

As previously noted, the ICC mandated a change from retirement-replacement-betterment accounting to depreciation accounting for railroad track structure, effective for the year 1983. This means that all prior years have been restated in order to have comparable figures for the years shown. The effect of this change was to increase the property account by a net amount of $90 million, as of December 31, 1983 and to increase book net income by $1.8 million for the year then ended compared to what book income would have been had RRB accounting continued without change. The years 1981 and 1982 as restated show greater increases in book income due to this change than does 1983 because sums spent for track improvements were greater during those years. A large percentage of rail replacements formerly charged to operating expenses are capitalized under depreciation accounting. The chart below will show graphically just how 1981, 1982 and 1983 were impacted by this accounting change.

As to the future, there will be additional annual depreciation expense as in the figures for 1981, 1982 and 1983 due to the capitalization of amounts formerly charged to operating expense, and amounts spent for roadway in the future that would have been expensed under RRB accounting but will now largely be capitalized. This will have the effect of showing relatively small operating expense increases under the new depreciation accounting system when, under the RRB system, there would have been very large charges to expense. To see the results, please refer to the chart below for examples of high roadway work years (1981 and 1982) and a low one (1983).

Changes Resulting From Conversion To Depreciation Accounting

	1981	1982	1983
Net Decrease in Operating Expense	$23,568,000	$18,801,000	$10,707,000
Net Increase in Depreciation Expense	6,751,000	7,036,000	7,282,000
Increase in Net Income	8,627,000	6,035,000	1,757,000

Because there are timing differences between financial accounting and tax accounting, there will be increases in deferred income taxes. For book purposes, depreciation is computed over long periods, whereas for tax purposes much shorter periods are used. The tax effect of the difference goes to the deferred income tax account and this account can be expected to continue to grow because of accelerated tax deductions on future expenditures.

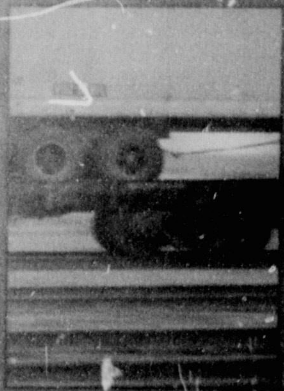
1984: Looking Ahead

Indications are that the economic upswing experienced during the latter part of 1983 will continue in 1984. While export shipments of coal are not expected to increase significantly, shipments to domestic utility companies are expected to rise. For the non-coal traffic segment, a moderate rate of growth is anticipated. Marketing efforts during 1984 will be targeted to the improvement of traffic on the Pueblo-Kansas City line and the continued increase of intermodal traffic.

Rail labor contracts expire in 1984, and the outcome of national negotiations is uncertain. Substantial increases in payroll taxes became effective January 1, 1984.

The ICC has not yet given its decision on the interest rental to be paid by Rio Grande for the trackage rights from Pueblo, Colorado to Kansas City, Missouri. The temporary rental rate of $1,500,000 per year will remain in effect until that ruling is made.

Rio Grande's capital expenditure budget for 1984 includes $27 million for equipment, including locomotives and cars, and $56 million for roadway expense, a portion of which has been carried over from the 1983 budget.



Summary of Results During Ownership by RGI of Divested Operations

Leavell Development Company — acquired in May, 1970 for 433,000 shares of RGI Common stock valued at $10.40 per share and subsequent cash contributions of $3,079,000 for a total investment of $7,584,000.

From the date of acquisition through the sale of the land development business in El Paso for $10,858,000 in 1979, Leavell produced aggregate earnings of $5,190,000, including $2,165,000 in pre-tax capital gains on sale of investment properties. Leavell retained several parcels of land and its interest in the Park Central Building.

From 1980 through 1983 as a result of operations of the Park Central Building and sales of land, Leavell produced earnings of $6,259,000.

Arrow Development Co., Inc. — a maker of amusement park rides, was acquired for 250,000 shares of Common stock in 1971. Value of the stock at that time was $18.00 per share for a total price of $4,500,000.

From date acquired through 1980, when the non-realty assets were sold, Arrow produced aggregate earnings of $1,320,000. The bulk sale of non-realty assets produced a pre-tax loss that together with minor additional amounts since the sale have totaled $1,340,000.

Subsequently, Arrow's realty assets were exchanged in a non-taxable transaction for property with a fair value of $3,142,000 in excess of the Company's basis in the assets.

Frontier Village Amusement Park — in San Jose, California, together with additional acreage, was acquired in 1973 for $2,951,000 in cash. The park was shut down in the fall of 1980. From the time of acquisition through 1980, Frontier Village produced aggregate earnings of $2,520,000, including gains and losses on sales of various rides and on 42 acres of land.

Subsequent to 1980 additional acreage of Frontier Village was exchanged in a non-taxable transaction for property with a fair value of $5,168,000.

Frontier still owns two parcels which are the subject of options exercisable on December 31, 1984, and December 31, 1985. The value of this additional land at December 31, 1983 was $6,614,000 under the option agreement.

Computer Sharing Services, Inc. (CSS) — was formed in 1971 with an initial investment of $2,000 cash. Additional cash was advanced in the form of a loan which was subsequently repaid. From the time of acquisition through 1983, CSS produced aggregate earnings of $30,269,000. The January, 1984 cash sale of CSS produced an additional net gain of approximately $39 million.

Statements of Consolidated Income

For the Years Ended
December 31, 1983, 1982 and 1981

	1983	1982	1981
	(In Thousands, Except Per Share Data)		
Operating Revenues:			
Railroad	$306,393	$292,454	$334,988
Other Operations	8,075	11,267	27,600
Total	314,468	303,721	362,588
Operating Expenses:			
Railroad:			
Operations	145,000	122,382	130,004
Maintenance	96,947	90,592	97,390
Administrative and Marketing	25,228	23,140	21,330
Taxes Other than Income Tax	21,395	21,304	20,828
Total Railroad	288,570	257,418	269,552
Other Operations	5,504	11,438	26,202
Total	294,074	268,856	295,754
Operating Income	20,394	34,865	66,834
Interest Income	15,949	13,748	10,158
Interest Expense	8,076	8,608	9,637
Other Income (Expense) — Net	873	(473)	788
Income from Continuing Operations Before Income Taxes and Extraordinary Gain	29,140	39,532	68,143
Provision for Income Taxes (Note 6):			
Currently Payable	(2,940)	420	1,984
Deferred	12,744	12,646	25,209
Total	9,804	13,066	27,193
Income from Continuing Operations Before Extraordinary Gain	19,336	26,466	40,950
Discontinued Operations (Note 5) — Income from Discontinued Operations Net of Applicable Income Taxes	5,601	3,954	4,791
Extraordinary Gain (Note 7) — Insurance Proceeds from Casualty Net of Cost of Property Destroyed, Incremental Operating Expenses and Applicable Income Taxes	7,625		
Net Income	$ 32,562	$ 30,420	$ 45,741
Earnings per Common Share (Note 12):			
Assuming No Dilution:			
Income from Continuing Operations Before Extraordinary Gain	$ 1.95	$ 3.77	$ 8.41
Discontinued Operations	.57	.61	1.09
Extraordinary Gain	.77		
Net Income	3.29	4.38	9.50
Assuming Full Dilution:			
Income from Continuing Operations Before Extraordinary Gain	1.95	3.10	5.20
Discontinued Operations	.57	.45	.55
Extraordinary Gain	.77		
Net Income	3.29	3.55	5.75

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

For the Years Ended December 31, 1983 and 1982

Assets	1983	1982
	(In Thousands)	
Current Assets:		
Cash and Temporary Investments — At Cost, Which Approximates Quoted Market Value	$152,537	$176,405
Accounts Receivable	56,009	45,034
Income Tax Refund Receivable	7,238	
Inventories (Note 1)	23,640	25,465
Other	5,341	5,950
Total Current Assets	244,765	252,854
Properties (Notes 1, 2, 3, and 4):		
Railroad Properties:		
Track Structure	499,210	433,705
Equipment	293,939	293,694
Other	6,495	6,495
Total	799,644	733,894
Other Properties	40,511	39,784
Total	840,155	773,678
Less Accumulated Depreciation and Amortization	298,887	279,638
Properties — Net	541,268	494,040
Other Assets:		
Other Investments — At Cost	8,660	8,367
Other	11,061	4,010
Total Other Assets	19,721	12,377
Total	$805,754	$759,271

See Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	1983	1982
	(In Thousands)	
Current Liabilities:		
Current Maturities of Long-Term Debt (Note 3)	$ 8,646	$ 9,140
Accounts and Wages Payable	61,172	48,160
Interest	1,116	1,245
Income Taxes		1,454
Other Taxes	5,221	4,672
Dividends Payable	3,969	3,591
Other	2,857	4,764
Total Current Liabilities	82,931	73,026
Long-Term Debt — Less Current Maturities (Note 3):		
Equipment Obligations	60,804	69,790
Other	19,204	19,438
Total Long-Term Debt	80,008	89,228
Other Liabilities and Deferred Credits:		
Deferred Income Taxes (Note 6)	138,055	112,689
Other	16,465	14,913
Total Other Liabilities and Deferred Credits	154,520	127,602
Stockholders' Equity (Notes 9 and 10):		
Common Stock, $1 Par Value, 22,000,000 Shares Authorized	10,174	10,151
Capital Surplus	198,790	197,017
Retained Earnings	281,930	265,231
Less Treasury Stock	(2,649)	(2,984)
Total Stockholders' Equity	488,245	469,415
Total	$805,754	$759,271

Statements of Consolidated Stockholders' Equity

For the Years Ended December 31, 1983, 1982 and 1981

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
			(In Thousands)			
Balance, December 31, 1980, As Previously Reported	$5,808	$ 4,479	$ 96,822	$185,473	$(4,360)	$288,222
Change in Accounting for Track Structure (Note 2)				25,551		25,551
Balance, December 31, 1980, As Restated	5,808	4,479	96,822	211,024	(4,360)	313,773
Net Income for 1981				45,741		45,741
Dividends Declared:						
Preferred Stock ($.80 per share)				(4,162)		(4,162)
Common Stock ($1.10 per share)				(5,176)		(5,176)
Conversions of Preferred Stock to Common Stock	(2,007)	2,004	27,795			27,792
Sale of Common Stock Held as Treasury Stock			736		229	965
Balance, December 31, 1981	3,801	6,483	125,353	247,427	(4,131)	378,933
Net Income for 1982				30,420		30,420
Dividends Declared:						
Preferred Stock ($.60 per share)				(2,215)		(2,215)
Common Stock ($1.50 per share)				(10,401)		(10,401)
Conversions of Preferred Stock to Common Stock	(3,597)	3,458	61,451			61,312
Redemption of Preferred Stock	(95)		(1,334)			(1,429)
Retirement of Preferred Stock Held as Treasury Stock	(109)		(827)		936	
Issuance of Common Stock		210	11,865			12,075
Exercise of Employee Stock Options			18			18
Sale of Common Stock Held as Treasury Stock			491		211	702
Balance, December 31, 1982	-0-	10,151	197,017	265,231	(2,984)	469,415
Net Income for 1983				32,562		32,562
Dividends Declared:						
Common Stock ($1.60 per share)				(15,863)		(15,863)
Issuance of Common Stock		23	611			634
Exercise of Employee Stock Options			168		68	236
Sale of Common Stock Held as Treasury Stock			994		267	1,261
Balance, December 31, 1983	$ -0-	$10,174	$198,790	$281,930	$(2,649)	$488,245

See Notes to Consolidated Financial Statements.

Statements of Consolidated Changes in Financial Position

For the Years Ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In Thousands)	
Working Capital Provided:			
Continuing Operations:			
Income from Continuing Operations Before Extraordinary Gain	$ 19,336	$ 26,466	$ 40,950
Add — Expenses Not Requiring Outlay of Working Capital in the Current Period:			
Depreciation, Retirements and Other Items	22,564	20,710	23,140
Deferred Income Taxes	12,744	12,646	25,209
Total from Continuing Operations Before Extraordinary Gain	54,644	59,822	89,299
Discontinued Operations	5,046	3,172	2,866
Net Proceeds from Conversions of Preferred Stock to Common Stock		61,312	27,792
Sale of Common Stock	2,131	12,795	965
Sale of Properties	3,253	4,304	4,901
Other	3,652	4,762	6,294
Total	68,726	146,167	132,117
Working Capital Applied:			
Costs Incurred to Replace Property Destroyed	39,715		
Extraordinary Gain (Note 7):			
Insurance Proceeds	(29,750)		
Incremental Operating Expense	18,987		
Current Tax Benefit	(9,381)		
Subtotal	(20,144)		
Net Applied Due to Casualty at Thistle, Utah	19,571		
Additions to Properties	33,540	58,025	37,259
Reduction of Equipment Obligations and Other Long-Term Debt	9,220	9,573	10,510
Mortgage Bonds Reacquired		1,041	2,082
Redemption of Preferred Stock		1,429	
Dividends	15,863	12,616	9,338
Other	8,576	2,655	2,477
Total	86,770	85,339	61,[illegible]6
Increase (Decrease) in Working Capital	$(18,044)	$ 60,828	$ 70,451
Increase (Decrease) in Working Capital:			
Cash and Temporary Investments	$(23,868)	$ 60,310	$ 76,707
Receivables	18,213	(7,857)	(2,895)
Inventories	(1,825)	(8,638)	4,382
All Other Current Assets	(609)	977	1,124
Accounts and Wages Payable	(13,012)	11,022	(11,740)
Income and Other Taxes	905	(856)	6,316
All Other Current Liabilities	2,152	5,870	(3,443)
Total	$(18,044)	$ 60,828	$ 70,451

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

The Company is primarily engaged in Railroad Transportation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, The Denver and Rio Grande Western Railroad Company (Railroad) and all other majority-owned subsidiaries and partnerships. All material intercompany transactions have been eliminated.

Properties

Properties are stated at cost including charges for renewals of the Railroad's track structure. Rail, other track material and related installation costs are depreciated on a units of production method. All other classes of Railroad property, including ties, ballast and grading, are depreciated on a straight-line basis over their estimated service lives. The composite depreciation rates for track structure, other road property and equipment are approximately 2.3 percent, 2.1 percent and 4.1 percent, respectively. Amortization of equipment recorded under capital leases is included with depreciation charges. When depreciable Railroad property is sold or retired, cost less salvage is charged or credited to accumulated depreciation.

Other properties are depreciated primarily on a straight-line basis with rates varying from 2 percent to 20 percent.

Consolidated depreciation charges for continuing operations amounted to $23,408,000, $22,898,000 and $22,934,000 in 1983, 1982 and 1981, respectively.

Investment Tax Credit

The Company employs the "flow-through" method of accounting for the investment tax credit.

Inventories

Inventories consist principally of materials and supplies which are carried at average cost, not in excess of market.

2. Change in Accounting Method

In 1983, railroads were required to adopt the depreciation method of accounting for track structure in reports filed with the Interstate Commerce Commission. For financial reporting purposes, the Railroad also changed its method of accounting for railroad track structure from retirement-replacement-betterment accounting to depreciation accounting. The Company believes that the new method is preferable because it is the predominant method used in the United States and that its financial statements are now more comparable to those of other companies. The financial statements of prior years have been restated to apply the new method retroactively. The effect on income from continuing operations for 1983 and on amounts previously reported for prior years is:

	1983	1982	1981	1980	1979
	(In Thousands)				
Operating Income	$3,425	$11,765	$16,817	$9,917	$12,298
Income Taxes	1,668	5,730	8,190	4,830	5,989
Income from Continuing Operations Before Extraordinary Item	$1,757	$ 6,035	$ 8,627	$5,087	$ 6,309
Earnings Per Common Share from Continuing Operations Before Extraordinary Item:					
Assuming No Dilution	$ .18	$ .93	$ 1.97	$ 1.23	$ 1.52
Assuming Full Dilution	$ .18	$ .69	$ 1.00	$ .57	$ .91

The change also resulted in an increase at December 31, 1983 in net properties of $90,127,000 and stockholders' equity of $41,970,000.

3. Long-Term Debt

Long-term debt at December 31 consisted of the following:

	1983	1982
	(In Thousands)	
Equipment Obligations:		
Equipment Trust Certificates — 6 to 11⅛%, Due Serially to 1995	$49,330	$56,537
Capitalized Lease Obligations (Note 4)	19,883	22,163
Other:		
Mortgage Payable — 8¾%, Due Serially to 2008, Collateralized by Building Included in Other Properties	19,425	19,644
Notes — 7% to Prime, Due Serially to 1985	16	24
Total	88,654	98,368
Less Current Maturities, Principally Equipment Obligations	8,646	9,140
Total	$80,008	$89,228

Required annual principal repayments of long-term debt during the five years subsequent to December 31, 1983 are as follows: 1984, $8,646,000; 1985, $9,006,000; 1986, $8,754,000; 1987, $8,189,000 and 1988, $7,331,000.

Substantially all owned Railroad equipment is pledged as collateral for equipment trust certificates.

4. Lease Commitments

The Company has substantial lease commitments for Railroad equipment and other property. Many of the leases provide for the option to purchase the leased property at fair market value at the end of the lease or to extend the leases for various periods at the fair value rental rates when extended.

The consolidated balance sheets include the following balances related to capital leases:

	1983	1982
	(In Thousands)	
Railroad Equipment	$34,460	$34,575
Accumulated Depreciation and Amortization	18,758	16,439

Lease rental expenses for operating leases of continuing operations were $4,310,000, $3,619,000 and $2,829,000 for 1983, 1982 and 1981, respectively. Minimum annual rental commitments under noncancelable leases at December 31, 1983 were as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
Year Ending December 31:		
1984	$ 3,705	$3,327
1985	3,705	1,937
1986	3,525	634
1987	3,031	535
1988	2,814	429
thereafter	9,418	394
Total	26,198	$7,256
Less Amount Representing Interest on Capital Leases	6,315	
Present Value of Net Minimum Lease Payments (Note 3)	$19,883	

5. Discontinued Operations

Computer Sharing Services

On January 4, 1984 the Company sold Computer Sharing Services, Inc. (CSS) resulting in discontinuance of all computer timesharing operations. The operations of CSS are reported separately for all years as income from discontinued operations and are summarized as follows:

	1983	1982	1981
	(In Thousands)		
Operating Revenues	$35,317	$28,005	$25,745
Operating Income	11,056	6,899	9,457
Income Before Income Taxes	10,542	6,974	8,792
Income Taxes	4,941	3,020	4,001
Net Income	5,601	3,954	4,791

As of December 31, 1983 the Company's consolidated balance sheet included the following assets and liabilities of the discontinued operations:

	(In Thousands)
Current Assets	$6,471
Property	7,174
Other Non-Current Assets	133
Total Assets	$13,778
Current Liabilities	$ 1,963
Other Non-Current Liabilities	520
Total Liabilities	$ 2,483

There were no significant changes in the operations or assets and liabilities of CSS from December 31, 1983 to January 4, 1984, the date of sale. The Company received $69,200,000 from the buyer resulting in an estimated gain of $39,000,000 (net of income taxes of $18,400,000) which will be recognized in the first quarter of 1984.

On January 6, 1984 an officer of CSS filed suit against the Company claiming the right to 16.92 percent of net proceeds under a deferred compensation unit plan that was terminated in 1978 plus a share of the cash transferred to the Company from CSS before closing of the sale, and exemplary damages of $5 million. Another officer of CSS claims something more than the Company believes is owed under the plan. That claim is for an unspecified but much lower amount than is sought in the lawsuit. The Company has provided $1,360,000 for these claims which it believes to be the maximum amount due. If the lawsuit and claim are settled at a figure different from that provided, the gain will be adjusted for the after-tax effect of any such difference. The Company believes that it has a good defense in the suit and to the claim to the extent they exceed the amount provided and that any settlement would not have a material effect on stockholders' equity.

Rio Grande Motor Way

During 1982 the Company reduced the operations of Rio Grande Motor Way, Inc. by discontinuing a majority of its services. The discontinued services did not represent a major line of business for the Company. Operating revenues and expenses of Motor Way included in the statements of consolidated income are as follows:

	1983	1982	1981
	(In Thousands)		
Operating Revenues	$ 1,768	$ 5,251	$21,409
Operating Expenses	2,122	8,011	22,883
Operating Loss	$ (354)	$(2,760)	$(1,474)

6. Income Taxes

Provision has been made in the accompanying statements for deferred income taxes resulting from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The sources of these differences and the tax effect of each were as follows for continuing operations:

	1983	1982	1981
	(In Thousands)		
Excess of Tax Over Book Depreciation and Amortization Less Net Salvage Credited to Accumulated Depreciation	$15,514	$14,992	$28,426
Maintenance Capitalized for Tax Purposes — Expensed for Book Purposes	(2,531)	(2,115)	(2,052)
Other	(239)	(231)	(1,165)
Total	$12,744	$12,646	$25,209

The provision for taxes on income from continuing operations before extraordinary gain consisted of the following:

	1983	1982	1981
	(In Thousands)		
Federal Tax at Statutory Rate	$13,405	$18,184	$31,345
State Income Taxes — Net of Federal Tax Benefit	428	751	1,082
Investment Tax Credit	(3,134)	(5,891)	(4,864)
Other	(895)	22	(370)
Total	$ 9,804	$13,066	$27,193

7. Extraordinary Gain

On April 14, 1983, an earthslide at Thistle, Utah buried the Railroad's main line. The earthslide required the Railroad to construct 6.1 miles of double track, bore two tunnels and reroute all of its traffic over another railroad's line during the construction period. The Railroad incurred costs of $39,715,000 to replace the destroyed property. The extraordinary gain of $7,625,000 consists of the following:

	(In Thousands)
Insurance Proceeds	$ 29,750
Net Book Value of Property Destroyed	(404)
Incremental Detour and Other Expenses	(18,987)
Current Income Tax Benefit	9,381
Deferred Income Taxes	(12,115)
Extraordinary Gain	$ 7,625

8. Contingent Liabilities

A service interruption insurance arrangement is maintained under which the Railroad will be entitled to indemnity from other participating railroads for certain work stoppage losses. In the event such losses are sustained by other participating railroads, the Railroad may be obligated to pay additional premiums, subject to a maximum of $4,460,000.

Various claims and lawsuits are pending against the Company. In the opinion of management, after consulting with legal counsel, the disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations.

9. Stockholders' Equity

Shares outstanding are summarized as follows:

	Preferred Stock	Common Stock
Balance, December 31, 1980	5,699,220	4,153,162
Conversions:		
One Share of Preferred for One-Half Share of Common	(6,397)	3,197
One Share of Preferred with Payment of $20 for One Share of Common	(258)	258
One Share of Preferred with Payment of $15 for One Share of Common	(2,000,225)	2,000,225
Sale of Common Stock Held as Treasury Stock		21,757
Balance, December 31, 1981	3,692,340	6,178,599
Conversions:		
One Share of Preferred for One-Half Share of Common	(278,815)	139,312
One Share of Preferred with Payment of $20 for One Share of Common	(3,318,276)	3,318,276
Redemption of Preferred Stock	(95,249)	
Issuance of Common Stock		210,000
Exercise of Employee Stock Options (Note 10)		500
Sale of Common Stock Held as Treasury Stock		20,130
Balance, December 31, 1982	—0—	9,866,817
Issuance of Common Stock		23,197
Sale of Common Stock Held as Treasury Stock (Note 10):		
Sales to Employee Stock Ownership Plan		25,491
Exercise of Employee Stock Options		6,450
Balance, December 31, 1983	—0—	9,921,955

On November 15, 1982 the Company called for redemption all of its outstanding Series A preferred stock on December 16, 1982 at the redemption price of $15 per share. Through December 13, 1982 each share of Series A preferred stock was convertible into one-half share of common stock or, with payment of $20, was convertible into one share of common stock. From November 15, 1982 through December 13, 1982, 3,595,079 shares of Series A preferred stock were converted to 3,456,542 shares of common stock, the Company receiving proceeds of $66,359,000 from such conversions. Such proceeds, less costs of $5,053,000 relating to the call for redemption and the conversions to common shares, were credited to capital surplus. At December 31, 1982 accrued costs of $4,336,000 due to the underwriter of the call for redemption were included in accounts payable. On the redemption date 95,249 shares of Series A preferred stock were redeemed for $1,429,000 which was charged to preferred stock and capital surplus. On the redemption date 108,300 shares of Series A preferred stock held as treasury stock were retired, resulting in a $827,000 charge to capital surplus. In connection with the call for redemption, on December 16, 1982 the Company also issued 210,000 shares of common stock to the underwriters of the call for redemption at the closing market price on that date. In January 1983, the Company sold an additional 23,000 shares of common stock to the underwriters. The proceeds from this sale of $1,130,000, less additional costs of $496,000 related to the 1982 call for redemption, were credited to common stock and capital surplus.

On October 21, 1981 the Company offered one share of its common stock in exchange for one share of Series A preferred stock plus payment of $15. The Exchange Offer expired December 11, 1981. Proceeds from the Exchange Offer of $30,003,000 less offering costs of $2,217,000 were credited to capital surplus.

Treasury stock at December 31, 1983 includes 252,194 shares of common stock acquired at a total cost of $2,648,816 ($10.50 per share). During 1983, 25,491 shares of common stock held as treasury stock were sold to the Company's Employee Stock Ownership Plan at an average price of $49.50 per share. Similar sales were 20,130 shares in 1982 and 21,757 shares in 1981 at average prices of $34.87 and $44.34 per share, respectively. All such sales were made at the closing market price on the dates of the transactions. Treasury stock was also used to satisfy stock options exercised in 1983 (see Note 10).

10. Stock Plans

The Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company and its subsidiaries who are not covered by a collective bargaining agreement. Contributions to the ESOP are discretionary. For 1983, 1982 and 1981, respectively, the provisions for currently payable income taxes were decreased by, and other operating expenses were increased by $176,000, $799,000 and $693,000 to reflect the estimated additional tax credit and the corresponding estimated contribution to the ESOP. The ESOP invests substantially all its assets in the Company's common stock, purchased in the open market or from treasury stock held by the Company (see Note 9). At December 31, 1983, the ESOP held 143,291 shares of the Company's common stock for the account of participating employees.

In January 1982 the Company adopted the 1982 Incentive Stock Option Plan (Option Plan) which reserved 300,000 shares of common stock for future grants to key employees of the Company and its subsidiaries. The Option Plan, which expires in January 1992, provides that the purchase price of shares covered by each option shall be not less than the fair market value of such stock on the date of the grant. Each option granted under the Option Plan is exercisable in four equal annual instalments commencing on the date of the grant and expires five years from the date of the grant. In 1982 options were granted to purchase 48,900 shares at $36.50 and options for 500 shares were exercised. In 1983, no options were granted and options for 6,450 shares were exercised.

11. Benefit Plans

The Company and its subsidiaries have noncontributory pension plans which cover substantially all employees not covered by a collective bargaining agreement. Contributions and expenses for the plans of continuing operations were $3,600,000, $3,274,000 and $2,495,000 for the years 1983, 1982 and 1981, respectively, consisting of normal cost, interest on unfunded prior service costs and amortization of prior service costs principally over a 20-year period. The following information related to the pension plans is provided based on the most current actuarial information available at each year end.

	1983	1982	1981
	(Dollars in Thousands)		
Actuarial Valuation Date	1/1/83	1/1/82	1/1/81
Assumed Rates of Return Used in Determining Actuarial Present Values	7½%	6½%	6½%
Actuarial Present Value of Accumulated Benefits:			
Vested	$31,745	$34,115	$29,011
Nonvested	2,348	3,678	3,028
Total	$34,093	$37,793	$32,039
Net Assets Available for Benefits	$33,586	$25,491	$22,570

Effective in August 1982 the Company and its subsidiaries established a thrift plan which covers substantially all employees not covered by a collective bargaining agreement who have completed two years of service. Under the terms of the plan, the Company matches 50 percent of employee contributions to the plan up to a maximum of three percent of the annual compensation paid to each participant. Company contributions to the plan in 1983 and 1982 were $425,000 and $195,000, respectively.

12. Earnings per Share

For 1983, the computations of earnings per share amounts are based on the weighted-average number of common shares outstanding during the year (9,907,665).

Earnings Per Common Share, Assuming No Dilution
Earnings per common share, assuming no dilution, was determined by dividing net income less the annual Series A preferred dividend requirement by the weighted-average number of shares of common stock outstanding during each period (6,432,439 in 1982 and 4,375,870 in 1981).

Earnings Per Common Share, Assuming Full Dilution
For 1982, the computation of earnings per common share, assuming full dilution, assumes that each share of Series A preferred stock which was outstanding at the beginning of the year was converted into one share of common stock at the beginning of the year, accompanied by a cash payment of $20 per share. The computation then requires the following assumptions: (1) elimination of the preferred dividend requirement; (2) cash proceeds to the Company would have been used, in part, to purchase and retire 20 percent of the common stock which was outstanding prior to the conversions and redemptions of the Series A preferred stock at the market prices of the common stock on the dates of the actual conversions and redemptions; (3) the remainder of the cash proceeds would have been invested in U. S. Treasury securities with the resulting interest income (net of income tax) increasing the earnings used in the computation; (4) the assumed conversions and earnings are then included in the calculation on a weighted-average basis for those portions of the year from the beginning of the year to the dates of the actual conversions and redemptions.

For 1981, the computation assumes that each share of Series A preferred stock which was outstanding at the beginning of the year was converted into one share of common stock at the beginning of the year, accompanied by a cash payment. The total cash proceeds the Company would have received under this calculation is computed based on a weighted-average calculation recognizing that the Company's Exchange Offer permitted conversion with a cash payment of $15 per share from October 21 through December 11, 1981 and for the remainder of the year conversion was permitted on the regular basis, with a cash payment of $20 per share. Other assumptions required are similar to the assumptions for the 1982 computation, with the additional assumption that, for Series A preferred shares outstanding at December 31, 1981 which are assumed to have been converted, the price used in the Company's purchase and retirement of common stock was the average market price for the year, which was higher than the market price at the end of the year.

Selected Quarterly Financial Data

(Unaudited)

	March 31			June 30			September 30			December 31		
	1983	1982	1981	1983	1982	1981	1983	1982	1981	1983	1982	1981
	(In Thousands, Except Per Share Amounts)											
Operating Revenues	$71,705	$82,930	$87,215	$78,457	$8[illegible],479	$90,007	$81,929	$70,364	$94,166	$82,377	$68,948	$91,200
Operating Income	4,424	8,916	15,602	2,530	10,845	14,844	6,209	6,450	17,553	7,231	8,654	18,835
Income from Continuing Operations Before Extraordinary Gain	4,449	6,154	8,248	3,681	7,156	8,244	5,183	6,001	12,239	6,023	7,155	12,219
Income from Discontinued Operations	791	907	1,203	2,158	899	1,386	2,266	1,320	1,101	386	828	1,101
Extraordinary Gain				7,362			263					
Net Income	5,240	7,061	9,451	13,201	8,055	9,630	7,712	7,321	13,340	6,409	7,983	13,320
Earnings per Common Share:												
Income from Continuing Operations Before Extraordinary Gain:												
Assuming No Dilution	.45	[illegible]	1.71	.37	1.64	1.71	.52	.85	2.67	.61	1.00	2.28
Assuming Full Dilution	.45	.77	1.08	.37	.89	1.08	.52	.72	1.53	.61	.81	1.48
Net Income:												
Assuming No Dilution	.53	1.02	2.00	1.33	1.18	2.04	.78	1.06	2.93	.65	1.12	2.50
Assuming Full Dilution	.53	.88	1.22	1.33	1.00	1.23	.78	.87	1.65	.65	.90	1.61

During the quarters ended December 31, 1982 and September 30, 1982 and 1981 the estimated effective income tax rates were revised which for the quarters then ended, increased net income by $796,000, $950,000 and $1,220,000, respectively.

The assumptions required for the computation of earnings per share are described in Note 12.

To the Stockholders and Board of Directors
of Rio Grande Industries, Inc.:

We have examined the consolidated balance sheets of Rio Grande Industries, Inc. and its subsidiaries as of December 31, 1983 and 1982 and the related statements of consolidated income, stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Rio Grande Industries, Inc. and subsidiaries at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for track structure described in Note 2 to the financial statements.

Deloitte Haskins + Sells

Denver, Colorado
February 17, 1984

Supplementary Financial Data Adjusted for the Effects of Changing Prices

(Unaudited)

The Company's primary financial statements, presented in accordance with generally accepted accounting principles, are based on historical prices (prices that were in effect when the transactions occurred). Accordingly, such statements do not attempt to measure the effects of inflation or other changes in prices. Changing prices, particularly during periods of high inflation rates, can have a significant impact.

The following supplementary information is presented in accordance with the requirements of FASB Statement No. 33 and has been restated for all prior years to apply the depreciation method of accounting to railroad track structure. (See Note 2 of the consolidated financial statements.) The supplementary information is presented for the purpose of providing certain information about the effects of changing prices on the Company. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

FASB Statement No. 33 prescribes two different methods for measuring the effects of changing prices. The first method provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The second method of measure adjusts for the effects of changes in the specific prices (also referred to as "current costs") of the resources actually used in the Company's operations, so that measures of these resources and their consumption reflect the current costs of replacing these resources, rather than the historical cost amounts actually expended to acquire them.

Current cost of Railroad track structure is determined by analysis of material components at current prices and engineering estimates based on Company standards. Current cost of Railroad equipment and other properties is determined principally by reference to current prices paid for specific items, as reflected by the use of applicable industry price indexes or current price lists.

Depreciation expense is determined by applying the depreciation methods and rates used for the primary financial statements to the adjusted property amounts.

Inventories, consisting principally of materials and supplies, are stated at recent purchase prices and have not been adjusted.

Although the adjustments for depreciation expense affect the pretax income amounts for general inflation and changes in specific prices, no adjustments have been made to the respective provisions for income taxes.

The following summary for the year ended December 31, 1983 reconciles income as reported in the primary financial statements with income adjusted for changing prices and is shown in average 1983 dollars:

	(In Thousands)
Income from continuing operations as reported in the statement of consolidated income	$ 19,336
Adjustment to restate depreciation expense for the effect of general inflation	(31,253)
Loss from continuing operations adjusted for general inflation	(11,917)
Adjustment to restate depreciation expense for the difference between general inflation and changes in specific prices (current costs)	(22,569)
Adjustment to eliminate gains and losses on disposals of properties for current cost purposes	(811)
Loss from continuing operations adjusted for changes in specific prices	$(35,297)
Gain from decline in purchasing power of net amounts owed	$ 2,410
Increase in specific prices (current cost) of properties held during the year	$ 43,713
Effect of increase in general price level	(53,615)
Difference between increase in the specific price of properties and increase in general price level	$ (9,902)

At December 31, 1983, the current cost of properties, net of accumulated depreciation, was $1,433,674,000.

The traditional regulated rate structure for the Railroad has not recognized the effects of inflation on historical amounts of productive capacity. Although the Staggers Act of 1980 allows somewhat greater flexibility in setting rates, the Company's competitive position may preclude the implementation of larger rate increases.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices

(In Average 1983 Dollars)

The inflation adjusted statements reflect the change to depreciation accounting for track structure. Under the retirement-replacement-betterment accounting method the Railroad's track structure was not depreciated. Because of the age of much of the track structure and the impact of inflation since its installation the depreciation of these inflation adjusted costs results in substantial depreciation charges. At December 31, 1983, the property accounts affected by the depreciation restatement were recorded at $374 million on a historical gross cost basis. At current cost these assets were valued at $1.1 billion. For the year ended December 31, 1983 the depreciation expense on assets which were previously non-depreciable was $7.3 million on a historical cost basis, but increased to $25.7 million after adjustment for changes in specific prices. All prior years shown have also been restated. The supplementary information measures the inflation adjusted amounts of all productive capacity without regard to the physical impossibility of, the availability of funds for, or the necessity or desirability of replacement. In management's opinion, the Company will be able to maintain its properties in good operating condition to meet current and foreseeable business demand.

	1983	1982	1981	1980	1979
	(In Thousands, Except Per Share Amounts)				
Historical Cost Information Adjusted for General Inflation:					
Operating Revenues	**$314,468**	$313,491	$397,196	$398,742	$413,450
Income (Loss) from Continuing Operations	**(11,917)**	(4,410)	11,645	11,[illegible]26	20,252
Income (Loss) from Continuing Operations Per Common Share	**(1.20)**	(1.04)	1.62	1.52	3.37
Gain from Decline in Purchasing Power of Net Amounts Owed	**2,[illegible]10**	3,867	14,299	25,703	30,106
Net Assets at Year-End	**962,404**	973,279	909,958	859,895	829,257
Current Cost Information:					
Loss from Continuing Operations	**(35,297)**	(29,740)	(14,570)	(15,576)	(10,824)
Loss from Continuing Operations Per Common Share	**(3.56)**	(4.97)	(4.37)	(5.07)	(4.11)
Difference Between Increase in Specific Prices (Current Cost) of Properties Held During the Year and Changes in the General Price Level	**(9,902)**	(12,287)	29,797	(49,734)	26,377
Net Assets at Year-End	**1,382,017**	1,423,009	1,403,297	1,348,985	1,396,306
General Information:					
Cash Dividends Declared Per Common Share	**1.60**	1.55	1.21	1.21	1.38
Market Price Per Common Share at Year-End	**52.85**	53.06	36.17	57.32	37.32
Average Consumer Price Index	**298.4**	289.1	272.4	246.8	217.4

Five-Year Summary of Selected Financial Data

	1983	1982	1981	1980	1979
	(In Thousands, Except Per Share Amounts)				
Operating Revenues	$314,468	$303,721	$362,588	$329,791	$301,220
Income From Continuing Operations Before Extraordinary Gain	19,336	26,466	40,950	34,565	34,339
Total Assets at Year-End	805,754	759,271	684,130	595,041	553,914
Long-Term Obligations at Year-End	80,008	89,228	102,862	115,866	116,294
Earnings Per Common Share —					
Income from Continuing Operations Before Extraordinary Item:					
Assuming No Dilution	1.95	3.77	8.41	7.23	7.17
Assuming Full Dilution	1.95	3.10	5.20	4.35	4.91
Dividends Declared Per Common Share	1.60	1.50	1.10	1.00	1.00
Shares Outstanding At Year-End:					
Common	9,922	9,867	6,179	4,153	4,151
Preferred			3,692	5,699	5,703

As stated elsewhere in this report, in 1983 the Rio Grande railroad changed its method of accounting for the track structure from retirement-replacement-betterment accounting to depreciation accounting. This change, directed by the ICC, has been applied retroactively and all prior year financial statements included in this report have been restated to reflect the change. The Company sold, in January 1984, its subsidiary, Computer Sharing Services, Inc. As a result of this sale, financial statements for 1983 and all prior years have been further restated to show CSS as a discontinued operation.

Operations

Based on the restated financial statements, Consolidated Operating Revenues from Continuing Operations increased over 1982 by $10.7 million, which includes an increase of $13.9 million for the Rio Grande railroad, less a decline of $3.2 million from other operations. Coal continued to be the major revenue producer for the railroad representing 43 percent of total freight revenues. On a year-to-year comparison, coal revenues declined by 6.3 percent after a 10 year progressive increase. Freight revenues from other commodities increased by 16.3 percent over 1982 with intermodal (trailer/container), lumber, paper products and automobiles accounting for the system's major gains.

Railroad operating expenses totaled $288.6 million, an increase of $31.2 million over 1982. The increase was due primarily to increased roadway and structure maintenance and operating costs between Pueblo and Kansas City under recently awarded trackage rights together with increased equipment rental due to the extended length of hauls. Overall, increased costs more than offset the increase in revenues reducing operating income. Pre-tax operating income for the Railroad was $17.8 million in 1983 compared to $35.0 million and $65.4 million in 1982 and 1981 respectively.

For a more detailed discussion of the railroad's operations, reference is made to the Railroad section of this report on pages 4 thru 11.

Motor Way incurred pre-tax operating losses of $354,000 in 1983, $2,760,000 in 1982, and $1,474,000 in 1981. Motor Way revenues were $1,768,000 in 1983, the first full year of its call-and-demand truckload service business, compared to an annualized revenue level of $1.2 million for the same service basis in 1982. In 1981, its last full year of scheduled service, revenues were $21 million. The Company still has several properties which remain to be sold, and are listed and advertised.

Leavell Development Company has a 73.3 percent interest in, and is the managing joint venture partner for, the Park Central office building in Denver, and also owns several building lots in El Paso, Texas. Operating income was $2,950,000, $2,750,000, and $3,569,000 in 1983, 1982, and 1981, respectively.

Consolidated interest income was $15,949,000 in 1983, compared to $13,748,000 in 1982 and $10,158,000 in 1981. The increases in interest income are due to higher investment balances held throughout the respective years, partially offset by a decline in effective yields. Interest expense declined in each of the years 1983, 1982, and 1981 because of repayments without additional external borrowings. Interest expenses were $8,076,000 in 1983, $8,608,000 in 1982 and $9,637,000 in 1981.

The dollar amount of income taxes declined again in 1983 as it did in 1982, due to lower earnings. The effective income tax rate in 1983 was 33.6 percent compared with 33.1 percent in 1982. Both were well below the 40 percent rate for 1981.

Because the Company's Computer Sharing Services subsidiary (CSS) was sold January 4, 1984, CSS is shown as discontinued operations for all years. Discontinued income, net of income taxes, for CSS was $5,601,000 in 1983, $3,954,000 in 1982, and $4,791,000 in 1981.

Financial Condition
The Company's financial condition on December 31, 1983, was excellent. Including the $19.2 million debt on the Park Central building, long-term debt at year-end was $80 million, while working capital was $162 million.

The ICC-mandated change in the method of accounting for railroad track structure resulted in increases in December 31, 1983 gross properties of $191,043,000, net properties of $90,127,000 and stockholders' equity of $41,970,000.

Long-term debt as a percentage of total capitalization (long-term debt plus stockholders' equity) was 14.1 percent at the end of 1983 compared to 16.0 percent in 1982 and 21.3 percent at year-end 1981. At the end of 1983 the Company had cash and temporary investments of $152.5 million compared to $176.4 million at year-end 1982 and $116.1 million at year-end 1981. The 1983 figure was lower than that of a year earlier due principally to non-recurring expenditures arising out of the earthslide disaster at Thistle, Utah in April 1983. Those expenditures were $19.6 million above insurance proceeds used for property replacement and current tax benefit for incremental expense in the rerouting of traffic during the 81-day shutdown of the mainline from April 14 to July 4, 1983. The tax benefit related to that incremental expense will be received in 1984. 1983 was the third year of the five year transition period involving depreciation for Federal income tax purposes of the "frozen asset base," resulting in a deferral of $6.4 million in income taxes that otherwise would have been currently payable. For 1982 and 1981 those amounts were $8.5 million and $14 million respectively. Savings from lowered cash outlays under the frozen asset base tax treatment will be less in 1984 and negligible in 1985 when the transition period ends.

All the funds necessary for the Company's operating needs, payment of dividends and financing of capital expenditures during the years January 1, 1981 through December 31, 1983 were provided through internally generated cash, equipment leases, and sale of certain assets. Working capital provided from continuing operations was $54.6 million in 1983, $59.8 million in 1982 and $89.3 million in 1981.

On January 4, 1984, the Company sold all of the stock of CSS for $75 million less expenses and assumed liabilities, and received at closing $69.2 million in cash. An inter-company receivable of $12.6 million and cash of $5.2 million (both already included in RGI's consolidated balance sheet) were transferred from CSS to RGI prior to closing. The after-tax gain on the sale, which will be reported in the first quarter of 1984, was approximately $39 million.

Excluding expenditures at Thistle, Utah, capital expenditures were $33.5 million, $58.0 million and $37.3 million, in 1983, 1982 and 1981, respectively, virtually all in Rio Grande railroad. For 1984, $83 million has been budgeted for railroad capital expenditures. Fifty-six million dollars is for track structure and road maintenance and improvement, including $16 million budgeted originally for 1983 but not spent, and the remainder is planned for equipment. The road expenditures are for mainline rail changes and tie replacements.

The new tunnels, grading and double track installed at Thistle, Utah cost $39.7 million. The Moffat Tunnel ventilation system improvement project, which has been a multi-year program, is to be completed in 1984. The Company plans to pay for 1984 capital expenditures out of operations and available funds, although it is possible that Rio Grande railroad might issue equipment trust certificates if rates fall enough to make it attractive to do so.

During 1983 the Company had an average of 9,907,655 Common shares outstanding following the redemption or conversion in late 1982 of all of the outstanding Preferred stock. The dividend of $1.60 per year on Common stock requires total dividend payments of approximately $16 million per year. It is expected that dividends can be met from operations in 1984. The dividend rate on Common stock was increased by five cents per quarter in October, 1981 and by ten cents per quarter in July, 1982. Dividends paid in total, on both Preferred and Common shares, were $12.6 million in 1982 and $9.3 million in 1981.

Report of Management

The management of the Company is responsible for the integrity and objectivity of the consolidated financial statements which appear in this report. These statements have been prepared by management in conformance with generally accepted accounting principles that are appropriate in the circumstances, and necessarily include some amounts based on its best collective judgment. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

In meeting its responsibilities for the care and management of the Company's assets, and for reliability of its financial statements, management maintains a system of internal accounting control. It recognizes that while errors or irregularities may occur no matter what the system, the internal accounting control system is designed to provide reasonable assurance that Company assets are safeguarded from loss due to unauthorized use or disposition and that transactions are executed in accordance with proper management authorization. Such a system requires, and management practices and carries out the careful selection of personnel, appropriate division of responsibilities and authorities, and policies and procedures calculated to produce and maintain adherence to high standards in accounting and administrative practices. The system of internal accounting control is continually under review, and is modified and improved from time to time as changes in business conditions and operations may warrant. Management believes the internal control system accomplishes the ends for which it was designed.

Through an Audit Committee composed entirely of non-management directors, the full Board of Directors carries out its duty to the stockholders to assure that management carries out its responsibilities in preparing the financial statements.

On recommendation of its Audit Committee, the Board of Directors selects and engages the independent public accountants for the audit, subject to approval by the stockholders. The Audit Committee meets with the independent public accountants to review the scope of the annual audit, to be apprised of the progress and results of the audit and to review with the independent public accountants any recommendations they may have for the improvements of the Company's internal accounting controls. To assure independence, the independent public accountants have free access to the Audit Committee and may confer with members at any time, on their own initiative without management or its representatives present.

W. J. Holtman

W. J. Holtman
Chairman of the Board and President

D. L. Thomas

D. L. Thomas
Controller and Chief Accounting Officer

March 23, 1984

Wholly-Owned Subsidiaries and Principal Officers

The Denver and Rio Grande Western Railroad Company
The Rio Grande Railroad owns and operates over 1,800 miles of mainline track from Salt lake City and Ogden, Utah, on the west, to Denver and Pueblo, Colorado, on the east, and has trackage rights between Pueblo and Kansas City, Missouri. The Company has over 300 locomotives and 10,000 freight cars of various types. Virtually all its revenue is derived from hauling freight with major items being coal, food products, lumber, steel, autos and auto parts. Approximately 71 percent of its revenue comes from originating, terminating and local traffic, while 29 percent results from being an intermediate carrier between other railroads.

W. J. Holtman
Chairman of the Board and President

S. R. Freeman
Vice President and General Counsel

J. D. Key
Vice President — Traffic

H. E. Cash
Vice President — Fuel Traffic

C. E. Schmeckpeper
Secretary

R. C. Schulte
Treasurer

B. R. Seaton
Comptroller

Rio Grande Motor Way, Inc.
Motor Way is a common carrier truckline operating in ten western states on a call-and-demand truckload basis.

Joe Matich, Jr.
President

Leavell Development Company
LDC owns and manages the Park Central Building in Denver, Colorado.

M. E. Ehrlich
President and Treasurer

P. E. Smith
Vice President

M. O. Dailey
Controller

C. E. Schmeckpeper
Secretary

Notice of Annual Meeting
Our Annual Meeting of Stockholders is scheduled to be held in the offices of the Company, Room 1200, One Park Central, 1515 Arapahoe Street, Denver, Colorado, at 2:00 p.m., Tuesday April 24, 1984. A summary report of that meeting will be sent to stockholders approximately a month thereafter.

Form 10-K Availability
Single copies of the Company's 1983 Annual Report on Securities and Exchange Commission Form 10-K (without exhibits) will be provided without charge to stockholders after March 31, 1984, upon written request directed to the Secretary, Rio Grande Industries, Inc., P.O. Box 5482, Denver, Colorado 80217.

Stock Transfer Agent and Registrar
Manufacturers Hanover Trust Company
New York, New York

Stock Exchange Listing
New York Stock Exchange
New York, New York
Symbol RGI

Stock Price and Dividend Information (Per Share)

	Common Stock			
	Market Price Range		Dividends Declared	
	1983	1982	**1983**	1982
First Quarter	**$57¾-46⅜**	$37⅞-30	**$0.40**	$0.30
Second Quarter	**52¾-44⅞**	38⅞-30½	**0.40**	0.40
Third Quarter	**58½-46¼**	47⅞-26½	**0.40**	0.40
Fourth Quarter	**62½-50¼**	60 -41⅜	**0.40**	0.40

Board of Directors

+ W. J. Holtman
Chairman of the Board
and President

+ G. B. Aydelott
Retired Chairman
of the Board

* Harry Blundell
President and Chief Executive Officer
Utah Power & Light Company
Salt Lake City, Utah

+ W. K. Coors
Chairman of the Board and
Chief Executive Officer
Adolph Coors Company
Golden, Colorado

John Evans, Jr.
General Partner
Evans Investment Associates, Ltd.
Denver, Colorado

* David P. Gardner
President
University of California System
Berkeley, California

+ Charles H. Leavell
Chairman of the Board
The Leavell Company
El Paso, Texas

* Gerald H. Phipps
President
Gerald H. Phipps, Inc.
Denver, Colorado

+ D. E. Provost
Retired Chairman of the Board
Stearns-Roger Corporation
Denver, Colorado

+ # Mayfield R. Shilling
Vice Chairman
Ideal Basic Industries, Inc.
Denver, Colorado

Roy W. Simmons
Chairman of the Board and
Chief Executive Officer
Zions First National Bank
Salt Lake City, Utah

* # Wm. Thayer Tutt
Chairman of the Board
Broadmoor Hotel, Inc.
Colorado Springs, Colorado

Honorary Director

E. M. Naughton
Retired Chairman of the Board
Utah Power & Light Company
Salt Lake City, Utah

Officers

W. J. Holtman
Chairman of the Board and President

M. E. Ehrlich
Vice President-Finance & Administration
Secretary and Treasurer

S. R. Freeman
Vice President and General Counsel

J. B. Love
Vice President

D. L. Thomas
Controller

* Members of Audit Committee
+ Members of Policy and Plans Committee
# Members of Compensation Committee

1982 Annual Report

RIO GRANDE INDUSTRIES, INC.

ANNUAL REPORT 1982

Rio Grande Industries, Inc.
Annual Report 1982

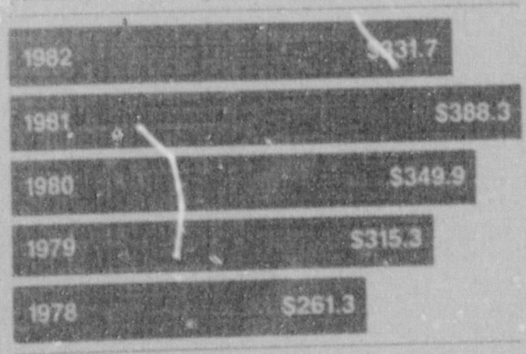
Contents

Rio Grande Industries, Inc.
Financial Highlights

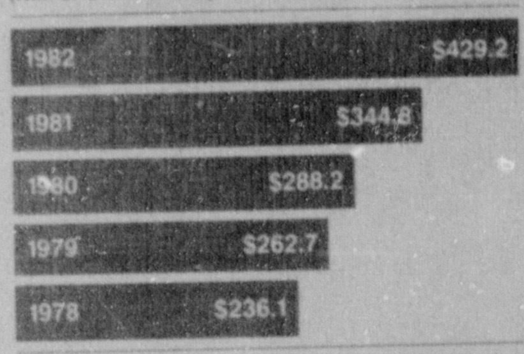
	Year Ended December 31	
	1982	1981
Operating Revenues	$331,726,000	$388,333,000
Income Taxes	10,356,000	23,004,000
Net Income	24,385,000	37,114,000
Earnings Per Common Share:		
Assuming No Dilution	3.45	7.53
Assuming Full Dilution	2.86	4.75

	As of December 31	
	1982	1981
Stockholders' Equity	$429,202,000	$344,755,000
Shares of Common Stock Outstanding	9,866,817	6,178,599
Number of Common Stockholders of Record	8,663	8,630

Operating Revenues
(Millions of Dollars)



Stockholders' Equity
(Millions of Dollars)



To the Stockholders

One year ago we reported record revenues and profits, but noted difficulties in the latter portion of the second half of 1981 and early 1982. We correctly expressed concern for the future in terms of the effects of a deepening recession.

Revenues for 1982 were off 15 percent, as they declined to $331,726,000, with net income of $24,385,000, down 34 percent from that of 1981, the lowest level since 1977. Earnings per Common share on a fully diluted basis were $2.86 for 1982, and $4.75 for 1981. Primary earnings per share are in no way comparable, year to year, because the average number of Common shares outstanding in 1982 was 6,432,439 compared to 4,375,870 in 1981. On page 24 of this report we show per-share earnings on a supplemental basis which is helpful in understanding the effects of the 1981 Exchange Offer and the 1982 Call for Redemption of the Preferred Stock.

The 1982 year was a very difficult one as the recession bit deeply into the national economy, and, during the second half particularly, took its toll in the Colorado-Utah trade area served by Rio Grande Railroad. During the first quarter of 1983 this situation continued, and there has been little evidence to date that the economy is showing any real signs of returning to its 1981 levels of activity.

Rio Grande Railroad registered a 13 percent decline in revenues and a 53 percent decline in pre-tax earnings in 1982 compared to those for 1981. Coal revenues represented 48 percent of all freight revenues and were slightly below 1981 levels. Revenues from all other commodities were down approximately 22 percent. The largest declines were in food products, lumber, barytes and iron and steel products. Intermodal traffic increased five percent. Total employment at the end of 1982 was 2,987, down approximately 17 percent from year-end 1981.

Most railroads are in the process of learning to compete effectively under deregulation. It is changing marketing concepts as the industry moves from the old order solicitation and tariff bureau approaches to more innovative methods of pricing, increased intermodal movements and contracting. Competition is keener and pricing is more aggressive; service too has become an ever greater selling point. At the same time, the consolidation of Union Pacific/Missouri Pacific/Western Pacific has put new pressures on Rio Grande Railroad and all of the Western roads, and we at Rio Grande will have to make new arrangements with other carriers in order to meet this competition successfully.

Computer Sharing Services recorded a nine percent increase in revenues. The fourth quarter was flat, ending a long period of quarterly increases on a historical basis. Income before taxes for the year was $9,424,000, down 16 percent from that in 1981, and for the fourth quarter was off 21 percent as compared to fourth quarter 1981. The year was a very trying one due mainly to uncertainties connected with the company's main blocks of business which are with American Telephone and Telegraph Company and its 22 Bell operating companies.

Rio Grande Motor Way drastically reduced its scope of operations from an approximately $21 million annual revenue level in 1981 on a full-service schedule basis to call-and-demand truckload service only, at a current annualized revenue level of approximately $1.2 million. Pre-tax losses for the first half of 1982 reached $2,683,000, but with the change in late May to the current operation began to moderate immediately. For the year the total pre-tax loss was $2,747,000. It is expected that for 1983, operations will probably be at an approximate break even. Several terminal properties were sold, and the remainder are listed for sale or are leased short-term.

In November, 1982, the Company called all of its Preferred Stock for redemption effective December 16, 1982. As a result of that Call, all outstanding Preferred Stock was converted or redeemed and the Company received net cash proceeds of $72 million. More details appear elsewhere in this report.

The Company is fortunate to be in the best financial condition in its history as it faces the challenges of deregulation and new railroad alignments in the West. Unburdened by heavy debt obligations, having a long-term debt to total capitalization ratio of 17 percent, liquid and with no restrictions on borrowing capability, we are well-positioned to take those steps and make those moves which may be required to protect and improve the Company's future.

W. J. Holtman

W. J. Holtman
Chairman of the Board and President

March 25, 1983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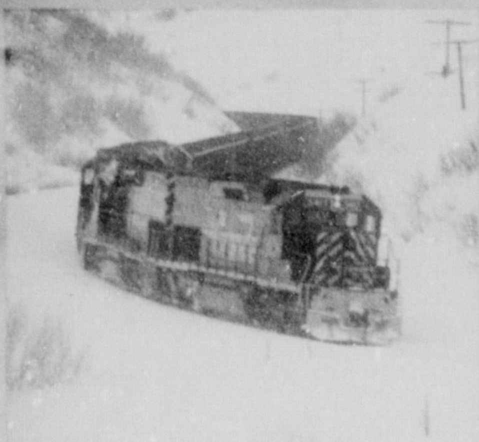
5406

The Denver and Rio Grande Western Railroad Company



The recessionary economy, the effects of industry deregulation and the approval of the Union Pacific merger were significant events impacting Rio Grande Railroad performance in 1982.

For the first time in twelve years, the Rio Grande Railroad recorded a decline in operating revenue. Total revenues at year-end were $292.5 million, a decrease of $42.5 million, and 12.7 percent under the $335 million reported for 1981.

Much of the decline in revenues for 1982 can be attributed to reduced freight volumes which were primarily the result of the slowdown in production experienced by industries nationwide. However, while ton-miles of freight decreased 15 percent, increases in freight rates brought the average revenue per ton mile up to 2.91 cents, from 2.85 cents, an increase of two percent.

Passenger revenues increased from $1.6 million to $2.2 million, or 37.5 percent, due to higher passenger fares and an increase in patronage. Despite these improved revenues, passenger service continued to show substantial deficits.

Operating Income and Expense

Operating income for the year was $23.3 million, a decrease of 52 percent from the record earnings of $48.6 million reported in 1981. This large decline in operating income was directly related to the drop in freight volume experienced during the year. However, the decrease in volume also contributed to the decrease in operating expenses for 1982. Operating expenses totaled $269.2 million in 1982, a decrease of $17.2 million, or six percent, under 1981 expenses. Roadway maintenance decreased $5.3 million, or nine percent, while equipment maintenance decreased $6.3 million, or eleven percent.

When considered as a percentage of revenues, roadway maintenance increased from 17.2 percent to 17.9 percent and equipment maintenance increased from 16.5 percent to 16.7 percent. During the year, the cost of locomotive fuel decreased from $59 million to $46.5 million, a 21 percent decline, and the average cost per gallon decreased from $1.04 to 96 cents, an eight percent decline. As a percentage of revenues, fuel decreased from 17.6 percent to 15.9 percent.

Wages paid in 1982, chargeable to operating expenses, increased by $5.4 million, or 5.4 percent, to $104.9 million. Payroll taxes and other employee benefits increased from $27.4 million to $30.5 million, or eleven percent, principally due to the higher costs associated with health and welfare benefits and railroad retirement benefits. As a percentage of revenues, wages and benefits increased from 37.9 percent in 1981 to 46.3 percent in 1982. Average employment decreased eight percent, but average wage rates were up 13 percent.


Denver and Rio Grande
Western Railroad
And Connections
Ogden
WP
Salt Lake City
Provo
UP
Sunnyside
Helper
Marysvale
Potash
Utah
Craig
Steamboat
Springs
Glenwood
Springs
Moffat
Tunnel
BN
Grand
Junction
Rifle
Denver
Minturn
Leadville
Woody
Creek
Colorado
Springs
Delta
Salida
Montrose
Pueblo
Canon City
Creede
Walsenburg
BN
Alamosa
Antonito
Trinidad
Colorado
Kansas
Kansas
City
Herington
CNW
MILW
ATSF
BN
NW
ICG
MP
SSW
KCS
MKT

Revenues From Coal Shipments (000)	
1977	$ 51,898
1978	65,680
1979	92,263
1980	105,282
1981	139,232
1982	138,638

Percent Increase Over Prior Years	
1977	19.4%
1978	26.6
1979	40.5
1980	14.1
1981	32.3
1982	(0.4)

Cumulative Percent Increase Since 1976	
1977	19.4%
1978	51.1
1979	112.3
1980	142.2
1981	220.4
1982	219.5

Freight Traffic

Revenues from coal shipments of $138.6 million represent 48 percent of total freight revenue in 1982. For the past ten years, the percentage of total freight revenues produced by coal shipments has increased constantly.

Non-coal traffic produced 52 percent of 1982 freight revenues, but those revenues decreased $42 million, or 22 percent. Commodities showing the largest declines included food products, lumber, barytes, and iron and steel products.

Virtually all commodities suffered from the recession, which affected steel production, construction activity and coal usage by utilities receiving coal from Colorado and Utah mines. Coal shipments were further adversely affected by reduced export demands after the first quarter of 1982.

Industrial Development

Demand for industrial sites located along the lines of the Rio Grande Railroad remained high for the first and second quarters of 1982. The recession curtailed activity during the second half as growth in Colorado and Utah associated with energy and related industries fell dramatically. High interest rates forced postponement of many developments until economic conditions improve.

Despite adverse economic conditions, industrial development land sales exceeded $1.4 million in 1982. Railroad traffic anticipated as a result of these land sales, leasing of railroad property and private industrial activity is expected to generate more than 3,600 carloads of freight annually, with associated gross revenues of $4.4 million. In total, seventeen major firms either located or expanded their rail-served facilities on the Rio Grande line during 1982.

A decline in interest rates and a revitalized national economy should increase industrial development activity in 1983.

Intermodal

During 1982, revenues from intermodal traffic increased by 4.6 percent. Trailer-on-flat car (TOFC) revenues reached more than $23.5 million and import/export traffic moving in containers continued to be a strong market, with over 10,000 containerloads handled in transcontinental mini-landbridge service for a major steamship line.

Intermodal services increased further with the conversion of several commodities from movement by rail box car to TOFC and highway trucks. Canned goods and wines from West Coast origins, in particular, moved in trailers, as buyers purchased truckload rather than carload quantities. This shift to intermodal freight movement of many commodities is expected to continue and the Rio Grande Railroad is aggressively pursuing this growing market segment.

Deregulation of rail traffic has enabled the Rio Grande Railroad to expand its intermodal sales effort, particularly in off-rail markets. Traffic moving either entirely TOFC or via combined highway-TOFC modes has been exempted from Federal regulation and now represents a growing percentage of the company's total volume.

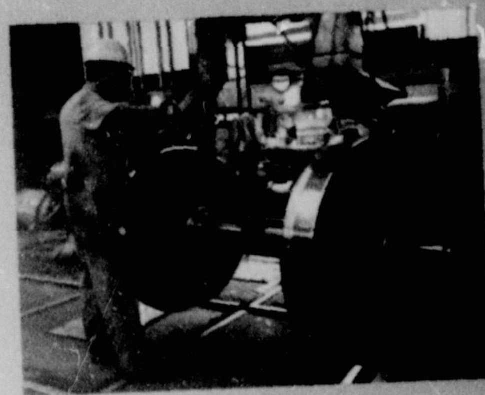
Capital Expenditures
Although originally budgeted at over $50 million, actual capital expenditures in 1982 were limited to $37 million due to lower traffic levels. Major expenditures were for the purpose of expanding track capacity and expediting train operations. Specific projects included the construction and extension of sidings, the start of the installation of a new ventilation system in the Moffat Tunnel, modernization of the wheel shop in Denver, and various communication and signal improvements.

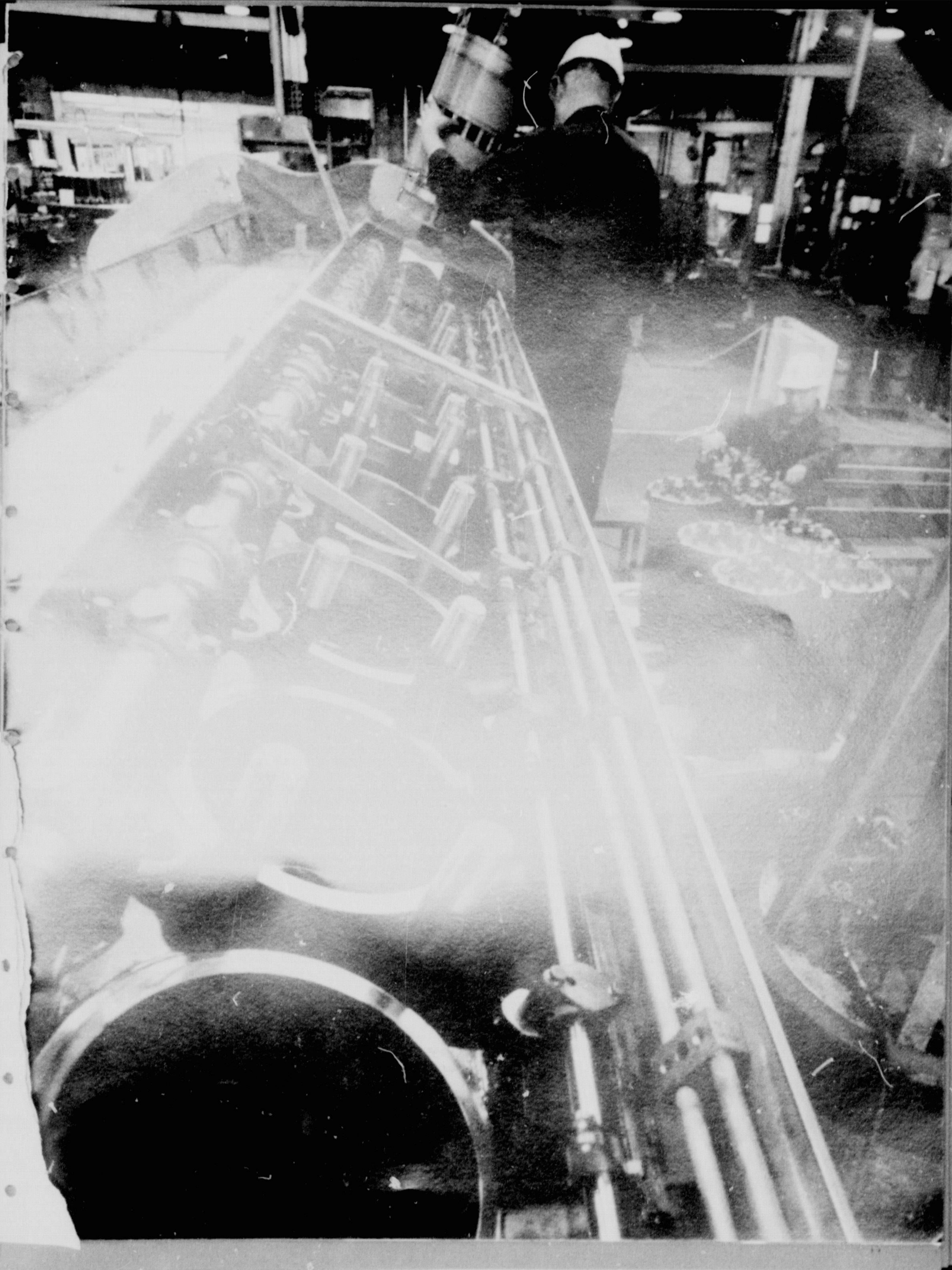
Expenditures for new rail decreased as 18½ track-miles of new rail and 259,000 new crossties were installed in 1982, compared to 66 miles of rail and 354,000 crossties in 1981.

The general decline in freight volume caused freight cars and locomotives to be in surplus supply during the year. The company's only major equipment purchase totaled $12.7 million for 350 new 100-ton capacity coal cars to service the continued demand projected for coal loading. In addition, six new 100-ton bulkhead flat cars, 20 TOFC/COFC cars and 50 flat-bottom gondolas were obtained under short-term leases.

Labor Agreements
After a four-day strike in September, the Brotherhood of Locomotive Engineers accepted the terms of a new national wage contract. The United Transportation Union, which represents most of the other operating employees, had previously agreed to a similar contract patterned along the terms accepted by nonoperating unions earlier in 1981. The agreements with the operating unions provided for wage increases of approximately 32.5 percent over a 39-month period, retroactive to April 1, 1981.

Employee Safety
Once again, employee safety was highly ranked for the Rio Grande Railroad. For the third consecutive year, Rio Grande employees won the coveted first place Gold Medal Award for employee safety presented by the E. H. Harriman Memorial Award Institute.






Grande

Rail Merger Case

On December 21, 1982, consolidation of Union Pacific, Missouri Pacific and Western Pacific Railroads became effective. The Rio Grande Railroad is opposed to this consolidation and is currently in the process of appealing the Interstate Commerce Commission decision to permit the consolidation, based on the grounds that it is anti-competitive. While the consolidated companies can now serve a larger territory, smaller railroad lines, such as the Rio Grande, have lost some of their "friendly" connections.

On the same date that the consolidation became effective, Rio Grande was granted trackage rights over the Missouri Pacific line between Pueblo, Colorado and Kansas City, Missouri. Until a permanent trackage rental rate has been mutually agreed upon or has been finally determined by a court, Union Pacific System will handle Rio Grande's traffic between Pueblo, Colorado and Kansas City, Missouri on a cost reimbursement basis, plus an annual charge representing trackage rental. The permanent payment basis for use of the Missouri Pacific tracks will be the subject of an ICC proceeding.

If the consolidation is allowed to stand, Rio Grande must generate substantial new revenues on the trackage rights to offset the loss of net revenues which the consolidation will cause.

Plans and Outlook for 1983

The recovery from the recession is likely to be moderate, but the easing of inflation, gains in productivity and the opportunities presented by obtaining trackage rights to Kansas City, should create conditions for sustainable earnings growth.

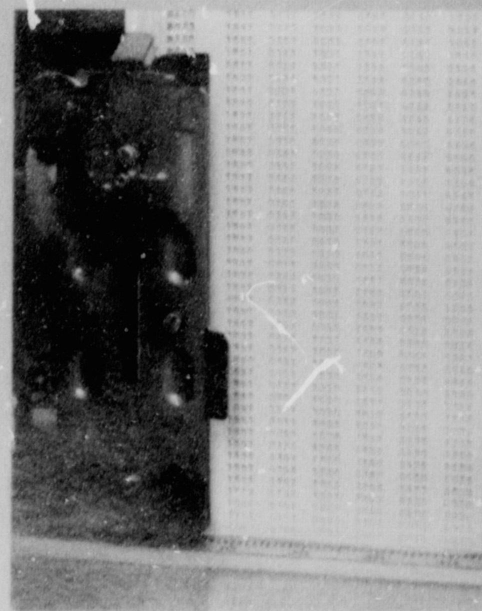
Marketing efforts to increase the traffic being interchanged at Ogden, Utah with the Southern Pacific Railroad are receiving particular emphasis. It is expected that these efforts will bear fruit throughout the year and beyond, with the real benefits to Rio Grande showing up in revenues and profits on an increasing basis quarter by quarter.

In the east, there have been encouraging indications that marketing combinations with other carriers can be helpful to the Rio Grande.

Early in March, 1983, a tentative agreement was reached with the National Railroad Passenger Corp. (Amtrak) concerning Rio Grande's Denver-Salt Lake passenger service, under which this passenger run will become a part of the Amtrak system. It is expected that a contract will have been executed by the time this report is published. Upon authorization by the ICC, Rio Grande will discontinue its Rio Grande Zephyr service, thereby eliminating the losses from this passenger operation. Only after such authorization will Amtrak initiate its passenger service.

Computer Sharing Services, Inc.

Computer Sharing Services, Inc. (CSS) celebrated its fifteenth anniversary in 1982, a year marked by the challenges and opportunities created by the formation of American Bell and the prospective divestiture January 1, 1984, by AT&T of its several operating companies.



The effects of the difficult economic climate caused slower growth for CSS in 1982. Revenues reached $28 million, an increase of nine percent over 1981. Expenses increased with the addition of personnel and equipment to support the introduction of new products, resulting in a 16 percent reduction in pre-tax income compared to last year.

The realignment of AT&T means CSS must now meet the needs of AT&T, the 22 separate operating companies, and American Bell (the Bell System). In addition, CSS must prepare to serve the seven regional holding companies which will be formed as part of the reorganization. The restructuring of the Bell System brings new competition to the computer processing marketplace. CSS, with a 10-year history of serving the needs of the telephone industry, has remained one of the three largest suppliers of computer services for the Bell System.

CSS is organized into two divisions, a Telecommunications division and a Commercial division. The main business is providing remote computing services to the telephone industry with a broad spectrum of application areas. This includes budgeting and finance, inventory control, management and administration systems, work performance measurements, management report generators, database management and a full scale business graphics system.

Since 1973, CSS has served AT&T and the Bell Operating Companies by maintaining and enhancing major systems such as plant budgeting and inventory control. In 1982 CSS introduced COMBATS (COMputerized Budgeting and Tracking System), a total Resource Management System that can be used as a budgeting system accounting for funds, and is also applicable to work force management, services, materials, equipment and supplies. CSTOCK is a computerized reuse inventory control system for Central Office and PBX installations. This system inventories and locates equipment available for use and prints warehouse tags and material transfer request forms.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B

CSS Commercial Division furnishes applications to other industries with its main areas being financial products and computer-aided design. Eighteen of the top twenty-five underwriters in the nation are currently CSS customers. The CSS family of financial services includes: BOND, a program to do detailed analysis for municipal funding; HEALTH, which aids underwriters with health care facilities financing; PSA (Public Securities Association), a data base of municipal bond information, and BIDCOMP, a program that handles intricacies involved in creating competitive bids.

CSS has also established the strongest market share in computer-aided lighting calculation services and offers applications for electrical power distribution, solar energy systems and environmental data management. Customers include all major manufacturers in the lighting industry and certain architectural and construction firms.

CSS applications for general use are VISUALIZE, which is an interactive business graphics system for the preparation of high quality, multicolored hardcopy graphs and charts, and STAR, a flexible report writer and data base manager used to conveniently produce clear, concise reports in a variety of formats customized by the user.

In 1982, CSS entered the dynamic field of microprocessing. The company is currently working with several Bell entities to define applications where microcomputers can be linked with the CSS centralized timesharing system. CSS will provide both hardware and software for this rapidly expanding market.

In addition to developing software and providing remote computer processing services, CSS is meeting the computer service industry need for data processing employees. In 1982, the company founded CSS Institute, a private vocational school approved and regulated by the Colorado State Board for Community Colleges and Occupational Education. Its initial class of 23 students began a six month program of instruction in November 1982.

Statements of Consolidated Income

For the Years Ended
December 31, 1982, 1981 and 1980

	1982	1981	1980
	(In Thousands, Except Per Share Data)		
Operating Revenues:			
Transportation	$297,151	$355,691	$311,243
Other Operations	34,575	32,642	38,684
Total	331,726	388,333	349,927
Operating Expenses:			
Transportation:			
Operations	126,256	145,546	124,668
Maintenance	102,769	115,729	98,377
Administrative and Marketing	24,638	23,770	22,109
Taxes Other than Income Tax	22,923	23,451	19,934
Total Transportation	276,586	308,496	265,088
Other Operations	25,141	20,363	27,466
Total	301,727	328,859	292,554
Operating Income	29,999	59,474	57,373
Interest Income	13,749	10,158	2,461
Other Income—Net	15	797	3,017
Interest Expense:			
Transportation	6,849	7,825	8,396
Other Operations	2,173	2,486	2,213
Total	9,022	10,311	10,609
Income Before Income Taxes	34,741	60,[illegible]18	52,242
Provision for Income Taxes (Note 5):			
Currently Payable	2,904	5,752	15,129
Deferred	7,452	17,252	2,933
Total	10,356	23,004	18,062
Net Income	$ 24,385	$ 37,114	$ 34,180
Earnings Per Common Share (See Note 10 for supplementary information):			
Assuming No Dilution	$3.45	$7.53	$7.13
Assuming Full Dilution	2.86	4.75	4.30

See Notes to Consolidated Financial Statements.

Statements of Consolidated Income

For the Years Ended
December 31, 1982, 1981 and 1980

	1982	1981	1980
		(In Thousands, Except Per Share Data)	
Operating Revenues:			
Transportation	$297,151	$355,691	$311,243
Other Operations	34,575	32,642	38,684
Total	331,726	388,333	349,927
Operating Expenses:			
Transportation:			
Operations	126,256	145,546	124,668
Maintenance	102,769	115,729	98,377
Administrative and Marketing	24,638	23,770	22,109
Taxes Other than Income Tax	22,923	23,451	19,934
Total Transportation	276,586	308,496	265,088
Other Operations	25,141	20,363	27,466
Total	301,727	328,859	292,554
Operating Income	29,999	59,474	57,373
Interest Income	13,749	10,158	2,461
Other Income—Net	15	797	3,017
Interest Expense:			
Transportation	6,849	7,825	8,396
Other Operations	2,173	2,486	2,213
Total	9,022	10,311	10,609
Income Before Income Taxes	34,741	60,118	52,242
Provision for Income Taxes (Note 5):			
Currently Payable	2,904	5,752	15,129
Deferred	7,452	17,252	2,933
Total	10,356	23,004	18,062
Net Income	$ 24,385	$ 37,114	$ 34,180
Earnings Per Common Share (See Note 10 for supplementary information):			
Assuming No Dilution	$3.45	$7.53	$7.13
Assuming Full Dilution	2.86	4.75	4.30

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

December 31, 1982 and 1981

Assets	1982	1981
	(In Thousands)	
Current Assets:		
Cash	$ 9,822	$ 6,063
Temporary Investments—At Cost, Which Approximates Quoted Market Value	166,583	110,032
Accounts Receivable	45,034	52,8[illegible]1
Inventories (Note 1)	24,538	33,029
Other	5,950	4,973
Total Current Assets	251,927	206,988
Properties (Notes 1, 2 and 3):		
Transportation Properties:		
Railroad Track Structure	252,801	230,341
Railroad Equipment	293,694	287,073
Other	10,153	14,395
Total	556,648	531,809
Other Properties	36,077	39,184
Total	592,725	570,993
Less Accumulated Depreciation and Amortization	184,737	181,587
Properties—Net	407,988	389,406
Other Assets:		
Other Investments—At Cost	8,367	7,867
Other	2,501	2,895
Total Other Assets	10,868	10,762
Total	$670,783	$607,156

See Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity	1982	1981
	(In Thousands)	
Current Liabilities:		
Current Maturities of Long-Term Debt (Note 2)	$ 9,140	$ 11,183
Accounts and Wages Payable	48,160	59,182
Interest	1,245	1,488
Income Taxes	1,454	10
Other Taxes	4,672	5,260
Dividends Payable	3,591	2,590
Other	4,764	9,349
Total Current Liabilities	73,026	89,062
Long-Term Debt—Less Current Maturities (Note 2):		
Mortgage Bonds		1,041
Equipment Obligations	69,790	82,153
Other	19,438	19,668
Total Long-Term Debt	89,228	102,862
Other Liabilities and Deferred Credits:		
Deferred Income Taxes (Note 5)	73,452	66,000
Other	5,875	4,477
Total Other Liabilities and Deferred Credits	79,327	70,477
Stockholders' Equity (Notes 7 and 8):		
Preferred Stock, $1 Par Value, 6,000,000 Shares Authorized—$.80 Cumulative Convertible Series A		3,801
Common Stock, $1 Par Value, [illegible]000,000 Shares Authorized	10,151	6,483
Capital Surplus	197,017	125,353
Retained Earnings	225,018	213,249
Less Treasury Stock	(2,984)	(4,131)
Total Stockholders' Equity	429,202	344,755
Total	$670,783	$607,156

Statements of Consolidated Stockholders' Equity

For the Years Ended
December 31, 1982, 1981 and 1980

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
			(In Thousands)			
Balance, December 31, 1979	$ 5,811	$ 4,477	$ 96,815	$160,006	$(4,360)	$262,749
Net Income for 1980				34,180		34,180
Dividends Declared:						
Preferred Stock ($.80 per share)				(4,561)		(4,561)
Common Stock ($1.00 per share)				(4,152)		(4,152)
Conversions of Preferred Stock to Common Stock	(3)	2	7			6
Balance, December 31, 1980	5,808	4,479	96,822	185,473	(4,360)	288,222
Net Income for 1981				37,114		37,114
Dividends Declared:						
Preferred Stock ($.80 per share)				(4,162)		(4,162)
Common Stock ($1.10 per share)				(5,176)		(5,176)
Conversions of Preferred Stock to Common Stock	(2,007)	2,004	27,795			27,792
Sale of Common Stock Held as Treasury Stock			736		229	965
Balance, December 31, 1981	3,801	6,483	125,353	213,249	(4,131)	344,755
Net Income for 1982				24,385		24,385
Dividends Declared:						
Preferred Stock ($.60 per share)				(2,215)		(2,215)
Common Stock ($1.50 per share)				(10,401)		(10,401)
Conversions of Preferred Stock to Common Stock	(3,597)	3,458	61,451			61,312
Redemption of Preferred Stock	(95)		(1,334)			(1,429)
Retirement of Preferred Stock Held as Treasury Stock	(109)		(827)		936	
Issuance of Common Stock		210	11,865			12,075
Exercise of Employee Stock Options			18			18
Sale of Common Stock Held as Treasury Stock			491		211	702
Balance, December 31, 1982	$—0—	$10,151	$197,017	$225,018	$(2,984)	$429,202

See Notes to Consolidated Financial Statements.

Statements of Consolidated Changes in Financial Position
For the Years Ended
December 31, 1982, 1981 and 1980

	1982	1981	1980
		(In Thousands)	
Working Capital Provided:			
Operations:			
Net Income	$ 24,385	$ 37,114	$ 34,180
Add—Expenses Not Requiring Outlay of Working Capital in the Current Period:			
Depreciation, Retirements and Other Items	15,782	17,791	16,963
Deferred Income Taxes	7,452	17,252	2,933
Total from Operations	47,619	72,157	54,076
Net Proceeds from Conversions of Preferred Stock to Common Stock	61,312	27,792	6
Sale of Common Stock	12,795	965	
Sale of Properties	9,109	4,901	8,890
Issuance of Equipment Obligations and Other Long-Term Debt		935	11,855
Other	3,627	1,947	1,570
Total	134,462	108,697	76,397
Working Capital Applied:			
Additions to Properties	43,050	12,768	24,726
Reduction of Equipment Obligations and Other Long-Term Debt	12,593	11,857	12,213
Mortgage Bonds Reacquired	1,041	2,082	70
Redemption of Preferred Stock	1,429		
Dividends	12,616	9,338	8,713
Other	2,758	2,566	5,984
Total	73,487	38,611	51,706
Increase in Working Capital	$ 60,975	$ 70,086	$ 24,691
Increase (Decrease) in Working Capital:			
Cash and Temporary Investments	$ 60,310	$ 76,707	$ 15,867
Accounts Receivable	(7,857)	([illegible]895)	7,554
Inventories	(8,491)	[illegible]017	5,437
All Other Current Assets	977	[illegible],124	295
Accounts and Wages Payable	11,022	(11,740)	(3,026)
Income and Other Taxes	(856)	6,316	(1,238)
All Other Current Liabilities	5,870	(3,443)	(198)
Total	$ 60,975	$ 70,086	$ 24,691

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years Ended
December 31, 1982, 1981 and 1980

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, The Denver and Rio Grande Western Railroad Company (Railroad), and all other majority-owned subsidiaries and partnerships. All material intercompany transactions have been eliminated.

Industry Segment Information

Information regarding the relative importance of the Company's operations in various industries is included on page 28 of this Annual Report. The information appearing therein is presented on a basis consistent with and is an integral part of the consolidated financial statements.

Properties

Properties are stated at cost. The current cost of renewals of parts of the Railroad's track structure is charged to maintenance expense, and additions and betterments to the structure are capitalized. The amounts capitalized are not depreciated. Losses on retirements of such property are charged to operating expenses. Other classes of Railroad property are depreciated on a straight-line basis over the estimated service lives of the property. The composite depreciation rates for road and equipment are approximately 1.97 percent and 4.13 percent, respectively. Amortization of equipment recorded under capital leases is included with depreciation charges. When depreciable Railroad property is sold or retired, cost less salvage is charged or credited to accumulated depreciation.

Other transportation property and other properties are depreciated primarily on a straight-line basis with rates varying from two percent to 20 percent.

Consolidated depreciation charges and charges for renewals of the Railroad's track structure amounted to $17,705,000 and $3,024,000, respectively, in 1982; $17,895,000 and $11,209,000, respectively, in 1981; and $18,782,000 and $5,721,000, respectively, in 1980.

Investment Tax Credit

The Company employs the "flow-through" method of accounting for the investment tax credit.

Inventories

Inventories consist principally of materials and supplies which are carried at average cost, not in excess of market.

Motor Carrier Operating Rights

As a result of deregulation activity, Rio Grande Motor Way, Inc., the Company's trucking subsidiary, wrote off all unamortized costs of interstate and intrastate operating rights of $549,000 to non-operating expense in 1980.

2. Long-Term Debt

Long-term debt at December 31 consisted of the following:

	1982	1981
	(In Thousands)	
Equipment Obligations:		
Equipment Trust Certificates — 6 to 11⅛%, Due Serially to 1995	$ 56,537	$ 63,908
Capitalized Lease Obligations (Note 3)	22,163	28,902
Railroad Income Mortgage Bonds — 4½%, Due 2018		1,041
Other:		
Mortgage Payable — 8¾%, Due Serially to 2008, Collateralized by Building Included in Other Properties	19,644	19,845
Notes — 7% to Prime, Due Serially to 1985	24	349
Total	98,368	114,045
Less Current Maturities, Principally Equipment Obligations	9,140	11,183
Total	$ 89,228	$102,862

On April 1, 1982 the Company redeemed the Railroad Income Mortgage Bonds at par value.

Required annual principal repayments of long-term debt during the five years subsequent to December 31, 1982 are as follows: 1983, $9,140,000; 1984, $9,241,000; 1985, $9,036,000; 1986, $8,798,000 and 1987, $8,250,000.

Railroad equipment is pledged as collateral for equipment trust certificates.

3. Lease Commitments

The Company has substantial lease commitments for Railroad equipment and other property. Many of the leases provide for the option to purchase the leased property at fair market value at the end of the lease or to extend the leases for various periods at the fair value rental rates when extended.

The consolidated balance sheets include the following balances related to capital leases:

	1982	1981
	(In Thousands)	
Railroad Equipment	$ 34,575	$ 39,400
Other Properties		6,358
Accumulated Depreciation and Amortization	16,439	21,114

Lease rental expenses for operating leases were $7,523,000, $5,130,000 and $4,644,000 for 1982, 1981 and 1980, respectively. Minimum annual rental commitments under noncancellable leases at December 31, 1982 were as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
Year Ending December 31:		
1983	$ 3,727	$ 5,549
1984	3,705	4,887
1985	3,705	2,870
1986	3,525	1,55[illegible]
1987	3,031	830
1988-1992	8,718	1,637
1993-1997	3,514	—
Total	29,925	$ 17,323
Less Amount Representing Interest on Capital Leases	7,7[illegible]	
Present Value of Net Minimum Lease Payments (Note 2)	$ 22,163	

In addition, the Company leases computer equipment under short-term leases with a current annual cost of approximately $1,341,000. Although items leased may change frequently, the leased capacity and expense are not expected to decrease in the foreseeable future.

4. Discontinued Operations

The Company closed Frontier Village, its amusement park operation, on October 1, 1980. During 1979, the Company sold excess land at the amusement park for a pretax gain of $2,500,000; however, the gain was recorded in 1980 when the payments received exceeded 20 percent of the sales price. The gain is included in other income for the year ended December 31, 1980.

In 1980, the Company entered an agreement to sell certain assets of Arrow Development Co., Inc. and terminated its manufacturing operations. Under terms of the agreement, the Company sold, in January 1981, the receivables, inventories and a substantial amount of the properties (excluding real property) of Arrow. Provision of $1,100,000 is included in other operating expenses for 1980 to reduce the book value of these assets to reflect the net realizable value based on the terms of the purchase agreement and to accrue other termination costs.

The amusement park and manufacturing operations were not major lines of business for the Company. Combined operating income for Frontier and Arrow is summarized as follows:

	1980
	(In Thousands)
Operating Revenues	$12,071
Operating Expenses	13,372
Operating Income (Loss)	$ (1,301)

During 1982 the Company reduced the operations of Rio Grande Motor Way, Inc. by discontinuing a majority of its services. Operating revenues and expenses of Motor Way included in the statements of consolidated income are as follows:

	1982	1981	1980
		(In Thousands)	
Operating Revenues	$ 5,251	$21,409	$22,797
Operating Expenses	8,011	22,883	23,4[illegible]
Operating Loss	$ (2,760)	$ (1,474)	$ (640)

A number of legal and administrative proceedings are in process as a result of this action. It is the opinion of management that the discontinuance of such service and the related legal and administrative proceedings will not have a material adverse effect on the Company's financial position or results of operations.

5. Income Taxes

Provision has been made in the accompanying statements for deferred income taxes resulting from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The sources of these differences and the tax effect of each were as follows:

	1982	1981	1980
	(In Thousands)		
Excess of Tax Over Book Depreciation and Amortization	$ 7,628	$17,920	$ 3,612
Net Gain on Sale or Retirement of Railroad Property Credited to Accumulated Depreciation for Book Purposes	(234)	(744)	(490)
Other	58	76	(189)
Total	$ 7,452	$17,252	$ 2,933

Currently payable income taxes in 1982 and 1981 were significantly reduced by the Economic Recovery Tax Act of 1981, with a resulting increase in deferred income taxes. The principal effects of the changes were at the Railroad, including the commencement of tax depreciation on assets previously not depreciable for tax purposes.

The provision for income taxes consisted of the following:

	1982	1981	1980
	(In Thousands)		
Federal Tax at Statutory Rate	$15,981	$27,654	$24,031
State Income Taxes—Net of Federal Tax Benefit	617	829	904
Investment Tax Credit	(6,086)	(5,115)	(6,039)
Other	(156)	(364)	(834)
Total	$10,356	$23,004	$18,062

6. Contingent Liabilities

A service interruption insurance arrangement is maintained under which the Railroad would be entitled to indemnity from other participating railroads for certain work stoppage losses. In the event such losses are sustained by other participating railroads, the Railroad may be obligated to pay additional premiums, subject to a maximum of $4,596,000.

Various claims and lawsuits are pending against the Company. In the opinion of management, after consulting with legal counsel, the disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations.

7. Stockholders' Equity

Shares outstanding are summarized as follows:

	Preferred Stock	Common Stock
Balance, December 31, 1979	5,703,069	4,151,038
Conversions:		
One Share of Preferred for One-Half Share of Common	(3,569)	1,784
One Share of Preferred with Payment of $20 for One Share of Common	(280)	280
Balance, December 31, 1980	5,699,220	4,153,162
Conversions:		
One Share of Preferred for One-Half Share of Common	(6,397)	3,197
One Share of Preferred with Payment of $20 for One Share of Common	(258)	258
One Share of Preferred with Payment of $15 for One Share of Common	(2,000,225)	2,000,225
Sale of Common Stock Held as Treasury Stock		21,757
Balance, December 31, 1981	3,692,340	6,178,599
Conversions:		
One Share of Preferred for One-Half Share of Common	(278,615)	139,312
One Share of Preferred with Payment of $20 for One Share of Common	(3,318,276)	3,318,276
Redemption of Preferred Stock	(95,249)	
Issuance of Common Stock		210,000
Exercise of Employee Stock Options (Note 8)		500
Sale of Common Stock Held as Treasury Stock		20,130
Balance, December 31, 1982	—0—	9,866,617

On November 15, 1982 the Company called for redemption all of its outstanding Series A preferred stock on December 16, 1982 at the redemption price of $1[illegible] per share. Through December 13, 1982 each share of Series A preferred stock was convertible into one-half share of common stock or, with payment of $20, was convertible into one share of common stock. From November 15, 1982 through December 13, 1982, 3,595,079 shares of Series A preferred stock were converted to 3,456,542 shares of common stock, the Company receiving proceeds of $66,359,000 from such conversions. Such proceeds, less costs of

$5,053,000 relating to the call for redemption and the conversions to common shares, were credited to capital surplus. At December 31, 1982 accrued costs of $4,336,000 due to the underwriter of the call for redemption are included in accounts payable. On the redemption date 95,249 shares of Series A preferred stock were redeemed for $1,429,000 which was charged to preferred stock and capital surplus. On the redemption date 108,300 shares of Series A preferred stock held as treasury stock were retired, resulting in a $8[illegible]7,000 charge to capital surplus. In connection with the call for redemption, on December 17, 1982 the Company also issued 210,000 shares of common stock to the underwriters of the call for redemption at the closing market price on that date.

On October 21, 1981 the Company offered one share of its common stock in exchange for one share of Series A preferred stock plus payment of $15. The Exchange Offer expired December 11, 1981. Proceeds from the Exchange Offer of $30,003,000 less offering costs of $2,217,000 were credited to capital surplus.

Treasury stock at December 31, 1982 consisted of 284,135 shares of common stock acquired at a total cost of $2,984,000 ($10.50 per share). During 1982, 20,130 shares of common stock held as treasury stock were sold to the Company's Employee Stock Ownership Plan at an average price of $34.67 per share. Similar sales in 1981 were 21,757 shares at an average price of $44.34 per share. All such sales were made at the closing market price on the dates of the transactions.

8. Stock Plans

The Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees of the Company and its subsidiaries who are not covered by a collective bargaining agreement. Contributions to the ESOP are discretionary. For 1982, 1981 and 1980, respectively, the provisions for currently payable income taxes were decreased by, and other operating expenses were increased by $799,000, $693,000 and $802,000 to reflect the estimated additional investment tax credit and the corresponding estimated contribution to the ESOP. The ESOP invests substantially all its assets in the Company's common stock, purchased in the open market or from treasury stock held by the Company (see Note 7). At December 31, 1982, the ESOP held 126,877 shares of the Company's common stock for the account of participating employees.

In January 1982 the Company adopted the 1982 Incentive Stock Option Plan (Option Plan) which reserved 300,000 shares of common stock for future grants to key employees of the Company and its subsidiaries. The Option Plan, which expires in January 1992, provides that the purchase price of shares covered by each option shall not be less than the fair market value of such stock on the date of the grant. Each option granted under the Option Plan is exercisable in four equal annual instalments commencing on the date of the grant and expires five years from the date of the grant. In 1982 options were granted to purchase 48,900 shares at $36.50 and options for 500 shares were exercised.

9. Benefit Plans

The Company and its subsidiaries have noncontributory pension plans which cover substantially all employees not covered by a collective bargaining agreement. Contributions and expenses for the plans of $3,585,000, $2,685,000 and $2,546,000 for the years 1982, 1981 and 1980, respectively, consisted of normal cost, interest on unfunded prior service costs and amortization of prior service costs principally over a 20-year period. The following information related to the pension plans is provided based on the most current actuarial information available at each year end.

	1982	1981	1980
	(Dollars in Thousands)		
Actuarial Valuation Date	1/1/82	1/1/81	1/1/80
Assumed Rates of Return Used in Determining Actuarial Present Values	6½%	6½%	6½%
Actuarial Present Value of Accumulated Benefits:			
Vested	$34,115	$29,011	$26,328
Nonvested	3,678	3,028	989
Total	$37,793	$32,039	$27,317
Net Assets Available for Benefits	$25,401	$22,570	$18,659

Effective in August 1982 the Company and its subsidiaries established a thrift plan which covers substantially all employees not covered by a collective bargaining agreement who have completed two years of service. Under the terms of the plan, the Company matches 50 percent of employee contributions to the group to a maximum of three percent of the annual compensation paid to each participant. Company contributions to the plan in 1982 were $195,000.

10. Earnings Per Share

Earnings Per Common Share, Assuming No Dilution
Earnings per common share, assuming no dilution, was determined by dividing net income less the annual Series A preferred dividend requirement by the weighted-average number of shares of common stock outstanding during each period (6,432,439 in 1982, 4,375,870 in 1981, and 4,152,292 in 1980).

Earnings Per Common Share, Assuming Full Dilution
For 1982, the computation of earnings per common share, assuming full dilution, assumes that each share of Series A preferred stock which was outstanding at the beginning of the year was converted into one share of common stock at the beginning of the year, accompanied by a cash payment of $20 per share. The computation then requires the following assumptions: (1) elimination of the preferred dividend requirement; (2) cash proceeds to the Company would have been used, in part, to purchase and retire 20 percent of the common stock which was outstanding prior to the conversions and redemptions of the Series A preferred stock at the market prices of the common stock on the dates of the actual conversions and redemptions; (3) the remainder of the cash proceeds would have been invested in U.S. Treasury securities with the resulting interest income (net of income tax) increasing the earnings used in the computation; (4) the assumed conversions and earnings are then included in the calculation on a weighted-average basis for those portions of the year from the beginning of the year to the dates of the actual conversions and redemptions.

For 1981, the computation assumes that each share of Series A preferred stock which was outstanding at the beginning of the year was converted into one share of common stock at the beginning of the year, accompanied by a cash payment. The total cash proceeds the Company would have received under this calculation is computed based on a weighted-average calculation recognizing that the Company's Exchange Offer permitted conversion with a cash payment of $15 per share from October 21 through December 11, 1981 and for the remainder of the year conversion was permitted on the regular basis, with a cash payment of $20 per share. Other assumptions required are similar to the assumptions for the 1982 computation, with the additional assumption that, for Series A preferred shares outstanding at December 31, 1981 which are assumed to have been converted, the price used in the Company's purchase and retirement of common stock was the average market price for the year, which was higher than the market price at the end of the year.

For 1980, the computation assumes that each share of Series A preferred stock which was outstanding at the beginning of the period was converted into one share of common stock at the beginning of the year, accompanied by a cash payment of $20 per share. Other assumptions required are similar to the assumptions for the 1982 computation, with the additional assumption that, for Series A preferred shares outstanding at December 31, 1980 which are assumed to have been converted, the price used in the Company's purchase and retirement of common stock was the market price at the end of the year, which was higher than the average market value for the year.

Supplementary Earnings Per Common Share
Supplementary earnings per common share computations are presented to provide comparability for the results of operations for each period.

	1982	1981	1980
Supplementary Earnings Per Common Share	$2.87	$4.55	$4.14

The supplementary computations are based on net income for each period, and on the following additional assumptions: (1) all actual conversions of Series A preferred stock into common stock during the five years ended December 31, 1982 are assumed to have occurred on January 1, 1978; (2) the redemption of 95,249 shares of Series A preferred stock on December 16, 1982 is assumed to have occurred on January 1, 1978; (3) the net cash proceeds to the Company were invested in U.S. Treasury securities since January 1, 1978, with the resulting interest income (net of income tax) increasing the earnings used in the computation.

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Selected Quarterly Financial Data
(Unaudited)

	March 31			June 30			September 30			December 31		
	1982	1981	1980	1982	1981	1980	1982	1981	1980	1982	1981	1980
	(In Thousands, Except Per Share Amounts)											
Operating Revenues	$89,576	$93,071	$83,883	$88,643	$96,705	$83,[illegible]77	$77,817	$100,632	$89,479	$75,688	$97,924	$92,988
Operating Income	8,278	15,652	12,045	8,643	13,016	12,125	5,193	13,938	17,331	7,885	16,868	15,872
Net Income	6,037	8,275	6,005	5,825	7,192	7,946	5,616	10,329	11,001	6,907	11,318	9,228
Earnings per Common Share												
Assuming No Dilution	$.86	$1.72	$1.17	$.82	$1.[illegible]5	$1.64	$.79	$2.21	$2.38	$.96	$2.10	$1.94
Assuming Full Dilution	.75	1.09	.86	.73	.96	1.13	.68	1.32	1.32	.78	1.38	1.17
Supplementary Earnings Per Common Share	.74	1.04	.79	.71	.94	.95	.66	1.26	1.26	.76	1.31	1.13

During the quarters ended December 31, 1982, and September 30, 1982, 1981 and 1980, the estimated effective income tax rates were revised which, for the quarters then ended, increased net income by $780,000, $950,000, $1,400,000 and $1,000,000, respectively.

The Company uses equalization accounting for Railroad maintenance expenses during interim periods within each year to allocate expenditures incurred on a seasonal basis to all periods benefited. During the quarter ended December 31, 1982, the Company lowered its estimate of maintenance expenses for the year, which resulted in an adjustment to increase pre-tax income by approximately $1,900,000 in that quarter.

The assumptions required for the computation of earnings per share are described in Note 10.

Auditors' Opinion

To the Stockholders and Board of Directors
of Rio Grande Industries, Inc.:

We have examined the consolidated balance sheets of Rio Grande Industries, Inc. and its subsidiaries as of December 31, 1982 and 1981 and the related statements of consolidated income, stockholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Rio Grande Industries, Inc. and subsidiaries at December 31, 1982 and 1981 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Denver, Colorado
February 1[illegible], 1983

Supplementary Financial Data Adjusted For the Effects of Changing Prices

The Company's primary financial statements, presented in accordance with generally accepted accounting principles, are based on historical prices (prices that were in effect when the transactions occurred). Accordingly, such statements do not attempt to measure the effects of inflation or other changes in prices. Changing prices, particularly during periods of high inflation rates, can have a significant impact.

The following supplementary information is presented in accordance with the requirements of FASB Statement No. 33 for the purpose of providing certain information about the effects of changing prices on the Company. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure. Some information for the year 1978 is omitted because it was impracticable to obtain.

FASB Statement No. 33 prescribes two different methods for measuring the effects of changing prices. The first method provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The second method of measure adjusts for the effects of changes in the specific prices (also referred to as "current costs") of the resources actually used in the Company's operations, so that measures of these resources and their consumption reflect the current costs of replacing these resources, rather than the historical cost amounts actually expended to acquire them.

Current cost of Railroad track structure is determined by analysis of material components at current prices and engineering estimates based on Company standards. Current cost of Railroad equipment and other properties is determined principally by reference to current prices paid for specific items, as reflected by the use of applicable industry price indexes or current price lists.

Depreciation expense is determined by applying the depreciation methods and rates used for the primary financial statements to the adjusted property amounts.

Inventories, consisting principally of materials and supplies, are stated at recent purchase prices and have not been adjusted.

Although the adjustments for depreciation expense affect the pretax income amounts for general inflation and changes in specific prices, no adjustments have been made to the respective provisions for income taxes.

The following summary for the year ended December 31 1982 reconciles income as reported in the primary financial statements with income adjusted for changing prices and is shown in average 1982 dollars:

	(In Thousands)
Net income as reported in the statement of consolidated income	$ 24,385
Adjustment to restate depreciation expense for the effect of general inflation	(17,978)
Adjustment to restate gains and losses on disposals of properties for the difference between historical costs and inflation-adjusted values of property sold	(5,405)
Net income adjusted for general inflation	1,002
Adjustment to restate depreciation expense for the difference between general inflation and changes in specific prices (current costs)	(16,511)
Adjustment to eliminate gains and losses on disposals of properties for current cost purposes	4,130
Net loss adjusted for changes in specific prices	$ (11,379)
Gain from decline in purchasing power of net amounts owed	$ 2,399
Increase in specific prices (current cost) of properties held during the year	$ 48,070
Effect of increase in general price level	(72,050)
Difference between increase in the specific price of properties and increase in general price level	$(23,980)

At December 31, 1982, the current cost of properties, net of accumulated depreciation, was $1,903,758,000.

The traditional regulated rate structure for the Railroad has not recognized the effects of inflation on historical amounts of productive capacity. Although the Staggers Act of 1980 allows somewhat greater flexibility in setting rates, the Company's competitive position may preclude the implementation of larger rate increases.

The supplementary information measures the inflation-adjusted amounts of all productive capacity without regard to the physical impossibility of, the availability of funds for, or the necessity or desirability of replacement. In management's opinion, the Company will be able to maintain its properties in good operating condition to meet current and foreseeable business demand.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices
(In Average 1982 Dollars)

	1982	1981	1980	1979	1978
	(In Thousands, Except Per Share Amounts)				
Historical Cost Information Adjusted for General Inflation:					
Operating Revenues	$ 331,726	$ 412,140	$ 409,902	$ 418,315	$ 386,557
Income from Continuing Operations	1,002	18,453	20,041	26,129	
Income (Loss) from Continuing Operations Per Common Share	(.19)	3.21	3.53	4.84	
Gain from Decline in Purchasing Power of Net Amounts Owed	2,399	11,248	21,803	26,309	
Net Assets at Year-End	947,218	886,167	836,048	804,677	758,129
Current Cost Information:					
Income (Loss) from Continuing Operations	(11,379)	3,786	4,416	5,498	
Income (Loss) from Continuing Operations Per Common Share	(2.11)	(.15)	(.22)	(.14)	
Difference Between Increase in Specific Prices (Current Cost) of Properties Held During the Year and Changes in the General Price Level	(23,980)	22,423	(67,475)	14,155	
Net Assets at Year-End	1,903,618	1,815,243	1,757,176	1,809,197	1,769,127
General Information:					
Cash Dividends Declared Per Common Share	1.50	1.17	1.17	1.34	1.26
Market Price Per Common Share at Year-End	51.41	35.04	55.53	36.16	41.14
Average Consumer Price Index	289.1	272.4	246.8	217.4	195.4

Industry Segment Information

The Company's business is primarily comprised of two industry segments: railroad and computer time-sharing. In the following schedule, other industries includes trucking, the manufacture of amusement park rides, the operation of an amusement park, office building rental operations, and, except where set out separately, general corporate operations. Park ride manufacturing and amusement park operations were terminated in 1980. The major business activities of these industry segments are described on pages 5 through 14 of this Annual Report. Intersegment transactions are not significant to the data presented and have been eliminated.

	1982	1981	1980
		(In Thousands)	
Operating Revenues:			
Railroad	$292,454	$334,987	$287,270
Computer Time-Sharing	28,005	25,746	20,136
Other Industries	11,267	27,600	42,521
Total	$331,726	$388,333	$349,927
Operating Income:			
Railroad	$ 23,271	$ 48,621	$ 46,569
Computer Time-Sharing	6,900	9,457	9,317
Other Industries	(172)	1,396	1,487
Total	$ 29,999	$ 59,474	$ 57,373
Income Before Income Taxes:			
Railroad	$ 22,648	$ 46,414	$ 40,444
Computer Time-Sharing	9,424	11,176	10,357
General Corporate and Other Industries	2,669	528	1,441
Total	$ 34,741	$ 60,118	$ 52,242
Identifiable Assets at the End of the Year:			
Railroad	$490,432	$456,694	$465,301
Computer Time-Sharing	16,191	15,479	12,838
Other Industries	44,476	45,525	48,018
General Corporate	119,684	49,458	11,434
Total	$670,783	$607,156	$537,591
Depreciation and Amortization:			
Railroad	$ 14,802	$ 14,910	$ 15,823
Computer Time-Sharing	1,842	1,712	1,066
Other Industries	1,061	1,273	1,893
Total	$ 17,705	$ 17,895	$ 1[illegible]82
Capital Expenditures During the Year:			
Railroad	$ 37,370	$ 9,298	$ 18,897
Computer Time-Sharing	4,409	3,084	4,256
Other Industries	1,271	386	1,573
Total	$ 43,050	$ 12,768	$ 24,726

Five-Year Summary of Selected Financial Data

	1982	1981	1980	1979	1978
	(In Thousands, Except Per Share Amounts)				
Operating Revenues	$331,726	$388,333	$349,927	$315,321	$261,270
Income From Continuing Operations	24,385	37,114	34,180	32,338	25,746
Total Assets at Year-End	670,783	607,156	537,591	507,599	480,166
Long-Term Obligations at Year-End	89,228	102,862	115,866	116,294	111,505
Earnings Per Common Share— Income from Continuing Operations:					
Assuming No Dilution	$3.45	$7.53	$7.13	$6.69	$5.11
Assuming Full Dilution	2.86	4.75	4.30	4.61	3.68
Suplementary Earnings Per Common Share—Income from Continuing Operations (See Note 10)	2.87	4.55	4.14	3.85	3.03
Dividends Declared Per Common Share	1.50	1.10	1.00	1.00	.85
Shares Outstanding at Year-End:					
Common	9,867	6,179	4,153	4,151	4,147
Preferred		3,692	5,699	5,703	5,710

Management Discussion and Analysis

Operations

Operating revenues for 1982 were $331,726,000, a decline of $56,607,000 from those of 1981.

Rio Grande Railroad's revenues of $292.5 million declined $42.5 million due to lower freight volume. Coal remained the number one commodity hauled by the Railroad. Coal revenues were $138.6 million, slightly below 1981, and accounted for 48 percent of total Railroad freight revenues which declined 13 percent in 1982. A table detailing coal shipments by year, for six years, appears in the text earlier in this report.

Revenues from all non-coal commodities decreased $42 million, or 22 percent, from those in 1981, with the largest declines registered in food products, lumber, barytes and iron and steel products. The only commodities showing increases in 1982 as compared to 1981 were petroleum products, industrial chemicals and potash. Intermodal traffic increased 4.6 percent, to $23.5 million, in 1982.

The fourth quarter of 1982 was a difficult one for Rio Grande Railroad as revenues declined 20.6 percent to $67 million and showed no sign of potential upturn throughout the period. Although employment was down sharply from the beginning of 1982 and controllable costs were held down across the board, income before taxes for the quarter was 62.7 percent below that for the final quarter in 1981. Year-end employment was 2,987, compared to 3,584 at the end of 1981, a decline of 16.7 percent.

For the full 1982 year Railroad operating income was down 52.1 percent, with pre-tax income down 53.2 percent, compared to 1981.

Wages and benefits increased under nationally negotiated labor contracts with operating unions after a four day strike in September and were retroactive for the entire year 1982. These agreements raised wage and benefit costs to all-time highs. Although average employment in 1982 decreased eight percent, wage and benefit rates were up by 13 percent. Wages and benefits constituted 46.3 percent of the year's lower revenues as compared to 37.9 percent in 1981.

Locomotive fuel costs were down in 1982, as diesel fuel prices fell below $1.00 per gallon, to a low of 96½ cents per gallon as the year ended. In spite of this very welcome decline in unit cost, fuel costs still represented 15.9 percent of revenues, down from the 1981 17.6 percent of revenue.

Computer Sharing Services continued to show annual revenue growth, increasing $2.3 million, or 8.8 percent, to a total of $28 million for 1982. The fourth quarter was about even with the fourth quarter of 1981, as dollar revenues did not increase in proportion to units of work or service as compared to the same period a year earlier because of price adjustments during 1982.

CSS' major customer base continued to be the Bell System composed of AT&T Company and its several operating companies. Under the terms of a 1981 antitrust case settlement, the first step of the divestiture took place January 1, 1983. A second step scheduled for January 1, 1984, will remove the operating companies from ownership and control of AT&T. CSS believes as the new alignments of the several Bell system companies take shape, it will be able to increase revenues by providing more services to these companies.

CSS' expense levels were up in 1982 over those in 1981, mainly for equipment, compensation and facilities, from which operational and service benefits will be realized during 1983 and thereafter.

The decline of $16.2 million in Rio Grande Motor Way revenues reflected the change from a full-service motor truck common-carrier operation at the beginning of the year to that, effective June 1, 1982, of a call and demand truckload service business. On its current service basis, Motor Way is operating at an annualized revenue level of approximately $1.2 million, compared to a $21 million revenue level in 1981. During 1982, four Motor Way terminal properties were sold to the Railroad, and all of the remaining ones were put up for sale or for lease. As trades can be arranged on a tax-deferred basis for properties of value, such trades will be made.

Rio Grande Industries' interest income of $13.7 million was $3.6 million higher than the all-time high set in 1981, due primarily to larger amounts of funds invested on a short-term basis in commercial paper, government and other temporary securities. Interest rates were lower over the full year than in the full year 1981.

Income taxes were lower in 1982 than in 1981 and in 1980, due mainly to the size of the 1982 investment tax credit and to income taxes computed on lower earnings.

Financial Condition

The Company's financial condition is excellent, with long-term debt below $100 million, and with no mortgage debt in the Railroad company. Rio Grande Railroad's only long-term debt consists of capitalized equipment leases and its equipment trust certificates with Triple-A rating. It is the only major Class I railroad with no mortgage debt.

The Company's ratio of long-term debt to total capitalization (meaning long-term debt as a percentage of long-term debt plus stockholders' equity) was 17.2 percent at the end of 1982 compared to 23 percent in 1981 and 28.7 percent in 1980. At the close of 1982, the Company had cash and temporary investments of $176.4 million compared to $116.1 million at year-end 1981 and $39.4 million at year-end 1980. The 1982 total included the net proceeds of $72 million from conversions and sales of Common Stock resulting from and in connection with the November 11, 1982 Call for Redemption on December 16, 1982, of all of the Company's outstanding Preferred Stock, and the retention of most of the funds on hand as the year began. The Company again benefited from the Federal income tax changes requiring railroads, beginning in 1981, to depreciate investments in track not previously depreciated (known commonly as the "frozen asset base"). This resulted in a transfer of $8.5 million from taxes that would otherwise have been currently payable to the deferred income tax account and a savings of a similar amount in cash outlay for 1982 income taxes. In 1981, that amount was $14 million. These savings from lowered cash outlays will be in lesser amounts in years 1983 through 1985, and there will be offsets in the future under different sections of the same law.

Except for $9.2 million in equipment trust certificates issued in March, 1980, all of the funds necessary during the years January 1, 1980 through December 31, 1982 for the Company's operating needs, payment of dividends on its capital stock and the financing of its capital expenditures were provided through internally generated cash, equipment leases, and sale of certain assets. Working capital provided from operations was $47.6 million in 1982, $72.2 million in 1981 and $54.1 million in 1980.

Capital expenditures in 1982 were $43 million compared to $12.8 million in 1981, and $24.7 million in 1980. In all cases, the majority of these expenditures were in Rio Grande Railroad. For 1983, $45.2 million has been budgeted for capital expenditures, all of which can be met from operations and available funds. These planned expenditures are largely for new rail, sidings, line changes, Moffat tunnel ventilation, and improvements in connection with the centralized traffic control system. Prospective additional improvements over a period of several years include purchase of existing lines to coal mines, construction of track and various line changes and siding extensions. Such improvements and additions could total $100 million or more, and will depend in large part on a return to higher volume levels than prevailed in 1982. CSS plans capital expenditures for computer and computer peripheral equipment.

With the issuance of 3,688,218 shares of Common Stock during 1982 and the elimination of all of the Company's Preferred Stock, the dividend requirement now totals approximately $15.8 million per year ($1.60 per share on 9,898,000 Common shares) as opposed to total Common and Preferred dividends actually paid of $12.6 million in 1982, $9.3 million in 1981 and $8.7 million in 1980. The size of the increase in current dividend requirements is due partly to a five cent per share per quarter increase first paid in October, 1981 and a 10 cent per share per quarter increase first paid in July, 1982, in the Common dividend, and partly to the increase in Common Stock outstanding from weighted averages of 6,432,439 in 1982 and 4,375,870 in 1981 to the 9,867,000 outstanding at the end of 1982. It is expected that dividends can be met from operations in 1983.

Fully Diluted Earnings Per Share

Except for treating the Exchange Offer in 1981 and the Call for Redemption in 1982 when they occurred, earnings per share on a fully-diluted basis were compared for 1980, 1981 and 1982 on the assumption that all the outstanding Preferred Stock would have been converted into Common Stock on the basis of one Common share for one Preferred share plus $20.00 from the holder, and on the further assumptions that funds received would have been used to purchase 20 percent of the then-outstanding Common Stock of the Company, with any remainder invested in U.S. Treasury bills at average rates in effect at such times. Note 10 to the financial statements contains a complete explanation of earnings per share for 1980, 1981 and 1982. A table included in that note headed, "Supplementary Earnings Per Common Share," shows the effect on earnings per share based on the assumption that all conversions and redemptions during the five year period ended December 31, 1982, took place on January 1, 1978, with the net proceeds invested in U.S. Treasury securities.

Future quarterly and annual comparisons will show wide variations due to the great differences in numbers of shares of Common Stock outstanding in 1983 compared to such numbers in prior periods and the absence of Preferred Stock entirely after 1982.

Other Matters

During the fourth quarter of 1982, the call for redemption of the Company's Preferred Stock described earlier in this report was completed. The Company received net proceeds of $72 million, issued 3,666,542 shares of Common Stock (a 59 percent increase in Common shares outstanding) and converted or redeemed all of the Preferred Stock outstanding.

Property trades on a tax-deferred basis were made during the year, a major one being exchange of the former manufacturing plant and testing grounds for the Company's amusement ride business in California for real property in Colorado and Utah. These exchanges have no profit or loss implications for the Company, but will benefit future operations. The major property exchange was for $3.4 million and the cost basis of the property was approximately $450,000.

The 73 percent owned Park Central office building in Denver was fully occupied during much of 1982, and was 95 percent leased at year-end. The Denver office leasing market is not strong, and it is expected that there will be vacancies during most, if not all of 1983. Nevertheless, with rental rates having moved up on those renewals which occurred in 1982 and the probability that this will be true of renewals made in 1983, it is expected that profit performance for the building will match that for 1982.

On pages 26 and 27, we show the effects of inflation on the properties and business of the Company on the basis of costs at current prices for properties owned and also on the basis of general inflation (converting historical costs to constant 1982 dollars as determined by the Consumer Price Index). We believe Rio Grande Industries can profit and generally perform satisfactorily given inflation no more drastic than in the past few years.

On February 17, 1983, the Interstate Commerce Commission issued an order requiring a change by all railroads from betterment to depreciation accounting for reporting purposes effective January 1, 1983. A similar change had been mandated for income tax reporting beginning for 1981. On a reporting basis, the effect of this new method of accounting will result in a change from expensing the cost of track replacement on a current basis to a basis of depreciating such costs over a period of years. This change should result in an increase in reported earnings of the Rio Grande Railroad, but because precise guidelines have not been established, it is not yet clear what the size of any such increase will be.

Report of Management

The management of the Company is responsible for the integrity and objectivity of the consolidated financial statements which appear in this report. These statements have been prepared by management in conformance with generally accepted accounting principles that are appropriate in the circumstances, and necessarily include some amounts based on its best collective judgment. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

In meeting its responsibilities for the care and management of the Company's assets, and for reliability of its financial statements, management maintains a system of internal accounting control. It recognizes that while errors or irregularities may occur no matter what the system, the internal accounting control system is designed to provide reasonable assurance that Company assets are safeguarded from loss due to unauthorized use or disposition and that transactions are executed in accordance with proper management authorization. Such a system requires, and management practices and carries out the careful selection of personnel, appropriate division of responsibilities and authorities, and policies and procedures calculated to produce and maintain adherence to high standards in accounting and administrative practices. The system of internal accounting control is continually under review, and is modified and improved from time to time as changes in business conditions and operations may warrant. Management believes the internal control system accomplishes the ends for which it was designed.

Through an Audit Committee composed entirely of non-management directors, the full Board of Directors carries out its duty to the stockholders to assure that management carries out its responsibilities in preparing the financial statements.

On recommendation of its Audit Committee, the Board of Directors selects and engages the independent public accountants for the audit, subject to approval by the stockholders. The Audit Committee meets with the independent public accountants to review the scope of the annual audit, to be apprised of the progress and results of the audit and to review with the independent public accountants any recommendations they may have for the improvements of the Company's internal accounting controls. To assure independence, the independent public accountants have free access to the Audit Committee and may confer with members at any time, on their own initiative without management or its representatives present.

W. J. Holtman

W. J. Holtman
Chairman of the Board and President

D. L. Thomas

D. L. Thomas
Controller and Chief Accounting Officer

March 25, 1983

Wholly-Owned Subsidiaries and Principal Officers

The Denver and Rio Grande Western Railroad Company

The Rio Grande Railroad owns and operates over 1,800 miles of mainline track from Salt Lake City and Ogden, Utah, on the west, to Denver and Pueblo, Colorado, on the east, and has trackage rights between Pueblo and Kansas City, Missouri. The Company has over 280 locomotives and 10,000 freight cars of various types. Virtually all its revenue is derived from hauling freight with major items being coal, food products, lumber, steel, autos and auto parts. Approximately 74 percent of its revenue comes from originating, terminating and local traffic, while 26 percent results from being an intermediate carrier between other railroads.

W. J. Holtman
Chairman of the Board and President

S. R. Freeman
Vice President and General Counsel

J. D. Key
Vice President — Traffic

H. E. Cash
Vice President — Fuel Traffic

C. E. Schmeckpeper
Secretary

R. C. Schulte
Treasurer

B. R. Seaton
Comptroller

Computer Sharing Services, Inc.

CSS, based in Denver, offers high capacity remote computing services to customers across the country and in selected foreign countries on several Honeywell large-scale systems.

J. A. Alkema
President

F. J. Beck, Jr.
Vice President

J. A. Cuney
Vice President

R. W. Hickler
Vice President

D. A. Schneider
Vice President and Controller

L. F. Trudell
Vice President

C. E. Schmeckpeper
Secretary

Rio Grande Motor Way, Inc.

Motor Way is a common carrier truckline operating in ten western states on a call-and-demand truckload basis.

Joe Matich, Jr.
President

Leavell Development Company

LDC owns and manages the Park Central Building in Denver, Colorado.

M. E. Ehrlich
President and Treasurer

P. E. Smith
Vice President

M. O. Dailey
Controller

C. E. Schmeckpeper
Secretary

Notice of Annual Meeting
Our Annual Meeting of Stockholders is scheduled to be held in the offices of the Company, Room 1200, One Park Central, 1515 Arapahoe Street, Denver, Colorado, at 2:00 p.m., Tuesday, April 26, 1983. A summary report of that meeting will be sent to stockholders approximately a month thereafter.

Form 10-K Availability
Single copies of the Company's 1982 Annual Report on Securities and Exchange Commission Form 10-K (without exhibits) will be provided without charge to stockholders after March 31, 1983, upon written request directed to the Secretary, Rio Grande Industries, Inc., P.O. Box 5482, Denver, Colorado 80217.

Stock Transfer Agent and Registrar
Manufacturers Hanover Trust Company
New York, New York

Stock Exchange Listing
New York Stock Exchange
New York, New York
Symbol RGI

Stock Price and Dividend Information (Per Share)

	Common Stock				Series A Preferred Stock			
	Market Price Range		Dividends Declared		Market Price Range		Dividends Declared	
	1982	1981	1982	1981	1982	1981	1982	1981
First Quarter	$37⅞-30	$50½-40	$0.30	$0.25	$22½-16	$36⅜-24⅞	$0.20	$0.20
Second Quarter	38⅞-30½	58½-43¼	0.40	0.25	22¾-17⅜	39¼-28¼	0.20	0.20
Third Quarter	47⅞-26½	55⅝-33½	0.40	0.30	29¾-14	36⅞-17⅝	0.20	0.20
Fourth Quarter	60 -41⅜	43⅜-33½	0.40	0.30	45½-26½*	25¼-18½		0.20

*The Preferred Stock was last traded on the NYSE on December 10, 1982.

Board of Directors

+ W. J. Holtman
Chairman of the Board
and President

+ G. B. Aydelott
Consultant to the
Chief Executive Officer

Harry Blundell
President and Chief Executive Officer
Utah Power & Light Company
Salt Lake City, Utah

+ W. K. Coors
Chairman of the Board and
Chief Executive Officer
Adolph Coors Company
Golden, Colorado

John Evans, Jr.
President
Evans Investment Company
Denver, Colorado

David P. Gardner
President
University of Utah
Salt Lake City, Utah

+ Charles H. Leavell
Chairman of the Board
The Leavell Company
El Paso, Texas

E. M. Naughton
Retired Chairman of the Board
Utah Power & Light Company
Salt Lake City, Utah

* Gerald H. Phipps
President
Gerald H. Phipps, Inc.
Denver, Colorado

* D. E. Provost
+ Retired Chairman of the Board
Stearns-Roger Corporation
Denver, Colorado

* Mayfield R. Shilling
Vice Chairman
Ideal Basic Industries, Inc.
Denver, Colorado

Roy W. Simmons
Chairman of the Board and
Chief Executive Officer
Zions First National Bank
Salt Lake City, Utah

* Wm. Thayer Tutt
Chairman of the Board
Broadmoor Hotel, Inc.
Colorado Springs, Colorado

Officers

W. J. Holtman
Chairman of the Board and President

M. E. Ehrlich
Vice President–Finance & Administration
Secretary and Treasurer

S. R. Freeman
Vice President and General Counsel

J. B. Love
Vice President

D. L. Thomas
Controller

* Members of Audit Committee
+ Members of Policy and Plans Committee

EXHIBIT 11

CORPORATE CHART

§1180.6(b)(6)

Rio Grande Industries, Inc. ("RGI")		Non-carrier
The Denver and Rio Grande Western Railroad Company ("D&RGW")	(100% owned by RGI)	Rail-carrier
Rio Grande Motor Way, Inc. ("RGMW")	(100% owned by D&RGW)	Truck-carrier
Rio Grande Land Company ("RGL")	(100% owned by D&RGW)	Non-carrier
Denco System, Inc. ("Denco")	(100% owned by RGL)	Non-carrier
Rio Grande Marine Corporation ("Marine")	(100% owned by D&RGW)	Non-carrier
The Denver Union Terminal Railway Company ("DUT")	(16.66 2/3% owned by D&RGW; remainder owned by ATSF RY Co., BN, Inc., and UP RR Co.)	Non-carrier
Trailer Train Company ("TT")	(2.63% owned by D&RGW; remainder owned by numerous other rail carriers)	Non-carrier
Leavell Development Company ("LDC")	(100% owned by RGI)	Non-carrier
Leavell-Rio Grande-Central Associates ("LRGC")	(a joint venture, 73% owned by LDC; remainder owned by Central Bank of Denver)	Non-carrier
Park Central Garage, Inc. ("PCG")	(100% owned by LRGC)	Non-carrier
Park Central Management Company ("PCM")	(100% owned by LDC)	Non-carrier
Montwood Corporation ("MC")	(100% owned by RGI)	Non-carrier
San Marco Pipeline Company ("SMPC")	(50% owned by RGI; remainder owned by Houston Natural Gas Corporation)	Non-carrier

COMMON DIRECTORS AND/OR OFFICERS

	RGI	D&RGW	RGMW	RGL	Denco	Marine	DUT	TT	LDC	LRGC	PCG	PCMC	MC	SMPC
G. B. Aydelott	X	X												
Harry Blundell	X	X												
W. K. Coors	X	X												
M. O. Dailey									X		X	X		
M. E. Ehrlich	X		X	X					X	X	X	X	X	
John Evans, Jr.	X	X							X					
S. R. Freeman	X	X												X
David P. Gardner	X	X												
W. J. Holtman	X	X					X							
J. D. Key		X		X	X	X								
Charles H. Leavell	X	X												
J. B. Love	X				X	X			X				X	X
J. J. Martin					X	X								
E. M. Naughton	X	X												
Gerald H. Phipps	X	X												
L. A. Plager				X	X									
D. E. Provost	X	X												
C. E. Schmeckpeper	X	X	X	X	X	X			X		X	X	X	X
R. C. Schulte	X	X		X	X	X								
M. R. Shilling	X	X												
Roy W. Simmons	X	X												
P. E. Smith									X			X		
D. L. Thomas	X		X										X	X
Wm. Thayer Tutt	X	X												
J. S. Walker			X	X	X		X							
Arnold R. Weber	X	X												