

The Railroad Week in Review
September 26, 2003
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Canadian Pacific's SVP for Operations Neal Foot told the First International Conference on Railway Operations that the industry has become so interconnected that it's time for all railways around to adopt a new model. Foot said the railroads of the world need to take the next logical step and adopt a uniform international system for planning and executing railway operations.

Foot suggests that customers need to see the rails "as one integrated system," and that entails a shift to integrated scheduled railway operations from the tonnage-based method of operating that has been used for decades. Railway planners from Europe, Australia, Africa and North America heard Mr. Foot espouse "a coordinated, integrated and scheduled freight railway system that would benefit from a scheduled rail industry that is more productive and a stronger competitor for business." The full speech is a worthwhile read and may be found at www.cpr.com.

Connecticut's Housatonic Railroad, operator of the former New Haven line between Danbury and Pittsfield has launched a new website at www.housatonicrailroad.com. This is an elegant example of what every shortline website ought to do: say who and where you are, the benefits you bring, and how to do business with you.

It is devoid of fancy graphics, loads fast, and does not depend on a broadband connection to be successful. A smart move – some shortline websites just take too long to load. There's a map that relates the railroad service area to the interstate highways and links to the various truck-rail transfer facilities. My only quibble would be for live links to the press releases cited, but that's small potatoes for a very well-done, simply stated, effective web presence.

Union Pacific Corporation (NYSE: UNP) will host a live webcast of a meeting for financial analysts and investors in St. Louis, Missouri, on September 30, 2003. The conference will begin at 1245 Central Time, Tuesday, September 30 and conclude at approximately 1800. All you need do is log on at www.up.com/investors about 1230 and follow directions. Morgan Stanley this week cut its UP recommendation to Market weight from Outperform, so the call is timely. UP shares shed more than \$2 for the week to close Friday at \$57.81.

Shortlines with UP connections would be particularly well advised to log on as the presentation will provide valuable insights as to UP's strategic direction. I have not seen this particular presentation, but if it's true to form it will go into some detail on UP's merchandise carload franchise, a topic of vital concern to every shortliner. And if you wish, drop me a note after the call and I'll publish your reactions (with or without attribution) here next week.

Kansas City Southern has taken another step in its efforts to pursue all legal means to enforce provisions of the Acquisition Agreement between KCS and TMM for the latter's interest in Grupo Transportacion Ferroviaria Mexicana, S.A. de C.V. (GTFM). On Tuesday the KCS Board passed a resolution instructing management to pursue all legal means to enforce the Agreement while also, as required by the Agreement, pursuing direct negotiations with TMM.

KCS delivered a notice of dispute to TMM dated August 29, 2003, in accordance with the dispute resolution provisions of the Acquisition Agreement. This initiated a 60-day negotiation period

between the parties. If the parties are unable to resolve the disputes within that period of time, KCS intends to initiate a binding arbitration in accordance with the terms of the Acquisition Agreement. KCS maintains that the Acquisition Agreement is still valid and in effect until December 31, 2004.

Under that Agreement, TMM and its affiliates are precluded from initiating or participating in any negotiations or discussions with anyone other than KCS for the acquisition or purchase of all or a substantial portion of the assets of GTFM or any equity interest in GTFM. KCS has filed a complaint in the Delaware Court of Chancery seeking a preliminary injunction to preserve the parties' positions while KCS and TMM carry out the dispute resolution provisions in the Acquisition Agreement.

Also on Tuesday the STB issued a decision finding no need to rule on the transfer back to TFM of the 51% interest in Mexrail that KCS acquired on May 9, 2003. The effect of the decision is to allow TFM to reacquire the shares in accordance with the Mexrail Stock Purchase Agreement and KCS will abide by that agreement. KCS stock (NYSE: KSU) closed Friday at 10.75, off 70 cents for the week.

Norfolk Southern this week continued its program of matching the workforce to the work. NS on Friday announced a voluntary separation program for nonagreement employees with at least two years of service. The program offers severance pay of three weeks' salary for each year of service, continued health insurance for one year at no cost, and outplacement assistance for up to 90 days. Voluntary separations will be effective Oct. 31 in most cases. NS closed Friday at \$18.43, off about \$1.00 for the week, though on Thursday Lehman raised its rating on NSC Over weight from Equal weight.

Florida East Coast has completed the reclassification of all of its Class A and Class B common stock into a single class of common stock. Each share of common stock now has one vote in corporate governance matters. In this action FEC Railroad owner Florida east Coast Industries (FECI) filed an amendment to its articles of incorporation to implement the reclassification effective this morning. As a result of the reclassification, FECI's Class B common stock was suspended from the NYSE prior to trading Monday morning and the single class of common stock continues to trade on the NYSE under the ticker symbol FLA.

The AAR has designated the City of Atlanta as the nation's first-ever "Freight Rail Smart Zone" for its efficient use of freight rail to move consumer goods and products. Governor Sonny Perdue and Charles Graves, Commissioner of Planning and Development for the City of Atlanta, joined the AAR, CSX and NS to recognize Atlanta for its role as a vital freight rail hub.

Consumer goods represent more than 60% of all the products moving through Atlanta on more than 2 mm freight cars each year. That ensures that 6 mm trucks aren't traveling on the highways and interstates of Georgia's capital city. Since 1994, Norfolk Southern and CSX have helped locate 72 new industries to the Atlanta area. Combined, CSX and Norfolk Southern employ roughly 9,000 Georgians.

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