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Barron's not long ago (Oct 21, in fact) carried a thoughtful piece by Larry Bary on dividends – who pays 'em, who *should* pay 'em and are the payers paying enough. Bary notes that such stalwarts as Microsoft, Amgen, Autozone and Kroger have the earnings and cash flow and ought to pay up. The S&P average payout is 38% of earnings, yet names from IBM to Walmart fall way short of that mark and as a result yield less than one percent of the share price.

The Big Six North American rails have shrunken payouts as well. Yields based on recent closing prices range from a high of 1.88% (BNSF) to 1.31% (CN). This week UP upped the quarterly dividend to 23 cents from 20 cents. As a result the annual payout becomes 1.59% at Thursday's $58 close. To put that in perspective, the Street consensus for 2002 eps is $4.61 vs. $3.77 for 2001, a respectable 22% increase. The new dividend is 20% of earnings and represents a total payout of $209 mm across a universe of 277.3 mm shares outstanding.

We've written before about "liquidity" and narrowly-traded issues. This then implies the question of how much liquidity is enough? I personally try to stay away from names trading less than a $million a day and where bid-ask spreads are more than a couple of cents. The risk is that the lower the volume and the wider the spread the tougher it is to get in or out at the target price.

It's 11 AM Friday and I'm looking RRA. There are 200 shares offered at $7.36 across from a 200-share bid of $7.29 with a 10-day average 80,000 shares traded per day. Compare that with a more widely-traded stock, say BNSF (BNI). At the moment orders for 1200 shares at a bid of $25.55 are chasing 100 shares offered at $25.58 and the price is rising. The 10-day average daily volume is 1.15 mm shares. These are extremes, I grant you, however the aim here is to show what is meant by liquidity.

Norfolk Southern and BNSF have hatched a double-your-money-back on-time service guarantee on the *carload* side of the house! The plan is to introduce a new coast-to-coast "carload service assurance program" for temperature-controlled commodities moving from selected cities in the Pacific Northwest (PNW), to the Midwest, Northeast and Southeast starting December 1, 2002.

Here's how it works. The customer pays a $500 premium and if the load does not reach the destination dock in accordance with the trip plan BNSF and NS will reimburse the shipper a cool grand -- double the premium paid. Principal origins include Seattle, Tacoma, Pasco and Yakima on BNSF. For their part, NS will deliver to Cleveland, Columbus, Philadelphia, Atlanta and Charlotte. Shortlines in these markets will need to be part of the NS trip planning process to participate – yet another reason to make sure that happens *soon*.

Providence & Worcester (PWX) is another small-cap shortline that was not covered in the Third Quarter Review but which deserves more than a passing mention. I differ with management as to the treatment of property sales and the excess Amtrak trackage charges, for example. Management says in the 10-Q that the arbitrator in the case "ordered the Company to pay Amtrak additional track mileage charges and siding maintenance costs retroactive to July 9, 1999."

PWX took a $940,000 charge in 2Q02 and showed it as a reduction in revenue. But taking it against one quarter and as a reduction in revenue distorts the operating income and operating ratio. Moreover, PWX shows gains from asset sales as revenue. These are not part of the core rail business and thus ought to be below the line. In other words, what we're really trying to see is how well the railroad does with its core business as a service provider.

Carload freight revenues increased 1% in 3Q02 and 4% YTD, $5.0 mm and $14.1 mm respectively. Loads were up 13% in 3Q and 12% YTD to 9,821 and 24,353 in order. RPC (Revenue per Car) dropped 11% to $513 in 3Q and 7% to $580 YTD. That's a lot of money for a short-haul railroad, especially when almost everything moved moves in conjunction with somebody else. It appears on-line construction debris etc. is replacing interline chemicals etc.

The container business had 3Q revenues of $679,000, down 11% yoy, and $1.9 mm YTD, down 15%. Management maintains the fall-off was due to the loss of a container customer a year ago. Non-freight billings were up due in part to demurrage. Another red flag. On a well-run railroad there should be no demurrage because cars arrive when scheduled and are dealt with promptly. Excessive car dwell caused by missing trip plans is a railroad problem; excessive dwell at the customer is a marketing opportunity to find out what's wrong and help fix it.

As the economic news continues to vacillate between good and bad it appears consumer spending on cars and housing have been significant upside contributors. Now comes Morgan Stanley's Jim Valentine who thinks the auto side is losing some of its vigor. He writes that auto production in 2003 could be as much as six percent off the 2002 numbers.

From that happy thought he concludes that NS and CSX could get hit hardest. "Given their high relative exposure to finished vehicle, chemical, and metal revenues as well as steel making inputs moved by rail (coal, ore, coke and limestone), we expect the Eastern railroads to bear the brunt of the downturn in auto production volumes." Automotive-related commodities represent 39% of revenues at NS and 30% at CSX. By comparison BNSF revenues from auto, chems and mets are a mere 11% to UP's 28%. North of the border the three account for 39% at CN (half of which is chems alone) and 28% at CP (only 13% chems).

Rob Ritchie, CP's President and CEO, took Canadian provincial governments to task this week for blatant discrimination against railroads. The forum was the Western Transportation Advisory Council in Vancouver, and Rob was brutally candid in his remarks to the assembled provincial transport ministers. He asked, "Do you see yourselves as ministers of Transportation or as ministers of Highways? As matters stand today, it is my distinct impression that public roads and highways are your primary focus." He then doled out some pretty egregious examples of unfair play. I can only hope the ministers really heard what he was *really* saying.

Will people ever learn department: Tom Judge, Editor of Railway Track & Structures, leads off his November 2002 issue with a sad and serious commentary. It has to do with a tragic train-pedestrian accident in Chicago and is reprinted in its entirety at the end of this letter. Please print it out in **BIG** letters and post it where *everybody* can see it.

Roy Blanchard writes and consults on railroad commercial, financial and operating best practices for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.

Compounding a Tragedy

By Tom Judge, Editor
Railway Track & Structures

Like virtually everyone in this area, I was stunned recently by the tragedy of a Chicago policeman losing his life in a tragic train accident. The officer and his partner had climbed up an embankment carrying BNSF tracks in order to keep an eye on an area of suspected drug activity. Tragically, a Metra commuter train operated by BNSF moved through the site and one of the officers was killed.

That incident was sad enough, but then I was flabbergasted by the double compounding of this tragedy with the stupidity of people staging a gathering on the tracks and the *Chicago Tribune* printing a photo of the gathering on the front page as if it were the most natural thing in the world. As everyone who works in our industry knows, tracks are dangerous places, not to be taken lightly. This tragedy was yet another terrible illustration of this sad fact. So what did that group of people think they were doing up there? The photo caption said the group included some relatives of the policeman who died. But they still were risking life and limb needlessly.

Then the *Tribune* printed that shot on the front page like it's perfectly normal for people to stand around on a set of tracks. That's incredibly irresponsible. And the newspaper even provided a diagram on another page so gawkers would know where to climb up. In an early version of the story, someone was quoted as saying they thought, "the tracks weren't in use." The whole BNSF Metra rush hour rumbles over these tracks twice a day, as well as dozens of freight trains at all hours of the day and night.

The tracks were elevated more than 100 years ago to remove dangers of crossing accidents or people cutting across. Publishing photographs like that one only encourages people to climb up and risk injury or death just to gawk.

I feel a great deal of sympathy for the officer's family. It's especially sad because, like most train/pedestrian accidents, this one did not have to happen. If police find it necessary to go on railroad property in the line of duty, they can work with railroad police. If that doesn't work out for some reason, they have to be aware of the dangers. Railroad people are trained in safe procedures and constantly reminded of the dangers. Employee accidents are down, but they still occur despite the training and the reminders. Outsiders who wander on railroad tracks are going to get hurt sooner or later. There's no way to avoid it except to stay off the property.

I hope the folks who went up on the track were moved by something other than wanting to gawk. I hope they even went so far as to notify BNSF so the railroad could provide some protection. I also hope that the editors who sent a photographer out to take a picture of this activity and then ran the photo on the front page realize their mistake and don't commit it again.

And it's always up to us in the railroad industry to remind people of how dangerous an environment tracks can be. Let the memorials for this tragic death be held in churches or in a cemetery. And let this horrible incident remind not only police, but all citizens, to stay away from the tracks. And if they must cross the tracks, to expect a train at any time.

Tom Judge, Editor