THE RAILROAD WEEK IN REVIEW
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The land was awash in property sales this week as CSX and RailAmerica sold off enterprises they – rightly -- didn't think fit the core business. For its part, CSX sold its entire World Terminal holdings in Europe, Asia, Australia and Latin America for a $billion-point-one-five to Dubai Ports International. CSX looks to close the transaction next quarter, netting something in the range of six to eight $million after paying off minority interests and the tax man. Analysts on the Street say using it all to lower leverage could take debt/cap down a point or two from 3Q04's 51%.

RailAmerica, meanwhile, officially transferred its West Texas & Lubbock (WTLR) and Arizona Eastern (AZER) to Ed Ellis' Permian Basin Railway group, which has operated the former under lease since 2002. The 104-mile WTLR fetched $1.75 mm in cash and a note for $3.55 mm. According to my shortline data base this was essentially a break-even operation. Last time I looked the 135-mile AZER was running about 16,000 cars putting my EBITDA estimate at $750K or so. Thus Permian paid RRA $2.75 mm or about 3.7 times EBITDA, a reasonable price for this property.

Class 1 growth continues, writes Bear Stearns analyst Tom Wadewitz. We spoke at length the other day and he cites NS and BNSF intermodal in particular. Both are up double digits seven weeks into the fourth quarter. Tom also mentions CN in the context of Q4 carload revenue and earnings growth. On the carload side recall that 4Q03 was the beginning of the upturn so the comps are going to be tough this year. The yoy growth comps have slowed somewhat, but it's still a positive picture.

In a note to clients Morgan Stanley's Jim Valentine reports that truck rates continue to climb. He's lowered Q4 estimates for some carriers based on sharply higher truckload and less-than-truckload rates, in some cases double what they were last Christmas. Granted, the rails aren't going to benefit quickly or directly, but we know transportation buyers are under the gun to keep costs down. This being the case, they are beginning to look for alternatives and the rails are looking better.

Dan Machalaba reports in Wednesday's *WSJ* that CN and UP have identified alternate interchange routes that avoid Chicago. It appears the whole idea is to take days out of transit time, free up scarce and congested rail capacity in the Windy City, and speed up deliveries. As we've written before, the biggest railroad industry challenge is dealing with the increased demand stemming from generally more reliable service, more expensive truck rates that come in turn from higher congestion, fuel, and labor costs.

What CN and UP have done needs to be duplicated elsewhere. There was unused secondary track capacity that they decided jointly to put to better use. The new gateways are Memphis, Superior, and Salem, Ill, southwest of Springfield. The arrangement will affect routings for about 45,000 cars, a third of which will be removed entirely from Chicago. Finally, two roads have gotten out of the old "maximize the length of haul mode" to a "maximize the business opportunity" mode.

Interchange, the official publication of the Railway Association of Canada (RAC), has always been very pro-shortline and the Fall 2004 number is no exception. The Ottawa Central participated in a "mock scenario" for a hazmat incident. Ontario Southland invests $500,000 a year in its 42-route miles of rail. Southern Ry of BC budgets about $4 mm in track capex over its 125 mile system.

Trillium put in a $350,000 scale. Athabasca Northern is building a new industrial spur for an oil sands project. Alberta's Central Western Railway teamed up with RAC's Institute of Railway Technology and Southern Alberta Institute of Technology for a week-long, hands-on railroad operating practices session, part of a 32-week course. And the Lakeland & Waterways Railway of Edmonton hosted an open house that included Operation Lifesaver presentations. Best of all, shortline advertisers included (front to back) OmniTrax, Ontario Southland, Quebec North Shore & Labrador, Ontario Northland, Cando Ltd., Ottawa Valley, and Trillium.

Railroading in the abstract is what many of us desk-bound types practice. The cure is to get out and kick the ties now and again. Over the past month or so I've looked at several hundred miles of shortline track and found maintenance levels uneven at best. The excuse most often heard is lack of money and 10 MPH is good enough anyway. But is it?

Take a stretch of FRA class 1 track 100 miles long. Say the railroad in question hits the 100 cars-per-mile-per year goal and run the numbers: crew cost $17.00 per hour at a 50% burden, Loco lease $150 a day, fuel $1.50 a gallon and eight gallons an hour. Toss in car hire for seven days at $15 a day for half the cars (the other half are leased). Cost to run the 100 miles at 10 mph: $736,000. Run it at 25 mph, save two days car hire, total cost $500,000. The ops expense spread is enough to maintain 52 miles of FRA class 2 track at a nominal $4,500 per mile per year. If the shortline capitalizes half its track cost the savings in our example cover whole cost of maintaining the 100 miles at FRA class 2.

Third World comparisons redux. Last week I asked rhetorically, "How is it that so many third-world cities can afford modern – and popular – transit systems and Philadelphia can't?" Now comes the November *International Railway Journal* to compare VIA with Amtrak, putting the latter in that pejorative context. The United Rail Passenger Alliance, an advocacy group based in Jax, has several nice things to say about VIA and several not-so-nice about Amtrak.

According to *IRJ* the alliance asks "why can a country with a population less than the state of California run a first class passenger operation while the richest nation on earth runs a system as if it were a *third world country*" (emphasis added). One reason, URPA goes on, is that "VIA is not a gigantic federal jobs programme (sic) as Amtrak still is today. VIA managers are hired for competence, not as agents of social change and hired to fill a gender or racial quota. [This], in a country that is more politically correct than the United States." In other words, "Amtrak's problems are self-created and not [for want of] funding or political support."

Meanwhile the Triangle Transit Authority in Raleigh, NC, plans to run DMUs made in Japan and (get this!) assembled in Philadelphia on 15-minute headways Durham-Raleigh-Chapel Hill starting in 2008. According to the Raleigh *News Observer*, "DMUs are widely used for urban transit in Europe and Asia. No U.S. city has previously made the car its vehicle of choice, but a southern Florida agency began trial runs with one diesel multiple unit last December." Meanwhile SEPTA continues to fuss about falling ridership yet wants to cut service severely. That'll have 'em rolling in the aisles.

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