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BNSF's Matt Rose told the shortline members assembled at the ASLRR Annual Meeting that his road plans to shed another 4,000 route miles in the next few years. However this news must be evaluated in the context of Matt's remarks to the Pacific North West Association of Rail Shippers (PNWARS) back in Feb. At that time he talked about redesigning the carload business model to something more akin to the intermodal and unit train models. Shortlines are an integral part.

Lest this idea turn off a lot of carload-intensive shortline readers, let me beg you to stay a while. The carload business is a highly fragmented almost custom business. Railroads are by nature batch-process oriented. The conflict arises in trying to fit myriad custom products onto a batch assembly line. In his PNWARS presentation Rose said that that last July was a typical month in which BNSF handled carload shipments between 13,400 O-D pairs averaging 11 cars between each pair. July carload dock-to-dock on time was just over 80%.

Rose: "Compare that with the rationalized intermodal network. In that same month, shipments moved between only 630 O/D pairs, but the average number of shipments between each pair was almost 380, or more than 12 a day. It probably won't come as a surprise that intermodal on-time performance was over 90%, and that wasn't a very good month for intermodal. What's the difference?" The difference is intermodal (and coal and grain shuttle trains) are point-to-point, much like you flying to ORD and renting a car to get around after the flight. The point-to-point schedule is the basis for your scheduling appointments and a place to stay.

Now to the shortline aspect. Rose again, only this time in Orlando: "First, shortlines are inherently better at managing the carload product, especially when it needs to be micro-managed. Second, you are much better positioned to maintain front line shipper/receiver relationships than most large railroads. Third, together we can attain uniform, seamless visibility of movement. This is fundamental to achieving a high quality carload product because, as Pete Rickershauser has written to our BNSF affiliates, you can't improve what you can't measure and you can't measure what you can't find.

"Our redesigned carload network will demand frequent and uniform electronic car location reporting, with 100% short-line and Class 1 participation. And when in place, it will demand an operating discipline based on performance to strict interchange standards, exception management plans to execute when necessary and perhaps incentives to reward quality performers. In the future, we will only consider a short-line operator for additional BNSF outsource opportunities that is e-compliant and can report to these standards. I challenge the ASLRRA to compel all its members to close completely this black hole." And it can't happen fast enough, if you ask me. The tools are there. Watch www.rblanchard.com for one example developed for an NS shortline.

Genesee & Wyoming (GNWR) earned $5.4 mm in 1Q02 vs. $6.6 mm a year ago. But the trouble with accounting rules is that gains can be turned into losses that don't necessarily reflect the core business activity. In the present case one can drop out a $2.6 mm net gain from a 1Q01 transaction in Australia and bid costs incurred this year. Now we're looking at $5.4 mm in 1Q02 vs $4.0 mm yoy for a respectable 35% earnings gain. However the increased share count to 17.5 mm from 12.4 mm drops the per-share gain to 33 cents vs 31 cents yoy. Mere crumbs.

The accounting structure of GNWR is such that top-line reported revenues are comprised entirely of North American (USA, CDA, Mex) railroad revenues plus industrial switching sales, $48.3 mm vs. $42.9 mm yoy, up 12.7%. Operating expenses rose 10.8% to $41.5 mm for an OR of 86.5 vs. 87.9 a year ago. Net income from international operations in Australian and Bolivia are below the line and contributed a core-adjusted $2.6 mm vs. $2.1 mm yoy.

Drilling down into NA results, it must be noted that "same railroad" sales were down a smidge, $600K vs. 1Q01, thanks mainly to lowered coal shipments. The revenue boost came from the late-2001 South Buffalo addition ($3.8 mm) and Emons Transportation ($2.2mm) in Feb. Fuel costs dropped by 28% to 5.9% from 8.6% of revenues. Car hire declined 4.8% to 8.5% from 10.0% of revenues.

RailAmerica (RRA) shareholders saw net income jump by a whopping 85% but since the share count increased 64% eps rose but 12% to 15 cents from 13 cents yoy. Total sales for the quarter rose 32% to $82 mm on acquisition results from StatesRail and ParkSierra Group with "same railroad" results unchanged. Unlike GNWR, international income is taken as a top-line contributor, off 3% yoy.

Total revenue increased 21% yoy against operating expenses up 22% to $90 mm. Operating income rose 16% to $21mm and the OR rose 90 BP to 81.4, still a very respectable number. Less encouraging is the interest expense, which consumed 62% of the operating income, albeit an improvement on 1Q01's 81%. Debt is now 99% of market cap, down from 141% a year ago. Another way, interest coverage (operating income over interest paid) stands at 1.6, about half what my banker friends like to see. Again, it's an improvement on last year's 1.2 times.

North American adjusted operating ratio of 77.7% was comparable to the operating ratio of 77.2% reported for the same period in 2001. The operating ratio in the first quarter of 2002 was affected by higher costs associated with the newly acquired ParkSierra and StatesRail railroads, offset by a decrease in the cost of fuel. The reported results include several onetime items. There were the $3.7 mm gain on the sale of Georgia Southwestern Railroad, net of its results of operations through the date of sale, plus about $2.4 mm for the unsuccessful bid to acquire two Australian railroads. RRA incurred acquisition-related costs of $350,000 for the purchase of the ParkSierra and StatesRail railroads and $267,000 in restructuring charges of $267,000 incurred to date as part of the integration of RailTex.

At this point it would be instructive to compare RRA and GNWR (see table). Running a railroad is highly capital intensive, so much so it's been said it's a 90% fixed-cost, 10% variable cost business. As a result, cash flow is essential to repair and replace. Shareholders want to know how much of it their ownership represents. Similarly long term debt per share and book value per share indicate how much debt there is per dollar of equity. Finally, to put it all in perspective, it's helpful to know how the target company compares to its peers. The chart ought to be instructive not only to investors but also to other railroad operators for benchmarking.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.

RailAmerica vs. Genesee & Wyoming on shareholder values for the year ending 12/31/01

Measure	**GNWR**	**RRA**
Free Cash Flow per Share	$0.86	($0.27)
LT Debt per Share	$3.86	$14.64
Book Value Per Share	$12.77	$7.66
Share price 12/31/2001	$32.65	$14.46
LTD/Equity*	0.30	1.91
LTD/Equity vs. Industry	33.2%	210.2%

Source: ***www.wsj.com*** "Briefing Books"
*Calculated as LTD/share over Book/share