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**B**arron's this week carries a pair of articles relating the terrorism threat to the freight transportation business. "Likely targets could be...power plants, petrochemical installations, and transportation facilities." In a related *Barron's* story CEOs talk about how the threat has changed their business philosophies. GM, for example, says it may be "tying up more capital in inventories." It sees greater delays at the US-Canada border slowing down parts movement and others have expressed the same concerns about the Mexican border.

As if to underline this point, Dan Machalaba writes in Tuesdays WSJ, "Trucks have been subject to lengthy delays at the US/Canadian Border but trains have largely avoided such problems. They are pre-cleared by customs in advance of the border crossing." Elsewhere in the same paper it was reported that the post office will be sending fewer packages via passenger aircraft and more by truck. The potential to increase intermodal business is unclear at the moment.

**S**tatesRail, the Dallas-based shortline holding company, will be absorbed by RailAmerica in a \$90 mm cash and stock transaction that is expected to close by year end. This brings the RAIL portfolio of railroads to 44 separate freight lines with nearly 8,000 miles of track. StatesRail operates predominantly in the south central states, an area where RailAmerica has relatively small presence.

The combined railroads now handle some 835,000 carloads of freight annually in North America. In terms of productivity per track-mile, each property is right at the 100-cars per mile per year (CPY) generally considered the minimum acceptable for adequate operating margins. RAIL has a high percentage of low volume lines whereas just two of the seven StatesRail freight lines to be acquired miss the mark. IMHO this could be the precursor to RAIL's sloughing off a few more of its non-performing railroads.

The \$90 mm transaction represents a 1.5x price/sales ratio based on StatesRail's reported \$60 mm sales for the year 2000. Among non-class 1 holding companies that are traded on the exchanges, multiples range from 0.46 (EMON) to 1.30 (PWX), with RAIL on the low side at 0.62 times sales. Never the less, RAIL says the acquisition should be immediately accretive, adding some \$17 mm to EBITDA in Year One. By itself StatesRail had an EBITDA of \$14 mm.

**U**nion Pacific gave an upbeat presentation on 3Q01 results on Thursday. It expects to grow revenue in excess of GDP through price improvement and penetration into the truck market. The operating ratio ought to improve as UP becomes more efficient and can really leverage revenue as the economy picks up. For 3Q01 UP reported \$267 mm \$1.04 per diluted share, up 4% yoy from net income of \$256 mm, \$1.00 per diluted share, in the previous quarter.

Quarterly commodity revenue was essentially unchanged -- \$2.63 bn vs. \$2.65 bn on a less than 1% decline in carloads. My friend Tony Hatch writes, "Four of the six major categories declined, including auto by a whopping 10%. Coal was up 7%, a lot attributed to share gains from BNSF, and Industrial Products (including stone and lumber) were up slightly. The flat ARC (avg rev/car) was worrisome to some, but explained as mix, and is still up for the year, which by rail standards indicates a whole new ball game."

Expenses, says Hatch, "were as usual a key positive. Headcount was down 4%, the salary/benefit line 1%, fuel 8%, materials 11%. Railmarketplace was cited as helping here. Fuel prices were \$0.86/g in Q3, versus \$0.92- they are around 75 cents now versus \$1.03 yoy. Cash flow targets (exceeding the \$217 mm from '00) look good." UNP shares were up \$2 on the day.

**M**y good friend David Dieck, late of Conrail, is one of the better car management folks around and has taken a close look at the new RAILINC offering (WIR 10/13). He writes, "This could be a fabulous move for entire shortline industry. From what I've seen, the new product has several key attributes. It is client-server and Web-based, allowing simple data transfer into any other relational database, much like your garden variety Microsoft Access.

"The concept appears to be a turn-key system with attendant low implementation costs and scaleable to allow for growth and use across multiple locations, a boon for folks like RAIL, GNWR, EMON. Finally, it brings shortlines into the North American Railroad database. Needless to say, this presents certain advantages to large and small railroads and their mutual customers.

"To name a few, seamless shipment tracking across shortline/class 1 interface, shortline access to class 1 data for any incoming cars waybilled to them (pipeline management), and freeing the shortline from dependency on multi-partite arrangements with connecting class 1s for data transfer. Thus shortlines can do the trip planning for their customers.

"The only downside is that I don't see a quantum leap in analytical or data-mining capability in the new tools. To be sure, creative rail professionals partnering with RAILINC to enhance the basic product can solve that. If I were a shortline, and if only for the data family feature alone, I would spare no expense, waste not a minute, overcome any institutional barrier to get on board. Other than this, I have no opinion." Thanks, Dave.

**N**ot strictly the WIR News Dept.: A story by Seymour Hersh in the current New Yorker ([www.newyorker.com](http://www.newyorker.com)) maintains the US military blew an opportunity to snuff a Major Bad Guy on the very night air attacks began against Kabul. Hersh writes that Taliban leader Mullah Mohammed Omar was in the sights of a CIA-operated Predator aircraft but a military lawyer in Tampa denied permission to fire. Concludes Hersh, "A senior military officer viewed the failure to strike immediately as a symptom of "a cultural issue...a slow degradation of the system due to political correctness." Perhaps he didn't say, "May I?"

One of my more outspoken critics, who, like me, is a former combat arm warrior, writes, "Bush should have the JAG officer canned. I though Dubya was clear when he said dead or alive. Wish I had been working J3 that night at McDill. What the hell possessed the operative to request permission in the first place? Could you imagine G.S. Patton calling to get permission to kill Hitler if he saw him?"

Roy Blanchard

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