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Rail World Inc., the rail acquisition consortium headed by Ed Burkhardt, sent out a note this week on the progress of its Montreal, Maine & Atlantic (MMA) subsidiary to acquire the assets of the Bangor & Aroostook system. Recall that a year ago the company bought a 66% interest in the Estonian State rail system through Baltic Rail Services, an associate company.

The bankruptcy court approved the bid procedures on Sep 11 and objections to the sale motion are due Sep 26. The bid deadline is October 1 with disqualified bidders to be notified on Oct 5. The court will name the successful bidder Oct 8. Naturally, MMA hopes to be that bidder and says they will be able to take control of the company in 30 to 60 days. They will use the interim period to finish the hiring process, relocate the replacement locomotives and freight cars and adopt the new information system.

Cash Flow remains a Hot Topic. RailAmerica Treasurer Mike Howe sheds further light on cash flow by enlarging on his company's definition and formula. Recall the earlier commentary (WIR 9/4/2002) in which the Warren Buffett "owner earnings" concept was applied to railroads: net income plus depreciation less capex. RailAmerica, thanks to the various below-the-line items between operating income and net income, feels starting with operating income gives a better picture of operating practices and results. The attached chart compares my original argument with the RailAmerica view.

Intermodal transport, says a new AAR report, was up 8% yoy in 2Q02 – no surprise here – and will keep growing at a 5% per year clip. The report, authored by intermodal expert Tom Brown and independent analyst Tony Hatch, goes on to say that intermodal "is poised to overtake coal as the top revenue source for railroads." This is the highest growth rate in five years and exceeds that of the GDP, which is expected to grow 3.3% per year during the same period.

With US freight demand expected to double in the next 20 years, the Brown-Hatch study concludes that intermodal is the most cost-effective means for handling that growth and will provide greater environmental benefits. In 1999 and 2000, the freight rail industry invested more than $14 bn to upgrade and improve the intermodal product. This has led to an increase in service performance and capacity, which has spurred an increase in intermodal usage.

In 1984, just one doublestack train per week originated on the West Coast and served only one US inland market. Today, some 30 doublestack trains *a day* originate on the West Coast and serve *all* the major long haul US markets. Last year alone rail intermodal service took more than nine million long haul trucks off the interstates, though they had to get on a road someplace to make delivery. Be that as it may, the study notes that rail intermodal is underutilized today and has a significant potential for growth.

Now some railroad players with a vested interest in the individual carload side of the business may see their doom in this report. *Au contraire*. The added capacity, the trip plan disciplines, the scheduled railroad environment all combine to improve the carload product. Moreover, the dock-to-dock carload never has to get on any road anywhere. States like NJ that already have substantial public rail infrastructure investments (NJT, e.g) would do well to take heed when new carload opportunities come knocking on their doors.

Amtrak's David Gunn told the Washington Post that express service will be dropped because it isn't making any money, though mail stays. Expansion projects (read FEC) are off the table; repairing wrecked cars stored at Beech Grove is on. The former ought to be good news for the freight rails building back the perishables biz; the latter encouraging for passengers (no longer "guests," thank you) who can't get rezzies for lack of space. Now as for running on time…

Railinc's new web-based shortline data system, RailSync Concur, is up and running. Says Railinc, "Concur simplifies revenue settlements and customer billing by enabling full participation in the rail industry Interline Settlement System (ISS), meets all industry ISS certification requirements and provides additional financial management capabilities." Still under development is the complementary Command system for car management and train operations and that essential Train II reporting link. See also www.railinc.com .

Conrail has a nifty newsletter, *Shared Track*. In the August issue SVP Ops Ron Batory demonstrates four performance measures and what they mean to Conrail employees. Each of the four bar charts shows yoy changes in Conrail "system, " Conrail East (Philadelphia, North Jersey), and Conrail west (Detroit). Looking July YTD 2002 vs 2001 system car cycle time dropped 15% to 8.0 days from 9.4 days. East improved 17.5% to 7.5 days and West dipped 8% to 9 days.

In the same 2001 period 74.2% of trains departed the terminal within one hour of schedule. That was 86.8% through July 2002, up 17%. East got 83.5% out within the window, 20% better; West improved 2% to 91.3% of departures on time. Dwell times took a haircut, too: 25.6 hours system average, down 11%; east down 11% to 27.4 hours; west down 15% to a respectable 17.6 hours.

Lastly, and not good news at all, is the FRA reportable injuries rate. As a whole Conrail averaged 1.71 injuries per month Jan-Jul 2001 and 2.14 in the first seven months of 2002, up 25%. East was up 18% to 1.86 reportables per month; West doubled to 0.29 – a huge rate of increase yet the basic numbers were the best of the bunch. By way of comparison, CSX reported an injury rate of 1.87 per 200,000 hours worked Jan-June; NS came in at 1.16 for the six months.

Thursday's stock market bloodletting left CP, NS and UP unscathed – up less than a percentage point but at least not down. The rest of the rails saw small (a percent or less) though FEC managed to shed 7%. As Drew Robertson noted last week, what's going on with the individual rails is no secret. Could it be the properties maximizing the results from their franchises are the ones being rewarded, or at least not taken out to the woodshed?

Union Pacific completed the Utah Transit Authority (UTA) transaction for about $185 mm, or $140 mm pre-tax income in 3Q02 and an additional $88 mm in after-tax earnings. The project involves a combination of the sale of actual rail line as well as the sale of Union Pacific land for the construction new rail lines. Additionally, UTA will have operating rights over about 20 miles of UP's track that runs from Brigham City to Ogden.

Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. 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.

Revised RailAmerica Cash Flow Calculation

Railroad		**RRA**		**RRA**
		original argument		**per RRA**
Year ending		**12/31/01**		**12/31/01**
Cash Flow ($MM)				
Operating Income			$	74.7
Net income		$17.0		
Depreciation	$	27.6	$	27.6
EBITDA*			$	102.3
Cash Taxes			$	1.1
Interest			$	(49.1)
Capex	$	(61.7)	$	(61.7)
Proceeds from sales			$	18.5
Losses on sales			$	(6.4)
Free Cash Flow			$	4.7
Owner Earnings		-$17.1		

*** As defined by RRA Operating Income plus depreciation**