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Railroading in the Abstract – from a desk, e.g. – gets boring in a hurry. So every once in a while one has to push away from the computer screen and go see what's happening on the railroad. Yesterday on CSXT at Neshaminy PA (just north of Phila) we watched as a southbound local freight met a northbound manifest waiting on a siding for the southbound to clear. The last car of the southbound had barely cleared when the northbound got the signal. He had to be doing 65 by the time the last of 108 cars was by me. That's the kind of hustle that makes stakeholders happy.

The DM&E is one step closer to realizing its ambitious plan to build-in to the PRB. As reported by Danny Machalaba in Tuesday's paper, "The STB concluded that the $1.5 billion rail project posed no major environmental problems.... The Board recommended 147 measures to limit environmental impact at a cost of $140 mm."

Lynn Anderson, DM&E's Chef Marketing officer, writes, "We feel the STB did a good job in their environmental review and issuance of the Final EIS and are hopeful it will withstand any court challenges. The year 2002 will be mostly spent on preparatory work to allow us to begin full-scale construction in 2003. We expect it will take three years to complete approximately 280 miles of new line construction from western SD into the Powder River Basin in WY and the 600 mile rebuild of our existing mainline across SD and MN.

"The construction phase will produce about 5,000 jobs and generate $50 mm in sales, use and excise taxes. An estimated 2,000 jobs will be created for ongoing operations and support. Annual sales, use and property taxes, after completion of the project, are estimated to exceed $35 million annually in the states of WY, SD and MN. Additionally, we feel this expansion and upgrade will open up tremendous economic development opportunities along our line, in areas such as value-added agricultural processing. For our existing customers, they will be the beneficiaries of having a state-of-the-art rail infrastructure without having to pay for it, so they are extremely supportive of our plan." Sounds good to me.

Morristown & Erie, a 100-year old New Jersey shortline, is now up and running car management and interline reporting on its own Access-based "ROCS" (Rail Operations and Customer Services) program marketed by Shortline Systems. Its developer, Steve Friedland, originally created ROCS for the M&E where he is the interface between and among shippers, the M&E, and the class 1s. From my non-technical viewpoint, a prime selling point of ROCS is that it runs on off-the-shelf Microsoft Access so all the protocols ought to be familiar to any new user.

Steve writes, "We've added some new capabilities that will be immediately helpful. First, the user can now create a template for the outbound waybill on a shipment, and seed subsequent outgoing waybills with this template. Second, Steve has improved the inbound waybill so as to be more fault-tolerant, addressing the vagaries found occasionally in EDI messages from issuing carriers. Finally, there is a new utilities menu allowing the user to correct the macro errors that can occur when there is a computer problem in the middle of processing a EDI download.

For further information and a demo, go to www.sdsrocs.com. Particular attention must be paid to the Main Menu and the myriad operations management tools that Steve has cleverly included. As you know, service consistency and measurement is an on-going theme at WIR and ROCS appears to have the chops to help move shortline users rapidly in this direction. Let me know what *you* think.

Tis the season for the third-quarter 10-Qs. Some of them have been particularly enlightening. The Emons report is particularly nice in that it provides yoy balance sheet and cash flow statement at period end whereas most either omit or use the previous year end report. Emons freight sales fell by 14% to $5.8 mm, 80% of which was carload, and almost half of that was from a Maine paper mill filing for bankruptcy Sep 10. As a result Emons has entered a phase of belt-tightening and the view from here is it will emerge a stronger company than it was going in.

Genesee & Wyoming (GNWR) posted a positive $5 mm nine-month cash flow after capex vs. a negative $8 mm deficit yoy. Total operating revs shed $8 mm to $42 mm -- $9.5 mm thanks to the deconsolidation of rail ops in AUS, offset by $1.5 mm worth of improvements in the US where freight revenues were up 2.3% on a 1.45% increase in loadings. Not bad when you consider the shortfalls seen by the class 1s.

As a general rule when WIR looks at company performance, we look at it as a functioning railroad more than as a financial entity. Operating income and cash flow mean more than reported earnings when evaluating core business execution. Discontinued businesses and asset sales, for example, have no effect on freight sales or the operating ratio – the main profit drivers.

Class settlements can eat you alive. CSX will take a net of insurance 4Q01 charge of 17 cents a share in settlement of a lawsuit filed against the company following a 1977 tank car fire in the Gentilly section of New Orleans. The settlement is subject to a fairness hearing and court approval, though with 213 mm shares out, it's still a $36 mm bite that could have been put to better use elsewhere.

By way of review, a carload of butadene caught fire and burned for 37 hours, forcing the evacuation of the nearby working-class residential area and resulting in a class action suit brought by 8,000 residents who claimed health and property damage. The same year a Louisiana court awarded plaintiffs $2.5 mm in punitive damages.

This was the largest such award ever reaching more than $3 mm by the time all damages against all possible players were counted. Other companies involved in the suit included Phillips Petroleum, GATX Terminals, Mitsui, the Illinois Central, and the Alabama Great Southern. CSX countered that the award was excessive. The amount reduced in state court to $850 mm.

Roy Blanchard

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