RAILROAD WEEK IN REVIEW
MARCH 30, 2007

"Economists reduce forecasts for first-half growth amid reports that companies are paring investment spending and that housing is taking another hit." – WSJ, 3/30/2007

This note from ASLRRA's Adam Nordstrom is worth repeating, especially in the light of the upcoming ASLRRA Annual Meeting in Baltimore next month. He writes, "On Tuesday the House of Representatives passed H.R. 1401, the Rail and Public Transportation Security Act of 2007. Provisions of this bill seek to *overturn longstanding standards governing federal preemption of state and local laws and regulations*, among other potentially detrimental changes (emphasis added). This bill has NOT yet been passed by the full Congress. There are still opportunities to correct damaging portions of this legislation before it is finalized."

Adam continues that "the ASLRRA and AAR have been in close and constant communication on this subject. As a first step, the ASLRRA will deliver a summary of the serious impacts of these changes on the Class II and Class III industry to legislative leaders and Members of Congress." He asks that shortline members "withhold action until a definitive industry action plan is established." For further info call Adam or Keith Hartwell at 202-638-7790.

Adam also advises that support for the track rehab tax credit program is not progressing according to plan and without that support the program will expire at the end of 2007. New legislation has been introduced to extend the Section 45G short line railroad track maintenance credit through 2010 and provide relief from the impacts of the alternative minimum tax (AMT). The program has to date generated hundreds of millions of dollars worth of increased track work for the short line, contracting, and supply industries.

Even more vital is the fact that continued rail service to myriad local businesses depends on adequate infrastructure capital for short line railroads. My rule of thumb for track maintenance is $5000 per mile per year to keep FRA class 2 (25-mph) track up to spec. That assumes decent rail, good wood, and adequate ballast. Replacing or upgrading a worn-out railroad with end-bent or sub-100-lb rail and too few good ties can take upwards of $250,000 a mile.

Speaking of the upcoming ASLRRA Annual, my good friend Tony Hatch writes, "While the short line RR space has always been deal-friendly and well-covered by commercial banks and leasing companies, it has attracted the new rock stars of Wall Street, the private equity firms…For private companies, stability of cash flow, reasonable size and/or the ability to "cluster" carriers, etc, make for attractive targets [see also WIR 2/16/2007, page 2 re "clusters"].

"Meanwhile, there are still well-known, experienced and capable management companies out there looking to join or rejoin the short line party (think of folks like Patriot). There may be only one RailAmerica, but there are more than a few would-be Fortresses out there looking." Tony will lead financial break-out session 201 Monday afternoon during the ASLRRA Annual Meeting on what PE firms might look for, and where they can be value-added. See schedule posted at www.aslrra.org .

Norfolk Southern will expand its share-buyback program to 75 mm shares from 50 mm and has shortened the buy-back period by five years, bringing the cutoff in to the end of 2010 from 2015. From the start of the program in November 2005 through March 26, 2007, approximately 27.2 million shares have been repurchased for $1.2 billion, including 5.4 million shares repurchased for

$263.4 million in the first quarter of 2007 to date. NS had approximately 397 million shares outstanding as of Jan. 31, 2007.

Reaction from Wall Street was swift and positive. Bear Stearns' Ed Wolf writes that "NS stock is flat YTD, vs. the other U.S. large cap rails up 11% and the S&P 500 up 1%. Following yesterday's announcement, we see the most potential upside to out-year earnings estimates at NSC despite an expected weak 1Q report." And Tom Wadewitz at JPM says "We believe the increased size and pace of share repurchase by NS is a positive. We believe that most of the NS stock-repurchase activity can be done from its free cash and is unlikely to meaningfully increase debt. As a result, there remains a possibility that NS could become incrementally more aggressive in share repurchase over the next few years."

Shares of farming equipment makers jumped on Friday thanks to a USDA report saying they expect to see the largest corn crop in three score years. The new estimate is for 91 mm acres of corn against the previous estimate of 87 mm acres and 78 mm acres in 2006. Ethanol is the driver (no surprises there) and beneficiaries will be seed companies (MON), field machinery makers (DE, CAT), fertilizer suppliers (POT, TRA) and shortlines (IANR, ICE, IAIS come first to mind).

The shortline downside could be those that serve feed mills, particularly in the east. The three primary uses for corn are animal feed, people food (corn flakes to corn sweeteners), and export. Increased ethanol production has already pushed corn to all-time highs (Dec corn was 403.5 cents per bu. Thursday) giving farmers a huge incentive to plant more corn and fewer beans. Poultry producers like Tyson and Perdue will undoubtedly see higher feed prices as they need the higher protein content of corn and cannot as quickly substitute DDGs the way beef producers can.

Short line carloads through Week 11 (3/17/2007) were off 9% yoy with 308 roads reporting as tallied by the RMI RailConnect Index (attached). Negative numbers abound in the merch carloads lanes with only chems on the plus side (up 6%). Double-digit declines were posted in lumber and forest products (STCC 24 only) and aggregates. Grain was off nearly 7% though a portion of that may be farmers and elevators holding grain for later delivery and higher prices (see above).

Class I rev units quarter-to-date were off 2.8% yoy and were a poor comp with 4Q06's 0.5% gain in total revenue units. Volumes were off in six of eight commodity groups led by paper/limber and auto. Chems were up 7%. CN total loads for Week 11 grew 5.1% yoy with grain up 25.9% as they catch up moving the loads missed during the recent unpleasantness. CP's Week 11 fared less well with total loads off 9.3% due in part to rotten weather and washouts.

The FRA has approved RRIF loans of $58.9 mm to the R. J. Corman Railroad Group and $48.3 mm to the DM&E. Corman has eight shortlines with ops in Kentucky, West Virginia, Pennsylvania, Ohio, and Tennessee. The money will go to rehabilitate 24 locomotives and to buy 200 new center-beam flat cars and 100 new coal hoppers. Part of the loan will be used to refinance debt incurred for the purchase of railroad property, facilities, cars, and heavy maintenance equipment. This is good news because it shows that RRIF loans are not restricted to track and right-of-way.

The DM&E loan will be used for safety and service improvements between Wall, SD, and Colony, WY to accommodate the heavier loads of grain, ethanol, and minerals. FRA noted that it evaluated this loan separately from DM&E's request for a $2.3 billion loan for the proposed PRB expansion and which the FRA had rejected.

Railway Age announced the winners of its annual shortline and regional railroad marketing awards. The 2007 Shortline of the Year Award goes to Nicholasville, Ky.-based R.J. Corman

Railroad Group's West Virginia Line (RJCV). The 2007 Regional Railroad of the Year Award goes to Jacksonville, Fla.-based Florida East Coast Railway 2007 Regional Railroad of the Year. The awards will be presented at the ASLRRA Annual Meeting in Baltimore on April 23.

"This year's winners show the small-road industry what it takes to be a top performer," says *Railway Age* Publisher Bob DeMarco. "It's all about strong marketing efforts, first-class customer service, effective asset utilization, wise capital investments, teamwork within the organization and with connecting roads, and, above all, safe operations."

The West Virginia Line--one of nine R.J. Corman-owned short lines--is being honored for its "spirit of innovation," demonstrated by a business development partnership with CSX Transportation. The winning entry was submitted by CSXT Director-Regional and Short Line Development Len Kellermann, on behalf of R.J. Corman Railroad Co. President Pete Petree.

In July 2005, R.J. Corman acquired RJCV, a former switch carrier with limited freight traffic. In the spring of 2006, R.J. Corman's construction company established a 125-person construction crew and its own town near Pax, W.Va., rehabilitated 12 miles of existing track, and completely reconstructed another four miles in less than 90 days. Not only has the work enhanced service to Georgia Pacific, Austin Powder, and Tanner Industries, R.J. Corman's construction company renewed a 1,100-foot tunnel providing new service to Pioneer Fuel Co.'s new coal loading facility at Pax, W.Va. RJCV and CSXT created joint line freight rates and seamless interline services, generating more than 4,900 new carloads of coal business in the last five months of 2006 alone.

The 351-mile Florida East Coast Railway (FEC) is being recognized for overall excellence. John Lucas, FEC's Vice President/General Manager-Intermodal Marketing and Sales, submitted the winning entry. Lucas reports that FEC revenues grew 11% to $264 million, including 2.9% real growth compounded by 8.1% yield gains, and its operating ratio improved by 2.9 percentage points to 70.3%. The Class II regional achieved these records by focusing on several key initiatives. Customers come first at FEC, which is why it operates a scheduled through-train network for both intermodal and carload business. Going one step further in 2006, the regional began developing scheduled local service, working closely with 200-plus carload customers.

By managing expenses, FEC boosted revenue per employee 10% over 2005, and approximately 40% since 2003; and saw expenses per track-mile rise just 7% over 2005, even with capital improvement projects totaling $45 million in 2006. The projects included building 12-plus miles of double track, upgrading three terminals, and leasing four new SD70M-2 high-horsepower, low-emissions locomotives from EMD. The Short Line and Regional Railroads of the Year will be featured in Railway Age's April issue.

Congratulations to both for jobs well done.

The Railroad Week in Review, a weekly compendium of railroad industry news, analysis and comment, is sent via e-mail 50 weeks a year. Individual subscriptions and shortlines with less than $12 mm annual revenues $125. Corporate subscriptions $500 per year. A publication of the Blanchard Company, © 2007. Subscriptions are available by writing rblanchard@rblanchard.com . Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here.

RailConnect Index of Short Line Traffic

Traffic Type: All

For the week ending: 3/17/2007

Week Number: 11

	Current Week			Year-To-Date		
Carloads Handled	**2007**	**2006**	**% Change**	**2007**	**2006**	**% Change**
Coal	15,820	14,889	6.25%	161,719	175,742	-7.98%
Grain	12,965	13,680	-5.23%	141,927	152,216	-6.76%
Farm & Food (Exc. Grain)	4,570	4,868	-6.12%	48,858	53,421	-8.54%
Ores	7,991	7,580	5.42%	83,806	90,724	-7.63%
Stone, Clay, Aggregates	10,297	10,457	-1.53%	97,187	111,065	-12.50%
Lumber & Forest products	6,410	8,170	-21.54%	66,201	87,305	-24.17%
Paper products	8,303	8,482	-2.11%	92,612	98,798	-6.26%
Waste & Scrap materials	6,499	6,127	6.07%	62,063	65,115	-4.69%
Chemicals	17,466	15,440	13.12%	179,760	169,637	5.97%
Petroleum & Coke	5,889	6,146	-4.18%	59,164	61,991	-4.56%
Metals & Products	11,686	11,866	-1.52%	117,528	128,617	-8.62%
Motor vehicles & equip.	2,620	2,604	0.61%	23,298	24,395	-4.50%
Intermodal	11,887	16,512	-28.01%	149,777	189,011	-20.76%
All Other	3,308	3,243	2.00%	29,635	35,297	-16.04%
Total	**125,711**	**130,064**	**-3.35%**	**1,313,535**	**1,443,334**	**-8.99%**