The Railroad Week in Review
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We've written before about the prospects for coal given its importance to the rails. Now comes a *Barron's On-Line* report quoting a mutual fund manager specializing in energy plays. The argument is that coal stocks in the past gained because that's what happens whenever a lot of new supply is anticipated. This time it's different.

There's no new supply but the environment is taking center stage. Ten years ago burning coal for electricity was politically incorrect and natural gas was the government's preferred fuel. New regulations at that time made coal mining more difficult and as a result there have been no significant mine openings in 20 years. But what goes around comes around. Share prices of three major coal companies – Arch, Peabody and Consol – are up 40% in the past 12 months vs the DJIA up 20%.

Bob Bryant's **Buckingham Branch Railroad** has won a bid to lease the former C&O passenger main west from Richmond. The line, now owned by **CSX**, makes an arc through Virginia, crossing the former RF&P at Doswell and Southern at Charlottesville, rejoining the coal main at Clifton Forge. Bryant until recently was the contract operator for the Shenandoah Valley Railroad between Stanton VA (a point on the C&O line in question) and Harrisonburg, VA.

Naturally the BMWE took issue and naturally the local press made headlines out of it, quoting a union official who maintains "the union will lose the better-paying jobs and taxpayers will take care of the tracks." Playing to this theme the writer says shortlines cost less to run because they don't pay union wages and they have a smaller customer base. That's what it says; I did not make it up.

What's really happening here is the highway is doing more to feed the core rail system than this line segment and the 20 BMWE jobs are being replaced by the highway-workers union. The state of Virginia decided the only way to save the line was to hire a third party to run it. Responding to union charges of "a scam to get the taxpayers to maintain the track," VA DOT said they don't intend to do major maintenance out there. Moreover, the annual $3 mm shortline budget has to be split nine ways.

In a small way VADOT's contributions to the shortline scene are part of the Public Private Partnerships or PPPs between privately owned railroads and state DOTs. The amount of support varies from state to state, and it was this way even before 9/11. Washington and Pennsylvania are two of the more progressive in their shortline assistance programs, the former even buying covered hoppers for the grain trade.

There are no guarantees. A friend of more than 20 years who watches the progress of PPPs for a Class I writes, "For all the talk about public money there does not seem to be much available. So it is not smart to build a business strategy around the feds doing something. Still, you ought to play the public-private money game because sometimes you will win. But it is like going to Las Vegas; I would not count on it as a secure source of funds to pay the rent." Feedback is solicited and invited.

Amtrak's eastbound Pennsylvanian is a great ride across the former PRR main from Pittsburgh to Philadelphia. Buy a business class ticket so you can ride the last car and count mileposts or watch the passing **NS** parade. And quite a parade it is. On my ride traffic density matched what I've seen on the

UP across Nebraska or the **BNSF** in Western Washington. It's a grand mix of intermodal, Triple Crown, manifest, coal, auto racks, and passenger.

The mostly double- and triple-track railroad is bi-directional with frequent control points (CPs) so the NS dispatchers can keep the fast trains fast and the slow trains out of the way. Horseshoe Curve can be a bit of a bottleneck with its helper district but trains like the 21E, a westbound UPS train, arrive in Conway on time more often than not, including a pickup at Pitcairn. Historians may bemoan the loss of infrastructure (four tracks, manned towers, industrial sidings) but on today's freight railroads you can generate a lot more revenue with a lot less plant. Seeing how it works is a big part of the fun riding Amtrak's Train 42.

Providence & Worcester reports a first quarter loss of $462,000 compared with a net loss of $506,000 in 2003. The loss per common share for the quarter was $.10 in 2004 and $.11 in 2003. Operating revenues for the first quarter of 2004 were $5.1 mm, an increase of $208,000, or 4.3%, from $4.9 million in the first quarter of 2003. These higher revenues result from an increase in conventional carloadings of coal and other commodities partially offset by a decline in container traffic. Operating expenses increased by $107,000 or 1.9% between quarters. See Table 1.

Most worrisome is the continuing operating loss. They've finally turned the corner on carload revenues, up 8%, and begun to take the inevitable intermodal hit, down 6%, But to have the 4% revenue gain eaten up by a 2% hike in operating expense is sad, especially when *flat* expenses would have produced a loss. Two percent more transportation expense I might be able to see but the nearly $200,000 additional in equipment maintenance and overhead makes one wonder.

P&W lost a dime per share for its common shareholders and *still* paid out four cents in dividends. Operating cash flow was $65K. Capex and other was $342K, and dividends were $181K. The bottom line is a $700K decrease – 50% -- in cash. Part of the problem is pricing. Revenue carloads ex-intermodal were up 13% while sales increased but 8%. Average RPU was down 4% to $792 a carload. The 10-Q cited lower demurrage fees, but that's as it should be. A well-run just-in-time railroad ought to bill no demurrage at all.

Recall there are shortlines of about P&W's size about in the land that would kill for $800 a carload. They average closer to half that yet still post ORs safely in the 80s. When I figure out what's wrong with this picture I'll let you know.

Genesee & Wyoming (GWR) North American carloads in April 2004 increased 6.9% yoy. Same railroad, excluding the three GP lines starting 1/1/04, were up 6/8%. This same-railroad increase was primarily due to a 1,268 carload increase in coal, coke & ores traffic, primarily in the Utah Region, and a 965 carload increase in lumber & forest product traffic, primarily in the Oregon Region. YTD figures were not provided.

RailAmerica's same-store NA carloads were up 2% and total loads increased 8% yoy. I'm pleased to see increases in chemical, agricultural, and farm products and decreases in bridge traffic. YTD through April 30, 2004, total North American carloads increased 9% and on a same-railroad basis RRA was up 4% yoy.

Table 1. Providence & Worcester 1Q04 Results

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Total Railroad Revenue ($000)

	First Quarter				
	2004		**2003**	**Pct Chg**	
$	4,200.0	$	3,873.0	8%	Carload
$	608.0	$	649.0	-6%	Intermodal
$	4,808.0	$	4,522.0	6%	Total
	87.4%		85.6%		Pct carload
	12.6%		14.4%		Pct Intermodal
Operating Statistics					
$	4,808.0	$	4,522.0	6%	Freight Sales
$	259.0	$	337.0		Non-freight
$	121.0	$	153.0	-21%	Other
$	5,188.0	$	5,012.0	4%	Revenues
$	5,875.0	$	5,768.0	2%	Expenses
$	(687.0)	$	(756.0)	-9%	Ops Income
	113.2%		115.1%	(1.84)	Op Ratio
P&W Corporate Income Statement					
$	5,188.0	$	5,012.0	4%	Revenues
$	5,875.0	$	5,768.0	2%	Expenses
$	(687.0)	$	(756.0)	-9%	Ops Income
$	225.0	$	250.0		Income Tx Benefit
$	(3.0)	$	(3.0)		Preferred Stk
$	(465.0)	$	(509.0)	-9%	Net Income
	4,458.0		4,444.0	0%	Dil. Shares (000)
$	(0.10)	$	(0.11)	-9%	Dil. EPS
	-9.0%		-10.2%	-2.5	Net margin
Expense Analysis					
$	1,030	$	1,025	0%	MOW
$	690	$	590	17%	MOE
$	1,602	$	1,565	2%	Transp
$	988	$	910	8.6%	GS&A
$	688	$	715	-3.8%	Depreciation
$	584	$	582	0.3%	Taxes other than income
$	127	$	182	-30.2%	Car hire net
$	57	$	57	0.0%	Emp Retirement
$	109	$	142	-23.2%	Trackage Rts
$	5,875	$	5,768	1.9%	Total Ops Exp.