The Railroad Week in Review
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RailAmerica has tapped Don Redfearn as President of the Corporation and board member Charles Swinburn becomes CEO. Don has been an officer and director with RRA for the past dozen years, and I'm pleased he got the nod. The continuity is invaluable. Swinburn has been on the RRA board for nine years and is a highly regarded transportation professional and former US deputy Assistant Secretary for Transportation. Like Board Chairman Gus Pagonis, Swinburn is a former combat officer, serving as a Marine Corps major in Vietnam. One thing about combat is it sure helps get one's priorities in order. Excellent choices both, and congrats all round.

Elsewhere, RRA North American carloads for May 2004 were up 5.3% overall and 0.6% on a "same railroad" basis. Chemicals (STCC 28) and ag (STCC 01) took the lead both up more than 20% followed by metals (STCC 33, 34 40), up 13%. Petroleum (STCC 29) and intermodal both dipped 4%. For the first five months chems, ag, metals, food (STCC 20), and ores (STCC 10, 14) were up double digits propelling RRA to a respectable 8.3% gain yoy, or 2.9% on a "same store"basis. Coal and bridge traffic still account for about 13,000 cars each or 26% of the total 99,407 revenue units handled in May. Intermodal's 2,600 units represent about 3%.

Genesee & Wyoming grew May North American revenue units by 18.9% overall and 11.2% on a "same railroad" basis. Most of it was due to the ramp-up of a Midwest power plant that had been shut down for maintenance at this time last year. The Portland & Western unit lost about 1,300 carloads of paper and lumber partially as a result of UP's operating follies. Coal, coke and ores now account for a third of the business portfolio, up from a quarter last May. Intermodal remains minuscule at 561 loads out of a total 53,464.

By comparison the **AAR** reports that combined cumulative carload volume through June 5 was up 4.2% yoy and intermodal was up 6.9% from last year. Significantly, the downward trend in trailer loading seen in previous quarters has reversed itself as HOS limitations and fuel expense squeeze trucking margins. Moreover, there are indications shippers who split their loads between truck and rail are using more of the latter. The flip side is that non-rail users today are not likely to become rail users tomorrow. Makes sense: the best prospect for new revenue is the existing customer.

STB Chairman Roger Nober has sent a letter to each of the Class I railroad CEOs requesting a report on plans to meet the expected increase in demand during the fall peak shipping season. In his letter Nober acknowledges that the industry is carrying an unprecedented amount of freight and has worked to improve customer service, inter-railroad coordination and cooperation, and the development of new service offerings.

At the same time, the Chairman expressed concern over increasing service demands on all Class I railroads, and especially over the handling of the anticipated Peak Season volumes. He writes, "In the past several months, there has been a significant increase in demand for freight rail services. This demand surge is unprecedented since the passage of the Staggers Act in 1980, and demonstrates the fundamental importance of freight rail services to our nation's economic health. But as all who follow the freight rail industry are aware, this increase in demand is putting significant strains on the freight rail system."

Nober continues by noting the multiple and simultaneous challenges of providing “the necessary crew, equipment and track capacity to carry this freight.” And so it is the Chairman thus requested to be apprised of the steps each railroad is taking to prepare for the fall shipping season and of how each railroad will share its plans with its customers. For the text of the letter in PDF format, see http://www.stb.dot.gov/stb/docs/fallpeakletter.pdf.

Table 1 compares the US Class 1s’ latest STB Performance Measures with first quarter’s operating performance. Some may say it’s apples to oranges because it’s Q1 and Q2 numbers. Maybe not. What one does in Q1 sets one up for Q2 – the fluid railroad stays fluid if they’re operating to plan; the un-fluid railroad either gets better, stays the same or gets worse. The revenue per mile metric attempts to show asset utilization, another indicator of fluidity. Coincidentally, rail stock appreciation YTD runs a similar theme with the gains going to the best performers.

Bear Stearns this week suggests that “operating deterioration implies risk to EPS.” Their thesis is that “there is a sharp contrast between those running their networks well and those with operating problems.” The note concludes, “We believe that EPS and stock performance trends are likely to persist over the next few quarters and we continue to favor those rails who have executed well.” Point taken.

Norfolk Southern made the coveted Zacks #1 Ranked List on Tuesday. FWIW, the List has produced an average annual return of +34.2% since inception in 1988 and has gained +139.7% since January 2000 when the market was in the grips of the worst bear market in 60 years. Says Zacks in a press release, “When reporting its 1Q results NS stated that the period's solid performance provided a strong foundation for the remainder of the year.” This fits with Debbie Butler’s remarks at the recent NS shortline meeting (WIR 6/11).

Zacks continues, “Earnings estimates for the year ending December 2004 moved forward 18 cents over the past two months, accounting for a rise of +12%. In 1Q04 NS earned 40 cents per share from continuing operations, before accounting changes, more than +33% better than analysts' expectations. [See WIR 4/23/2004 for my write-up of the “blow out” quarterly analysts’ presentation.]

“Norfolk Southern said it recorded the highest railway operating revenue in its history, and posted its best ever income from railway operations. With optimism for the industrial economy's health, Norfolk Southern appears to be picking up steam moving forward.” Figuratively speaking, of course. For the real steam, see the N&W pictures at www.rblanchard.com. Meanwhile, both First Call and Argus rate NS a BUY and Schwab gives it B (buy).

Railpower Technologies Corp (www.railpower.com**)** appears to have an answer at hand for shortlines concerned about the high cost of diesel fuel. According to the website, Railpower’s hybrid switcher – the “Green Goat” –can reduce operating costs by nearly a third and pollutants by 90% compared to conventional yard locomotives in the 1,000 - 2,000 horsepower range. The Goat uses a small diesel-powered generator to charge batteries that in turn power traction motors. As a result the diesel engine output is only 5-10% of power output available. A visit to the website is highly recommended.

Table 1. STB Metrics vs. Financial Performance

1Q04 Financials, latest AAR data

($mm)	**BNSF**	**CSX**	**KCS**	**NS**	**UP**
RR Ops Inc	$ 410	$ 204	$ 17	$ 346	$ 314
YOY% Ch	18.5%	20.7%	155.9%	49.8%	-14.9%
Ops Ratio	83.3%	89.3%	88.2%	79.6%	89.1%
Cars on Line					
2Q03	191,201	227,623	26,035	185,180	306,578
May-04	203,909	235,077	25,071	181,791	324,585
Pct Chg	6.6%	3.3%	-3.7%	-1.8%	5.9%
Route Miles*	35,512	23,160	3,084	21,558	33,141
Ops Inc/mile	$ 11,545	$ 8,808	$ 5,642	$ 16,050	$ 9,475
Train Speed					
2Q03	25.0	20.9	25.5	23.4	23.9
May-04	22.5	19.5	26.3	23.6	21.0
Pct Chg	-10.0%	-6.7%	3.1%	0.9%	-12.1%

*Includes trackage rights

Source: RR Financials, Performance Measures at www.aar.org
Incomplete info available for CN, CP

Restructuring charges and other "below the line" items omitted.

Oops Dept.

Why we have L&D bureaus.