The Railroad Week in Review
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Florida East Coast Railway (FEC) is an AAR Class II (annual revenues $21.3 mm to $266.6 mm) railroad wholly owned by Florida East Coast Industries (FECI) and traded on the NYSE under ticker symbol FLA. In some ways 2003 was a watershed year as FECI wrote off the last of its EPIK telecom subsidiary and exited the trucking business. Now FECI can focus its energies on its core and complementary railroad and real estate franchises.

For the quarter the FEC rang up total sales of $47 mm, up 6% yoy, or 45% of total corporate sales. Railroad expenses (I've asked for a line-item breakout as none was provided in the press release) rose 7% yoy for a 3% increase in ops income to $12.2 mm while the OR was up a paltry 60 basis points to a very respectable 73.9 (see Table 1). The railroad contributed 28% of corporate operating income, up from 22% in 4Q02.

The synergy between railroad and real estate was quite evident in the full year numbers. As mentioned above, the non-rail side of the house was busy digesting the telecom loss while the FEC remained the rock. FECI operating income dropped 18% to $74 mm while the railroad figure was up 2% to $43 mm or 58% of the entire enterprise.

This is where we need to look at expenses: FY revs up 3%, FY expenses up 11% and the OR up 148 BP to 76.2. I seem to recall FEC running with an OR in the mid-60s, and given its point-to-point scheduled operations it ought to be doable. It's a 62/38% carload/intermodal revenue railroad with half the carload revenue and more than three-fifths of the loads in unitized aggregate trains for the construction and road-building trades.

Automotive is the next largest commodity with 17% of carload revenues and 12% of carloads. Then there's intermodal, which I like to convert to carload equivalents to get a sense of relative contribution. If one uses the generally agreed-upon average of 1.7 boxes per platform and applies this to the intermodal units handled one gets a rough sense of the carloads all these boxes represent.

FEC does an excellent job with intermodal carload-equivalents accounting for 37% of annual carloads and 38% of revenues. Moreover, 2003's revenue per intermodal carload equivalent is 74% of the average revenue per merchandise carload, up from 71% in 2002. One way to improve contribution might be to shrink the number of places where intermodal boxes are loaded. Another might be to follow the CN model and collocate auto and intermodal facilities.

In sum I've always felt FEC is a jewel of a railroad. The entire franchise exists to serve one of the fastest-growing consumer markets in the country. Using rail and real estate feed each to other is good business. So is knowing when to hold and when to fold. CEO Bob Anesitis saw a supporting opportunity in telecom, it didn't pan out, he exited the business, took the hit and got on with it. Now *that's* a model to emulate.

Rank and file members of the Canadian Autoworkers Union (CAW) struck **Canadian National** the railroad as advertised late last week. By Monday CN said in a press release that its trains were running at near-normal levels across its North American network despite the strike by almost a quarter of its employees. Network and yard operations remain near normal levels as do car and locomotive maintenance operations. No formal talks between the company and the union are planned. It's instructive to note that the CAW leadership thought they had a contract but the members rejected the pact. Looks like the inmates are running the asylum.

Meanwhile, the Regional VP for two of **RailAmerica**'s northernmost properties writes in response to last week's item, "The Mackenzie Northern Railway and the Lakeland & Waterways Railway have been industry leaders in the CN service and productivity initiatives with its short lines since late 2003. I am surprised that you were not made aware of this. We believe that the plan should be very beneficial to CN, shippers, and the entire industry in promoting better cycles and movement of rail cars." That's excellent news indeed and I'm sorry I missed it.

Bill Galligan, AVP for Investor Relations at **Kansas City Southern**, forwarded the carload and commodity detail for the quarter and year so I could flesh out Table 2. See WIR 2/5/2004 for the full earnings commentary. As noted last week, **RailAmerica** will not release carload and commodity data until the 10-K, due out in a few weeks. I had wanted to include **Providence & Worcester** however a series of calls and e-mails were not returned. Since they tend to report toward the end of the grace period I should be able to provide a full report at the same time I do RRA carloads.

To railroad information service provider **RMI** goes the American Institute of Certified Public Accountant's Auditing Standards coveted SAS 70 Level 1 Report. Earning the award required an extensive external audit of its data processing procedures and controls for safeguarding client data. The SAS 70 examination signifies that a service organization has had its controls and security procedures examined by an independent accounting and auditing firm, Ernst & Young in this case. Not satisfied with Level I, RMI is shooting for a Level II Report in 2004. This report will provide additional information about the nature, timing, extent and results of the auditor's test of the specified controls. Congratulations are in order.

Watco Companies' shortline group has added another 30 miles to its 140-mile Timber Rock (TIBR) in southeast Texas via a BNSF lease between Silsbee and Kirbyville effective Feb 16. Watco also bought the 177-mile Camas Prairie from North American RailNet and will operate it as the Great Northwest Railroad starting Mar 1.

Over the years Watco has earned a reputation for dealing squarely with its Class I partners. Says BNSF's Pete Rickershauser, VP for Network Development, "We have found Watco railroads to be nimble and competent service providers when dealing both with us and with our mutual customers." Watco CEO Rick Webb notes, "Our guiding principles are improving customer satisfaction, improving profitability, and doing both for the long-term."

These fit the BNSF best-practices shortline attributes as elucidated by Rickershauser at last fall's shortline meeting in Fort Worth: a proven track record of success, easy to do business with, a superior cost model, and, above all, stability. It's the kind of partnership that makes the shortline business work and is to be applauded.

Table 1.
FEC Railroad Operating Statistics

(Dollars in mms)

Fourth Quarter				Year-to-Date		
2003	2002	Pct Chg		2002	2001	Pct Chg
$ 43.0	$ 41.8	3%	Freight Sales	$ 167.1	$ 162.0	3%
$ 3.8	$ 2.4	58%	Other	14	4.7	198%
$ 46.8	$ 44.2	6%	Revenues*	$ 181.1	$ 166.7	9%
$ 34.6	$ 32.4	7%	Expenses*	$ 138.1	$ 124.6	11%
$ 12.2	$ 11.8	3%	Ops Income	$ 43.0	$ 42.1	2%
73.9%	73.3%	0.63	Op Ratio**	76.2%	74.8%	1.48

*From FEC press release

**Change in points

Table 2.
Small Class I, Class II and Shortline RR Holding Company Commodity Carload Comps
Quarter ending 12/31/2003

Revenue and income in $millions

Metric	FEC	KCS	GNWR	RRA
Railroad revs (1)	$ 43.0	$ 148.5	$ 61.6	$ 93.8
YOY Pct. Change	2.9%	3.0%	9.8%	12.3%
Carload revs (2)	$ 26.4	$ 99.4	$ 36.5	$ -
Pct carload	61.4%	66.9%	59.3%	0.0%
Mdse Carloads (000)	46.4	121.8	90.9	-
Rev/CL	$ 569	$ 816	$ 402	#DIV/0!
Operating Income (3)	$ 43.0	$ (6.8)	$ 8.3	$ 18.6
Other Income (3)	$ (4.4)	$ 0.6	$ 3.9	$ -
Net Income (3)	$ 26.0	$ 8.1	$ 7.6	$ 1.5
RR Operating Ratio	73.9%	#REF!	86.5%	77.3%
Net Margin (3)	25.1%	5.5%	12.3%	1.6%

(1) Excludes off-shore railroad data

(2) Excludes coal, intermodal, bridge traffic

(3) Corporate

Note: RRA to report carloads and commodities in its forth-coming 10-K