ATTICUS

Atticus Capital LP
767 Fifth Avenue
New York, New York 10153
212.256.8000 tel
212.256.8001 fax

September 26, 2007

Hon. Vernon A. Williams
Secretary
Surface Transportation Board ("STB")
Case Control Unit
395 E Street, S.W.
Washington, DC 20423-0001

Re: Methodology to be Employed in the Determining the Railroad Industry's Cost of Capital.
STB Ex Parte No. 664

Dear Mr. Secretary,

As a large shareholder of four of the Class I railroads in the United States, we are pleased to submit this letter in response to the proposed changes to the STB's cost of capital calculation.

Founded in 1995, Atticus Capital LP currently manages in excess of $16 billion of assets on behalf of its clients, which include leading pension funds, educational institutions and charitable foundations. Contrasting with a common characterization of hedge funds, we are long-term, value-oriented investors, having entered into some of our largest multi-billion dollar investments a number of years ago. Our investment in the U.S. railroads is one such investment that has been made with the underlying belief that freight railroads serve as a principle solution to the nation's present and future transportation demands.

Given our large equity investment in the freight railroads, some may perceive our interests as opposed to those of shippers. Quite the contrary. As any successful business is well aware, the customer is key. Without customers, there are no railroads, and as shareholder owners, we firmly believe that railroads must continue to invest – and in fact raise their level of investment – in order to meet the future capacity, safety, and service needs of their customers.

The Cost of Capital

The objective of this letter is not to provide an academic dissertation on the merits of employing a discounted cash flow ("DCF") analysis versus the capital asset pricing model ("CAPM") or the particular numerical adjustments that may be made to such calculations.

Rather, as equity investors with many years of involvement in both public and private markets, we believe we possess an experienced and seasoned viewpoint on the cost of equity capital. Quite simply, regardless of the methodology, assumptions, or timeframe, we believe that the proposed cost of equity methodology significantly understates the true cost of equity for the railroads.

As investors, we look at two primary components in an investment: risk and return. Equity investments generally are riskier than debt investments, and as such, should compensate investors for that risk via a higher long-term return. We struggle to think of investors who would commit long-term equity capital for the proposed 2005 CAPM rate of 8.4% or what we estimate will be a somewhat higher 2006 figure. In fact, investors today can purchase secured bonds yielding higher rates of return with less risk than the proposed railroad cost of equity. We do not believe this makes financial sense.

While the CAPM approach may have tomes of academic data to justify its use, we do not believe that its proposed application in this case passes the real world common sense test of what a rational investor would accept for an equity investment in a historically cyclical industry. In our experience, most professional investors in public equity markets undertake investments with forward-looking expected returns in excess of 10% and potentially higher based on other risk factors.

Our professional opinion is that absent a compelling rationale for change, retaining the current DCF methodology better approximates the railroad industry's true cost of equity as well as its cost of capital.

Return on Invested Capital

In our professional judgment, a valid analysis of cost of capital cannot be undertaken without simultaneously measuring return on investment ("ROI").

We believe that freight railroads, more so than other industrial businesses, suffer from a substantial divergence between the value of the capital invested in their businesses and the accounting book value of that capital. In fact, we conservatively estimate that the replacement cost of the railroads' assets, excluding the value of their land holdings, is approximately four times (4x) that of the STB calculated "Revenue Adequacy" net investment figures. This divergence is fundamentally due to the long-lived nature of the railroad assets where inflation – in all costs, including steel, timber, locomotives, freight cars, and labor – has dramatically exceeded the original cost less book value depreciation from which the STB calculates net investment. A recent Morgan Stanley[1] analysis of replacement cost calculations arrives at similar conclusions.

---

[1] *See research by Morgan Stanley, William Greene, CFA, "Regulatory Environment Appears Supportive of Railroad Pricing", July 15, 2007 (see attached, pp.6-8)*

As a result, we believe that the true ROI of the railroads is roughly 1/4th that calculated by the STB (averaging 2% versus the average STB 2005 ROI of around 8.6%). Even after making commensurate inflation adjustments to the cost of capital, we believe it becomes clear why railroads must be allowed to generate sufficient returns to justify maintaining their current – and investing in additional – capacity.[2]

Conclusion

As long-term value-oriented investors, we believe this discussion must not avoid a principal issue for both the railroads and shippers; one that, if solved, could avoid or significantly abate a potentially devastating U.S. transportation crisis resulting from the failure to attract sufficient infrastructure investment. In our professional judgment, positioning an economically unsound cost of capital against historical book capital in the STB ROI calculation harms both shippers and railroads. Railroads would struggle to justify additional investment in new capacity. Shippers would see diminished service levels and fewer routes offered to them. These effects would, in turn, force shippers to seek solutions to their transportation needs from less energy efficient and less environmentally friendly alternate modes of transportation potentially at a higher financial cost.

In the end, both railroads and shippers would suffer, and the United States might take a step backward in solving our transportation congestion problems.

We appreciate the Board's time and consideration. Should the Board desire further written or oral input from the undersigned commentators, we would be pleased to respond to the Board's request.

Respectfully submitted,

Timothy R. Barakett	Heath L. Watkin
Chairman and CEO	Vice President

Enclosure

---

[2] *A recent study requested by the National Surface Transportation Policy and Revenue Study Commission and conducted by Cambridge Systematics on behalf of the American Association of Railroads ("AAR") found the need for major new investment in freight railroad capacity to meet an expected doubling of freight transportation demand over the next three decades. The results of the study indicate that $135 billion in private funds must be invested over the next 30 years to increase freight rail capacity. That investment would go toward constructing new track, signals, bridges, tunnels, terminals, and service facilities. It would also maintain existing capacity for Amtrak and local commuter rail. This amount is in addition to all public funding sources and excludes passenger-related investment.*

Morgan Stanley

MORGAN STANLEY RESEARCH
NORTH AMERICA

Morgan Stanley & Co. Incorporated

William J. Greene, CFA
William.Greene@morganstanley.com
+1 (1)212 761 8017

Adam Longson
Adam.Longson@morganstanley.com
+1 (1)212 761 4061

July 15, 2007

Industry View
Attractive

Transportation

Regulatory Environment Appears Supportive of Railroad Pricing

Regulators' focus on capacity and service should be supportive of long-term pricing upside. We performed a deep-dive into the current rail regulatory environment and came away more bullish on the long-term prospects for rail pricing. After speaking with a number of Washington sources, we believe a need to encourage rail investment and some recent tweaks to guidelines governing rate cases could allow for more pricing power over the long-term than we are currently modeling. Moreover, a lack of public funds to support rail investment could push regulators to allow rails to exceed their cost of capital for a number of years, in contrast to traditional revenue adequacy calculations. Given our findings, we will revisit our assumptions about rail pricing after 2Q earnings.

Railroads shouldn't see any regulatory pricing pressure before 2011. Revenue adequacy is a long-term concept that the STB has yet to define (at least five years). Based on this interpretation, NSC will likely be the first revenue adequate railroad, but shouldn't face any pricing obstacles until at least 2011. CSX and UNP have the lowest ROI and might avoid revenue adequacy standards until 2015 or beyond.

A switch to replacement cost could remove any regulatory pricing obstacles, but a lack of support makes this a low probability event in the near-term. We still see substantial upside from rail pricing even without a replacement cost framework.

But nothing is ever certain in Washington. Changes in Congress, the White House or the STB could always alter the regulatory framework to the detriment of rails.

Railroads remain attractive investments. We believe investors will do well owning any of the railroads, but see the most upside over the next 18 months at Overweight-rated UNP and NSC.

Recent Reports

Title	Date
Transportation: Initiation of Coverage: Rails Have More Room to Run on Pricing William J. Greene, CFA / Adam Longson	May 7, 2007
CSX Corporation: Raising the Bar on Earnings and Leverage William J. Greene, CFA / Adam Longson	May 8, 2007
Transportation: Shippers Support Bullish Railroad Thesis, but Trucks Still Struggling William J. Greene, CFA / Adam Longson	May 20, 2007
Canadian National Railway Co.: CN Out to Prove There Is More Upside Left William J. Greene, CFA / Adam Longson	May 25, 2007
Norfolk Southern Corp.: Service Focus and Investments Should Drive Outperformance William J. Greene, CFA / Adam Longson	Jun 7, 2007
Transportation: Despite Soft Volumes, Rails Should Still See 2Q EPS Growth William J. Greene, CFA / Adam Longson	Jun 25, 2007

Little Regulatory Risk to Railroad Pricing Story Before 2011

Investment Summary and Conclusion

Based on conversations with shippers, railroads and Washington sources, we see little on the regulatory landscape that is likely to slow the railroads' long-term annual pricing power from the 3.5-4.0% we are modeling through 2012. In fact, our investigation into regulatory issues gave us greater confidence that our forecasted pricing growth could prove conservative. As we've stated in prior reports, the rails are benefiting from a secular change in pricing that we believe is sustainable over the long-term. Despite our bullish stance**,** our analysis of the regulatory environment suggests that the railroad pricing story is more sustainable than we previously thought. Given the additional upside in pricing, we would be long-term buyers and holders of railroads in general, especially on any weakness during the 2Q earnings season.

Over the past few months, we've fielded dozens of questions about the regulatory risks to the railroad pricing thesis. Given these concerns, we did a deep-dive into the regulatory risk to rail pricing and came away with four key conclusions.

1. Under the current framework, we see few reasons to be concerned about regulatory risks to the pricing story for the next five years (at least).

2. Surface Transportation Board (STB) concerns about rails having enough capital to expand capacity are more likely to drive rate regulations than strict interpretations of "revenue adequacy."

3. Changing the STB calculation of revenue adequacy to one based upon replacement cost of capital (not book cost of capital) could be a significant positive for railroad pricing, but appears unlikely near-term.

4. In politics, nothing is ever certain. Changes in Congress or at the STB could alter the favorable regulatory framework quickly to the detriment of rails.

We see few reasons for concern about pricing under current rate regulations

A common issue that comes up in discussions with investors who are skeptical about our bullish rail thesis is whether it is realistic to think that rails can have sustained pricing power once they achieve an adequate return on capital - per the regulatory calculation -- also known as "revenue adequacy."

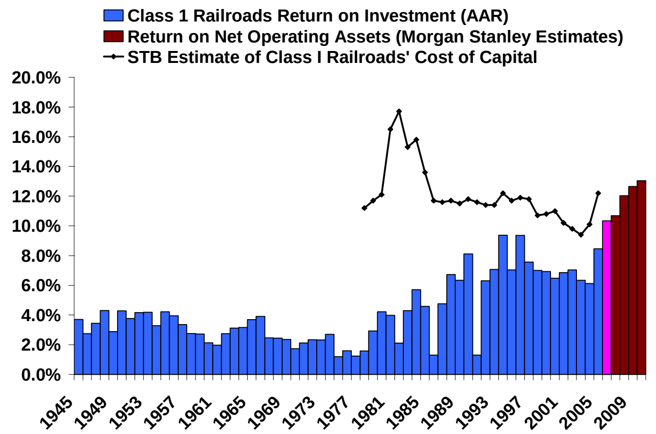
It is important to first remember that the STB only has regulatory authority over tariff rates and in situations where a shipper is captive to a single railroad, or roughly one-third of railroad traffic. In the event of a rate dispute with a customer whose pricing is regulated by the STB, the STB examines whether a railroad is revenue adequate. If it is not, then the STB has generally required a higher hurdle for shippers who argue that their rates are too high. The hurdle involves estimating the cost of building and operating a new railroad (stand alone cost) and whether the rail is charging a rate that would exceed this cost. In the dozen or so rate cases that have come before the board in the recent past, the STB supported substantial rate increases for a shipper in part because the railroad's returns fell short of the cost of capital.

If a railroad is revenue adequate per the STB, the rules are slightly different and less favorable to the railroads. When revenue adequate, a railroad is limited to charging a captive shipper no more than 180% of variable cost (the base threshold for bringing a rate case under any scenario). It is generally believed that this is a costing methodology that is more restrictive to rail pricing. So, the key question then is when will a railroad become revenue adequate for purposes of rate cases before the STB?

Revenue adequacy is a long-term concept according to the STB.

No railroad today is considered revenue adequate by the STB, not even NSC, as there is no history of sustainable returns. In other words, achieving a return on capital that exceeds the cost in a single year is not true revenue adequacy. However, we forecast railroad returns to improve substantially over the next several years as pricing power continues (see Exhibit 1). This suggests that, at some point in the future, each railroad will achieve a return on capital that exceeds its cost, as computed by the STB. If we assume that a railroad must be revenue adequate for at least five years to meet the regulatory definition (and it could be longer), then it will be at least the end of this decade before a single railroad is revenue adequate (let alone the industry). Moreover, rates of return for a given year are not calculated and published until the following year. In total, that means **a railroad should have at least six years from the point of first achieving adequate returns before facing any change in pricing regulation**.

Exhibit 1
Railroad Returns Are Rising



Source: AAR Data, Company data, Morgan Stanley Research

Based on our analysis of projected returns, we see little regulatory risk to pricing (at least from the STB) for any of the railroads before 2011 (see Exhibit 2)**.** We adjusted our current estimates for the US railroads (which are more bullish than consensus) to conform to the STB ROI methodology and determine at which point the railroads might cross the regulatory cost of capital threshold. Again, this is solely to determine when the clock is likely to start ticking on "revenue adequacy." The length of time a railroad can earn excess returns before being declared revenue adequate is not yet known.

While NSC is already exceeding the cost of capital according to the STB, our estimates indicate that the industry is not likely to exceed the regulatory cost of capital in aggregate until at least 2010 (see Exhibit 3), which is beyond most investors current time horizon. UNP will not generate adequate returns until 2012, and CSX may still lag the current STB cost of capital in 2012, in our view. The return differential between UNP and CSX and their closest competitors also speaks to the upside potential if management can turnaround operations. It's worth noting that we assumed a constant cost of capital in future years, but the STB's cost of capital has historically varied marginally from year-to-year.

Exhibit 2
Timeline for Potential Regulatory Pricing Pressure

Ticker	First Year Earning Cost of Capital	Year of Revenue Adequacy	First Year of Regulatory Pressure
CSX	2013	2018	2020
UNP	2012	2017	2019
BNI	2008	2013	2015
NSC	2004	2009	2011

*Using 5-year revenue adequacy period. Source: Company data, Morgan Stanley Research

Key Events to Watch:

We will be watching a few key events over the next 12 months that could give us more conviction in our conclusion that railroad pricing is not only secular, but will likely outpace cost inflation well into the next decade.

- If railroads report firm pricing during 2Q07 and 3Q07 despite continued weakness in volume, it should discredit the bear case argument that railroad pricing is merely cyclical. We believe rails remain disciplined on pricing and have learned their lessons from the market share trading of the 1990s.

- The STB is currently deliberating on some large rate cases (AEP-Texas North and Basin Electric) due for a decision in the near future. If regulators rule in favor of the railroads, it could suggest the rails have much more pricing upside left under current regulatory guidelines. Not to mention, a pro-rail ruling could leave shippers frustrated and more reluctant to bring rate disputes to the STB.

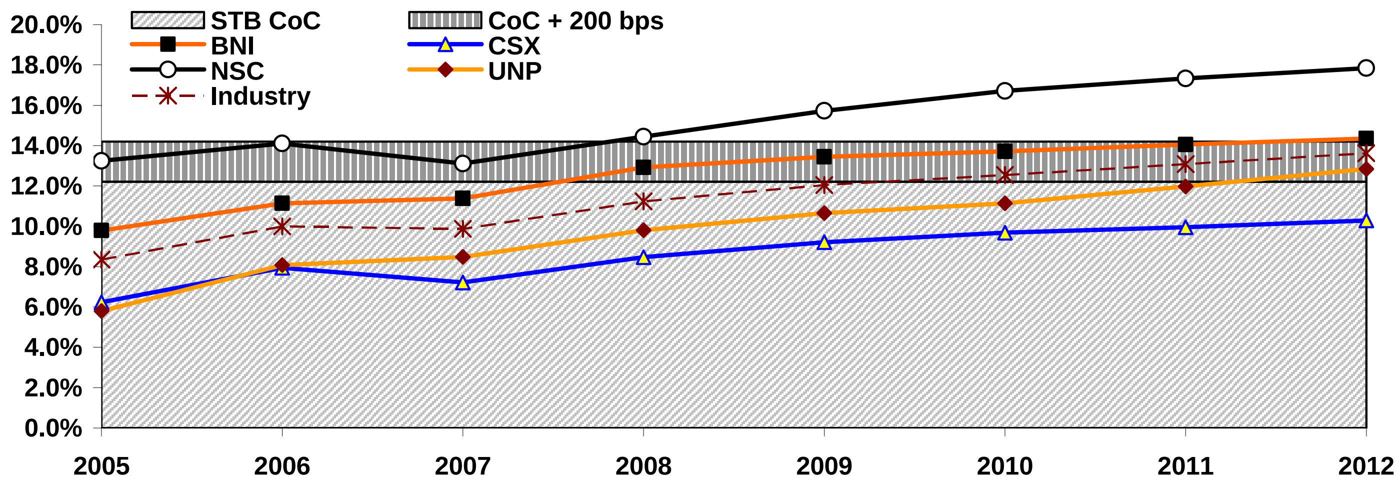
- The STB is also deliberating a change in the calculation of the cost of capital from a DCF-based method to a CAPM-based method. This could potentially lower the cost of capital for railroads and bring some to revenue adequacy sooner. However, as noted earlier, revenue adequacy for purposes of rate regulations remains a long-term concept. "Long-term" is as yet undefined by the STB.

Given the timing of some of these events, we are waiting until after 2Q07 earnings before revisiting our long-term outlook on pricing.

As noted above, there should be at least a six-year window between the year in which a railroad first generates adequate returns and the ultimate determination of sustained "revenue adequacy." In fact, if the STB assumes that a railroad needs to be revenue adequate over an entire business cycle, the period of excess returns allowed for rate cases could be even longer. As a result, we believe NSC likely has at least another 4 years before facing a less favorable regulatory environment, while UNP and CSX may be in position to fend off most rate disputes from the STB until the end of the next decade (see Exhibit 2).

Exhibit 3

Morgan Stanley Estimate of Railroad ROI vs. Cost of Capital Using STB Methodology, 2005-2012



Source: AAR Data, Company data, Company R-1 Schedules, Morgan Stanley Research

How does the STB determine the regulatory cost of capital and ROI?

Cost of capital: The STB weights the cost of debt and equity using market values. The cost of debt is based on market value yields of the major forms of long-term debt instruments for the railroads plus assumed floatation costs. The cost of equity is calculated using a single-stage discounted cash flow (DCF) methodology as opposed to a multiple period DCF or an approach based on the capital asset pricing model (CAPM). Therefore, the dividend yield and growth rate (as determined by IBES estimates) are both inputs into the calculation, which partly explains why the cost of equity has been rising with improving profitability.

The STB is currently reviewing its calculation of the railroads' cost of capital. Deliberations are ongoing on whether to shift from a DCF-based method to a CAPM-based methodology. We suspect that such a change would likely lead to a lower cost of capital calculation, which could mean that some rails are already close to earnings excess returns on capital. But, because the revenue adequacy concept is nonetheless long-term, we are not too concerned if this change happens. We still see most railroads being viewed as revenue inadequate through the rest of this decade.

Exhibit 4

Calculation of Regulatory Cost of Capital

Cost of Debt:	Cost of Equity:
Mkt Value Yields of LT Debt + Flotation Costs	Dividend Yield x (1 + ½ x 5-year growth rate) + IBES 5-year EPS growth rate
Cost of Debt x Market Weight of Debt	Cost of Equity x Market Weight of Equity
Regulatory Cost of Capital	

Source: Surface Transportation Board, Morgan Stanley Research

ROI: Just like everyone in finance, the STB has its own variation on the ROI calculation. The STB calculation uses Net Railway Operating Income (NROI) in the numerator (most similar to NOPAT – net operating profit less adjusted taxes) and Net Investment in the denominator. Both metrics include a number of unique adjustments and don't directly align with any figures reported in the railroads' financial statements. Net revenue from railway operations tends to fall short of operating income and the reported net investment (before adjustments) tends to be less than reported Net PP&E.

However, railroads do not operate in isolation, and it may be difficult for regulators to regulate pricing for just one segment of a network operation. Therefore, industry-wide revenue adequacy may ultimately be the key driver to any policy tied to railroad profitability. We believe that under the current regulatory framework the railroad industry in aggregate is unlikely to face much regulatory scrutiny until 2016.

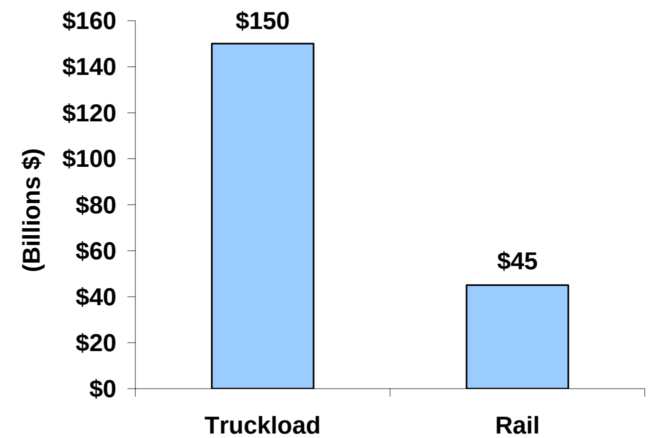
Concerns about rail capacity are likely to play an increasingly significant role in regulators' thinking about rail pricing

Although we see little likelihood of regulatory constraint on rail pricing in the near future, we believe that concerns about the ability of railroads to handle future volume growth could trump pricing concerns. In short, the US transportation infrastructure is filling up. This has changed the way regulators, politicians, and shippers think about the railroad industry. The state of the long-haul driver market, higher truck equipment costs, highway congestion (see Exhibit 6) and falling utilization rates will all weigh on the trucking industry's ability to handle the continued growth in freight demand. Moreover, highway congestion and larger trucks generally upset *voting* commuters. The enormous costs of potential highway expansion limit any major public works effort to alleviate congestion.

We see rail as a viable solution to the nation's need for efficient freight transportation. However, with railroad networks also at or near capacity (see Exhibit 7), further investment will be required. Growing concerns over global warming, fuel efficiency and energy security makes truck to rail conversion for freight even more pressing (railroads are roughly five times more fuel efficient than trucks). Remember that one double-stacked intermodal train could easily eliminate the need for 250 long-haul trucks and drivers.

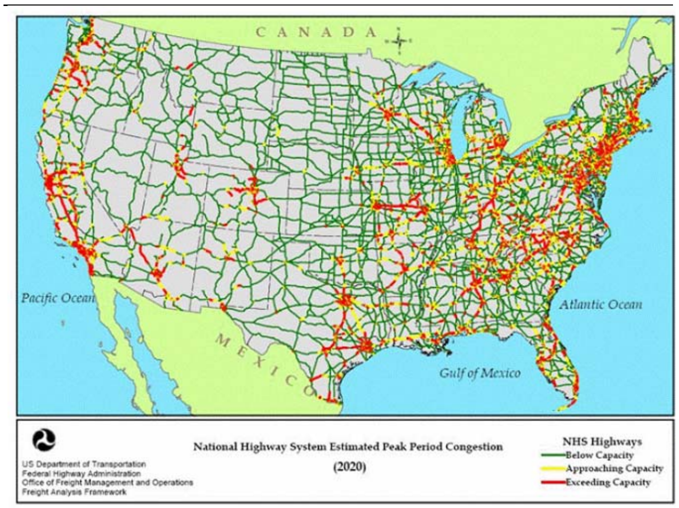
An unprecedented amount of rail investment will be needed to support these relief efforts. The truckload market is roughly triple the size of the railroads (see Exhibit 5). Due to the discrepancy in scale, simply shifting 250bps of annual growth in truckload volumes over to the railroads (i.e. preventing incremental TL growth) would require railroads to manage a 10% growth rate in volumes every year. As it is, railroads are struggling just to handle projected *organic* growth in rail volumes due to capacity constraints. Any thoughts at actually reducing total truck traffic would require an enormous amount of capital investment.

Exhibit 5
Estimated US Truckload Revenues vs. US Railroad Revenues



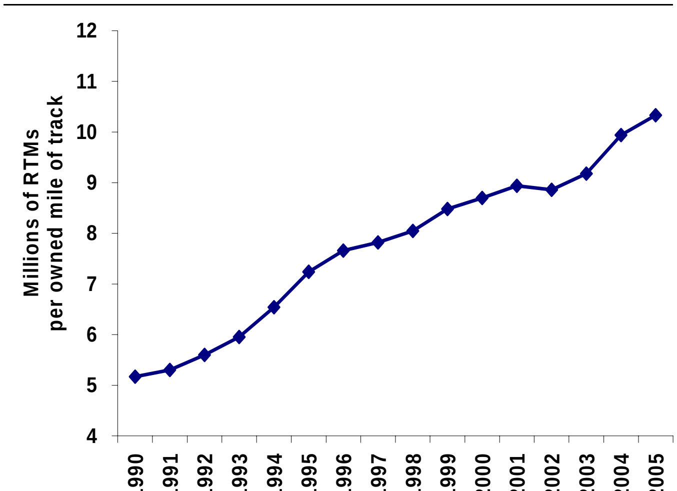
Source: AAR data, Morgan Stanley Research

Exhibit 6
Projected Highway Congestion in 2020



Source: US DOT Federal Highway Administration

Exhibit 7
Railroad Track Utilization



Source: AAR data, Morgan Stanley Research

One must also realize that maintenance capital requirements will continue to grow for the rails as well. The higher utilization that comes with additional volume results in faster wear of rails and greater needs for replacement and maintenance. Moreover, a larger network costs more to maintain. If regulators mean for railroad pricing to support the majority of future rail investment, then pricing will need to rise for years to have any hope of supporting material modal shift from trucks.

Based upon our conversations with multiple sources in Washington, we believe politicians could accept the notion that users of the freight railroads should pay higher rates to facilitate more profits and growth in the rail network. From the perspective of the STB, a rail service meltdown due to insufficient reinvestment is politically untenable. Instead, we expect that the STB will continue to favor higher prices and returns on capital, so long as railroads show a willingness to continue to reinvest in the physical plant.

In broader terms, the aging US transportation infrastructure (airports, highways, ports, waterways and railroads) requires substantial reinvestment if the US economy is to remain competitive on a global scale. With the exception of railroads, upgrades to the other transportation segments are most likely to be funded out of the federal and state treasuries. Given current budgetary constraints and governmental priorities, we are hard-pressed to believe a significant amount of capital will soon be forthcoming from government sources to upgrade the nation's rail infrastructure. Furthermore, putting the onus for funding on users of the rail system doesn't directly burden taxpayers (i.e. voters). As such, these long-term political and economic considerations are very likely to result in a more favorable regulatory environment for railroads and rail pricing, in our view.

Exhibit 8

Railroad Pricing is the Most Likely Source for Future Rail Investment

Investment Tax Credit	Public Funding	Private Financing
Very Unlikely	Limited Use	High Probability
Budget constraints and PAYGO rules will likely stop this proposal.	Regulators have been hesitant to issue large RRIF loans. Only smaller scale funding and some public/private partnerships are likely with current budget constraints.	As with toll road leasing, private financing frees up funds without directly burdening the taxpayer. Allowing rails to use their inherent pricing power is the most logical way to tap this source of financing.

Source: Company data, Morgan Stanley Research

If regulators were to increase regulation and put downward pressure on rail pricing, capital reinvestment could collapse. Rail management has publicly stated that rails will only invest where the returns are attractive. Re-regulation would likely be catastrophic for reinvestment. Thus, it is conceivable that regulators allow rails to continue to earn or exceed the regulatory cost of capital for several years to encourage additional investment and help alleviate a transportation gridlock scenario the country is facing.

Calculating the revenue adequacy based upon "replacement cost of capital" would change the game in the railroads' favor

Railroads are a unique and capital-intensive industry with very long-lived assets. As such, book value has little relationship to current value of the plant and property. When railroads were operating with plenty of excess capacity in the 1980s and 1990s, calculating the cost of capital by using historical cost was probably logical. After all, why calculate what it would cost to replace a railroad when the railroad had more supply than demand?

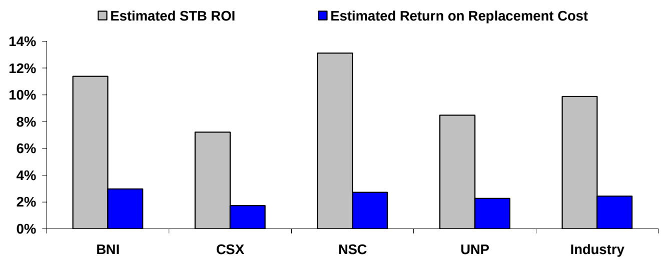
Today, with the US railroad system operating close to full capacity, incremental volume growth will likely require more substantial capital investment. As private entities that own their infrastructure, railroads are unlikely to reinvest their limited capital resources if the returns on that capital fail to exceed the cost. Thus, the calculation of the true capital employed is critical to the equation.

Union Pacific's CEO, Jim Young, made an interesting observation at a recent shippers' meeting. He told his customers that UNP had recently replaced a bridge on its network due to a wash-out. The bridge was on the books at a value of $160,000, but the replacement cost was $20 million. While perhaps extreme, this example highlights the dilemma facing railroads when deciding where and how much to reinvest. Not surprisingly, we would prefer to see railroads invest where the returns are greatest. Shippers and politicians who wish to see substantially more reinvestment will need to consider this when criticizing rail pricing trends.

As has been well-publicized, a number of investors believe regulators need to consider the concept of replacement cost when measuring railroad returns on capital. It is our understanding that a shift to a replacement cost methodology would not require a law change. The STB has within its authority the ability to adjust its calculation of the cost and return on capital. However, the STB is not a pro-active agency. It must wait for either the railroads or shippers to request a change in the calculation. Upon review and study, the STB can choose to make the switch. Thus far, no parties have requested the STB change its methodology for calculating returns on capital (revenue adequacy).

Exhibit 9

Railroad 2007 STB ROI vs. Return on Replacement Cost



Source: Company data, Company R-1s, Morgan Stanley Research

Given the somewhat charged atmosphere in Washington around the newfound pricing power of railroads, we suspect that the politically astute railroads are not about to request a change to replacement cost of capital. Such a change would likely require more groundwork in terms of gathering the necessary political support on Capitol Hill to avoid a political backlash from Congress that would make the STB reluctant to change the calculation. In our view, railroads will likely need to be closer to revenue adequacy or the country will need to be on the verge of a transportation crisis before a replacement cost methodology can become a reality.

Although we do not expect the STB to change its method of calculation any time soon, we thought it was still worthwhile to consider the implications on railroad returns from a change. We looked at each of the rails' returns on capital based upon a replacement cost methodology (see sidebar on next page). Not surprisingly, by this method, no railroad would come close to earning an adequate return on capital.

In Exhibit 9, we show that railroad rates of return are unacceptable (2%-3%) when viewed vs. replacement cost. Any attempt to reach an adequate return on replacement cost would require a significant increase in pricing or productivity to achieve substantially higher earnings. Attaining revenue adequacy if replacement cost of capital were used suggests a two to three-fold increase in earnings for most railroads from our 2012 estimates. Although we're bullish on railroad stocks, we are not at this time forecasting anything close to this level of earnings growth.

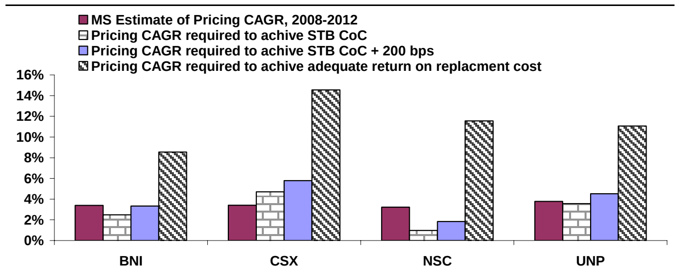
Of course, the goal of such a change would not be to give the railroads leeway to raise rates with abandon. Rather, we believe that this sort of regulatory change would simply suggest rails would face regulatory scrutiny of pricing at a later date. Moreover, any changes that allow railroads more opportunity to take up rates would also likely come with an implied expectation that with higher rates railroads will invest significantly more capital to expand capacity. This would mean a significant increase in capital spending (limiting free cash flow). Dependable, consistent service would probably also be expected and, on this point, the rails have a less-than-perfect track record. Poor service and rising prices is probably not a recipe for success either in business or Washington. Finally, while some rail customers are captive to a single railroad, rails would only be able to charge what the market will bear for modally competitive traffic.

We are modeling continued pricing power for the rails, but our estimates may prove conservative.

We are currently modeling a 3.5% - 4.0% CAGR from pricing through 2012. To generate returns inline with the regulatory cost of capital, our models would require only a 1%-5% CAGR through 2012. However, we believe the long-term nature of revenue adequacy should allow rails to easily exceed the regulatory cost of capital hurdle for a number of years. Our model suggests rails can earn roughly 200bps in excess of the cost of capital through 2012, but capacity concerns and recent rate case decisions suggest this may prove conservative. On the other hand, a replacement cost framework would allow for substantial upside to our pricing model. We estimate that the railroads would need to obtain a 9%-15% CAGR in yields from pricing alone through 2012 (see Exhibit 10) to earn their cost of capital on a replacement cost basis. All of our calculations exclude the impact from additional investment and depreciation (above our current forecast) that would likely result with various return thresholds, as well as the potential for increased share buybacks or dividends. If we were to include the likely additional investment that would be required for regulators to allow for returns well above the cost of capital, our pricing estimates would need to be even higher.

Exhibit 10

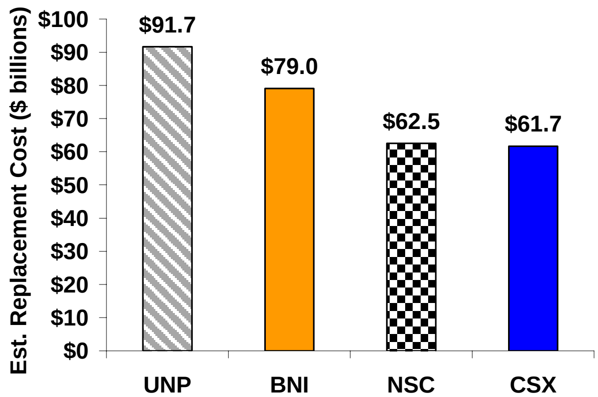
5-Year Pricing CAGR Required to Achieve Various Return Thresholds*



Source: Company data, Company R-1s, Morgan Stanley Research
*For the period 2008-2012. Excludes land and rights of way. Assumes no change in volume, investment, or cost inflation from current MS estimates.

Exhibit 11

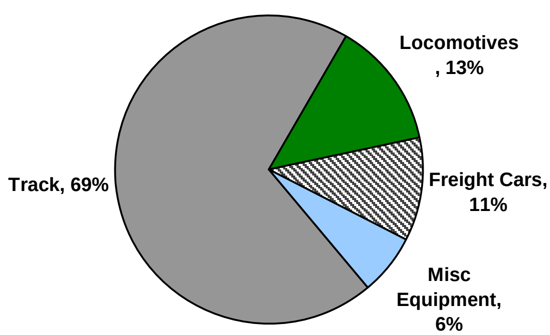
Railroad Industry 2007 Estimated Replacement Cost by Company



Source: Company data, Company R-1s, Morgan Stanley Research

Exhibit 12

Railroad 2007 Estimated Replacement Cost by Component



Source: Company data, Company R-1s, Morgan Stanley Research
* Excludes land and rights of way as land is difficult to value, doesn't depreciate, and may even be irreplaceable.

Any regulatory constraints would take time to affect rail pricing.

Without a radical change in STB jurisdiction, it is unlikely we will see any rapid change in railroad pricing. As we stated earlier, the STB only has jurisdiction over roughly one-third of rail traffic. While the board has the power to change its jurisdiction, this would clearly not be a quick process. In addition, the STB does not set rail rates; it only resolves rate disputes. Under the current dispute process, it is difficult for shippers to seek relief. Rate disputes are a lengthy multi-million dollar process, and shippers sound frustrated with recent STB rulings. Therefore, only shippers with the wherewithal and patience will likely pursue future rate cases (i.e. rate grievance filings could slow

Morgan Stanley Replacement Cost Assumptions

We used the following assumptions to calculate a baseline replacement cost for each railroad and simply adjusted for inflation and modest unit growth in our forecast years. We did not consider the cost of attaining right-of-way in our estimates.

Exhibit 13

MS Estimate of 2005 Replacement Costs

Unit Costs:	
Track Mile	$1,350,000
Locomotive	$1,650,000
Freight Car/Equipment	$60,000
Misc Equipment	$4 - $5 Billion

Source: Company data, R-1s, Morgan Stanley Research

Track miles: We assessed the number of track miles (as opposed to route miles, which ignore whether a route is single, double, or triple tracked) for each railroad, including secondary main lines and yards and terminals. We included only track miles that the railroad is responsible for maintaining (i.e. not trackage rights). We excluded land and rights-of-way because land doesn't depreciate, and some rights of way may even be irreplaceable, which would complicate valuation. For our forecast years (2007-2012), we generally assumed 50-60 bps of growth in track miles (well above historical growth rates) as we anticipate railroad investment would accelerate in a replacement cost environment. As for the cost per mile, we assumed $1.35 million per mile, which is close to the figure suggested by NSC management at their investor day in June.

Locomotives and Freight Cars: For rail equipment, we included all equipment operated by the railroad, whether owned or lease. In our opinion, the method of financing should not be considered when determining replacement cost for return purposes. We also included any chassis, containers, or intermodal equipment as these are clearly part of the railroad asset base. For the unit costs, we scanned the railroads' R-1s to determine the average purchase price for locomotives (for both road and yard) and freight cars/equipment and assumed continued cost inflation.

Misc. equipment: We added another $4-$5 billion depending on the size of the railroad for the replacement cost of miscellaneous buildings, assets, and equipment that were not covered in our unit costs (e.g. offices, warehouses, dispatch centers, signaling, IT, spare parts, etc.). We believe our assumption is conservative, but we did not have enough transparency to justify a more aggressive estimate.

from here). We also believe any attempts to improve the current system for filing rate cases will likely be subtle. Remember that regulatory resources are stretched, and the STB is unlikely to enact legislation that would lead to a stampede of rate dispute filings. Finally, if pricing were to collapse, the railroads would need to spend years cycling through all the long-term contracts again before prices could be fully adjusted.

What could derail the pricing story on the regulatory front?
In politics, nothing is ever certain. We believe railroad pricing is safe through at least 2009 given the current political climate, but the 2008 election could lead to turn-over at the STB that changes the regulatory mood in favor of shippers. The Surface Transportation Board members serve as political appointees at the pleasure of the president. While we doubt railroad issues are likely to be high on the presidential agenda any time soon, we would be remiss if we did not acknowledge that a changeover in board members carries some risks. If two board members were appointed that were very sensitive to shipper concerns, it is possible that the regulatory climate could challenge our bullish thesis. Even if this were to occur, we doubt any new interpretation or application of the regulations would impact rail earnings before 2010 at the earliest. The STB has historically been deliberate in its decisions and that takes time to play out.

If the STB is eventually successful in improving the system for bringing rate disputes, particularly for small shippers, railroads could see increased pressure on rates as they approach long-run revenue adequacy. But as we stated earlier, any determination of sustained revenue adequacy that could bring tougher regulation would be unlikely before at least 2011. Probably the greatest risk to the pricing story is that rails may continue to institute rate hikes in excess of inflation without improving service, which could incite more shipper lobbying and calls for re-regulation.

Industry View
Our industry view of transportation is Attractive, as we believe the strong secular pricing story in rails should allow our market-cap-weighted transportation universe to outperform the broader market in 2007. Longer term (over the next 2-3 years), we view the freight transport stocks as very attractive investments and favor railroads over the parcel companies and passenger airlines.

Our favorite names remain Overweight-rated UNP and NSC. UNP offers the largest portfolio of legacy contracts, the most upside upon re-pricing due to its past discounting, and the potential for an operational turnaround. We believe NSC is a low risk play as it’s not often that you can purchase the premium US operator with superior FCF and returns at a material discount to its peers.

Exhibit 14

Railroad Price to Earnings, EV to EBITDA, and Price to Free Cash Flow to Equity, 2007E-2010E*

		Price to Earnings			EV/EBITDA			Price to Free Cash Flow to Equity		
Company Name	**Ticker**	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
BNSF	BNI	15.8	12.7	11.3	7.7	6.6	6.0	27.0	19.5	20.1
Canadian National	CNI	16.7	13.3	11.5	8.9	7.7	6.8	27.2	19.3	16.1
CSX	CSX	19.2	15.3	13.2	8.5	7.3	6.6	33.7	26.1	22.2
Norfolk Southern	NSC	14.4	12.0	10.3	7.8	6.6	5.8	24.5	18.8	16.6
Union Pacific	UNP	16.7	13.4	11.4	7.6	6.5	5.7	43.4	26.2	20.5
Average		**16.6**	**13.3**	**11.6**	**8.1**	**6.9**	**6.2**	**31.2**	**22.0**	**19.1**

Source: Company data, Morgan Stanley Research
*EV/EBITDA and Price to Free Cash Flow multiples are calculated using ModelWare estimates and will include accounting adjustments for pensions and off-balance sheet leases

Exhibit 15

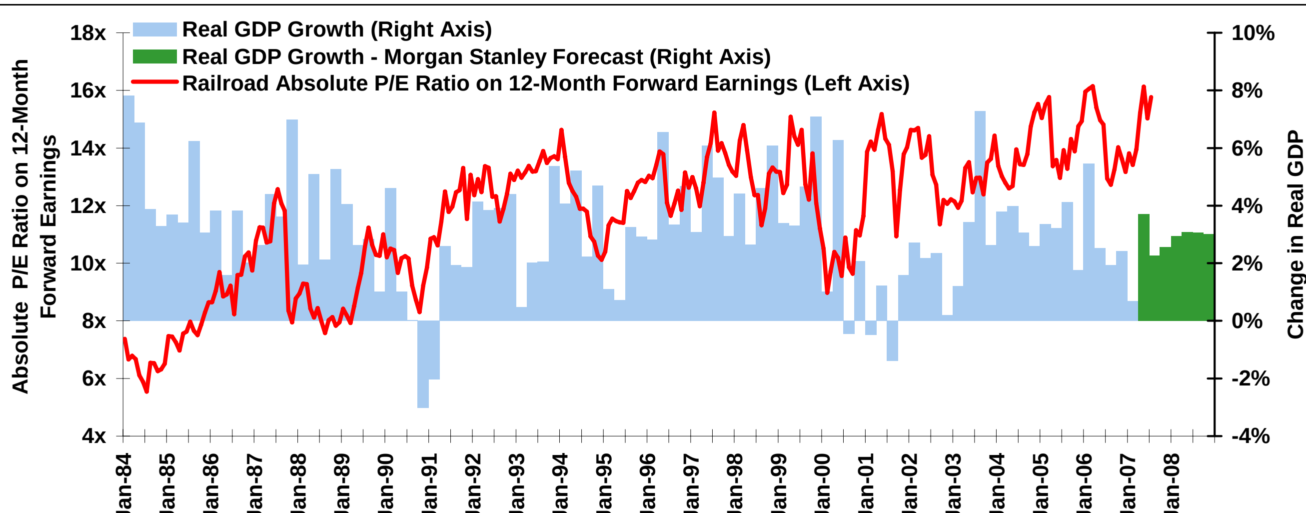
Morgan Stanley Estimated EPS Growth Rates, 2007E-2011E

		EPS					EPS Growth					2008-2011
Ticker	**Rating**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**CAGR**
BNI	Equal-weight	$5.60	$7.00	$7.88	$8.71	$9.67	10.5%	24.9%	12.6%	10.5%	11.0%	14.6%
CNI	Equal-weight	$3.28	$4.11	$4.74	$5.29	$5.76	9.8%	25.3%	15.2%	11.7%	8.9%	15.1%
CSX	Equal-weight	$2.52	$3.15	$3.66	$4.11	$4.50	13.8%	25.4%	15.9%	12.3%	9.5%	15.6%
NSC	Overweight	$3.87	$4.65	$5.40	$6.14	$6.83	8.1%	20.3%	16.0%	13.7%	11.2%	15.3%
UNP	Overweight	$7.25	$9.04	$10.56	$11.85	$13.62	22.8%	24.7%	16.8%	12.3%	14.9%	17.1%
Average	Railroads have become growth stocks →						13.0%	24.1%	15.3%	12.1%	11.1%	15.5%
Median							10.5%	24.9%	15.9%	12.3%	11.0%	15.3%

Source: Company data, Morgan Stanley Research

Exhibit 16

Railroad Industry - Absolute P/E Ratio on 12-Month Forward Earnings vs. Real GDP, 1984-2008E



Source: Company data, Morgan Stanley Research

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

The information and opinions in this report were prepared by Morgan Stanley & Co. Incorporated and its affiliates (collectively, "Morgan Stanley").

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: William Greene.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

This research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

As of June 29, 2007, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in this report: Continental Airlines, Copa Holdings, CSX Corporation, Delta Air Lines, Inc., JetBlue Airways, Southwest Airlines, UAL Corp..

As of June 29, 2007, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in this report (including where guarantor of the securities): AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, Delta Air Lines, Inc., FedEx Corporation, JetBlue Airways, Norfolk Southern Corp., Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering of securities of Continental Airlines, Copa Holdings, CSX Corporation, JetBlue Airways, Union Pacific Corp..

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, JetBlue Airways, Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, Delta Air Lines, Inc., FedEx Corporation, JetBlue Airways, Norfolk Southern Corp., Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, Delta Air Lines, Inc., JetBlue Airways, Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following companies covered in this report: AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, Delta Air Lines, Inc., FedEx Corporation, JetBlue Airways, Norfolk Southern Corp., Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following companies covered in this report: AMR Corp., Burlington Northern Santa Fe Corp., Canadian National Railway Co., Continental Airlines, CSX Corporation, Delta Air Lines, Inc., FedEx Corporation, JetBlue Airways, Norfolk Southern Corp., Northwest Airlines Corporation, Southwest Airlines, UAL Corp., Union Pacific Corp., United Parcel Service.

Within the last 12 months, an affiliate of Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Northwest Airlines Corporation.

The research analysts, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

An employee or director of Morgan Stanley & Co. Incorporated is a director of Northwest Airlines Corporation.

Morgan Stanley & Co. Incorporated makes a market in the securities of JetBlue Airways, UAL Corp..

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of June 30, 2007)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Underweight to hold and sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**892**	**39%**	**316**	**43%**	**35%**
Equal-weight/Hold	**1017**	**45%**	**320**	**44%**	**31%**
Underweight/Sell	**356**	**16%**	**94**	**13%**	**26%**
Total	**2,265**		**730**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock price charts and rating histories for companies discussed in this report are available at www.morganstanley.com/companycharts or from your local investment representative. You may also request this information by writing to Morgan Stanley at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

Other Important Disclosures

Morgan Stanley produces a research product called a "Trade Idea." Views contained in a "Trade Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section lists all companies mentioned in this report where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in this report, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Employees of Morgan Stanley not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report. Derivatives may be issued by Morgan Stanley or associated persons.

Morgan Stanley and its affiliate companies do business that relates to companies covered in its research reports, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in its research reports on a principal basis.

With the exception of information regarding Morgan Stanley, reports prepared by Morgan Stanley research personnel are based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities.

To our readers in Taiwan: Information on securities that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. This publication may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities. MSTL may not execute transactions for clients in these securities.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning this publication, please contact our Hong Kong sales representatives.

This publication is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of this publication in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that this document has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Morgan Stanley

The Americas	Europe	Japan	Asia/Pacific
1585 Broadway	25 Cabot Square, Canary Wharf	4-20-3 Ebisu, Shibuya-ku	Three Exchange Square
New York, NY 10036-8293	London E14 4QA	Tokyo 150-6008	Central
United States	**United Kingdom**	**Japan**	**Hong Kong**
Tel: +1 (1) 212 761 4000	Tel: +44 (0) 20 7 425 8000	Tel: +81 (0) 3 5424 5000	Tel: +852 2848 5200

Industry Coverage:Transportation

Company (Ticker)	Rating (as of)	Price (07/13/2007)
William J. Greene, CFA		
AMR Corp. (AMR.N)	E-V (06/19/2006)	$27.28
Burlington Northern Santa Fe Corp. (BNI.N)	E (05/07/2007)	$88.68
CSX Corporation (CSX.N)	E (05/07/2007)	$48.23
Canadian National Railway Co. (CNI.N)	E (05/07/2007)	$54.66
Continental Airlines (CAL.N)	E-V (06/19/2006)	$36.11
Copa Holdings (CPA.N)	O-V (10/12/2006)	$63.85
Delta Air Lines, Inc. (DAL.N)	O-V (05/17/2007)	$20.5
FedEx Corporation (FDX.N)	O (10/13/2006)	$117.25
JetBlue Airways (JBLU.O)	E-V (02/20/2007)	$11.45
Norfolk Southern Corp. (NSC.N)	O (05/07/2007)	$55.85
Northwest Airlines Corporation (NWA.N)	E-V (05/25/2007)	$21.07
Southwest Airlines (LUV.N)	E (06/08/2007)	$15.5
UAL Corp. (UAUA.O)	E-V (02/01/2007)	$43.08
Union Pacific Corp. (UNP.N)	O (05/07/2007)	$120.8
United Parcel Service (UPS.N)	E (10/13/2006)	$75.15

Stock Ratings are subject to change. Please see latest research for each company.